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Instructors' Notes

Editors

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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 Cases for Instructor's Note 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.

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Inge Nickerson, Barry University

Charles Rarick, Purdue University, Calumet

AV CORPORATE: SOFTWARE TOOL PROJECT

Manuel C. Manuel II, 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.

INSTRUCTOR’S NOTES

Technological change is inevitable for many companies. As such, processes are often realigned in order to serve customers better, faster and more efficiently. The case narrates the issues raised by the three teams under the Anti Virus operations team related a software tool development project under Kenneth Tirona, the project manager. In the case, it can be seen that, as the software tool was being developed, the File Analysis Services team streamlined its process to remove unnecessary tasks, which led to new requirements arising for the software tool. The learning curve of employees affected should also be taken into consideration as they cope with the changes in their tasks and responsibilities as a result of the process streamlining.

These changes often bring about “perpetual projects” with requirements that continuously evolve. Therefore, all stakeholders need to understand the impact such projects will have on the company, its processes and its resources.

If the class is divided into case groups, the instructor can assign one group to present the case in a class session, explaining their 1) identification and analysis of the problem and 2) recommendations to resolve the problem, which can include answers to the guide questions. The presentation should take around 20 – 30 minutes. The other case groups can also come up with their own analysis and recommendations which would serve as takeoff points for the discussion after the presentation. This discussion can involve questions being asked by the non – presenting groups and the instructor which the presenting group should be able to answer. In the course of the discussion, non – presenting groups may explain how they tackled the case, especially if it differs from the way the presenting group tackled the case. It is envisioned that in this exchange, the students will be able to judge for themselves whether the different analyses and recommendations offered are plausible and feasible. The instructor also contributes perspectives in the course of the discussion. To bring the discussion to an end, the instructor gives a summary of the key points that were raised and what concepts discussed in class were reinforced through the case.

CASE OVERVIEW

The case study focuses on issues faced by a software tool development team headed by a project manager, Kenneth Tirona. These issues were raised during the presentation of the software tool prototype to the management panel composed of the managers of the three teams under the Anti Virus Operations team that would be using the tool for their processes. This resulted in a deadlock at the end of the meeting. This led to Kenneth reviewing the project to see what recommendations could be made to resolve the deadlock and to ensure that this project does not turn into a "perpetual project".

One major issue which was raised by Mark Rago, the manager for the File Analysis Services team, was that the software tool being developed no longer fit the new processes that were being used by his team. One recommendation that was suggested was to delay the release of the software tool until all of the process changes have been completed. This was one major source of contention among the four people in the meeting. Other recommendations like pushing through with the release of the tool and working on the necessary changes after the release were also raised.

Guide questions were formulated to help direct students in their analysis of the case. These can serve as discussion starters after the presentation.

DISCUSSION QUESTIONS

1. If you were Kenneth, how would you resolve the deadlock?

Recommendations that Kenneth can pursue to resolve the deadlock include the following:

Immediate

Top Management Support

Kenneth can gather top management support by proactively managing drastic changes that may arise in the course of the project or aligning the project's goals to expected process changes and making sure that top management is properly informed about such actions.

Temporary Workaround

As a temporary workaround, the newly developed tool can already be used by delaying pending changes to existing processes specifically the changes that are yet to be implemented. However, this will require a discussion among Mark, Kenneth and the CEO/Project Board on an appropriate timeline and scope. Kenneth should work with Mark in order to identify key issues that will arise from delaying the project or delaying the process changes. Joseph and Elvie should also be informed about the results of such discussion as this may impact on their processes as well especially if there are processes involved which have shared resources among the three teams.

On hindsight, assuming that Kenneth properly followed the steps in product development, he would have known from the beginning that the needs of each team are constantly changing. Moreover, having worked before as a Quality Assurance Specialist, he would have known the complexities and the demand fluctuations for these teams. With this knowledge, Kenneth should have made sure that the project was built to be customizable from the very beginning. The program must then allow future incremental updates that can add features without interrupting the entire system.

Future Term

Change Management

A change management process must be in place within the organization – especially one with dynamic processes – in order to avoid such problems in future projects. This change management process can be incorporated into the Admin Support Group for accountability and monitoring purposes. The important thing here is to make sure that the details of the change management process are discussed across all departments since this will affect the whole organization. Everyone, from top management to rank and file employees, has to be on the same page when it comes to approaching change management in AV Corporate.

Agile Project Management

Kenneth can use agile project management – a process of releasing a project in smaller increments at a faster rate especially if requirements are often changing. Recognizing such freeze points or the point where changes will no longer be accommodated, together with the change management process in place, allows for better monitoring of such changes. And because a project is released in smaller increments, monitoring of changes along the way and the impacts these changes have on the operations of a particular team can be done more effectively and can be more focused.

2. **How would you manage these changes from the perspective of the team managers (e.g., Mark Rago), the project manager (Kenneth) or the CEO/Project Board?**

Possible answers:

Mark (Team Manager). Changes are inevitable, especially with today's environment of fast – paced and dynamic technological change. Information Technology (IT) management necessarily covers change management as a way to handle our ever evolving world. Management of IT, however, entails that we do not change just for the sake of changing but to consider the costs and implications of such changes. Having a process to oversee these changes helps us see an overall picture and help us better align the business and IT strategies. This change management process will make departments more responsible and accountable for introducing changes especially if these changes impact not just on the processes and interactions within one team, e.g., the Web Analysis team in the Anti Virus Operations team but on processes and interactions across teams, e.g., all four teams (Web Analysis, File Analysis, Email Analysis and Quality Assurance) in the AntiVirus Operations department.

Kenneth (Project Manager). Most IT projects operate in an environment larger than the project itself. Project Managers should be able to manage risks that are present in a fast-paced technological environment and incorporate strategies to handle these. For example, Kenneth could have split the project into two phases with Phase 1 ending with the release of a beta version months before the impending changes for Mark's team were scheduled to be made and Phase 2 incorporating changes arising from the process improvement in the final version just in time for Mark's team's scheduled process change.

CEO/Project Board. Fast-paced changes result in redundancy costs from projects that are obsolete even before they are released to projects that overshoot their deadlines perpetually due to ever changing project scopes. Thus, strategically aligning changes in a company's environment should be done to avoid such costs. Companies must be able to set strategic directions and ensure that these are incorporated in department strategies so that they move in the same direction.

Phased-parallel installation of the new system can be considered. This approach would seem to be the most costly and time consuming way of installing a new system but this may be the best way to proceed. For one, hundreds or even thousands of viruses are discovered every day and therefore the need arises for antivirus software being updated at least once day. Top grade antivirus software will even update virus definition every hour. Given that the tool being developed by Kenneth is crucial to the operation and integration of each team, it is very risky to directly install and automate everything. It is very usual for programs like this to be plagued with bugs even after rigorous alpha-beta testing.

In addition, it might still be too early to consider automating these new processes that both Mark and Elvie are talking about. As we all know, automating a flawed manual process will just magnify its every minute defect. That is why there is a preference for releasing the tool now since it would give the company a chance to first try out the new system before adding new functionalities to it.

The role of top management (CEO/Project Board) here is very crucial. The savings from adopting a new process inside a team may be less than the added cost of delaying the project so Kenneth must clearly show this and relay the information to top management so they will be able to formulate recommendations on how to manage these changes to the project.

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.

INSTRUCTOR'S NOTES

One of the most challenging issues a company can face when it comes to product development is learning about changes being introduced by external forces that impact on the feasibility or viability of the product being developed or to be launched, as in the case of AV Corporate. The announcement from Microsoft was definitely not something J. M.'s product development team and Connie's marketing team were expecting, and it could not have come at a worse time than just a few weeks after the announcement of the new product.

Given the impact of Microsoft's announcement on the new product, J.M. and Connie had to think of ways to deal with the expected questions and fears coming from the owners, their customers and the company's investors. Dealing with such would allow J.M. and Connie to show the owners of AV Corporate that they are on top of the situation and they are proactively looking for solutions that would be beneficial to all stakeholders.

If the class is divided into case groups, the instructor can assign one group to present the case in a class session, explaining their 1) identification and analysis of the problem and 2) recommendations to resolve the problem, which can include answers to the guide questions. The presentation should take around 20 – 30 minutes. The other case groups can also come up with their own analysis and recommendations which would serve as takeoff points for the discussion after the presentation. This discussion can involve questions being asked by the non – presenting groups and the instructor which the presenting group should be able to answer. In the course of the discussion, non – presenting groups may explain how they tackled the case, especially if it differs from the way the presenting group tackled the case. It is envisioned that in this exchange, the students will be able to judge for themselves whether the different analyses and recommendations offered are plausible and feasible. The instructor also contributes perspectives in the course of the discussion. To bring the discussion to an end, the instructor gives a summary of the key points that were raised and what concepts discussed in class were reinforced through the case.

CASE OVERVIEW

The case study starts off with a description of a new antivirus product development project that seemed to be well on its way to a successful launch. Then an announcement by Microsoft about its release of a new operating system catches the product development team headed by J.M Montelibano and the marketing team headed by Connie Nicdao off – guard especially since Microsoft could not guarantee that the antivirus that was to be launched would be work with the new operating system. This led to questions and fears from important stakeholders of the company: the owners, investors and customers.

Given this, Connie and J. M. had to come up with recommendations to deal with the situation that would address such questions and fears. 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.

Guide questions were formulated to help direct students in their analysis of the case. These can serve as discussion starters after the presentation.

DISCUSSION QUESTIONS

1. **If you were Connie and J. M., how would you evaluate the options you had available to salvage your project? How would you appeal to both your customers and the owners of the firm?**

From a cost effectiveness perspective, the option to sell the product as is and offer free or discounted upgrades to the product's version once they are able to roll out a product compatible with the new Microsoft operating system is the most cost effective approach. This allows the company to continue marketing and selling the product and at the same time commit to selling an upgrade at a reduced price once the compatible version is available, guaranteeing not one, but two sales. This puts pressure on J. M. and his product development team to come up with the compatible version for customers.

Delaying the marketing and sale of the already announced product may make customers who are already set to purchase the product to instead approach another company who may already have a compatible product ready for purchase. Customers also have to consider how their own operations will be affected by the decision of AV Corporate to delay things until a compatible version is developed, tested, and launched. More often than not, customers buy a particular product like software at a time when they need such a product to boost the effectiveness and efficiency of their business processes. Any delay in purchase may impact negatively on their operations. Additionally, delaying the already announced product will paint a negative picture to company's shareholders and potential customers.

The approach of offering free or discounted upgrades allows for both product development and marketing to proceed at the same time – instead of looking at this as a sequential process. Among the needs of this approach are the following:

a. A commitment from marketing that there is a viable number of customers that are ready to upgrade to the new AV Corporate product even with the new Microsoft platform already available.

b. A commitment from product development regarding the time frame/schedule when the compatible product can be made available.

c. It is important to make sure that this time frame/schedule is in sync with their customers' expectations, i.e., if the majority of existing customers are upgrading in one year then the time frame/schedule should assure that the new product should be ready before that.

2. If you were J. M., what steps would you have taken to avoid the problems they faced early in the development of your project?

J. M. faced such problems because he was handling the project in such a way that it was confined to the project scope while ignoring the operating environment. This kind of problem continually occurs where unexpected changes (whether from entities internal to the company like departments or entities external to the company like Microsoft, as mentioned in the case) can render processes or even entire product lines obsolete. Looking at the problems J. M. faced, we can apply lessons learned from operations management where we need to work closely with suppliers (sometimes even competitors) in order to ensure the success of projects that operate on such a scale.

Some competitive dimensions can be taken into consideration when dealing with the problems J. M. faced:

a. Delivery Reliability – this dimension stresses the importance of delivering the product or service when promised.

b. Flexibility and New Product Introduction Speed – this dimension stresses the importance of the time required for a company to develop a new product and to either convert, streamline or manage its processes to deliver such a product.

In order to achieve this, J. M. needs to recommend the following changes to the company's management:

a. Identify vendors and other companies that are integral to the success of the company's products and of the company's service delivery.

b. Include a review process in the product development process that includes vendors and other companies (like Microsoft and perhaps other platform developers) that are integral to the development of the product.

These changes may entail a deeper understanding of the company's supply chain and how this supply chain is being currently managed and what improvements need to be done to better manage it.

Other aspects that can be considered are:

a. Thorough and methodical planning

Planning is the first phase of the product development process. Steps in this phase include the assessment of current and future technological developments and the construction of a regularly updated product plan, which is developed so that changes in the competitive environment and changes in technology can be reflected. As was evident in the case, these were not properly done by AV Corporate.

Had these steps been done, they would not be faced with the challenge they are currently experiencing. An up-to-date product plan would have helped the company preempt the release of a new version of Windows. If the project team carefully mapped out Microsoft's platform history timeline, they would have seen the pattern of release of new versions that Microsoft seemed to follow (which is at least every three years). Thus, they could have done something to address the compatibility issue early on instead of being caught by surprise.

b. Cross – functional representation in the product development team

As evidenced by the snapshot of the company's product development process shown in the case, only two departments were mainly involved in the project: marketing and product development. The other teams, technical support and antivirus operations, were not directly involved. This suggests a lack of cross-functional representation in the project team.

