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**Instructors' Notes**

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## 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 *JACS* 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 instructors' notes contained in this volume have been double blind refereed, simultaneously with their respective cases. The cases were published in a separate issue of the *JACS*. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies

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](mailto: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?**

**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.*

## INSTRUCTOR NOTES

### BACKGROUND

The starting point for understanding Chris Thompson's dilemma is individual differences. Individual differences are personal attributes that vary from one person to another, making each person unique. Individual differences include such attributes as values, attitudes, and personality. These factors contribute to differences in motivation and help explain why behavior varies from person to person in organizations. The self-concept is the foundation for understanding individual differences. The self-concept refers to an individual's self-beliefs and self-evaluations. According to Franken (1994):

“there is a great deal of research that shows that the self-concept is perhaps the basis for all motivated behavior. It is the self-concept that gives rise to possible selves, and it is the possible selves that create the motivation for behavior” (p. 443).

The self-concept answers the questions “Who am I?” and “How do I feel about myself?” Therefore, understanding the self-concept will help students understand why Chris Thompson is facing such an intense dilemma with his decision to accept an internship at American Brands. People develop and maintain their self-concepts through the process of taking action and then reflecting on what they have done and what others tell them about what they have done (Huitt, 2009). Feedback from others is a very important part of a person's self-concept.

Closely related to self-concept is self-esteem which is the affective aspect of self and refers to how we feel about or value ourselves. Franken (1994) further states that self-concept and self-esteem are related in that “people who have good self-esteem have a clearly differentiated self-concept” (p. 439). Self-concept is dynamic and can be modified or changed through the process of self-reflection.

Further, people do not have a single unitary self-concept. They think of themselves in different ways in different situations. Just as with attributions, people can experience high or low consistency in their self-concepts. People have high consistency when similar personality traits and values are required across all aspects of self-concept. People have low consistency when some aspects of self require personal characteristics that conflict with other aspects of self.

In applying this concept to Chris Thompson, one can infer from the case that he started out with a very positive self-concept and high self-esteem. He was a good student, excellent athlete, and respected in his larger community where he served as a tutor and role model to younger students. However, after accepting the internship with American Brands, his self-concept began to change and he experienced an internal conflict because part of him was committed to maintaining a healthy lifestyle and avoiding any kind of substance that would conflict with that goal. On the other hand he was required to promote cigarette smoking in the course of his work. This internal conflict was exacerbated when students and a former teacher questioned his decision to join American Brands. Thus, living up to the expectations of others was a very important part of Chris' positive self-concept. It was important that he acquire and

maintain the respect of others. When he reflected on his actions and others' reactions to his actions his self-concept changed.

A person's self-concept is related to his or her personal values. Milton Rokeach (1973) proposed that values are people's deeply held, enduring beliefs that a specific mode of conduct or end state of existence is preferable to an opposite mode of conduct or end state.

Similarly, Shalom Schwartz (1994, 2000), in his theory of personal values defined values as perceptions of what is good or bad, right or wrong. Values are desirable goals, varying in importance, that serve as guiding principles in people's lives. They tell individuals what they ought to do and serve as a moral compass that directs one's decisions, actions and motivations. Values not only define one's self-concept, they also affect how comfortable a person is with being associated with a particular organization, doing certain types of work and working with certain people.

Therefore, understanding and clarifying one's own values and the values of the organization are critical components of career choice, career planning and career satisfaction (Simonsen, 2005).

In examining Chris Thompson's personal values and the organizational values of American Brands, we can determine clear areas of conflict and misalignment. Thompson's values can be inferred from statements contained in the case:

- Chris always hated cigarettes, even as a child.
- Chris wanted his father to stop smoking.
- Chris was an athlete and concerned about health and fitness.
- His attitude toward smoking became more negative and hostile as he got older.
- Chris was an excellent student.
- Chris valued hard work and community service.
- Chris enjoyed being a role model to both younger people and former teachers and members of the community.
- Chris wanted a career that would allow him to have freedom in the design and execution of his work.
- Chris wanted a lucrative career.

Organizations also have values which form the foundation of the organization's culture. Culture is a complex set of values, beliefs, and behaviors that become part of the social fabric of the organization (Davis and Landa, 2000). Edgar Schein, who pioneered the concept of organizational culture, describes culture as "a pattern of shared assumptions" which includes a mix of many factors including the dominant values pushed by the organization, organizational rules and procedures, and when and how people interact.

Although this case is based on a student's real internship experience at a real tobacco company, American Brands is a fictionalized company to protect the identity of the real company. Therefore, we can determine the organizational values of American Brands by making inferences from the case itself, and by reviewing the web sites of the nation's four largest tobacco companies. As such, American Brand's values include:

- Investing in leadership through human resources, people, external stakeholders, and products.
- Operating with integrity, trust and respect by following the letter of the law that governs the industry.
- Providing full disclosure of appropriate information regarding the risks associated with the use of tobacco products.
- Creating substantial value for shareholders.
- Protecting the rights of existing adult smokers.
- Maintaining a commitment to the reduction and elimination of youth use of tobacco products.

An analysis of Chris Thompson's values and those of American Brands reveals some areas of alignment, but also substantial conflict and misalignment. The areas of alignment include:

***Hard Work and Commitment to Excellence.*** This is likely one of the strongest areas where Thompson's personal values and American Brands' organizational values align. The case states that during the 2005-2006 academic years American Brands actively recruited on 32 undergraduate campuses in the U.S. With an applicant pool of 83,207 in 2005, only 148 people were offered entry-level jobs with the company.

Chris Thompson also valued hard work and excellence. He maintained a 3.85 GPA since his freshman year, excelled at athletics, and served as a role model to young people through his community service endeavors.

***Independence and Autonomy.*** The internship at American Brands afforded Chris with a great deal of independence and autonomy. He was a field rep, responsible for visiting Crown gas stations and providing the retailers with support for their efforts in selling more cigarettes. Chris was responsible for planning and organizing his own work day.

***Creativity and Innovation.*** As a field rep, Chris' job was to support the retailers in his territory. We can infer that he was given a great deal of latitude to use his own judgment and creativity here. The case states that retail support "could be as simple as simple as fixing the signs located in retailer windows or establishing an entirely new display for the products."

***Positive Communication and Mutual Respect.*** American Brands demonstrated these values at the orientation for new employees. During the discussion about the moral issues facing employees, Chris felt that American Brands encouraged everyone to speak up and not fear rejection of their views. We can infer that it was a very positive program.

In addition, we can also make the inference that American Brands encouraged teamwork since Chris was paired with another employee when he made his calls to retailers in the field. Again, we can infer that Chris and his coworkers got along well because the case states, "Whatever the challenge, we were able to tackle the issue." While the case does not indicate whether or not Chris was paired with the same person, it does infer that good working relations existed among the field reps.

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## AREAS OF MISALIGNMENT

Value congruence exists when personal and organizational values align. Several researchers (Schein, 1985, 1990; Peters & Waterman, 1982; Posner, 1992) suggest that value congruence between the organization and the individual produces positive results for both, including better communication, higher performance, less stress, lower turnover, and ethical decision making.

Incongruence occurs when the individual and organizational values conflict or misalign. Value incongruence negatively affects a number of organizational processes which are discussed below. In addition, decision making is also affected by value incongruence. In cases where the person agrees with the organization's values, rational and bounded rationality are useful decision making models because the person has a pre-determined "script" or framework to follow. In these cases the organization's values guide the person's thoughts and actions creating less of a need for independent thought to guide their behavior. When the values conflict, this use of organizational scripts is disrupted and individuals tend to use non-scripted processes in their decision making (Weick, 1969). In the case of value incongruence, intuition tends to play a large role in decision making. The individual has no pre-existing script or value framework to follow. Therefore, he or she relies on gut feelings to influence his or her decision making.

Therefore, an analysis of value incongruence between Chris and American Brands will help the student further understand Chris' dilemma. As the above analysis shows, Chris Thompson and American Brands were closely aligned on many issues. ***However, the major area of misalignment is the general use of tobacco products.*** Chris' negative feelings toward tobacco were so strong, that he ultimately could not put them aside. The beginning of the case states that:

"Although his father was a smoker, Chris hated cigarettes. 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."

American Brands, on the other hand, believes the company is behaving in a responsible manner by connecting adult tobacco users to superior branded products. Further, American Brands acknowledges that some believe that a company that makes a dangerous and addictive product cannot be socially responsible. However, the company defines responsibility not only by the products they make, but also by the actions they take.

To that end, American Brands offers smoking cessation support as a way of reducing the harm of tobacco products and to satisfy consumer expectations. Specifically, American Brands connects smokers who have decided to quit with information about quitting from public health authorities. The Company also supports scientific innovation by providing grants to contribute to the development of improved smoking cessation programs. The Company also spends millions of dollars each year persuading kids not to smoke. It also spends millions of dollars reimbursing state governments for the cost of treating smoking related illnesses.

American Brands Executives tend to frame their stance about smoking in terms that support the use of tobacco products. Company literature states that cigarettes are lawful products that any adult has the right to buy. Smoking and the use of tobacco products, therefore, is a matter of freedom of choice, no different from the other habits people develop like eating fatty foods, drinking alcohol, or owning a handgun.

However, despite these efforts in supporting smoking cessation, and assisting with the treatment of illnesses, the fact remains that hundreds of thousands of people die annually from smoking-related diseases. This was a contradiction that Chris Thompson could not overcome. Although Chris earned a substantial paycheck and lavish benefits, he felt cut off and ill equipped to defend the company against attack. As a result, there was a disconnect between Chris' personal values and American Brand's organizational values.

Culture and values become problems in organizational effectiveness when the values of the organization collide with those of the individual. Value conflicts often produce dissatisfaction, poor performance and ultimately turnover. Positive fit between a person's values and organizational values is associated with behavioral and affective outcomes such as longer tenure, greater organizational commitment and better job performance. Davis and Landa (2000), further state that while organization members can cope with a degree of divergence between the organization's culture and their own personal values and belief systems, at some point, a continually widening gap between an employee's beliefs and the culture of his or her employing organization creates a significant problem for both. At this point, employees are faced with the decision to adapt their values and beliefs to that of the organization or terminate their relationship with the firm.

This was the situation Chris Thompson found himself in at the conclusion of the case. Chris joined American Brands with long held negative feelings toward smoking and the use of tobacco products. However, he convinced himself to put those feelings aside, and began working there anyway. As the internship progressed and he was questioned about his employment with a tobacco company by friends and associates, the divergence between his personal values and the organization's values grew to the point that he no longer took pride in telling people that he worked for American Brands, and he felt ill-equipped to defend the company when people asked him 'how could he work for a company like that?' Chris has a decision to make, he can continue his employment with American Brands and reap the benefits of completing the internship or he can be true to his values and terminate his employment with the Company.

If we concluded our analysis of Chris Thompson's dilemma at this point, this case would be very useful in illustrating the effects of individual and organizational value incongruence. However, we can further examine why Chris chose to work for American Brands in the first place. To understand this, we turn to theories of motivation.

Motivation can be defined as "a set of energetic forces that originates both within and outside an employee, initiates work-related effort, and determines its direction, intensity and persistence. "

Using Maslow's Hierarchy of Needs, we can understand why Chris Thompson chose to work for a tobacco company and why his discomfort with this choice grew as the internship progressed. According to Abraham Maslow, humans are motivated by five sets of needs that

form a hierarchy ascending from the lowest to the highest. When one set of needs is satisfied it ceases to be a motivator. Therefore, it is the unsatisfied need that causes motivation. From the lowest to highest, Maslow's Hierarchy of Needs consists of:

***Survival or physiological needs.*** The most basic of all needs consisting of requirements for life such as food, water, shelter, warmth and sleep.

***Safety needs.*** In a work setting, this need consists of protection against threat of harsh supervision or unsafe working conditions, fair treatment from management, and a predictable work environment.

***Social needs.*** This category of needs includes acceptance by others, association and communication with others. Man is essentially a social being and therefore seeks membership in various kinds of social groups.

***Ego-status needs.*** To be held in esteem by both oneself and others. This kind of need is satisfied by having a good reputation, status, recognition, and appreciation from others.

***Self-actualization needs.*** This involves realizing one's full potential, being able to maximize one's skills and talents. It includes self-realization, self-expression, and self-confidence.

While Maslow's Hierarchy is often presented as if it were a fixed order, Maslow explained that it is not necessarily rigid or universally applicable. Thus, people have overlapping needs and some people are driven by higher order needs rather than by lower order needs.

It is necessary to note that motivation is a personal phenomenon. There is no universal motivator that drives all people. Therefore, we must examine what Chris hoped to gain from his internship at American Brands. First, Chris wanted a position that was well paid, enabling him to pay off his college debt in a short time frame. Second, Chris wanted freedom and a chance to advance in the organization. Third, Chris wanted stability in his choice of job. The case states that although Chris was deeply conflicted, he decided that taking the American Brands internship was the safe route. He felt the internship would give him the experience and foundation to support himself and jumpstart his career. Thus, Chris paid more attention to the lower order needs in Maslow's Hierarchy than the higher order needs. Had he thought about the social, ego-status and self-actualization needs, Chris might have made a different choice. Chris was well satisfied with his internship choice and able to put aside his negative feelings about smoking as long as he did not receive any challenges from outsiders. When friends and acquaintances began to question him and demand that he explain why he selected American Brands, his discontent grew to the point that he needed to take some form of action.

Similarly, Herzberg's Two-Factor Model classified needs into two distinct categories - motivators and hygiene factors. The motivator factors include issues related to the work content such as responsibility, autonomy, possibilities for promotion and advancement. These needs correspond with the higher order needs in Maslow's Hierarchy. The hygiene factors include items which are influenced by the physical and psychological conditions in which people work including company policy and administration, salary, relationships with peers, personal life, and security. While the hygiene factors do not drive motivation, they can cause dissatisfaction. In fact, even if these hygiene factors are good, they do not make an individual happy and productive at work. It simply means that the person is not unhappy.

In Chris Thompson's case, he paid careful attention to the hygiene factors including the pay, working conditions, and relational issues. He felt very good about these factors and felt that he had made the right decision when he considered only the hygiene factors. He did not consider all of the motivator factors, however. The case demonstrates that Chris did consider some of the motivator factors like opportunities for advancement, autonomy, and responsibility; but failed to consider others like the nature of the work itself and recognition.

Toward the end of the case, it is clear that Chris has difficulty promoting the use of a product that he feels so strongly against. As a result, he experienced guilt when he spoke with young people about health and fitness while working for a company that manufactures cigarettes. Chris also wanted to feel good about his employer. He wanted to be able to tell people where he worked without them asking him to explain his choice. This case shows that money, working conditions, and other hygiene factors do not necessarily sustain long-term motivation and how people perceive satisfaction and dissatisfaction will vary from person to person. Herzberg's theory shows that the nature of satisfaction at work depends on self-generating or internal factors.

## **DISCUSSION QUESTIONS**

### **1. What is the source of Chris' dilemma?**

Chris Thompson accepted a summer internship at American Brands, the nation's largest manufacturer of cigarettes and other tobacco products. Chris had long-standing negative feelings toward smoking and the use of tobacco, yet, he felt that he could put those feelings aside and work for American Brands anyway. After experiencing negative reactions from people in the community about his choice of company, Chris begins to experience a psychological tension that results in dissatisfaction with his job.

### **2. How does Chris find himself in this situation?**

Chris finds himself in this situation by failing to consider the importance of his personal values in his choice of jobs. Values are those attributes of individual behavior that guide our actions, providing a sense of what is good or bad, right or wrong. Chris has very strong negative values toward smoking. He was never a smoker and hated it when his father would smoke. Chris is also an athlete, someone concerned with health and fitness. Research shows that the use of tobacco products is strongly associated with a variety of serious health concerns. Despite these negative values toward tobacco and smoking, he decided to accept a summer internship with American Brands, a tobacco company. Since his employer manufactures cigarettes, Chris began to experience value incongruence, a state where the individual's personal values oppose the values of the organization.

### **3. How does Chris perceive himself? Does his self-concept change over time? If yes, what factors influence the changes in his self-concept?**

We can infer that Chris sees himself as a very capable and qualified person. He is a top athlete, excellent student with a very high GPA, a role model to younger students and very independent and self directed. The case shows that Chris has a high level of self efficacy and an internal locus of control. Chris feels that he is able to handle a variety of tasks including a demanding job, an intense training schedule and still manage to have a satisfying personal life. Chris is flattered by the fact that American Brands aggressively recruited him for the internship since that company is known for hiring the best and the brightest in spite of the product they produce. At the beginning of the case he sees himself very positively. However, as time wore on, he began to experience doubt and some level of shame in being associated with a tobacco company. At the end of the case, he does not see himself and his situation in such positive terms.

Chris' self-concept did undergo changes over the course of his internship. As discussed above, he started out with very positive feelings about himself and his abilities. His self-concept was very positive. However, as others began to question his decision to work for a tobacco company, he also began to question the soundness of that decision. This questioning caused him to reflect on this decision. It was important that he had the respect of others. He felt that he had an obligation to be a role model, thereby living up to the expectations of important people in his life. When this did not happen, his self-concept began to suffer.

#### **4. What OB theories explain the change in Chris' attitude?**

There are a variety of OB theories and concepts that explain the change in Chris' attitude. First, the role of values is important in explaining the change in his attitude. The above questions address values and value incongruence. In addition motivation theories help explain the change in his attitude. Specifically, Maslow's Hierarchy of needs and Herzberg's Two-Factor Theory help explain why he experienced such a strong change in attitude. Chris failed to consider the higher order needs included in Maslow's Hierarchy of Needs. He did not consider how negative comments and reactions would influence his motivation, thus creating a change in attitude. Similarly, he did not consider all of the motivators in Herzberg's Two-Factor Theory. Herzberg's theory states that hygiene factors like pay, working conditions, and relationships will not sustain long term motivation. These hygiene factors can reduce motivation, but they will not produce motivated behavior. The work itself is a major motivator that Chris failed to consider. He tended to downplay the fact that he had strong negative feelings and values toward tobacco usage, yet his job was to promote the use of tobacco products by providing support to American Brand's retailers.

#### **5. What lessons does this case teach about career choices?**

This case teaches that clarifying one's personal values is an essential part of career choice, career planning and career development. Individuals need to understand their own values and select organizations or jobs that align with those personal values. The organization also has a set of values that form the foundation of its culture. Organizational culture becomes an issue when the organization's values and the individual's values conflict. While individuals can cope with some degree of conflict or divergence between their personal values and the organization's

values, at some point, a continually widening between the individual's beliefs and the organization's culture creates a significant problem for both. Individuals must try to either adapt their values to those of the organization or decide whether or not to terminate their employment with the company. In Chris' case, his personal values were so strong that he could not adapt his values despite his efforts to do so. The major lesson here is that value congruence must be considered if employees are to be happy and productive on the job.

**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 use of tobacco products? Does he have an obligation to American Brands?**

Chris used a combination of bounded rationality and intuition in his decision making. He examined the pros and cons of joining American Brands, but he kept focusing on the benefits such as experience, money and freedom. He focused on the first acceptable decision and sacrificed in his decision making. However, since he was never faced with making a decision under such conditions of value incongruence, he went with his gut and decided to accept the position.

In deciding the ethics of Chris' decision, student responses will vary. Some will state that it was not ethical because he held these negative attitudes toward smoking throughout his life. He also knew that American Brands was a tobacco company and promoted the use of adult tobacco usage. Therefore, if he could not support the organization's values toward smoking he should have never accepted the internship. While the decision was not completely ethical, he has an obligation to complete the internship in spite of his negative attitudes. He owes it to his employer to put aside his personal feelings and support the values of the organization.

Other students will argue that Chris should remain true to his values and it was not an unethical decision since the product manufactured by American Brands is known to cause serious illness and possibly death. He had an opportunity to join a well established company and gain solid experience through this experience. It is not his fault that he was unable to put aside his negative feeling and support the values of the organization. Some students may feel that Chris can use this experience to speak against smoking since he has firsthand experience with the nation's largest cigarette manufacturer. Others may feel that he should quit immediately and remain true to his personal values.

**7. What should Chris do?**

Student answers will vary. Some will feel that Chris should put his personal values aside and continue his internship with American Brands. Since this is an internship and not a long term organization choice, he should just do what it takes to finish the internship successfully, then make a more thoughtful choice when making a career choice after graduation. Others will feel that he should remain true to his values and end the internship experience.

**8. What are the implications of this case in other situations? What are your key takeaways from this case?**

This case can apply to many other situations that students will face. The concepts of value congruence/incongruence will likely come up several times during the course of their careers. Some examples may include hiring or performance appraisal decisions. What should someone do when they are pressured to hire a lesser qualified individual over a more qualified person? Suppose someone is pressured to hire someone as an employee or invite them to join a board of directors when the values of that individual conflict with those of the organization? Suppose the values of that individual conflict so strongly that you only want that person because of what they can offer, but would prefer not to interact with that individual, should a person be brought on board because they have influence? If a subordinate holds values inconsistent with yours, does this affect your appraisal of the subordinate's work? If you are asked to do something inconsistent with your personal values by a supervisor, do you do it or refuse and possibly risk your job? The instructor should have students brainstorm situations and conduct a discussion around value conflicts.

Student responses will vary concerning the takeaways of this case. Many will again mention the importance of value congruence between the individual and the organization. Others will discuss the importance of ethics in decision making. Again, the instructor should encourage students to think about what other ideas they can take away from this case.

### EPILOGUE

Chris decided to continue his internship with American Brands. He did not try to alter his values to align with those of the organization. He continued to speak against smoking to young people when he gave his talks. He tried to accept the fact that people would challenge him and ask him to explain his choice of company. Since the internship was a short-term experience and he felt that he could give the company his best efforts while he was there. He continued to feel conflicted about his situation.

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

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## 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.*

## **INSTRUCTORS' NOTE**

### **CASE ISSUES AND SUBJECTS**

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 right of the public to know.

### **INTENDED COURSES AND LEVELS**

This case study explores the subject of ethical and responsibilities of professionals in the workplace. It is intended for class study application of concepts learned in the classroom. Instructors are encouraged to ask students not to search and look for the images. They are very graphic (unfortunately some sites still display these images).

