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LETTER FROM THE EDITORS

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

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

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

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

Inge Nickerson, Barry University

Charles Rarick, Purdue University, Calumet

AV CORPORATE: SOFTWARE TOOL PROJECT

Manuel C. Manuel III, University of the Philippines

CASE DESCRIPTION

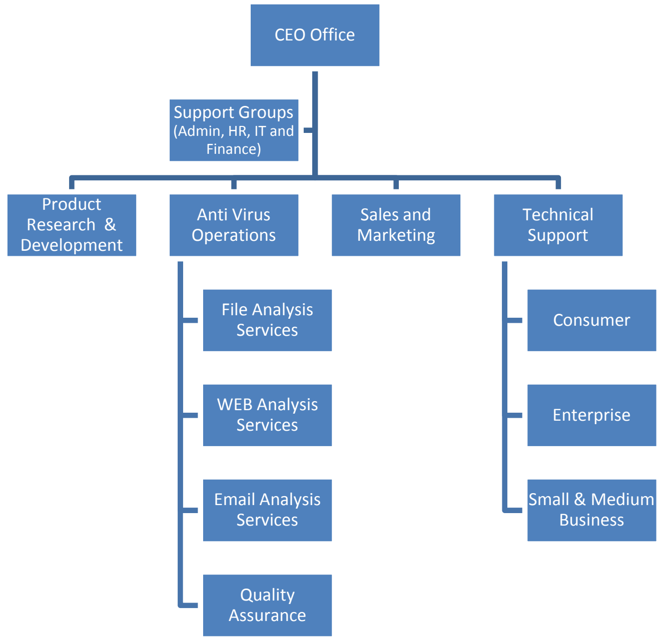
The primary subject matter of this case is project management. Secondary issues examined include change management and operations management (specifically process management). The case has a difficulty level appropriate for junior level courses. The case is designed to be taught in one class session equivalent to one and a half hour (specifically if an assigned group of students do a 20 – 30 minute presentation of their analysis and recommendations and the rest of the period is spent for discussion (through question and answer)). It is expected to require between four to six hours of outside preparation by students.

CASE SYNOPSIS

Change is a key factor that often makes or breaks an organization. The ability to adapt to change, however, must go hand in hand with the ability to manage change. Many Information Technology (IT) companies and organizations nowadays have difficulty managing change due to the dynamic nature of the Information Technology industry where standards, processes, products and the like continually evolve and where new product development is the norm. In this case study, we examine the effects of such a dynamic culture to a company's people, process and technologies.

AV CORPORATE

Kenneth Tirona has been working for the second largest information security company in the world for the past three years. He started out as a Quality Assurance Specialist and is now a project manager in the Product Research and Development Department who is familiar with the internal processes of the Anti Virus Operations Department. The company's organizational setup is shown below.



Organization Background

Marketing

The Marketing Department is involved not just in typical sales and marketing but also in Product Development where they assist the Product Research and Development Department conduct market studies for potential products and finally in Beta testing upcoming products.

Product Research and Development

The Product Research and Development Department is in charge of driving the entire project from start to finish. The department typically interfaces with Marketing at the start of the project to understand the requirements needed by customers and then develop these new products.

Technical Support

Technical Support is the customer facing side of the business and deals with issues and requests after a product is launched. They routinely escalate other issues to the Anti Virus Operations Department if required. These issues typically lead to new "instructions" that are sent out to products used by customers.

Anti Virus Operations

This department typically supplies the "instructions" that are updated regularly for the company's products. These instructions are based on File, Web and Email analysis conducted by engineers. They also provide support as needed by Technical Support.

File Analysis Services

This team typically receives suspicious files from either Technical Support or from other sources. They then build a set of instructions that will clean the suspicious file. These instructions will be compiled and verified by Quality Assurance team before it is sent out to the company's products.

Web Analysis Services

This team typically receives suspicious URLs and websites from either Technical Support or from other sources. They then tag these websites in a temporary database. The Quality Assurance team verifies the URLs before it is published in the final database. The company's products can look up suspicious URLs from this final database.

Email Analysis Services

This team typically receives suspicious Emails from either Technical Support or from other sources. They then verify the URLs or files within these emails and send it to either Web Analysis or File Analysis teams for further verification. Fore emails without files/URLs, the Email Analysis team simply verifies if the email is spam. They then build a set of instructions that will block the spam. These instructions will be compiled and verified by Quality Assurance team before it is sent out to the company's products.

Quality Assurance

Quality Assurance is the team in charge of verifying instructions before it is sent to the company's products. They also verify suspicious websites from the temporary database before it is published in the final database.

Office of the Chief Executive Officer (CEO)

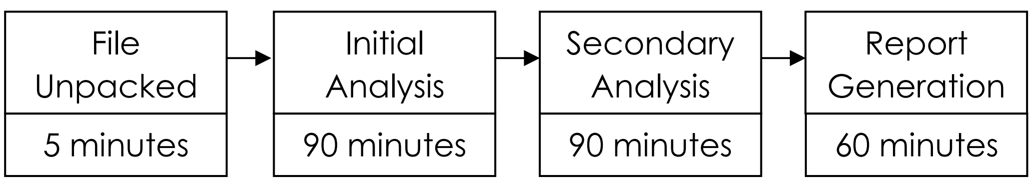
Top management – which includes the CEO and the directors of each department - sits on the company's overall project board and is required to approve projects that have significant cost (projects over 5 million pesos) or significant impact to operations (process related projects, etc.). Projects that do not meet these criteria can be approved by the company's project board without requiring the CEO's sign off. While the CEO office does not need to be updated on project status, the project board required a monthly update of progress and assistance needed.

Project Background

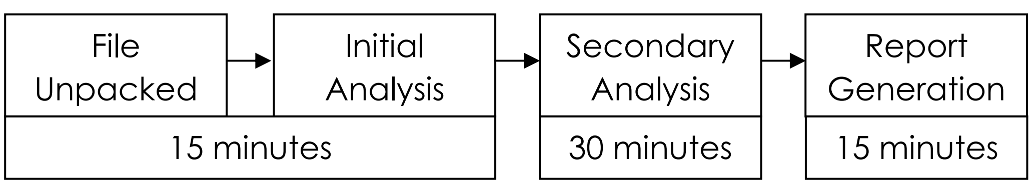
Kenneth's latest project was to improve software that started out as a small tool that was used within his team. Upper management found the tool to be very useful by upper management. The tool is now being used by the department Kenneth belongs to. However, the tool was no longer able to handle the demands of a larger user group compared to before. As he was the primary developer of the small tool, he was very excited to handle the development of the next version.

The small tool typically automates some processes of the team such as file analysis and initial analysis. The tool also provides some input for Secondary Analysis and Report Generation which helps speed up those manual processes. This automation helped cut down processing from an average of 245 minutes to just 60 minutes, which resulted in four times as more analyses being done in the time allocated.

Previous Process



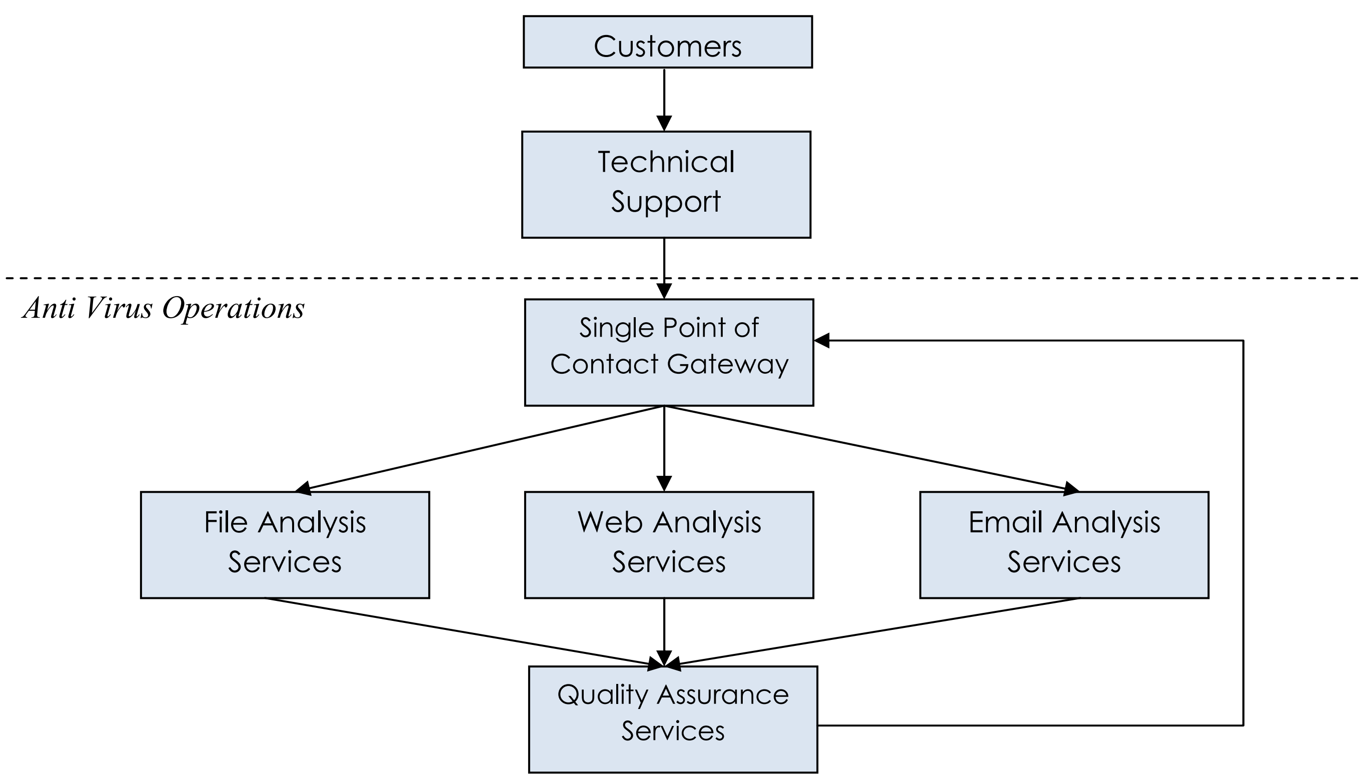
Process after the Small Tool



Kenneth started by interviewing managers from the different teams under the Anti Virus Department to gather their inputs. After completing the feature requirements for the new version, Kenneth pitched the project idea to management and approval was given. He was allocated a budget of 1.5 million pesos for the six month project and kept management updated at the end of each month.

The managers from the different teams routinely met to discuss ongoing issues and improvements in the organization. As this project affected all of them, it was one of the regular items discussed in weekly management meetings. The managers are independent of each other and are free to implement changes for their own team. However, changes that impact processes across teams must be clearly communicated to all affected teams and approved by a 60% majority of the management through voting. This ensures that everyone is made aware of changes to be done that affect multiple teams.

In AV Corporate, customers typically submit support cases to the Technical Support Team which resolves product-related cases and further forwards Anti Virus related cases to the Anti Virus Operations Department. These cases are received by a Single Point of Contact Gateway – a team composed of four people – that routes the case depending on the analysis requested. Cases related to files are routed to the File Analysis Services team, and such cases include files that wreak havoc on customers' computers. Cases related to websites, such as customers requesting for analysis on whether a certain website is fraudulent, phishing and so on, are routed to the Web Analysis Services team. Finally, the Email Analysis Services team receives email-related cases which typically analyzes if emails are spam.



These three teams typically perform similar tasks using tools shared throughout Anti Virus Operations; however they also have their specialized tools within their respective team and have varying processes. Before the three teams provide a final solution for services requested from them, a Quality Assurance Services team checks the solution provided before it is delivered to customers.

As the project was approaching completion, Kenneth optimistically presented the prototype to management. The management panel was composed of Mark Rago, manager for File Analysis Services, Joseph Rosario, manager for Web Analysis Services and Elvie Talavera, manager for Email Analysis Services. The following is a transcript of the meeting:

Kenneth: So that summarizes the major features of the project as we originally planned. I am now ready to answer any questions you may have.

Mark: This is all well and good and I really like the progress you and your team have made. However, it seems the requirement no longer fits the new processes that my team needs.

Kenneth: I understand that there have been developments in your team, Sir Mark, as you told me during our regular monthly meetings but as I also informed you, it might be best to add your features to the next project.

Elvie: In that case, Kenneth, there might be a problem with the synchronization of the process between Mark's team and mine since the tool will not be able to handle their needs. This will call for a lot of manual interfaces between Mark and my team which means we might also prefer waiting for the next…

Joseph: Hold on Elvie, while I agree that we have changed some of the processes in Mark's team, I don't agree with delaying the release of this tool. We really need this new version within our team and would really like to see it released in the timeline we discussed. In fact, my team also wanted to make some changes to the requirements but we actually waited for this project to be completed before making those changes.

Mark: I find that really unfair, Joseph, since all of us have been touching base with Kenneth throughout the project. I'm sure Kenneth was very accommodating in handling the changes within all our teams but if we can manage a delayed release date then perhaps your team can proceed with those changes you have been pushing back and allow for ample time for Kenneth to incorporate them into the tool.

Joseph: I think we should stick to the current project and adjust to the new technology instead of delaying it. We have already spent over a million pesos on this project and I don't think our director would be happy about the delay and the additional cost.

Elvie: I'm sure we can defend the changes to our director. Besides, he also approved the changes that would have affected the project anyway. Kenneth, how much money and time do you need for the new changes to be incorporated to the project?

Kenneth: It would depend on the changes required.

Joseph: Elvie, Mark, I'm sure the two of you can argue that there are far more advantages than disadvantages to delaying the project but what would stop us from delaying the project even more if there are even more changes in the course of the delay?

Mark: Our company has been built around a culture of change so I'm sure we can handle any further changes into the future.

Kenneth: Sir Joseph, Sir Mark and Ma'am Elvie, thanks for the inputs so far. What if we first pool the new requirements, see how complicated the changes are then provide a new time table and budget requirements?

Mark: Thanks Kenneth. We'll wait for your updates.

This left Kenneth very much confused after the meeting. This project was definitely one that he hoped would change his career for the better but it had the potential of being a perpetual project especially since minor changes in any of the three team's processes could affect the project at different times throughout its duration.

Kenneth took some time to go over his notes to review the detailed processes for each team that evolved during the course of the project and take note of the processes that shared resources (items shaded in blue are shared resources).

Core Process	**Web Analysis**	**File Analysis**	**Email Analysis**
Download and Unpack	File Downloading	*None*	File Downloading
	File Unpacking	File Unpacking	File Unpacking
Automated Analysis	File Analysis	File Analysis	File Analysis
	URL Analysis	*None*	URL Analysis
	Text Analysis	*None*	Text Analysis
	URL Correlation	*None*	URL Correlation
Manual Analysis	Behavior Analysis	Behavior Analysis	Behavior Analysis

Download and Unpack – For Web and Email Analysis Services, the file is first downloaded then unpacked.

Automated Analysis – All Analysis Services require File Analysis if files are downloaded, however only Web and Email Analysis Services require URL Analysis, Text Analysis and URL Correlation. All these services are typically handled by an automated system.

Manual Analysis – A behavior analysis is provided once all automated analysis is complete. This service requires an engineer to manually create behavior descriptions of the threat.

AUTHOR'S NOTE

Manuel C. Manuel III is an Assistant Professor at and College Secretary of the College of Business Administration, University of the Philippines- Diliman.

This case study was developed in collaboration with Peter Michael Tongco, a recent MBA graduate (Class 2011) at the University of the Philippines. The case is not designed to illustrate effective or ineffective handling of managerial situations. Certain names have been disguised.

AV CORPORATE: PC ANTI-VIRUS 2.0 PROJECT

Manuel C. Manuel III, University of the Philippines

CASE DESCRIPTION

The primary subject matter of this case is operations management specifically new product development. Secondary issues examined include supply – chain management, customer – investor relations and change management. The case has a difficulty level appropriate for junior level courses. The case is designed to be taught in one class session equivalent to one and a half hour (specifically if an assigned group of students does a 20 – 30 minute presentation of their analysis and recommendations and the rest of the period is spent for discussion (through question and answer)). It is expected to require between four to six hours of outside preparation by students.

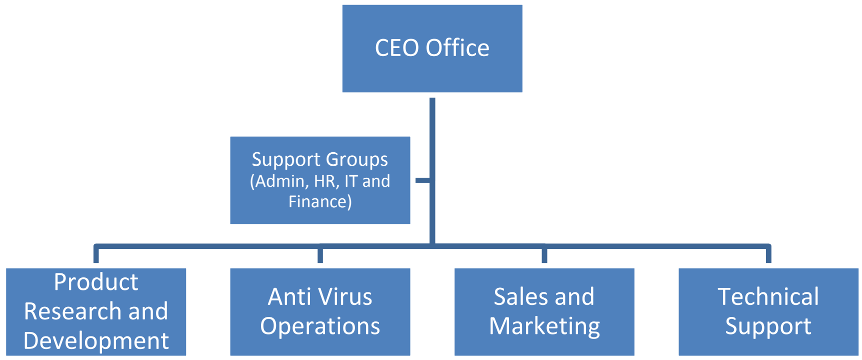
CASE SYNOPSIS

The technology landscape is continually evolving - throughout the history of Information Technology (IT) we have seen how companies manage changes like advances in processing, the smartphone revolution, the introduction of social networking and the like. This has radically transformed human – technology interactions.

Therefore, the challenge in the IT industry is for companies to constantly keep abreast with technological advances as these affect not only their business processes but those of their suppliers and customers as well. In this case study, we reveal how such a shift in the IT industry recently affected a company's product development and its relationship with its suppliers and customers and the challenges that resulted which the company had to deal with.

AV CORPORATE

J. M. Montelibano has been working for the second largest information security company in the world for the past five years. He started out as a software engineer in the Anti Virus (AV) Operations Department and is now a project manager in the Product Research & Development Department. J. M.'s experience in AV Operations helped him become very familiar with the internal processes of AV Corporate and this helped him align expectations of AV Corporate customers of Product Research and Development with those of AV Operations. A snapshot of the organization is shown below.



During his fourth year working for the company, JM was assigned to manage a project that will replace one of the company's core products with a new version. The original product is an Anti Virus software that is installed on a desktop computer. When the user connects to the Internet, the software downloads instructions from the company's servers so that the software is updated. The original product was developed by the company's owners; hence, they were keen to receive constant updates on the development through J. M. While they had frequent communication with J. M., the owners were not involved in the development of the new version.

Project Background

The PC Anti Virus 2.0 Project was a proposal from the core group of Technical Leaders in the company where the new version's major details were discussed starting around May 2007. The key components, features and upgrades were closely researched by the senior research and development teams. After a year, it was pitched to senior management and it quickly became a priority project of the company. It was targeted for submission to the approval boards by May 2008.

Despite being a priority project, the necessary approval boards reviewed it thoroughly before proceeding to development. The project was sent through the proper channels and handed back to Product Research and Development to begin.

Architects who reviewed the product's technical specifications claimed it was set to revolutionize the company's process and product lines. Among the changes introduced by the new product was that internal processes were to be adapted to respond faster. For customers, it introduced significantly improved system requirements like storage space and processing power.

These changes were revolutionary for the Anti Virus industry because most applications available in the market at that time did not have the features being introduced for PC Anti Virus 2.0. Here is a comparison chart of the major differences.

	PC Anti Virus 2.0	PC Anti Virus 1.0	Competitor A	Competitor B
Compatible OS	Windows 3 up to Windows Vista	Windows 3 up to Windows Vista	Windows 3 up to Windows Vista	Windows 3 up to Windows Vista
Minimum Memory Requirement	256 MB	512 MB	512 MB	512 MB
Minimum Disk Space Requirement	512 MB	2 GB	3 GB	2 GB
Average Monthly Space Growth	3%	12%	25%	18%
Average Scan Time	1 Minute	15 Minutes	15 Minutes	30 Minutes
Average Clean Time	2 Seconds	8 Seconds	30 Seconds	4 Seconds
False Alarm Rate	15%	8%	15%	25%

At the time of the product development, the majority of desktop computers operated on a Microsoft Windows operating system. This six-year-old operating system was used in almost all computers throughout the world. The new version of the antivirus software was created to work on this platform, as were the majority of systems and applications developed by AV Corporate and other corporations.

PC Anti Virus 2.0 Project

Period	Phase	Budget
May 2007 - May 2008	Phase 1 - Research	7.5 Million US$
May 2008 - July 2009	Phase 2 - Development	5.6 Million US$
July 2009 - September 2010	Phase 3 - Marketing	2.3 Million US$

After a year or so of development, and internal and external testing of the product, it was finally set for release. This included handing it off to a marketing project team to develop a marketing campaign and distribute the new product. The marketing team, headed by Connie Nicdao, expected the product to be ready for Japan and the North American market within three months. Connie started to set up meetings with J. M. to study the marketing plan for the new version of the software. Within a month, the company started to publish advertisements and announcements about the new product.

A snapshot of the company's product development process is below:

Team in charge	Marketing and Product Development		Product Research and Development		Marketing and Product Development	Marketing
Project Phase	Market Interviews & Research	Technical Specification	Development	Internal Testing	External Testing	Product Marketing

Product Development Process

The product development process inside the company can be initiated in several ways. It can be from a directive from upper management such as the chief executive officer (CEO), chief technology officer (CTO), or chief information officer (CIO). It can result from a product recommendation from any of the service delivery lines (Product Development, Engineering, Marketing, Support, etc.) or it can be triggered directly through the quarterly project review board which receives projects from any person or group in the company.

These projects are then reviewed by the Product Development team, reviewed by a project review board consisting of technical leaders from all over the company, and finally presented to upper management for financial review and approval.

The product development process also typically is composed of cross-functional teams mainly from Marketing and Product Development, but can bring in subject matter experts as necessary.

Marketing

The Marketing department is involved in both the initial and final phases of the project development process. In the Initial phase of the project, the team interviews people to estimate potential markets, companies, customers and vendors. Most of the research on new requirements is gathered by Marketing, while Product Development defines the Technical Specification based on the market research.

During the final phases of the process, Marketing assists Product Development to conduct external testing of the product (usually called a Beta Test). One objective is to ensure the product works in different customer scenarios. After testing the product, they then commence Product Marketing to selected regions and markets. This may involve pre-sales like trial runs and finally sales and support.

Product Research and Development

The Product Development department is in charge of overseeing the entire project from start to finish. The team typically interfaces with Marketing at the start of the project to understand customers' requirements. From there they derive new requirements and form Technical Specifications. After developing the product and testing it internally, Product Research and Development interfaces again with Marketing to test the product externally with select customers.

Anti Virus Operations

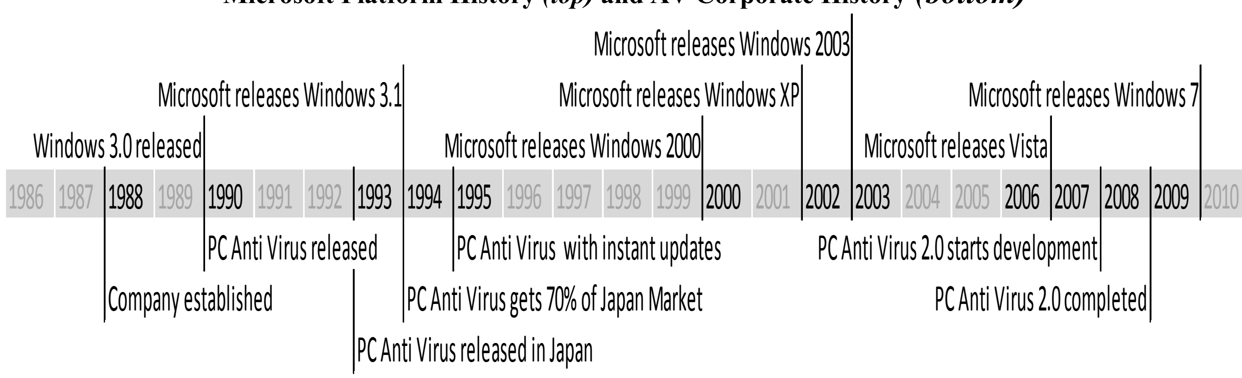
This department typically supplies the "instructions" that are updated regularly for the company's products. These instructions are based on File, Web and Email analysis conducted by engineers. This set of instructions grew in size 10 years after the company started and it was becoming a burden for their customers' machines. This department was responsible for ensuring that the instructions are up to date to ensure that a customer's systems are protected against the latest security threats.

Technical Support

Technical Support is the customer-facing side of the business. It deals with issues and requests after a product is launched. It routinely escalates other issues to the Anti Virus Operations Group if required. The PC Anti Virus 2.0 Project passed through the necessary approvals and coordinated with the appropriate technical teams. After going through the entire cycle, the company was ready to release the new product.

A few weeks after the company announced the new version of the antivirus, the IT industry was surprised by Microsoft's announcements of a new version of its operating system. Microsoft claims the new version will be less prone to security issues but may not be able to run all applications and software that were previously available in older operating systems.

Microsoft Platform History *(top)* and AV Corporate History *(bottom)*



Microsoft's announcement put a negative impact on the project as it did not guarantee the new version of the product would work with the new operating system. Both Connie and J. M. began setting up meetings with contacts from Microsoft to check to what extent modifications were needed for the product to be compatible with the new operating system. The owners of the company also checked in with Connie and J. M. regularly in order to allay fears from the company's investors. The owners feared that news of the company's new product having no market spelled danger for the firm and might even push the stock price down, especially since the company had already spent US$15.4 million on the project. Delaying the project would put pressure on the company from creditors given the company's investment in the project.

While waiting for updates from Microsoft, Connie and J. M. were at a loss on how to salvage the new version of their product. Interviews with long-time customers showed they did not want to buy the new version if it would not work with the new operating system. On the other hand, some customers were also optimistic concerning the new version and claimed that even if Microsoft releases a new operating system, they will not immediately upgrade their existing operating systems and instead wait for the next release which typically took a couple of years.

Connie and J. M. formulated several suggestions that they were ready to present to the owners of the company. One option was to delay the release of the product until they were ready to make it compatible with the new operating system from Microsoft. Another option was to release the product and offer software upgrades in the future so that it will be compatible with newer Microsoft operating systems.