Cross-functional representation can be achieved by ensuring that members from every department (which can vary across departments depending on their level of participation) become members of the project team. This is done to ensure that all perspectives are taken into consideration during decision-making. This is also done to avoid conflicts between the said departments. If the project team would have included members from other departments, their current predicament could have been avoided. For example, having a member from the technical support department – who would be knowledgeable with computer software, which is what their department works with regularly – could have helped foresee the dilemma at hand and found a way to prevent it.

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.

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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.

INSTRUCTORS' NOTES

Potential Pre-Class Readings and Student Preparation

The readings below are available from Harvard Business School Publishing and are offered as suggestions if the instructor wishes to assign pre-case readings.

- Ethics: A Basic Framework by Lynn Sharp Paine, Revision Date: May 15, 2007, Publication Date: Oct 12, 2006, 307059-PDF-ENG, Length:8p (Provides a basic framework for ethical analysis of management decisions, policies, and plans of action).

- Moral Theory and Frameworks by Andrew Wicks, Bidhan Parmar, and Jared Harris, Publication Date:Jan 12, 2009, UV1039-PDF-ENG Length:13p. This technical note outlines background theories of ethics that are relevant to managerial decision-making and develops a framework that managers can use to enhance their ability to make good choices.

In "Ethics: A Basic Framework" Lynn Sharp Paine focuses on four fundamental questions to guide decision makers contemplating a course of action in a business context: Is the action consistent with basic duties? Does it respect the rights of affected parties? Does it reflect best practices? Is it compatible with the decision maker's core values? Paine elaborates on key concepts in each of these questions, including duties, rights, best practices, and core value commitments. Application of these concepts involves a decision making process with several steps, information gathering and identifying relevant standards, while maintaining objectivity in evaluating situations and forming value judgments about them. This reading concludes with a list of widely endorsed standards of corporate conduct and a worksheet to guide one through the decision making process.

In "Moral Theory and Frameworks" the authors focus on three areas of ethics: principles of conduct, character of persons and companies, and consequences of potential actions. The analysis of principles of conduct relies on a duty-based or deontological perspective. An argument is given to support "common moral values" such as promise-keeping, non-maleficence (do no harm), trust, respect for property, personal freedom and fairness. Crucial questions that an individual might ask, especially someone in a managerial role, are also provided. An example would be, "Would this act violate relevant principles or standards of conduct?" The section on character and virtue explores values such as integrity, trustworthiness and courage. Crucial questions from this perspective would include, "What character traits do managers need to be successful over time?" The discussion of consequences of potential actions deals with achieving morally defensible goals, anticipating outcomes and recognizing how stakeholders are affected by possible decisions. Crucial questions here would analyze priorities and attempt to identify likely courses of action that satisfy most relevant stakeholders.

Definitions

The following concepts typically have a large role in students' analyses of this situation. It is useful to gauge students' understanding of these everyday terms, encouraging deeper thought about their meaning and their application to business situations, including this particular case.

Fair – definitions will typically highlight accordance with rules or standards, and treating people equally, as common meanings of fairness. In the popular textbook, Business Ethics, O.C. Ferrell defines the term as, "the quality of being just, equitable and impartial." (8^{th} edition, 63). Ferrell discusses the notion of reciprocity in connection with fairness, giving and receiving in social relationships. Fairness would also include the idea of receiving what one is entitled to, what is just, or what is deemed appropriate in a particular context.

Reasonable – determining what is "appropriate" in a given situation implies a level of understanding and sound judgment. This concept also connotes an ability to provide a justification or argument in support of a position or action, rather than basing one's choices on whim or knee-jerk reaction. Reasonableness applies to one's capacity to discern what is fair in a given context.

Ethical – refers to principles or rules used to determine right and wrong. In Business Ethics, O.C. Ferrell describes several moral philosophies which can influence one's perceptions of what is ethical: Egoism views the self or individual as the primary moral value. Utilitarianism holds that "ethical" relates to values that produce the greatest good for the greatest number. Deontology or duty-based ethics supports the idea that human beings have identifiable rights and responsibilities, and that moral values are (for the most part) universal and slow to change. Relativism, on the other hand, argues that morality has no absolutes, but varies according to culture and history; for example, that values and expectations differ between Americans and Icelanders. Whether or not a person is wholly committed to a single philosophical perspective, as human beings we do appeal to these moral principles in our decision making and to justify our choices.

These three concepts are central to this case. Students will find many points for discussion and debate by applying these perspectives to this case.

The Questions

In contemplating how to respond to Jack's e-mail, Ingibergur has to balance a number of competing and at times conflicting factors. As a small businessman, he offers a product and service to people from many countries and cultures. His goal is to make a profit and provide for his family.

All information and prices are available through interaction on the website. His original negotiation with Jack was based this information and reasonable expectations. He went out of his way to accommodate Jack's request for immediate alternative accommodations, going so far as putting him in an expensive 3-bedroom apartment for about a week that was not rented out while waiting for the upstairs Suite #30 to become available.

In responding to Jack's request, where should he draw the line between his own interests and those of his guest and what should he do, if anything?

Specific Discussion Questions and Suggestions

This case has multiple issues, particularly for small business owners and for business in an international context. Students will typically express a variety of opinions about responsibilities and fairness in this situation. These questions can guide discussion:

1. **Defend Dr. Totten's expectations of privacy and quietness. Is his request an "American" way of responding to a negative business experience? Could his expectations be shaped by American cultural influences?**

    Students who have travelled to a foreign country or with study-abroad experiences may comment on cultural differences between those countries and the United States. Personal expectations and interactions are shaped by one's own cultural background. These are commonly noted in international business: local customs to acknowledge, behaviors acceptable in one country that are unacceptable in another, differences in "personal space" expectations, and conventions of language or linguistic differences, to name a only a few. For example, these units are advertised on the internet and elsewhere as "luxury apartments" though priced similar to upscale hotel offerings in the United States and Canada (http://www.hotelstravel.com/Europe/IS/Reykjavik/CastleHouseEmbassyLuxuryApartments.html). In the U.S. this establishment might be referred to as an "extended stay" hotel or "corporate housing." Students can discuss how this linguistic difference might shape expectations, especially regarding the type of fellow tenants sharing the building and their possible behaviors (the weekend travelers, ski junkets, and parties).

2. Does the owner of the rental properties have an ethical obligation or duty to respond to Totten's appeal to be relocated? Why or why not?

Students (and some people in business contexts) often view "do nothing" as an attractive option when confronted with ethical dilemmas. In this case it is useful for students to consider the possible consequences if the owner were to simply ignore the request from the soon-to-be leaving tenant. The owner's willingness to respond is also different from the view that the owner has a duty to do so. Encourage students to use the moral theories to justify the claim that there is a duty to respond to this request.

3. Defend Totten's request for a partial refund of the rent, based on the difference in price between units and the number of days occupied. What are the justifications for his request? Which of those justifications have merit, is his request reasonable?

Students should be reminded that almost one week was spent (granted, across the lake) in the owner's premiere suite (#70, 1400 sq. ft.) for the same price as the agreed-upon smaller unit. If correct, how does this factor into Totten's refund request? Should it? The concepts of reasonableness and fairness are clearly applicable here.

4. How should the owner respond to Totten's request? What options does the owner have? What would constitute a fair resolution to this situation?

Several options are possible. However, students tend to see options as "black or white," so the challenge is to encourage use of moral imagination in order to develop creative responses aimed at a fair and reasonable resolution. Students may suggest some of these possibilities, and can discuss the merits of each one:

a. Do nothing, no response to Totten's request. Though an option, this is far from an ideal one. There is the possibility that ignoring a tenant's request could lead to bad publicity and poor reviews of the establishment. Online reviews are very common in this industry and may have great influence on consumers' choices.

b. Grant the request for a partial refund. This would require some careful calculations involving a "fair" price for the unused balcony, even the exchange rate. How much to refund? Does Totten's suggestion to "split the difference" have merit? Students may also be challenged to calculate the approximate sum requested.

c. Deny the request. To what extent should the owner justify this decision to the renter? What might those justifications be? What are possible consequences of this decision?

d. Do something in between granting and denying. Typically this will be an advanced response from students, requiring moral imagination and careful reflection on the extent to which the renter's request should be compensated. Students should discuss justifications (economic and otherwise) for this resolution. What are the possibilities?

In fact, the owner of the rental units did select option "d" above. In a written response, included below, the owner provides justifications for an alternative proposal. The owner's message could be introduced to students at or toward the end of their deliberations, holding suspense as to how the situation was actually resolved. It should be noted that the owner's response has three aspects to it:

1. The conversion rate had changed since their initial agreement, and though the owner raised this issue with the renter, nothing was done about it.
2. When the situation first occurred, the renter was given a choice of where to relocate, and according to the owner should now be happy or satisfied with that selection.
3. The owner offers the renter a generous alternative, though not a refund of any kind. Justifications for each of these points could be discussed, especially for the third one. Even if chances are low that Totten might take advantage of the owner's proposition, could the offer alter Totten's attitude about his experience with this business?

A BUSINESS OWNER RESPONDS

Sent: Sat, April 23, 20xx 7:52:57 AM
Subject: Re: Apartment #30 - leaving on Wednesday

When we made our original agreement the conversion rate of the dollar to the (Icelandic) krona was much higher than when you arrived.

I raised this issue with you but since you told me you had limited funds, I made no further attempt to try to get a fair price for the rent.

When you told me you found apt. 10 noisy when apt. 20 above was occupied I offered you apt. 50, which has a concrete ceiling, or apt. 30 on the second floor.

You chose apt. 30, even if it was more expensive.

I am sorry if you are now unhappy with your choice, but I am not willing to change the rent you have already paid.

However, I should like to offer you a 10 day stay with us in any apartment for free, at any time in the future, if available, should you like to visit again by yourself or with your family or friends, or should you wish to give this stay to your parents or family.

Best regards
Ingibergur

CASE TEACHING CONSIDERATIONS

In Instructor's Notes Exhibits #1 and #2, additional photographs of the various apartments discussed in the case are presented. These may be used at the instructor's discretion and presented when they see fit to augment or challenge discussion by students.

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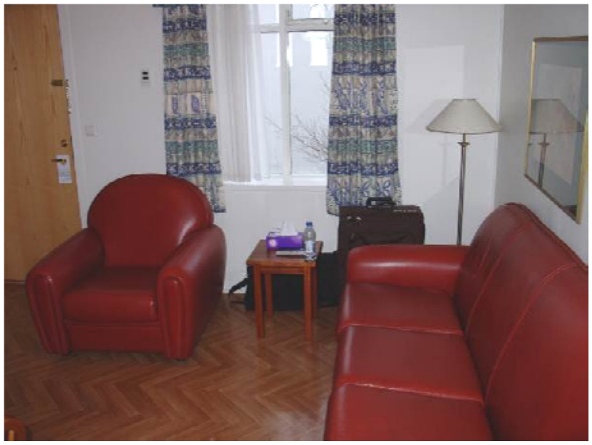
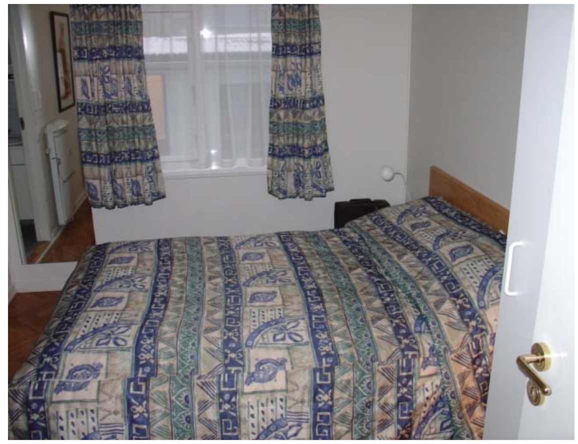
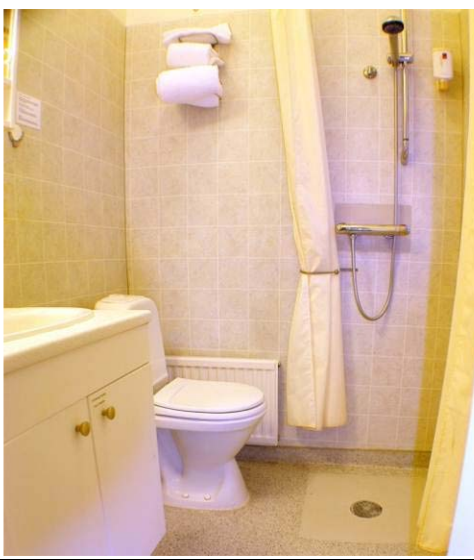
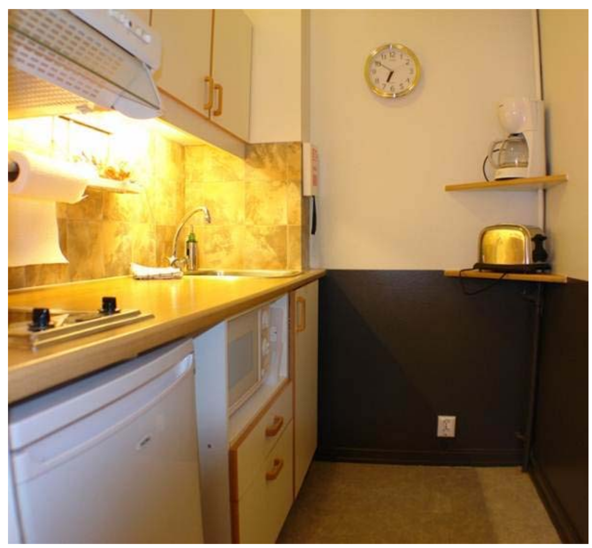
INSTRUCTOR'S NOTES EXHIBIT 1.
ADDITIONAL RENTAL PROPERTY PHOTOGRAPHS
SKALHOLTSSTIGUR 2A, SUITE #30