This case is intended for advanced undergraduate or graduate courses in Organizational Behavior, and Business and Society. It is designed to compliment knowledge derived from concepts in organizational and individual ethical and legal responsibilities with their application to an actual setting. In other words, it seeks to provide an applied, hands-on format for students to increase their understanding of these topics. Answers to the questions in the case will derive from what students learned from theories and concepts.

### **WARNING**

Instructors are advised to ask students not to search and look for the images. These images are extremely graphic (unfortunately some sites still display these images).

### **TEEN DRIVERS' CRASHES STATISTICS**

The following fact sheet regarding teen automobile crashes will be helpful for students: In the U.S., while young people ages 15-24 represent only 14% of the population, they account for 30% (\$19 billion) of the total costs of motor vehicle injuries among males and 28% (\$7 billion) of the total costs of motor vehicle injuries among females.<sup>1</sup>

According to the Centers for Disease Control and Prevention (CDC), car crashes are the leading cause of death for U.S. teens, accounting for more than one in three deaths in this age group. In 2008, nine teens ages 16 to 19 died every day from motor vehicle injuries.<sup>2</sup> According to the same source, "per mile driven, teen drivers ages 16 to 19 are four times more likely than older drivers to crash... In 2008, about 3,500 teens in the United States aged 15-19 were killed and more than 350,000 were treated in emergency departments for injuries suffered in motor-vehicle crashes".<sup>3</sup>

## **CASE OBJECTIVES**

The core pedagogical objective of the case is help to provide an applied, hands-on format for students to increase their understanding of the topics of organizational and professionals' responsibilities toward the general public (i.e. customers/citizens); professional ethics; privacy rights and privacy issues; and the right of the public to know. More specifically, at the completion of this case the student will be able to:

1. Understand the nature of organizational ethical responsibilities towards their stakeholders.
2. Understand and evaluate the difference between individuals' and organizations' legal right and their ethical responsibilities.
3. Identify the steps needed when making an ethical decision.
4. Understand and describe what privacy and "Privacy Act" mean and what privacy protection organizations should give to inside stakeholders.

## **SUGGESTED CLASSROOM APPROACHES TO THE CASE**

While this case could be used as an individual position paper, a group paper and presentation, or just a good class discussion, it is up to the instructor's discretion on how to use this case study. Based on the author's experience with teaching this case as a group one, the following tips are helpful tips to facilitate the case to students:

## **INTRODUCTION OF THE CASE IN THE CLASS**

It is recommended that the instructor introduces the script at least a week before the class discussions (duration from 30 minutes-1.00 hour). You might want to assign them the questions derived from the case. Doing so ensures that the students have read and understood the issues of the case. While this case could be done on an individual basis, the author found it most effective to create case study groups and request formal group answers to the case questions. If it is to be done in a group environment, please refer to groups' formation and groups report and presentation for more teaching instructions.

While there is no one single approach to addressing organizational and individual rights and ethical responsibilities, emphasizing student application of such constructs is extremely important to the learning process. Individually or as a five-member group, students will be asked to discuss and answer the case questions. A PowerPoint presentation and a written report of 2-3 pages should address the case questions.

Based on the authors' experience, requiring a formal response to the questions to help students enhance their written communication skills is a good approach. Please note that this formal write-up of the case requires the instructor to read and grade the students' work more critically.

Finally, remember to have enough copies of the script with its instructions to distribute to students at least a week before the class discussions before the class discussions.

Answers to the questions in the case will derive from what students learned from the concepts. The case is expected to be completed and presented for the class discussions.

## **FORMING GROUPS**

At least a week before the class discussions, students will be encouraged to network and get to know fellow students in order for them to decide with whom they want to team. Allow 10-15 minutes towards the end of the class meeting to submit group members' names. Students need to form a group of up to five (5) students to conduct this required case study.

## **PROCESS**

Each group will start working on this case after the instructor introduces the subjects of ethics and ethical behavior; and privacy rights. Students are expected to develop and build their responses (as group) on their acquired knowledge. It is recommended that the instructor address and clarify case questions ahead of time with the class.

## **USE OF POWERPOINT AND AUDIOVISUALS**

It is recommended that students be encouraged to create an effective group presentation. That could be achieved through the use of whatever audio-visual materials, including but not limited to PowerPoint. The case itself does not come with a video.

## **GROUP REPORT AND PRESENTATION**

Each group is required to write at least a 2-3 page report (12 point font, double-spaced and using the APA writing style. One report is needed for each group) and a 10-15 minute's PowerPoint presentation is required explaining their answers. Students are required to use the chapters assigned for the course. To support their responses and enhance their report, students must include outside references such as books, journals, newspapers, internet information, or a direct interview as resources for the case answers (in case of an interview, they need to include their interview questions as an appendix of their report).

## **RECOMMENDED OUTLINE**

The structure of the written report is critical. In the first part of the case write-up, students need to provide salient points of the case before proceeding to answering the case questions. In the second part of the case write-up, students need to present their answers and recommendations. Instructors need to encourage them to be comprehensive in their answers, and

make sure that answers are in line with the previous ones so that it fit together and move logically from one to the next.

## **STARTING THE CLASS DISCUSSION**

Before engaging in a class case discussion and presentations, it is highly recommended to stress to the students that they might be disagreeing with the points that are being made by other students and that this disagreement is healthy and should not be taken personally. A reminder is helpful. This clarification and reminder ensures that the disagreements/discussions remain open and inviting and do not turn into personal matters.

## **ANALYSIS**

Since this case is an application of topics covered in the subjects of organizational justice, ethics, and responsibility, students' understanding of the topics of organizational and professional responsibilities; ethical behavior, and privacy rights will be essential.

## **CONTENT AND GRADING**

Students' answers and presentations should clearly and concisely demonstrate their knowledge and comprehension of the subject concepts learned in the class, as well as the individual or the group's ability to apply knowledge learned in class and through research (synthesize, analyze, and evaluate his/her/their work). Students will be graded based on the following criteria: (a) The use of innovative and creative idea, (b) the application of concepts learned in the class, and (c) the use of outside research to support the case.

It is recommended that this case study constitutes 5-10% of the student's participation grade.

## **RESEARCH METHODOLOGY AND EXPERIENCE TEACHING WITH THE CASE**

### **RESEARCH METHODOLOGY**

This research is based on secondary data obtained by the author from available information on the case.

### **EXPERIENCE TEACHING WITH THE CASE**

The author has used "A Southern California Family's Tragedy- Leaked Graphic Pictures of a Ladera Ranch Teens Fatal Accident" case since the fall of 2009 in his graduate course "Seminar in Organizations Theory and Behavior" and his under graduate course "Organizational Behavior". He applies the case after covering the course related subjects of organizational justice, ethics, and social responsibility.

It is important to point out that the case was very motivational and well received by the students.

### **DISCUSSION QUESTIONS**

1. What are the facts and the major issues in the Nicole “Nikki” Catsouras’s case?
2. Has the CHP’s reputation been damaged by the leaked accident photos as described in this case? Do you believe the CHP did enough to help repair its image?
3. Do organizations have ethical responsibilities towards their stakeholders?
4. Do individuals have ethical responsibilities towards others? *Base your answer on information provided in the case.* Should people “in general” and websites keep/store Nikki Catsouras decapitated photos?
5. Identify the steps needed when making an ethical decision?
6. What are the potential threats to privacy posed by the Internet?
7. If the Catsouras versus the CHP case had gone to trial and you served as a juror in the Catsouras versus, which position would you most likely support? Why?

### **POSSIBLE ANSWERS TO DISCUSSION QUESTIONS**

**NOTE:** The following answers provide only guidelines that are designed to assist in the case analysis process and engage students in critical thinking. These guidelines are not intended to be rigid. Therefore, each question is intended to raise issues that will be helpful in analyzing and resolving the case.

Students must be reminded that their answers to the case discussion questions should be well reasoned and supported with evidence/research when applicable. Although there are no one best answers to the discussion questions, some answers might be more appropriate than others. Accordingly, students should be told that simplistic answers to complex questions, situations, or problems such as in our case will never be “good” answers. It is also important to remind students that CHP acknowledged that the leak of the photos was morally wrong.

#### ***1. What are the facts and the major issues in the Nicole “Nikki” Catsouras’s case?***

The major issues in this case are the nine grisly images of the accident scene that were digitally taken just moments after Nikki's death by one of California Highway Patrol officer and circulated virally on the Web. A few days later, e-mails and disguised e-mails directly connected to the internet from strangers containing graphic images of Nicole’s accident scene were widely dispersed. Her fathers, a real estate agent, started getting e-mails that appeared to be property listings but instead were of his daughter’s bloodied face.

The girl’s family filed a civil lawsuit against the California Highway Patrol agency (CHP) and its dispatchers for the leaked images and cited violation of privacy, negligence and infliction of emotional distress. The CHP admitted that the release of the photographs was morally wrong, however maintained that neither the CHP nor its dispatchers violated 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.

In their attempt to stop strangers from displaying the grisly images of their daughter, the Catsourases spent thousands of dollars in legal fees. In summary, the case is about privacy, cyber-harassment, and image control. This case magnified the dark side of the Internet and raised the questions about an individual's right to privacy following a teenager much publicized death.

**2. *Has the CHP's reputation been damaged by the leaked accident photos as described in this case? Do you believe the CHP did enough to help repair its image?***

Definitely, the CHP's image has been damaged by the leaked photos of the crash victim. It is important to point out that the CHP acted very quickly to repair damages and upheld the law to protect and to serve citizens.

Based on the information provided in the case, The California Highway Patrol "CHP" has written a letter of apology to the parents of Nicole "Nikki" Catsouras. Additionally, an official with the CHP's Orange County Communications Center told the family that they had identified the responsible individuals who violated the department policy by leaking the images and that appropriate action has been taken to preclude a similar occurrence in the future.

To help ease the family's pain and devastation; the CHP also collaborated with a private company (Reputation Defender) that was hired by the Catsouras family and requested Web site operators to remove the offending images.

**3. *Do organizations have ethical responsibilities towards their stakeholders?***

Ethical responsibilities are needed to prohibit activities and practices that are not accepted by the society although it is not coded into law. According to that, organizations (private and public) need to recognize the potential ethical issues involved in sharing personal information. It also must be committed to safeguard information and treat it in an ethical manner.

This commitment to ethics should start from the top with the board of directors, the CEO, and the top management.<sup>4</sup> Some organizations such as American Express, Citigroup, Sony Corporation, and IBM followed an innovative approach to protecting consumers' privacy by designating of a new organizational position a chief privacy officer (CPO) in major organizations.<sup>5</sup> Organizations do have an important ethical role to play and organizations are ethically responsible towards stakeholders (inside and outside) even no legal responsibility is at stake.

According to Greenberg and Baron,<sup>3</sup> there are three organizational forces that drive people in to behaving unethically: "Organizational norms that encourage unethical behavior, managerial values that discourage integrity and the impact of unethical behavior by leaders".<sup>7</sup> On the other hand, what drives ethical behavior in organizations is the existence of organizational ethics program that are composed of: Organizational code of ethics, ethics training, ethics committee, a mechanism for communicating ethical standards, and the practice of assessing the organization's ethical practice (i.e. ethics audit).<sup>8</sup>

**4. Do individuals have ethical responsibilities towards others? Base your answer on information provided in the case. Should people “in general” and websites keep/store Nikki Catsouras decapitated photos?**

The author has to agree with the opinion that just because we have the right to publish gory images pertaining to a dead person doesn't mean that we *should do so*.<sup>9</sup> Regardless of the case outcome and the claim by some people that it is our “First Amendment” right to publish the photos, other people believe that publishing these images was morally wrong. The answer is very crystal clear; we all have ethical responsibilities towards others. On the view of whether people and websites keep/store Nikki Catsouras decapitated photos, while students' views might vary, it is recommended that instructors focus on the ethical/moral side of the issue. It is ethically wrong. Jessica Bennett of Newsweek<sup>10</sup> stated that the urge to publish these tragic photos isn't surprising knowing that the Web is full of dark images. Unfortunately for the Catsouras family, these photos became a daily torture.

A few days after his daughter's death, the father, received and opened an e-mail that appeared to be a property listing. Instead, “his screen popped his daughter's bloodied face, captioned with the words “Woohoo Daddy! Hey daddy, I'm still alive.”<sup>11</sup>

According to a published point of view on the internet, “one would hope that human decency would compel people to refrain from exercising their right to distribute gruesome, gory, death-scene photos. I considered linking to them to prove a point or two, but my conscience wouldn't let me. I simply feel too much compassion for Nikki's parents to be part of the pornification of her death”.<sup>12</sup>

On the question of why people would view and circulate such images, Nancy Willard, executive director of the Center for Safe and Responsible Internet Use in Eugene, Oregon said:

*“In the online world, a person can be totally disconnected from the consequences of their actions,” said “They can have no empathy. They can't see the harm being done”.*<sup>13</sup>

**5. Identify the steps needed when making an ethical decision?**

While students' answers will vary, instructors should focus on introducing the concept of the ethical decision making process. The following is an explanation of the ethical decision making process:

**Moral Problem Statement:** The ethical decision making process starts with identifying and developing the moral problem statement. A problem statement must be developed according to three conditions: “A clear statement of what the problem is, an identification of who is affected by the resolution of the moral problem, and the moral issue of the problem”.<sup>14</sup>

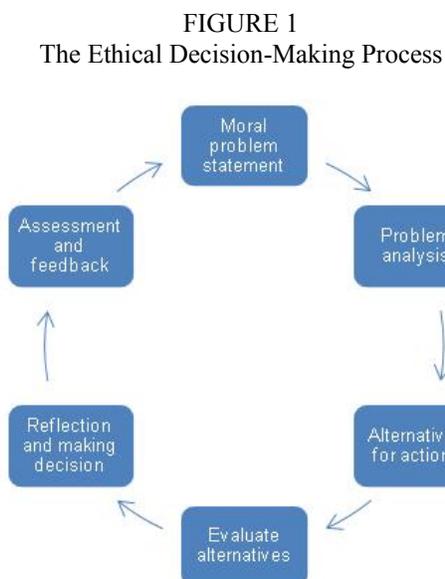
**Problem Analysis:** To analyze the moral problem, three factors must be identified. These are: (1) Which stakeholders are (or might be) impacted by the problem and how? (2) What are the moral values needed to analyze the problem, and (3) what are the relevant moral problem facts?<sup>15</sup>

**Alternatives for Actions:** The third step in making a moral decision or action is to generate alternatives. This is the stage where various possible ethical decisions or actions are to be made are identified. Additionally these alternatives must be reviewed based on their effect on stakeholders.<sup>16</sup>

**Evaluate Alternatives:** While identifying all possible decisions, not all alternatives might be feasible. Therefore, the fourth logical step in making an ethical decision is to evaluate each and every alternative to decide on what alternative is more feasible and effective to the problem in question.<sup>17</sup>

**Reflection and Making a Decision:** To make the right choice, a reflection on the various available alternatives as compared to information identified in the problem analysis is very crucial. It is from the reflection stage that the morally acceptable action is determined by the decision makers and is implemented to resolve the moral problem.<sup>18</sup>

**Assessment and feedback:** As the problem has been identified and a decision has been made, it is time when an assessment of the decision has come to determine its impact and to determine on whether the action was morally acceptable.<sup>19</sup> Figure 1 illustrates the ethical moral decision making process. In making a decision, remember that even if it is legally okay, it might not be ethically so.



**Source:** The author developed this illustrative figure based on: Stanwick, P. A. & Stanwick, S. D. (2009). *The Ethical Cycle in Understanding Business Ethics*. Upper Saddle River, NJ: Pearson Prentice Hall. (PP. 19-20) and *Decision Making in Organizations in Greenberg, J. & Baron, R.A. (2008). Behavior in Organizations. 9<sup>th</sup> ed. Upper Saddle River, NJ: Pearson Prentice Hall. (PP. 380.382).*

**6. What are the potential threats to privacy posed by the Internet?**

The potential threats to privacy posed by the internet are: Identity theft; unintentional revealing of personal information by the person him/herself; lost/stolen personal information; government distribution of information (home address, social security number and other personal information); broadcasting of information over the internet (by people or entities who do not like you); your employer or spouse may use your computer to spy on you; you could become a victim of spying strangers (hackers); and you may have a cyber stalker harassing you.<sup>20</sup>

**7. If the Catsouras versus the CHP case had gone to trial and you served as a juror, which position would you most likely support? Why?**

While this question could be used as a classroom debate between students, encourage students to look for facts and substantial information when taking a position. This should be an interesting and a hotly debated question for students to discuss and may receive a different reaction from students. While some students believe that CHP apology, admittance of responsibility, its disciplining of its two dispatchers for not following the agency's standard operating procedures through the leaking of the images, and its collaboration in requesting website operators to remove the photos from the internet is not enough and therefore they will side with the Catsouras. These students might also argue that CHP dispatchers have violated privacy through their illegally transmitting the gory images of car-crash victim Nicole "Nikki" Catsouras to the outside world and thus turning her into an online sensation and further traumatizing her grieving family and inflicting emotional distress. Additionally, some students might argue that such an ordeal has taken a financial toll on the Catsouras's family. They might also conclude that since the dispatchers worked for the CHP, therefore the CHP is liable.

In addition, some students might argue that the second dispatcher, Reich's violated a deceased person's privacy information when he distributed the photos. In their argument, they might refer to an argument by Daniel Solove,<sup>21</sup> a law professor at George Washington University who examined the validity of the case and its argument that that "under California law, publication of pictures of a dead person violates no privacy rights of the dead person's relatives".<sup>22</sup>

According to Solove:

*"Many, many courts have concluded that families of deceased individuals do have privacy rights to the deceased".<sup>23</sup>*

To support his position, Solove cited a 2004 case involving death-scene photos of former deputy White House counsel Vincent Foster, who died in 1993 of a self-inflicted gunshot wound to the head. In that case, the Supreme Court ruled that the government could deny freedom of Information Act requests for the photos based on a family's right to survivor privacy.<sup>24</sup>

In addition to that Solove said "I'm totally perplexed at how the [California] court concludes there was no duty to preserve this family's privacy".<sup>25</sup> Students might conclude that the Catsouras lawsuit has the potential to rewrite California law concerning privacy issues

relating to survivors of a deceased person and believe that the family deserved compensation for pain and suffering as a result of the leaked images.

On the other hand, other students might disagree and side with the CHP and its two defending dispatchers arguing that the public has the right to know and be informed. Additionally, while the release of the photographs was morally wrong, it did not violate any governmental regulation or statute. Therefore, the CHP and its dispatchers are legally not responsible for the Catsourases' anguish and suffering.

According to Brian Daucher, a civil litigator and partner with the Costa Mesa office of Sheppard Mullin Richter and Hampton who specializes in Internet-related litigation and not involved in the Catsouras case "legal Rights that protect a living person against defamation or invasion of privacy don't necessarily extend past death...Unfortunately, the law is not always great at regulating human decency".<sup>25</sup>

Additionally, in their defense of the CHP and its dispatchers, students might also argue that while 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 did it only for work related reasons since he was too busy to view them at work.<sup>27</sup> "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".<sup>28</sup>

Thomas O'Donnell, a dispatcher already have gotten a written reprimand for emailing the photos to his home computer and was suspended for 25 days without pay (O'Donnell took the penalty in the form of reduced pay while continuing to work).

On the same position, other students might argue and support R. Rex Parris; Thomas O'Donnell's attorney views that:

*"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".<sup>29</sup>*

Accordingly, students are critical of the lawsuit might take the CHP and the defending dispatchers side and conclude that the leak of the grisly images were unfortunate, however it came as a consequence of the Catsouras' daughter actions and support the stand that CHP and its dispatchers did not violate any governmental regulation or statute.

### **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. All rights are reserved to the authors.

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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.*

## INSTRUCTORS' NOTE

As indicated in the case, the situation faced by Mr. Henry Adjai, Supply Chain Manager for FMCG Nigeria, is that he has been charged by his Managing Director to resolve the trucking-related challenges faced by FMCG Nigeria, including both current challenges (rapidly-escalating costs, low levels of service quality) and challenges which appear likely to impact negatively on FMCG Nigeria's plans to double the volume of its business. As noted in the case overview, this case looks as if it is all about trucking service contracts; in reality, however, it ends up being all about innovations in business processes and the importance of viewing challenges and opportunities within the context of a strategic vision for the company. As regards lessons and/or information students should learn from this case, at least five points can be made.

1. At the beginning of the case, students will need to consider the extent to which developed-world models and conceptual frameworks can be applied to challenges and opportunities in the developing world. By the end of the case discussion, they will have discovered that some conceptual frameworks (for example, the development and use of "growth through innovation" strategies) can be useful guides to managerial action not only in the developed world but in the developing world as well.

2. Students will be able to compare their solutions to the one developed by the hero of the case, that is, Mr. Henry Adjai, Supply Chain Manager for FMCG Nigeria.

3. Students will discover that a manager's conceptual framework (in this case, a "growth through innovation" strategy drawn from a set of alternatives suggested by Sawhney et al. (2006) powerfully impacts the nature of the process and/or options used to turn a business around. Specifically, an approach based on Sawhney et al.(2006) to address the trucking services-related challenges and opportunities faced by FMCG Nigeria is likely to differ considerably from a plan based on an alternative conceptual framework such as "negotiation."

4. As they work through the case, students are exposed not only to a bit of information on an important market in sub-Saharan Africa (Nigeria) but also to a bit of history on the company called (in this case) FMCG, a company (the real name is disguised) which has persevered for more than 40 years in Nigeria, experiencing in some years profits, in some years losses, but currently enjoying a high level of growth and success.

5. Students may sometimes wonder about the extent to which technology-based tools such as the web can be used to develop and exploit business opportunities in the developing world. This case provides an interesting example of the extent to which technology-based tools such as on-line e-auctions are already being used not just in the developed world but in the developing world as well.

## DISCUSSION QUESTIONS

We often select one student to lead the discussion. Another approach would be to solicit input from various students at various stages of the analysis. Either way, our usual approach to this case is threefold:

1. Solicit from many students the details of the case, including information on the macro-economic and political and social environment in Nigeria, information on the company; information on the trucking-related needs of FMCG Nigeria and on the suppliers in Nigeria of trucking-related services, and so on. Usually, we write much of this information on the board, so that if questions on “facts of the case” arise, we will have much of that information in front of us.