AUTHOR'S NOTE

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SKÁLHOLTSSTÍGUR 2A: ECONOMICS, IMPLIED PROMISES, AND THE ETHICS OF A $1,200 A MONTH BALCONY

Michael R. Luthy, Bellarmine University
Barry L. Padgett, Belmont University

CASE DESCRIPTION

The primary subject matter of this case concerns a customer service issue between a business traveler and the small business owner of several rental properties in Reykjavik, Iceland. A secondary issue involves an exploration of the intersection of business practices, expectations, perceived economic value, ethics, and two different cultures. The case has a difficulty level of three/four (appropriate for junior/senior level courses) although it may be used at level five (appropriate for first year graduate level) depending on the amount and complexity of background reading assigned. The case is designed to be taught in as little as one class hour, but may be expanded to as many as three class hours depending on the amount of theoretical material assigned or discussed by the instructor and whether any out-of-class preparations or in-class presentations are required. The case is expected to require from one hour (if the instructor's goal is class discussion only) to approximately four hours of outside preparation by students (if the goal involves more formal presentations by individuals or teams of students).

CASE SYNOPSIS

What is fair? What is reasonable? What is ethical? Do these answers change across cultures? Student discussion of the case facilitates exploration of these questions in the context of a customer request for a partial refund to the owner of private rental properties in Iceland.

A U.S. college professor, coming to the end of an extended, four-month stay in Reykjavik, Iceland has requested a partial refund of monies he has paid for rent to the owner/manager of the property where he has been staying. At issue for the customer is the fact that noise levels in the original apartment he rented after an internet search and back and forth e-mail messages necessitated his moving to an upstairs apartment – the only difference being the addition of a small balcony – at an additional cost of $1,200 per month. Since the entire stay took place in the winter months, January through April, the balcony was virtually unusable during the stay, except for the last several weeks.

Introducing students to the topic of customer service from the organization's point of view is always challenging. Students' experiences as consumers provide insights to various principles for developing a rationale as to why organizations do what they do. A difficulty often arises however, from the need for students to know when to divorce their instincts, built upon their experience base, in order to make decisions as managers. In this case, students will draw on their own experiences, those of their friends and family members, and any assigned readings *as they take the role of the business owner. As the instructor leads a discussion of the case and proposed questions, terminology and constructs are defined and explored and students try to determine where to draw the line between the needs of the customer and those of their business.*

INTRODUCTION

Dr. Jack Totten, professor of management at a small private university in Iowa, was excited as he re-read the letter in his hands. After a 10-month long application process he finally received the letter he had hoped for – he had been granted a Fulbright award to live, teach, and conduct research at Reykjavik University in Iceland.

After confirming the details with his soon to be new university, Jack needed to arrange a place to stay from early January through the end of April. Given Iceland's climate, location near the Arctic Circle, and the fact that the primary tourist season was between May and October, he did not think it would be too difficult to find a place to live at a reasonable price – especially for an extended stay. An extensive Internet search for a place that was convenient to bus routes and centrally located, while offering quiet and somewhat upscale accommodations, led Jack to Kastalinn Lúxusíbúðir (see Exhibit 1).

BACKGROUND

Kastalinn Lúxusíbúðir, (Castle House Luxury Apartments) is one of two private rental properties owned and operated by Ingibergur Karlsson and his family. Castle House was located at Skalholtsstigur 2a in the old downtown area of 101 Reykjavík. The property is next to the entrance of The National Museum of Art, Listasafn Islands, 500 meters from the city center.

The Karlsson family's other property, Embassy Luxury Apartments was located at Gardastræti 38 and 40, 300 meters from the city center on the other side of Tjörnin Lake, in the embassy district (see Exhibit 2).

The descriptions of the various apartments and suites reflect a large number of commonalities. For example, Suite #10 at Castle House listed the following: (Living room) The living room has a leather sofa (which can be used as a double sleeping sofa) and a dining table and chairs. There is a DVD/CD player, TV with Icelandic channels which show mostly English - language movies and series, and satellite channels, including the BBC channels, CNN and Sky News. There is a direct dial telephone in the living room, as well as complimentary wireless High Speed Internet. (Bedroom) The bedroom has a twin bed which can also be joined (fastened together) to become a double bed. (Bathroom) The small en-suite bathroom has an enclosed shower and is well equipped and has a hair dryer. (Kitchen) The small kitchen has a refrigerator, dish washer, toaster, coffee maker, microwave, tea-set and cooker. All the pots and pans you need, cutlery and utensils, glasses, dishes, coffee set etc.

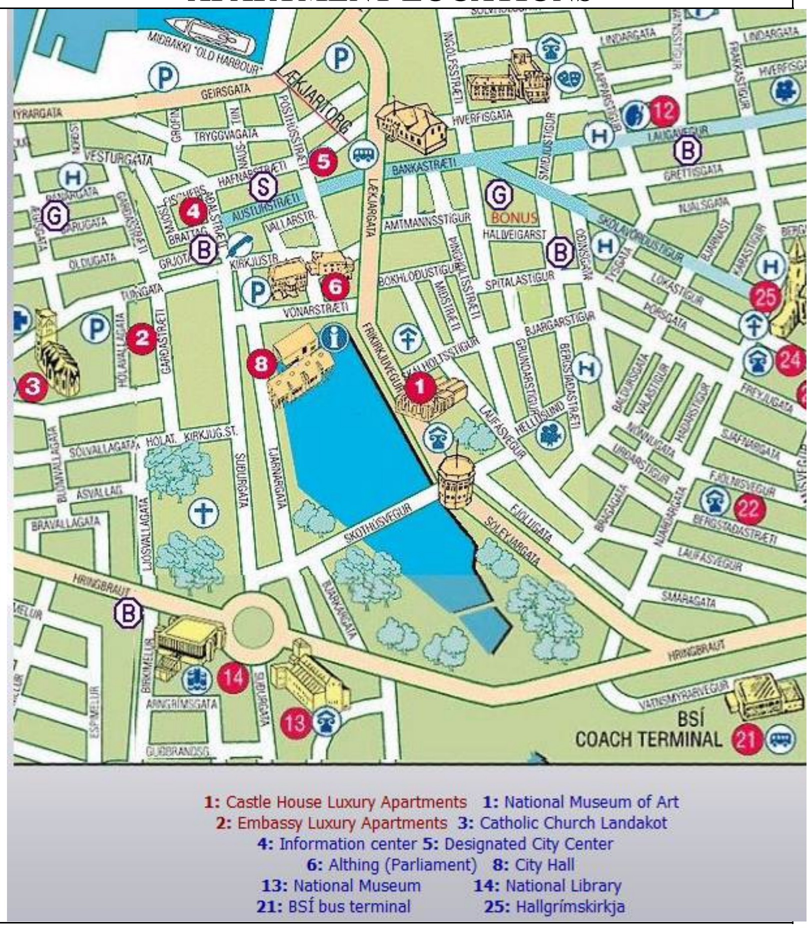
As "corporate apartments" (lodging for travellers and others who wish a fully furnished place to stay, usually for an extended period) the amenities above were to a large degree available in all rental apartments. The differences among units stem from the amount of physical space, floor location, and the presence or absence of a balcony (see Exhibit 3).

EXHIBIT 1.
RENTAL PROPERTIES

Castle House Luxury Apartments: Skalholtsstigur 2a

Embassy Luxury Apartments: Gardastræti 38 and 40

EXHIBIT 2.
REYKJAVIK CITY CENTER MAP AND APARTMENT LOCATIONS



Through a series of e-mail messages between Jack and Ingibergur in November and December they agreed on a rent based on his four-month stay in Suite #10 at Skalholtsstigur 2a of \$53 per night, from January 4th to April 27th.

EXHIBIT 3.
APARTMENT CHARACTERISTICS

	Floor	Sq. meters Sq. feet	Balcony
Castle House Luxury Apartments			
Studio Apartment 62	Ground	25 / 270	
Studio Apartment 64	Ground	21 / 230	
Suite 10	**First**	**39 / 420**	
Suite 20	Second	39 / 420	Off Living Room
Suite 30	**Second**	**39 / 420**	**Off Living Room**
Suite 40	First	39 / 420	
Apartment 50	Ground	32 / 350	
Suite 60	Ground	39 / 420	
Embassy Luxury Apartments			
Suite 70 – 3 Bdr	**First**	**130 / 1400**	**Off Bath**
Apartment 80	First	18 / 195	
Suite 90	First	55 / 592	Off Bath
Suite 100	First	60 / 645	Off Living Room
Suite 110	Ground	60 / 655	
Suite 138 - 2 Bdr	Ground	93 / 945	

Upon arrival in Reykjavik, Jack moved into Suite #10. For the first two weeks there were no issues with noise since the suite directly above #10 was unoccupied. Beginning in mid-January however, a series of guests from Europe arrived to occupy Suite #20 (directly above #10), skiing and sightseeing during the day and enjoying (or perhaps over-enjoying) the nightlife of central Reykjavik after sundown – which began shortly after 4 pm that time of year. The combination of alcohol, people on vacation, and the high ceilings of apartments on the first floor, contributed to a sound box effect where voices and footfalls were significantly magnified.

Jack inquired on several occasions whether there was anything Ingibergur could do about the noise. Other than calling the tenants in question and asking them to keep the noise down there was little else he could do. And with the pattern happening every 5-7 days as various visitors came and went from their holidays, it was early February when Jack asked to move elsewhere for the remainder of his stay.

Unfortunately, the ski season was in full swing and Castle House's bookings were almost totally full. A ground floor apartment with a cement ceiling, #50, was available however, Jack was concerned that he might have the same problem with someone staying above him Also, moving to a small apartment, half below ground during the Icelandic winter with close to 20 hours of darkness each day seemed a bit more "ruffing it" than he was hoping for.

An upstairs Suite, #30 would come available in a little over a week. At that time Jack could have it for the rest of his stay. Because of the balcony and the upstairs location however, the daily rent would rise to $93. That translates into a monthly cost of approximately $2,790 vs. the $1,590 he had been paying. Put another way, the balcony would add an additional $1,400 per month cost to his stay.

Ingibergur offered Jack Suite #70 at his other facility across Tjörnin Lake for the six days until Suite #30 would be available and would charge him the same money per night he would be paying for Suite #30 - $93 per night (as opposed to the typical cost of apartment #70 which was several hundred dollars a night).

So after two moves – across the lake and then back a week later, Jack found himself in Suite#30, with a $1,200 a month balcony (see Exhibit 4).

EXHIBIT 4.
BALCONY FOR APARTMENT #30

The rest of Jack's stay in Reykjavik was quiet and uneventful. Several days before he was scheduled to leave Jack e-mailed Ingibergur to put into writing the more informal verbal request he had made the previous week.

Sent: Saturday, April 23, 20xx 12:36 PM
Subject: Suite #30 - leaving on Wednesday

As my time in Iceland comes to a close, I am writing to ask you to re-examine my request concerning the issue of rent.

When the original apartment you placed me in (#10 on the main floor) had noise problems making it unliveable when someone was occupying the apartment above, you offered to move me to one of the upstairs apartments, for an additional $1,200 per month. The apartments upstairs are identical to those on the main floor with the exception of the small outdoor balcony. Although the balcony has not been usable for the vast majority of time I have been here because of the weather this time of year, my main issue is that with the exception of approximately 10 days, the apartment above #10 has not been occupied since I moved upstairs.

In writing to you now, I considered asking you to only charge me the higher rate of $93 per night for the upstairs apartment on days when there was someone living in the one above #10 and for the remaining days charging me the original $53 per night rate we agreed to. However, making that calculation would be time consuming and there would be no way for you to have known how many days that apartment would have been rented. I am asking you to reconsider my original request that we split the incremental difference of $1,200 per month over the base rate we agreed to equally for the time I have been in apartment #30.

I believe it is a just and equitable solution given that original terms of a quiet apartment were not met. I have waited until near the time I am moving out so as not to confuse the issue of rent (which I have paid in full, on time each month) with what I believe is an ethical issue.

I will be moving out Wednesday, April 27th. Please make arrangements to have someone at the apartment at 10:30 so I can turn over the keys and pay the remaining balance on my account, which should be for telephone-related charges made since April 1st.

Best regards,
Dr. Jack Totten

REAL ESTATE INVESTOR'S ADVANTAGE, INC.

Arthur L. Wharton, III, Towson University

CASE DESCRIPTIONS

This case study is designed for undergraduate or graduate management accounting courses where the emphasis is on the application of previously learned accounting concepts and principles. The "alternate study questions" can be used in beginning accounting and entrepreneurship finance courses or the section(s) of such a course that focuses on the financial operational aspects of the business start-up. The alternate study questions do not require the detailed accounting background or level of prior knowledge of accounting necessary in the main study questions.

CASE SYNOPSIS

REIA, Inc. had just received seed capital financing of $500,000 and has commenced operations. Anthony Washington, the new CFO, needed to develop financial projections and a financial reporting and controls system that is flexible enough to provide the necessary information about the finances of the start-up company without overburdening it with bureaucratic procedures while also participating in the setting the strategic direction of REIA. REIA's existing accounting system was handled by a part-time administrative assistant. While adequate currently, the current system would not accommodate REIA's growth plans. REIA developed a unique "bricks and clicks" business model that sought to integrate the delivery of real estate investment services via the internet and physical offices to real estate investors that ranges from novice to experienced investors.

REAL ESTATE INVESTOR'S ADVANTAGE, INC

After nearly 2 years of meeting weekends and countless hours developing the business model, Real Estate Investor's Advantage, Inc. was finally a reality! With $500,000 of seed capital financing in hand, Anthony Washington, the new Vice President of Finance/ CFO was now responsible for pulling together the financial aspects of the new company. His first tasks would be to develop financial projections for the next five years and a financial reporting and controls system for REIA. During the course of the previous two years the assumptions, upon which the projections were based, changed several times. It appears that the most recent set of assumptions (See Exhibit 1) will be what he should use. In developing the financial reporting and controls system, he must take into consideration the unique needs and financial situation of a start-up company.

Nathan Anderson wanted to get rich investing in real estate. He attended seminars, took courses, earned his real estate license and eventually became a certified real estate appraiser. After a number of years, several thousand dollars and going down several blind alleys he knew there had to be a better more direct way to real estate riches. If there was only some way to pull together all the elements needed to learn how to successfully invest in real estate?

That idea was the genesis of what would eventually become Real Estate Investor's Advantage, Inc. (REIA). The notion of combining all the resources necessary to be a successful real estate investor was an idea whose time had come. Besides, people were hatching less well-thought out ideas into businesses and going public almost every day.

By this time Nathan had become a licensed real estate broker, had run a successful real estate appraisal company, had tried his hand at originating mortgages and was fresh off a foray investing in Baltimore real estate and was looking for a new challenge. He would start a company that would be a "one-stop shop" for the average person who wanted to learn how to successfully invest in real estate. It would provide not only information but also access to potential investment deals, partnering opportunities and advice from real estate professionals.

After sharing his idea with some friends and associates, he began meeting weekends to further develop the idea. He enlisted the assistance of his long-time friend, Anthony Washington who had financial expertise and had written several business plans for start-up businesses. He also reeled in his banking contact, Carla Edwards, to work with developing the business. After nearly a year and a half they had produced a detailed business plan and began to approach sources for seed financing. Through Carla's contacts, REIA received $500,000 in angel financing for 24.97% of REIA's stock. The angel investors also were given 2 seats on the 5 member board of directors where they would monitor REIA's operations and progress. The remaining 3 board seats would be held by the founders' whose positions were as follows:

Nathan Anderson	President
Carla Edwards	Vice President of Business Development
Anthony Washington	Vice President of Finance/CFO

Nathan and Carla became full-time employees in September 2001 and Anthony was expected to come onboard full-time in January 2002.

After securing the seed financing, in September 2001 REIA commenced operations. In the first months, REIA's focus was on refining its business model, hiring personnel, complete the development of its website and develop a marketing/advertising strategy that will appeal to its target market. REIA's website was to be the centerpiece of its business strategy. The website would perform multiple roles simultaneously. The website had to be aesthetically appealing but also needed significant functionality to provide information, real estate investment services and facilitate exchanges and dialogue with and among its members. As part of this initial phase, REIA needed to complete the development of its online basic real estate investment course (Real Estate Investment Made Simple (REIMS^{TM}) and integrate it into the other website services and also determine which mode of delivery (web versus in-person) that would be best suited for the various services being offered.

In January 2002, Anthony became the full-time VP of Finance/CFO and discovered that there was no financial reporting and control policies currently in place. In fact, the financial operations of the company were handled by a part-time bookkeeper/office assistant who worked 2-3 days per week. She posted bills and invoices as they arrived using the company's accounting software and made payments when checks were cut on the 1st and 15th of each month. The president, Nathan, was the only signatory on the company checking accounts. Currently the only revenue sources were commission fees from real estate settlements. REIA averaged about 2-3 settlements per month. The commission checks were typically hand-delivered to the company by the agent of record for the transaction who generally attended the settlement (real estate closing). Two copies of the commission check were then made. One copy was for the property transaction file and the other for the financial records. The revenues were posted to the accounts via the accounting software and the check would be deposited into the bank. The agent's portion of the commission would be paid once the funds were available. For the most part checks were cut utilizing the accounting software. On some occasions, however, checks were cut by typing the information using the typewriter. These payments would then be manually entered into the accounting system. All checks were copied prior to being signed by Nathan. The check copies were then filed according to payee in the financial records file.

Now that Anthony was on board he had quite a task ahead of him. He would need to participate in the strategy development meetings to determine REIA's future direction, make financial projections and develop a reporting and control system that provided vital information for the near-term management decisions. The reporting and controls system would also need to accommodate the growth REIA anticipated for the future. This needed to be accomplished without being cumbersome and bureaucratic. In addition to managing and monitoring the day-to-day finances of the company, with a constant eye on the cash position, he must take care not to stifle the inherent creativity and spontaneity of the start-up environment.

THE BUSINESS MODEL

REIA designed a "bricks and clicks" business model, very popular in the late 1990s, where there would be a seamless integration of actual real estate brokerage offices (bricks) and the web-based service delivery (clicks). It was expected that after an initial start-up period where the business model was refined, possibly a year or so, REIA would then sell franchises first on a local, then regional and ultimately a national basis. An example of an individual REIA franchise's projected profit/loss statement is provided in Exhibit 2. REIA's business model provided for three major sources of revenue and one minor revenue source. The major revenue sources were: (1) subscription membership fees, (2) transactions fees such as real estate sales brokerage commissions and (3) franchise fees once the concept had been proven on a local level and franchises were sold. The minor revenue source was management fees that were received on large on-going deals such as condominium development etc.

Membership subscriptions entitled members to numerous specially designed real estate investment services. Some of the services included were (1) a 13-module online real estate investing course, Real Estate Investing Made Simple (REIMS ™), (2) an Investor's Bazaar ™ where members could post online properties for sale, real estate notes, investment opportunities and potential partnering opportunities (3) Investor Select ™ a flat-fee transaction fee schedule, (4) Expert Consultations, consultations with various real estate experts and (5) Hot Deals ™ , a real-time member notification service that on a preferential basis notified members of the most recent real estate deals brought to REIA by its many industry sources and contacts. The memberships were divided into 5 levels: Bronze, Silver, Gold, Platinum and Group Platinum costing \$395, \$695, \$995, \$1995 and \$4995 respectively. The benefit features of the various membership levels would provide services for the entire spectrum of real estate investors, novice to advanced, to benefit from REIA's offerings. For the novice, Bronze level investor, just getting their feet wet in real estate investing, to the seasoned and experienced Platinum level investor, REIA offered a range of services that were delivered through an integrated fully functional website (clicks) and traditional offices (bricks). The services provided at the different levels would enable all levels of real estate investors to be successful.

REIA also instituted a team-based real estate service delivery system that it expected to revolutionize the industry. This system used a team of real estate professionals to provide all of the services associated with a traditional real estate sale or purchase transaction. In a traditional real estate brokerage office, a client (seller or purchaser) would be serviced by a single and relatively autonomous real estate agent. This agent would typically be simultaneously handling several transactions (sales or purchases) as well as constantly marketing their services to potential future clients. This generally resulted in the current client having difficulty getting current information on the status of their transaction because their agent is constantly on the move and inaccessible. With the team concept, different team members were responsible for different portions of the transaction with any team member having access to the status of the transaction using an innovative transaction tracking software system. A client would be able to receive an update on their transaction's status from any team member and thereby experience increased client satisfaction.

* All names have been changed to provide anonymity for the individuals featured in the case.

EXHIBIT 1

REIA Assumptions

1) Sales will increase at an annual rate of 50% for years 2 and 3 and 20% for years 4 and 5. (Scenario 3)
2) Expenses grow at 50% the annual rate of sales growth.
3) Average commission is $4,500 per transaction side*. In the first year 500 transaction sides will be completed.
4) Membership subscriptions will increase by 1000 each year starting in year 2. Each year will experience a subscription attrition rate of 5%.
5) Membership subscription will be distributed as follows:

   A) Group Platinum ($4995) …2%
   B) Platinum ($1995) ……..… 6%
   C) Gold ($995) ……………. 13%
   D) Silver ($695) …………... 24%
   E) Bronze ($395) …………. 55%
6) New REIA franchises will be sold, starting in year 2, as follows:
   Year Two……... 2
   Year Three …… 5
   Year Four ……. 10
   Year Five ……. 20
7) Franchisees will complete, on average, 400 transaction sides in their first year of operation. In subsequent years, completed transaction sides are as follows: 550 in year 2, 625 in year 3, 700 in year 4 and 800 in year 5. Average real estate brokerage commission is $4,500 per transaction.
8) Franchiser will generate 70% of all subscriptions sold. Franchiser will split franchisee generated membership subscriptions (30% of total memberships sold) revenues 50/50.
9) Franchise royalties will be 8% of franchisee revenues.
10) Initial franchise fee is $25,000.

* A typical real estate transaction is comprised of 2 transaction sides (selling side and purchasing side) or a total of 2 separate commissions being paid. The listing and selling agents will each receive a commission. The individual commission translates to a transaction side.

EXHIBIT 2
Franchisee 5 Year Profit/Loss

		YR1	YR2	YR3	YR4	YR5
Transaction Sides		400	550	625	700	800
Average commission	$4,500					
Real Estate Sales		$1,800,000	$2,475,000	$2,812,500	$3,150,000	$3,600,000
Subscription Sales			$ 10,000	$ 12,500	$ 15,000	$ 17,500
Total Sales		$1,800,000	$2,485,000	$2,825,000	$3,165,000	$3,617,500
Expenses						
Start-up costs		$ 100,000				
Franchise fees (8%)		$ 144,000	$ 198,000	$ 225,000	$ 252,000	$ 288,000
Lease		$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000
Utilities		$ 3,600	$ 3,600	$ 3,600	$ 3,600	$ 3,600
Telephones		$ 7,800	$ 7,800	$ 7,800	$ 7,800	$ 7,800
Employee training		$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000
DSL Lines		$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
Web Site Fee		$ 2,400	$ 2,400	$ 2,400	$ 2,400	$ 2,400
Advertising		$ 25,000	$ 18,000	$ 18,900	$ 19,845	$ 20,837
Salaries/Commissions		$1,237,240	$1,807,000	$1,949,500	$2,092,000	$2,282,000
Miscellaneous		$ 19,200	$ 21,600	$ 23,976	$ 26,374	$ 28,774
Total Expenses		$1,583,040	$2,102,200	$2,274,976	$2,447,819	$2,677,211
Pretax Profit		$ 216,960	$ 382,800	$ 550,024	$ 717,181	$ 940,289

A CASE OF MERGERS: THE H-P EXPERIENCE

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CASE DESCRIPTION

The primary subject matter of this case concerns corporate mergers in the Information Technology industry. The secondary issues are strategic management and assessment of merger approaches. This case can be used in several different courses within a typical business curriculum. It is probably best suited for a class in Business Strategy or Strategic Management, at the advanced undergraduate or graduate levels. This case study works well in a General Finance course when discussing mergers and acquisitions. This case study can also be effectively used in Information Systems or Information Technology courses where the goal is to better understand the IT industry and the major players and strategies within the industry. The case has a difficulty level of upper level undergraduate (3 or 4) or graduate (5, 4, or 7) students. The case is designed to be taught in two or three class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

This case concerns the strategic management of corporate mergers and reviews the Compaq Computer Corporation's acquisitions of Tandem Computers and Digital Equipment Corporation (DEC) and the subsequent Hewlett-Packard (HP) acquisition of the resulting expanded Compaq firm. This latter merger was handled very differently from the first two and facilitated the integration of these latter two computer industry behemoths. The case study discusses the differences in approaches and outcomes. We all know that business mergers involve a complicated financial integration that often takes years to implement as merging companies struggle with regulatory issues, customer and vendor relationships, internal complexities, and with each other. Too often, very little attention is given to the processes involved in making this corporate marriage work out for the longer term. This case study is focused on key processes and how the mergers were handled differently. These mergers occurred in the Information Technology industry and appeared, on the surface, to be following a similar progression after the initial decisions were made to merge. The focus is on evaluating the approaches and processes that were used and seeking general principles that may be applied in future mergers to help assure positive results. This case highlights the strategic aspects of the mergers and gives insight into the cultural and human factors in these monumental events.

THE H-P EXPERIENCE

Josephine (Jo) Kopis knew that she was facing a daunting new assignment and one that she was not certain she was prepared to address. She was a career employee with Hewlett-Packard, a veteran of numerous positions in the firm over a period of twenty years. Born in Poland and raised in Ireland, Jo had begun her career with HP in Ireland and had moved up the ladder based on her technical, analytical, and managerial skills. She had moved to the United States several years prior along with her husband and two children. She had just completed an MBA at a prestigious private university and had come to the attention of the highest levels of management at HP. The merger with Compaq Computer Company (which itself was a product of a recent mergers of Compaq with Tandem and DEC) had just been completed and management wanted Jo to evaluate the entire process and give them an assessment of the strengths and weakness of the interesting and novel approach that HP had taken to help assure strong integration of the two large corporations.

Jo knew that she really needed to begin her assessment with the beginning. She needed to better understand the two companies, the combined Compaq Computer Corporation, and Hewlett-Packard, their histories and backgrounds and exactly what it was that had brought them to the merger table. At the time of the Compaq Computer Corporation and Hewlett-Packard merger in 2001, both were very large firms, with the latter being the second largest computer company, behind IBM, which then had the lead. Hewlett-Packard (HP) had pre-merger revenues of $45 billion (in fiscal 2001) with over 88,000 employees around the world. Compaq Computer Corporation (Compaq) ranked just behind HP, with revenues of $42 billion in fiscal 2001. Jo really needed to understand how these two information technology giants had arrived at this point.