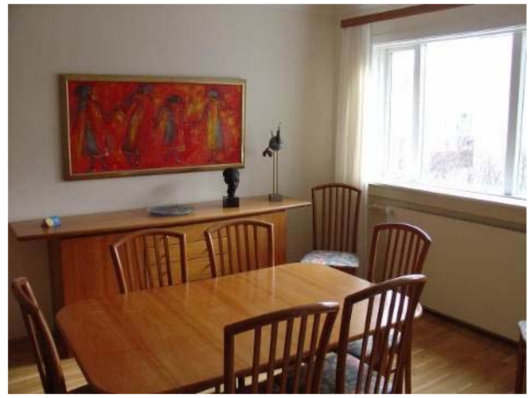
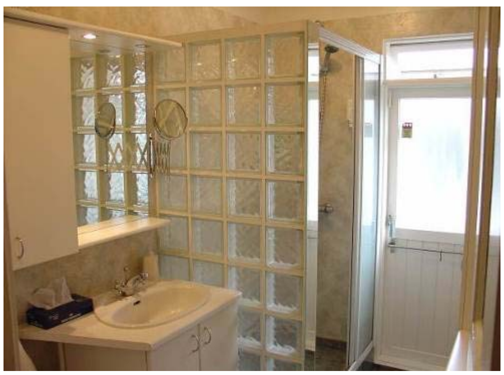
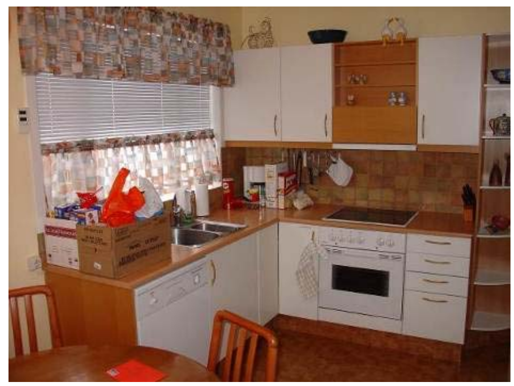
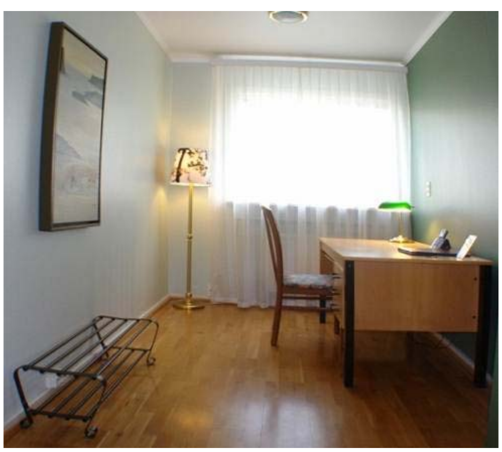
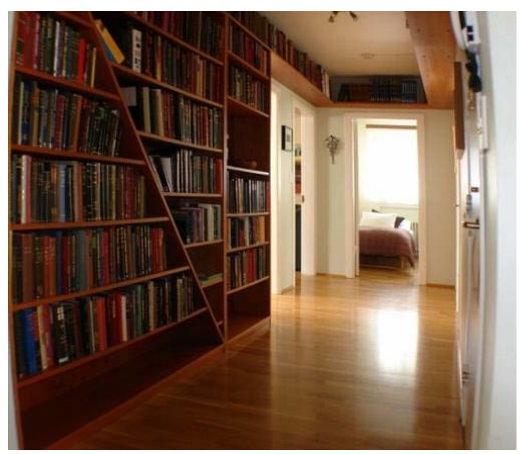


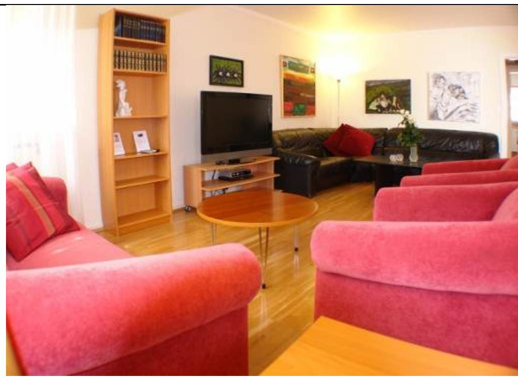
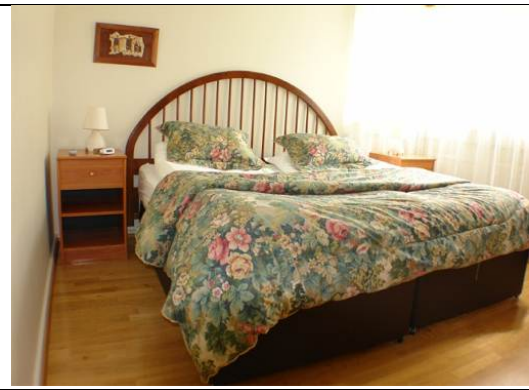






INSTRUCTOR'S NOTES EXHIBIT 2.
ADDITIONAL RENTAL PROPERTY PHOTOGRAPHS
GARDASTRÆTI 40, SUITE #70

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.

INSTRUCTORS' NOTES

Overview

Start-up companies have unique a financial situation. Typically, they have just received or are seeking capital to develop their business model. The efficient use of cash is very important because their ability to generate cash through sales is limited at best or most often, nonexistent. So it is very important to keep an accurate account of the company's cash position while the company executes its business plan. The metric all start-ups monitor very closely is the "burn rate.” This is how fast the company is going through (burning) the cash and how long the cash will last before they will run out of money and need to seek another round of financing.

Start-up companies are constantly making changes and adjustments in their plans, product mix, schedules, business model etc. as their situation and/or competitive conditions in the marketplace change. The development of financial projections should be seen as an iterative and ongoing process rather than a “once and done” process. Because most start-up business models are new and untested, there will inevitably be changes. As such, financial executives must maintain a level of flexibility in the preparation of financial projections and forecasts. Also as financial reporting controls, procedures and policies, are developed, they need provide for the flexibility mentioned above while also safeguarding scarce company resources.

Teaching Objectives

The objectives of this case are to expose the student to the unique financial operation needs of a start-up company.

(1) Develop company financial projections for REIA from assumptions.
(2) Monitor the cash position of the company.
(3) Develop a financial reporting and controls system that is effective but flexible that will enhance, not over-burden, the dynamism in the start-up environment.
(4) Develop a financial reporting and controls system that can grow with the company and accommodate projected growth and a unique business model.

Research Methods

The data sources for this case were drawn from personal experience with the subject company. The names of the case principals were changed to provide anonymity. The case author is a former officer and Director of the subject company.

Suggested Teaching Approaches

This case study is designed for undergraduate and 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 operation 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. The case’s perspective will be that of a senior level executive who is responsible for the development and implementation of financial policy and the considerations that drive those policy choices.

The case is designed to be discussed in one class session of 1 ½ to 3 hours. The class could begin with a question that is intended to identify the main problem(s) that is(are) to be addressed by the protagonist. After the problem(s) have been identified, the students can be asked to describe how to best proceed with using the case facts and information to analyze and develop the financial projections and the financial reporting and controls system for REIA. Emphasis should be more on the process employed by the students and the reasoning behind the process rather than on the actual numbers for the financial projections and the specific reporting and controls system. Questions posed to students should probe into why a particular policy is considered appropriate for REIA at this stage in its development. The class discussion should generate a list that will form the basis of the reporting and controls system.

The session should end with an evaluation of the adequacy of the controls and reporting system to enable REIA to achieve its objectives and a clear rationale for the selection of the reporting and controls requirements within the system.

STUDY QUESTIONS

(1) What major factors come into play in the development of REIA’s financial projections? Prepare a 5 year financial projections for REIA.
(2) What information should be captured in the REIA financial controls and reporting system?
(3) What is meant by a company’s “burn rate?” How will it affect REIA’s financial controls and reporting system?
(4) What financial information is most important for Anthony to gather/compile? Why? What information is least important for him to gather/compile? Why?
(5) How often should the information be collected? How often should it be reported? Why? To whom should it be reported? Why?
(6) What are the likely management decisions of REIA that will result from the report? Under what circumstances will the resulting decisions affect the operations of the REIA?
(7) How do the controls and reporting needs of REIA differ from those of a more mature company? How are they similar?
(8) Will the controls and reporting system change as REIA matures/grows? If so, how will the controls and reporting system change? If not, why?

Study Questions and Responses

(1) What major factors come into play in the development of REIA’s financial projections? (See attached TM Exhibit 3 and TM Exhibit 4)

In the assumptions, it is important to break down the information into (a) revenue sources (transactions, subscriptions, franchise fees etc.), (b) expected revenue growth, (c) expenses, (d) expected expense growth. After categorizing into revenues and expenses, the assumptions should be evaluated on how realistic they are considering the competitive marketplace.

Often it is helpful to develop a scenario analysis approach using optimistic, pessimistic and most likely scenarios. If the scenario analysis approach is used, some mechanism must be established to determine how each of the scenarios will differ from others. What will change and or remain constant? For example, the optimistic scenario may have revenues increasing annually at 50% with expenses increasing as stated, whereas the pessimistic scenario may have revenues only increasing 20% annually with expenses growing 10% more than originally projected. The most likely scenario will generally fall somewhere in the middle of the pessimistic and optimistic scenarios.

(2) What information should be captured in the REIA financial controls and reporting system?

The information that should be captured will be information about the company's cash position, revenues, expenses and profitability with an eye toward the most efficient and effective use of available cash.

Because the business is young and small, transactions occur with irregular frequency (between 1 and 3 settlements per month) and the financial operations are carried out by a small number of people, the financial controls should be geared more toward creating transaction paper trails rather than avoiding and detecting fraud and malfeasance. In addition, compliance to industry standards must be taken into consideration. In the real estate industry, there are strict recordkeeping rules that govern the collecting, accounting for and disbursement of escrow funds.

(3) What is meant by a company's "burn rate?" How will it affect REIA's financial controls and reporting system?

Because start-ups usually do not have significant sales revenues, the level of cash on-hand after a financing round will generally be their only source of cash. The "burn rate" is the rate at which a company uses or "burns" through its available cash. It will typically be measured in terms of how many months it will be before the company has no cash left. It affects the financial controls and reporting system by focusing the attention of management on how much cash the company has available and how many months the company has before its cash will be depleted.

(4) What financial information is most important for Anthony to gather/compile? Why? What information is least important for him to gather/compile? Why?

The most important information will be information on expenses, accounts payables and aging report, accounts receivable and aging (if applicable), vendor ledgers. As REIA generates revenues, this information will be important to report, particularly if they are likely to be ongoing.

The information least important to gather/compile will be information on returns such as ROI, ROE, efficiency ratios etc.

(5) How often should the information be collected? How often should it be reported? Why? To whom should it be reported? Why?

The information on cash position should be monitored daily and reported to the CFO weekly and the president bi-weekly. This information is crucial to the operational and strategic decisions of top management about the timing of major and minor expenditures such as website development, marketing, staffing etc. As the cash position declines, the reporting may need to become more frequent. Expenses, accounts payable, accounts receivable should be collected weekly and reported no less than bi-weekly to the CFO and monthly to the president. This information will be important in making decisions about the timing of payments. Payment decisions will take into account the effect it may have on relationships to critical vendors etc. The vendors who provide services that are crucial to meeting timelines on projects that will bring in revenues sooner rather than later will have higher payment priority as cash becomes scarce. Aging reports should be collected and reported no less frequently than monthly. These reports will provide information for management to monitor and adjust as necessary the decisions on who should be paid and when. Again, relationships will be at the heart of these decisions.

(6) What are the likely management decisions of REIA that will result from the report? Under what circumstances will the resulting decisions affect the operations of REIA?

The bulk of the management decisions will be centered around payments, to whom and when, and pending expenditures. Depending on the business, the report may cause management to exert pressure for faster turnaround of the development of products, websites, or marketing efforts. As cash reserves decline, there will be a need to prioritize what can be done against what was desired to be done. There will likely be the need to defer some expenditures and speed-up others. There may even be a need to consider seeking additional rounds of financing. These financing decisions will affect the existing and prospective investors because the valuation of the company will be affected.

(7) How do the controls and reporting needs of REIA differ from those of a more mature company? How are they similar?

The control and reporting needs of a start-up will be focused on the cash position of the company and its preservation. How much cash is available and how can it best be preserved while carrying out company objectives. Because a mature company will have sales as a source of revenues, it will be focused on generating acceptable investor returns, growth, maintaining market share and market position. While survival is a critical goal for both the mature and start-up company, they will go about achieving it by focusing on very different measures.

(9) Will the controls and reporting system change as REIA matures/grows? If so, how will the controls and reporting system change? If not, why?

As the company grows and generates sales revenues, there will be less focus on cash position. The reporting system will adjust to focus more on the more routine financial operations of collecting and tracking the various sources of revenue and their percentages of overall revenues, tracking and paying expenses and planning for how to accommodate future growth.