2. Ask an individual student or the class as a whole to address a very specific series of questions. Those questions, and comments relating to two alternative approaches to the case, are as listed below:

Q&A #1) WHAT IS THE MAIN PROBLEM? Students usually conclude that Mr. Henry Adjai needs to resolve not only the current trucking-related challenges faced by FMCG Nigeria (cost and service-quality related), but also the trucking-related challenges which threaten to derail the M.D.’s plans to double FMCG Nigeria’s business in Nigeria within three years. We reinforce the idea that this is a reasonable statement of the challenge Mr. Henry Adjai faces.

Q&A #2) WHAT KIND OF PROBLEM IS THIS? Instructors should not be surprised if there are as many answers to this question as there are students in the class. Clearly, there is no one “right” answer. However, two alternative approaches, each of which seems quite relevant to the situation, are as indicated below:

1. Negotiation (regarding availability of trucks, pricing of trucking services, etc.).
2. Growth through innovation.

Q&A #3) FOR THE KIND OF PROBLEM SELECTED, WHAT ARE THE KEY VARIABLES AND WHICH EXPERT SAYS SO? For students concluding that the main problem is “negotiation,” the negotiation process model developed by Ury (1991) seems very relevant. According to Ury (ibid), the steps in the negotiation process include: 1) Go to the balcony (that is, instead of reacting to challenges and/or problems identified by the other party, step back, collect your thoughts, evaluate the situation objectively, etc.); 2) Step to their side (that is, listen to the other party, understand their concerns, and agree where you can); 3) Reframe the argument (that is, see if it is possible to identify a win-win solution); 4) Build them a golden bridge (that is, make it easy for the other party to say “yes”); and 5) Use power to educate (make it hard for the other party to say “no”). For students concluding that the main problem is “growth through innovation,” Sawhney et al (2006) identify the following twelve approaches to innovation which can be used to create growth: 1) Offerings (i.e., create new products); 2) platform (that is, create new offerings by combining common components in different ways); 3) solutions (that is, offer integrated solutions to customer problems, not products); 4) customers (identify new segments); 5) customer experience (redesign the overall experience of customers); 6) value capture (create new ways for the company to generate revenue); 7) processes (that is, redesign core processes to increase efficiency and/or effectiveness); 8) organization (change the firm’s form, function, or activity scope); 9) supply

chain (redesign the firm's sourcing and/or fulfillment activities); 10) presence (create new distribution channels); 11) networking (create network-based intelligent products/services); and 12) brand (leverage a brand into new domains).

Q&A #4) WHAT DATA FROM THE CASE RELATE TO THE KEY VARIABLES? As implied above (and this is one of the key learning points of the case), the data students present will depend on the main problem they identify. Students believing the main problem is "negotiation" will focus on the five key variables identified by Ury (1991), that is, 1) Go to the balcony; 2) Step to their side; 3) Reframe the argument; 4) Build them a golden bridge; and 5) Use power to educate. Appendix 4 identifies data from the case which relate to each of these key variables. Students believing the main problem is a need to identify and exploit "growth through innovation" opportunities will focus on one or more of the twelve alternatives suggested by Sawhney et al (2006).; Appendix 5 identifies data from the case which relate to each of those 12 alternatives.

Q&A #5) WHAT ALTERNATIVE SOLUTIONS CAN BE IDENTIFIED? Because research suggests we make better decisions if we identify alternatives and then chose one, we require students to identify at least two alternatives. Of course, students having difficulties coming up with a second alternative can be reminded that one possible solution is to "change nothing."

Q&A #6) WHICH ONE ALTERNATIVE DOES THE CLASS/STUDENT RECOMMEND, AND WHY? "Changing nothing" is unlikely to help Mr. Henry Adjai achieve his objective, that is, to resolve not only the current trucking services-related challenges faced by FMCG Nigeria (cost and service-quality related), but also the trucking-related challenges which threaten to derail the M.D.'s plans to grow FMCG Nigeria's business in Nigeria. Thus, students believing the main problem is "negotiation" will recommend an approach which focuses (or re-focuses) on the five key steps in the negotiation process identified by Ury (1991). Students believing the main problem is the need to identify and exploit one or more "growth through innovation" options are likely to recommend consideration of one or more of the options suggested by Sawhney et. al. (2006).

The approach used successfully by Mr. Adjai was a "growth through innovation" option remarkably similar to one of those suggested by Sawhney et al. (2006). For additional information on what happened, please see the epilogue.

Q&A #7) WHAT NEGATIVES ARE ASSOCIATED WITH THE ALTERNATIVE SELECTED BY THE CLASS LEADER AND/OR OTHER MEMBERS OF THE CLASS? Very few solutions are risk and/or problem-free. Negatives associated with the solution proposed by the class leader and/or other members of the class could include the following: The chosen alternative, if it requires FMCG Nigeria to acquire specialized equipment and/or skills which the organization doesn't currently possess, could be expensive both in terms of time and money. Also, because the case probably doesn't provide all the data a decision maker would need (in

other words, it is likely that some important data is missing), it could be that some of the assumptions made are incorrect. If so, the proposed solution might be inappropriate.

3) The third and final step in discussing a case with students is to share with them what actually happened (that is, to provide them with an epilogue to the case) and to discuss with them the implications of that outcome. In this case, as he thought about how to tackle the challenges, Mr. Adjai and his team focused not so much on “content” (that is, the details of the trucking contracts) but rather on “process.” The key question ended up being the issue of “what process-related innovations can we identify which could not only increase the amount of competition between bidders (and as a result lead to reductions in the prices FMCG is paying for trucking services) but also (and more importantly) “what can we do to ensure that the trucking services FMCG needs now and in the future will be available?” Mr. Adjai and his team then identified and evaluated a number of “growth through innovation” related approaches, including many of the sorts of options identified by Sawhney et al. (2006). The conclusions reached by Mr. Adjai and his team included the following:

- a) Given his need to resolve the trucking-related challenges facing FMCG Nigeria quite quickly, several of the sorts of “growth through innovation” options suggested by experts including Sawhney et. al. (for example, the development of innovative products and/or services, the development of integrated solutions, the re-design of core operating procedures, changing the form/function and/or activity scope of the firm, creating network-centric product offerings, etc.) did not appear relevant to Mr. Adjai.
- b) Of the “growth through innovation” options which did (because they could be actioned relatively quickly) look interesting, Mr. Adjai found himself drawn to the dimension of “processes,” that is, the redesign of core processes to increase efficiency and/or effectiveness.
- c) Based on his knowledge of the fact that trucking companies in Nigeria are becoming more sophisticated, Mr. Adjai found himself wondering whether it would be possible to achieve the objective set by the M.D. (that is, to resolve both current cost and service quality trucking-related challenges and longer-run challenges threatening the viability of the growth plans for the future being developed by FMCG Nigeria) simply by creating new transportation contracts (this is the usual procedure) but then offering those contracts to providers of trucking services in Nigeria using an “on-line e-auction-based” process. Ultimately, Mr. Adjai and his team decided that an on-line e-auction not only had the potential to achieve the desired short-run results but also was very appropriate to FMCG Nigeria’s existing situation and aspirations. The advantages of launching an e-auction for trucking services (the first time that a transportation services electronic auction had ever been held in Nigeria) included:
  - 1) As indicated earlier, FMCG Nigeria’s M.D. had expressed the fear (and now the initial bids have confirmed that his fears were well-founded) that the

trucking companies qualified to bid on trucking services contracts for FMCG Nigeria might not compete very aggressively on prices. Mr. Adjai and his team believed, however, that the use of an on-line e-auction process as a price-discovery tool did have the potential to increase the amount of price competition in which those qualified trucking companies would engage.

- 2) As indicated earlier, FMCG Nigeria's M.D. has urged Mr. Adjai to do anything he can to lower the total cost of the three year trucking contracts which FMCG Nigeria is about to sign with the providers of trucking services in Nigeria. Mr. Adjai and his team believe that the use of an on-line e-auction process does have the potential not only to lower the total cost to FMCG Nigeria of acquiring the trucking services it needs but also to ensure that FMCG will be able to acquire the trucking services it needs so as to be able to double its business in Nigeria over the next three years.
- d) As he thought further about the idea of setting up an e-auction and using it to meet the M.D.'s objectives, and taking into account the fact that no e-auction for transportation services had ever before been held in Nigeria, Mr. Adjai realized that he and his team would have to work very intensively on the process-related aspects of planning and executing the e-auction. As it happens, the process Mr. Adjai and his team used was quite consistent with 7 steps to e-auction success identified by Bush (2007); those 7 steps (together with a few elaborative comments from Mr. Adjai on the importance of each of these steps) are as indicated below:
- 1) Define requirements and goals. Mr. Adjai indicates that it was very important for potential suppliers of trucking services to understand very clearly the details of the contracts which FMCG Nigeria would be offering. As it turned out, one of the trucking companies which won a contract from FMCG Nigeria neglected to include (in its bid) the cost of insuring the goods it was transporting; this oversight on the part of that trucking company created problems later on both for the trucking company and for FMCG Nigeria.
  - 2) Invite all potential suppliers to an open "Request For Information" (RFI) session. Mr. Adjai indicates that FMCG Nigeria did hold a meeting for all potential suppliers of trucking services, so as to familiarize those potential bidders with the "Request for Quotation" (RFQ) forms used by FMCG Nigeria, the process which would be used to run the upcoming on-line e-auction, etc.
  - 3) Pre-qualify capable suppliers. As indicated in the case, Mr. Adjai and his team did conduct a prequalification exercise, so as to know which companies met the criteria for being able to bid for pieces of FMCG Nigeria's trucking

needs. Readers may recall that the criteria set by FMCG Nigeria included: the trucking company must be able to dedicate at least 20 trucks to its FMCG Nigeria business, it must have its own maintenance workshop, it must be financially strong, and it must be using GPS equipment so that late and/or missing trucks can be located. In addition, and as indicated earlier, the vehicles the trucking company commits to FMCG must meet a number of different criteria regarding appearance, roadworthiness, etc.

- 4) Clearly document all requirements. As indicated above, Mr. Adjai indicates that FMCG Nigeria did prepare “Request For Quotation” (RFQ) forms detailing exactly what requirements FMCG Nigeria had established (size of trucks, type of trucks, etc.); he indicates that FMCG Nigeria also provided potential suppliers with written materials explaining exactly when the on-line e-auction would take place, how it would be conducted, etc.
- 5) Hold a Q & A training session. Mr. Adjai indicates that FMCG Nigeria not only held a training session; prior to the actual on-line e-auction, FMCG Nigeria also staged a mock auction, so that potential suppliers could experience exactly what would happen during the auction, how it would happen, etc.
- 6) Monitor the auction. Mr. Adjai indicates that FMCG Nigeria monitored the auction very carefully; in addition, FMCG Nigeria established (up front, and prior to the auction) a rule that if a potential supplier made a last minute bid, the on-line e-auction would be extended for at least a few minutes, so as to give other bidders a chance to respond to that late bid.
- 7) Follow through and award promptly. Mr. Adjai indicates that after the on-line e-auction, FMCG Nigeria did award contracts promptly. The contracts awarded are as indicated below:

LOT	70% AWARDED (1)	30% AWARDED	TOTAL VALUE OF CONTRACT AWARDED BOTH PARTIES(2)
1	ABC	MNO	103,313,000
2	GHI	JKL	71,267,000
3	GHI	ABC	207,000,000
4	ABC	JKL	367,900,000
5	DEF	DEF	214,109,000

- 1) Regarding the nature of the winning bids, FMCG Nigeria had allowed potential suppliers to bid either for a percentage of the trucking business in each lot (30% or 70%) or for all of the trucking business in each lot. As it turned out, in lots 1-4, FMCG Nigeria

ended up awarding 30% of the trucking contract to one trucking company and 70% of the trucking contract to a different company.. In the case of lot 5 however, FMCG Nigeria ended up awarding the entire contract for trucking services to one company.

2) Both Mr. Adjai and the M.D. ended up being very pleased with the results of the on-line e-auction. As Mr. Adjai had expected, the on-line e-auction ended up being quite competitive; as indicated above, the bids received from the trucking companies were (on average) nearly 10% lower than the initial bids which FMCG Nigeria had received. As indicated earlier, with annual expenditures for trucking services of more than one billion naira per year, the 10% savings generated through the use of the e-auction process represent cost savings to FMCG Nigeria of more than 100 million naira per year.

### CONCLUDING COMMENTS

While the above comments describe the process initiated by Mr. Adjai and his team to achieve the objectives set by the M.D. , and the outcomes of that process, readers may be interested in the answers to the following two summary questions (one of them dealing with short-term outcomes, the other dealing with longer-term issues):

- 1) Did the electronic auction organized by Mr. Adjai allow him to achieve the objectives (that is, to resolve current trucking-related cost and service quality issues plus to resolve trucking-related impediments to the long-term growth objectives set by the M.D. of FMCG Nigeria? The answer is “Yes.”
- 2) Are there any other bits of information and/or lessons from the case which might be of interest to readers? Based on conversations with Mr. Adjai and the M.D. of FMDG, the author of this case believes that once again, the answer is “Yes.” The few additional observations he would like to offer include:
  - a. Tackling major issues like this one (that is, coming up with a permanent solution to the challenge of ensuring that FMCG will be able to procure the trucking services it needs (both now and in the future) is a journey, not an event. One way of viewing the steps in the journey toward solution of a challenge such as this is that “the solution” ends up being an ongoing cycle of the following four actions: Plan, Do, Check, and Act.”
  - b. This case was written approximately one year after the electronic auction. As Mr. Adjai and the M.D. talked with the author about the above model (that is, “Plan, Do, Check, and Act) and the journey (so far) toward the permanent solution of the question of ensuring that FMCG will now and in the future be able to procure the needed trucking services, they made the following comments (all of which relate to the specific challenge of finding a solution to the trucking services challenge):

- i. Six months after the electronic auction, FMCG conducted a “six months check (or review)” of its “solution” to the procurement of trucking services challenge. During this “check,” one of the winning trucking companies indicated that it needed a price increase because it had neglected to include a cost specified in its contract (specifically, the cost of “Goods In Transit” [GIT] insurance) in its bid. In response, FMCG terminated its contract with this trucking company.
- ii. During the “six months check,” it became clear that two of the winning trucking companies were not increasing the number of vehicles committed to FMCG at the rate specified in their contracts. In response, FMCG terminated its contract with one of the trucking companies but gave the other trucking company an extension on the date by which additional vehicles needed to be committed. To handle the short-term unmet needs for trucking services generated by the above actions, FMCG: 1) allocated additional business to the other trucking companies who had won contracts in the electronic auction; 2) resumed buying some trucking services on an ad hoc daily basis; and 3) awarded trucking contracts to three additional trucking companies which had participated in the original electronic auction.
- iii. During the “six month check,” it became clear that one particular type of truck used by one of the winning trucking companies was especially well-suited to the needs of FMCG and its customers. This knowledge has been extremely useful to FMCG. FMCG has used this information to reduce its costs of transport services by approximately 50 million naira. FMCG will of course be urging other trucking companies with whom it has contracts to begin acquiring this particular type of truck.
- iv. During the “six month check,” it became clear that the use of flexible contracts (that is, contracts which review the prices FMCG pays for trucking services if inflation exceeds a certain amount or if the price of diesel fuel increases by more than a certain amount) is very useful, because it: 1) very substantially reduces the number of issues about which the providers of trucking services can complain; and 2) reduces the need to do frequent reviews of FMCG’s contracts with the trucking companies.
- v. While the above paragraphs indicate that FMCG’s “solution” to the trucking services challenge is a work in process, it is clear that very substantial progress has been made. Mr. Adjai indicates that while FMCG had been procuring 100% of its trucking services on an ad hoc (that is,

daily) basis, now the company is procuring 100% of its needs for 15 ton trucks and 83% of its needs for 30 ton trucks on a contract basis.

- vi. Mr. Adjai and the M.D. indicate that FMCG's "solution" to the trucking services challenge has been useful not only here in Nigeria, but also in neighboring countries in which FMCG's multinational parent company operates.
  
- c) In addition the above issues, (each of which relates to the specific challenge of finding a solution to the trucking services challenge), Mr. Adjai and the M.D. would like to highlight their sense of how important it is to view challenges and opportunities within the context of a strategic vision for the company. They believe that their insistence on focusing not just on a "fix" to the trucking services-related challenges FMCG Nigeria was facing, but focusing rather on a long term strategic solution to provide a permanent solution to the availability of trucks for FMCG, was absolutely essential to the success not only of this project, but of other current and future challenges and opportunities as well.

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#### APPENDIX 4:

#### CASE DATA RELATING TO VARIABLES IN URY'S NEGOTIATION MODEL

- 1) Go to the balcony (that is, instead of reacting to challenges or problems identified by the other party, step back, collect your thoughts, evaluate the situation objectively, etc.): The case indicates that the fears of the M.D. have been confirmed; the trucking companies are not competing intensely on prices, as they bid to win three year trucking services contracts from FMCG Nigeria. Rather than reacting, it appears that Mr. Adjai has stepped back, collected his thoughts, and is evaluating the situation.
- 2) Step to their side (that is, listen to the other party, understand their concerns, and agree where you can): While Mr. Adjai is likely to have done these things, the fact remains that his M.D. has tasked Mr. Adjai "to 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) Reframe the argument (see if it is possible to identify a win-win solution): While Mr. Adjai may have considered this step, it remains true that his M.D. has tasked Mr. Adjai "to 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." In other words, the directive from his M.D. appears to commit Mr. Adjai to

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a zero-sum game, that is, a situation where if FMCG Nigeria “wins” (that is, achieves lower costs for trucking services), the trucking services companies lose.

- 4) Build them a golden bridge (that is, make it easy for the other party to say “yes”): Because Mr. Adjai used a process innovation (that is, the on-line e-auction) to resolve the situation, he did not get involved in attempting to negotiate lower prices from the trucking companies.
- 5) Use power to educate (that is, make it hard for the other party to say “no”): Because Mr. Adjai used a process innovation (that is, the on-line e-auction) to resolve the situation, he did not get involved in attempting to negotiate lower prices from the trucking companies.

#### **APPENDIX 5: CASE DATA RELATING TO THE “GROWTH THROUGH INNOVATION” OPTIONS IDENTIFIED BY SAWHNEY ET AL. (2006)**

1) Offerings (i.e., create new products): There is no information in the case about creating new products. In any case, given the nature of the challenge Mr. Adjai faces (that is, to resolve the trucking services-related problems and opportunities faced by FMCG Nigeria, bearing in mind the fear of the M.D. that the trucking companies are not likely to compete very intensively on the prices they quote to FMCG Nigeria and the M.D.’s hope that Mr. Adjai will do everything 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), it seems unlikely that an offerings innovation (that is, creating new products) will resolve his problem.

2) Platform (that is, create new offerings by combining common components in different ways): There is no information in the case about creating new offerings. In any case, given the nature of the challenge which Mr. Adjai faces, it seems unlikely that platform innovation (that is, creating new offerings by combining common components in different ways) will resolve his problem.

3) Solutions (that is, offer integrated solutions to customer problems, not products): There is no information in the case about creating integrated solutions to problems of customers. In any case, given the nature of the challenge which Mr. Adjai faces, it seems unlikely that solutions innovation (that is, offering integrated solutions to customers) will resolve his problem, especially since his challenge involves working with suppliers, not with customers.

4) Customers (identify new segments): There is no information in the case about the possible identification of new customer segments. In any case, given the nature of the challenge which Mr. Adjai faces, it seems unlikely that customer innovation (that is, identifying new segments) will resolve his problem.

5) Customer experience (redesign the overall experience of customers): There is no information in the case about the overall experience of customers. In any case, given the nature of the challenge which Mr. Adjai faces, it seems unlikely that customer experience-related innovation (that is, redesigning the overall experience of customers) will resolve his problem.

6) Value Capture (create new ways for the company to generate revenue): There is no information in the case about creating new ways for the company to generate revenue. In any case, given the nature of the challenge which Mr. Adjai faces, it seems unlikely that value capture innovation (that is, creating new ways for the company to generate revenue) will resolve his problem.

7) Processes (that is, redesign core processes to increase efficiency and/or effectiveness): The case indicates that the M.D. fears the trucking companies that FMCG Nigeria hopes will sign contracts (to provide trucking services to the company) are not likely to compete aggressively on the prices they offer FMCG Nigeria. The case also indicates that the M.D. is very eager (given the fact the FMCG Nigeria spends more than one billion naira a year on trucking services) to reduce the cost of trucking services purchased by the company. The case indicates that Mr. Adjai and

his team believe that the use (for the first time) of an on-line e-auction-based process may have the potential not only to stimulate competition between the potential suppliers of trucking services but also to achieve a reduction in the prices which FMCG Nigeria pays for those trucking services.

8) Organization (change the firm's form, function, or activity scope): Given the nature of the challenge which Mr. Adjai faces, it seems unlikely that organization innovation (that is, changing the firm's form, function, or activity scope) will resolve his problem.

9) Supply Chain (redesign the firm's sourcing and/or fulfillment activities): While FMCG Nigeria has (in the past) redesigned the firm's sourcing and fulfillment activities, there is no indication in the case that FMCG Nigeria is seeking (at this point) to do so again.

10) Presence (create new distribution channels): There is no indication in the case that FMCG Nigeria is seeking (at this time) to create new distribution channels. However, the case does suggest that FMCG Nigeria is interested in changing the number and/or identity of the trucking firms with whom they will be working in the future.

12) Brand (leverage a brand into new domains): Given the nature of the challenge which Mr. Adjai faces, it seems unlikely that brand innovation (that is, leveraging a brand into new domains) will resolve his problem.

## **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.*

### **INSTRUCTORS' NOTE**

#### **CASE USE AND TEACHING OBJECTIVES**

This case has been written for a session on the management of international joint ventures, although it can also be used to discuss business in Russia and government's intervention in business and how it affects multinational companies. It is appropriate for a graduate course in international business, although it could also work for an undergraduate capstone course. Topics covered in the case and appropriate readings are listed below:

1. Market entry and modes of market entry decisions (Flores and Aguilera 2007; Pan and Tse 2000).
2. Managing international joint ventures (Hambrick, Li, Xin and Tsui 2001)
3. Dimensions and elements of culture (Fang 2003);

### **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.

### **ASSIGNMENT QUESTIONS**

### **TEACHING PLAN**

The instructor can start by asking the class why it is important for BP to have a presence in Russia. Most of the class will immediately respond that Russia has large untapped oil resources that BP can exploit. The instructor can then discuss different motivations for companies to set up a presence in a particular country: resources, competition, markets, know how. In BP's case, access to resources was the main reason to establish in Russia, but also the opportunity to access the market with gas stations under the BP banner. Some instructors may choose to probe deeper and ask why Russia and not other places in the world. This can lead to a wider discussion about the geopolitics of oil. The case shows how most of the world's oil reserves are in the hands of state-owned oil companies in producing countries, while private western companies typically have rights to older or more difficult fields. Since western companies are the most productive, there is an opportunity for them to cooperate with state-owned companies in oil-producing countries.