COMPAQ COMPUTER CORPORATION - A HISTORY

Compaq had a fairly short life – although in the computing industry, anything more than a decade is an eternity because things change so fast. Rod Canion, Jim Harris and Bill Murto, three former Texas Instrument engineers started Compaq in 1982 with a goal of building a portable personal computer that was compatible with widely-available IBM software, something that was truly unique at that time. It is important to recall that personal computers were in their infancy and usually found in offices rather than homes. The Internet existed but was primitive and restricted to government use only. Compaq's rapid rise made headlines across the industry. Compaq was named the youngest company ever to be included in the Fortune 500 in 1986 (Perlow and Kind, 2004).

In 1991, founder Rod Canion had been replaced by Eckhard Pfeiffer as President and CEO. Pfeiffer, a German, had labored to establish Compaq's presence in Europe before he moved to the Houston HQ. He had grand ambitions for growing Compaq and building it quickly into one of the world's largest and most dominant computer services companies. Pfeiffer's goal was to achieve this objective by 2003. His strategy was to acquire other companies that were already successful in areas where Compaq lacked sufficient presence.

To understand the HP merger with Compaq, it is necessary for Jo Kopis, our post-merger evaluator, to understand Compaq's earlier acquisitions of Tandem Computers in 1997 and Digital Equipment Corp (DEC) in 1998. These acquisitions were undertaken with the goal of creating one company that would be better positioned to compete with IBM and Hewlett-Packard in the arena of high-performance products, services, and enterprise solutions. Compaq had made its name in the personal computer business but Pfeiffer really wanted to expand beyond that to maintain Compaq's success in an increasingly competitive PC business.

Tandem, founded by Houstonian Jim Treybig in 1974, had a highly successful direct sales force, systems that were well known for exceptional reliability (fault-tolerance), and provided Compaq with much better access to corporate accounts. Tandem computers were particularly highly valued in the banking industry where their redundant processor computing architecture assured the needed levels of reliability for ATM networks, among other applications. Treybig had built a company with a distinctively relaxed, laid back culture. Remember that Apple, Google, and Facebook were but dreams at the time and their well-known supportive and easy-going cultures were not even in existence then. Tandem was one of the first of these.

Digital Equipment (DEC), had a long and storied history. DEC was founded in Maynard Massachusetts in 1957 by Ken Olsen and Harlan Anderson, both MIT Lincoln Lab engineers. DEC, throughout its history, created the minicomputer, the idea of networking which led to the concept of distributed computing, speech recognition capabilities and significant other innovations. DEC, acquired in 1998, was coveted by Compaq because of its highly successful multi-vendor services business. Digital's huge group of 23,000 professionals provided a wide range of consulting services to corporations, without regard to the brand of hardware they were using. DEC had a supportive culture where employee involvement was valued and employees were consulted as major decisions were being evaluated. It is important to remember that DEC always had a strong engineering and professional work force. However, Robert Palmer, the CEO who took over from Ken Olsen, DEC's founder, in 1992, brought a more autocratic top-down managerial approach to the company (Goodwin and Johnson, 2009).

The merger with Tandem went smoothly for the most part. The cultures of Tandem and Compaq were very similar, with both companies having been entrepreneurial in nature from the very start. The merger with DEC was not nearly so smooth. This was a merging of very different business cultures. However, this was an important business strategy. Robert Palmer, DEC's CEO, said at the time of the merger, "…. The reason for reaching this agreement was really very simple. Together we are a much stronger competitor that we were as separate companies".

To encourage the change and gain shareholder approval DEC shareholders received $30 in cash and an estimated 0.945 shares of Compaq stock for each share of DEC stock. Compaq issued approximately 150 million shares of its stock and paid $4.8 billion in cash (Kanellos &

Kawamoto, 1998). On June 3rd 1998, the Securities and Exchange Commission cleared the purchase, subject to two-thirds of Digital's common stockholders voting in favor of the deal (Fran Finnegan & Company, 2010). The acquisition was done. Compared to the coming HP-Compaq merger, the financial part of the merger process was relatively easy and painless.

However, the subsequent organizational integration of DEC with Compaq was not nearly as smooth as the financial integration. Compaq was now one of the world's largest Information Technology companies. It had a much broader spectrum of products and services following the mergers with Tandem and DEC. Both Tandem and DEC employees felt that they had been swallowed up by Compaq, which they perceived as a young, agile, and a much more aggressive competitor in the market place than they had experienced before. There were lingering emotional negatives within the combined Compaq/Tandem/DEC employee ranks.

Compaq struggled, in particular with the European marketing presence of DEC. Compaq's management often tried to force their operating procedures into practice within well-established DEC departments. DEC employees, absorbed by Compaq, often felt that decisions were made randomly without the type of consultation they had grown to value. The DEC integration with Compaq seemed, from the inside, to be an operational disaster. The merger seemed to have no planning, other than for the financial implications. Leadership was nonexistent and every decision that was passed down was vigorously debated and, most of the time, grudgingly accepted. Sometimes the decisions were just ignored. There was little coordination among organizational functions, which were often duplicated across the three companies, with each unit relying on its own established set of operating policies and procedures. Compaq just did not understand the contract services business and especially the multivendor support environment that was the jewel in the DEC crown, which had attracted Compaq in the first place. Compaq was interested in maximizing economies of scale after the mergers and moved to consolidate things as quickly as possible. However, there was little recognition that each unit came with particular types of local support and skilled knowledge that could not be easily replicated.

Jeff Clarke, who came to Compaq from DEC and was subsequently Chief Financial Officer of Compaq, was the DEC leader of the integration team during the merger with Compaq. Clarke lamented that Compaq never really seemed to have product road maps in mind after the merger, that the new established organizational structures were constantly changing, and that there was little accountability related to the financial plans after the DEC merger (Kovar, 2001). In many ways, Compaq, Tandem, and DEC were still three separate companies trying to connect.

All of these difficulties were hitting Compaq at the same time that the intensity and rate of change in the computing industry was escalating, creating previously unknown pressures within the competitive environment. In 1999, Compaq's German CEO, Pfeiffer was asked to step down by Compaq's board and Michael Capellas, who came to Compaq as Chief Information officer in 1998, was promoted to President and CEO of the company. Compaq's stock was taking a beating as they were struggling to digest these two other companies, their employees, their supply chains, their vendor and customer relationships, their products and their services. This was the situation in 2001 when Capellas, CEO of Compaq and Carleton Fiorina, CEO of Hewlett-Packard began to discuss synergistic possibilities.

HEWLETT-PACKARD – A HISTORY

The Hewlett-Packard Corporation began on the west coast of the United States two decades prior to DEC's beginning on the east coast. The two founders, Bill Hewlett and Dave Packard, were electrical engineers, who graduated from Stanford University in 1935. They earned a fellowship with their professor Frederick Terman, whom they considered to be their mentor, and started their company in Packard's one-car garage in 1939, funding it with $538 (HP History-HP's garage). This storied company began its history in Palo Alto, California during the dark days of the Great Depression. It is said the founders flipped a coin to decide whose name would be first. Although Packard won the coin toss, he chose Hewlett-Packard to be the order of the names. HP went public nearly 20 years later in 1957, just as Digital Equipment Company was being founded outside of Boston.

David Packard's book, *The HP Way: How Bill Hewlett and I Built our Company* (1996) describes the founders' management philosophy as down to earth with a genuine concern for employees. Many who worked there thrived in the family-like culture where new products were being created and employees were rewarded with respect and a share in the company profits. HP grew over 20% a year and the founders turned over leadership reins to John Young, another HP engineer, in 1978. Young was replaced as CEO in 1999 by Lew Platt, also an engineer promoted from within the company. Platt managed HP in a highly decentralized way, like a holding company. The Young and Platt years at HP were tumultuous for the computing industry, with constant change, rapid and innovative, being at the core of the business.

Lew Platt retired in 1999 and Carleton Fiorina took over as President and CEO. Fiorina, known as Carly, had been an executive vice president at AT&T and had coordinated the spinoff of Lucent Technologies. It was significant that she was the first CEO who did not rise through the ranks at HP. She was also the first woman to hold the top position at a Silicon Valley information technology corporation. Her appointment to lead Hewlett-Packard came with much fanfare in the popular business press. She discussed her management style:

> *"One of the things I am fond of saying to people at HP is that you have to have a sense of direction. You have to have a vision, you have to have a destination – but the key is to maintain forward momentum with sufficient velocity. Just like sailing, you are going to tack at times. You know where you are going, but you adjust your course as necessary to fit the tide and the time." (Businessweek, 2001)*

Fiorina described HP's culture, when she took over her new position, as being a loose group of entities rather than a strongly connected company with a shared vision. She quickly began to reorganize things and to centralize the company structurally. She desperately wanted to bring back the company's historical legacy and its spirit of teamwork and creativity. She reinstituted serious performance evaluations of employees and departments. She began to take careful notice of customer satisfaction survey results and even began to tie compensation and bonus decisions to customer and employee feedback.

There was clearly a new person in charge at HP and changes were coming rapidly. Some employees and customers thought these were good and important changes and others criticized them as a threat to HP's culture. There were workforce reductions (layoffs) resulting from the consolidation of various functions. This impacted 6,000 positions in the first round in 2001. It was a stressful time throughout the firm. Although HP continued to be the second largest computer company, the entire technology industry was in a slump by 2001. Fiorina, in an effort to enhance HP's strategic competitiveness, hired McKinsey and Co to advise them on appropriate steps moving forward. The result was an analysis of three different options: continue as a standalone firm, split the company into pieces that fit together with a product or market focus, or work to strengthen the technology services end of their business (Burrows, 2001).

McKinsey's suggestions led Fiorina, in early 2001, to approach Capellas, CEO at Compaq. Recall that Compaq had acquired the technology services component of DEC in a merger in 1998. Fiorina was seeking a licensing deal with Compaq's Capellas in the beginning of this discussion. However, as the talks moved along, Capellas observed that there was too much capacity in the industry and consolidation might be a good idea. Fiorina raised the prospect of buying Compaq to create a strongly competitive company with a broad product and marketing base. On September 3, 2001, HP announced that it would merge with Compaq creating an $87 billion company – and costing $19 billion – the largest IT industry merger in history.

The merger would double the size of HP's professional services and sales forces. HP's support would now have a market differentiator in Compaq's Wintel and HP's Unix support capabilities. The Compaq Himalaya servers could overpower any IBM server and the DEC clustering architecture delivered unparalleled processing power. Research and development would be supremely enhanced and new standards were likely to emerge, which would benefit all customers (Financial Times, 2001).

Compaq's Capellas praised the deal with great enthusiasm:

> *"We are creating a new kind of industry leader-one founded on customer success, world-class engineering, and best of breed products and services. In sharp contrast to our competitors, we are committed to leading the industry to open, market-unifying architectures and interoperability, which reduce complexity and cost for our customers.*

With this move, we will change the basis of competition in the industry" (Hewlett-Packard, 2001).

However, this would be one of the hardest fought and most acrimonious mergers in IT history, as well as the biggest until then. This fight was not to be held in the boardroom; it was to be fought out in the streets so all could witness the corporate mauling and character assassinations that were being conducted in the popular press at the time.

This merger looked like a winner as details hit the news outlets. But, there was significant and serious opposition to the merger from the teacher's pension funds which were heavily invested in HP stock and Walter Hewlett on behalf of the William and Flora Hewlett Foundation that owned 18% of the stock in HP at the time. Walter Hewlett was the son of the co-founder of HP and he began a proxy fight to stop the deal. He felt this merger would kill the HP culture as a result of layoffs and turning HP into a commodity-like PC business. He wanted to maintain the profitability of the HP printing business and worried about diluting this business through such a merger. Employees were frightened and split on the decision also. Accusations hit the press from both sides of this argument. It was a lengthy, ugly and nasty fight.

HP shareholders narrowly approved the merger on March 2, 2002 with approval from the Federal Trade Commission on March 6, 2002 (Hewlett-Packard, 2002). Walter Hewlett proceeded to contest the results in court, arguing that HP had misled the shareholders. His protest was not successful and the merger became legal on May 3, 2002. Meanwhile, while this battle was going on, Fiorina and Capellas were thinking seriously about the next steps after approval and three days after the merger was legal, "the New HP" was launched as one company. Fiorina held the title of Chairman and CEO and Capellas was appointed the President and Chief Operating Officer of the new HP.

POST-MERGER INTEGRATION

One of the main benefits sought in any merger is going to be economies of scale that allow the company to create more goods or services at a lower cost as duplication is removed from administrative, management, and supply chain components of the business. For example, it was estimated, in filings with the Securities and Exchange Commission regarding the DEC/Compaq merger, that 10,000 employees would be terminated to address this duplication (Galante, 1998). So, it was expected that this merger of Compaq and Hewlett-Packard would create substantial value for HP shareholders not only through unique opportunities to bolster the company's position in enterprise systems, and to build a stronger company through increased R&D, but also to increase earnings per share through workforce reduction. All of this would be possible because of the strong integration planning and execution that was anticipated (Hoopes, 2010).

The time period from early September 2001 (first announcement of merger intent) until early May 2002 (final approval) covers eight months. Fiorina and Capellas did not waste this time. Jeff Clarke, then Chief Financial Officer at Compaq after serving as DEC's integration manager during the Compaq merger with DEC, was chosen to head the merger integration team along with Webb McKinley, a 33 year veteran at HP. Clarke was considered to be a shrewd negotiator and to have a mind for the numbers. McKinney, based on his lengthy history with HP, was considered to be an organizational mastermind of doing things "the HP way".

The HP merger with Compaq was handled in a significantly different way from the previous mergers of Compaq with Tandem and DEC. With the aid of Accenture, a leading consultancy practice, a new and different approach was introduced. McKinney and Clarke, the two integration leaders (from HP and Compaq respectively) created a small hub office, which came to be known as "The Clean Room". The integration effort was staffed by pairs of senior level individuals (one from HP and one from Compaq) for each function and business unit, representing their respective firms by function in the integration process. As stated by Accenture:

> *"the approach enables you not only to reduce the time to implement merger changes but also mitigate common business risks, such as slow decision making, delayed business strategies, defections by key customers and employees, and poor morale" (Zimmerman and Ficery, 2007).*

Many involved in interviews for this merger study spoke highly of this Clean Room process and view this as the reason that this merger was considered relatively successful. Those chosen to be on the Clean Room team were serious and successful individuals with deep subject matter functional expertise. Being selected to be on this team was viewed as prestigious.

However, especially in the early part of the merger, accepting an appointment to this team was risky. Under SEC regulations, anyone serving in this capacity in a merger cannot return to his or her previous position or disclose any information that is learned in the process of sharing expertise with the expert from the other company. Participants were promised job security, but could not return to their previous positions once the work was completed.

Should the proposed merger fail, most individuals would, in reality, leave the company as the regulatory burden of the knowledge gained and the need to verify any future actions would be immense. For this merger, the risk to the Clean Room participants was very high because opposition to the merger was growing internally and externally during the eight months of limbo prior to finalizing the merger. During the entire Clean Room process, communication was prohibited with anyone outside the room under penalty of severe sanction. There was a very 'cloak and dagger' sensibility about this process. The Clean Room leaders would invite a subject matter expert to a location at a specific date and time and only at this point would anyone meet a co-specialist and an Accenture facilitator for the session.

The role of the Accenture facilitator was to outline the goals to be accomplished, to keep people on task and reduce friction and tension within the group. Accenture's other role was to take the plans and direction created from the team and communicate upwards and relay requests downwards as needed. This process protected the teams from any undue influence and ensured anonymity.

In the beginning, tensions and anxiety within the teams was high. Each individual realized the real risks and the sense of a personal threat became apparent as the other subject matter experts in the room could be in line to compete for your role in the newly merged company. However, the barriers to communication began to fall quickly as the nearly four hundred subject matter experts got down to work. Almost 2,500 people were involved by the time that the merger was complete. The Clean Room team established priorities and future operational details for the newly merged companies. The scope was broad for their work and it ranged from strategic decisions (branding, product lines, and corporate culture issues, for example) to more operational details (financial reporting systems, cash management systems, HR policies, etc.).

Relative to a given topic, such as how vendors would be evaluated, the subject matter expert from both Compaq and HP would present the current approach used by their pre-merger companies. Decisions had to be made about how this process (the evaluation of vendors) would work in the newly combined company. An "adopt and go" strategy was used to manage the process of decision-making regarding which approach to use. No hybrid or redesigned approach could be used. They were tasked to adopt one or the other approach as it was formerly done at one company or the other, on a category by category basis. Compaq's co-leader of the integration team (Clarke) defined this process as having the goal of "preserving the best features of each company and discarding the rest" (Bray, 2002).

While the clean room integration team was fairly isolated during this process, they were also working as fast as they could to make these decisions. The participants enjoyed that they could step back from the day-to-day operations of their firms and be a bit more objective in their assessments of the operational assets at each of their firms. HP's co-leader of the integration team (McKinney) quickly recognized that there were significant cultural differences between Compaq and HP in terms of operational style. He reflected that Compaq had a more "command and control" style with more of a short term focus. Compaq was agile and quick, changing business direction often. Employees were workaholics, never far from their Blackberries and cell phones (Perlow and Kind, 2004). Hewlett-Packard was more "participative and collaborative" with a more balanced view of the role of their work in their lives. Long vacations were frequent at the pre-merger Hewlett-Packard and most employees worked a standard eight hour day (Perlow and Kind, 2004).

These cultural differences found their way into the Clean Room activities. Decision-making was a laborious process for HP employees, involving seemingly endless analysis and review of data. Compaq employees were quick to decide and move on. This merger did not allow for endless review and deliberation. Rather the two companies had a goal of being ready to launch the “New HP” immediately upon the final approval of the merger which they expected could happen quickly. Indeed, the final merger approval did happen in only eight months.

An additional element was that decisions made in the Clean Room were irreversible. The people in the Clean Room were senior executives in their functional areas and their decisions were considered to be well vetted and clear and the best decisions available under the circumstances. This added to the intensity of the deliberations and was found to be an important element in the process.

The New HP was ready to roll when the final merger was approved. Workshops were conducted for all 155,000 employees in the merged company. The workshop program was called “Fast Start” and was intended to help with the transition, to get all employees on board with the new business models and process changes. There was a lot going on and the higher-ups thought it was time to take a look at this merger process holistically and be certain their approach was really working. They were well aware that it is very easy to get caught up in the day-to-day processes and the minutiae of the decisions that were being made throughout the time spent the effort to really integrate these two companies and yet lose sight of the overall strategic objectives that were the fundamental reasons for the merger in the first place.

JO KOPIS ACCEPTS HER CHARGE

Jo Kopis is the fictional person in this case who has been called upon to evaluate the merger efforts at Hewlett-Packard. She has been charged to look at the Tandem and DEC mergers with Compaq that preceded HP’s merger with Compaq, as well as the latter merger. She is to consider strategic decisions that were made to open new markets and develop new product or service capabilities through these mergers. She is also charged with looking at this novel approach of using the *Clean Room* to provide tactical leadership in combining the Compaq and HP organizations. She is wondering where this evaluation will take her. She realizes it is hard, when you reside within an organization, to step back and get a more reflective, evaluative perspective. She has some opinions of her own, having been a long-time HP employee, about how the merger was handled and its impact on various HP stakeholders. However, she feels ready now to begin the process, to interview the people involved in the merger, to read the news and internal documents related to the merger, and to study and evaluate the results of various decision that were made.

CHRIS THOMPSON'S CAREER DILEMMA: PART II THE INTERNSHIP FROM HELL!

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

CASE DESCRIPTION

This is the second part of the Chris Thompson Dilemma Case. Preferably, the students should read "Chris Thompson's Career Dilemma! What Should I Do?" to provide background information. However, this case may be used in conjunction with Part I or independently. Although this case includes elements of individual processes that influence behavior in organizations, it is essentially concerned with self-awareness, trust, and organizational socialization. This case can also be used to discuss the Human Resource Management issues of a company's responsibility to its interns versus employees and sexual harassment.

The case has a difficulty level of three or four and is best utilized with juniors and seniors in Organizational Behavior (OB) and Human Resource Management (HRM) classes. This case is most effective after a discussion of organizational culture, socialization, sexual harassment and diversity. Therefore, it can be used effectively at any point in the semester depending upon the organization and design of the course. It can be taught in two hours of class time and requires approximately three hours of outside preparation by students.

CASE SYNOPSIS

This case chronicles the efforts of Chris Thompson to continue an internship with a company that makes a product which violates his personal values. Despite Chris's negative attitudes toward smoking and the use of all tobacco products he decides that he can and should complete the internship with American Brands International, the nation's largest tobacco company. Chris sees himself as a top athlete and excellent, hard working student. When the internship takes a negative turn, he decides to work harder and be the best intern possible. At the end of the case, Chris is a frustrated, angry, disillusioned individual who is faced with an impossible decision.

THE INTERNSHIP FROM HELL!

Chris Thompson sat at his desk at American Brands, the tobacco giant. He was aimlessly staring at his computer screen. This college internship was supposed to be the opportunity of a lifetime; this should have been the chance to launch his career with a major fortune 500 company. Instead, he had just concluded a meeting with his supervisor that went badly. Chris had received an ultimatum from his supervisor. The boss had said, “Either admit to wrong doing and receive a warning in your personnel file or deny the charge and face stronger disciplinary action.” Needless to say, Chris was stressed out and thinking that he had made a wrong choice in accepting the internship with American Brands Tobacco Company.

Did I Make the Right Decision?

Chris was thinking now that he should have listened to his coaches who had advised him against having a career with a tobacco company. Even the parents of the kids that he coached at little league had spoken of him as being a hypocrite and not practicing what he preached.

At church, his minister had said to him, “How can you rant and rave against cigarettes and smoking to these kids and then go to work at American Brands which tries to get our kids hooked and promotes death in the African American community? As an African American yourself, you are betraying your community with this internship! It’s the black kids that these tobacco companies go after and try to get addicted for life. Do you think that if you had started smoking, you would have gone on to set the time record for the state for the 100 meter dash?” Chris had been so shocked by what the minister said that he could not respond and just mumbled something about his work being temporary and an internship.

Chris also could not forget that when he visited his high school and his track coach found out where Chris was doing his internship, the coach had the most disgusted look on his face. “How can a great athlete like you, a super star like we have never had, sell out like this Chris? C’mon Chris, everyone here looks up to you and the kids here have so much respect for you and you are working for a tobacco company. I’m disappointed.”

I Have to Make the Best of It

Although Chris Thompson was wrestling with his career choice to work for a tobacco giant after college (see “Chris Thompson’s Dilemma” case for more details), he knew that for now he had to do his best work in the internship. American Brands was his employer and Chris owed them loyalty and his best efforts. In addition, whether Chris decided to pursue a career with them or not after the internship, he would still need a good recommendation from his supervisors and managers at the Tobacco giant.

Chris liked the project that he was required to do during the internship. The project was to visit Crown gas stations (which retail all American Brands Cigarettes) in an assigned territory which included all of Rhode Island and a large portion of Massachusetts and provide support for their retail efforts. This could be as simple as fixing the signs located in retailer windows, or establishing an entirely new display for the products. This was done in teams with another American Brands employee during the probationary period, and often his partner was a woman.

By the conclusion of the internship, Chris was expected to complete a written analysis of the retail operations of the Crown gas stations in his territory and submit his report to company officials. Chris enjoyed the challenge of the job and the close working relations he was developing with his coworkers.

You Can't Be Serious!

Unfortunately for Chris, other things started happening to change his positive attitude toward American Brands.

One such event occurred on a Friday. Chris was called by his district manager and told that he wanted to meet with him on the following Monday before work. Chris figured that something had to be wrong, but boy was he in for a surprise.

When the two men met on Monday, the conversation began with the usual small talk. Suddenly, his district manager dropped the bomb. He said to Chris, "I heard through conversations with others some of the things you've been saying." Chris was surprised and asked what he meant. His district manager continued, "You've been making inappropriate comments about many of the female employees, saying that they look good in tight clothing and making sexist remarks about their figures and how they look. I really like you, Chris and I want you to go far in the company. Consider this an informal warning; watch your comments and all will be forgotten."

Chris was appalled. He never made such statements and wondered why people were saying such untrue, hurtful things about him. Since Chris partnered with a number of American Brands employees during the course of his job, he could not pinpoint the possible source of these comments. Chris did remember telling a few of his male partners that the women he worked with were pretty, but he never said anything sexist or demeaning. As a result, he felt betrayed and did not know who he could trust after that conversation. He began to feel that when you are striving to be a success there is always someone in the background trying to pull you down, so you have to be careful what you say and only trust yourself.

For the rest of the day, Chris was not focused on his work. He questioned whether he wanted to work for a company that looked down on him in that way and accused him of such outrageous behavior. All he wanted to do was make it through the day and get to the July 4th holiday where he would have an extra day away from American Brands.

Following that incident, Chris continued his work but his attitude toward the company changed dramatically. Although he did not know whom he could trust, he continued to work hard and get the job done. By week five of his internship, he was finally working alone in the field and on his project which was based on Crown gas stations with the objective to increase the sales of cigarettes in his territory by 25%. He was not sure how he would approach the project, but was confident that he could handle the assignment and would do a good job.

You Mean There Is More?

After the holiday, Chris attended an intern forum in New Jersey. At the forum, the interns were told that they would have to make a presentation on the topic of their projects and give an overview of the presentation within a few days. Chris was overwhelmed especially since he had such a large territory which required so much travel time. The presentation was a surprise to Chris, and since it was dropped on him at the last minute he felt anxious and stressed.

Chris expressed his concerns to his trainers and candidly asked for advice. The trainers responded in a very negative way with one trainer questioning whether Chris was good enough to work at American Brands to his face. Other trainers implied that he was immature and complaining about the size of his territory was unprofessional.

Chris was puzzled by the attitudes of his trainers. It was a known fact that he had the largest territory of all of the interns often driving two hours to get to his first location. As a result, he expected their guidance when he asked for their advice, but instead he received harsh criticism. He wondered what was behind the negative responses, if they were made to him because he was an African American or if his supervisor had told others about the "informal warning" he had received earlier. After all, he was only asking for their advice and felt he should receive support. Nevertheless, he was going to give the job his best and no one would be able to tell his true feelings. Chris started working on the presentation assignment that was given to all interns.