Alternate Study Questions

(1) What is "burn-rate" and how does it affect the management/operation of REIA? Is it important to the operation of REIA? Why? Why not?
(2) Who should gather and report REIA's financial information? How often should it be gathered and reported? To whom should it be reported?
(3) What should take precedence in REIA's situation, strategic direction or financial position? Explain why.
(4) How will the type of business affect how financial information is gathered, monitored and reported?
(5) How will the stage of development of the business affect the gathering, monitoring and reporting of financial information?

Alternate Study Questions and Responses

(1) What is "burn-rate" and how does it affect the management/operation of the company? Is it important to the operation of the company? Why? Why not?

The "burn rate" is the rate at which a company uses or "burns" through its available cash. It will typically be measured in terms of how many months it will be before the company has no cash left. It affects the financial controls and reporting system by focusing the attention of management on how much cash the company has available and how many months the company has before its cash will be depleted.

It is important to the operation of the company because the company needs cash to pay for business operations. Management may need to make tough decisions on product/service development and delivery, staffing etc. based on how much cash is required versus how much cash is available.

(2) Who should gather and report REIA's financial information? How often should it be gathered and reported? To whom should it be reported?

This information should be gathered and reported by whoever is in charge of financial matters. Typically this will be the VP of Finance (Anthony Washington). The information should be monitored closely (daily or weekly) and reported no less than bi-weekly. As cash reserves decline, it may be necessary to report on a daily basis. The information should be reported to the CEO/President (Nathan Anderson) at least bi-weekly and more frequently as cash reserves dwindle.

(3) What should take precedence in REIA's situation, strategic direction or financial position? Explain why or why not.

Strategic direction will tend to dominate the financial position when there are substantial cash reserves. As cash reserves are depleted, financial position will tend to drive strategic decisions and compromises will need to be made with regard to product development etc. Such as bringing to market more quickly a less sophisticated product or service in order to generate revenues and using those revenues to develop the desired sophisticated product or service at a later date. Also, selecting less expensive (more cost-effective) marketing channels or outlets than originally planned may have to be considered as well.

(4) How will the type of business affect how financial information is gathered, monitored and reported?

Cash intensive businesses will dictate the gathering, reporting and closely monitoring of financial information more so than businesses that do not burn through cash as fast.

(5) How will the stage of development of REIA affect the gathering, monitoring and reporting of financial information?

Businesses that are in the earliest stages of development will tend to not focus as much on gathering, monitoring and reporting financial information. As the business becomes more formalized, has outside investors and begins to burn through cash, it becomes more important to gather, monitor and report financial information. As available cash reserves dwindle, monitoring financial information becomes a matter of survival.

A CASE OF MERGERS: THE H-P EXPERIENCE

Charlene A. Dykman, University of St. Thomas
Charles K. Davis, University of St. Thomas
Andrew J. Lamb, Hewlett-Packard Corporation

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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case study can work effectively with different teaching approaches. It can be used as an assignment for individual students to conduct a case analysis and discuss, in writing, their answers to the questions posed or a general analysis of the approach taken to integration of the companies post merger. This approach is particularly effective in online or blended classes where discussion boards encourage individual contributions to the discussion.

Additionally, the case study can be used for group assignments, with each group comprised of four or five students responding to one or more of the questions posed. Students may be required to develop a written analysis as a group and/or develop case study presentations for the rest of the class to observe.

This case may be used for general class discussion when the instructor assigns the case for reading by all students and then the entire class responds, during a scheduled class session, to questions that are posed by the instructor to stimulate discussion and critical thinking about evaluation of this particular post-merger integration approach.

Finally, this case can be used for an examination in either a traditional or blended/online class. Students would receive the case study prior to the examination date and would be required, as part of the examination process, to develop an essay analysis and response to focused questions that are presented by the instructor.

CASE DISCUSSION QUESTIONS

1. **How do you think the results of the early mergers of Tandem with Compaq and Digital Equipment Corporation with Compaq impacted the planning for the post-merger integration of Compaq with Hewlett Packard? What issues do you think might have particular importance for the companies?**

    It appears that Compaq management considered the earlier mergers to have primarily a "financial" focus. They were attracted to both Tandem and Digital Equipment Corporations for their particular product success in a niche market, or their particular market penetration in the information systems services and consulting arena. There was little thought given to integrating the various functions of the organizations. It was more of a "three course meal approach" where the companies being acquired were just going to be added onto the already successful Compaq rather like an appetizer and a dessert are added onto a meal.

    The differing cultures of the three companies made for a difficult fit after the merger. This was especially true of the DEC and Compaq merger. DEC had a long and storied history in the computing industry. Compaq was a relative newcomer, full of energy and innovative ideas. The need to address cultural differences and respect for each type of culture must have been important to the executives involved in the Compaq/Hewlett Packard merger.

Acknowledgement of the fact that there would necessarily be duplication of functions seems to have been an afterthought in the Tandem/Compaq and DEC/Compaq mergers. All three of the companies were successful companies, with all the typical functions, including engineering, accounting, finance, marketing, human resources, and customer support. Figuring out what to do with all this duplication and how to determine who would stay and who would go had to be in the minds of executive management as this new merger was approached. Compaq was living the life of chaos that resulted from mergers with no real planning beyond the financial particulars. Finding a way to effectively address the duplication of functions seems to have been at the heart of the "Clean Room" approach adopted for the integration of Compaq and Hewlett Packard.

2. What are the non-financial elements that need to be considered in a merger? How would you determine the priorities or relative importance of these elements? What priorities would you choose for the elements you have identified? Explain your prioritization.

It is important that students think at several levels with respect to this question. What are the strategic elements involved? This may involve elements like the timing of the merger, the purpose of the merger (markets, products, R&D, etc.), due diligence in assessing the internal and external strengths of each party in the merger etc. How do the strategic missions of each of the companies compare and how will they be adapted to the newly merged company? Are they compatible or are there apparent conflicts that need to be addressed?

Students should also be encouraged to address operational elements of the merging companies. How does innovation happen at each of the firms? What is the culture of each firm and how is this culture related to operating policies and procedures? How does the culture of each firm play out in the daily life of those in the organization? What is the customer relationship process in each of the firm? How are customers involved with the firms? Who manages this relationship?

Prioritization of non-financial elements will need to involve some sort of impact analysis. Can lack of integration of the cultures of the merging companies have a major impact on the way in which the company operates post merger? Or is this really not going to be a problem. Are there isolated entities in the firm where the differing cultures are rarely evident? Or is the firm going to be "one big happy family" where all employees are able to see and feel the culture of the other departments in the firm. Would this make a difference?

Analysis of non-financial elements that are critical for merging companies to address will require a systemic approach to your understanding of the firms that are impacted. Students must consider the pre and post merger firms holistically. This will include their markets, their customers, their stockholders, employees, management capacity, etc. It really involves a "stakeholder" analysis that goes beyond the traditional financial analysis of a merger.

3. Think about the issue of organizational power as it relates to a corporate merger. What are the dimensions of power and how can these various types of power be seen in this case study.

French and Raven have identified five different types of organizational power (French & Raven, 1960):

a) Legitimate Power - often seen as authority granted to a person, based on his/her role in the organization, resulting in the belief that this person has the "right" to make demands and that one should obey the demands.
b) Reward Power - often associated with "the boss", this source of power relates to one's belief that this person is able to reward me for doing something; thus I am inclined to do what I am asked to do in order to get this reward.
c) Expert Power - often granted to those who are perceived as having expert knowledge or skills in a certain area. As a result, I am inclined to do what they say to do in that particular area of their expertise.
d) Referent Power - often perceived as power because a certain person seems attractive, worthy of my respect, capable of notable things, etc. As a result, I am likely to respond positively to the requests of that individual because I think that they are worthy of such respect and that others would expect me to do what is asked.
e) Coercive Power – often seen as punishment power, this form of power deals somewhat with fear that I will be punished by this person if I don't do what is asked of me. I am motivated to do what is asked because I fear the punishment that would result from my not doing so.

When thinking about the Compaq/Hewlett Packard merger, we can easily see where expert power comes into play in the "Clean Room" deliberations. People who were chosen by their respective companies to represent a function in the "Clean Room" were necessarily considered the "experts" in that function or process. How interesting it must have been to see this battle of the experts. In a traditional approach to a merger, such as the earlier mergers with Compaq, Tandem, and Digital Equipment, expert power probably had less impact as there was not "legitimate" power granted to those who were the experts. In the Compaq/Hewlett Packard merger, these experts were given the legitimate power to apply their expertise in the discussions about whose policies and processes would go forward as part of the merged company. Other examples of the application of the power dimensions can also be seen. For example, coercive power had to be very strong when those who were part of the "Clean Room" operation were not allowed to talk with others in the firm about their activities in the "Clean Room", under a very real threat of dismissal.

4. Think about the dimensions of "Leadership" and discuss how this relates to the mergers in this case study.

Leadership is an interesting concept with very little consensus about what it really means and how leadership skills are deployed in an organization. We have moved beyond the days when we thought good looking, usually male, tall people were those who were the best leaders. We have also moved beyond the idea that charisma is a defining characteristic of being a leader. This particular case study lends itself very well to the theory of transactional versus transformational leadership styles (Bass, 1990).

Transactional leadership styles involve always approaching a situation with an eye to "exchange". A transactional leader tends to focus on present day issues and being responsive to the current environment. Such leaders set up a "quid pro quo" sort of relationship – an "if you do this," "such and such" will be your reward (or punishment). Transactional leaders easily recognize a strong link between effort and reward. It is quite clear that the mergers with Tandem and Digital Equipment Company were handled by Compaq's leaders in a "transactional" way.

Transformational leadership, on the other hand, tends to look beyond the current situation and to visualize what the future may look like for those involved in the current situation. These leaders seek to encourage and inspire followers to look beyond their present situation and do things "for the greater good". Think about those who were chosen to work in the "Clean Rooms" needing to understand that, by doing so, they would not be allowed to return to their previous positions in their respective firms. Those in the operational end of integrating Compaq and Hewlett Packard were expected to look toward the future and "The New HP Way".

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

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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.

INSTRUCTORS' NOTES

Analysis for this case consists of answer to the following four questions that address both the organizational behavior and human resource management issues.

1) Why have things gone wrong for Chris?
2) What might American Brands have done which would have led to better results in Chris's internship?
3) What might Chris have done which would have led to better results in the internship?
4) Was Chris Thompson an Intern or an Employee? What are the HR Implications for organizations?

1) Why have things gone wrong for Chris?

Chris's troubles are related to a conflict between personal and organizational values (see part 1 for background). Chris is very concerned about how others see him, the importance of being respected and living up to the expectations of others. He is clearly bothered when friends and associates criticize him for going to work for a tobacco company. However, he is determined to complete the internship with American Brands.

This case presents a classic illustration of differences in how one sees him/herself versus how others see the same situation and behaviors from very different perspectives. The case states that, "Although Chris Thompson was wrestling with his career choice to work for a tobacco giant after college; he knew that he had to do his best work in the internship." Chris's supervisors, however, seemed to have different opinions about his level of professionalism and the quality of his work.

The first indication of a perceptual difference occurred when Chris was accused of making sexually tainted comments about his female co-workers. Chris was completely caught off guard and did not feel that he had said anything improper other than engaged in friendly banter. A second indication came when Chris raised the issue of why he was the only intern with such a large, expansive territory that required so much travel time. His trainers responded negatively, even questioning if Chris was good enough to work for American Brands and implying that he was immature and unprofessional. From Chris's perspective, he was not complaining but asking for help.

Further, Chris and his supervisors appeared to be far apart about the quality of his work. At the conclusion of the case when he was called into a meeting with his supervisor, Chris felt like they were questioning his integrity and implying that his work was poorly done. Chris, on the other hand, felt that he had done a good job, completed his assignment early and even provided assistance to the other interns.

A relevant framework to use here is the Johari window, developed by Luft and Ingham in 1955. This model, which consists of four quadrants, was designed to illustrate relationships in terms of self-awareness, feedback, and interpersonal and group dynamics. Therefore, it is useful in helping one understand one's behavior and impact.

Quadrant I is the Arena of free activity which consists of the behavior and motivation that are known to self and others. The shared perceptions in Chris's case at the start of the Internship included the fact that Chris had a lot potential, was bright, and athletic.

Quadrant II is the blind area where others can see things, but the individual is unaware. For example, as the Internship went on, supervisors felt Chris violates the organizational rules and policies, makes inappropriate comments which border on a hostile work environment or sexual harassment and performs his work poorly.

Quadrant III, the avoided or hidden area represents the things we know but do not reveal to others, like Chris's attitudes toward smoking, whether or not he made the right choice in choosing to work for American Brands, and his desire to be one of American Brands' best interns.

Quadrant IV is the area of unknown activity. Neither Chris nor others are aware of the behaviors or motives contained in this area.

Figure 1. The Johari Window

	Known to Self	Not Known to Self
Known to Others	Quadrant I Arena of free activity	Quadrant II Blind Area
Not Known to Others	Quadrant III Avoided or Hidden Area	Quadrant IV Unknown Area

Although it might be assumed that a large Arena and a small Blind Area would be desirable and contribute to self- awareness that is not necessarily the case. A person with a large Arena may still be ineffective because the information contained in the Arena is not the only factor in self-awareness (Paulhus & Reid, 1991).