Once it is clear why BP wants to be in Russia, the discussion can turn to the modes of access. If the instructor asks what is the best way for BP to establish a presence in Russia, the class will soon split between those supporting a joint venture like TNK-BP and those who think a fully owned subsidiary would be a better choice. Here it will be useful to go back to the case and remind students that BP initially took a minority stake (10%) in Sidanco, later increased to 25% with management control. The instructor can then help the class explore the pros and cons of

the four alternatives: a whole owned subsidiary (lots of control, but also high risk), a minority stake without control (low risk, but low control and at the mercy of local partners), a minority stake with management control (the instructor may want to detour here and discuss ways in which control can be attained without holding a majority stake in the local venture) and a 50-50 joint venture (high risk and little control). In order to give some structure to the discussion of pros and cons, the instructor can arrange them on the board along two perpendicular dimensions, risk and control.

After considering the pros and cons, and given that BP started with the lowest risk alternative, the instructor can ask why BP chose the least manageable alternative. Some students may talk about issues of fairness (50-50 seems fair for both parties) or miscalculation on BP's management's part, but soon some students will realize that BP had little option if it wanted to avoid being excluded from Russia through lawsuits. If the class has international experience, the instructor can ask for other examples where 50-50 (or similar) joint ventures with domestic (and in some cases, state-owned) companies are required through regulation or political pressure and it will become apparent that it is a common situation.

At this point the discussion can turn to the current situation. Since BP has few options in Russia outside the TNK-BP joint venture, the focus becomes how to make it work in BP's best interest within the constraints of Russia's economic and political environment. The questions at the end of the case can serve as guidance here:

**WHAT ARE THE MAIN CHALLENGES TNK-BP'S NEW CEO WILL FACE? WHAT SHOULD BE HIS OR HER PRIORITIES ON TAKING THIS POSITION?**

Students will start talking about the price of oil, Russia's government, relationship between the partners in the venture. It will be useful to group them into internal and external challenges. The instructor can then ask students how they would address the external challenges (oil prices, politics). They will point in very different directions, and it can be useful to ask them why there is such a diversity of opinions. That will lead to the internal challenges (some of the best students may point in this direction) and in particular the alignment of the interests of the partners in the venture, BP and AAR. Since each partner has essentially veto power over strategic decisions, it will be essential for the new CEO to come to grips with their priorities for the venture. Here the instructor can introduce the difference between performance objectives at the JV level and at the parent(s) level, as well as what control mechanisms exists for JVs in addition to majority stakes. In the case of TNK-BP access to the Russian government is a key control lever for the Russian partners, while access to capital, technology and expertise are control levers for BP.

**WILL FLUENCY IN RUSSIAN BE ENOUGH TO GUARANTEE THE NECESSARY CULTURAL COMPETENCY IN THE NEW RUSSIAN ENVIRONMENT?**

Most likely several students in the class speak a foreign language, some of them probably with native fluency. For many English may be a foreign language. The instructor can

personalize the question and ask the students if speaking English is enough to understand American (or British or Australian) culture. The instructor can then ask what else will be necessary and discuss them in detail using the instructor's preferred theoretical framework. One option is to use Hofstede's (2001) dimensions of national culture (Power Distance, Individualism, Masculinity, Uncertainty Avoidance and Long Term Orientation) and another would be to use an anthropological view of culture.

**WORLD OIL PRICES HAD DROPPED TO AROUND \$40/BBL. HOW WOULD THAT 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?**

Some students may suggest that at that price, TNK-BP is just not valuable enough and the partners will either leave it to its own devices or try to squeeze as much cash as possible from it even if that limits its long-term prospects of success. The instructor can then ask students to go back and revisit why AAR was interested in BP as a partner. As a major western oil company, BP has the technology and know-how to find and extract oil much more efficiently than local companies. If with oil at \$150/bbl efficiency improvements can be overlooked without an obvious impact on the bottom line, with oil at \$40/bbl efficiency improvements can make the difference between profits and losses. This suggests AAR (and the Russian government) may be more accommodating of BP's interests since its contribution becomes much more valuable, thus making the new CEO's job easier. Furthermore, BP's technology and know how are valuable for AAR to the extent that they are not available in the open market, or not at competitive prices. As other companies, both in Russia and elsewhere, develop and market competing oil extraction technologies and make them available, BP's value for AAR is expected to decline.

At some point in the discussion a student may suggest that the Russian government is highly corrupt. Some may point to the Russian mafias and their connections to the former KGB, currently the FSB. Still, some others may point out that corruption is endemic to the oil business worldwide. Also, the instructor can prompt the question. This is an opportunity to introduce the concepts of bribery and extortion and how they could play in TNK-BP's situation. If BP had used bribery (by offering an economic consideration to individuals in power) to gain illegitimate access to Russian assets, what stops those same individuals from extracting additional value from BP to maintain access to those assets? The reasoning would conclude with the expectation that officials that accept bribes will often demand additional payments until the perceived rent for the bribing company approaches zero.

On the other hand, BP may be subject to extortion (whether from the Kremlin, the Russian Mafia, the FSB, or a combination of them) and the whole situation could be interpreted as a plot to extort BP under threat of losing control of its Russian assets.

## **SHOULD BP'S ATTITUDE TOWARDS ITS RUSSIAN VENTURE CHANGE?**

The instructor can take a poll of the class here, and then ask those who say yes what is the alternative. Walking away from TNK-BP would reduce BP's reserves very significantly, and there are few other alternatives to replace them in Russia. How about outside Russia then? As the case explains, most of the world's reserves are not accessible to the western majors, or in political conditions that are not significantly different from Russia. At the same time, a lower oil price makes BP's contribution to the joint venture more valuable, giving it more power in negotiations with its partners.

### **A NEGOTIATION EXERCISE**

Instead of a traditional case analysis, the instructor can use the case as the basis for a negotiation exercise. The class can be divided into two teams, BP on one side and its Russian partners on another, or even three teams (BP, its Russian partners and the Russian government). Each team would be required to carry out additional research before the class, and dedicate the class time to negotiate a satisfactory agreement for all parties. Once the negotiation is concluded, the rest of the teaching note can be used as part of the debriefing process.

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

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## 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 for companies as independent contractors. Legalities and personal preferences are analyzed in relations to the pros and cons of both categories. Job condition scenarios are compared with the case revolving around 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 benefits and negatives to be considered would 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.*

## 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 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. Student find themselves personally involved in the sorting through the pros and cons of either choice. And, like Jimmy, they are asked to make decisions*

## INSTRUCTOR'S NOTES

## RECOMMENDATIONS FOR TEACHING APPROACHES

This case helps students understand one of the complexities of twenty-first century American employment. As it seems nothing is simple anymore, this case is indicative of challenges our students will shortly face. It can be viewed from a personal individual perspective or a human resources management basis. Personal mores, legalities, and real life economics play a role in this decision. Allow the students to read the case and then assign the

questions. After placing themselves in Jimmy's shoes they can discuss the complexities of the situation and enjoy making a hypothetical personal decision.

1. What is the monetary value of Jimmy's benefit program at Buell Construction?
  2. What emotional and security value does Jimmy place on this program?
  3. What will Jimmy's challenges be in regard to his tax liabilities?
  4. What are the dangers of using only weekly take home pay calculations in considering the economic advantages of the IC classification.
  5. What other company benefits at Buell Construction may Jimmy not be considering?
  6. How valid is Jimmy's assumption that his personal tool expense will be minimal.
  7. Do you think Jimmy's extra income expectations are realistic?
  8. Is Jimmy's analysis that his age lends its self to the IC work classification a practical one; or is it naive and egotistical.
  9. If Jimmy should elect to become an independent contractor but latter decides to give up the free life of bachelorhood, marry and start a family should he revisit this situation.
  10. Do you consider Jimmy to be a "self starter"? Why is this thought to be an essential quality for independent contractors?
  11. Can ICs draw unemployment compensation? When is unemployment compensation important?
  12. What hidden tax liability does Jimmy seem not to be considering?
  13. What about long term commitment with independent contractors?
  14. What is the obligation of the employer concerning reporting employment?
  15. What is the Independent Contractor Test established by the IRS?
  16. What are the three groups of the Independent Contractor Test and what do they encompass?
1. This is answered by adding the amounts listed for employer paid taxes, insurance, and vacation.

2. Jimmy seems to be largely negating the security aspects of being an employee for an established company and focusing on his emotional needs. Mainly, more freedom and more pocket money.

3. If Jimmy is like most young blue collar employees, he detests forms and paper work. He will most likely find it a struggle to gain the knowledge and the time and the discipline to submit these along with his tax payments in a timely manner.

4. The dangers of using only weekly calculations are that the tax liabilities are omitted from the picture, giving an unrealistic portrayal of economic gains.

5. As a general contractor, Buell Construction probably has positions much higher than the one Jimmy currently holds. The possibility of promotion to a position of more responsibility and pay will be lost should Jimmy leave for greener pastures. He has eight years of tenure which could factor into any retirement, pension, or vesting period.

Many contingent workers do not receive health insurance coverage, life insurance, retirement benefits (such as free money through a match, or the ability to take advantage of 401k contribution limits), or paid time off. There are also certain workplace laws that do not apply to contingent workers.

6. This is a great unknown as equipment does wear out and sometimes “disappear”. What cost this may occur is a very subjective answer that only Jimmy can provide.

7. Again, this will be determined by Jimmy’s personal drive and ambition as well as the opportunities available. It could be less than \$100 or significantly more.

8. Jimmy seems to believe his youth will enable him to overcome obstacles that might hamper an older man. To some extent this is probably true as youth and ambition are known to be great additions to talent. In addition, he has no family or spousal obligations.

9. Now Jimmy finds himself in a quite different situation; a person with responsibility for other people. He may well have a change of heart, believing his duty to those responsibilities outweigh his previous youthful desires of more immediate cash and independence.

10. Jimmy does seem to be a self-starter to some degree as there is an indication he has been given considerable responsibility. Initiative is thought to be essential as an IC because the ever present supervisor will not be there. Keeping things moving in the right direction will be up to Jimmy.

11. Anyone not working who can show evidence of employability can draw unemployment compensation. However, for independent contractors, it may come with a time delay and duration penalty as the IC has not been laid-off by an employer; he or she is just out of work.

12. The employer portion of the legally mandated payroll tax. As an IC Jimmy will be required to pay both the employer and the employee portion of this tax.

13. There is no long term commitment.

With most forms of low and mid-level employment, your contract can be terminated “at will”. This means that you can quit or be fired/laid off at any time. However, there is usually something owed when this happens. For instance, if someone is laid off, they are sometimes given a severance package, possibly vested (meaning that they can keep employer contributions) in a retirement plan, and even paid for unused time off.

This is usually not the case with contingent workers. Once the contract is terminated, the employer usually walks away from the relationship owing nothing. If an employer is not sure of long-term funding, this can be a great option (for the employer). Of course, this also makes it very easy for an employee leave the company. This risk has to be weighed against the benefits!

14. In the United States, any company or organization engaged in a trade or business that pays more than \$600 to an independent contractor in one year is required to report this to the Internal Revenue Service (IRS) as well as to the contractor, using Form 1099-MISC. This form is merely a report of monies paid; independent contractors do not have income taxes withheld from their pay as regular employees do.

15. The IRS used a test known as the "Twenty Factor" test. Congress and representatives of labor and business pushed for changes. The IRS has recently attempted to simplify and refine the test, consolidating the twenty factors into eleven main tests, and organizing them into three main groups: behavioral control, financial control, and the type of relationship of the parties.

16. The three groups of the Independent Contractor Test and their eleven encompassing criteria are:

Behavioral control: Facts that show whether the business has a right to direct and control how the worker does the task for which the worker is hired include the type and degree of—

1. *Instructions the business gives the worker*. An employee is generally subject to the business' instructions about when, where, and how to work. All of the following are examples of types of instructions about how to do work:
  - a. When and where to do the work
  - b. What tools or equipment to use
  - c. What workers to hire or to assist with the work
  - d. Where to purchase supplies and services
  - e. What work must be performed by a specified individual
  - f. What order or sequence to follow

The amount of instruction needed varies among different jobs. Even if no instructions are given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved. A business may lack the

knowledge to instruct some highly specialized professionals; in other cases, the task may require little or no instruction. The key consideration is whether the business has retained the right to control the details of a worker's performance or instead has given up that right.

2. *Training the business gives the worker.* An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

Financial control: Facts that show whether the business has a right to control the business aspects of the worker's job include:

3. *The extent to which the worker has unreimbursed business expenses.* Independent contractors are more likely to have unreimbursed expenses than are employees. Fixed ongoing costs that are incurred regardless of whether work is currently being performed are especially important. However, employees may also incur unreimbursed expenses in connection with the services they perform for their business.
4. *The extent of the worker's investment.* An employee usually has no investment in the work other than his or her own time. An independent contractor often has a significant investment in the facilities he or she uses in performing services for someone else. However, a significant investment is not necessary for independent contractor status.
5. *The extent to which the worker makes services available to the relevant market.* An independent contractor is generally free to seek out business opportunities. Independent contractors often advertise, maintain a visible business location, and are available to work in the relevant market.
6. *How the business pays the worker.* An employee is generally guaranteed a regular wage amount for an hourly, weekly, or other period of time. This usually indicates that a worker is an employee, even when the wage or salary is supplemented by a commission. An independent contractor is usually paid by a flat fee for the job. However, it is common in some professions, such as law, to pay independent contractors hourly.
7. *The extent to which the worker can realize a profit or loss.* Since an employer usually provides employees a workplace, tools, materials, equipment, and supplies needed for the work, and generally pays the costs of doing business, employees do not have an opportunity to make a profit or loss. An independent contractor can make a profit or loss.

Type of relationship: Facts that show the parties' type of relationship include:

8. *Written contracts describing the relationship the parties intended to create.* This is probably the least important of the criteria, since what really matters is the nature of the

underlying work relationship, not what the parties choose to call it. However, in close cases, the written contract can make a difference.

9. *Whether the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay.* The power to grant benefits carries with it the power to take them away, which is a power generally exercised by employers over employees. A true independent contractor will finance his or her own benefits out of the overall profits of the enterprise.
10. *The permanency of the relationship.* If the company engages a worker with the expectation that the relationship will continue indefinitely, rather than for a specific project or period, this is generally considered evidence that the intent was to create an employer-employee relationship.
11. *The extent to which services performed by the worker are a key aspect of the regular business of the company.* If a worker provides services that are a key aspect of the company's regular business activity, it is more likely that the company will have the right to direct and control his or her activities. For example, if a law firm hires an attorney, it is likely that it will present the attorney's work as its own and would have the right to control or direct that work. This would indicate an employer-employee relationship.

# CAMPBELL: IS THE SOUP STILL SIMMERING?

**Alan B. Eisner, Pace University**  
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**Helaine J. Korn, Baruch College, CUNY**

## 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?*

## INSTRUCTORS' NOTES

### CASE OBJECTIVES

1. To investigate the key external environmental issues that can affect a firm's strategy.
2. To examine how a reevaluation of strategy involves assessment of internal activities and resources.
3. To discuss the decisions and actions that a firm has to undertake to sustain a competitive advantage, especially when pursuing growth.

See the table below to determine where to use this case:

Chapter Use	Key Concepts
External Environment	External environmental forces; Porter's five forces model
Internal Analysis	Value chain; tangible vs. intangible resources; VRIN analysis
Business-Level Strategy	Generic strategies

## TEACHING PLAN

This is a case that is well suited for a full investigation of strategic analysis and formulation. An analysis of Porter's five forces can be used to analyze the environment in the packaged food industry. By building a sound foundation in external and internal environmental analysis, and identifying possible business and corporate-level strategies, student's can evaluate Campbell's progress in implementing them. As such, this case is best positioned mid-way through the course, after students have had an introduction to the concepts of strategy analysis and formulation.

## ICEBREAKER

This case can start with an *icebreaker*. Starting from the perspective of a customer may make it easier for students to transition to a strategic analysis.

*Did you have soup this week, month, year? Was it homemade or canned?*

*Have you ever tried Campbell's products? Over the last few years have you seen any changes in the taste or look? What do you think about these changes?*

Since Campbell is present in about 85 percent of U.S. households, a great part of the students should be familiar with the product. Also, you can discuss the soup culture in U.S.

## SUMMARY OF DISCUSSION QUESTIONS

Here is a list of the suggested discussion questions. You can decide which questions to assign, and also which additional readings or exercises to include to augment each discussion. Refer back to the Case Objectives Table to identify any additional readings and/or exercises so they can be assigned in advance.

### DISCUSSION QUESTIONS:

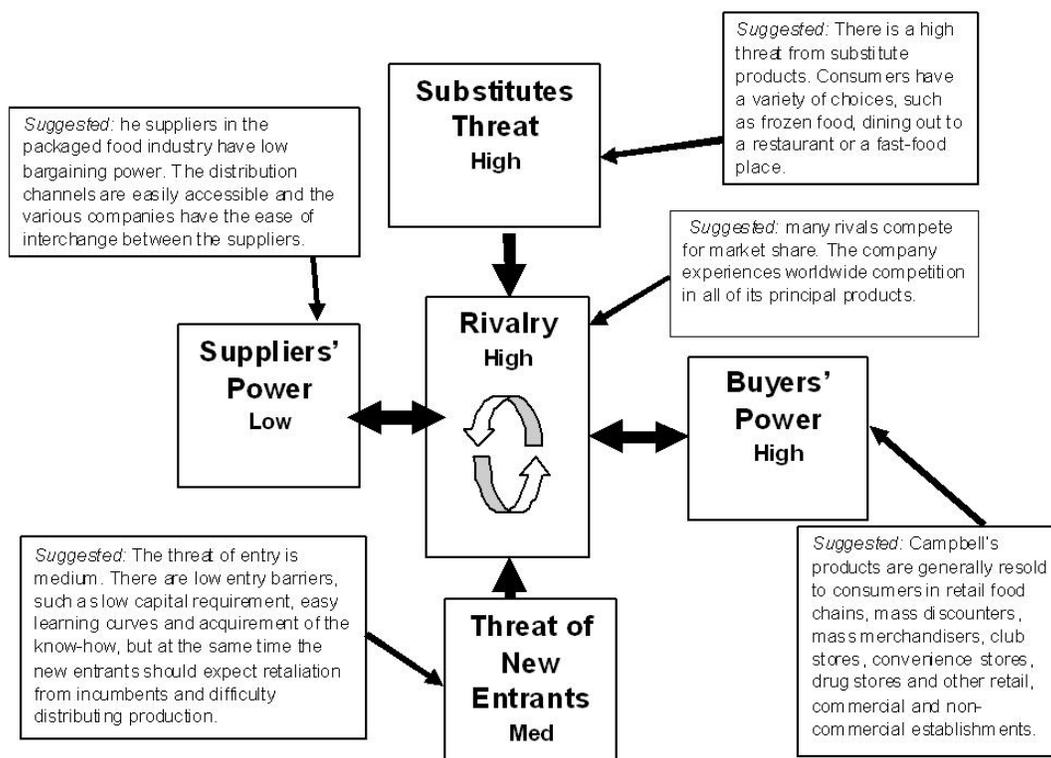
1. What are the key forces in the industry environment that affect Campbell's choice of strategy?
2. What internal resources does Campbell have that may give it a competitive advantage?
3. What do you think Campbell should do to counter the competition and remain in the top of the US Soup Industry?
4. What other strategies did Douglas R. Conant formulate to achieve a competitive advantage? Do they really need an outside CEO to change strategy?

## DISCUSSION QUESTIONS AND RESPONSES

1. *What are the key forces in the industry environment that affect Campbell's choice of strategy?*

### ANALYZING THE EXTERNAL ENVIRONMENT

To answer the question about the *current forces in the packaged food industry environments that affect Campbell's ongoing strategy*, it's necessary to assess the segments of the external competitive environment that include competitors, customers, and suppliers, substitutes and new entrants. **Porter's five forces** model allows strategists to anticipate where the industry might be most vulnerable.



**Suppliers – Low Threat:** The suppliers in the packaged food industry have low bargaining power. The distribution channels are easily accessible and the various companies have the ease of interchange between the suppliers if they consider doing so necessary. As far as Campbell the ingredients required for the manufacture of the company's food products are purchased from various suppliers. The company considers that disruption to the company's supply chain could adversely affect Campbell's business. In the case of damage or disruption to

the company's suppliers or to the company's manufacturing or distribution capabilities due to weather, natural disaster, fire, terrorism, pandemic, strikes or other reasons could impair the company's ability to manufacture and sell its products. The company needs to take adequate measures so as to be able to react to these scenarios that could adversely affect its business or financial results.

**Buyers – High Threat:** In most of the company's markets, sales activities are conducted by the company's own sales force and through broker and distributor arrangements. The company's products are generally resold to consumers in retail food chains, mass discounters, mass merchandisers, club stores, convenience stores, drug stores and other retail, commercial and non-commercial establishments. The company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 18% of the company's consolidated net sales during fiscal 2010 and 2009. All of the company's segments sold products to Wal-Mart Stores, Inc. or its affiliates. No other customer accounted for 10% or more of the company's consolidated net sales.

The ultimate buyers of Campbell products do not have any significant bargaining power. They do have the choice to switch to another retailer, but their actual power to affect prices is very small. In general, major retail buyers such as Wal-Mart affect the food and beverage industry more significantly because they have the ability to offer sales or price discounts on certain products in a way that affects product sales.

Campbell may be adversely impacted by the increased significance of some of its customers. The disruption of supply to any of the company's large customers, such as Wal-Mart Stores, Inc., for an extended period of time could adversely affect the company's business or financial results. In addition, the retail grocery trade continues to consolidate, and mass market retailers continue to become larger. In such an environment, a large retail customer may attempt to increase its profitability by lowering the prices of its suppliers or increasing promotional programs funded by its suppliers. If the company is unable to use its scale, marketing expertise, product innovation and category leadership positions to respond to these customer demands, the company's business or financial results could be negatively impacted.