This unexpected presentation was designed to let the managers know how the interns were doing. Chris worked hard and got the project done well in advance of the presentation date and was ready for any questions the district managers may have had. When the other interns learned that Chris had finished his presentation, they began calling him and asked him questions about his presentation. In fact, one even asked Chris to send him a copy so that he could set his up the same way. Chris did not mind sharing information with the other interns. In fact, he was flattered that they came to him with their questions and he was always willing to help. Chris felt that little things like being helpful put him above the other interns. However, Chris also felt that company management did not recognize or understand that fact. Chris was ready to do whatever it took. It just turned out that he never got the chance to show that, or rather American Brands never had a chance to see it.

My God! When Will This Internship End?

The next day, Chris received a call at 8:00 am and was told to report to the home office at 4:00 pm. He was told that he would be doing his presentation, but when he arrived he was pulled into a meeting with his immediate supervisor, Nicole Jones and his district manager, Gerald Spears. They began to ask how things were going in the field and what he had learned during his time at American Brands. Then Nicole stated that there was something they wanted to talk with him about.

Nicole Jones questioned why Chris had left work early the day before, and sent her his presentation at 8 pm as opposed to 5:15 at the end of the work day. Chris explained that he had finished all of his work in the field and there was nothing more to do. Since his territory was so large, it did not make sense to try to drive to another location because he would not have time to get anything accomplished and would only have to return the next day so he left for the day at 3 pm. Since his territory was so large drive home took several hours. Nicole again questioned why Chris sent the presentation so late. Gerald Spears, the district manager was intently staring at Chris.

Chris felt like they were calling him a liar and they implied that he was not getting his work done and what he did accomplish was done poorly. Chris responded by telling them that he was the best intern they ever had, that he completed all of his work well before the due date and other interns call him for help. He went on to say that the presentation was dropped on him at the last minute and he still completed it early. He stated that even though he left work at 3 pm, he did other things. He still put in an 8 hour day just not during the time period they wanted.

At the end of the discussion, both Nicole and Gerald said that since Chris did not communicate with them clearly, they were going to have to question everything he did. They said that he lacked integrity and that he wasn't committed. Then Gerald said, "We've had problems with you before and now this. This is strike two, you've already had strike one," in reference to the he said, she said nonsense that occurred earlier.

Gerald continued, "We can't be wasting our time on you with these trivial issues. Leaving work early is unacceptable."

Chris responded, "Okay, I understand that I may have been wrong in leaving early, but it's not like I didn't get my work done. I even did more than was needed or required!"

Nicole, his immediate supervisor, then gave the ultimatum to Chris and said, "You have two options. Admit to wrongdoing, receive a written warning in your personnel file or continue to deny the charge and face stronger disciplinary action." Gerald Spears, the district manager, nodded his head in agreement with Nicole and said to Chris, "You need to think carefully over the weekend and then get back to us."

After his supervisor and the district manager left, Chris sat alone in the office, thinking about the meeting, feeling like he had a lot thrown at him all at once. He was the person who was 100% committed to whatever was needed and did it with competence and integrity. He had until Monday morning to decide what to do.

DISCUSSION QUESTIONS

1. What are the possible reasons that Chris's internship is not working out? List and discuss.
2. What can a company do to avoid such situations emerging with interns?

3. Could Chris have done anything differently to create a more positive experience?
4. What are the legal and Human Resource Management implications of this case?
5. What should Chris do? What would be your advice as a student?

CASE A MIGROLINO, AG: AN AGGRESSIVE PATH TO MANAGED GROWTH

Hemant Rustogi, The University of Tampa
Markus Laenzlinger, CEO, Migrolino AG, Switzerland
Judith H. Washburn, The University of Tampa,
Rebecca Dearth, President, Advantage Pointe Internationale

CASE DESCRIPTION

The primary subject matter of this case concerns the development of growth strategies for a Swiss-based convenience store chain operating in a highly competitive market. Secondary issues examined include competitive advantage, differentiation, brand strategy, positioning, and brand management. The case has a difficulty level of five, appropriate for first year graduate level. The case is designed to be taught in four class hours and is expected to require 12 hours of outside preparation by students.

CASE SYNOPSIS

The case covers the startup of the Swiss convenience store, Migrolino, a subsidiary of Migros Cooperative Alliance (MCA). Following the 2008 dissolution of Cevanova, a joint venture between Migros and Valora that operated 34 Avec convenience shops in Switzerland, the Migrolino store concept emerged. Upon inception, Migrolino is tasked with opening 24 company owned shops, along with converting 100 existing Shell/Migrol gas station shops to the Migrolino concept. The case illustrates the challenges of strategic planning, positioning decisions, and brand management as Migrolino CEO Markus Laenzlinger creates the new organization and establishes the new Migrolino brand in the mature Swiss convenience market. Additionally, the case illustrates the complexities of managing the partnerships formed between MCA, Migrol, and Shell Oil Company.

The Migrolino CEO commissioned market research to help in decision-making. The research results focus on competitive positioning and lead the Migrolino management team to conclusions about identifying a sustainable competitive advantage that will contribute to successfully reaching the company's aggressive growth goals.

MIGROLINO IS BORN - BERN, SWITZERLAND, DECEMBER 22, 2008

Markus Laenzlinger put the finishing touches on the proposal he had written for his final MBA class, scheduled to begin January 5, 2009, at The Graduate School of Business Administration (GSBA) in Horgen, Switzerland. The class was designed to allow the executive MBA students to create, work through and present a strategic solution to a live case. For Markus, the timing could not have been better. He had just received word that the final decision to create Migrolino AG had been approved by the board of directors of Migros, one of the largest cooperative organizations in Switzerland that employs close to 86,000 people and operates across a variety of industries.

Markus was named CEO of the newly formed company and was charged with executing an aggressive business plan that called for rapid growth of the newly created convenience store chain. The six year business plan required Migrolino AG (hereafter referred to as Migrolino), under Markus' direction, to grow by ten new outlets in 2009, followed by 15 new outlets per year beginning in 2010 and moving towards a total of 230 stores by 2014. A large portion of this growth was to come from the Migrolino concept being introduced into 125 Shell gas stations throughout Switzerland. Plans were also in place for possible acquisitions and new master franchises.

Although Markus had worked more than 10 years in a senior executive position for Cevanova AG , another Migros division, the Migrolino plan represented a certain challenge. Convenience store chains in Switzerland operate in a mature and hotly competitive marketplace. Migrolino would be a new-comer in a field of well known, well established, high market share organizations. Markus recognized the challenges these circumstances posed, but he was optimistic about Migrolino's competitive advantage that no other competitor could match – exclusively carrying Migros branded products in the convenience space.

However, Markus knew he needed help. He explained, "I have one shot and not much time to get this right. I'm not sure of the best way to position Migrolino in the Swiss convenience market to create sustainable growth." Markus remarked that he felt handicapped by a rapid and mandated rate of growth and wondered how to organize the company structure to best exploit its opportunities. He struggled with what Migrolino should do from this point forward to ensure successful, controlled growth in the future (M. Laenzlinger, personal communication, January 6, 2009).

A SHORT HISTORY OF MIGROLINO

The Migrolino story began in November 2008 when Cevanova AG, a joint venture between Migros and Valora, operated 34 convenience shops under the name of Avec. An additional 14 shops were in the pipeline to be opened soon. A disagreement between Migros and Valora culminated in a decision to disband the joint venture in November 2008. The settlement called for Valora AG to keep 20 existing shops and four projects in the planning stage and to continue to use the Avec brand name. Cevanova would keep 14 existing businesses and 10 projects in the planning stages, essentially a 50/50 split. In January 2009, Cevanova was renamed Migrolino, Markus Laenzlinger was named Migrolino CEO, and the aggressive expansion plans were outlined. The relationship between Migros and Valora is complicated; not only does Valora operate Avec stores that compete directly with Migrolino, but it also is a primary supplier to Migros and Migrolino shops for grocery products and publications (Briefing on migrolino, December 2008.)

MIGROLINO ORGANIZATIONAL STRUCTURE

The structure of the Migros Cooperative Alliance (MCA) is unique and innovative. Started with capital generated by a 10CHF contribution by 2 million Swiss residents in 1925, MCA's initial goal was to generate buying power for its member owners for staple food and grocery items in Migros supermarkets. Over time, this network of trade and service sectors created channel access, economies of scale and synergies that have grown into one of Switzerland's most powerful and dynamic organizations that owns large parcels of premium real estate throughout Switzerland (M. Laenzlinger, personal communication, January 12, 2009). The structure of MCA is vast (see Figure 1) with holdings that run the gamut from manufacturing industries, to trade, finance, petroleum, hospitality, and others, such as FitnessPark fitness centers, Chocalat Frey chocolate manufacturing, the Hotelplan travel services company, and MIGROL, the gasoline and motor oil division (Table 1). This diversified portfolio is managed and supported by corporate finance, marketing and human resource functions (Briefing on migrolino, December 2008.).

The strength of the Migros brand stems from its MIGROS budget (M-BUDGET) and MIGROS "Selection" products that are widely regarded throughout Switzerland as affordable products representing excellent customer value. Keeping with its family focused values, Migros does not sell alcohol, cigarettes or erotic magazines in it supermarkets, although these products are available through its sister trade divisions (Briefing on migrolino, December 2008.) MCA integrated Migrolino into the organization on equal terms with other Migros companies such as Globus, Denner, Ex Libris, Interio and Migrol. Migrolino had the potential to increase its visibility in MCA primarily because it was charged with opening shops in Shell stations, creating an additional opportunity to merge with MIGROL. Combining these companies would allow MCA to optimize synergies and centralize control. From an organizational standpoint, the Migrolino project managers' priority was to identify similar procedures and structures between Migrolino and Migrol. Initially, the tasks specific to motor fuel distribution and sales remained with the petroleum companies, i.e., Migrol and Shell. Migrolino would take responsibility only for running the shops attached to the Migrol and Shell gas stations (Briefing on migrolino, December 2008.).

Migrolino was structured to invest approximately 600,000 CHF in each outlet and operate company-owned outlets as subsidiaries or franchises, granting licenses for master franchises. The franchise concept is unique in Switzerland whereby a franchisee is required to put up a 60,000 CHF investment guarantee to run one or more Migrolino shops. Migrolino corporate then pays a percentage of net profit to the franchisee. The Migrolino management team is responsible for selecting the franchisee, specifying the product assortment and shop layout, and for personnel training in all Migrolino outlets. Additionally, Migrolino is responsible for planning and implementing the marketing and operations of its company-owned outlets in addition to those of the master franchisees (Briefing on migrolino, December 2008.)

MIGROLINO'S IMMEDIATE CHALLENGES

The mandated Migrolino roll-out demanded accelerated market penetration for the Migrolino brand, which required substantial promotional support. Because of the competitive nature of the Swiss convenience market, a clear introductory brand positioning was considered to be imperative for success. Due to the aggressive time line, the Migrolino concept launched while the management team continued work on a comprehensive marketing plan. It was important that cooperation existed between the primary players (i.e., Migros, Migrolino, Migrol and Shell) to achieve the bundling of shop offers and filling station requirements with motor fuel offers from the petroleum companies. However, this was a challenge for Migrolino as the company had the responsibility to manage its brand but had no control over the Shell and Migrol franchisees (M. Laenzlinger, personal communication, March 24, 2009).

Category management is another factor that was considered to be key for Migrolino's success. Category management includes strategic and operational planning of product categories, planning of stock-moving measures, price policies, procurement of stock, and the identification of suppliers. The categories, including shop ranges and gas station accessories, are managed by the Migrolino corporate offices for all the shop formats (i.e., Migrolino, Migrolino gas stations, and Migrol and Shell gas stations without shops) (M. Laenzlinger, personal communication, March 24, 2009).

THE MIGROLINO CONCEPT

The Migrolino concept was conceived as:

A business opportunity for independent entrepreneurs (franchising)
A concept based on freshness and clarity, friendly and responsive service, and speed and convenience for the customer
A reproducible service center for gas and train stations

Open 365 days a year
Above all, a convenience store offering an integrated range of services:
Grocery shop (food/non-food) and household items
Take away – ready to eat foods
Newspapers and magazines
An opportunity to sit and talk over coffee (sociability aspect)
Ticket sales/travel or gas station products

The plan called for Migrolino to grow to 24 company owned and operated new outlets by the end of 2009 (M. Laenzlinger, personal communication, March 24, 2009). Adding to this growth was an initiative to rebrand the Shell and Migrol gas stations with the petroleum companies set up to partner with Migrolino to manage 100 shops in the gas station outlets. In 2010, in addition to the remaining 40 to 60 sites co-operated by Migrol AG and Shell, the plan was to convert more locations to the Migrolino concept. Furthermore, Migrolino planned to roll out 15 to 25 new, company-owned and operated locations each year (M. Laenzlinger, personal communication, June 23, 2009).

COMPETITION IN THE SWISS CONVENIENCE MARKET

Migrolino's primary competitors in the Swiss convenience market include:

COOP PRONTO

The Coop Schweiz company is based in Switzerland and represents the biggest and closest competitor to both Migros and Migrolino. Coop Pronto is Coop's convenience store chain. In addition to Coop Pronto, the company also operates Coop supermarkets, a direct competitor to Migros. In 2010, there were approximately 250 Coop Pronto shops throughout Switzerland. The company's total sales revenue is about CHF 450 million. Even though it is an established business, confidential sources predict a consolidation phase will soon take place.

AVEC

Migrolino's relationship with Avec is complicated. Originally, the Migros company partnered with its major grocery supplier, Valora AG, to create the convenience shop chain known as Avec. In 2008, Migros and Valora disbanded the partnership and split ownership of the 16 existing Avec shops. Valora continues to operate the chain as Avec, growing the chain to about 100 outlets at the end of 2009. The Avec outlets are expected to expand rapidly through normal growth, as well as through the repositioning of 50 existing shop formats, which are currently in the company's portfolio. Migros-owned Avec stores were converted to Migrolino shops.

VALORA AG

This Valora company represents a new, solid competitor in the market. Recent growth has increased the company's holdings from 14 to 36 outlets and management's goal is to achieve maximum performance. Valora AG is a competitor not to be underestimated.

K-KIOSK

One of the Valora companies is k-kiosk, which operates more than 1000 small convenience stores across Switzerland. These shops are smaller than a typical Migrolino and carry a limited product assortment. Location is this competitor's biggest asset.

APERTO, STOP&SHOP

Another competitor is the company Alimenta Sista, with its 30 shops consisting of the brands Aperto, Stop&Shop and Mam's. In 2009, the company merged the three brands into a single Aperto concept. The newly renovated Aperto shops are upscale, marginally more expensive than Migrolino and visually appealing, although few in number compared to Migrolino and Coop Pronto. Currently, Aperto is in a difficult position, both economically and brand-wise. In the near future, conflict could start over the purchase of the company or any of its locations. Aperto operates primarily in train stations throughout Switzerland and is a healthy candidate for a buy out within the next 24 to 36 months.

OTHER COMPETITORS

Other competitors in the Swiss market include Fenaco AG's Agrola chain, along with the classic gas station operators Esso, BP, and Avia. One concern for Migrolino is that all the Migros Cooperatives are working on developing their own convenience shop concepts (Migrolino Category Manager, personal communication, June 22, 2009.)

DEVELOPING THE MIGROLINO BRAND AND POSITIONING STRATEGY

In the Spring of 2009, Markus thought, "I need someone I can trust to provide honest and expert advice about a branding and positioning strategy. I don't know where to begin." He contacted a former GSBA marketing professor for help. This professor enlisted his consulting team to begin working with the Migrolino management team in earnest starting March 2009 and continuing through July 2009 (M. Laenzlinger, personal communication, March 23, 2009.)

PROJECT OBJECTIVES AND APPROACH

Migrolino engaged the consulting team to develop the Migrolino branding and positioning strategies around the visual brand identity developed by Migrolino prior to the consultants' involvement. In addition, the consultants recommended creation of a unique Migrolino customer experience that could be managed consistently across all Migrolino shop concepts (i.e., gas stations, train stations and city centers). Finally, the team recommended a strategy to build Migrolino's brand equity.

The project began with a review of Migrolino's previous research and Markus' proposal written for the GSBA program. The consulting team determined that the positioning strategy the Migrolino management team was pursuing was based on management's perceptions, not customer perceptions (Figures 2 and 3). To address this misalignment, the team conducted and analyzed an importance/perception survey (a positioning study) conducted with both in-store Migrolino customers and Migrolino store and corporate management. The consultants conducted interviews with key management personnel and franchisees and performed field visits to six Migrolino stores and various competitive stores, including K-kiosk, Coop Pronto, and Avec in addition to attending Migrolino store openings in the Swiss communities of Kerlikon, Nord and Wil.

POSITIONING STUDY RESULTS

The positioning study first focused on understanding the critical dimensions important to Swiss convenience store shoppers. The results showed that the top three important dimensions for customers were convenience, quality of products and value (Table 2). Migrolino managers rated importance differently than customers (i.e., between 5 and 9 point differences). Like customers, managers rated convenience number one in importance, however while customers rated value in the top three, managers rated value the lowest of five dimensions.

Second, the positioning study evaluated the perception of Migrolino and its three top competitors - Avec, Coop Pronto and K-Kiosk - from the points of view of both customers and Migrolino managers. The results showed small differences (not statistically significant) between managers and customers in their perception of Migrolino (Table 3). Further, the results confirmed management's belief that Avec and Migrolino share the same perceptual space relative to K-kiosk and Coop Pronto for customers. Customer ratings revealed no points of differentiation between Migrolino and Avec, but perceptual differences between K-kiosk and Coop Pronto relative to both Migrolino and Avec.

Finally, the team collected information from Migrolino's management team using a 'network of meaning' framework intended to determine the consistency of the management team's understanding of the Migrolino concept. The results (Figure 5) showed that '*convenience*' and '*related to Migros*' were the top two Migrolino brand associations. Also mentioned frequently were '*fresh*', *'friendly/good service'* and *'fast',* along with a variety of other positive associations. However, '*inconsistencies*' was also one of the top responses, while '*quality*' and *'good price'* were not mentioned at all as top associations (Building the Migrolino Brand - Strategy, Management & Experience, July 2009.)

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M. Laenzlinger, personal communication, January 6, 2009
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Migrolino Category Manager, personal communication, June 22, 2009

TABLES

Table 1: **Migros Cooperative Alliance Divisions**	
Migros – supermarkets	Golfpark – public golf courses
LeShop.ch – online supermarket	Change Migros – currency exchange
Migrol – petrol stations	Ex Libris – bookshops
M-electronics – electronics retail stores and internet music download service	Migros Klubschule – adult education centres
OBI – Do it yourself stores	SportXX – sports shops
FitnessPark – fitness centres	Eurocentres – language schools
Do it+Garden Migros – Do it yourself stores and garden centres	Chocolat Frey – chocolate manufacture
Micasa – furniture stores	Migros Magazin – the company's sales magazine
MigrosBank – bank (the fifth-largest in Switzerland)	Hotelplan – holidays company
Office World – office supplies	Florissimail – postal flower service
Globus – department stores	Monte Generoso Railway, railway owned by Migros
Globus Herren – menswear stores	Interio – furniture stores

Table 2: **Positioning Study Results**
Importance - Customers Versus Managers

DIMENSION	CUSTOMER	MANAGER	DIFFERENCE
Convenience	**32.98**	**23.86**	**9.12**
Quality of Products	**26.79**	**17.91**	**8.88**
Value	**20.40**	**15.00**	**5.4**
Quality of Service	**12.53**	**18.23**	**-5.7**
Store Environment	**6.86**	**15.91**	**-9.05**

Table 3: Positioning Study Results Migrolino Perception - Customers Versus Managers			
DIMENSION	**CUSTOMER**	**MANAGER**	**DIFFERENCE**
Stores are SAFE	8.59	7.40	1.19
Stores are CLEAN	9.04	8.00	1.04
Service is FAST	8.28	7.55	0.73
Stores are EASY to Access	8.25	7.60	0.65
CONVIENIENT Locations	8.80	8.15	0.65
Food is FRESH	8.32	7.75	0.57
Stocks HIGH QUALITY Brands	8.52	7.95	0.57
Staff is FRIENDLY	8.42	8.25	0.17
ATTRACTIVE Store Layouts	8.18	8.10	0.08
Stores are Open LONG HOURS	8.59	8.55	0.04
Excellent SELECTION of Products	8.05	8.25	-0.2
GOOD VALUE for Money Spent	7.99	8.50	-0.51

FIGURES

Figure 1: Migros Cooperative Alliance Structure

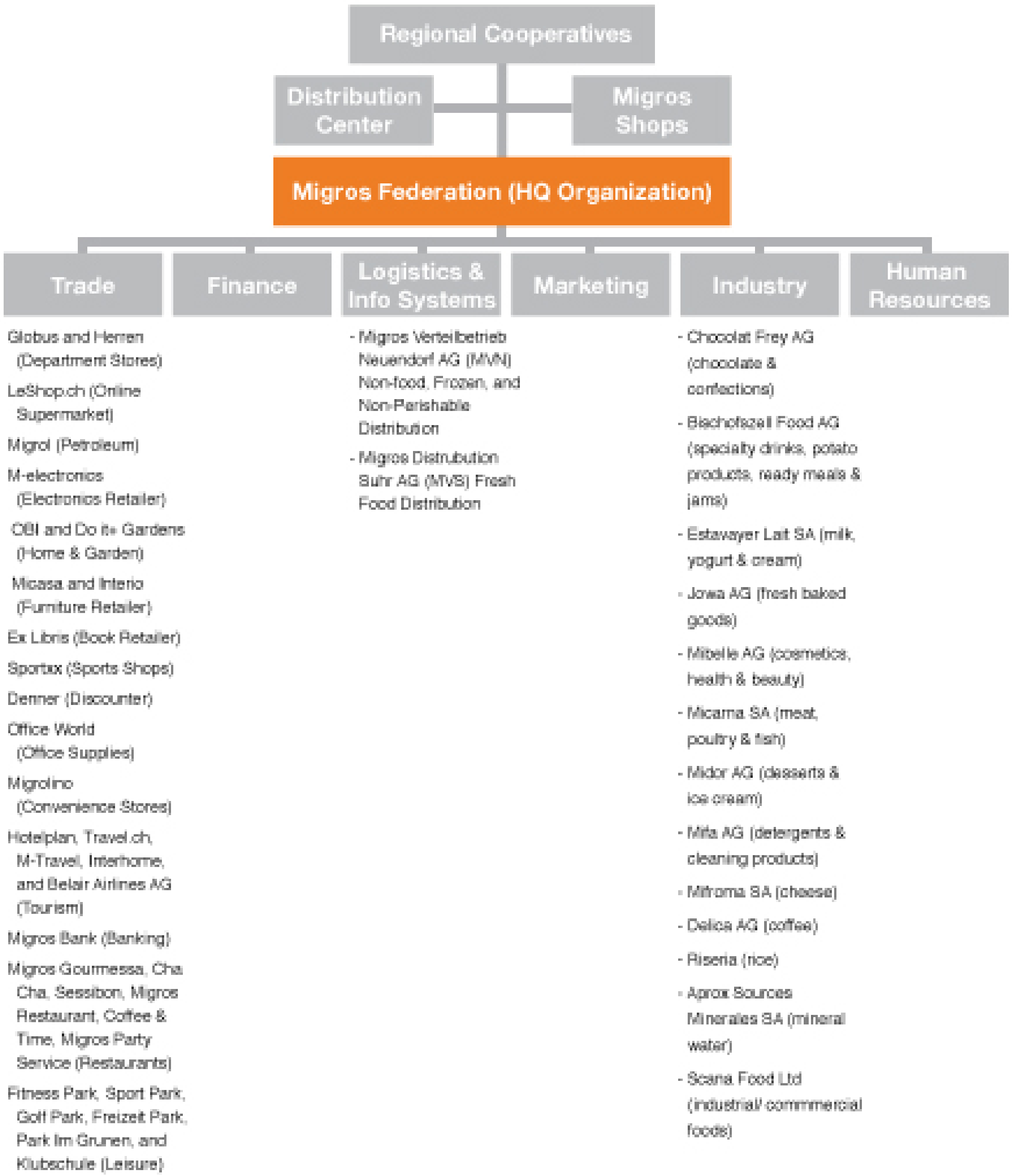


Figure 2: Initial Conceptualization of Migrolino's Brand Positioning
(as determinted by Migrolino management prior to the positioning study)

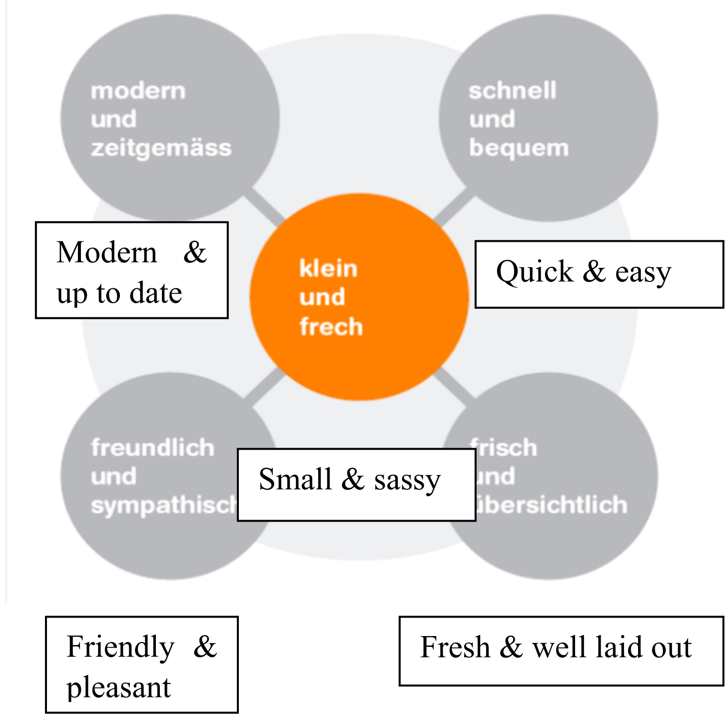


Figure 3: Initial Market Positioning MAP
(Developed by the Migrolino Team prior to the positioning study)