Individuals have access to their own inner traits and motives, but they cannot directly observe their own behavior or how they come across to other people. Therefore, self perception by itself may be incomplete (Johnson, 1997). External observers may provide a more valid assessment of a person's effectiveness since individuals may be unaware, self-deceived or mistaken about their own inner traits.

Chris seems unaware of any weaknesses he may have or how others may see in him. He only sees his strengths and does not feel that any improvement in his job performance or interpersonal relationships is needed. While Chris may well be a bright and capable individual, it is unlikely that an intern who has only been in the organization for five weeks would not need direction from his superiors. Therefore, feedback from others is an essential part of effective behavior. However, unless feedback is solicited and provided an individual's Blind area may reduce self awareness.

This causes one to question whether or not Chris received the necessary feedback to improve his effectiveness and self awareness. This case makes no mention of any type of on-going, constructive feedback. In fact, there were only three times when Chris's trainers and supervisors provided any type of performance feedback. The first time was when Chris was informally reprimanded for making sexually tainted comments about his female co-workers. Second time, Chris was given negative feedback when he questioned the size of his territory. The third time Chris was given feedback was at the end of the case when he was called into the office and presented with an ultimatum.

In all three instances, the feedback Chris received was harsh, accusatory, and/or punitive. As a result, Chris continued to operate in his Arena and Hidden areas without reducing his Blind area. Effective feedback from supervisors could have helped Chris reduce his blind area; however, trust is necessary for one to solicit and accept feedback.

This raises the question, what is trust and how does it develop? Trust can be defined as an expression of confidence between parties in some kind of exchange and the confidence that neither party would be harmed by the exchange (Bateson, 1988). Further, it is the confidence that no party to the exchange would exploit the other's vulnerability (Sabel, 1993) Trust leads to a set of expectations that allow people to manage uncertainty or risk so that they can relate to others in a cooperative manner (Jones & George, 1998). Jones and George further state that at the beginning of interaction individuals tend to take others on faith and assume that the other person has similar values and can be trusted.

This was demonstrated in Chris's early interactions with his co-workers and trainers. The case demonstrates that while Chris may not have had full confidence and trust in the people he worked with, there was not sufficient distrust for Chris to be guarded in his interactions with American Brands employees. For example, Chris felt comfortable interacting with his coworkers when he was working with a partner in the field. He also displayed a level of trust by sharing his concerns about the size of his territory with his trainers. However, when both of these interactions yielded negative results, distrust developed and Chris further retreated into himself. These negative experiences caused him to isolate and work by himself without seeking feedback from other employees thereby keeping his blind area intact.

The case indicated that feedback was not provided by his trainers and supervisor in a developmental fashion, but only when they were unhappy with Chris's actions and job performance. As a result, Chris began to question if his race was a factor in the harsh feedback he received. The case makes no mention of any kind of racial issues at American Brands. Therefore, in the absence of feedback from his supervisors, Chris began to seek reasons for the harsh feedback he received and wondered if race might be a possible reason. While it is always easier to communicate with people like ourselves, the composition of the workplace has changed and will continue to change in the foreseeable future. Managers, therefore, need to learn how to establish open, trusting relationships with employees who may be unlike themselves.

2) What might American Brands have done which would have led to better results in Chris's internship?

Part I of the case mentions an orientation day where Chris and other new hires "were taught many technical aspects of the company in a fun, upbeat way." Chris is described as an intelligent, hardworking student. However, Chris's academic accomplishments did not prepare him for a corporate environment which was totally different from an academic environment. Chris did not appear to fully understand the accepted behaviors, values, and social knowledge needed to become an organizational member within American Brand's culture. Van Maanan and Schein (1979) state that culture

"consists broadly of long-standing rules of thumb, of somewhat special language and ideology that help edit a member's everyday experience, shared standards of relevance as to the critical aspects of the work that is being accomplished , matter-of-fact prejudices, models for social etiquette and demeanor, certain customs and rituals suggestive of how members are to relate to colleagues, subordinates, superiors and outsiders, and a sort of residual category of some rather plain 'horse sense' regarding what is appropriate and smart behavior within the organization and what is not." (p. 609).

Van Maanan and Schein further state that new members bring different backgrounds, values, and perceptions that are at odds with those of the organization. The more experienced members of the organization must find ways to assure that newcomers do not disrupt the on-going organizational activity, embarrass or cast a disparaging light on others, or question too many of the established cultural solutions worked out previously. New members must be taught to see the world as do their more experienced colleagues which is the organizational socialization process.

American Brands could have increased Chris's effectiveness by providing a collective and formal orientation program for all interns (Cable & Parsons, 2001). This type of program would provide all of the new hires with a common learning experience where organizational rules, policies, and expectations are shared. Cable and Parsons state that a shared socialization experience increases the likelihood that newcomers are comfortable with their new environment and develop a sense of community with other newcomers.

3) What might Chris have done which would have led to better results in the internship?

Chris might have improved his self-awareness and performance through self-disclosure and feedback from others. In this case, Chris did not disclose the difficulties that having such a large territory created for him. There is no evidence that this issue was raised before the intern forum. Chris should have taken the initiative to schedule a private meeting with his immediate supervisor to raise any questions or concerns about the job, at the very beginning.

Further, it does not appear that Chris updated his supervisor about his progress and activities. Although he might not have felt comfortable speaking with his supervisor, he does bear some responsibility for not communicating with them. Effective communication is a two-way process. Chris should have discussed his concerns and questions in a private, non confrontational way, asking for feedback instead of putting the supervisor on the spot.

Finally, Chris should have exercised more caution in the comments he made to coworkers. Since an individual cannot determine the other person's motives, he or she should be careful not to make statements that can be misrepresented. Chris should have avoided making any kind of comment about the female employees' appearance until he was comfortable that his words would not be misunderstood and used against him. The case does not provide a clear account of what was said regarding the female employees, however, astute employees know that there is always the possibility that a comment can be taken out of context or misconstrued. Therefore, until workers really know and trust each other, it is best not to let personal issues enter workplace conversations.

4) Was Chris Thompson an Intern or an Employee? What are the HR Implications for organizations?

One of the interesting issues in this case is that Chris Thompson was being accused of creating a sexually hostile work environment for other female employees and interns.

For example, Chris's manager says to him, "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."

If Chris was not an Intern of the company but an employee instead, would the manager have been so flippant in his comments without actually having done some type of discovery of facts or an investigation?

What many organizations do not realize is that in the cases of paid Internships, the Interns may very well meet the criteria of being in an employment relationship. In other words, despite having being given the title of an Intern, Intern might actually be an Employee and hence protected by both the Fair Labor Standards Act (FLSA) as well as the Anti-Discrimination legislation passed by congress including Title VII of the Civil Rights Act and The American with Disabilities Act.

Nelson (2010) states, “Employers cannot avoid the requirements of federal *law* by simply labeling *employees* as "*interns*" or "trainees." As a general rule, those engaged in legitimate internships or training programs are not covered by federal employment *law*. But if the would-be *intern* or trainee is actually an *employee* by another name, an employment relationship exists, and the *intern* or trainee is entitled to all the benefits and protections of federal *law*, which include the rights to minimum wage, overtime, and a discrimination-free workplace.”

Following Nelson’s legal analysis, we look at both whether Interns like Chris can be deemed employees under the FLSA as well as the Federal antidiscrimination laws. We cover the FLSA first because in order to come under the protection of the antidiscrimination laws such as the CRA or ADA, an individual has to first be a paid employee and be covered under the FLSA provisions for minimum wage and overtime pay.

Internships are important from the perspective of the students. Such developmental experiences can enhance the careers of Interns. Organizations often find Interns to be useful as well as a free or cheap supply of labor. Many organizations use Intern’s performance to decide if the person will be offered a job in the future. Although Internships offer much mutual benefit to both parties, many companies are finding that if they do not think through the structuring of the Internship, there can be many problems emerging in the future.

"There is a tremendous number of internship programs that are not in compliance with federal or state law," says attorney Christopher Davis of The Ottinger Firm PC, employment law specialists in New York City. Davis predicts that class action suits against those programs are "the next round of litigation for plaintiffs' firms." Since internship programs usually involve groups of people, Davis explains, it's easy for lawyers to show that an aggrieved class exists. "You're talking about one violation that applies to 100 people or 1,000 people."(Cited in Taylor, 2010).

Note that Chris Thompson is already a paid employee and it is assumed that he is being paid well above minimum wage. However for teaching purposes, we make this note comprehensive with a general discussion of when Interns are considered employees under the Fair Labor Standards Act and hence have to be paid minimum wage and be entitled to overtime.

Fair Labor Standards Act and Internships

The US Supreme Court in *Walling v. Portland Terminal Co*. (1947), found that in some employment situations where individuals choose to work for their career development, an employer may provide training without pay without violating the minimum wage provisions of the FLSA.

After the Supreme Court decision in *Walling*, the Department of Labor (DOL) developed a six-part test to determine when an employment relationship exists between Interns/Trainees and the Employer under the FLSA. For an Internship program to be exempt from the protections of the FLSA, it must satisfy the following six criteria.

1. The training, even though it includes actual operation of the facilities of the employer, is similar to that which would be given in a vocational school;
2. The training is for the benefit of the trainees;
3. The trainees do not displace regular employees, but work under close observation;
4. The employer that provides the training derives no immediate advantage from the activities of the trainees and on occasion its operations may actually be impeded;
5. The trainees are not necessarily entitled to a job at the completion of the training period; and
6. The employer and the trainees understand that the trainees are not entitled to wages for the time spent in training.

The Federal courts have not always strictly adopted the DOL guidelines to determine an employment relationship. Some courts have shown approval of the DOL approach but not adopted the test strictly and other courts have looked at the "totality of circumstances" to determine whether an employment relationship exists (Nelson, 2010).

On Dec 21, 2010, the New York State Department of Labor (NYSDOL) published a detailed opinion on the difference between an Internship and an employee for the purposes of the New York State's minimum wage *law*. NYSDOL focused on "the totality of the circumstances" approach within the context of the six factors used by the DOL but also added five more of their own factors. NYSDOL's rigorous test is meant to insure that *Interns* are protected from minimum wage law violations (Landes,Milani,Sholinsky, Silverberg, 2011).

It is clear from the above discussion that organizations should think about structuring their Internships and related compensation very carefully after studying the DOL rules and how the courts have viewed such employment relationships.

Federal Antidiscrimination Legislation and Internships

Federal antidiscrimination laws such as CRA and ADA do not offer a detailed description of what constitutes an employment relationship. To determine an employment relationship and the protection afforded to an individual under the antidiscrimination laws, the federal courts have historically applied common law agency principles.

After the Supreme Court's decision in *Nationwide Mutual Insurance Co. v. Darden (1992)*, an employment relationship is determined by the lower courts by typically following the 13 factors given below.

1. The hiring party's right to control the manner and means by which the work is accomplished;
2. The skill required by the hired party;
3. The source of instrumentalities and tools;
4. The location of the work;
5. The duration of the relationship between the parties;
6. The hiring party's right to assign additional projects;
7. The hired party's discretion over when and how long to work;
8. The method of payment;
9. The hired party's role in hiring the paying assistants;
10. Whether the work is part of the hiring party's regular business;
11. Whether the hiring party is in business;
12. The hired party's employee benefits; and
13. Tax treatment of the hired party's compensation.

Within the context of these factors, courts tend to look at the “totality of the circumstances” to determine whether an employment relationship exists.

Courts have ruled that unpaid student Interns could not bring suit under Title VII for sexual harassment. In one case, the Second Circuit noted that the Supreme Court in the *Darden* case focused on whether there was an economic relationship to help it determine whether an employment relationship existed. The view of the courts is that if there is no economic relationship, then the employee was not hired in the first place. Therefore, it seems clear that to be protected under the anti-discrimination laws, compensation is the critical element to determine that the employment relationship existed.

Now given this legal analysis, five questions are raised here for the students:

1. If Chris was not an Intern of the company but an employee would the manager have been so flippant in his comments without actually having done some type of discovery of facts or an investigation?
2. If an Intern like Chris feels that he/she is being harassed or discriminated against because of gender or race, are they protected from federal anti-discrimination laws like employees.
3. Is Chris an Intern or does Chris meet the definition of an employee under various federal laws.
4. Does Chris meet the definition of an employee under the Fair Labor Standards Act and what is the implication of that.
5. Does Chris meet the definition of an employee under Title VII of the Civil Rights Act and what is the implication of that?

Discussion Questions

1. What are the possible reasons for Chris's internship not working out? List and discuss.

There were several reasons why the internship did not work out. First, Chris did not see his job performance and the quality of his work the same way as his supervisors. Chris felt that he was an excellent intern, even providing help to the other interns, while his supervisors felt that his work was done poorly. Chris also inadvertently broke company rules by leaving work early because he felt that his territory was too large to drive to another location and continue his work. Chris did not understand accepted behavior in the workplace and complained about the size of his territory during an intern training session. Finally, Chris was accused of making inappropriate comments which were of a sexual nature about female employees.