**Industry Rivalry – High Threat.** The food and beverage industry is characterized by intense rivalry. The company experiences worldwide competition in all of its principal products. This competition arises from numerous competitors of varying sizes, including producers of generic and private label products, as well as from manufacturers of other branded food products, which compete for trade merchandising support and consumer dollars. As such, the number of competitors cannot be reliably estimated. The principal areas of competition are brand recognition, quality, price, advertising, promotion, convenience and service. The company operates in a highly competitive industry. The company operates in the highly competitive food industry and experiences worldwide competition in all of its principal products. A number of the company's primary competitors have substantial financial, marketing and other resources. A strong competitive response from one or more of these competitors to the company's marketplace efforts could result in the company reducing pricing, increasing marketing or other expenditures, or losing market share. These changes may have a material adverse effect on the business and financial results of the company.

**Barriers to Entry – Medium Threat:** The threat of entry is medium. There are low entry barriers, such as low capital requirement, easy learning curves and acquirement of the know-how, but at the same time the new entrants should expect retaliation from the incumbents.

**Substitutes – High Threat:** There is a high threat from substitute products. Consumers have a variety of choices, such as dining out to a restaurant or a fast-food place. At the same time the fact that consumers are moving towards more healthy choices may work to the benefit of companies such as Campbell Soup Co.

#### NOTE - ADDITIONAL EXERCISES:

One interesting way to evaluate the competitiveness in the industry is to look at comparative financial performance from the perspective of an investor. Since Campbell is a publicly-traded firm, take a look at <http://finance.yahoo.com/q/co?s=CPB> to see how it compares with its peers.

**2. What internal resources does Campbell have that may give it a competitive advantage?**

#### ANALYZING THE INTERNAL ENVIRONMENT

To answer the question of whether Campbell's differentiation strategy is adequately supported by its value chain and other internal resources, Campbell must assess the relationships between the elements in its value chain. Every activity should add value. Here is what an assessment of this might look like for Campbell:

Value chain activity	How does Campbell create value for the customer? What challenges does Apple have in its value chain?
<b>Primary:</b>	
Inbound logistics (distribution facilities, material control systems, warehouse layouts)	The company's principal executive offices and main research facilities are company-owned and located in Camden, New Jersey. Campbell has manufacturing facilities in 14 U.S. states and 10 countries around the world.
Operations (efficient work flow design, quality control systems)	Company's manufacturing and processing plants are well maintained and are generally adequate to support the current operations of the businesses. Campbell invested to increase the manufacturing capacity for refrigerated soups in a new facility, implement the SAP enterprise-resource planning system in North America, and implement certain productivity and quality projects in manufacturing facilities.
Outbound logistics (consolidation of goods, efficient scheduling, finished goods processing)	Distribution efficiency hard to assess, but appears effective.

Value chain activity	How does Campbell create value for the customer? What challenges does Apple have in its value chain?
Marketing and Sales (motivated sales people, innovative advertising & promotion, effective pricing, proper ID of customer segments & distribution channels)	Sales activities are conducted by the company's own sales force and through broker and distributor arrangements. The company has strong market positions in its segments in the geographies in which it competes, and its businesses in these categories respond well to product innovation and consumer marketing. The company offers various sales incentive programs to customers and consumers, such as cooperative advertising programs, feature price discounts, in-store display incentives and coupons.
Service (ability to solicit customer feedback & respond)	The company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 18% of the company's consolidated net sales during fiscal 2010 and 2009. All of the company's segments sold products to Wal-Mart Stores, Inc. or its affiliates. No other customer accounted for 10% or more of the company's consolidated net sales.
<b>Secondary (or support):</b>	
Procurement (procurement of raw materials, "win-win" relationships with suppliers)	The ingredients required for the manufacture of the company's food products were purchased from various suppliers. While all such ingredients were available from numerous independent suppliers, raw materials were subject to fluctuations in price attributable to a number of factors. To help reduce some of this price volatility, the company used various commodity risk management tools for a number of its ingredients and commodities
Technology development (innovative culture & qualified personnel)	Campbell sustains an appropriate technology infrastructure to provide and maintain connections among its marketing, sales, manufacturing, logistics, customer service, and accounting functions.
Human resource management (effective recruitment, incentive & retention mechanisms)	Human resource management hard to asses, but as per CEO Conant statement, the company "possessed the people" to actualize the mission of building the world's most extraordinary food company.
General Administration (effective planning systems to establish goals & strategies, access to capital, effective top management communication, relationships with diverse stakeholders)	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.

To answer the question of how to support a competitive strategy, it's important to consider the concept of the *resource-based view of the firm*, and the three key types of resources: tangible resources, intangible resources, and organizational capabilities. Campbell's profile might look like this:

#### *Tangible Resources:*

*Financial* – Douglas R. Conant's focus in winning in both the marketplace and workplace produced an increase in the net sales.

*Physical* –Campbell’s physical facilities are certainly adequate.

*Technological* – Campbell maintains an adequate technological system that allows it to operate its business.

*Intangible Resources:*

*Human:* CEO Conant’s focus on innovation appears to continually revitalize the workforce.

*Innovation and creativity:* Campbell is constantly adding new products that better reflect customer’s needs and preferences.

*Reputation:* Campbell started its business in 1869 and nowadays it sells its products in 120 countries. Campbell’s name presents reliability in product quality.

*Organizational Capabilities:* The ability to produce new varieties of products for their customer’s health and wellness and its expansion into emerging markets meant Campbell had significant capabilities to support a sustainable competitive advantage.

Determining whether the internal resources are valuable, rare, difficult to imitate, or difficult to substitute (*VRIN*) can help a firm sustain a competitive advantage. Applying the VRIN analysis to the above shows that Campbell had valuable resources, which nearly every competent firm should have in order to compete.

**3. What do you think Campbell should do to counter the competition and remain in the top of the US Soup Industry?**

**FORMULATING BUSINESS-LEVEL STRATEGIES**

A competitive strategy is linked to the value chain, and supported by intangible assets. Activities and assets allow Campbell to create products that are high quality and valuable to customers.

Several types of *competitive strategies* can be used, including the three *generic strategies* to overcome the five forces and achieve a competitive advantage:

- Overall cost leadership
  - Low-cost-position relative to a firm’s peers
  - Manage relationships throughout the entire value chain
- Differentiation
  - Create products and/or services that are unique and valued
  - Non-price attributes for which customers will pay a premium
- Focus strategy
  - Narrow product lines, buyer segments, or targeted geographic markets

- Attain advantages either through differentiation or cost leadership

Campbell has products that target different types of consumers and their health concerns, such as blood pressure or weight loss. With new products on the market and on their way, contract prices on raw materials, consolidated manufacturing, stable distribution, controlled advertising costs and brand management, Campbell is maintaining a low cost strategy.

***4. What other strategies did Douglas R. Conant formulate to achieve a competitive advantage? Do they really need an outside CEO to change strategy?***

CEO Douglas Conant remade the company's condensed soups, introduced soup in microwavable containers, revamped marketing and redesigned shelving systems in supermarket soup aisles. At this point, Campbell is one of the industry best performers and has preset production and marketing strategies to enrich its performance and maintain its presence in households. The shift to low sodium products demonstrated market responsiveness. The operations of Campbell including contract purchases, raw materials management, consolidated manufacturing all propel the firm towards a successful low cost strategy. Despite the successful low cost strategy, Campbell soup is not popular in the soup business. There are plenty of other choices of soup in the market. The challenge for next CEO is to find ways to make soup popular or find some other popular things for Campbell to do.

## **COASTAL FLOORING**

**Alex Kimerling, Samford University**  
**Katie Knuth, Samford University**  
**Tripp Watson, Samford University**  
**Charles M. Carson, Samford University**

### **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.*

### **INSTRUCTORS' NOTE**

### **LEARNING OBJECTIVES**

Following discussion of this case, students should be able to identify some of the complexities that arise when a small business seeks to change its market position to increase its overall revenues. The case also informed students about the issues, internally and legally, that small businesses face as they try to expand. Specifically the objectives include:

- To examine how Federal employment law can impact small business in both day to day operations and as they grow.
- To identify key considerations that Tim Price and Coastal Flooring should examine as they move forward in their decision making.
- To gain a better understanding of the multifaceted nature of small business decision making and the pitfalls of thinking too operationally and less strategically.

### **AUDIENCE**

The case is designed for use in undergraduate-level courses in Small Business or Entrepreneurship. The case also contains aspects that could be useful to the Human Resources Management instructor.

## **THEORETICAL LINKAGES**

The case provides the instructor the opportunity to examine Agency Theory (see Davis, Schoorman, & Donaldson, 2007) perspectives as they pertain to the relationship between supervisors, employees, and ownership. Additionally, instructors can apply the work of Frederick Taylor, the Father of Scientific Management in a discussion of piece rate pay for work (see Wren and Bedeian, 2009, Ch 7). Instructors will also be able to utilize numerous Federal workplace laws to facilitate a more robust discussion of the issues presented (see Title VII Civil Rights Act of 1964, Americans with Disabilities Act, OSHA regulations, Family Medical Leave Act).

## **RESEARCH METHODS**

This was a field based case. Interviews and email correspondence with Coastal Flooring's owner were the basis for the majority of the case materials. The names and locations have been disguised.

## **SUGGESTED TEACHING PLAN**

It is important to initially determine the legal issues (especially Title VII) that Coastal Flooring must address before proceeding to more decision based aspects of the instructor's manual. Allowing the student to get the decision maker on solid legal footing will promote more creative and integrative responses to the remaining questions. Questions 2-5 look at the implementation issues and potential pitfalls. Question 6 returns to more compliance based thinking while asking the student to think strategically about the decision at hand.

## **DISCUSSION QUESTIONS**

### **Question 1**

*If Coastal Flooring chooses to employ more than 14 employees, which two major pieces of legislation will they become subject to, and what will their potential impact be?*

**Average Student Answer:** All companies containing more than 14 employees become subject to Title VII of the Civil Rights Act and the Americans with Disabilities Act. Title VII prohibits employers from discriminating against potential and current employees based upon race, color, national origin, religion, and sex. The Americans with Disabilities Act prevents employers from discriminating against current or potential employees, who are otherwise qualified, simply based on a disability. These two requirements could produce prohibitive costs to Coastal Flooring.

**“A” Student Answer:** All companies containing more than 14 employees become subject to Title VII of the Civil Rights Act and the Americans with Disabilities Act. Title VII prohibits employers from discriminating against potential and current employees based upon race, gender, religion, or national origin. The Americans with Disabilities Act prevents employers from discriminating against current or potential employees, who are otherwise qualified, simply based on a disability. In order to comply with both laws, businesses are required to maintain paperwork on all employees for five years.

Both of these laws are typically daunting for businesses seeking to expand. However, the laws were originally written to apply to all businesses, and small businesses with less than 15 employees were carved out as a concession for those closely held entities. Both of these laws create more worry for employers, in the form of extra paperwork and more liability. First, employers are required to maintain paper records for five years. This requirement is fairly light and simply requires paperwork used in everyday business be kept in a file cabinet. Secondly, though, employers must become extremely vigilant during their hiring and firing processes. The purpose of the laws is to ensure that properly qualified candidates are given the same opportunity as anyone else. In theory, as long as Coastal Flooring bases their hiring and promotion policies on hiring the best man or woman for the job, their liability is negligible. But employers are always weary when it comes to these laws; it seems as if any bitter employee could file suit against them.

## Question 2

*If Coastal Flooring moves forward with switching to full-time laborers the company will need to recognize more costs than they currently do. What costs could these be?*

**Average Student Answer:** By pursuing this new strategy to gain business the company would move from subcontracting work to full-time laborers. This would mean the company would incur costs associated to adding these workers to their full-time payroll. These costs would include, but are not limited to the costs associated with completing the formal hiring/firing process, Immigration I/9 forms, insurance costs that would need to be taken out for each employee. Coastal Flooring will also incur costs as the company has to pay a portion of their workers taxes to the government each pay period. An example of this would be FICA taxes.

**“A” Student Answer:** The company would also need to keep track of absences, allow worked paid-time off and sick days. These represent costs, as the current model used allows pay only for completion of a job, where the new model would also require workers to be paid for time away from the job.

In addition there would be more overhead costs since the payroll would be larger. There would be a potential that even another person would be needed to work on payroll and these additional paperwork requirements which would cost the company as well. Additional costs may also include company vehicles, maintenance and vans that would be needed to transport the full-time laborers to their jobs. This would require a significant upfront cost and regular expenses associated.

### Question 3

*If Coastal Flooring were to pursue this strategy of hiring contractual laborers as full-time employees, what potential hurdles could be presented for the company? In addition, what benefits would the company directly receive?*

**Average Student Answer:** If Coastal pursues this strategy to gain the government contracts they will be presented with many difficulties. Overall, they will also be able to benefit in some ways. First, if the company decides to move towards a full-time employee model, they will face a hurdle as they solicit laborer buy-in. Since the company has positive working relationships with its current 1099's, significant effort needs to go into trying to get these employees to decide to work full-time for Coastal Flooring. By holding informational sessions about the benefits of full-time employment with a company, some of the resistance from these contractual laborers may diminish. However, if after effort is put forth and current laborers do not want to make this transition the company may also decide to hire new workers. With the economy as it is, it is likely that there would be more workers willing to interview and be hired in a full-time installation position.

If the company decides to move in this direction and later does not have enough work, the company will face a large hurdle, this is because the company would be obligated to pay the workers for their forty-hours of labor yet they would not necessarily have the work for them to complete. However, by making this switch the company can more confidently bid on these government contracts because they will have the laborers to do so. This will largely benefit the company as they make efforts to double in size financially over the next few years as the industry moves towards this new full-time laborer model. If the company has these full-time laborers and does not have work for them they may be able to work with competitors in the industry to provide labor to them instead of 1099 workers. In addition, with leg-work and planning on part of the company, by working hard now to bid on many projects the company can work to have multiple jobs lined up.

**“A” Student Answer:** By holding informational sessions about the benefits of full-time employment with a company, some of the resistance from these contractual laborers may diminish. Providing information to the contract laborers about paid-time off, overtime wages, company matched social security, FICA and health insurance as well as company paid Worker's Compensation may help influence these laborers. However, if after effort is put forth and current laborers do not want to make this transition the company may also decide to hire new workers. With the economy as it is currently, there is no doubt that there would be more workers willing to interview and be hired in a full-time installation position. However, this could be a problem in a better economy.

If the company has these full-time laborers and does not have work for them, they may be able to work with competitors in the industry to provide labor to them instead of 1099 workers. In addition, with leg-work and planning on part of the company, by working hard now to bid on many projects the company can work to have multiple jobs lined up. Also, the company can choose to model plans that Mercedes Benz and other companies have during these hard

economic times, which is to shift to a four day work week, a thirty-two hour week, etc if the company is presented with hard economic times.

#### Question 4

*What factors would help in convincing 1099 contract employees to become full-time Coastal Flooring employees?*

**Average Student Answer:** Subcontracted employees have their own culture, where they enjoy their freedom tremendously. These workers know that they do not have to show up every day, but they usually do any ways. The idea of being “forced” to go to work daily does not sit well with them. Coastal Flooring could use a well-respected subcontractor who does not oppose the change, to potentially rally others to join full-time. This agent of change has been a mechanism used by unions and governments alike, and the technique has proven successful in other businesses.

**“A” Student Answer:** Coastal Flooring has a work crew that is dedicated to their work, willing to be paid piece-wise, and happy to supply their own vans, tools, gasoline, etc. By switching to full-time Coastal Flooring employees, from 1099 subcontractors, these workers would have much fewer costs. Management has quite the task of relaying this information to its potential employees, but to the outsider there are several significant advantages for employees wishing to convert from being contractors. First of all, the subcontractors would not be paying for their own insurance anymore; that would be covered by Coastal Flooring. The workers would not be using their own vehicles, gas, or tools, either.

#### Question 5

*What risks are increased by switching contract employees to full-time Coastal Flooring employees? And what risks are mitigated?*

**Average Student Answer:** Coastal Flooring has a piece-wise compensation system. This means that if Coastal is hired to install 100 sq ft of carpet, the contract laborers are paid a pre-agreed-upon, set amount for that particular job. With the new hourly rates that would be paid to Coastal employees, there is a new factor of uncertainty in the potential delay of a work crew. On the other hand, Coastal Flooring’s management team will have firsthand knowledge that their workers are legally working in the U.S., instead of taking the word of a subcontractor. Since employees will be paid hourly in the new compensation system, there is higher incentive for the employees to work slower. Therefore, there will be a new need for more supervisors on Coastal Flooring’s staff. This higher cost makes profit margins smaller, and increases risk for the small business. With certified I-9 forms guaranteeing that all of Coastal Flooring’s employees are legal, there is almost no chance of the government fines that can be levied on illegal companies. These fines are sometimes tens of thousands of dollars, and can deter future

general contractors from hiring them in the future. This would be hugely detrimental to a company of this size.

**“A” Student Answer:** Increasing the amount of full-time employees at Coastal Flooring would immediately push them over the fifteen-employee mark. This would force the company to follow government-mandated anti-discrimination laws and procedures. The most risk comes from the potential for legal action regarding hiring and firing of a person based on their gender, race, creed, or disability. In order to provide the adequate paperwork necessary for a company of this size, a human resources employee would likely need to be hired, creating additional costs.

By adding more full-time employees, however, Coastal Flooring would be able to assure its legitimacy with regards to legal employees. The flooring industry is filled with illegal immigrants, and any company in the business is liable to be audited for the correct I-9 forms. By having enough certified employees to handle a few concurrent jobs, Coastal Flooring is more likely to win bid opportunities from general contractors on government-mandated projects, with more stringent rules. The fact that higher dollar jobs that can be won in the future justifies some of the risk in switching contract employees to full-time.

## Question 6

*The federal government places certain requirements on small businesses. As Coastal grows, what will these new obligations be? Are these obligations, in your opinion, significant enough to reconsider the growth plan?*

**Average Student Answer:** The federal government places many obligations on small businesses, depending upon their size. OSHA standards apply to all businesses to maintain workplace safety. However, major regulations kick in at 15. Title VII of The Civil Rights Act of 1964, which applies to businesses with more than 15 employees, prevents employers from discriminating on the basis of race, color, sex, religion, or national origin. Additionally, overlapping federal regulations require that documents on employees be kept for as much as 3 years after termination.

**“A” Student Answer:** The federal government places many obligations on small businesses, depending upon their size. OSHA standards apply to all businesses to maintain workplace safety. However, major regulations kick in at 15 and 50 employees, respectively. The Civil Rights Act, specifically Title VII, applies to businesses with more than 15 employees, and prevents employers from discriminating on the basis of race, gender, religion, or national origin. The Family and Medical Leave Act applies to companies with more than 50 employees and requires employers to provide up to 12 weeks of unpaid leave to qualified employees if they have a child or need to care for their own or a close family member’s medical needs. As well, the recently-passed healthcare act will require companies with 50 or more employees to provide health insurance for their employees, but some of these costs are subsidized. Additionally, overlapping federal regulations require that documents on employees be kept for as much as 3 years after termination.

Many of these regulations place a significant burden on small businesses that are not wary. However, a little prevention negates significant risks. As for Coastal, who only has 12 employees currently, their liability and regulation is minor. The increase in employees appears to create a correspondingly daunting increase in regulation. However, in the 16 to 50 employee range, requirements on small businesses are minimal, and the costs to Coastal can easily be absorbed. In the short term, Coastal has no plans to exceed 50 employees, so those regulations are avoidable. Therefore, Coastal should be aware of its obligations, but should not be deterred against its growth strategy.

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

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## 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.*

## INSTRUCTORS’ NOTES

**Recommended Assignment:** Have students write a report to the President of this fictitious university discussing these issues with their recommendations on how to resolve them, in light of the current budget situation. Be sure they include a cover letter that summarizes the report. In the report, they should address the following questions:

(1) How do you think faculty productivity should be measured? Discuss specifically what each measure should contain. What would be an accurate measure of teaching productivity? Research productivity? Service? Can they all be quantified? If not, will the measures be reliable and valid (free from error)?

(2) Explain how Equity Theory might apply in this case. Do you think faculty are motivated by Equity perceptions? Why or why not? What are the “inputs” and “outcomes” that faculty compare to determine equity?

(3) If you were the Dean of this school, how could you reward faculty in ways that would allow you to restore equity but stay within your budget of \$75,000? Can you think of some cost-efficient and/or nonfinancial ways to reward faculty who are doing more than their fair share of the work? Use Expectancy Theory to justify your recommendations.

(4) Can you think of some cost-efficient ways to motivate faculty to participate in developing learning assessment plans?

(5) Some might argue that faculty motivation can be best explained by the tenants of Self-Determination Theory in that faculty are motivated more by intrinsic than extrinsic rewards. What does this theory suggest about how we should motivate faculty to perform their best work?

#### **ANSWERS TO CASE QUESTIONS:**

**(1) How do you think faculty productivity should be measured? Discuss specifically what each measure should contain. What would be an accurate measure of teaching productivity? Research productivity? Service? Can they all be quantified? If not, will the measures be reliable and valid (free from error)?**

This question is intended to generate much discussion about how to measure employee productivity in a job where the criteria are not always objectively defined. Students will come up with several creative ideas on how to measure teaching quality, but they should include some discussion about how learning can be accurately measured since it is the primary objective of a university. Research productivity and service are a little easier to quantify, but there are some qualitative judgment calls to be made here as well. A discussion of reliability and validity should also take place. Reliability can be defined as the consistency of a measurement, or the degree to which an instrument measures the same way each time it is used. Validity is the degree to which the measure is actually measuring what it is supposed to measure. For example, it could be argued that student evaluations of teachers are not valid measures of teaching quality, but instead are actually measures of customer satisfaction. The article argues for a performance measure that actually captures student learning – a primary goal of universities. It is possible for a student to be dissatisfied with a teacher but still have learned a lot from him/her.