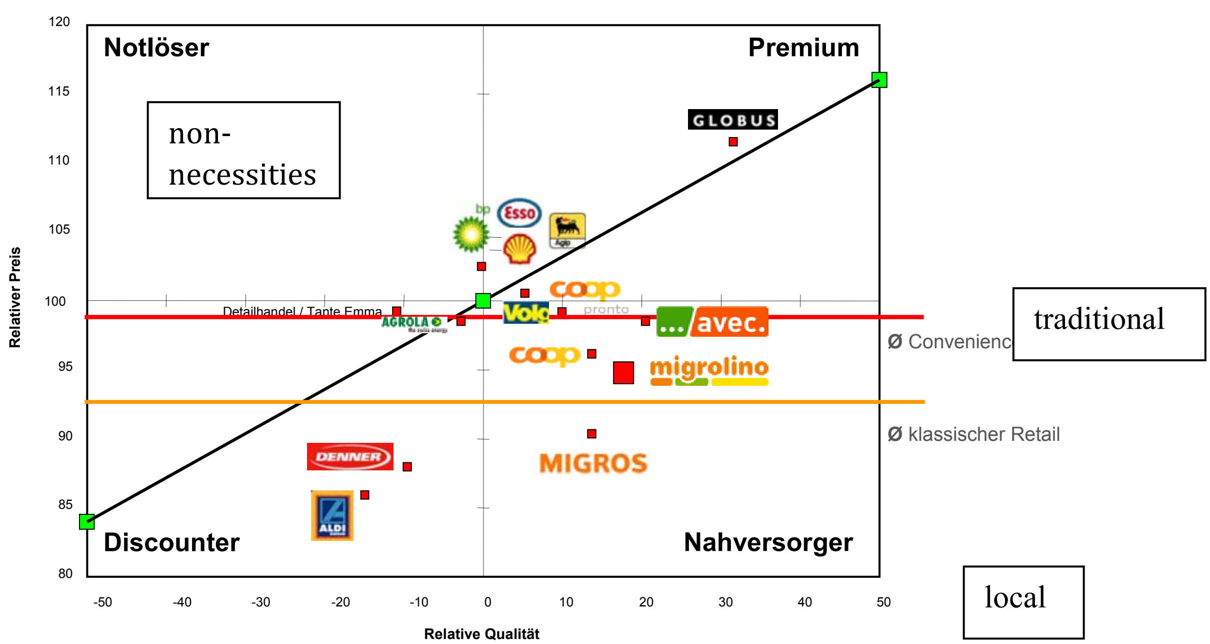


Figure 4: Perception of Migrolino Versus Competitors

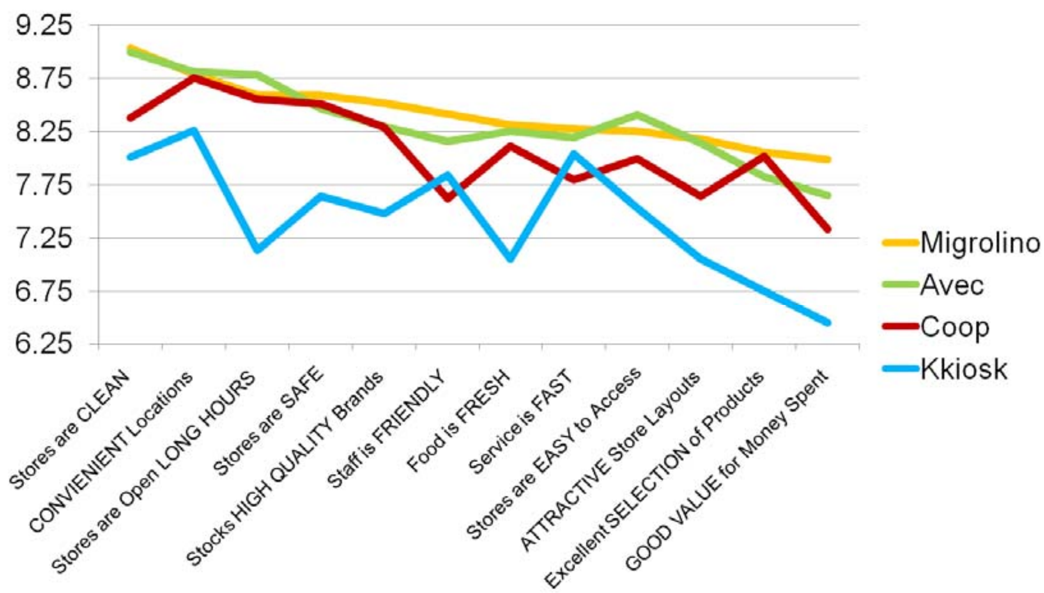
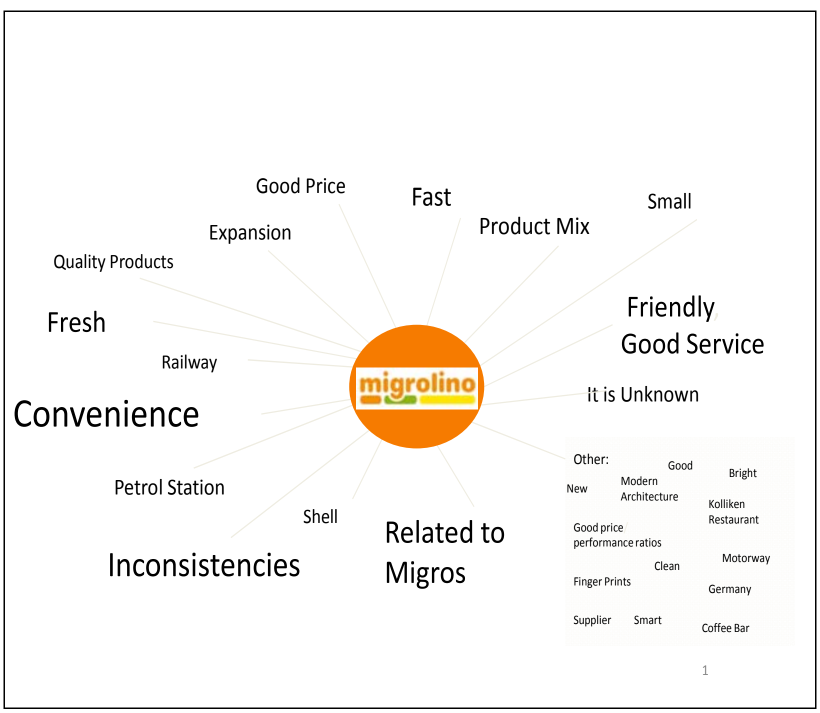


Figure 5: Migrolino Network of Meaning
(Size of descriptors corresponds to number of mentions)



TIME FOR A CHANGE? A HUMAN RESOURCE EDUCATION PROGRAM IN FLUX

LeAnne Coder, Western Kentucky University

CASE DESCRIPTION

The focus of this case is a university department head's dilemma as he decides whether or not to invest time and other resources to change an academic program that has a solid performance history but has seen has a recent decline in enrollment. Secondary issues presented in this case include leadership techniques, team dynamics, resource allocation, and organizational politics. Although this case is set in a university environment, the types of challenges portrayed in this case are faced by managers in all types of settings. This case has a difficulty level of three and above (appropriate for juniors, seniors, and graduate level). This case does not require the use of statistical analysis so it is accessible to students at all levels. This case is designed to be taught in two or three class hours in a management, education, or curriculum development course and is expected to require one to two hours of outside preparation for students.

CASE SYNOPSIS

The department head in this case is faced with the decision of whether or not to revise an academic program that has had a solid history but recently seen a decline in enrollment. He is challenged by limited resources, demands on the program curriculum from an outside professional group, and a faculty that has many outside interests and demands on their time.

INTRODUCTION

Chris Williams gazed out the window in his office. As the head of the Management Department at Warren State University (WSU) he had a problem that needed to be solved very soon. The future of the Human Resource Management (HRM) program was hanging in the balance and he was unsure which direction the program and the department should go. The HR program had always been an important part of the Management Department. However, declining enrollments, professional society guidelines for curriculum that did not align with the current course plan, and stretched faculty resources were dominating his thoughts. He had been an academic for a very long time, a department head for over 10 years and had never faced a dilemma quite like this. "What should I do?" he asked himself. His thoughts drifted back to the beginning of the HR program at WSU and the past and current states of the HRM profession, hoping they could give him guidance for the future.

BACKGROUND ON THE HUMAN RESOURCE FIELD

Human resource management (HRM) has been defined as "the policies, practices and systems that influence an employee's behavior, attitudes and performance (Noe, Hollenbeck, Gerhardt, & Wright, 2011). Modern day HRM originated a few years before World War 1 under the name "personnel management" and was known as the "employer's solution" to labor problems. This early perspective used scientific principles to manage people, recognized the human factor in labor, and identified the primary cause of labor problems to be largely management-initiated (Kaufman, 1999).

The field was stagnant for many years but began to rise in stature during the 1970s and 1980s. Several trends influenced this growth. First, the long-term decline of the unionized sector of the economy meant that organizations needed to use methods other than union contracts to manage their workforces. Second, changes in how people worked occurred as technological advances and globalization created an information economy and changed how organizations maintained a competitive advantage. Third, the growth of employment law in the United States (Civil Rights Act of 1964, Employee Retirement and Income Security Act, the Americans with Disabilities Act) required that those entrusted with an organization's human capital knew how to maintain compliance and keep the organization from being sued by disgruntled individuals. Finally, there was a shift in thinking in that organizations now viewed employees as organizational assets. This different management philosophy gave rise to high performance work systems and total quality management and called for using people to develop a strategic advantage. (Kaufman, 1999). These three shifts elevated the field of Human Resource Management in organizations. HRM professionals were expected to be experts in compensation and benefits, staffing, training, employee relations, and employment law. Human resource (HR) departments were common in all types and sizes of organizations.

However, the 1990s and early 2000s were not kind to the field of HRM in organizations. HR managers were often seen as playing an administrative role and because many of them did not understand business fundamentals, the work that they did was not viewed as critical to the overall success of the organization (Hansen, 2002). Since certification requirements did not exist (and still don't) many in HR were viewed as mediocre employees who liked to work with people but didn't understand how businesses worked (Barksdale, 1998; Sincoff & Owen, 2004). In a 1996 article in *Fortune* titled "Taking on the Last Bureaucracy" Stewart and Woods (1996) labeled a typical HR department as sleepy and spending 80% of its time on routine, administrative tasks that could be done more efficiently by outside organizations. It also describes as HR departments as being experts on eliminating jobs that do not add value, except when it comes to their own HR jobs. They propose a solution for dealing with this organizational "waste:" "Why not blow the sucker up? …Abolish it. Deep-six it. Rub it out. Eliminate, toss, obliterate, nuke it; give it the old heave-ho, force it to walk the plank, turn it into road-kill" (p. 105). Baill (1999) and Lachnit (2001) called HR the "Rodney Dangerfield" of the business world because "it don't get no respect" (p. 14). Finally, in 2005 an article by Hammonds called HR "at best, a necessary evil and at worst, a dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change" (p. 42).

During this time, many authors were calling for changes in the knowledge, skills and abilities that were needed to be a professional in HR. No longer could HR managers and departments be just an enforcer of rules, they now needed to be able to show how they contributed to the success of the business which meant HR had to become more strategic in how it operated. HR should not be evaluated by what it does but by what it delivered (Ulrich, 1998). Traditional, functional basic HR skills (staffing compensation, benefits) were still needed but they needed to be supplemented with organizational development knowledge and business savvy (Baill, 1999).

Ulrich (1998) developed four roles that HR needed to fulfill in order to help an organization achieve excellence. First, HR needed to become a partner with senior and line managers in strategy execution. Second, HR should become an expert in work organization and efficiency. The third role included employee champion or someone that vigorously represented employee concerns to upper management. Finally, HR needed to become an agent for continuous transformation by creating a culture and processes that enabled organizations to meet competitive challenges. Losey (1999) called for more competent HR managers that needed more than an interest in people and smoke and mirrors.

A survey of HRM executives (Giannantoniao & Hurley, 2002) resulted in a list of issues of concern to HR departments and professionals and roles that HR needed to fulfill in organizations. The top areas of concern for these HR executives included managing change, job satisfaction, loyalty and organizational commitment, performance and productivity, and turnover. The top roles for HR included designing, implementing, maintaining, and evaluating HR programs and strategies, ensuring legal compliance, supporting line management, acting as a change agent, and motivating employees. Essential capabilities needed to successfully perform these new roles included consulting/advising, organizational development, business/financial analysis, business process improvement/redesign, downsizing, global awareness, team building and maintenance, coaching, facilitation, business savvy, human resource information systems, and change management (Barksdale, 1998; Hansen, 2002; Johnson & King, 2002).

HUMAN RESOURCE MANAGEMENT EDUCATION

Educational programs in universities during these years were structured to train individuals to be experts to be these areas. Often, individual courses were developed in each of the above content areas (e.g. a course in compensation, a course in staffing, a course in employment law). These courses were required for all individuals in an HRM program and covered the skills that were expected of a new graduate in an HRM program.

Walker and Black (2000) stated that most business and HR programs are modeled after the Harvard University of a core. The theory of the core model is that knowledge is compartmentalized into courses and then those courses are integrated into a curriculum. A course typically focuses on one functional aspect or area. For HR, this would translate into a course in employment law, a course in compensation, another course in staffing, and so on.

Many of the skills and capabilities listed above which were deemed important for future success of HRM professionals were very different from what universities were teaching in the late 1990s and early 2000s. Often these new critical competencies were not covered in required courses in many HR curricula (Johnson & King, 2002). Based on this discussion, academics began to call for changes in HR education. However, many felt that there was an absence of a clearly defined body of knowledge in the HR field, especially when the new competencies/proficiencies were considered. Educators needed to consider the development of HRM curricula strategically, which meant identifying the mission of programs and what accomplishments desired (Sincoff & Owen, 2004). Because the new HR had to have one foot in the present and the other preparing for the future (Losey, Meisinger, & Ulrich, 2005), HR educators had to do the same thing.

Hayton, Cohen, Hume, Kaufman, and Taylor (2005) discuss that there appeared to be a disconnect between what businesses and employers want in HRM graduates and what the academics and university programs were providing. Based on their research, employers expected undergraduates to know the basics of the HR body of knowledge, employment law, and business knowledge. In addition, critical thinking skills, project management skills, and internships were deemed extremely important for new HR graduates.

In response to the changes in the field and the cry from educators for a more defined core of HRM knowledge, in 2006 the Society of Human Resource Management (SHRM) issued the HR Curriculum Guidebook and Templates. The goal of the Curriculum Guidebook and Templates was to provide colleges and universities a resource for tracking HR curricula against a common, minimum skill set needed by employers who seek to fill HR professional positions. The Guidebook contained thirteen content areas which include employee and labor relations,, employment law, compensation, benefits and total rewards, history and role of HR, HR and organizational strategy, HRIS, measuring HR outcomes and the bottom line, performance appraisal and feedback, recruitment and selection, workforce planning and talent management, HR mergers and acquisitions, HR and globalization, and occupational health, safety, and security. These new curriculum guidelines gained the support of AACSB International (an accrediting body for business schools), who then encouraged its members to use them to develop and reform HR degree programs (SHRM website). SHRM further enticed universities to align their programs to the new guidelines by offering to “certify” the programs and list them on their website as programs that met the curriculum guidelines.

WARREN STATE UNIVERSITY (WSU) AND THE MANAGEMENT DEPARTMENT

Warren State University was founded in 1906 and is a comprehensive public state university with about 20,000 students. The main campus is located in a town of about 70,000 and is centered between two major metropolitan areas in the southern part of the United States. In recent years, WSU constructed satellite campuses in five surrounding towns which extended its reach even farther into the region.

The Management Department at WSU was housed in the College of Business. As was typical of Management Departments, several different functional areas of expertise were represented such as business strategy, organizational behavior, international business, entrepreneurship, law, and operations management. The department offered three majors (B.A. in Business Administration, B.S. in Entrepreneurship, and B.A. in International Business) and three minors (Business Administration, Entrepreneurship, International Business). The HRM program was set up as a concentration area within the Business Administration degree.

Chris was selected by the other Management Department faculty to be the department head about 10 years ago. Before that, he was a professor who specialized in Operations Management.

THE HRM PROGRAM AT WSU: 1985 – 2009

Chris reflected over the historical development of the undergraduate HRM program in his department. The HRM program at WSU began in 1985. The course requirements of that first program were typical of curricula during this time. Students in the HRM program were required to take an introductory course in HRM and three courses chosen from the following: employment law, personnel assessment (staffing), compensation, labor relations, and training and development. This approach meant that a student could graduate without taking a course in two of the fundamental areas of HR (staffing, compensation, employment law, training and development, or labor relations) but allowed for scheduling flexibility for students which helped them to graduate faster. In addition to the degree in Business administration and its concentration in HRM, the Management Department offered degree programs in entrepreneurship and international business.

The initial enrollment in the HR program was small 15 – 20 students but reached 102 students in 2009. Table one shows the enrollment trends for WSU, the College of Business (CoB), the Management Department, and the HR Concentration for the years 2006 – 2011.

Chris considered the mix of personalities on the HRM faculty to be quite interesting (if not frustrating at times). This group had been together since 2007. The group usually worked well together but each member had his or her own career agenda so conflicts were inevitable.

Mike had been with the department for over 30 years and was considering retirement in the next 2-3 years. Although he threatened to retire at any moment, Mike was still a very active member of the department who regularly took on new challenges. Alex had been with WSU for 8 years and now split his time between being the MBA director for the college and teaching a couple of HRM courses/year. Additionally, Alex wanted to move into an administrative position very soon so most of his focus was spent developing the MBA program as a profit center for the College of Business. Pat was a junior faculty member whose primary focus was doing research and teaching HRM courses. She also served as advisor to the SHRM student group which needed plenty of attention and time to overcome a generally rudderless period. The final member of the HR team was Robin, an executive-in-residence whose expertise was in HRM. With more than 20 years of industry experience, she was an important source of information regarding the HRM field. Robin taught courses and ran the internship program for the department. In addition to these individuals, Dave, the person who developed the HRM program back in 1985 wanted to be involved with the direction of the program, Dave also happened to be the Associate Dean for the College.

Upon learning of the new SHRM curriculum guidelines for HR programs Dave and Chris asked Pat to lead a committee to look at updating the HRM curriculum. Pat, a new faculty member who wanted to please her department head, agreed to serve as the team leader. However, as she began the process she met strong resistance from several faculty members who felt that her time should be spent on research, not on the designing the HRM curriculum. Some faculty went so far as to threaten to discontinue their support for her and vote "no" the next time her progress toward tenure and continuance was reviewed. "No" votes for her continuance were not what Pat needed. In the academic world, senior tenured faculty members have protected job status (employment for life) and every year they pass judgment on junior faculty deciding whether or not they want the junior faculty to stay. In essence, senior faculty is like a club in which junior faculty try to gain membership. Enough of those "no" votes would mean Pat could be out of a job. Feeling the pressure Pat asked to postpone the project until the resistance could be lessened. Chris was surprised by the resistance but agreed to temporarily table the curriculum redesign.

About a year later, Chris encouraged Pat to try again. The committee reconvened with much less animosity toward the project. The committee met several times during the Fall 2008 semester to evaluate HRM programs at peer institutions and compare the contents of the courses taught at those institutions to those that were currently being taught at WSU. The group also compared the course contents of current WSU courses to the SHRM Curriculum Guidelines. Overall the team felt the topics covered in the existing courses was satisfactory. However the analyses of WSU curriculum to other universities and the SHRM Guidelines showed that there were at least two areas that needed to be addressed – Strategic HRM and Human Resource Information Systems (HRIS). Because of this, the group decided to add two courses in these areas to the program and changed the name of the course Personnel Assessment to Effective

Staffing Practices. In addition, the program became less flexible in that more of the basic, functional courses in the program became required. Courses in staffing, compensation, training and development, and the new course in strategic human resource management were required of all HRM students. In addition, students were required to take one of the following courses: employment law, labor relations, conflict management, HRIS, or an internship in a local organization. At this time, no new faculty resources were added because the group felt they could work in the new courses by adjusting the teaching schedule. This would be a stretch but the group felt it was feasible, a request for new faculty resources would most likely kill any hope of the changes gaining acceptance from other administrators.

The process required to change a college curriculum can be time consuming and tedious. After deciding what changes were to be made to the HR program, the revised curriculum had to be approved by the entire Management faculty at a department meeting. After that, it had to be reviewed and approved by the College of Business curriculum committee, which meets once a month. After a few minor changes, the College of Business curriculum committee approved the changes to the program. After that, the changes had to be presented to the University Curriculum Committee (UCC) for discussion and approval. This group also only meets once a month. During this meeting several changes were recommended but were considered minor so the UCC approved the new curriculum with the understanding that the changes would be made before the curriculum change proposal would go into effect. All in all, this was a nine month process to revise the program and have it approved. It was critical to have the new curriculum approved by July 2009 so that it could take effect in August 2009 (Fall 2009 semester) which was the beginning of a new academic year (when all approved curricula changes take effect). Had the changes not been approved by any of the committees during this process, the effective date for the new course offerings would have been delayed until August 2010.

One consideration that applies to all curriculum changes concerns how the changes affect students. Even though the curriculum changes had been approved by the UCC, these changes only applied to students who entered the HR program during or after the Fall 2009 semester. Those who had declared HR as their area of study before this term were still able to graduate under the old curriculum requirements.

After the curriculum changes went into effect, WSU applied for and received certification through SHRM for its HRM program. The program was listed on the SHRM website as one whose curriculum conforms to the guidelines and became a recruiting tool Chris used often for the HRM program as well as the Management Department. In addition, because WSU's program now aligned with the SHRM guidelines, graduates of the program were eligible to take the SHRM Assurance of Learning Exam. This exam offers students the opportunity to distinguish themselves when applying for jobs by showing that they have sufficient knowledge to enter the HRM profession, setting them apart of other applicants (graduates of non-certified programs) who do not have this credential.

CHANGES TO THE HRM FIELD AND SHRM CURRICULUM GUIDELINES

Chris knew that the possibility for additional changes was coming again very soon to the HRM program. As she worked on her research, Pat had told him that there was a continued call for a change in characteristics for HRM professionals. Ulrich and his colleagues (2009; 2005) continued to advocate that HR professionals had new roles to fulfill within organization – human capital developer, employee advocate, strategic partner, functional expert, and HR leader. All of which have new competencies that HR professionals need to display. These new competencies include strategic contribution (change management, fast change, decision making, market-driven connectivity), personal credibility, effective relationships achieving results, communication skills), HR delivery (staffing, training and development, organizational design, HR metrics, legal compliance, performance management), business knowledge (knowledge of value chain, knowledge of firm's value proposition, labor knowledge), and HR technology. Project management was deemed important (Hayton et al., 2005) as was the capability to be an internal consultant (Vosburgh, 2007).

A survey of recent HR graduates performed by Mencl, Scott, Bourne, and Maranto (2010) showed statistical evidence that courses taken during a student's undergraduate program greatly impacted the extent to which alumni are proficient in core content areas meaning that students are able to apply what they have learned in HR courses in the workplace. The authors recommended that HRM faculty need to continually review the structure of their existing curricula to ensure that students are provided adequate knowledge of the core content areas. The authors also suggested that HR programs should incorporate more active learning into the classroom and highly recommended that internships be included in HR curricula.

Based on this and their own surveys of HR professionals, SHRM revised the Curriculum Guidelines in 2010. Table 2 shows a comparison between the content areas that were required and secondary in 2006 and those for 2010. This comparison shows that there are quite a few differences in the two versions of the Curriculum Guidelines. 9 of the 13 content areas that were required in 2008 were still required in 2010. However, 4 areas that were considered secondary in 2006 are now required, 2 that were required in 2006 were now secondary, 4 content areas became "integrated" which means that they should be covered or addressed in all required courses and two new content areas were introduced in 2010. In addition, the State of HR Education study sponsored by SHRM recommended that internships to be a required part of any HR program. Chris had heard that SHRM would be releasing another revised/updated Curriculum Guidelines in mid-2013. He knew that their program marginally met the previous guidelines and suspected that there would be several items missing when these new guidelines were released.

DECISION POINT

Chris knew that a decision had to be made soon. Based on the new SHRM Curriculum Guidelines (both 2010 and those anticipated in 2013) and Pat's survey of the literature regarding the competencies required to be a human resource professional, he believed the current curriculum in the HRM program needed to be changed again in order to maintain SHRM certification. Internships, project management, change management, internal consulting and business process redesign are just a few of the topic areas that need to be covered in the WSU undergraduate program in HR.

Most of academia is resistant to these types of "fast" changes and his HRM faculty was not an exception to this. Chris knew that the HR faculty would not be happy about revising the program again. They had just become accustomed to the new curriculum and had settled into a routine of established course contents and teaching rotations. Changing the course contents or adding additional courses required the faculty to spend more time prepping for classes which left less time for other projects and interests. Pat, the previous lead on the project, was focused on her research as she approached on the last year before going up for tenure. She also was in the process of developing a grant application for a research project meaning she would have less time available to teach in the upcoming year or two. Mike still grumbled about retirement but had recently taken on a new area of focus for the university, sustainability. Alex had become even more immersed in the development of the MBA program and had recently told Chris that he could only teach one HRM course per year. Robin was interested in helping out but she was also in the process of developing an outside consulting business to stay current in the field. Everyone seemed to be focused on his or her own needs and the last thing this group wanted to do was work on the time-consuming process of curriculum redesign. Chris knew he would be in for a very tough battle. In addition, Pat had asked for $7,500 to install PeopleSoft on the computers used for the new HRIS class. Was the SHRM certification worth all of this hassle and expense?

Chris suspected he would need to ask the Dean for an additional faculty position if the curriculum was to be revised and all of these new topic areas were to be taught in the Management Department. However, as can be seen in Table 1, the enrollment in the HR program has declined dramatically since the new curriculum guidelines went into effect while the enrollment for the university and department increased (the business college remained relatively flat). In 2009, enrollment in the program was 102 students. As of Fall 2011, it had dropped to 64 which was similar to the program enrollment in 2006.