2. What can a company do to avoid such situations emerging with interns?

One of the main actions an organization can take to help assure that new hires are successful when they enter a company is to socialize them properly. A good orientation program can provide all interns with a common understanding of the company's rules, policies, and procedures. Also, when a problem does arise, the company has an obligation to address it in a constructive manner. However, this was not the case with American Brands. If several employees felt that Chris was making inappropriate comments about female employees of a sexual nature, they should have been encouraged to report the behavior to Human Recourses. By reporting the behavior to Human Resources, an official investigation could have occurred instead of handling the situation through an informal conversation. Although Chris would have likely still been bothered by an official complaint, Chris might not have felt such a large breach of trust. Human Resource investigations are confidential, so Chris would not have felt that others may know of this issue through the grapevine.

3. Could Chris have done anything differently to create a more positive experience?

Chris could have sought feedback from his supervisor about his job performance instead of assuming that he was performing in a superior manner. Self perceptions are often inconsistent with the perceptions of others. Therefore, feedback from other people will provide a more accurate view of a situation. Chris should have also explored the company's policy on leaving work early when one works in the field. It is likely that the company has dealt with this situation before and has some procedure for dealing with field employees when they don't have time to drive to other appointments. If Chris had called into the office and informed someone of his intention to go home two hours early, the situation could have been handled in a more appropriate manner. Finally, Chris needs to be careful and exercise some discretion when having private conversations with coworkers. The case does not present any evidence that Chris did anything wrong. However, he should keep his work conversations limited to professional matters until he fully knows and trusts his coworkers. Even then, however, one still cannot predict the motives of another, so it is best to leave private conversations out of the workplace.

4. What are the legal and Human Resource Management implications of this case?

It is true that those engaged in unpaid internships or training programs are not covered by federal employment *law*. However, legal scholars like Nelson (2010) have noted that "Employers cannot avoid the requirements of federal *law* by simply labeling *employees* as "*interns*" or "trainees."

The DOL and the courts do not look at whether the title of a person is an "Intern" or a "Trainee" but the actual work activities the person engages in and whether that individual is paid.

A paid Intern may actually meet all the requirements of an *employee.* Hence the courts may view that an employment relationship exists between the employer and the Intern. In such a case the Intern has to be treated the same as an employee and becomes entitled to benefits and protections of the federal law. The federal legal protections would guarantee the rights to minimum wage and overtime pay under the Fair Labor Standards Act. Further, if deemed a paid employee, the rights of the Intern to be in a discrimination-free workplace would be protected. Hence the Intern would be receiving the protection of the Title VII of the Civil Rights Act, the American with Disabilities Act, as well as other federal laws.

Indeed Interns like Chris can be deemed employees under the FLSA as well as the Federal antidiscrimination laws. Therefore, it is best that organizations approach their interns with the same professionalism as they would their employees.

5. What should Chris do? What would be your advice as a student?

Student answers will vary. Some will feel that Chris should admit that he did something wrong and continue the internship, while others will feel that he did nothing wrong and refuse to admit to wrong doing.

EPILOGUE

This is a real case about a student's experiences during an internship at a tobacco company. When presented with the ultimatum, Chris decided to leave the company. Although it was clear that his supervisor did not expect that response, Chris felt that he could not continue to work for a company that would question his character. He felt that in the end things worked out well. Chris continued his athletic endeavors while looking for another summer job. He learned that he should remain true to his values and that money, status and prestige are temporary satisfiers; at the end of the day intrinsic factors are more important and stronger motivators than extrinsic factors. Chris, later that year, graduated from his University and got a good job offer from an HR consulting firm. Chris is currently a successful professional.

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

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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.

INSTRUCTORS' NOTES

Teaching Objectives

The purpose of this case is to illustrate a number of elements of strategic marketing planning, including:

1. Understanding the importance of strategic marketing
2. Knowing the basic elements of a marketing plan
3. Being able to perform a SWOT analysis
4. Describing elements of the marketing mix
5. Understanding the importance of brand strategy and brand management tools
6. Understanding the process of positioning

Course and Levels for Which the Case is Intended

This case is suitable for both undergraduate and graduate courses in marketing in areas where the students are studying marketing strategy, branding, and marketing planning. Courses could include:

Marketing Principles or Marketing Fundamentals (marketing strategy chapter)
Marketing Strategy
Marketing Planning and Analysis
Business Strategy
Organizational Management
Branding and Brand Management

DISCUSSION QUESTIONS

1. Perform a SWOT analysis for Migrolino, AG.
2. What are some differentiators that separate Migrolino from the competition?
3. Based on the existing Migrolino brand identity and convenience concept, provide recommendations for elements of Migrolino's brand strategy.
4. What positioning strategy would you advise for Migrolino?
5. Name some new products and services Migrolino could provide to satisfy any unmet market trends and get ahead of the competition.
6. Analyze Migrolino's brand identity.
7. Identify and describe tools management can use to manage the Migrolino brand.

PREPARATION QUESTION ANSWERS

1. Perform a Brief SWOT Analysis.

Migrolino has many strengths that will help it become a strong player in the Swiss convenience market. Foremost is its relationship with Migros Cooperative Alliance (MCA) which enables Migrolino to leverage existing brand equity and allows exclusive access to highly recognized quality products. As a subsidiary of MCA, Migrolino also has access to the resources of the cooperative such as capital, infrastructure, management expertise, and MCA Industry products. While the contract between Migrol and Shell and mandated growth do present challenges, these factors will help propel Migrolino's penetration into the market and help the brand quickly establish awareness.

In addition to Migrolino's strengths, it also has several weaknesses. As a new entrant in the market, Migrolino is unknown and must establish a unique and meaningful competitive position. While management has selected a brand identity, including a logo and other elements, no clear brand strategy or management plan is yet in place. Creating a strong and meaningful brand and supporting messages, creating brand awareness, and providing a consistent customer experience will be of utmost importance. At the same time, management must manage the fast paced growth that has been mandated by MCA. Due to the nature of the MCA/Shell/Migrol contract, Migrolino lacks direct control of the Shell/Migrol shops, which will present challenges in successfully managing the brand.

The external environment presents many opportunities for Migrolino. Socio-cultural trends such as the growing "on the go" lifestyle of Swiss commuters coupled with overall economic stability create a receptive market for Migrolino's shop concept. Swiss customers are interested in new food varieties such as exotic, ethnic, organic, and healthy choices, and are willing to spend more for convenience. Migrolino can capitalize on its relationship with the MAC industries to create new premium food lines and product extensions to meet consumers changing interests. Switzerland's proximity to the European Union and countries with similar cultural values to those of the Swiss market (Germany, Austria, and France) presents an opportunity for Migrolino to develop additional markets.

Along with the opportunities presented to Migrolino, it also faces many threats. Migrolino competes in a mature market with many established competitors. Two competitors pose a very strong challenge - Avec and Coop Pronto -- as they are the most direct, have a strong market position, excellent locations, and high brand awareness. Valora, AG, the parent company of Avec and former partner in the Cevanova joint venture, holds a monopoly on the distribution of most popular Swiss convenience brands. Valora's power both as a supplier and a direct competitor will be difficult to overcome.

2. What are some differentiators that separate Migrolino from the competition?

Several important differentiators separate Migrolino from the competitors. First, because of its relationship with MAC and Shell, Migrolino is the only convenience store that accepts the Migros Cumulus loyalty card as well as Shell's customer loyalty card. Participation in these popular loyalty programs allows customer to collect reward points based on spending, providing additional value versus the competition. Next, Migrolino is the only convenience store in Switzerland that can carry the Migros brand products and several sought after manufacturer brands such as Covergirl and Tony & Guy.

3. Based on the existing Migrolino brand identity and convenience concept, provide recommendations for elements of Migrolino's brand strategy.

Migrolino's brand strategy elements should include a corporate vision, mission, value, brand promise, positioning statement, and key supporting messages. While students' responses will vary, the following are guidelines and suggestions based on research and marketing theory:

A company's vision defines and describes the future situation that a company wishes to have. The vision statement guides the organization as a whole to reach its most desirable state and answers the question: What do we want our organization to be? The proposed vision statement for Migrolino is, "Setting new standards in convenience, quality products and the customer experience."

An organization's mission statement defines its approach to providing goods and services and establishes the type of image the company wants to portray. The mission statement answers the question: Why does our organization exist? The proposed mission statement for Migrolino is, "Driven by a fresh approach to maximizing convenience."

A company's values define the group beliefs and rules that guide, inspire, and influence the way the company conducts business. Values represent the institutional philosophy and support the organization's culture. The proposed values for Migrolino are: people centered; focus on fresh; create value for the stakeholders; be nimble (fast and flexible); and deliver quality.

A brand promise represents the essence of the company's vision, mission, and values and ties these elements into the brand's uniqueness. It should be a short phrase that is easy for all employees to remember and suitable for communicating to customers. The proposed brand promise for Migrolino is, "The Migrolino Promise: Migros Quality, Superior Service, and Maximum Convenience"

A positioning statement clearly establishes the perceptual space the company wants its brand to occupy in the minds of its target market relative to competitors. A positioning statement should be used internally to ensure that all communication about the brand is consistent across all customer touch points. The proposed positioning statement for Migrolino is, "Migrolino is the convenience concept that delivers a superior customer experience to maximize value for people 'on the go' through an innovative blend of Migros-quality products and superior service."

Students should recommend key marketing messages to communicate that are consistent with Migrolino's points of differentiation and address key benefits. Some proposed key messages for Migrolino are "Exclusivity of Migros-brand products," "Consistently fresh and high quality products," "Ease and convenience of shopping," "Good value for the money," and "Fast, friendly, and superior in-store service."

4. **What positioning strategy would you advise for Migrolino?**

Based on the findings of the Migrolino positioning study, students should recommend that

Migrolino should focus on moving its positioning away from Avec by emphasizing value for the customer's money through superior product and service quality, customer convenience, and an appealing store environment that was distinct from Avec's.

To effectively implement this strategy, management must take several important initiatives. First, Migrolino should promote the fact that it carries the Migros-brand product, as these products are consistent with the superior quality and value noted in the positioning statement. Priority must also be placed on product mix selection to ensure the customers' expectations for convenience are met.

Next, Migrolino's management must manage the customer's experience with the brand by ensuring consistency in the store look and feel across store types and geographic regions. Design elements of the shops should focus on the distinct orange of the Migrolino and Migros logo and not on other colors such as green which are used prominently in Avec's brand elements and stores. Clear guidelines for merchandise displays, store layout, and atmospherics must be identified; all of these elements should present a fresh, friendly, and user friendly environment.

Because the recommended positioning focuses also on delivering superior service, Migrolino should take the following steps to ensure service quality: (1) Analyze customer expectations through ongoing marketing research and open communication within the company; (2) Set service quality standards through established service goals and management commitment to service quality; (3) Manage employee performance through training and sound evaluation and compensation systems; and (4) Manage customers' service expectations through advertising messages and good internal communications. This emphasis on superior service will necessitate development and use of appropriate measurement tools and ongoing training and education at all levels of the organization.

5. Name some new products and services Migrolino could provide to satisfy any unmet market trends and get ahead of the competition.

Student responses will vary. The following are some examples of additional products and services that Migrolino could provide to satisfy unmet consumer needs.

Lifestyle Corner – Migros Own Coffee Brands. Whenever space allows introduce a pleasant seating area where the consumer can enjoy a quick coffee in combination with a short snack (see “New Offering – Food on the Go”).

Multi-Functional Center – Ex-Libris / Migrosbank / Le Shop / Travel.ch Hotelplan/Travelhouse). - Ideally, the Lifestyle Corner can be combined with a multi-functional centre that offers (i) the direct music download, the purchase of e- and audio books (target at youth clientele and car drivers), (ii) an interface to Le Shop for ordering any missing item, (iii) the connection to the online booking systems of travel.ch, Hotelplan and Travelhouse – all being part of the M-Family – and finally (iv) a separate niche for a Migrosbank ATM for (cash) withdrawal or deposit.

New Offering “Food on the Go” – Globus. Globus with its well-known “delicatessa” is the ideal partner to provide its brand for a new sandwich quality offered in the migrolino shops. The new offering should positively impact the frequency of people in the Lifestyle Corner and satisfy the needs of females (increased attention to healthiness).

Special Convenience Packages – Migros / Globus .Special Packages for promising segments should be introduced – e.g. the “Lady Package” that includes things like the exclusive Covergirl (Migros being the sole seller of this product line throughout Switzerland), the truffles-flavored Terra Crisps and an Intouch magazine. Alternatively, a small selection of present baskets that Globus’ delicatessa offers in its stores should be offered.

Pre-order Service - As people get more and more connected, an extension of the current migrolino website should be targeted to allow the customer to pre-order the desired products and pick them up on the way. Two critical items should be considered: (i) a link with the respective location is required to avoid that products are ordered but not on stock or offered by the respective shop and (ii) a credit card and store card has to be entered to allow the charging of the goods, even if the person does not show up.

6. Analyze Migrolino's brand identity.

Student responses will vary, however they should address the basic elements of the brand identity such as the name, logo, colors, and shapes incorporated in the identity. Responses should compare and contrast the Migrolino brand identity with that of Migros and Migrolino's direct competitor, Avec.

The Migros name is derived from the French terms: "mi" for half or midway and "gros" for wholesale. As such, Migros is the connotation for prices that are halfway between retail and wholesale. The Migrolino name implies "little" or "lean" Migros and has been used in the past by MAC for a mobile food shop concept. The Migrolino name clearly implies a relationship to Migros and is distinctively different than Avec.