**(2) Explain how Equity Theory might apply in this case. Do you think faculty are motivated by Equity perceptions? Why or why not? What are the “inputs” and “outcomes” that faculty compare to determine equity?**

Equity theory says that individuals will compare their job inputs and outcomes with those of others and then respond to eliminate any perceived inequities. Employee responses to

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perceived inequities are generally negative and can have a negative impact on organizational productivity. For a faculty member, job inputs could include things such as one's degree and discipline area, length of employment, job or consulting experience, research productivity, and teaching ability. Faculty are maybe more aware of each other's salary because they are usually published as part of the state budget. Therefore, equity comparisons are easier to make and are possibly more likely than in the private sector where many organizations have closed pay systems. Job outcomes that are compared could include not only base salary, but also any other considerations given to faculty, such as office space, endowments, bonuses, course release time, sabbaticals, and/or special course scheduling considerations (e.g., allowing a faculty member to choose the class times that are most convenient for him/her). Also, in this situation some type of equity needs to be restored in the allocation of course preps for each faculty member. Graduate faculty should get some type of reward for teaching graduate-level courses and for being held to a higher standard. The reward ("outcome") could be in the form of course release time, but could also include summer research grants or a stipend for each graduate course taught. The Dean might want to explore reducing the amount of travel funds for those faculty who are not meeting the college's expectations on all of their duties and instead giving more funds to those who do.

**(3) If you were the Dean of this school, how could you reward faculty in ways that would allow you to restore equity but stay within your budget of \$75,000? Can you think of some cost-efficient and/or nonfinancial ways to reward faculty who are doing more than their fair share of the work? Use Expectancy theory to justify your recommendations.**

This question should lead into a discussion of how Expectancy theory applies to this case. Expectancy theory says that employees will increase their productivity when the following conditions are met: (1) they believe they have the ability to improve their levels of productivity; (2) they believe that higher productivity will lead to higher rewards; and (3) the rewards are valued by them. In other words, faculty who don't feel that putting extra effort into being a good teacher will lead to higher student learning probably won't be motivated to put in the extra effort. Similarly, faculty who don't think that being a good teacher is rewarded won't put in the extra effort. Administrators, then, need to be sure that (1) faculty know how to be good teachers (and if they don't, additional training is available to help them); (2) the performance appraisal system accurately measures teaching quality and the reward system is tied to this teaching quality measure; and (3) the reward is one that is valued by faculty. Because this college has not been able to give faculty raises over the last three years, faculty don't feel that they are rewarded for their extra efforts. Usually teaching awards are only given to the very top teachers. It is highly likely that there are many good teachers at the college who feel that their efforts have been ignored. The Dean will need to determine other rewards that are valued by faculty and tie them to faculty productivity – it might be sabbaticals, special consideration in course scheduling, summer research grants, etc. This is where truly understanding your employees and what makes them tick is important. With the expectation of higher employee productivity should come some type of reciprocation from the employer.

**(4) Can you think of some cost-efficient ways to motivate faculty to participate in developing learning assessment plans?**

Students will get creative here. Some research has shown that group rewards as well as individual rewards can motivate employees to achieve the organization's objectives. Some type of group incentive – possibly in the form of a group outing or bonus – could be used as well as individual recognition and rewards. Additional training might also be necessary to show faculty the value of using learning assessment in their courses and how this information might help them become better teachers.

**(5) Some might argue that faculty motivation can be best explained by the tenants of Self-Determination Theory in that faculty are motivated more by intrinsic than extrinsic rewards. What does this theory suggest about how we should motivate faculty to perform their best work?**

Self-Determination theory argues that some employees are more motivated by intrinsic than extrinsic factors. It proposes that people want control over their actions and lives, so anything that makes their jobs feel more like an obligation than a freely chosen activity will be demotivating for them. To increase motivation, then, the most important thing to many employees is to give them the tools to do their jobs well, and then give them the autonomy to do their jobs the way they see fit. Self-Determination theory argues that extrinsic rewards may even reduce the intrinsic interest in a job. It could be argued that business faculty are drawn to their chosen occupations because of intrinsic reasons, not because of the pay. (A caveat here, though, is that the pay and rewards systems need to be perceived as fair, or they could be a source of job dissatisfaction!). Most business faculty could make more money working in the private sector. Extrinsic rewards are those rewards given to an employee by someone else (boss, co-workers, etc.), such as pay, bonuses, and/or plaques. Intrinsic rewards are those that are given to the employee by himself/herself (such as satisfaction from a job well done or the feelings of accomplishment). One good way to increase intrinsic job satisfaction is to hire more clerical workers (and graduate assistants) so that faculty will have more time to do the things that they enjoy – it increases their sense of autonomy and freedom of choice. The clerical workers could be part-time to save on the cost of benefits and stay within budget.

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## ZERO TOLERANCE OR ZERO RATIONALITY

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**Jerry W. Wilson, Georgia Southern University**

### 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.*

## INSTRUCTORS' NOTES

### RECOMMENDATIONS FOR TEACHING APPROACHES

#### TEACHING METHODOLOGIES

The case has direct application in any course that includes the discussion of personnel issues by giving students a realistic context for the application of many of the theories and textbook materials they study. The case would fit well into a principles of management, organizational behavior, human resource management, organizational development and even strategic management curriculum. Additional courses across a variety of disciplines could also adapt the case for use very easily. For example, the case would be ideal for discussion in either a law class or business law/legal environment class. The case is designed to be used in both traditional face to face classrooms environments and in online classes. Aside from assigning case questions to individual or groups, students can be assigned the organizational roles held by the major characters in the case.

#### POSSIBLE ASSIGNMENTS

Assignment options include either group or individual approaches in which individual students or groups of students respond to the suggested case questions. In addition to responding to case questions as individuals or groups, students can be asked to assume the organizational roles held by the major characters in the case and assigned the task of describing likely responses to the situation described in the case from the perspective of their particular role and identifying and justifying their preferred response. Students can also be assigned the task of formulating an alternative policy to the one adopted by the company.

#### CASE QUESTIONS

##### **1. What options does Linda Douglas have? What are the pros and cons of each option?**

The obvious choices for Linda include simply firing the employees, imposing some punishment on them that does not include dismissal, submitting her report to Victoria and then following senior management instruction following their review of the report and, finally, refusing to discipline the employees.

While getting Mr. Hill, her superior, involved in resolving the situation might be appropriate since her division's profitability may be affected by the outcome of how the matter is resolved, the alternative poses some risk. Linda may be viewed by Mr. Hill as not taking responsibility for resolving the situation. In addition, she has not yet developed a working relationship with him and has no idea how welcome he might be to making exceptions to such a policy. Finally, she does not know understand important dynamics about the London headquarters operation such as whether Mr. Hill was involved in the formulation of some of the

personnel policies and the extent of the past working relationship between Mr. Hill and Ms. Vasilias.

Firing the employees is both the easiest and safest route for Linda to follow. Doing so protects her job and demonstrates to all employees in her region that she supports company policies – even in difficult situations. Unfortunately, it also results in the loss of two very valuable employees that will cause measurable harm to the performance results in her region.

Imposing a lesser punishment on the two employees is a dangerous move in at least two ways. First, Victoria can overrule her and still fire the two. Second, by altering the existing policy, she exposes herself to the same potential penalty. She can then be dismissed just like Dan for failing to enforce the zero tolerance policy. This is a “fence straddling” choice. She would be partially enforcing the policy in order to save the two employees.

Perhaps the soundest choice initially for Linda would be to prepare and submit the report and await the ruling from senior management. Instead of being viewed as insubordinate, she has the opportunity to make her case, including much more relevant information to the situation than that contained in the audit report, and hoping that the new information will cause the senior managers reviewing it to see the folly of firing two proven employees over such a trivial issue. If they are unmoved, however, she is still faced with choosing one of the other three options.

## **2. What are the possible consequences to Linda if she does not fire the two employees?**

It seems clear that Victoria has made up her mind about the outcome. If Linda does not fire the two employees, Victoria will more than likely recommend that she be terminated for failure to enforce company policy. Another option for the company would be to demote Linda and reduce her salary, perhaps moving her out of the region. A third option could involve moving her to a different region with the same duties and responsibilities and giving her “one more chance.” Regardless, Linda’s career opportunities with this company will either end or be severely diminished.

There is an excellent opportunity here for students to discuss the moral implications of Linda’s stand if she chooses to support Jim and Dan. If Linda personally feels that it would be wrong to fire the two – and that the existing policy is just too inflexible to fit all reasonable situations that can occur, should her sense of right and wrong dictate her action even if it results in the loss of her job? This kind of personal and professional conflict is very common. Young managers, inexperienced in handling such difficult decisions, often find themselves supporting the company policy while bitter about their inability to do what they consider to be the “right thing.” This is a type of personal/organizational role conflict that can lead to job dissatisfaction and resignations.

## **3. Are there any cross-cultural issues pertinent to this case? For example, would the British deal with these types of problems any differently than an American based company?**

Again, this is another great opportunity for class discussion. In preparation for discussing the case, have students do some internet research on cultural differences between citizens of the

U.K. and U.S. Regardless of the differences that they bring up in discussion, it is likely that many of them will have implications for this case.

For example, The British are often portrayed in television and film as being conservative, traditional, rule-bound and habitual. In contrast, Americans are portrayed as free spirits, adventurous, entrepreneurial, spontaneous rule-breakers. The implications are obvious. In the U.K., policies are not taken lightly and tightly enforced. In the U.S., policies are often flexible and subject to interpretation to fit the given set of circumstances. If Linda has the choice, Jim and Dan are off the hook – the situation was extraordinary and the policy should be flexible enough to allow Jim the use of the company van to help his ailing mother. If Victoria has the choice, the policy prevails and Jim and Dan are both soon seeking new jobs.

#### **4. Should the U.S. management in the case have the power/authority to alter the zero tolerance policy employed in this case?**

In this case, the regional vice president and local manager are entrusted with broad discretion with respect to almost every facet of daily operations of their units and are held accountable for the results in their area of responsibility. Therefore, they have to pay close attention to creating the right kind of organizational culture that is consistent with the strategic objectives of the company. Drawing from the previous discussion concerning cultural differences between the U.K. and the U.S., employees and their managers in this country may expect to have flexibility in both implementing and enforcing company policies and procedure. In fact, suppose that Dan has cautioned his delivery drivers about the zero tolerance policy involving the personal use of company vehicles, but has also told them that exceptions can be made in emergency situations. Further suppose that his supervisor, Linda, has approved this interpretation of the zero tolerance policy. After the incident has occurred, the company is altering the level of managerial empowerment in the organizational culture that Linda and Dan have cooperatively developed.

The class discussion on this topic should include whether the U.S. supervisors should have the authority/power to “adjust” a policy – and a zero tolerance policy in particular. It should also include discussing the need for international companies to evaluate the impact of cultural differences on the level of managerial empowerment and policy development and implementation in their operations in different countries.

#### **5. What should Linda Douglas do? Justify your decision.**

Linda’s choices and the consequences of those choices are covered in the answer to the first question. The students now have to choose one of the options and that choice will reflect one or more of the important issues highlighted in the case. The instructor may want to identify some of these issues for the class before they write their responses to the question. The following questions should aid the students in formulating their answers.

- What is the purpose of a “zero tolerance policy”?
- Under what circumstances would such a policy be appropriate? When would it be inappropriate?

- Is the zero tolerance policy that is the subject of this case appropriate?
- Which manager is right – Victoria or Linda?
- Should Jim be fired for his personal use of the van?
- Should Dan be fired for not enforcing the zero tolerance policy with Jim?
- Should Linda and Dan have the authority/power to interpret the policy based upon situational factors?
- To what extent should Linda involve her superior, Mr. Hill, and should that involvement occur before a memo is sent to Ms. Vasiliadis or after a negative response is received from her?



# **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.*

## **INSTRUCTORS' NOTE**

## **RECOMMENDATIONS FOR TEACHING APPROACHES**

## **STUDENT BACKGROUND NEEDED**

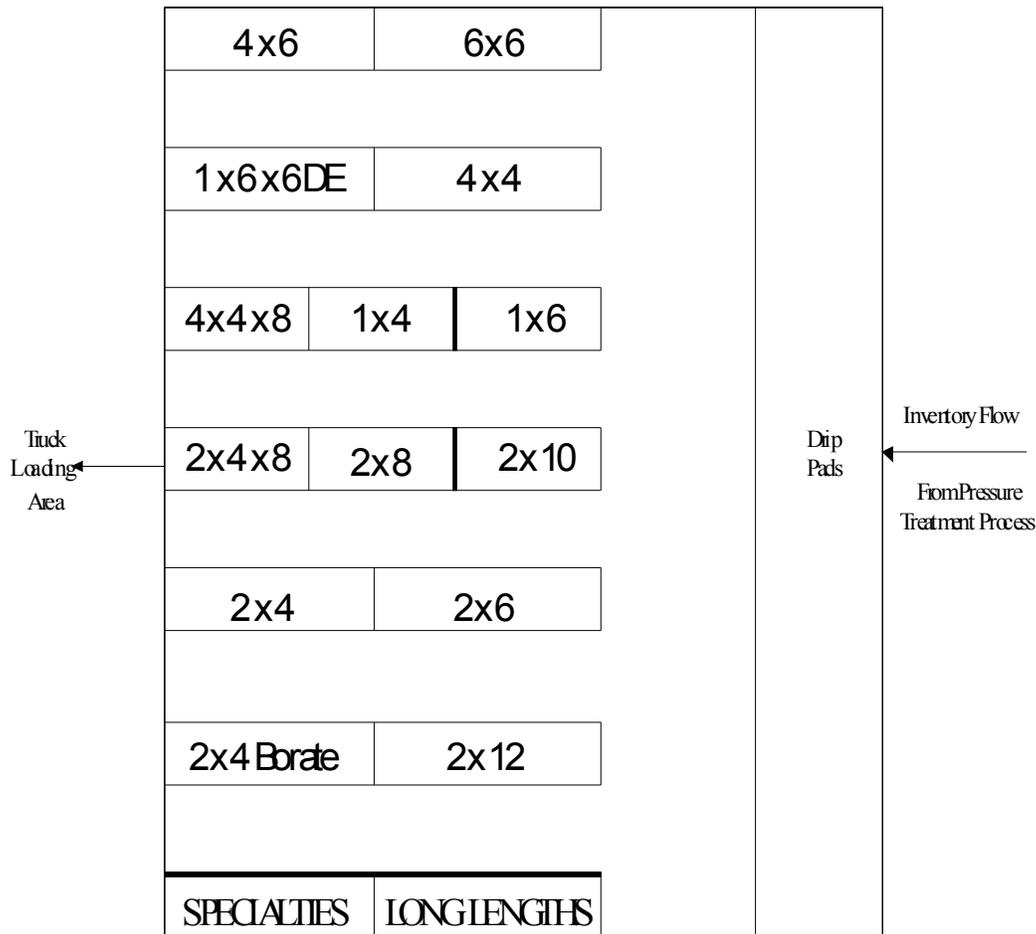
The subject matter in this case is recommended for senior level and first year graduate students. The students should have knowledge of designing line flow layouts as well as flexible—flow layouts, and the weighted distance method. Students should have knowledge of forecasting models.

## **SUGGESTED ASSIGNMENTS:**

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

It is readily apparent that the current warehousing layout does not take into consideration loading of outbound trucks for delivery to customers. A simple modification would be to reconfigure the layout so that the inventory items with the larger closeness factors are closer to the shipping/loading docks. Additionally, the 2x4 Borate inventory used for sill plates should be segregated from 2x4 ACQ. Taking into account these two factors, a modified warehouse layout is presented in Figure 4.

FIGURE 4 – Modified Warehouse Layout



Additionally, one can use the closeness ratings and the distance measurements for each of the inventory areas to determine a weighted distance score for the two warehouse layouts. The weighted distance score for the two warehouse layouts are given in Tables 3 and 4

This is not a unique layout solution. Students should experiment with layouts of their own to see if a better layout can be configured for the organization.

*Question 2: Forecast sales volume for Year 4.*

There are many ways to approach the forecast for Year 4 and what follows in this teaching note is only one approach. Since the organization is in the wood products (lumber) business, one would expect to see a very seasonal demand pattern. By casual observation, one can verify that demand increases dramatically during the months of March through August which can be attributed to the prime time for new home construction and/or renovation as well as other construction projects that would use products from the organization. Additionally, data provided in Fig 3 indicate that trend is present in the data. Given these two observations from Fig 3, our analysis will commence with determining the monthly seasonal indices for the data in Table 2. This analysis is presented below in Table 5.

Inventory Item	Closeness Score	Distance (ft)	Weighted Distance Score
2 X 4 ACQ	8	100	800
2 X 4 ACQ	8	100	800
2 X 6 ACQ	8	200	1600
2 X 8 ACQ	4	100	400
2 X 10 ACQ	2	150	300
2 X 12 ACQ	3	200	600
4 X 4 ACQ	7	100	700
4 X 6 ACQ	6	100	600
6 X 6 ACQ	2	200	400
1 X 4 ACQ	5	100	500
1 X 6 ACQ	6	150	900
1 X 6 X 6 DE	10	200	2000
2 X 4 X 8 #2 Prime	10	200	2000
4 X 4 X 8	9	200	1800
Specialties	1	100	100
Long Lengths	1	200	200
		Weighted Distance:	13700

Inventory Item	Closeness Score	Distance (ft)	Weighted Distance Score
2 X 4 ACQ	8	100	800
2 X 6 ACQ	8	200	1600
2 X 8 ACQ	4	150	600
2 X 10 ACQ	2	200	400
2 X 12 ACQ	3	200	600
4 X 4 ACQ	7	200	1400
4 X 6 ACQ	6	100	600
6 X 6 ACQ	2	200	400
1 X 4 ACQ	5	150	750

Inventory Item	Closeness Score	Distance (ft)	Weighted Distance Score
1 X 6 ACQ	6	200	1200
2 X 4 Borate	8	100	800
1 X 6 X 6 DE	10	100	1000
2 X 4 X 8 #2 Prime	10	100	1000
4 X 4 X 8	9	100	900
Specialties	1	100	100
Long Lengths	1	200	200
		Weighted Distance:	12350

Table 5 – Calculation of Monthly Seasonal Indices

Month	Year 1	Year 2	Year 3	Monthly Mean	Monthly Seasonal Index
January	8,231,218	8,953,999	8,687,643	8,624,287	0.852958278
February	7,506,737	8,424,947	9,503,976	8,478,553	0.838544975
March	8,731,336	10,760,412	16,014,978	11,835,575	1.170560806
April	11,108,172	11,490,163	16,218,415	12,938,917	1.279683353
May	11,196,626	9,656,253	15,006,708	11,953,196	1.18219368
June	9,365,374	9,475,104	14,689,315	11,176,598	1.105386668
July	9,143,151	9,074,696	12,454,828	10,224,225	1.011195208
August	9,212,190	9,228,455	11,858,030	10,099,558	0.998865439
September	7,402,707	9,832,683	11,128,742	9,454,711	0.935088784
October	8,920,306	8,748,438	10,385,114	9,351,286	0.924859888
November	8,220,209	7,047,088	10,894,929	8,720,742	0.862497893
December	8,225,487	7,638,360	9,560,288	8,474,712	0.838165027
Total:	107,263,513	110,330,598	146,402,966		
		3 Yr Grand Mean	10,111,030		

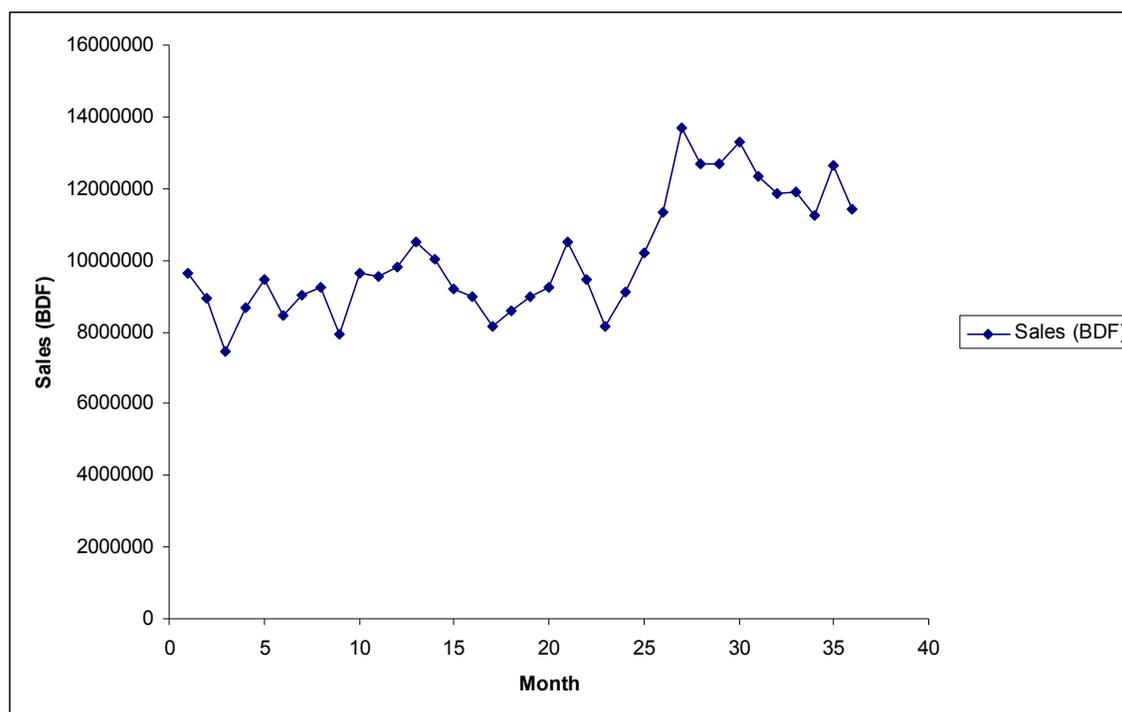
The next step in the forecasting analysis was to divide the monthly sales data for the three year period by the monthly seasonal indices to remove any seasonal fluctuation. This resulted in Table 6 and a graph of these data is found in Figure 4.