The HRM faculty knew that enrollment was down but several of them had commented that they thought it was a good thing. The revised curriculum was more focused and had resulted in better students entering the HRM program. It also meant that the local HRM job market was not flooded with HRM graduates (as it had been in years past) making it easier for recent graduates to find jobs. Chris knew there could be other reasons for this decrease in enrollment.

In 2008 an associate's degree in HR was introduced at a local community college. It is possible that some older (non-traditional) students chose this option for their HRM education versus pursing a bachelor's degree. Another possibility is that the new HRM program did not allow students enough flexibility due to the fact that courses that were required for the HR degree are only offered once a year. This means that a student may revert to a degree in Business Administration because many of the courses are the same but there are more classes offered which could be taken to satisfy elective requirements. Students could learn HRM but not be in the degree program.

However, the Dean and others in the WSU administration were focused on growing enrollments so asking them for money for a new HRM faculty position would be a very difficult sale. The HRM program had been (and still was) an important part of the Management Department and the College of Business. The program was far from dead but wasn't as strong as in recent years. Could the enrollment in the HRM program return to previous levels if the curriculum was revised?

CONCLUSION

Chris knew he wasn't going to be able to resolve this dilemma that afternoon but he also knew he wasn't going to be able to avoid it for much longer. If the new curriculum was to be in place before they applied for recertification in the Fall of 2013, they needed to start the process very soon. He moved away from the window and sat back down at his desk. He had a meeting in an hour for which he needed to prepare. Maybe tomorrow would bring him a brilliant solution to this nagging problem.

DISCUSSION QUESTIONS

1. In the first revision, Pat, the most junior of the HRM faculty, was asked to lead the curriculum revision team which consisted of all senior, tenured faculty. In your opinion, was she the right person to lead the team? Why or why not?

2. At this time, the HR faculty are faced with a dilemma. Should the curriculum be changed to reflect the new SHRM Curriculum Guidelines even though the process is extensive and enrollment in the program is down? Why or why not?

3. If the decision is made to change the curriculum again, how should it be structured in order to best cover all of the material that needs to be addressed (according to the guidelines and the HR literature)? Is it possible to create a flexible curriculum that can easily adapt to changes in the workplace in a rigid, bureaucratic academic environment? How would you create such a curriculum?

4. Why isn't Chris more involved in the HRM curriculum redesign process? Should he be the one to lead the team through the next round of changes? Why or why not? If not, who should be the person to lead the team if additional personnel are not available?

5. Do you think that Chris' problems are unique to the academic environment or are they similar to those faced by managers in other environments or industries?

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Table 1: Enrollment Trends
(Fall Semester)

	2006	2007	2008	2009	2010	2011
WSU	18,664	19,265	19,761	20,712	20,903	N/A
CoB	2,157	2,201	2,376	2,353	2,199	N/A
Management	628	690	683	719	654	667
HRM	68	72	91	102	91	64

WSU - Total enrollment for the university
CoB - Total enrollment in the WSU College of Business
Management - Total enrollment in Management programs
HRM - Total enrollment in the HRM program

Table 2: SHRM Curriculum Guidelines (Undergraduate Content Areas)

Content Area	**2006**	**2010**
Employee and Labor Relations	Required	Required
Employment Law	Required	Required
HR and Organizational Strategy	Required	Required
HR Metrics and the Bottom Line	Required	Required
Health, Safety and Security	Required	Required
Performance Management	Required	Required
Staffing - Recruiting and Selection	Required	Required
Total Rewards/Compensation	Required	Required
Workforce Planning and Talent Management	Required	Required
Benefits	Secondary	Required
Job Analysis	Secondary	Required
Organizational Entry and Socialization	Secondary	Required
Training and Development	Secondary	Required
HR's Role in Organizations	Required	Integrated
HR and Globalization	Required	Integrated
Managing a Diverse Workforce	Secondary	Integrated
Ethics	N/A	Integrated
HR and Mergers and Acquisitions	Required	Secondary
Human Resource Information Systems	Required	Secondary
Career Planning	Secondary	Secondary
Downsizing	Secondary	Secondary
Internal Consulting	Secondary	Secondary
Outsourcing	Secondary	Secondary
Organizational Development	N/A	Secondary
Sustainability/Corporate Social Responsibility	N/A	Secondary
HR and the Entrepreneurial Firm	Secondary	N/A
HR and the High Tech Firm	Secondary	N/A

Required - Content to be covered in a required course
Integrated - Content area to be integrated into several courses
Secondary - Content not required to be covered in a required course
N/A - Content Area not listed in that year's Curriculum Guidelines

KALLEVIG'S NURSERY

Kyle Ristig, Centenary College of Louisiana

CASE DESCRIPTION

This case can be used to illustrate concepts of operating a small business faced with multiple issues. Considerations include the evaluation of competition, development of appropriate business lines, selection of target markets, and appropriate marketing strategies. The case has a difficulty level of three to four, and is designed to be taught in two class hours. Depending on the depth of detail the instructor intends to pursue, preparation time for the students will take from one to three hours.

CASE SYNOPSIS

John Kallevig owns and manages a nursery and landscaping business in the southern United States. He has been in the business for most of his adult life and has managed to build a successful business over that time. The past few years, however, have proven to be some of the more difficult years of his career. Business has slowed and John is now trying to determine how to pull out of this slump. John must look at re-energizing his current sales, developing new sources of income, and determining the future direction of the business.

BACKGROUND

For a moment, John Kallevig stood in silence. He wasn't certain how to respond to the customer that had just asked how long he had been at this location. He assumed she wasn't a new resident, nor with her tanned arms and face and dirt under her fingernails, did she appear to be new to the world of plants and gardening. He softly said “18 years” and noted the surprised look on the woman's face. She paid for her purchase, a flat of Marigolds and a 5-gallon Old Fashioned Rose bush, and said she'd return as she continued her planting. John just didn't understand how someone could not know they had been in business for 24 years – the last 18 years at the same location. John knew his business had hit a wall. Years ago his business was booming but then sales leveled off. John is now faced with the possibility of a stagnant business and he must figure out what must be done to move it back to a growth phase.

THE TYPE OF BUSINESS

Kallevig's Nursery is a retail and wholesale nursery and landscaping business located in a relatively large city in the southern United States. At the customer's discretion, they are able to not only design attractive and functional landscapes, but with full-time construction and maintenance crews, they are able to install and service any products they sell. With the exception of a few high-end clients, the wholesale side of the business provides the bulk of the design, installation, and maintenance of nursery products for commercial establishments. The irrigation business is equally divided between commercial businesses and retail customers for design and maintenance. The retail store operation is primarily for walk-in customers.

HISTORY OF THE BUSINESS

After graduating high school, John Kallevig worked as a laborer for a landscaper, then worked for Barnfield's Nursery and Gardening Center. Prior to the advent of the chain retailers, Bernard “Barney” Barnfield opened Barnfield's Nursery and Gardening Center. Barnfield's enjoyed an excellent reputation among customers of the small “mom and pop” nurseries in the area and Barney prided himself on providing personal service to all of his customers who, at the time, lived in the nearby subdivisions. During the time that John was working for Barney, the older residents of the subdivisions were gradually replaced by new homeowners who had less interest in gardening and landscaping. It really didn't matter that they didn't have much of an interest since the homes that they bought were already beautifully landscaped by the former residents, Barney's customers. Barney looked at John as a good, decent, hard-working young man who was eager to learn the business so he took him under his wing. For the next several years, Barney taught John everything he knew about landscaping and gardening, and running his nursery business. When Barney began to seriously consider retirement, he knew he would talk to John about taking over the business. As the owner was nearing his self-imposed retirement age of 65, he decided to take John in as a partner and eventually sell him the business. John worked even harder and learned the business from the ground up. Deferring some of his salary, John was able to eventually take over the business when he turned 29 and renamed it Kallevig's Nursery.

The nursery was originally located in the midst of several older subdivisions, far from major traffic arteries in the city. Six years after John took over the business, he sold the property and moved the business to its' current location. John believed that since the new location was at the intersection of an interstate highway and a major state highway, it would provide quick and easy access to the nursery from all parts of the surrounding area. This has proven correct as the city has grown along the interstate highway with the bulk of the growth centered around this particular state highway and interstate intersection.

The intersection is bounded by Kallevig's, several very large apartment complexes, a strip mall, and a self-service gas station and grocery store. Beyond the immediate boundaries of the intersection lie several large, older subdivisions, additional apartment complexes, grocery stores, fast food restaurants, casual dining restaurants, and strip malls.

When John moved the business to its' current location, the surrounding subdivisions were relatively new and bustling with young couples interested in beautifying their homes and property. Now the homes are occupied either by older people that don't have the physical ability to work in their yards, or by couples that are more interested in their children's activities. As a result, business from residents in the immediate area has dropped.

Because of the location, John has been approached several times by a representative of a national sign company wanting to lease space for the installation of one of its' LED billboards. The sign company would pay for all installation and utilities as well as $375 per month lease payment. John doesn't see any problems with the offer, but hasn't taken the time to fully investigate it and respond to the billboard representative.

THE LOCAL AREA AND MARKET

The city's population is about 245,000, with the immediate region supporting about 357,000 people. A thriving community college is located in the city, as well as the typical mix of retail, lodging, and service establishments for a metropolitan area of this size. The city's growth is slow but steady. The economy of the city is based on agriculture and manufacturing, although one significant portion of the manufacturing sector is experiencing a decline due to deteriorating economic conditions and competition from overseas manufacturers. The climate and geography of the area allow for outdoor activities for most of the year. The growing season typically begins in March and, with the exception of June through August, continues through October. The heat of the summer months tends to force residents to focus on maintenance of their landscaping rather than the addition new plantings.

With a population of about 245,000 residents, the city offers Kallevig's a diverse clientele. Currently, the apartment residents do not patronize Kallevig's nursery. Kallevig's retail customers primarily come from the surrounding older subdivisions and a few high-end subdivisions in the metropolitan area. Kallevig's commercial accounts are located throughout the metropolitan area and are concentrated in the fast-food industry (installation and maintenance of irrigation systems and landscaping).

PRODUCTS AND SERVICES OFFERED

Kallevig's Nursery provides retail plants to local consumers and wholesale plants to businesses. John adjusts the plant and flower mix to suit the particular growing season and only buys plants suitable for his particular climatic zone. In addition to his nursery products and indoor plants, Kallevig's Nursery offers insect control chemicals, seed, irrigation equipment and supplies, garden hand tools, plant containers and pots, and some smaller power equipment, primarily mowers, chain saws, weed eaters, hedge clippers, tillers, and edgers.

John Kallevig or one of his experts is typically available to provide free advice to walk-in consumers and direct the nursery's contract landscaping services (design, planting, and maintenance) for homeowners and businesses. Kallevig's Nursery also designs, installs, and services irrigation systems.

John prides himself on his knowledge of plants and gardening. Through his continuing education efforts, he has become one local television station's occasional “expert” on planting, gardening, and landscaping stories. He also writes a monthly gardening tips column for the local newspaper. The nursery is open five days a week, Tuesday through Saturday, 10 to 6, throughout the year, and is also open on Sundays, 12 to 4, March through May, and September through October. Other than his television appearances and newspaper articles, Kallevig's does not budget for marketing on a year-round basis. During the growing seasons of March through May and September through October, John purchases one small ad (3” X 3 1/4”) in the local newspaper's Sunday edition.

John has about seven acres on which he has the nursery and storage for his irrigation material and equipment. The building that houses the bookkeeper/receptionist, John's, James', and Marvin's offices, as well as products requiring inside storage such as lawn equipment and chemicals, is about 8,500 square feet. A portion of the property houses three 30' X 96' greenhouses used for live plants, flowers, and shrubs. Another portion of the property is used for storage of the irrigation and landscape construction equipment, while some of the property remains unused. Although not illuminated, when John moved the business to its' current location, he installed a painted 4' X 6' forest green sign titled “Kallevig's Nursery” in white letters at the entrance to his business.

John is now 53 and has been a voracious reader and perpetual student since taking over the business. He has not only read and studied plants, chemicals, grasses, and soil, but has attended seminars and conferences to remain up-to-date in the latest gardening techniques. In order to improve his business skills he has also taken advantage of small business classes at the local community college, and has occasionally utilized the services of SCORE, the Service Corps of Retired Executives, a non-profit group dedicated to assisting small business owners with specific small business issues. Unfortunately, John's mentor and the former nursery owner, died after John had owned the business for about six years.

Owner and Employees

John is married and has two young adult children. John Junior is 22 years old and recently graduated from one of the state's public universities with a bachelor's degree in political science. During the summer months, he worked as an intern for a state representative and is now a paid assistant to one of the state's congressional representatives in charge of the congressman's local district office. During the holiday season, typically a slow time for the nursery, John Junior helps out making some sales but primarily doing administrative work and taking inventory. While John Junior is more than willing to help his dad during the holiday season, he enjoys his job and would like to eventually become a paid campaign manager at the national level. Elizabeth, John's daughter, is 20 and recently completed a two year dental hygienist program. Since the program was hosted at a local community college, Elizabeth was able to work part-time for her father year-round for the past several years. She knows the business well and while she would like to continue to work part-time as needed, she is anxious to put her newly acquired dental skills to work. John's wife, Christina, is a librarian at the local high school and is eligible for state retirement. Because of her library work hours, 7:15 am to 2:45 pm, Monday through Friday, she enjoys helping John in the late afternoons and on weekends during the busy seasons March through May and September through October.

John relies heavily on two supervisors that have worked for him for about 7 years. When the CEO of a national "big box" hardware chain attempted to reduce labor costs by replacing many of their stores' resident "experts" with lower cost part-time labor, John was able to hire two laid off gardening center supervisors. With their gardening knowledge and retail experience, they have become essential to John's business. They are quite proficient in their areas of expertise – Marvin, in his early forties, specializes in plants, sod, and chemicals, and designs and installs landscaping for residential and commercial customers. James, in his mid-thirties, designs and installs residential and commercial irrigation systems as well as water features such as Koi ponds and fountains. John has spent time cross-training these "working" supervisors to learn each other's jobs and both have some business knowledge as well.

John also hired two young female employees, supervised by Marvin, that are quite knowledgeable in plant, flower, tree, and shrub characteristics and landscaping. John believes they are valuable assets in assisting walk-in customers as well as assisting Marvin and James with landscape design. Between John and his two "expert" nursery employees, someone is at the nursery everyday to provide free knowledgeable gardening advice.

Marvin supervises four full-time workers and three part-time seasonal workers that sell nursery products and install landscaping. James has a crew of three full-time workers that install and maintain Koi ponds, water features, and residential and commercial irrigation systems. Prior to hiring Marvin and James, John attempted to "do it all." With these supervisors on board, John has been able to spend time where he's needed most, whether selling plants, installing an irrigation system, helping with a customer's drainage problem, or correcting an accounts receivable issue. John supervises both Marvin and James, as well as the receptionist/bookkeeper for the business.

Since John has taken advantage of SCORE advice and various seminars, he is well aware of the need to pay his employees fairly or risk losing them to competitors. As a result, John has a policy of paying his employees the prevalent wage for the area based on their skills. John conducts annual performance evaluations with his supervisors and direct reports. He sits in on the evaluations his supervisors (Marvin and James) conduct with their employees. He provides modest health care, vision, dental, and life insurance coverage for his employees and believes the cost to his business results in lower employee turnover and greater employee morale. John also realizes that while he could lower his labor costs by hiring undocumented workers, he has chosen to utilize the E-Verify service from the Department of Homeland Security and hire only those workers legally able to work in this country.

COMPETITION

Kallevig's Nursery competes not only with exclusive nursery and landscaping businesses, but also with a number of businesses that market nursery related products secondary to their main products and services. The following table provides data on the businesses that John Kallevig believes competes with Kallevig's Nursery.

Store	Miles From Kallevig's	Plants	Gardening Tools & Equipment	Repair of Gardening Equipment	Landscape Design	Irrigation Design	Landscape Installation & Maintenance	Irrigation Installation & Maintenance	Years @ Present Location
Kallevig's	0	Y (Year-round)	Y (Year-round)	N	Y	Y	Y	Y	18
Marvin's Gardening Center	10	Y (Year-round)	Y (Year-round)	N	N	N	N	N	4
Rathburn's Hardware	14	N	Y (Year-round)	Y	N	N	N	N	4
Tools & More	28	N	Y (Year-round)	N	N	N	N	N	14
J&R Landscape & Irrigation	30	Y (Year - round)	Y (Year-round)	N	Y	Y	Y	Y	3
Newton Landscape Architecture	15	N	N	N	Y	N	Y	N	24
Southern Environment	18	N	N	N	Y	Y	Y	Y	5
Juniper's Nursery & Landscaping	11	Y (Year-round)	Y (Year-round)	N	Y	Y	Y	Y	11
MontgomeryGardens	41	Y (Year-round)	Y (Year-round)	Y	N	N	N	N	8
Mid-City Nursery	4	Y (Year-round)	Y (Year-round)	N	N	N	N	N	3
The Lillypad Nursery	27	Y (Year-round)	N	N	N	N	N	N	14

Store	Miles From Kallevig's	Plants	Gardening Tools & Equipment	Repair of Gardening Equipment	Landscape Design	Irrigation Design	Landscape Installation & Maintenance	Irrigation Installation & Maintenance	Years @ Present Location
Anthon's Gardening Center	5	Y (Year-round)	Y (Year-round)	N	N	N	N	N	8
Lowe's	12	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	9
Home Depot	14	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	11
True-Value Hardware	22	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	17
Wal-Mart	9	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	22
Marion's Grocery	17	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	31
Stewart's Dry Goods	6	Y (Seasonal)	Y (Seasonal)	N	N	N	N	N	27

THE FUTURE

At the age of 53, John must decide how to revive his business. The past 6 years or so have seen Kallevig's Nursery's business slowly decline. John cannot definitively put his finger on the cause of the decline. He suspects that it may be due to a change in residents of the surrounding subdivisions, but isn't certain. He would like to take advantage of his knowledge and skills as well as that of his employees. Specifically, he's wondering what he could do to increase his current sales and what additional revenue streams could he tap (if any)? Although not a priority, he's also wondering what else he might need to be thinking about that might affect the business now or sometime in the future.

THE MOST DANGEROUS WOMAN IN AMERICA: PAULA DEEN'S ETHICAL ISSUES

Phyllis G. Holland, Valdosta State University

CASE DESCRIPTION

"The Most Dangerous Woman in American" is Paula Deen who was described in these terms by one of her fellow chefs on the Food Network. Ms. Deen was originally criticized for the unhealthy ingredients which she featured in her recipes, but the criticism increased when she announced that she had been diagnosed with Type 2 diabetes. In fact, Ms. Deen had amassed considerable wealth with her unhealthy recipes and was viewed by some as promoting an unhealthy lifestyle. Since obesity is a risk factor for diabetes, she was accused of hypocrisy in that she continued in her usual mode three years after her diagnosis. She added insult to injury by timing her announcement of her diagnosis to coincide with her affiliation with a new diabetes drug. She became the target of criticism for allegedly promoting the kind of food that is a risk factor for diabetes and then capitalizing on a drug endorsement for the treatment.

The case provides a forum for discussion of the ethics of a decision that was personal but had business consequences. The issues of how to move past this crisis has an ethical dimension as well. This case has a level four difficulty. Seniors in Strategic Management courses are encouraged to consider the ethical aspects of decisions. This case allows both analysis in hindsight of what might or should have been done and requires decisions about how to maintain brand loyalty going forward.

This case is designed to be taught in a 50- minute class and is expected to require about an hour of outside preparation by students.

CASE SYNOPSIS

However, that food is not the only cause and that people may not eat something just because they see it prepared on television.

Deen Enterprises' On January 17, 2012, Paula Deen, famous for high calorie Southern cooking, went public with what amounted to an open secret: She had been diagnosed three years earlier with Type 2 Diabetes. During that three year period, she had continued to promote the type of foods that most people view as causing or at least contributing to diabetes. It appeared that people were lining up to sneer at her, to question her judgment, and her ethics. There is an often quoted test for judging the ethics of a decision: Imagine yourself explaining your decision on TV. The popular Food Network chef found herself in this situation as she explained her decision to keep her diagnosis of Type 2 diabetes a secret for three years. She timed her announcement to coincide with the announcement of her endorsement and contract with a diabetes drug.

While diet is a risk factor for diabetes, it is far from the only risk factor. Other factors include age, activity level, and family history. Diabetes is a serious disease and can lead to other conditions which are life-threating. Approximately 23 million Americans have the condition and because early symptoms are mild or nonexistent may not be aware of it. Students should realize, holdings and interests go well beyond food and are estimated to be worth approximately $10 million annually. The case requires students to review the ethical and financial implications of her decision. What is the responsibility of a personality such as Paula Deen to her fans? How should this responsibility affect her business decisions in the future? What steps should be taken to control damage to the Paula Deen brand?

THE ANNOUNCEMENT

On January 17, 2012, Paula Deen, chef, TV personality, and brand name, confirmed rumors that she has Type 2 diabetes. The diagnosis was three years old and had already been suspected and discussed in some quarters. In the past year, a Food Network rival, Anthony Bourdain had castigated her penchant for recipes loaded with butter, sugar, and other unhealthy ingredients and called her the "most dangerous person in America." Her response was that Mr. Bourdain should "get a life." He denied calling her "a diabetic scam artist" as reported by one website but did have some harsh comments (a Tweet actually) for her decision to become a paid spokeswoman for a diabetes medication and the timing of the two announcements. His tweet: "Thinking of getting into the leg-breaking business, so I can profitably sell crutches later."

This case reviews Ms. Deen's rise to fame, the scope of her empire, the nature of her illness, and possible alternatives for taking her business ventures forward under a firestorm of criticism

PAULA DEEN'S STORY

The story of Paula Deen's rise from an agoraphobic, impoverished divorced mother of two sons to celebrity chef and lifestyle brand has been told and retold. Briefly, she began cooking because it allowed her to remain in her house (which she was afraid to leave) and still make a living. She made bag lunches for Savannah, Georgia businesses in the beginning and later opened a restaurant, The Lady and Sons, in downtown Savannah. The restaurant drew large crowds with down- home, southern cooking. Cookbooks, television shows, a magazine, licensing and endorsements, a retail store, personal appearances, and the Y'all Come Inn beach rental on Tybee Island rounded out the Deen financial empire. *New York* magazine estimated that revenues from these enterprises were almost $10 million in 2010 and critics extrapolated that estimate to claim that income for the organization approximated $30 million since the diagnosis had been made. The sources of revenue and estimated income appear in Table 1. Paula Deen Enterprises, LLC is a privately held company and releases no financial or other information.

The Food Network carries three shows featuring Ms. Deen who is 65: Paula's Best Dishes, Paula's Home Cooking, and Paula's Party. Her son Bobby also has a show called Not

My Momma's Meals. This show features lighter version of some of Deen's recipes. With shows like Fat Chef, Sugar Rush, Ace of Cakes, Dessert First, Last Cake Standing, and Cupcake wars, the Food Channel is not a hot bed of health-consciousness. The Food Network reported average of 1.4 million viewers in January of 2012 which was reported to be a 40% increase in average viewers over the previous year.

DEEN CUISINE

Paula Deen is famous for her love of butter and her attachment to her deep fat fryer. She has created a "brunch" dish which consists of bacon, a fried egg, and a burger sandwiched between two donuts. She had deep fried Twinkies and provided a quiche recipe which called for a pound of bacon. In her interview on the Today show (January 17, 2012) she claimed that she "always encouraged moderation. People see me cooking all these wonderful, Southern, fattening recipes…it's for entertainment. People have to be responsible." She cited her admonition to Oprah Winfrey: "Like I told Oprah, 'Honey, I'm your cook, not your doctor. You have to be responsible'."

Type 2 Diabetes

Type 2 Diabetes is a long term condition caused by too much glucose, a type of sugar, in the blood. The body is unable to break down glucose into energy because of problems with insulin in the body. Insulin, a hormone, is either unable to breakdown the sugar in the blood for use by the cells or the body does not produce enough insulin to maintain normal blood sugar levels. Excess blood sugar accumulates in the blood and can be measured with a simple finger prick test.

In its early stages, diabetes can be easy to ignore because the diabetic feels well and may not experience dramatic symptoms. The condition is chronic and incurable and if unmanaged can lead to other life-threatening conditions. For example," the risk of stroke is two to four times higher for people with diabetes, and the death rate from heart disease is two to four times higher for people with diabetes than for people without the disease, according to the American Heart Association." Diabetics also have increased risk for nerve damage, kidney damage, eye and foot damage, hearing problems, osteoporosis and Alzheimer's disease.

Being overweight, over 45, and inactive (Ms. Dean was all three) increases the risk. Fat distribution (belly fat is more dangerous than hip and thigh fat), race (for reasons that have not been explained, African Americans, American Indians, Hispanics, and Asian-Americans are more likely to develop diabetes), and family history (parent or sibling with diabetes) are also risk factors.

Approximately 23 million Americans are thought to have Type 2 diabetes in what has been described as an epidemic. Some note however, that the diagnostic threshold for sugar levels of fasting blood sugar was lowered in 1997, and this change resulted in more individuals being classified as diabetic. The average blood sugar reading for Americans has remained unchanged during this time.

While there is no cure for Type 2 diabetes, the condition can be controlled by diet, exercise, and medication. In many sufferers, a carefully controlled diet with regular exercise is sufficient. However many diabetics choose medication over healthy living as their treatment. Type 2 is the most prevalent form of diabetes. About 90 per cent of the 25 million diabetics in the United States are classified as Type 2. The remaining 10 per cent of diabetics have Type 1 or juvenile onset diabetes. When the pancreas is unable to produce enough insulin to move blood sugar into cells, high blood readings occur. Type 1 requires daily insulin injections.

DIABETES IN A NEW LIGHT

Novo Nordisk, a pharmaceutical company, promotes the drug Victoza as an alternative to insulin-based medication. Paula Deen became their new spokesperson and appears on the company website, Diabetes in a New Light. Her announcement of this affiliation corresponded with the announcement of her condition. She switched from her previous medication to Victoza and has reportedly increased her treadmill time and quit drinking sweet tea. Critics suggest she has both a responsibility and an opportunity to go farther and revise her recipes to promote healthy eating.