With regard to the brandmark or logo, the Migrolino logo only subtly relates to the Migros logo in that the color orange is predominant. Both the Migrolino and Avec logos emphasis bright hues of orange and green. While these colors are appropriate as they symbolize "freshness" and "innovation," they are quite similar and care should be taken to emphasis the orange in designs and applications where the Migrolino logo is used. The rounded, lower-case font used is dissimilar to the bold, sharp, all capitalized lettering of Migros, and it also shares similarities to that of Avec.

7. Identify and describe tools management can use to manage the Migrolino brand.

Student responses will vary and should incorporate some of the following tools: brand audit, collection of customer and employee feedback, franchise/site audits, and mystery shopping.

A brand audit is an annual check-up to ensure consistency and constancy of purpose in imagery and perception. A brand audit requires an in-depth examination of the brand to assess its sources of brand equity and suggest ways to improve and leverage brand equity

Migrolino can collect feedback from customers and employees periodically through the use of surveys, such as customer satisfaction surveys, conducted at least annually to establish a benchmark, assess satisfaction levels, and use results to evaluate store performance. Migrolino can also collect feedback continuously and systematically, by proactively soliciting customer and employee suggestions and comments. Appropriate tools for feedback include in-store comment cards, suggestion boxes, 'contact' links or forms on the corporate web site, toll free hotlines, and an open door policy.

Franchise or site audits should be conducted at least annually to assess franchisee compliance with Migrolino standards and practices. Periodic evaluation of each franchise location will allow Migrolino to take corrective action if problems exist, ensure a consistent customer experience with the brand, and identify franchisees and employees who excel. Likewise, mystery shopping is a tool that can be used to complement efforts to ensure a consistent customer experience, adherence to Migrolino standards and practices, and provide a basis for identifying excellence.

TEACHING SUGGESTIONS

1. Have your students go online to the Migrolino website. Do they get a feel of the marketing strategy of the company? How could it market its brand better?
2. Have your students browse through the other convenience store websites. Do you see a difference between the marketing styles and offerings between Migrolino and its competitors? Which would you be more likely to purchase from?
3. Ask your students to visit local convenience stores and describe the product mix, customer service, and shop atmospherics. What, if any, elements of their experience represent innovation in convenience that might be adapted for the Migrolino concept?

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.

INSTRUCTORS' NOTES

Discussion Questions and Guide

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?**

   Answer: Pat seemed to be the most logical choice since she was the one most focused on the HRM program at that time. The others (the more senior faculty) had their time split between the HRM program and other projects. However, For an employee to be successful on a delegated task the employee needs the resources, and the support of the manager. Without those things the manager may actually be signaling others that the project is not important. One suggestion for how this might have been done would be an initial meeting (led by Chris) where the project's importance was discussed, and the role of Pat in getting it done was agreed upon by the affected parties. This may have lessened the resistance of the other HRM faculty resulting in a much more successful the initial attempt to revise the curriculum.

2. **At this time, at this time, the HR faculty is 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?**

   Answer: Perhaps some study of the need for the major, the impact of previous changes, and the impact of the SHRM certification on program visibility and prestige should be conducted. Making changes in the absence of this type of data about the impact of those changes is a common managerial mistake.

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 program curriculum?**

   Answer: The best way to structure the curriculum would be to have four or five classes with very broad course titles and descriptions. This would allow the faculty to introduce new topics and areas within HRM (if they chose to) without going through the hassle, time, and expense of redesigning the curriculum. This would give the program the most flexibility to meet the needs of a rapidly changing field all while housed in an inflexible bureaucratic environment. However, the trade-off is that while faculty members like to have flexibility for themselves, they generally distrust it for others. Gaining support for this type of program in many academic settings could prove problematic.

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?**

   Answer: Even though Chris is the head of the Management department, he is not the most natural choice to lead the team because his area of expertise is in Operations Management, not HRM. The person leading the change needs to be a faculty member whose primary interest is HRM and who will be around to implement the program. In this case, there does not seem to be an appropriate person available which may be another reason to postpone the curriculum revision. Pat would be the most logical choice to lead the team again – after she has achieved tenure. Until then her focus needs to remain on her research so that she can be a productive member of the HRM team at WSU for many years.

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?

Answer: Managers in all types of industries and at all levels are faced with the same types of problems that Chris faces in this case. There are never enough resources (financial and human) to meet every demand. Upper management in most organizations wants to be sure that all expenditures of time and money have the potential to bring back a return on that investment. Every manager must at one time or another decide whether to try to save an existing product line or let it die a natural death. All organizations face outside demands. In this case, SHRM has established curriculum guidelines but those types of demands could be placed on other organizations from shareholders. Politics and team dynamics are part of every modern organization. Although this case includes the unique dynamic of senior versus junior faculty, everyone in an organization faces critiques from those above them in the hierarchy, many of whom have or will have an impact on an individual's future career with that organization.

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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

The case is designed to be used in undergraduate business courses to help students understand the complexities of operating a small business in a retail environment; the need to think creatively when developing new marketing efforts and potential sources of revenue; and the consideration of an organization's viability when there are no clear heirs to the small business. For emphasis, instructors may choose to limit the scope of the case to a particular functional area. The case is not designed to provide an exercise in financial analysis.

Students should expect to spend at least two hours studying the case and accompanying questions. Discussion of the case can be conducted in small groups or as a class. If small group discussion is selected, it is recommended that the groups be brought together prior to the conclusion of the exercise to compare responses to the case. Specific questions and discussion include:

1. What could kallevig's nursery do to enhance its' marketing efforts?

Social media. Discussion of an internet presence and social media is purposely omitted from the case. Tech-savy students should note the need for a web presence and the use of other social media outlets. Kallevig's Nursery should not only have a web page, but a Facebook (http://www.facebook.com) fan page as well. Students can discuss the type of information that should be included in each venue such as location, operating hours, and type of services and products offered. Other services including Foursquare, a location-based social networking web site based on software for mobile devices (http://www.foursquare.com) and Groupon, a deal-of-the-day web site that features discounted gift certificates usable at local or national companies (http://www.groupon.com) could be considered to broaden the nursery's appeal and attract new customers. In addition to his television appearances and newspaper articles, John could write a blog and/or utilize twitter (http://www.twitter.com) in which he provides general lawn maintenance and planting tips applicable to the particular time of year. Providing Kallevig's web address during his television appearances and as tags to John's newspaper articles, blogs, and tweets is a necessity.

Ad effectiveness. The effectiveness of the small ad that John places in the Sunday paper during the growing season should be assessed. A code placed in the ad could aid in tracking effectiveness by offering a small bonus or discount for those that mention the code when purchasing products at Kallevig's. A different code for each ad will help determine which ad is most effective. Although beyond the scope of this case, students could research current literature on the effectiveness of ad placement (top left portion of page, bottom right of page, etc.) and explore the effectiveness of color versus black and white ads.

Seminars. John could consider offering free or low-cost seminars at his place of business or through the local community college. These seminars could be booked through the college as continuing education classes and cover seasonal specific planting and gardening techniques.

Guest speaking. To increase his visibility and name recognition, John should offer his services as a guest speaker at the local garden club. Plants given as small door prizes could enhance the nursery's image and enliven the speaking engagement.

Signage. The case notes that John installed a non-illuminated 4' X 6' sign when he moved the business to its' present location. Students may note that occurred 18 years ago. The case does not address the condition of the sign, but students should address the need for a large, modern, illuminated sign. Since John has been approached by a national sign company for placement of one of its LED billboards (http://www.signindustry.com/led/articles/2002-07-30-LBledBillboards.php3), an arrangement could be made to exchange sign placement with periodic advertising on the sign or, possibly more significant, an agreement could be reached allowing Kallevig's Nursery to mount a permanent, lighted sign under the billboard.

Publishing. As a new avenue for exposure and as a potential revenue stream, John could write an e-book or self-publish a traditional paper-based book to be sold through his web site and on Amazon (http://www.createspace.com). He could also produce a series of low-cost videos posted on his web site and/or Youtube (http://www.youtube.com).

2. What Could Kallevig's Nursery Do To Enhance Revenue Or What New Revenue Streams Could Kallevig's Introduce?

Seasonal sales. It is noted in the case that John Junior works at the nursery during the holiday season, “typically a slow time for the business.” Students could consider other product lines to increase sales during this period. Holiday-related merchandise such as Christmas trees, ornaments, wreaths, lights, and other products could offer new sources of revenue. Additionally, a portion of the store could be dedicated to theme-related merchandise during other times of the year. Easter, the 4th of July, and Halloween may provide opportunities for adding new revenue streams with products targeted to specific celebrations. Since the store is located in the south, Mardi Gras (generally January to late February or early March) may also provide an opportunity to add seasonal merchandise and increase traffic to the store.

Internet sales. Internet sales via eBay (http://www.eBay.com) and/or through their web site could provide another avenue for increasing sales of some items.

Sales to nearby apartment residents. Students may note that the business is located near several very large apartment complexes. The residents of those apartments may provide an additional revenue source through the sale of Bonsai trees and other plants suited for small living areas. Hanging plants for apartment patios and small fountains for indoor enjoyment may also add incremental revenue. Also, establishing a relationship with the apartment dwellers may lead to increased sales as those residents purchase homes.

Apartment landscaping. No mention of the nearby apartments' landscaping is given. Kallevig's did not install the landscaping and does not maintain it. Some students may suggest that John approach the apartment managers concerning landscaping and maintenance of the grounds. The number and size of the apartment complexes, as well as the proximity to the nursery, could make this a potentially lucrative business line.

Mowing. Students may question what is included in Kallevig's landscape services. Typically, these services, after installation and at an additional cost, include fertilizing and pruning plants and shrubs. This also includes replacing any plants and shrubs that die while Kallevig's contract is in place, regardless of who installed the landscaping. The landscaping service does not include mowing. As an additional line of business, Kallevig's could consider adding residential and commercial mowing services to their offerings.

Lawn equipment repair. No mention is purposely made of the repair of lawn equipment. Students may notice that the closest lawn equipment repair facility is 14 miles from Kallevig's Nursery and only two repair locations are noted in the table. While it is not likely that the nearby apartment dwellers would be in need of repair services, the surrounding households may require such services. Depending on the quality and response time of the other repair businesses, Kallevig's could potentially draw from a wide ranging market beyond their typical service area.

Lawn Fertilizing. As part of landscape services, Kallevig's could offer a lawn fertilizing service, most likely for residential customers. This could be offered on an annual basis with six applications per year. Each application would be appropriate to the time of year and the type of sod.

Service area. Students may note the decrease in business from nearby residential customers. As the demographics of the immediate area have changed, Kallevig's Nursery has not recognized those changes and, as a result, has suffered a loss of business. The instructor could emphasize the need for periodic evaluation of a business's markets in order to detect any change in its' typical customer profile and make necessary changes. In addition to other suggestions provided in these notes, Kallevig's should consider expansion of its' market beyond the immediate area around the nursery.

3. What are the advantages and disadvantages of offering health care, vision, dental, and life insurance to Kallevig's employees?

Financial data are purposely not provided to allow an in-depth analysis of the cost/benefit ratio of Kallevig's offerings. The intent of this question is to prod the students to consider the overall role of benefits in the attraction and retention of employees. By offering these benefits, Kallevig's may be seen as the "employer of choice" among nurseries. All other considerations being equal, Kallevig's should have the "first pick" of potential employees and should have lower turnover than nurseries that do not offer those benefits (Gunsch, 1992; Hudson, 2003; Mulcahy, 2003). While costs could be reduced by eliminating these benefits, increased turnover could negate those savings.

Students may comment on John's policy of hiring only workers legally able to work in this country. Discussions could include the use (and possible abuse) of undocumented workers and the advantages/disadvantages the use of undocumented workers may present. Group discussion with one group supporting the hiring of only documented workers and another group supporting the hiring of undocumented workers could lead to spirited discussion, although no definitive conclusion will likely be reached.

As part of the discussion, prior to the class meeting, students could be assigned to review the E-Verify system (http://www.uscis.gov/everify) and answer several basic questions to ensure they have spent adequate time familiarizing themselves with the E-Verify process prior to the class discussion.

4. What Other Issues Should John Be Considering Now Or In The Near Future?

A side issue that may be brought up by the students regards John's eventual exit from the business. At the age of 53, John should be planning for his retirement and the disposition of the business. Although beyond the scope of this case, the basic options available to John can be listed.

It appears that both children have decided on careers outside of the nursery business. Nonetheless, John should gauge the ownership interest of each of his children before considering other options. If the children have no interest in taking over the business, John could then consider selling the business to either of his supervisors (Marvin and/or James) in an arrangement similar to what John had with the previous owner, Bernard “Barney” Barnfield. If neither of John's supervisors is interested in purchasing the business, John should engage the services of a business broker and consider selling to an interested party. If no interested parties are found, John could sell the assets of the nursery and close the business.

Students' discussion of the future of the business could be limited to ensuring that they are aware of the options given above. Additional discussion could center on the sale to Marvin and/or James. If only one of the supervisors is interested in purchasing the business, the process is a bit simpler, but what if both Marvin and James are interested in buying the business? Should one be entitled to a larger stake in the business than the other? Does the fact that one supervisor is oriented toward the irrigation business while the other supervisor is more involved with the nursery/landscaping side of the business make any difference? No definitive answers can be given, as they are subject to many complex variables that are not available to this case (e.g. the financial status of John, Marvin, and James, goals of each of the parties, etc.). Extensive discussion concerning advantages and disadvantages of each option (legally and financially), and steps involved in John's exit are beyond the scope of this case, but additional information can be found in the Small Business Administration's web site (http://www.sba.gov/category/navigation-structure/starting-managing-business/managing-business/getting-out). Information on valuing a business can be found on the American Society of Appraisers Business Valuation web site (http://www.asabv.org). Information concerning the services of a business broker can be found at the International Business Brokers Association web site (http://www.ibba.org).