Table 6 – Deseasonalized Data for Years 1, 2, 3

	Year 1		Year 2		Year 3	
	Time	Deseasonalized Data	Time	Deseasonalized Data	Time	Deseasonalized Data
January	1	9650200.03	13	10497581.45	25	10185308.27
February	2	8952098.241	14	10047102.12	26	11333889.39
March	3	7459105.031	15	9192527.155	27	13681457.56
April	4	8680406.738	16	8978911.051	28	12673771.96

	Year 1 Deseasonalized		Year 2 Deseasonalized		Year 3 Deseasonalized	
	Time	Data	Time	Data	Time	Data
May	5	9471058.921	17	8168080.377	29	12693950.45
June	6	8472486.844	18	8571755.275	30	13288847.63
July	7	9041924.771	19	8974227.654	31	12316937.32
August	8	9222653.666	20	9238937.141	32	11871498.94
September	9	7916581.964	21	10515240.02	33	11901267.77
October	10	9645035.007	22	9459203.616	34	11228851.13
November	11	9530700.383	23	8170556.771	35	12631832.6
December	12	9813684.336	24	9113193.406	36	11406212.01

Figure 4 – Deseasonalized Sales Plot (BDF)

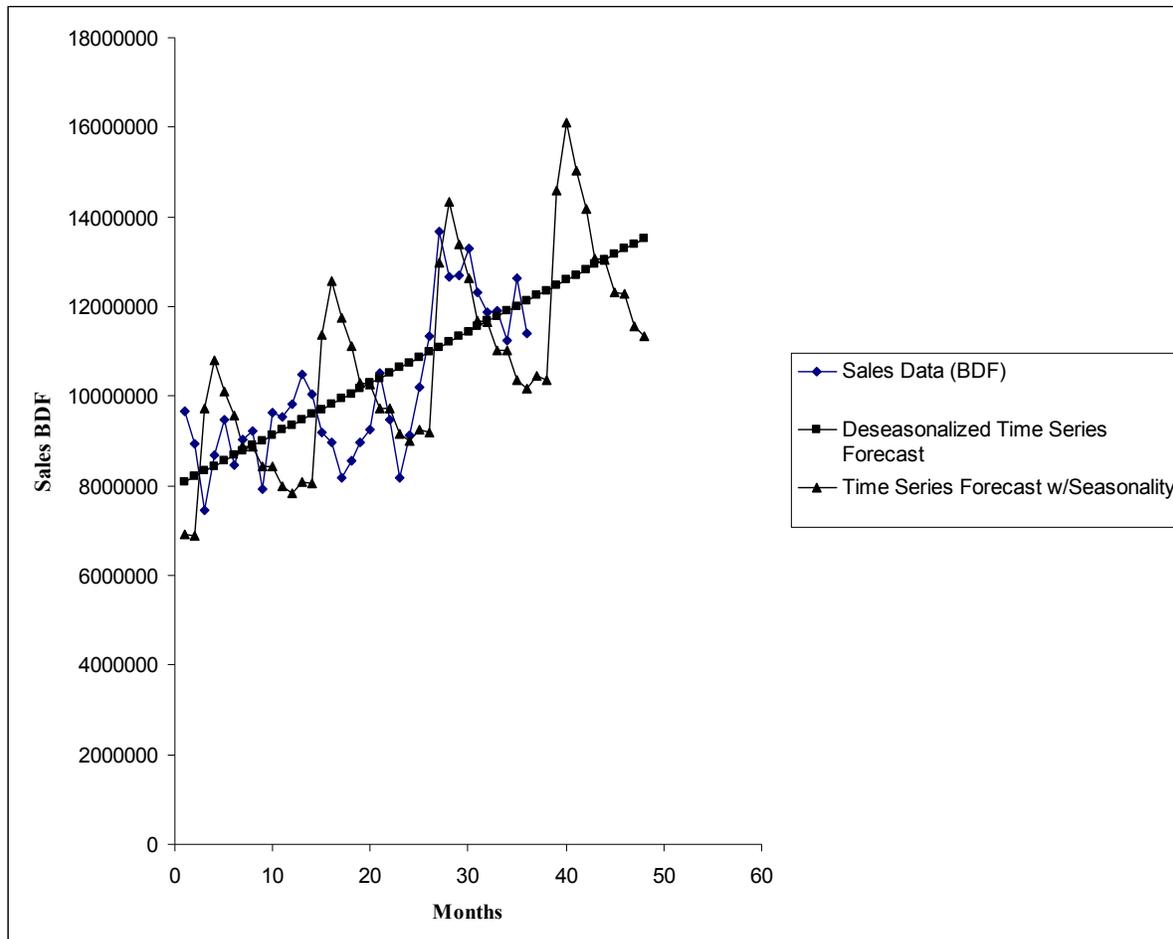


The final step in the forecasting analysis was to use the deseasonalized data to produce a time series forecast for 48 months, using the thirty six months of deseasonalized data plus the calculation of the deseasonalized forecast for months 37 through 48. After this calculation, the data that was produced was multiplied by the monthly indices to produce the sales forecast for months 37 through 48. Data produced by this analysis is presented in Table 7 with the graph of the time series forecast with seasonality provided in Figure 5.

Table 7 Calculation of Time Series Forecast w/Seasonality for Years 1-4

		Year 1				Year 2		
		Year 1	Year 1	Year 1		Year 2	Year 2	Year 2
		Deseasonalized	Deseasonalized	Time Series		Deseasonalized	Deseasonalized	Time Series
		TimeData	Time Series	Forecast with		TimeData	Time Series	Forecast with
			Forecast	Seasonality Added			Forecast	Seasonality Added
			Back	Back			Back	Back
January	1	9650200.03	8403739.045	7168038.785	13	10497581.45	9871739.727	8420182.119
February	2	8952098.241	8526072.435	7149495.201	14	10047102.12	9994073.118	8380479.797
March	3	7459105.031	8648405.825	10123484.9	15	9192527.155	10116406.51	11841868.96
April	4	8680406.738	8770739.216	11223768.97	16	8978911.051	10238739.9	13102345
May	5	9471058.921	8893072.606	10513334.23	17	8168080.377	10361073.29	12248795.36
June	6	8472486.844	9015405.996	9965509.592	18	8571755.275	10483406.68	11588217.97
July	7	9041924.771	9137739.386	9240038.279	19	8974227.654	10605740.07	10724473.53
August	8	9222653.666	9260072.776	9249566.656	20	9238937.141	10728073.46	10715901.8
September	9	7916581.964	9382406.167	8773382.77	21	10515240.02	10850406.85	10146093.74
October	10	9645035.007	9504739.557	8790552.365	22	9459203.616	10972740.24	10148247.31
November	11	9530700.383	9627072.947	8303330.133	23	8170556.771	11095073.63	9569477.629
December	12	9813684.336	9749406.337	8171611.429	24	9113193.406	11217407.02	9402038.261
		Year 3				Year 4		
		Year 3	Year 3	Year 3		Year 4	Year 4	Year 4
		Deseasonalized	Deseasonalized	Time Series		Deseasonalized	Deseasonalized	Time Series
		TimeData	Time Series	Forecast with		Time Series	Forecast with	Seasonality Added
			Forecast	Seasonality Added		Forecast	Back	Back
			Back	Back			Back	Back
January	25	10185308.27	11339740.41	9672325.453	37	12807741.09	10924468.79	
February	26	11333889.39	11462073.8	9611464.393	38	12930074.48	10842448.99	
March	27	13681457.56	11584407.19	13560253.02	39	13052407.87	15278637.09	
April	28	12673771.96	11706740.58	14980921.04	40	13174741.26	16859497.07	
May	29	12693950.45	11829073.97	13984256.49	41	13297074.65	15719717.62	
June	30	13288847.63	11951407.36	13210926.36	42	13419408.04	14833634.74	
July	31	12316937.32	12073740.75	12208908.79	43	13541741.43	13693344.05	
August	32	11871498.94	12196074.14	12182236.95	44	13664074.82	13648572.09	
September	33	11901267.77	12318407.53	11518804.72	45	13786408.21	12891515.69	
October	34	11228851.13	12440740.92	11505942.26	46	13908741.6	12863637.21	
November	35	12631832.6	12563074.31	10835625.12	47	14031074.99	12101772.62	
December	36	11406212.01	12685407.7	10632465.09	48	14153408.38	11862891.93	

Figure 5 – Graph of Time Series Forecast for Years 1-4



One should note that in the first four months of each year, the time series forecast w/seasonality is less than the actual sales values. This would be an indication that the organization should possibly work overtime or extra shifts to increase the level of output in order to meet the level of demand in these periods. See Question 3.

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

The volume of wood necessary from question 2 was calculated to be 154,332,258.2 board feet. The average truck can hold 15,000 (bdf) of treated lumber, which means that 10,288.8 or 10,289 trucks will have to be loaded in two shifts if demand materializes. The facility works 28 hour shifts, five days a week, 52 weeks per year. Dividing 10,289 by 260 days (52 weeks/yr x 5

days/wk) results in 39.57 trucks loaded per day. Since there are two fork lift trucks each one would have to load 19.79 loads a day/fork truck. The average time to load a truck (time was extracted from company records) is 46 minutes. Taking this value and dividing it by 60 minutes /hr would result in .77 hrs to load one truck. Multiplying .77 hrs times 19.79 trucks/day would result in 15.24 hours of time required to load 39.57 trucks per day. This time falls within the 16 hours of available time per two 8 hour shifts.

There are considerations that one must account for when using the 19.79 loads per fork lift truck. Consideration should be given to forecast error, maintenance schedule of the fork lift trucks, unscheduled breakdowns, worker absenteeism, and vacation time for fork lift operators. For capacity planning purposes, it is customary to allocate only a specified amount of available time per year for productive output. The percent of unallocated capacity (capacity cushion) can be used to plan for these environmental uncertainties. As an example suppose the organization wanted to use say 10% of the yearly time for these internal and external uncertainties. The number of productive days would be calculated by taking the 260 days per year and multiplying it by 90% resulting in 234 days per year. Dividing the 10, 289 trucks per year by 234 days results in 43.97 trucks loaded per day. Next, dividing this value by 2 would result in 21.99 trucks loaded per fork lift per day. Now assuming the calculations for the time required for loading an outbound truck is the same (.77 hours/fork truck) we would multiple the 21.99 trucks per day times .77 hrs resulting in 16.93 hours per day. Taking the .93 hours times the number of working days of 234 would result in 217.62 hours per year of overtime or  $217.62/32$  (2 forklift trucks x 16 hours/day) or about 6.8 days or 54 hours of overtime per year for each fork lift operator.

Though the demand of year 4 cannot be met by current regular time capacity, the 54 hours of overtime per year per operator can be easily attained without working a third shift. The organization could consider putting three fork lift trucks for one shift on loading outbound trucks during peak demand periods, thus eliminating premium overtime pay for fork lift operators. This third fork lift operator would only have to work  $6.8 \times 4$  or 27.2 days or about one month out of the year. This case is a good example of how too much of an increase in demand can cause issues for a company, just as too little demand. Accurate estimations of demand can save a company a great deal of time and effort in planning and human resources as well as capital outlays.

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

Though this question does not involve the decision or the analysis given in the case; an expansion of warehousing facilities would have a significant impact on capacity as a whole but this expansion would bring up additional issues that would have to be addressed at the corporate level.

One issue would be the corporate strategy and how warehouse expansion would reinforce or modify said strategy with regards to growth and expansion plans, new technology, strategic positioning of the organization, reactions of rivals, relationships and power implications with partners and other stakeholders, and possibilities of mergers and/or acquisitions.

Additionally, expansion would also bring up the issue of human resources and how corporate would address issues such as workforce planning, training/retraining personnel, impact on labor contracts as well as other workforce issues such as union/current worker reaction to the expansion and labor force increases as well as workforce availability and issues related to OSHA and other employment law.

A huge issue would also be the financial/accounting issues that an expansion would entail. Among these issues would be how to finance the capital expenditures for the expansion and the subsequent increase in operations cost for a larger warehousing facility. Additionally, the organization would also have to consider how the bottom line would be affected by different accounting options, tax incentives/options and cash flow considerations.



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

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

## **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.*

## **INSTRUCTOR NOTES**

### **RECOMMENDATIONS FOR TEACHING APPROACHES**

Fund accounting is a difficult topic. This case addresses an area that is only briefly covered in a senior level undergraduate advanced accounting class. By working a case study into the lesson plan, the instructor is able to expand the working knowledge of the students with hands on experience. This case applies to the advanced accounting course as well as the auditing and not-for-profit/governmental courses. The questions included cover some of the typical issues encountered in adjusting entries for fund accounting.

## **QUESTIONS**

1. Why is fund accounting used by this College? Is it required to be used?

*The use of fund accounting for higher education is not required by U.S. GAAP. Many colleges and universities elect to use fund accounting for ease in tracking multiple donor restrictions within the endowment fund group. There are legal requirements that require that the donor restrictions must be exactly followed. If they are not, the college or university can find itself in trouble with the Attorney General of its state. Using fund accounting, one has an organized and simplified account structure for keeping track of the legal restrictions of each endowed gift. Smallville College has 300 endowed gifts with various donor restrictions so fund accounting is used.*

2. If the billing for the fall semester processed on June 15 totals \$15,000,000 and no payments have been made by June 30<sup>th</sup> and is included in the College's revenue and accounts receivable at June 30<sup>th</sup>, what entry is needed to adjust the general ledger and why is it needed?

*The trial balance needs to be adjusted for the above revenue because according to the revenue recognition principle, the revenue is not eligible to be recognized yet as it has not been earned. The revenue applies to a future period, namely the next fiscal year. The adjusting entry would be a debit to revenue and a credit to unearned (or deferred) revenue for \$15,000,000. This entry will leave the \$15 million as an outstanding accounts receivable, which is proper.*

3. If the gift tracking department reports an unpaid pledge at June 30 that isn't included in the general ledger in the amount of \$12,000,000 to be paid ratable over the next four years and the current federal discount rate is 2%, what entry is used to record this pledge. Please round to the nearest 000's.

*The pledge needs to be recorded in the general ledger but first the amount needs to be calculated using the present value of an annuity. The payment amount is \$3,000,000, the number of periods (payments) is 4 and the annual rate is 2%. This should give you a present value figure of \$11,423,186.10 (rounded to the nearest 000's would be \$11,423,000) to book as a debit to pledge receivable and a credit to gift revenue. The internet has multiple present value of an annuity calculators for the students to use if you don't have access to the present value tables.*

4. Refer to the \$12 million pledge discussed above to answer this question. When the first \$3,000,000 cash payment is received during the next fiscal year, what journal entries are necessary in processing the pledge payment?

*The process that Smallville College uses to process the receipt of each payment is as follows:*

1. Reverse the original pledge receivable entry from question No. 3  
Debit Gift revenue                      \$11,423,000  
    Credit Pledge receivable                      \$11,423,000
2. Book the cash received in partial payment of the pledge

Debit Cash	\$3,000,000	
Credit Gift revenue		\$3,000,000

3. Establish the remainder of the pledge receivable (12 million – 3 million) at the PV of an annuity using the payment amount of \$3,000,000, the number of periods (payments) is now only 3 and the annual rate is still 2%. This should give you a present value figure of \$8,651,650 or rounded to the nearest 000's is \$8,652,000. Remember this entry is required because you reversed the original receivable in step #1 to process the cash receipt. The entry would be –

Debit Pledge receivable	\$8,652,000	
Credit Gift revenue		\$8,652,000

5. If all of the equipment capitalization has been completed by the College, but the Library project is still included in expenses and the total expended as of June 30<sup>th</sup> is \$1,000,000 what entry needs to be made, if any?

*The expenses are recorded throughout the year in the expense category for tracking purposes. If the students do not incorporate the unrecorded invoice of \$200,000 that was found and paid in July, then the entry at year-end, the expenses are journaled to the capital projects fund by debiting Construction In Progress-Library Project and crediting Operations & Capital Expenditures for \$1,000,000. The asset is not in service yet so no depreciation is applicable.*

*If the \$200,000 invoice is included in this journal entry, then it would be as follows: Debit Construction in Progress-Library Project for \$1,200,000, Credit Operations & Capital Expenditures for \$1,000,000 and Accounts Payable for \$200,000.*

6. The payroll department reports that faculty payroll is \$1,000,000 per month. Calculate and prepare the faculty payroll accrual, assuming that all payroll earned by May 1<sup>st</sup> is paid by August 31<sup>st</sup>.

*The client must accrue the outstanding payroll for the two months still not paid (July and August). The entry would be a debit to wages expense and a credit to accrued wages for \$2,000,000. The calculation is \$1,000,000 x 2 months = \$2,000,000.*

7. Calculate and prepare accrued interest on long-term debt.

*As of June 30<sup>th</sup>, there is an outstanding debt of \$7,000,000 with an interest rate of 3% and semi-annual payments on October 1 and April 1. The outstanding interest that has accrued from April 1 to June 30 needs to be recorded. The calculation is principal times annual interest rate times representation period within one year. So, 7,000,000 x 3% x 3/12 (representing 3 months) equals \$52,500. The journal entry would be debit interest expense and credit accrued interest for \$52,500.*

8. Assuming you have already processed an adjusting entry for the construction in progress capitalization from question #5, how would the unrecorded invoice of \$200,000 that Adam found affect the trial balance? If necessary, prepare an entry.

*It is part of the auditor's process to review subsequent check payments from the year-end date until the final field work is completed. This helps the auditor confirm that the client is not smoothing or managing the institutions income or expenses. Since the \$200,000 invoice represented work completed in June, the invoice should have been recorded in the closing fiscal year. By not recording the invoice in the proper year, the trial balance is understated in assets, specifically Construction in Progress and understated in liabilities. The correct entry would be debit Construction in Progress-Library Project and credit accounts payable for \$200,000.*

9. Prepare a worksheet from the unadjusted trial balance that includes all of the year-end adjusting entries. This should lead you to an adjusted trial balance.

*The total of the adjustment column (debit side) is \$29,576,500. The total of the adjusted trial balance (debit side) is \$231,675,500.*

<b>Smallville College Trial Balance June 30, 2012</b>				
	<b>Adjustments</b>		<b>Adjusted Trial Balance</b>	
	<b>Debits</b>	<b>Credits</b>	<b>Debits</b>	<b>Credits</b>
<b>Assets</b>				
Cash and cash equivalents			8,000,000	
Student accounts receivable			16,000,000	
Contributions receivable	11,423,000		11,423,000	
Investments			100,000,000	
Equipment			5,000,000	
Buildings			60,000,000	
Construction in progress	1,200,000		1,200,000	
Accumulated depreciation				25,000,000
<b>Liabilities</b>				
Accounts payable		200,000		2,200,000
Accrued interest		52,500		52,500
Accrued wages		2,000,000		2,000,000
Deferred revenue		15,000,000		15,000,000
Long-term debt				7,000,000
<b>Net Assets</b>				102,000,000
<b>Revenues</b>				
Tuition	15,000,000			60,000,000
Grant revenue				2,000,000
Gifts		11,423,000		11,423,000
Investment income				5,000,000
<b>Expenses</b>				
Wages	2,000,000		22,000,000	
Operations and capital expenditures		1,000,000	5,800,000	
Interest Expense	52,500		252,500	
Depreciation			2,000,000	
	29,675,500	29,675,500	231,675,500	231,675,500

10. From the adjusted trial balance, prepare the balance sheet and the statement of activities for Smallville College.

**SMALLVILLE COLLEGE BALANCE SHEET JUNE 30, 2012**

		<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents		\$ 8,000,000
Student accounts receivable		16,000,000
Contributions receivable, net		11,423,000
Investments		100,000,000
Grounds, buildings, and equipment, net		<u>41,200,000</u>
	Total assets	<u>\$ 176,623,000</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses		\$ 4,252,500
Deferred revenue		15,000,000
Long-term debt		<u>7,000,000</u>
	Total liabilities	<u>26,252,500</u>
<b>NET ASSETS:</b>		
Unrestricted		55,370,500
Temporarily restricted		25,000,000
Permanently restricted		<u>70,000,000</u>
	Total net assets	<u>150,370,500</u>
	Total liabilities and net assets	<u>\$ 176,623,000</u>

**SMALLVILLE COLLEGE STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>				
Student revenues - tuition and fees	\$ 60,000,000	\$ -	\$ -	\$ 60,000,000
Long-term investment income and gains allocated for operations	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total operating revenues	<u>61,000,000</u>	<u>-</u>	<u>-</u>	<u>61,000,000</u>
<b>OPERATING EXPENSES:</b>				
Wages	22,000,000	-	-	22,000,000
Operating Expense	5,800,000	-	-	5,800,000
Interest Expense	252,500	-	-	252,500
Depreciation	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Total operating expenses	<u>30,052,500</u>	<u>-</u>	<u>-</u>	<u>30,052,500</u>
Change in net assets from operating activities	<u>30,947,500</u>	<u>-</u>	<u>-</u>	<u>30,947,500</u>
<b>NONOPERATING ACTIVITIES:</b>				
Long-term investment activities - Income fees and gains	-	5,000,000	-	5,000,000
Long-term investment income and gains allocated for operations	-	(1,000,000)	-	(1,000,000)
Capital gifts and grants	<u>2,000,000</u>	<u>-</u>	<u>11,423,000</u>	<u>13,423,000</u>
Change in net assets from	2,000,000	4,000,000	11,423,000	17,423,000

**SMALLVILLE COLLEGE STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE  
YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
non-operating activities				
INCREASE IN NET ASSETS	32,947,500	4,000,000	11,423,000	48,370,500
NET ASSETS - beginning of year	<u>22,423,000</u>	<u>21,000,000</u>	<u>58,577,000</u>	<u>102,000,000</u>
NET ASSETS - end of year	<u>\$ 55,370,500</u>	<u>\$ 25,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 150,370,500</u>

11. Prepare any recommendations you would include in the College's management letter.

*As an auditor, it is your ethical obligation to give the client sound advice when you see a potential problem with the finances of the organization. The endowment investment seems to have a potential pitfall. Adam would suggest the following:*

*While the investment committee of the board of trustees did follow the general investment policy of the board and allocated 80% of the endowment to equities and 20% of the endowment to fixed income, there is not enough diversification in the portfolio. Portfolio diversification reduces the overall market risk of the portfolio. The equity asset class is very diverse and different types of equity investments react differently to market conditions. For example, large cap stocks react differently to the same market conditions than small cap growth stocks. By breaking down the 80% equity directive into allocations by type of equity the overall volatility and risk of the portfolio will be reduced. The portfolio will still have the equity exposure the board desires, but in a less risky way.*

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

**Joseph J. French, University of Northern Colorado**  
**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.*

## INSTRUCTOR'S NOTES

The case provides detailed background information on Latvia, the Forrest Stewardship Council (FSC) and an ethical discussion revolving around corporate social responsibility. Students are asked to formulate ethically, strategically, and legally sound decisions for the

purchasing and marketing manager. Some external research will be required by the students to fully and completely answer the proposed questions and to finish the required report.