THE CRITICS

There have been many outspoken critics since Ms. Deen's announcement of her condition and affiliation with Novo Nordisk. Most of the criticism relates to what she might have done or should have done. Anthony Bourdain, a competing Food Network chef, was angry about her food choices which continued to be unhealthy, in his view, after her diagnosis. Of particular concern was the three year gap between diagnosis and her announcement. These years could have been spent walking away from the fat, oil, and sugar based recipes toward healthier recipes. Ms. Deen explained the gap as a time of getting information: "I really sat on this information for a few years because I said, 'Oh, my gosh, what am I going to do about this? Is my life fixing to change? Am I no longer going to like my life?" She continued, "I had to have time to adjust and soak it all in and get up all the information that I could."

Another issue was the decision to promote a diabetic drug. Ms. Deen had been using another medication when approached by Novo Nordisk to endorse the noninsulin drug, Victoza, and participate in the company's online program for diabetics, Diabetes in a New Light. The new drug is expensive ($500 a month). Reportedly her sons, Bobby (41), and Jamie (44), were upset enough to consider leaving their mother's empire. Her long time publicist, Nancy Assuncao, did resign.

Mr. Bourdain commented on the drug connection: "When your signature dish is hamburger in between a doughnut, and you've been cheerfully selling this stuff knowing all along that you've got Type 2 diabetes…it's in bad taste if nothing else."

PAULA DEEN IN A NEW LIGHT

Paula Deen, the celebrity, refuses to blame the food. "I am who I am," she said. "I think the South gets a bad rap sometimes…" She has pointed out that filming her shows take only about 30 days a year and therefore does not represent her regular diet. She has also maintained that the recipes are for entertainment rather than health. "I've always encouraged moderation," she said. People see me cooking all these wonderful, Southern, fattening recipes...it's for entertainment. People have to be responsible."

Ms Deen's, personal approach to managing her diabetes has been to drop the sweet tea she previously drank all day, to walk on her treadmill, and to practice moderation in her diet. With these changes and her daily injections, her diabetes is reportedly well-controlled and she has dropped two pant sizes. For Paula Deen, the brand, however, there are further concerns. The next few months could determine whether her brand is in crisis or whether she had embraced still another opportunity. What is her responsibility to her fans? To her employees? To the Paula Deen brand? How should the ethical, economic, and personal trade-offs of this response be made? Should she change her approach to cooking and attempt to spin her recipes into lighter, healthier channels? Should she rely solely on medication or model a healthier lifestyle for her fans? Is healthy Southern cooking an opportunity that she could and should exploit?

Table 1: Revenue Estimates for Paula Deen Enterprises, LLC

Revenue Source	Revenue Estimate
Television shows	$620,000
Restaurants	$300,000
Books	$120,000
Magazines	$300,000
Licensing and Endorsements	$3,000,000
Speaking Fees	$5,500,000
Retail Sales	$60,000
Rental Properties	Not material
Total	**$9,900,000**
Source: New York Magazine 1/18/2012, nymag.com	

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MAIL FROM THE DIRECTOR

Unnikammu Moideenkutty, Sultan Qaboos University
Somnath Ghosh, Independent Consultant

CASE DESCRIPTION

The primary subject matter of this case concerns the attempt by the Director of a business school to influence his faculty members. The case has a difficulty level of four. The case is designed to be taught in one class hour and is expected to require about an hour of outside preparation by students.

CASE SYNOPSIS

This case describes the response from the faculty to an email from the new director of Indian School of Management (ISM). In the email the director refers to rumors that some of the faculty members are mistreating students' and threatens dire consequences. In response, a barrage of emails follows from various members of the faculty, expressing shock and anger at the tone of the director's email. As a result, whatever message the director intended to convey is totally forgotten. The case can be analyzed at two levels. At the surface level, the case is an example of hard downward influence and its consequences. From this perspective the case is suitable for discussing issues related to power and influence in undergraduate Organizational Behavior courses. At a deeper level, the case raises issues about the nature and role of leadership in academic settings where the leader is considered as 'first among equals' rather than a traditional boss. In this sense the case is suitable for analyzing issues of leadership in non-traditional contexts. As such, the case can be used in an advanced Organizational Behavior course. With the advent of knowledge work, more and more organizations are beginning to look like academic institutions. The traditional command and control approaches are no longer appropriate in such contexts. This case provides the context for discussing non-traditional approaches to leadership more appropriate to such organizations.

MAIL FROM THE DIRECTOR

Unni could'nt believe his eyes! As usual, he was checking his emails first thing in the morning, when he saw the following email from the new director addressed to all faculty:

From: Prof. Singh, Acting Director, Indian School of Management.
To: All Faculty
Subject: Treatment of students

I have heard some very disturbing rumors that some of the faculty members are mistreating our students, calling them "stupid" and making other humiliating remarks. There is even a rumor of some physical manhandling. I hope these are not true but just in case I am warning everybody that:

There will be no physical contact of any sort with students which might be misconstrued.
There will be no humiliation of students.

I want to remind everyone that ISM is not paying us good money to insult students. This sort of behavior is totally unacceptable and I will not tolerate it. If there is an official complaint, I will investigate it immediately and take the necessary action. We must maintain professional conduct in our dealings with students and colleagues. Thank you for your cooperation.

Unni was an assistant professor in Indian School of Management (ISM) in the Organizational Behavior (OB)/Human Resource Management (HRM) area. He had joined ISM soon after his PhD from the US three years ago. During his time here he had seen a few strange things, but this really took the cake. He wondered how an experienced and well educated academic could be so insensitive to his colleagues.

Professor Singh, derisively called the 'The Drill Sergeant' by his colleagues, became the acting director of the prestigious Indian School of Management (ISM) by default. The ISM was one of the top private business schools in the country. The organizational structure of ISM was similar to that of other such business schools in the country (Fig. 1). The previous director, a senior professor from a government management school, appointed for a five-year term, had thrown in the towel after only one year. Reasons cited for his departure included lack of support from the governing board of the school. According to the grapevine, he was heard commenting that, 'managing ISM faculty was like herding cats!' On their part, the ISM faculty was not sorry to see him go; they were getting tired of his micro management of their affairs. Little did they know that they were falling from the frying pan into the fire! Since no other suitable candidate could be found, the mantle fell on the senior most professor of ISM, who happened to be Prof. Singh, the Drill Sergeant. The Drill Sergeant was rumored to have a military background. Certainly there was something 'military' about his bearing and speech.

The institute had been particularly unlucky regarding its directors. An earlier director had left after only two years, complaining that the governing board was not supporting his efforts to recruit high quality faculty. Apparently the board had very rigid terms and conditions for faculty appointments which they were not willing to relax to attract good faculty. Being a private school, ISM was dependent on the goodwill of students for survival as the main source of income was from fees. At the same, there was a severe shortage of qualified business faculty in the country. It was difficult to recruit and retain good faculty. Unni wondered how the faculty would respond this email from Prof. Singh. There was some instability in the leadership of the school due to the turnover among the directors. Generally the faculty was used to being treated with respect and as professionals. He was quite certain that there would be hell to pay.

Recent world events (example: popular uprisings in the Middle East) have shown that electronic media, including emails are potent modes of communication for organizing support around common issues. Emails blur the line between formal and informal communication in organizations. Because it is written, an email is more formal than speech. At the same time, emails can be sent by anyone and accessed by anyone in the organization.

Unni didn't have to wait long, as expected, the email was treated with shock and anger by the faculty. The corridors of the institute were awash with angry mutterings. Finally, Narayanan, an old foe of the 'Drill Sergeant,' responded with the following email.

From: Narayanan
To: All faculty
Subject: Treatment of students.

I would like to register my protest to the language used in the email from the Acting Director which was based on a rumor, regarding the above subject, though it seems acceptable to other faculty!

We all like and respect our students at ISM. These students have earned that due to their polite and pleasant manners in general. I strongly feel that there were many more appropriate ways where this issue could be dealt with without using this threatening language, which reminded me of the sergeant's words during the first day in the Army service. We are professors working in an academic environment. During the last 9 years at ISM very few actual cases (not rumors) have occurred, where school regulations were violated and ended up with termination of services. However, I have not seen a hostile message similar to the one below ever sent to the general faculty.

Serious professors do not have time for rumors. It seems that most ISM rumors are generated during lunch break at the faculty club, so more we stay there the more we become infected. However one should investigate first before acting based on meeting with the concerned faculty, followed by a gentle reminder to the rest of the faculty would have been much better.

I hope ISM faculty will not keep receiving notes about the "termination of their contracts" using the slogan of following the school regulations. Based on my humble understanding of the school regulations, they are much gentler than that. Last but not least, I urge all ISM faculty to strive for keeping the ISM ship floating during this transition period.

Narayanan, was an old ISM hand who had had his innings in the corridors of power. Though a senior academic, he was still an assistant professor and was now back in his department trying to focus on his research and to get published. When Unni met Narayanan in the corridor and congratulated him on the bold stand, he muttered, 'It's a shame,' and hurried to his class. Dr. Narayanan's response opened the floodgate of frustration in the school. There followed a barrage of emails. The first one was from Dr. Murthy.

From: Dr. Murthy
To: All Faculty
Subject: Treatment of students
Dear Colleagues,

I do not know if there is a new style of management called "Management by Threats?" I have been at ISM for 7 years, dealt with three directors, and I have never received threatening notices "taking drastic actions," i.e., termination of the contract as the acting director explained it in his first meeting with the faculty, like the one we are receiving these days.

I cannot believe that based on a rumor, the acting director is warning every one, and I do not think also that ISM is paying us "good money" to bow to the students.

All of us recognize how the students are very polite and we respect everyone one of them, however, based on the policy of open doors we started receiving instructions from students that they must have an "A" grade, they are not submitting the cases in the due dates, they are not attending classes on time, whenever I discuss with a student why you did not submit the case? The answer is I do not have time. They started complaining about the exams, class times, assignments, and quizzes. I think there is a big difference between teaching students how to behave in class and humiliating them.

If there is a solid case (not a rumor), the acting director should investigate it with the concerned faculty and his HoD.

Finally, why the acting director is asking us to be good to students while he is not good with us? I feel like I am in a military camp not in an academic institution.

The next email was from Dr. Raj who was from the same department as Drs. Narayanan and Murthy.

From: Raj
To: All faculty
Dear Colleagues,

I reject (p-value = 0) the claims made by the Acting Director in his e-mail, because they are based on RUMORS.

And this from Prof. Ghosh, the Bengali professor of business communication.

As a new member of staff at ISM I felt I should control my urge to respond to the latest piece of writing dropped upon all of us. As a "greybeard" in academe, in my fourth decade of teaching, I am compelled to speak out now.

I must confess to being in a state of mild shock, ever since that (un) welcoming ceremony at ISM. Along with that "sargental" initiation, I have desperately tried to make sense of a series of hostile moves from the same source against my own section here, moves which render my recent hiring meaningless.

I find it hard to match the oral and written texts to which we collectively have been subjected, with the courteous, warm, friendly manners of my interviewers from ISM. The human feeling I took with me from that first encounter with them filled me with anticipation for my work at ISM. The subsequent experiences with my students (before exam and work stress set in!)- serene, polite and genuinely amiable, reinforced that first impression. So the question is, is all this part of the same reality? The same system?

Unlike Dr. Narayanan I have not undergone military training. But the tone and vocabulary of the communiqués from above here have brought me distant echoes of my days as a pupil in primary school under an autocratic headmaster. But we are in a business school, this is the year 2010 and we are academics. Can you imagine the damage to the name of the school should this document be sent to the wider academic community?

On the plus side, on educational terms something is gained: the latest text can be used as authentic training material about the language floor-supervisors in the factory ought not to use with their workers. And, judging from the contents of this text as well as its style, SOME of us need lessons not merely in BusComm but the basics of human communications.

And finally, this from Premila, the young lady from Mumbai and assistant professor in the information systems area. Apparently she was a constant companion of the acting director for lunch at the faculty club. She was upset by the implication that rumors were being hatched at the faculty club during lunch. Was she the source of the original rumor?

From: Premila
To: All Faculty
Subject: Treatment of students

I kindly request that you send your replies to the Acting Director directly. Please do not copy me on your replies. The replies to this memo would not do justice, if it insults other professors as quoted.

"ISM rumors are generated during the lunch break at the faculty club, so the more we stay there the more we become infected." I am sorry I do not wear Norton Antivirus gear to eliminate rumors when they surface, Unfortunately, it seems that the so called RUMORS are not rumors. However the students did not file their complaints in writing, therefore probably termed “Rumors”. If students do file complaints, then the result will be as was stated by Dr. Narayanan’s email below:

“During the last 9 years at ISM very few actual cases (not rumors) have occurred, where school regulations were violated and ended up with termination of services”

All I can say is that the matter is serious, and investigations cannot proceed without the filing of complaints. So are you willing to ask your students to file their complaints, if they think they are at disadvantage????????????

Please cool down and let’s stay focused on serving our customers, “The students”.

We lose the students, we lose the business.

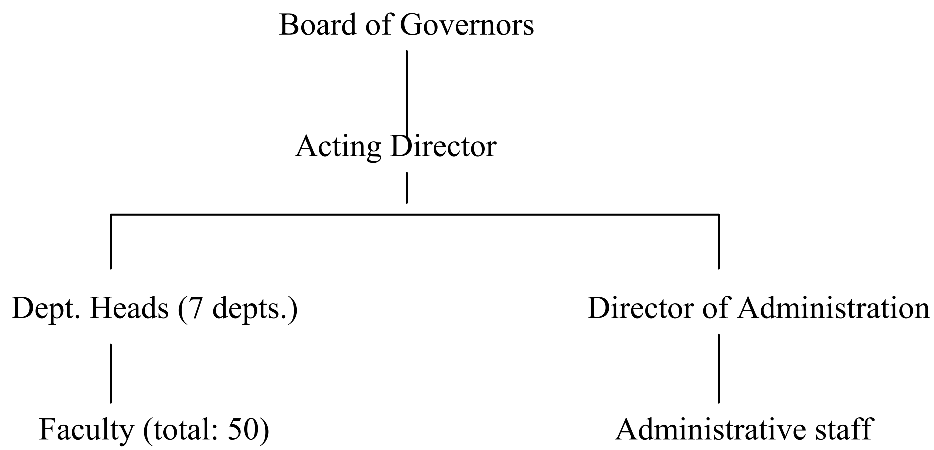
Your peace messenger, I mean peace, I really do.”

Much to the disappointment of faculty standing on the sidelines and gleefully enjoying this battle of emails, there were no further emails on the subject.

A few days later the booming voice of Dr. Moideen was heard in the corridors for the benefit of all who wished to hear, “You see, the whole thing was a misunderstanding. One student went to a professor with a question. The professor tapped him on his shoulder and said, “This stupid thing! You didn’t understand this stupid thing!” The poor student thought the professor was hitting him on his shoulder and calling him stupid. That’s what started this whole rumor thing!”

Unni was sitting in his office when he overheard Dr. Moideen’s analysis. What a disaster, in a way, he felt sorry for the acting director. Perhaps the poor guy was trying to establish his authority. Unfortunately, his insensitive message and perhaps his choice of the medium to deliver it had backfired. He had now lost face and had to retreat, licking his wounds. As an OB expert, Unni was intrigued by the leadership implications of the unfortunate incident. He wondered what suggestions he could have given to the acting director to avert this disaster.

Figure. 1:. Simplified Organizational Structure of ISM



PARK STERLING BANK: THE JOURNEY BEGINS!

Michael D. Evans, Winthrop University

CASE DESCRIPTION

The purpose of this case is to highlight the challenges faced in growing a community bank and the risks and potential rewards for investors. This case, based on the formation of Park Sterling Bank in Charlotte, NC, is intended for junior level courses in corporate finance, management, money and banking, or investments. The case can be discussed in 1 - 2 class periods and will require 3 hours of outside preparation by students. Specifically, students will assess the operating results of Park Sterling Bank, including the impact of the souring economy and the declining real estate market. They will also examine the role of management and bank directors in providing strategic direction while avoiding potential conflicts of interest that arose.

CASE SYNOPSIS

Park Sterling Bank commenced operations in 2006 in Charlotte, North Carolina. The organizers raised $45 million in start-up capital. This was the largest capital raise for a North Carolina community bank. The bank experienced rapid growth, largely based on its niche of real estate lending. It had attracted an experienced team of bankers. Each brought a substantial book of business to the bank. The volume of loans grew at a dizzying pace as did the bank's stock price. When the economy declined and real estate values fell, the bank was faced with an increasing amount of bad loans. A change in strategy was required to ensure the bank's future health. The Cherry Group, a group of former Wachovia Bank executives, presented a partnership proposal to the management of Park Sterling. If accepted, the Cherry Group would raise additional capital that would provide a cushion against bad loans and provide the ability to acquire other banks seeking to be acquired or merged. The acceptance of this proposal would require the resignation of all but two of the current board members so that members of the Cherry Group could take their place. The Board of Directors of Park Sterling Bank faced a monumental decision.

INTRODUCTION

Park Sterling Bank began operations in 2006 in Charlotte, North Carolina after the Organizers completed a capital raise of $45 million. This was the largest capital raise in North Carolina history for a community bank. The bank experienced rapid growth and its prospects appeared quite attractive. Accordingly, investors bid up the price of the stock from the initial

$10 per share to $18.75 in the first year of operations. The bank's growth was fueled by real estate lending. When the economy soured and real estate prices declined, the bank faced significant challenges managing its loan portfolio. Management felt that a change in strategy was required. A group of former Wachovia executives presented a proposal to partner with Park Sterling. The acceptance of this proposal offered the opportunity to raise additional capital which would provide a cushion against the souring loan portfolio and provide cash that could be used to acquire weaker banking franchises. The Board of Directors of Park Sterling Bank faced a monumental decision. Accepting the proposal would bring much needed capital. However, it would also significantly change the character of the bank. Should the Board continue on its current path or should it accept the proposal? An immediate decision was required.

PARK STERLING BANK

The bank was led by Bryan Kennedy and Frank Ix. Bryan most recently served as President of the North Carolina market for Regions Bank. Frank most recently served in an executive position with RBC Bank. Each possessed a wealth of banking experience, strong ties to the Charlotte community and contacts throughout the state. Larry Carroll, a nationally recognized financial planner, served as Chair of the Board of Directors.

Per its business plan, the bank initially secured a midtown office location for its initial branch and headquarters. Bryan and Frank were extremely successful in recruiting experienced bankers to join the de novo bank. All had previously worked with Bryan at Park Meridian and/or Regions Bank. These bankers had strong ties in the Charlotte market and an established client base. They were quite successful in bringing existing business (i.e. loans and deposits) with them to Park Sterling in addition to soliciting new business opportunities.

Table 1 – Committees of the Board of Directors

Executive	Loan	Audit
Larry Carroll, Chair	Averill Harkey, Chair	David Bishop, Chair
Tom Henson	Bailey Patrick	Mike Evans
Wil Webb	Chip Mark	Anne Leggett
Steve Luquire	Hooper Hardison	Shawn Quillan
Bryan Kennedy	Carl Showater	
Frank Ix		

A charter that delineated the responsibilities of each committee was written and approved by each committee and adopted by the full Board of Directors (see Table 1). The Executive Committee was charged with the management and oversight of the executive officers of the bank. This committee performed the performance appraisal of our President and established compensation levels for executives. They engaged in strategic planning. They also were required to review and approve all loans that exceeded a designated amount.

The Loan Committee was charged with reviewing and approving all loans that exceeded the assigned lending limit for each banker. The Loan Committee met monthly. A detailed write-up for each proposed loan was provided and an oral presentation was made. Committee members often quizzed the bankers on loan details (i.e., credit quality, collateral, interest rate, etc.). A vote was then taken to approve or reject the loan. On occasion, deal terms were modified as a result of feedback a banker received during his/her presentation.

The Audit Committee was responsible for the integrity of the financial statements and system of internal control as well as ensuring that the bank had sound policies in place regarding the Bank Secrecy Act, Anti-Money Laundering and other regulatory provisions. The Audit Committee hired the independent accounting firm that performed the annual audit. It also established a confidential system to investigate any complaints received from employees. Fortunately, none were ever received.

Park Sterling Bank began operations in October 2006. A calendar year was adopted. Accordingly, the first reporting period was for a short year. The bank had total assets of $68 million at year-end. Total assets increased to $246.7 million at December 31 of the following year which was its first full year of operation.

Shares of Park Sterling Bank were issued at $10. Investors noted the rapid growth of the bank. Further, there was a sense in the Charlotte community that Park Sterling Bank was in the enviable position of having sufficient capital to fuel growth, a strong management team and a strong Board of Directors. Accordingly, the shares were bid up in price. It should be noted that there was not a lot of float and there were only two market makers in the stock. Accordingly, one trade could move the stock price significantly. This was particularly true if a market order as opposed to a limit order was placed.

Within a year of commencing operations, shares traded at $18.75. It was a great time to be a part of Park Sterling Bank. The bank was growing like crazy. Future prospects looked fantastic and the stock price had taken off. This was particularly exciting to the board members and management and staff because this represented a significant gain on their initial investment. The board members and senior staff had each invested a minimum of $100,000 as part of the initial capitalization of the bank. Further, all owned options to purchase additional shares at the initial $10 stock price. What a potential windfall!

The gain in the price of the stock occurred even though the bank had not become profitable yet. The norm was three years for a de novo bank to become profitable. Given the growth prospects for the bank, investors believed that Park Sterling would achieve the goal of profitability faster than the norm. That turned out to be true. Unfortunately, the stock price began a steady decline from its high water mark. This did not cause any consternation among the Park Sterling team. It was felt that the stock had been subjected to irrational exuberance and was due to come back to earth.

STRATEGY

The bank's initial strategy was to market "comfortable banking" (i.e., high touch, fast decision making, long-term relationships) to professionals, small business owners and real estate developers. The real estate market in Charlotte was "sizzling" at the time of the bank's opening. New projects were being announced and started all over the Charlotte region. Park Sterling had cash from its capital raise to leverage. Generally, each dollar of capital could support $10 of assets. Thus, $45 million of capital was deemed sufficient to grow into a bank with approximately $450 million in assets. Park Sterling also had the goal of expanding in other geographic markets by attracting quality bankers from other institutions who worked in the targeted market (e.g. Raleigh, Greensboro and Wilmington).

The bankers hired by Park Sterling were quite successful in bringing business (i.e. loans and deposits) with them. Further, these individuals had worked in the Charlotte market for years so it was relatively easy to attract new business to the bank. Borrowers were attracted to the fact that all decision making was local. Further, decisions could be made in a timely fashion. There was no bureaucracy to deal with. Borrowers did not have to worry about working with a different banker every time they sought to borrow new money. All of Park Sterling's bankers owned shares and/or options to buy shares. Accordingly, there was no turnover among the banking staff.

Loans made by a bank must be funded in some way. Initially, some of the bank's original capital was utilized to fund loans. Deposits are another source of funding. Deposits come in two broad categories: core deposits and wholesale deposits. Core deposits are those obtained in the bank's local market(s). Core deposits (i.e. monies deposited locally in checking, savings and money market accounts and certificates of deposit) are valued more because they are more likely to remain with the bank for longer periods of time irrespective of changes in interest rates. Wholesale deposits are those acquired through brokers. Depositors are typically looking for the highest rate of interest they can receive. Accordingly, these deposits are sometimes referred to as "hot money" because the depositor has no loyalty to the bank. The depositor will move the money to another bank whenever a more attractive rate of interest can be obtained.

There was tremendous competition for core deposits in the Charlotte market after Park Sterling Bank commenced operations. The national and regional banks had vast branch networks throughout the region. Further, a number of other community banks operated in the region. Banks typically competed for local deposits by offering a high interest rate. Thus, one would often find competing bank ads touting their CD and money market rates. This competition served to increase rates in the local market. Accordingly, wholesale funding was appealing because it could be readily obtained. It was not based on effective marketing in one's local market and not subject to the "cut throat" competition for core deposits among all the competing banks in a given market. The interest rate paid for brokered deposits tended to be 50 – 100 basis points lower than CDs rates in the local market.

FINANCIAL POSITION AND OPERATING RESULTS

The initial strategy was executed with precision. Wholesale funding was secured. Loans, primarily real estate based, were made. During the first full year of operations, the Bank opened a branch in Wilmington, NC and added a second Charlotte branch in the SouthPark area. Vinton Fountain, a successful financial planner located in Wilmington, joined the Board to provide insight regarding the Wilmington market. At the end of 2008, the second full year of operations, the Bank's assets totaled \$428 million. A profit of \$1.546 million was reported. This amount included a one-time gain (\$1.514 million) for the recognition of a tax-deferred asset.

The Bank became "cash positive" relatively quickly in its existence and became profitable in its 7th full quarter of operations. This gave Park Sterling "bragging rights" among the other de novo banks that had come into existence in the 2-3 years prior to the opening of Park Sterling and those that started operations in the same timeframe. By agreement with its regulators, the bank adopted the policy of charging 1.5% of each new loan to its allowance for loan losses. This created an immediate expense each time a new loan was made. This was, however, a non-cash item (i.e., the bank did not pay out any cash related to this charge). A lag effect occurred such that banks experience losses in their initial years until the income generate from the loan portfolio exceeded operating expenses and the immediate expense incurred every time a new loan is made.

Table 2 – Park Sterling's Balance Sheet Items (000's)

	12/31/06	**12/31/07**	**12/31/08**
Assets	\$68,424	\$246,667	\$428,076
Deposits	25,409	185,602	351,327
Loans	42,647	226,541	371,272

It can be seen in Table 2 that assets grew by 73.5% from the 2007 to 2008. It became clear to the Board of Directors that additional capital would be required to allow for additional growth.

Table 3 – Park Sterling's Results of Operations (000s)

	2006	**2007**	**2008**
Interest Income	\$1,081	\$10,989	\$20,110
Interest Expense	159	4838	10471
Net Interest Income	922	6151	9639
Loan Loss Provision	640	2758	2544
Non Interest Income	1	13	36
Non Interest Expense	3297	5278	7099
Income Tax Expense			(1,514)
Net Income	(\$3,014)	(\$1,872)	\$1,546

De novo banks are prohibited from paying a cash dividend during the first three years of operation. Accordingly, Park Sterling could not pay a dividend to its shareholders even though it reported a substantial profit for 2008 (see Table 3). Alternatively, a 10% stock dividend was declared by the Board (i.e., each shareholder owned 10% more shares after the stock dividend). The price per share declined accordingly so that stockholder wealth was unaffected.