### **LEARNING AND TEACHING OBJECTIVES:**

#### **This case has several learning objectives:**

1. Identify and evaluate any potential ethical or legal lapses in Mr. Lelander's decisions.
2. Explore the various potential responses available for a manager presented with these allegations.
3. Contemplate what provisions an organizational code of conduct and corporate governance plan should contain for this organization.
4. Discuss what procedures and policies an organization could or should implement to avoid these types of issues.
5. To lay a foundation for ethics discussions by introducing ethical theories and their applications.
6. To develop an appreciation for the complexity of ethical decision making through identification of affected stakeholder and examination of those perspectives.
7. To gain an enhanced understanding of the process of making and enforcing policies in business.
8. To practice strategic management and marketing decision making.

### **CLASS USE**

The overall discussion of this exercise usually takes about two or two class periods in a class of 35-40 students. This discussion can be structured in three parts; brainstorming and listing all the ethical and legal issues, narrowing the list, and constructing a feasible proposal to all questions which should be presented in front of the class.

An alternative approach is to discuss and narrow all the potential legal and ethical issues and then assign the students (as groups or individuals) the task of preparing and turning in a well written report (usually by the next class period), just as our fictional Mr. Lelander has been assigned. You can also assign several groups to present their proposals.

As there are a multitude of business ethics course books and approaches, this case is designed so it can accompany any business ethics text. We cite an ethical framework, published in the Ferrell et al. text, (Ferrell, O.C., Fraedrich, J, and Ferrell, L, 2011, *Business Ethics, Ethical Decision Making and Cases*, Mason, OH, Cengage), however, the case can be completed using any established business ethics framework.

Time permitting, and to further encourage a robust discussion, a role play scenario can be used. Divide the students into groups to represent various stakeholders including FBS employees, the LVM, FBS customers, Latvian citizens, the FBS board of directors, etc. Have the students in groups discuss the business, legal, and ethical issues facing their assigned stakeholder and devise negotiating positions. Then have the entire class engage in discussion in which the professor moderates.

## RECOGNIZING ETHICAL ISSUES

Before any meaningful class discussion is attempted it is imperative that the class read the entire case study including Exhibits.

Students will need to identify the ethical issues present in this case. An ethical issue is a situation, a problem, or even an opportunity that requires thought, discussion, or investigation to determine the moral impact of the decision. Stakeholders, who include employees, define a business's ethical issues.

Laws regulating business conduct are passed because certain stakeholders believe that business cannot be trusted to do what is right in certain areas, such as consumer safety and environmental protection. Civil law defines the rights and duties of individuals and organizations. Criminal law not only prohibits specific actions, such as fraud or theft but also imposes fines or imprisonment as punishment for breaking the law.

It should be noted that FBS is a fictitious corporation. However, this case is grounded in fact and provides an excellent foundation for discussing the imperative for organizational codes of conduct and well as corporate governance programs. Further, this case sets up the fundamental business ethics principle that the laws and regulations established by our governments set *minimum* standards for responsible behavior. These laws do not delineate what is ethical nor do they establish organizational values.

## SUGGESTED DISCUSSION OR ASSIGNMENT QUESTIONS

1. What are the ethical and legal problems described in the article?
2. How did this problem develop and what are the underlying causes? How could FBS have avoided these issues?
3. What is the social responsibility of firms with regard to sustainability of the products they sell?
4. Who are the stakeholders in this case?
5. Should external certification bodies be used to verify lumber has been generated from a sustainable forest? To what degree can independent bodies successfully ensure forests are harvested successfully in a country known for a long history of corruption? Is this practice consistent with FBS's sustainability objectives? What is silviculture?
6. Should Matt recommend a strategic marketing shift toward becoming a sustainability market leader?
7. If FBS does decide to promote themselves as a sustainable leader, should they continue to accept FSC certified wood from the LVM, Stratton, or any other supplier?
8. If Matt does obtain the Olympic soccer tickets is there any liability under the U.K. Anti-Bribery Act? Could these tickets be considered a facilitation or hospitality?
9. Should Matt buy lumber from Stratton lumber despite the exclusive supplier contract with LVM? What law should apply to a potential breach of contract claim?
10. Which certification body should Matt and FBS trust to certify their lumber?

**1. What are the ethical and legal problems described in the article?**

There are a plethora of ethical and legal challenges presented in this case. Students generally will focus on FBS' practice of selling FSC certified lumber despite the revocation of LVM's certification. However, additional topics include the lack of a corporate code of conduct, an uncertain cultural climate, questionable leadership practices, FBS' uncertain strategic vision with regards to positioning themselves as a sustainable provider, the potential UK Anti-Bribery issues, a potential breach of contract claim, whistleblowing, and layoffs and other stakeholder concerns.

**2. How did these problems develop and what are the underlying causes?**

Narrowing down the causes of ethical misconduct is both challenging and complex. The multitude of social, cultural, economic, and individual factors make this a difficult task. However, any discussion of the root causes of FBS' potential ethical lapses should focus on the examples set by leadership (or lack thereof) and the complete lack of a corporate code of conduct. Top leadership needs to communicate their desire for organizational compliance with an established set of values. One such set of values, as articulated by the FSC can be found below in Exhibit 5.

**3. What is the social responsibility of firms with regard to sustainability of the products they sell?**

This question will field a wide variety of responses from students. Many will respond with the traditional concepts of Managerial Capitalism and argue that FBS has little responsibility to ensure the sustainability of their lumber so long as they are not actively engaging in fraud and the company is maximizing shareholder returns. These students often need to be reminded that even rumors that FBS was knowingly selling improperly harvested lumber as FSC certified could harm sales and the company's reputation.

Other students will proclaim that FBS needs to instantly return or destroy all questionable inventory and immediately find other suppliers. They may even suggest that FBS should only stock FSC lumber in an effort to strategically establish themselves as a green company. These students should be reminded that the economics of sustainable harvesting is difficult. Certified lumber is more expensive, has additional storage costs (to maintain certification certified lumber generally can't be stored with non-certified lumber), is not readily available, make take months to obtain, and usually has a thinner profit margin.

**4. Who are the stakeholders in this case?**

There are several stakeholders who will be affected by Matt's actions or inactions. Primary stakeholders are those whose continued association is absolutely necessary for a firm's survival. In this case this includes employees, customers, investors, governments, and local communities.

In addition to the primary stakeholders, we have secondary stakeholders who do not typically engage in transactions with a company and are therefore not essential to its survival. These include the media, trade associations, certification agencies, and special interest groups.

**5. Should external certification bodies be used to verify lumber has been generated from a sustainable forest? To what degree can independent bodies can successfully ensure forests are harvested successfully in a country known for a long history of corruption? Is this practice consistent with FBS's sustainability objectives? What is silviculture?**

Increasing consumer awareness has led many retailers to begin stocking sustainable products. This has drastically increased the demand for sustainably harvested lumber while the actual supply of sustainably harvested lumber has not increased.

Very few countries have their own certification bodies and the complexity of international forest certifications (reference the ISO: International Organization for Standardization) are daunting. External certification bodies may not be ideal but are a practical if not pragmatic necessity. It is interesting to note that almost all forest certification system are voluntary and use a third party certification system.

The FSC has codified a standardization and accreditation process to certify third-party independent certifier rather than actually certify forests and forest products directly. Environmental, social, and economic standards of forest management were defined through a complex consensus building process, which incorporated the positions of all of the assembled stakeholders. These broad standards were adapted to local realities and operationalized for implementation by national working groups. The accreditation process provided assurance that third party certifying bodies would competently and independently verify that forests adhere to the FSC standards.

Silviculture has been variously defined as the art and science of producing and tending a forest; the application of knowledge of silvics in the treatment of a forest; or the theory and practice of controlling forest establishment, composition, and growth. Since silvicultural practice is applied forest ecology, it is the biological technology for forests and woodlands that carries ecosystem management into action. Like the rest of forestry itself, silviculture is an applied science that rests on the more fundamental natural and social sciences. The immediate foundation of silviculture is silvics, which deals with the growth and development of trees and other forest biota as well as of the whole forest ecosystem.

**6. Should Matt recommend a strategic marketing shift toward becoming a sustainability market leader?**

Although economists may argue this point, there is a great deal of research which suggests that environmentally friendly and ethically sound companies often are more profitable than their competitors. See Exhibit 3.

See also: Ethisphere to Ring NYSE Opening Bell with Select 2011 World's Most Ethical Companies and Host Ethics Drives Performance Conference: <http://ethisphere.com/ethisphere->

to-ring-nyse-opening-bell-with-select-2011-worlds-most-ethical-companies-and-host-ethics-drives-performance-conference/ (October 5, 2011)

In addition to gaining consumers' goodwill, many companies are realizing that they can save money by cutting utility costs, fuel costs, energy costs, packaging, waste improvement, recycling, etc.

Additionally, avoiding an ethical disaster and all the requisite legal and social implications involved may itself give a firm a competitive advantage. If FBS were to gain a reputation for dishonesty or for being environmentally unfriendly, they may lose considerable business. However, this can be a double edged sword. If FBS does attempt this strategic shift, they will be held to higher standards and thus accountable if they do not live up to these expectations.

**7. If FBS does decide to promote themselves as a sustainable leader, should they continue to accept FSC certified wood from the LVM, Stratton, or any other supplier?**

As is also described in the links provided with the answer to question 10, this is certainly a debatable question and students should be able to argue either perspective.

Regardless of which certification agency is favored, the reality is that it will be difficult for FBS to reject much lumber as there is simply a limited supply of certified lumber. The FSC Code of Principles is included below. This is a good example of what a code of conduct or code of values may look like.

**8. If Matt does obtain the Olympic soccer tickets is there any liability under the U.K. Anti-Bribery Act? Could these tickets be considered a facilitation or hospitality?**

See link FCPA blog for cite. The UK Anti-Bribery Act: Let's Cool Down the Hysteria: <http://www.fcpcbog.com/blog/2011/1/18/the-uk-anti-bribery-act-lets-cool-down-the-hysteria.html>

There has been a great deal of concern and confusion with regards to the recently (2011) enacted UK Anti-Bribery Act. The main concerns involve the extended extraterritorial reach of this act, liability for failing to prevent bribery by your firm, and the absence of any facilitation payment (as opposed to the Foreign Corrupt Practices Act, FCPA).

Notably, while facilitation payments are an exception to the FCPA's prohibitions and the FCPA includes an affirmative defense for bona fide expenses (such as travel and entertainment) associated with either the promotion, demonstration, or explanation of the company's products or services, the Bribery Act recognizes no such exceptions. Accordingly, if the other elements of the Bribery Act are met, hospitality and facilitation payments are prohibited and may be prosecuted

With regards to the Olympic tickets, this is certainly a questionable transaction. While the securing of tickets for Conner will be allowed (as he is not a governmental official), obtaining these tickets for Mr. Jacobson, a member of parliament, while one of your biggest clients is

awaiting governmental approval, will likely violate this act. Please see Exhibit 4, below, for a quick summary of this act.

**9. Should Matt buy lumber from Stratton lumber despite the exclusive supplier contract with LVM? What law should apply to a potential breach of contract claim?**

The United Kingdom's 1979 Sale of Goods Act will govern and control this contract. There is a choice of law clause located in the FBS/LVM contract.

Although it is fairly clear that the CISG will not apply and the Sales of Goods Act will, it is not clear if FBS would incur any liability from buying lumber from Stratton.

The main issues involve whether LVM has violated the perfect tender rule of this Act and whether FBS has acted in good faith as described by this Act.

English courts have consistently enforced a de facto perfect tender rule, which dictates that even the slightest breach will be considered material. Here, LVM will be considered in breach if they have supplied certified lumber which can no longer be sold as FSC certified. However, it can be argued that FBS (if they buy FSC lumber from Stratton), is not acting in good faith as they are knowingly buying replacement lumber which comes from the same source as the LVM lumber. It is likely however, that while not exactly ethical, FBS would be able to refuse future shipments from LVM without incurring liability for breach.

The students have been provided the relevant sections of this Act.

**10. Which certification body should Matt and FBS trust to certify their lumber?**

This is an ongoing debate. Both FSC and PEFC are globally recognized certification NGOs. Most comparisons generally view the FSC as the more stringent certification system with a complete chain of custody process. We've include Exhibit 5 and the links below for reference. These links provide access to two reports which analyze the FSC/PEFC question.

Link to reports:

- 1) [http://www.fsc.org/fileadmin/webdata/public/document\\_center/publications/PEFC\\_and\\_FSC/FINAL-Summary\\_Report\\_FSC\\_CW\\_and\\_PEFC-EN.pdf](http://www.fsc.org/fileadmin/webdata/public/document_center/publications/PEFC_and_FSC/FINAL-Summary_Report_FSC_CW_and_PEFC-EN.pdf)
- 2) [http://credibleforestcertification.org/fileadmin/materials/old\\_growth/dont\\_buy\\_sfi/sfi\\_facts/Why\\_FSC\\_Not\\_PEFC.pdf](http://credibleforestcertification.org/fileadmin/materials/old_growth/dont_buy_sfi/sfi_facts/Why_FSC_Not_PEFC.pdf)



# 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 SYNOPSIS

*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.*

## INSTRUCTORS' NOTES

### RECOMMENDATIONS FOR TEACHING APPROACHES

This case study can be used in undergraduate management courses, particularly an international management course or in a marketing course. International Studies at Salzburg College may be presented as an application of the processes associated with market analysis and market segmentation, creation of alternatives for meeting customer needs, and the development of strategies for meeting growth plans. Students will also confront their philosophical ideas regarding world cultural engagement.

## **LEARNING OBJECTIVES**

After analyzing the case study, students should be able to accomplish the following learning objectives:

1. Demonstrate and understanding of the nature and purposes of international study abroad programs.
2. Understand and identify key success factors, and develop alternative strategies for the Salzburg College Executive Director.
3. Assess the advantages and disadvantages of proposed strategies.
4. Discuss the philosophical goals of Salzburg College in light of current world affairs.

## **BASIC ISSUES FOR ANALYSIS**

The case study, International Studies at Salzburg College, provides the opportunity for discussion of strategic decision-making, market and consumer characteristics, and philosophical perspectives of understanding world cultures. This unique combination of discussion elements allows for student learning opportunities related to strategy, marketing, and international cultures.

Three main issues face the new director of Salzburg College; 1) the development of a strategic plan that will meet the needs of students, 2) the implementation of a marketing plan that will target students who are most likely to attend Salzburg College, and 3) creation of an international cultural experience which highlights a broad global perspective. Discussion of these issues allows students to explore strategic and marketing theory, as well as the concepts put forth by J. William Fulbright.

## **DISCUSSION QUESTIONS**

1. Describe an international studies program offered through a U.S. university. Include a description of the location and study opportunities offered.
2. Provide at least three specific strategies for use by the Executive Director of Salzburg College.
3. Based on your answer in number 2, evaluate the advantages and disadvantages of each of your proposed strategies.
4. Discuss the philosophical goals of Salzburg College in light of current world affairs.

## ANSWERS TO DISCUSSION QUESTIONS

1. *Describe an international studies program offered through a U.S. university. Include a description the location and study opportunities offered.*

Students may select any University, including their own, to describe an international study abroad program. Students should include the location of the program and a description of the program. This assignment allows students the opportunity to explore the possibilities offered by universities for study abroad. Some students may not be interested in such programs, but others may explore opportunities. For example, the University of Texas offers several study abroad programs with the intention that students will be able to transfer course credit back to the university. UT has several types of programs from a broad range of countries. Students may participate in a faculty led program with UT faculty, an exchange program with one of 200 universities with which UT has an agreement, or in an independent (not for credit) program.

2. *Provide at least three specific strategies for use by the Executive Director of Salzburg College.*

Discussion leaders may direct students in a discussion of the importance of identifying the most important success factors (key success factors) for any business. By identifying key success factors, students should be able to develop suggestions for a marketing strategy. Salzburg College offers a quality educational experience in an international setting. The key success factors for Salzburg College are 1) that the College offers the opportunity to explore world events through the eyes of Austrian culture and society and, 2) that students may take courses that will transfer back to their home universities. The ability for students to take the “Understanding Austria” course and the opportunities to live with Austrian host families provide a unique learning environment. This environment is in keeping with the philosophy of the Fulbright Scholar program and the origins of Salzburg College.

Students should be able to offer at least three strategies to the new Executive Director of Salzburg College. One, might be the suggestion that the Executive Director should visit the United States and establish a personal relationship with the schools that Dr. Stegen has previously cultivated. In other words, the new Executive Director needs to make sure that partnerships continue to remain strong. In addition, the new Executive Director should use the network of administrators, much like Dr. Stegen used early in the life of the College, to develop new relationships with schools not partnered with Salzburg College. Instructors may guide students in a discussion of the benefits of informal networks of people and the importance of recognizing and developing serendipitous opportunities.

A second strategic suggestion is to review and adjust the curriculum of Salzburg College. Discussion leaders may guide students in a discussion of how the Executive Director might learn what courses are most important to partner universities and to students. Discussion may include topics associated with marketing research and survey methodology. Students may develop an outline for a market research project that includes primary data in the form of a survey and focus

groups, as well as secondary data from required course lists of partner universities. There are rich opportunities for discussion leaders to guide students in an understanding of sampling theory and the significance of well-developed survey questions. Students in a management course may assume that the target market for Salzburg College are business students and thus suggest a broad range of business related courses.

A final strategic suggestion is that the Executive Director should create opportunities for students to gain experience through internships with Austrian organizations while they are in are abroad. An internship in a working environment in Salzburg provides students with an emersion experience that has at least two benefits. First, the founding philosophy of Salzburg College is to help students in their understanding of people and cultures outside of the U.S. By interning and going to school in Salzburg, students will have the opportunity to interact with Austrians in the workplace. Second, students will gain valuable experience in an international work setting.

3. *Based on your answer in number 2, evaluate the advantages and disadvantages of each of your proposed strategies.*

Strategic change in organizations requires considerable planning, analysis, and evaluation. Table IN1, “Advantages and Disadvantages of Proposed Strategic Options,” provides an example matrix of advantages and disadvantages of each strategic proposal made in question 2.

TABLE 1 ADVANTAGES AND DISADVANTAGES OF PROPOSED STRATEGIC OPTIONS		
Proposed Strategic Option	Advantage	Disadvantage
1. Cultivate current university administrator relationships.	<ol style="list-style-type: none"> <li>1. This proposal requires the new Executive Director to travel to the US and make personal visits to administrators. In an effort to maintain and increase Salzburg College enrollments, the new Executive Director must communicate the benefits of study abroad programs and specifically the opportunities of Salzburg College for students. Maintaining positive relationships with administrators is equivalent to maintaining good customer relations in a retail business.</li> <li>2. By visiting partner schools, the Executive Director also has the opportunity to meet potential students and sell them on the idea of study abroad.</li> </ol>	<ol style="list-style-type: none"> <li>1. Travel to the US is costly and time consuming. The timing of the trip must coincide with university, administrator and student schedules. This may conflict with the schedule of Salzburg College when the Executive Director needs to be on campus.</li> </ol>

TABLE 1 ADVANTAGES AND DISADVANTAGES OF PROPOSED STRATEGIC OPTIONS		
Proposed Strategic Option	Advantage	Disadvantage
2. Adjust Curriculum to meet student needs.	<ol style="list-style-type: none"> <li>1. The curriculum sets Salzburg College apart from the competition. The curriculum must reflect the needs of students in an effort to help them gain valuable skills.</li> <li>2. The curriculum allows students to be immersed in the Austrian culture thus giving students a broad perspective of the world.</li> </ol>	<ol style="list-style-type: none"> <li>1. The curriculum needs to be standardized so that students can easily transfer credit back to their home universities. If the curriculum is too student driven, it may be difficult for universities to accept credits.</li> <li>2. Curriculum that focuses only on business skill sets misses opportunities for students to develop cultural, artistic, and language skills.</li> </ol>
3. Create work opportunities for students while they are in Austria.	<ol style="list-style-type: none"> <li>1. By creating internship opportunities, Salzburg College offers students invaluable international work experience. This may provide a strategic advantage both to Salzburg College as well as to students.</li> <li>2. Internships are consistent with the philosophy of understanding world cultures.</li> </ol>	<ol style="list-style-type: none"> <li>1. Students will likely need considerable language skills in order to participate in an internship.</li> <li>2. The Executive Director may have difficulty developing relationships with organizations that provide internships.</li> <li>3. Internships may not transfer as course credit.</li> </ol>

4. *Discuss the philosophical goals of Salzburg College in light of current world affairs.*

Students will have varying opinions about the goals of promoting mutual understanding, and viewing the U.S. and her foreign policy from a European perspective. Since 9-11, the Afghanistan and Iraq wars, and unstable economic conditions around the world, some students may believe that the U.S. should become more isolationists, or that we should protect and promote U.S. interests around the world. Other student may believe that mutual understanding across nations and cultures provides opportunities for understanding as well as a potential check on the rush for the U.S. to engage in wars around the world. Still other students may believe that the Salzburg College goal of learning about different perspectives and cultures is personally beneficial, providing them with a world perspective that will be useful in their future careers.

### EPILOGUE

The new Executive Director of Salzburg College traveled to the U.S. and met with numerous partnering schools. She also met with several administrators from universities who may partner with Salzburg College in the future. On at least two occasions, she was introduced to administrators and new universities by individuals from current partner universities. The trip was seen as a success and worthwhile as at least one new university signed up to be a partner and

even sent a musical group of faculty and students on a tour which stopped for several days in Salzburg. The Executive Director hosted the music group and helped make arrangements for them to present a concert in a major Salzburg cathedral.

The new Executive Director also modified the curriculum to include a course entitled “Tourism and Hospitality Marketing and Management,” and a course in Music Business. The Executive Director also modified the content of the “Understanding Austria” course. The course now has several travel components throughout the semester. The travel and field components are intended to challenge students to examine the history and culture of Austria by interacting with Austria outside of the classroom. This modified course is effective only if students are willing to deeply examine their own beliefs about the U.S., the world, and other cultures. As with most courses, the student’s learning outcomes are tied to the student’s own desires for new knowledge.

Finally, a few students have participated in an internship program. The internships have been mainly unpaid and typically with non-profit organizations. Because so few students have participated, the success of the internship program is still to be determined.