CHANGE IN THE ECONOMY

Banks were beginning to experience a deterioration in the quality of their loan portfolio. Loan defaults were increasing and declines in the value of real estate were experienced. Further, interest rates had declined significantly since Park Sterling began operations. Since most loans carry a variable interest rate, a decline in interest rates led to a decline in interest income. The challenge of managing interest rate risk took on greater importance. Each financial institution had to be careful to match the maturity of its loan portfolio with the maturity of its funding. In a time of falling interest rates, a bank did not want to be in the position of continuously pricing its loans downward while being locked in to pay an above market rate on certificates of deposit and other fixed obligations. A key metric was to maintain an attractive net interest margin and to continuously perform gap analysis.

The national banks incurred substantial challenges as a result of the real estate meltdown. Their capital position eroded as mortgages soured and the value of collateral associated with real estate loans declined. The Federal government responded with a plan, the Troubled Asset Relief Program (TARP) to "save" the banking system. The plan was modified over time. However, in its latest form, the government provided capital in exchange for preferred shares of a participating bank. The preferred shares carried a 5% dividend for the first 5 years and 9% thereafter. Participation in the TARP program was not limited to the national banks. Regional and community banks could also participate.

THE NEED FOR CAPITAL

As stated previously, the Board of Directors of Park Sterling Bank recognized that additional capital was required if the bank were to continue growing. Initially, two alternatives were considered.

1. Issue additional shares of stock
2. Issue debt securities

The Board did not view the issuance of new shares of stock favorably. The stock price had declined significantly in value. Shares now traded below the $10 initial price and below book value per share. Issuing new shares ran the risk of dilution which would lead to further declines in the price of the stock.

Accordingly, the Board focused on issuing debt securities. Issuing debt would obligate the bank to make timely payments of interest and principal. Nonetheless, this alternative appeared to be the more attractive of the two.

The Board began investigating the issuance of debt securities. An investment banking firm provided background info regarding the climate for raising capital. Pricing a debt issue was a challenge. Clearly, the interest rate had to be high enough to attract the desired capital. Conversely, the Board did not want to price the issue any higher than necessary in order to minimize annual interest expense.

As the Board began to consider seriously the issuance of debt, they became aware that participation in the TARP program was also an option. Participation in TARP appeared to be the least costly option for raising additional capital. Accordingly, bank management submitted an application for $10 million of TARP funding. Initially, encouraging feedback was received. The Board was convinced that TARP participation would be approved. Unfortunately, the process dragged on without a decision. Given the Bank's pressing need for additional capital, the Board decided to proceed with the issuance of debt securities. Ultimately, only one Charlotte-based community bank, Bank of Commerce, received TARP funding.

The Board approved the issuance of subordinated debentures. The securities carried a coupon rate of 11%. Interest was paid quarterly. They matured in 10 years. However, the bank had the right to redeem the debt after 5 years of issuance at par. The minimum investment was $50,000.

A prospectus was prepared and the subordinated debt was marketed to current shareholders, those who missed out on the initial stock offering and other potential investors. Prior to the beginning of the marketing campaign, each member of the board and senior management was asked to indicate how much they were willing to invest in the debt offering. Given the attractive interest rate, most of the Board members participated in the offering.
A total of $6.9 million was raised. The Board had hoped to raise $10 million. However, this amount provided sufficient capital for growth for an additional 2-3 years. The capital raise also increased the Bank's risk-based capital ratio to approximately 13.5%, well above the 10% threshold required to be considered "well-capitalized." It was clear that this was a short-term solution. It was hoped that another capital raise could be conducted once the economy improved and the banking sector returned to favor among the investment community.

CHANGE IN STRATEGY

The strategy that fueled Park Sterling's growth began to show cracks during 2009. First, regulators changed their stance toward wholesale funding. They encouraged banks to reduce their reliance on such funding by emphasizing core deposits. The initial business plan adopted by Park Sterling allowed for wholesale funding to comprise up to 70% of total deposits. This was clearly unacceptable in the current banking environment. The decision was made to curtail the use of wholesale funding. Accordingly, brokered certificates of deposit were allowed to mature without renewal. Instead, emphasis was placed on attracting core deposits. The compensation structure of the bankers was changed to reward them for attracting deposits from their customers in addition to generating loan volume.

Further, a concerted effort was made to de-emphasize real estate lending. At the end of the 2008, real estate loans comprised 88% of the total loan portfolio. Commercial loans comprised 10% of the total. The goal was to correct this imbalance.

The Charlotte region had lagged the country in feeling the adverse effects of the declining real estate market. For awhile, it was felt that "our neck of the woods" was immune from such woes. It turned out that the problems experienced by banks elsewhere eventually surfaced here. Park Sterling prided itself on its knowledgeable local bankers and ability to avoid problem loans. Unfortunately, the Charlotte market began to experience declining real estate values and developers who were no longer willing and/or able to carry their projects until the real estate market recovered. While Park Sterling was better positioned than many of its peers to meet this challenge, it was not immune from experiencing a spike in past due and non-performing loans. There also was an increase in other real estate owned (OREO). This occurs when the bank has to foreclose and take back property from a borrower. The property is a non-earning asset. Banks do not like to do this because the bank is then responsible for the maintenance of the property. It must also pay property taxes and incur any costs necessary to subsequently market the property. Banks often incur significant losses on the sale of such properties (i.e., the sale price is less than the outstanding balance on the loan) because potential buyers know that banks are eager to sell these properties and get them off of their books.

Park Sterling management took an active approach to managing its acquisition and development real estate portfolio. Bank personnel were specifically assigned to monitor all outstanding loans, to visit properties, talk with developers and revise loan terms where appropriate. While Park Sterling appeared in better position than many of its peers with respect to nonperforming loans, it was quite clear that the situation was getting worse and not better. Accordingly, the bank began to add substantially to its allowance for loan losses. A new model was adopted to compute the appropriate allowance based on a loan's risk grade. The simplistic approach of charging 1.5% of the loan amount was discontinued (see Table 4).

Table 4 – Total Loans and Allowance for Loan Losses

	12/31/06	12/31/07	12/31/08	12/31/09
Total Loans	$42,647	$226,541	$371,272	$397,564
Allowance for Loan Losses (ALL)	640	3,398	5,568	7,402
ALL/Loans	1.5%	1.5%	1.5%	1.86%

BANK REGULATION

Banks are regulated more than any other type of business. As a state chartered bank, the North Carolina Banking Commission served as the primary regulator. The bank was also regulated by the Federal Deposit Insurance Corporation (FDIC). A uniform metric of evaluating the financial health of banks was utilized. This metric is referred to as CAMELS.

1. **C**apital
2. **A**sset Quality
3. **M**anagement
4. **E**arnings
5. **L**iquidity
6. **S**ensitivity to Market Risk

A bank is evaluated on a scale of 1 – 5 for each component with 1 being the highest evaluation. Banks cannot disclose the CAMELS scores received. Such scores are for senior management and the board only. Institutions receiving a score of 3 - 5 may be subjected to heightened scrutiny and may be directed to undertake specific actions to improve the financial health of the bank.

THIRD FULL YEAR OF OPERATIONS

At the end of 2009, the 3rd full year of operations, assets totaled $473 million, an increase of 10.5% over the prior year. Real estate loans comprised 87.8% of the total loan portfolio. Commercial real estate loans as a percent of total loans fell from 68.42% at the end of 2007 to 63.74%. Net income for the year was $577,000. While this amount was substantially lower than the previous year, one must be reminded that 2008 net income included a substantial one-time gain.

The concentration of real estate loans, particularly acquisition and development, appeared problematic. Loan renewals were approved to buy developers time to ride out the economic storm and save their projects. In some cases, Park Sterling bankers "brokered" deals for the sale of properties in order to reduce the bank's exposure to potential losses. In other cases, loan terms were modified to afford the developer an opportunity to tread water until market conditions improved. Where possible, Park Sterling bankers requested additional collateral and/or principal pay downs as a condition of renewing a loan. Interest rate floors were added to provide a measure of protection against interest rate risk.

Community banks were under tremendous pressure. Two North Carolina banks, Cape Fear and Cooperative, failed. Both were based in Wilmington. Others were fighting for survival. Most community banks had relied heavily on real estate loans for growth. Now that such loans were souring, a number of banks faced the daunting challenge of needing to raise additional capital at a time when the banking sector was out of favor. Park Sterling Bank had been fortunate to raise additional capital via subordinated debt. However, the amount raised was not likely sufficient to absorb losses emanating from the loan portfolio and provide for the future growth of the bank as well.

Groups of prominent bankers, armed with private equity monies, emerged to pursue the strategy of buying failed banks from the FDIC. Most prominent were North American Financial Holdings (NAFH) led by Gene Taylor, a former Bank of America executive and Blue Ridge, led by Milton Jones, also a former Bank of America executive. Each adopted the strategy of bidding on failed banks and negotiating a loss sharing arrangement with the FDIC. In one transaction, Gene Taylor's group also negotiated a reduction in the TARP payoff for the failed bank acquired. The jury is still out on this strategy. However, it must be noted that NAFH has been successful in acquiring several failed banks from the FDIC and Blue Ridge has also made an acquisition. The question is, "Can these disparate parts be fashioned into a successful banking enterprise?"

PARTNERSHIP PROPOSAL

During the 1st quarter of 2010, senior management received a proposal from the Cherry Group to partner together to create an $8 to $10 billion banking franchise with operations in the Carolinas and Virginia. The Cherry Group was led by Jim Cherry. Jim possessed over 30 years of banking experience. He served as CEO of Mid-Atlantic Banking and Regional Executive/President of Virginia Banking for Wachovia Bank. His team included David Gaines, the proposed Chief Financial Officer. David had over 20 years of banking experience and had served in a host of financial and risk management positions for Wachovia Bank. Leslie (Bud) Baker, retired Chairman of Wachovia Corporation, would assume the position of Chairman of the Board of Park Sterling. He would be joined on the Board by Walter Ayers, retired President of the Virginia Bankers Association; Jean Davis, retired Senior Executive Vice President for Operations, Technology and eCommerce for Wachovia Corporation; and Jeffrey Kane, retired Senior VP in charge of the Charlotte Office of the Federal Reserve Bank of Richmond. Larry Carroll and Thomas Henson, original Park Sterling Directors, would continue to serve on the Board. All other current Park Sterling board members would resign if the proposal was accepted.

Initially, the Cherry Group proposed to raise $400 million in capital by issuing new shares of stock. It was estimated that new shares could be issued at a price of $9 - $11 per share. Shares were currently trading in the $6.50 range. So the capital raise would give an immediate lift to the price of Park Sterling's stock. Armed with fresh capital, the new management team would seek to make acquisitions in markets that they knew well. Further, the goal was to avoid banks that were at or near failure. FDIC assisted deals would not be a primary focus. Instead, the focus would be on banks that lacked depth of management, limited access to capital, with "tired directors" and those in attractive markets seeking merger/buyout opportunities.

Bryan Kennedy, President of Park Sterling, advocated for the Board to accept the proposal. He felt that this was an attractive opportunity to enhance the wealth of our shareholders over the long-term. The additional capital would clearly allow Park Sterling to address the problems in its loan portfolio (i.e. provide defensive capital). The bank would also be armed with plenty of offensive capital to be used for bank acquisition and organic growth (i.e. growing by adding branches/loan production offices in new markets and adding new products). Accepting this proposal would change the character of the bank. Park Sterling would no longer be the local player where "a feeling of fraternity among board members and staff existed." It would also require that all but two of the existing directors resign their Board seat.

After considerable discussion, the Board decided to pursue the partnership proposal. Keefe, Bruyette & Woods was engaged as the lead manager and sole book runner. Sandler O'Neill + Partners, L.P., Morgan Keegan & Company and Scott & Stringfellow were selected to serve as co-managers. The proposed new top management team conducted presentations across the country to explain the proposed strategy and to sell potential investors on the potential of the "new Park Sterling." The stock price experienced a jump on the news of the proposed partnership.

Upon completion of the road show, the board learned that the targeted capital raise and pricing might be overly optimistic. The investment banker advised that the amount that could be raised would approximate $230 million at a price in the $7 - $9 range. Again, Bryan Kennedy encouraged the Board to proceed with the planned offering. The Board was not excited about the change in outlook, but felt that on balance it still made sense to move forward if the Cherry Group could attract capital at $7 per share or higher.

The Board was informed of the date that the deal would be priced. The group was instructed that they would have 30 minutes to accept or reject the deal. Given the limited time to make a decision, the Board appointed a "Pricing Committee" to receive the call from the investment banker, assess the proposed deal terms, and provide an accept/reject answer to the investment banker.

The call arrived at the appointed hour. The investment banker informed the pricing committee that some of the potential investors had backed out. The proposed stock offering would only raise $150 million at $6.50 per share. This was disappointing news to say the least. Some of the Pricing Committee members posed questions. Others vented their frustration at the investment bankers. While none of the Pricing Committee members was pleased with the turn of events, the clock was ticking and a decision was required.

SHANGHAI-TOKYO INTERNATIONAL FERRY COMPANY: A RISK MANAGEMENT CASE

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Charles Y. Tang, Pace University

CASE DESCRIPTION

The primary subject matter of this case is risk assessment. Students are asked to perform a risk assessment of an international company to help management \identify the threats to its business and the potential treatments. The case is appropriate for an undergraduate or graduate auditing course. The case is designed to be taught in one class hour and is expected to require approximately three hours of outside preparation by students. The case could be adapted to an international business or management course in which the organizational structure (i.e., joint venture) and foreign exchange issues are emphasized. The events described in this case are based on real world experiences, but all names have been disguised.

CASE SYNOPSIS

The case relates to risk assessment in a multinational organization which a joint venture between entities in two different countries. It is loosely based on a real world situation and so, the organization's name and potential identifying information are disguised.

The case is about a multinational company that is owned by Chinese and Japanese partners in a joint venture relationship. The company has been in business for a number of years and operates one ferry boat carrying passengers and cargo between China and Japan. The business is competitive (low barrier to entry), seasonal (most income received in second half of year), directional (higher volume from China), and skewed (high income from cargo shipments). The ferry boat is aging and the company is concerned about the replacement cost. Also, all payments are made in foreign currencies (US Dollars or Japanese yen) which are converted into the local currency at year end. The company currently absorbs all foreign exchange losses but may not be able to do so indefinitely.

The company is concerned about its market position and is interested in performing a risk assessment, using elements of the COSO/ERM framework, to help identify threats and potential risk mitigating strategies.

INTRODUCTION

Shanghai-Tokyo International Ferry Co. Ltd or ShangTIF Co. (the company) was founded in 1985 and is a joint venture between Shanghai Ocean Shipping Co. and a Japanese private citizen. Shanghai Ocean Shipping Co., the Chinese co-owner, is one of the major multinational enterprises in the world specializing in global shipping, modern logistics, and ship building and repairing. The Japanese co-owner is one of the wealthiest people in the world with business interests in various industries. However, he prefers that his name remain confidential and private. Having achieved his initial goals, the Japanese co-owner is not interested in providing any additional capital infusion into the business.

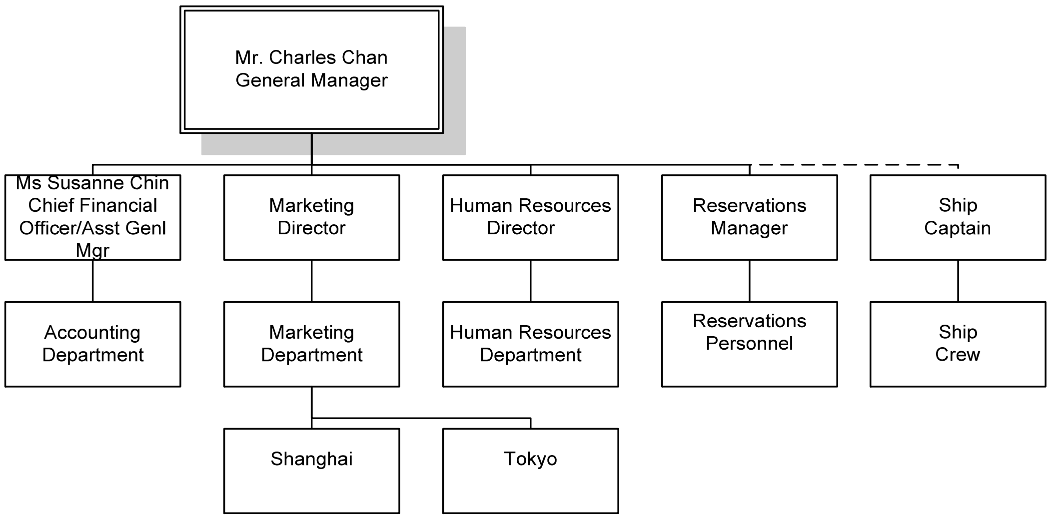
ShangTIF is located in Shanghai, China and operates a 345 person ferry boat that transports passengers and cargo across the Sea of Japan (or East Sea). The ship has one primary route, China to Japan and it makes round trips between Shanghai and Tokyo, Japan. The ferry boat departs from Shanghai on Thursdays and arrives in Japan on Mondays; it departs Japan on Tuesdays and return to Shanghai on Thursdays.

COMPANY STRUCTURE

ShangTIF is headed by a general manager Mr. Charles Chan who joined the company at its inception. He is supported by various departments including Accounting, Marketing, Reservations, and Human Resources. Key executive levels within the company are the chief financial officer, a marketing director and the human resources manager. Ms. Suzanne Chin serves as the chief financial officer and assistant general manager. Mr. Chan has a good relationship with the owners but is expected to be succeeded by Ms. Chin in case his employment is terminated for any reason with the organization.

Since the company operates in Japan, each department including the crew has at least one Japanese speaking employee. The company rents its corporate offices in Shanghai as well as a satellite office and reservation center in Japan. It leases docking spaces in both China and Japan from its owners. The company has a total of 30 employees in both the Shanghai and Tokyo offices. Overall, ShangTIF operates from a simple corporate structure as depicted in its organization chart below:

Shanghai-Tokyo International Ferry Co. Ltd
Organizational Structure



An important element of the company is the passenger crew. Since one of the joint venture partners is in a similar business, the crew is rented from this parent company. However, the rental cost is increasing each year and the company wants to manage its overall expenses. It is interested in exploring ways to streamline staff in order to reduce both personnel and occupancy costs.

INDUSTRY PROFILE

The ferry business is highly regulated and government approval is needed in order to operate a route. ShangTIF is registered in China and is limited to its one route, China-Japan, and has no expansion plans beyond its current destinations. As a Chinese registered company, Shanghai TIF is required to use the Accounting Standards for Business Enterprises or China GAAP for accounting and reporting purposes.

Although the business is regulated it is also competitive since the barrier to entry is fairly low. However, as a ferry company, ShangTIF must comply with international maritime safety regulations. These regulations cover fire protection, safety regulations, navigation systems, cargo operations safety, and environmental issues. The company has implemented all safety standards and the applicable certificates are on file to evidence compliance.

ShangTIF also needs governmental approval from both operating countries (i.e., Japan and China) in order to operate its business. The approval process is relatively easy and a number of ferry companies have entered the marketplace competing primarily on prices. In order to compete successfully ShangTIF relies on its competitive advantage of quality and outstanding customer service including timely delivery. Since it transports passengers as well as cargo, it is considered a passenger ferry and so receives favorable treatment from customs because of the passengers on board. This allows it always be on time with its cargo deliveries. If classified as a cargo company, the ship must be docked offshore and linger in a queue which could take up to seven days as it waits to unload its freight. Therefore, ShangTIF considers its product a premium service and charges a higher rate than its competitors. However, its cost structure is also higher than its competitors.

BUSINESS OPERATIONS AND FINANCIAL INFORMATION

ShangTIF operates its business using only one ship. The ship was purchased in 1985 for 28 million Renminbi (Rmb) and it has a 35 year useful life. The replacement cost for a similar ship ranges from 200-300 million Rmb. The ship is overhauled annually for 10 days at a cost of 5-6 million RMB. It undergoes weekly inspections and any minor repairs on Fridays when it is at its home pier in Shanghai. Since this is the only ship, it must be kept in top condition at all times. The configuration of the ship allows for 250 containers in the bottom and 354 passenger spaces.

ShangTIF earns 205 million Rmb in annual revenue, with cargo shipments accounting for 88% of the total. This includes surcharge revenue which is earned on the export tax charged to shippers. Its annual passenger volume is 10,000 even though it takes two days to complete each journey between China and Japan. This compares unfavorably to air travel between the two countries which takes approximately two hours. However, the company is in a niche market and its ideal passenger is an individual who is afraid to fly or simply has extra time and wishes to enjoy the scenery.

ShangTIF's business is highly seasonal, with the first half of the year being lower and the second half much higher. Typically, the period of May-June historically has the lowest volume levels and the month of August experiencing the highest volume levels. This generally places a strain on the company's resources as it is unable to meet all its cargo shipment demands. The business is also highly directional in that the China to Japan route has a higher occupancy rate for cargo than the return trip. This gives the company some pricing power and it generally charges a higher price for cargo heading to Japan. This imbalance in cargo space does impact the company since it must cover its fixed costs regardless of the cargo levels. As a result, it offers discount to Chinese exporters if they will guaranteed cargo coming back from Japan.

Japan is located in an area known as ‘The Ring of Fire’, an area with many natural disasters such as earthquakes and volcanoes. A major earthquake or volcanic activity could impact the company’s operations. For instance, the 2011 Japanese earthquake had a negative impact on the company’s passenger volume as the Chinese curtailed their travel to Japan. This equated to a reduction of approximately 3,000 passengers in the first half of 2011 with a corresponding revenue shortfall of 1 million Rmb. The rising cost of fuel is also having an impact on the company’s business. Fuel costs ranges from 30-40 million Rmb annually and is currently 30% of the company’s total costs. This cost is greatly impacted by the worldwide and local demand for crude oil.

ShangTIF sources cargo through two channels, its passengers or a forwarding agency. The company’s marketing department works with tour operators to identify higher wealth passengers who might be inclined to take a leisurely two day journey by sea. It works with the forwarding agency to find related cargo. The company’s reputation in the market place for good customer service and prompt arrivals makes it easy to attract shipments.

The company accepts payments for all services in US dollars for exports and in Japanese Yen for imports. At year end, it converts these currencies into its reporting currency, Rmb, using the current exchange rates. This results in a currency loss since the Rmb is stronger relative to the US dollar and Japanese Yen. (China and Japan agreed in December 2011 to begin direct trading of their currencies thus eliminating the need for businesses to first convert their currencies into US Dollars. This could impact ShangTIF in the future but it was not a known event at the time of the case).

The following exchange rates existed at the time of the case:

Rmb/Yen – 12.477
Rmb/US Dollar – 0.1547
US Dollar/Yen – 80.605

The company absorbs all losses which may not be sustainable into the future. Overall, the company’s accounting transactions are fairly simple with no fair value or related party issues. The chief financial officer believes that the current accounting information system is adequate for the company and has no plans to upgrade it.

CALL TO ACTION

The company is concerned about its industry position and is interested in performing a risk assessment to identify the threats to its business and the potential treatments. Since there is no risk manager or audit personnel on staff, you are tasked with this assignment.

To achieve this goal, you need to:

1. Identify at least 10 business risks facing ShangTIF and the business objective (at least 2 risks per objective) impacted using the risk methodology provided in Appendix A.
   (You might wish to consult a business law textbook and a reliable website to learn more about joint ventures and especially Chinese joint ventures.)
   a. Define the business risk and using language applicable to the company
   b. Employ judgment to prioritize the risks identified using the qualitative measures of high, medium and low.
   c. Provide a brief justification for the ranking using information provided in the case.
   d. Indicate the risk response strategy (i.e., Avoid, Reduce, Share or Accept) that management could use to address the identified risks.
2. Suggest control activities that management could implement to address the risks identified.
   (Note: control activities are usually risk reduction strategies which may not be necessary for all risk responses)
3. Organize your responses using the format below:

Entity's Objective	Specific Risk	Risk Ranking/ Justification	Risk Response	Control Activity

APPENDIX A

BUSINESS RISK FRAMEWORK

This framework was developed by the authors using the objectives from the COSO/ERM framework. The specific risks are not exhaustive and were identified through brainstorming.

Objectives:			
Strategic (risks that relate to doing the wrong things)	**Operating (risks that relate to doing the right things the wrong way)**	**Reporting (risks that relate to losing financial resources or incurring unacceptable liabilities)**	**Compliance (risks that relate to inaccurate or non-relevant information, unreliable systems, and inaccurate or misleading reports)**
Political/Cultural	Hiring	Availability of capital	Laws and regulations
Natural and man-made disasters	Knowledge and skills of work force	Interest rates for capital	Regulatory reporting
Sufficiency of systems	Development and training of work force	Creditworthiness of client	Securities law
Industry	Size/Safety of work force	Cash availability for investing	Transfer Pricing Tax Issues
Competitors	Reliability/Protection of systems	Securities held	Environmental
Financial Markets	Procurement Practices	Receivables	Antitrust law
Outsourcing	Technology/Obsolescence	Inventory	
Organizational Planning	Physical plant and other tangible assets	Derivatives	
Resource allocation by the organization	Development, Quality, Pricing, Cost, and Delivery of products	Accounting issues	
Monitoring by the organization	Knowledge and intellectual property	Budgets	
Credit Granting Policies	Consumer protection	Accrual Tax Issues	
Mergers, acquisitions, and divestitures	Customer Satisfaction	Financial reporting	
Joint ventures and alliance of the organization			
Leadership Vision and Judgment			
Relevance and accuracy of measurements of financial information			
Succession Planning			
Tone at the Top			
Management - Accountability, Authority, Responsibility			
Ethics			
Reputation			
Company Values			
Fraud and illegal acts			

Objectives:			
Strategic (risks that relate to doing the wrong things)	**Operating (risks that relate to doing the right things the wrong way)**	**Reporting (risks that relate to losing financial resources or incurring unacceptable liabilities)**	**Compliance (risks that relate to inaccurate or non-relevant information, unreliable systems, and inaccurate or misleading reports)**
Investor/Creditor Relations			
Performance rewards for employees			
Employee Benefits			
Workplace environment			
Diversification			