The case notes the services of, SCORE, the Service Corps of Retired Executives (http://www.score.org). Services are also available through the U.S. Small Business Administration (http://www.sba.gov/). Students could be assigned the task of visiting the respective web sites and reporting on the services offered by the agencies.

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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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

On January 17, 2012, Paula Deen, Food Network regular and comfort food queen, revealed on NBC's Today show that she had been diagnosed with diabetes three years previously. The revelation was greeted with accusations of hypocrisy by health activists who accused her of promoting an unhealthy diet. Criticism was particularly stinging in view of the appearance that she had not only profited by promoting unhealthy food but would now profit by the treatment for eating the food. There was contempt for the fact that her revelation was accompanied by the announcement that she would be the face of an online program Diabetes in a New Light sponsored by the pharmaceutical company Novo Nordisk. She also switched from her precious mediation to Victoza, the non-insulin drug offered by the company.

Three issues are presented for discussion. First, what were the ethical implications of her response to her diagnosis of diabetes? Second, how and to what extent should she adjust her image based on the diagnosis? Finally, what assumptions are the critics making about the behavior of viewers and customers of the Paula Deen brand? Does the accuracy of these assumptions matter to the future of Paula Deen Enterprises?

Discussion Questions

1. What did Paula Deen do wrong?

Many misdeeds that are cited as ethical violations are actually violations of the law. This situation is one in which no law has been broken and no immoral or socially undesirable act has occurred. Ms. Deen has promoted food that is considered to be a risk factor for diabetes while suffering from the disease herself. She withheld the announcement of her diagnosis until it was necessary to make her a creditable spokesperson for a diabetes drug. The critics view this as "bad taste." Is bad taste unethical? Students should be pressed to describe exactly how this secrecy violated ethical principles. They might say that it is information manipulation which refers to hiding or distorting information for financial gain. Insider trading comes under this heading. They might say that she has violated the golden rule "do unto others as you would have them do unto you." By withholding information about her own health, she could be said to have jeopardized the health of her viewers. By not being open, she has increased her revenues.

2. What assumptions are the critics of Paula Deen making about her fans?

It is hard to imagine that anyone considers a deep-fried Twinkie to be healthy. To believe that her fans eat whatever she prepares in quantities sufficient to be harmful is to give them very little credit for knowledge of nutrition or even common sense. If pressed, students should be able to realize that people can watch TV without emulating activities on it. The Food Network recorded its' highest ratings month in January of 2012 with an average of 1.4 million viewers. The Deen shows were not the top rated and this was a 40% increase from the previous year. Given that 23 million people have diabetes, her viewers are a drop in the bucket.

3. Do you agree with Ms. Deen about the role of personal responsibility?

While her contention that people watch her show for entertainment and she has always advised moderation may appear to some as a cop out, some students will want to support this line of thought. Given her relatively small number of viewers and relatively small revenues from cookbooks, her influence may not be as great as her critics claim

4. What are the pros and cons of changing her image to a "health conscious" southern chef?

It would be hoped that a change would silence her critics but that is not assured. It is possible that she would reach a larger audience because healthy eating is very popular. She would not be doing harm to those who may be unduly influenced by her cooking methods.

On the negative side, she would probably need to lose more weight to fit the image and good health is more than healthy eating. Should she advocate more exercise, quitting smoking, and other such changes? Would it be possible to escape the image of Southern cooking that she has so carefully built for such a long time? Her very success at differentiating herself would make it very difficult to change. Would she risk being "stuck in the middle' between the seriously health-conscious and the seriously taste-conscious?

It is difficult to assess the financial consequences of such a decision but students should be noted that the bulk of her income is from licensing, endorsements, and speaking fees. A change of image is likely to decrease this income in the short term.

5. Is it ethical to endorse both the cause of and the treatment of a disease?

Comparisons come quickly to mind: what if the Marlboro man announced his support of lung cancer drugs or a liquor producer gained income from an addiction treatment facility? In the Deen case as in these examples, there is no suggestion that any of these enterprises sought to cause the disease in order to profit from treating it. Clearly such a strategy would be unethical. Ms. Deen is in more of a grey area and her critics refer several times to "bad taste" rather than ethical or legal violations.

6. **What should she do now? (This would make a good assignment question: Given the criticism generated of Paula Deen and the financial importance of Paula Deen Enterprises to her family and others, what short term and long term recommendations would you make?)**

    Students who argue for a change in image to healthy food should discuss how this would work operationally and strategically. Who would develop the recipes? Would this be revenue /cost neutral? How should she explain the change?

    Students who argue for maintaining her current image should show that her arguments about her show as entertainment, the need for personal responsibility of viewers, and the causes of diabetes beyond diet are valid (which they are).

    Another option for Ms. Deen might be retirement. Many at her age look forward to more relaxation and less pressure. There appear to be no financial reasons to continue working and there is something to be said for quitting while you are on top.

EPILOGUE: PILING ON

On March 6, 2012, <u>People</u> magazine reported a sexual harassment suit against Paula Deen and her brother, Bubba Hiers, by a former manager of a restaurant which they co-own. The majority of the accusations stemmed from alleged behavior by Mr. Hiers, but Ms. Deen was reportedly made aware on many occasions of the behavior and did not act. Ms. Deen was also reported to have made racial comments about employees. On March 8, a Savannah judge refused Deen's request for a gag order on the suit.

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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

After reading and analyzing the case, students should be able to:

1. To predict employee responses to hard downward influence tactics.
2. To select downward influence tactics more likely to result in employee commitment versus compliance.
3. To interpret the behavior of supervisors as attempts to establish their authority.
4. To analyze the challenges of leading an academic institution with a collegiate structure versus a traditional organization.

Discussion Questions

To use the Case to Teach Appropriate Downward Influence Tactics:

1. Why did the faculty respond negatively to the director's email?
2. What advise can you give to the director so that he or she could be more effective in his attempts to influence the faculty?
3. Use Situational Leadership Theory (SLT, Hersey & Blanchard, 2001) to analyze the behavior of the acting director.

To use the Case to Discuss the Challenges of Leading a Non-traditional Organization:

4. What was the director trying to do explicitly and implicitly?
5. Is such an exchange of emails possible in a corporate setting? Why or why not?
6. Are there other organizations that are culturally similar to academic institutions where similar leadership issues maybe relevant?

1. Why did the faculty respond negatively to the director's email?

The director's email can be seen as a downward influence attempt. Generally there are three possible outcomes for any influence attempt: commitment, compliance or resistance. Generally soft influence tactics are related to commitment and hard influence tactics are related to compliance and resistance. Because there are was an implied threat in the director's letter it can be considered as a hard influence tactic. It is therefore not surprising that the faculty responded with resistance. Tepper, Eisenbach, Kirby and Potter (1998) have used a justice-based model to explain resistance to downward influence attempts. According to their model, influence attempts provide cues about interactional justice. Interactional justice is the fairness of interpersonal treatment during the enactment of organizational procedures. Hard influence tactics implicitly question subordinate's competence and motivation. Compliance with a hard influence attempt is seen as resulting from the influence behavior of the supervisor rather than the ability or willingness of the subordinate (Kipnis, Schmidt, Price & Stitt, 1981). When a supervisor uses hard influence tactics, it raises concerns about the extent to which the supervisor can be trusted to protect the interests of the subordinate. As a result of all this, individuals are likely to perceive a lack of interactional justice when hard influence is used. This sense of interactional unfairness leads to resistance to the influence attempt.

2. What advise can you give to the director so that he or she could be more effective in his attempts to influence the faculty?

Soft influence tactics like ingratiation, consultation and inspirational appeals, which use personal power and power sharing are likely to result in commitment rather than compliance or resistance. The director could be advised to use one of these tactics. Soft tactics implicitly communicate respect for the subordinates ability to understand the importance of the objectives of the influence attempt. It also communicates a desire to strengthen the relationship with the subordinates. According to Tepper and associates, soft tactics convey interactional justice. Especially for a new director, soft influence would have conveyed the desire to have a good relationship with the faculty.

An interesting exercise would be to ask the students to rewrite that email as a soft influence.

3. Use Situational Leadership Theory (SLT, Hersey & Blanchard, 2001) to analyze the behavior of the acting director.

According to SLT, the style of the leader should match the level of readiness of the followers for effective performance. Four leadership styles are identified by SLT, telling, selling, participating and delegating by combining high and low levels of task and relationship behavior. There are also four levels of follower readiness based on a combination of high and low levels of ability and willingness. In this case, the acting director is using telling (high task-low relationship) style which is appropriate for followers who are low on ability and willingness (level 1 readiness). The faculty members are in level 3 or level 4 of readiness, able and either unwilling or willing. In this case the acting director should use participating (low task-high relationship) and delegating (low task-low relationship), respectively. The resistance from the faculty is due to the mismatch between leadership style and follower readiness.

4. **What was the director trying to do explicitly and implicitly?**

Explicitly the director was warning the faculty members to treat the students with respect. Interestingly, while doing so, he was not being very respectable of the faculty. Implicitly the director was trying to establish his authority from his positional power base. In this he may have been trying to change the style of leadership from a collegial 'first among equals' style to a more authoritarian top-down style. Another interpretation of the faculty response is to see it as a resistance to this change in leadership style.

5. **Is such an exchange of emails possible in a corporate setting? Why or why not?**

In most traditional organizational settings such an exchange of emails is unlikely. This is because authoritarian leadership is often tolerated. Resistance to authority may be more passive and subterranean (perhaps through anonymous blogs, etc). There may be serious consequences for open criticism of leaders. Academic institutions are run on a collegial culture (Ghosh, 2007). Leadership roles are often rotated and the leader is considered only as a 'first among equals.' In this context authoritarian behavior is often openly criticized and resisted. This makes leading such organizations more challenging. Influence must be use much more subtly.

6. **Are there other organizations that are culturally similar to academic institutions where similar leadership issues maybe relevant?**

Today, many organizations are based on knowledge work and knowledge workers, for example, research and development organizations and many software companies. In fact, many of these organizations are running their facilities like 'campuses,' for example, Google and Yahoo. These organizations are more collegial than traditional organizations. The leadership dynamics in such organizations are likely to be very similar to those of academic institutions.

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PARK STERLING BANK: THE JOURNEY BEGINS!

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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.

INSTRUCTORS' NOTES

Learning Objectives

Students will gain knowledge regarding the:

1. Key components of a community bank's financial statements
2. Sources of asset quality problems
3. System used by bank regulators to assess the health of a bank
4. Role of the Board of Directors in providing the oversight function and establishing the strategic direction

Students will also assess the results of operations of Park Sterling Bank as well as the risks and potential rewards of investing in a community bank. They will analyze the attractiveness of starting a de novo bank. Students will evaluate the merits of accepting the partnership proposal from the Cherry Group.

Preparation

While helpful, prior knowledge of bank management is not required. Accordingly, this case can be used in junior level finance, economics and business management classes. The case can be used in the Principles of Finance class to highlight the process and challenges of raising capital. It clearly can be used in the Investments class to assess the attractiveness of investing in community banks and to examine the attractiveness of Park Sterling's issue of subordinated debt and common stock. The most natural fit for the case might be a class such as Bank Management, Financial Institutions, or Money and Banking.

The case works best if students have completed the business "tools courses" such as accounting, economics and an Intro to Business course.

Discussion

The discussion can begin with an examination of the role of the Board of Directors of a community bank. Initial directors are often chosen for a start-up bank based on their potential to raise capital. The regulators require each proposed bank to raise a minimum amount of capital in order to commence operations. The directors often play a major role in identifying potential investors and soliciting investments for the bank. Subsequently, the board must establish policies by which the bank will operate and monitor management's adherence to the policies established. The board must also engage in strategic planning and provide management oversight. Clearly, directors should not be selected based on their fundraising capabilities alone.

Directors should possess sound business judgment and be persons of integrity. They should be respected members of the community. Directors should also have the time and ability to facilitate relationships and solicit business for the bank.

A review of the major components of a community bank's balance sheet would also be appropriate. It should be noted that the balance sheet of a bank differs from that students likely studied in their accounting classes. Specifically, the asset section typically consists of cash and cash equivalents, loans and fixed assets. The liability section consists of deposits and other debts. Students should understand that loans generate revenues for the bank. Thus, they are assets. Deposits, on the other hand, must be returned at some point to the bank's customers. Thus, they are liabilities.

QUESTIONS

1. Each Park Sterling board member was assigned to a committee. Assess Park Sterling's committee structure. Which committee would be of most interest to you? Why?

As stated in the case, the Executive Committee was directly responsible for providing direction and oversight to members of the executive management team. They served as the compensation committee of the bank. In this capacity, the Executive Committee determined the appropriate level of compensation for the bank's senior managers. They made bonus decisions and established and monitored the stock option program. The Executive Committee also made recommendations to the full board regarding the strategic direction of the bank.

The Loan Committee played an extremely important role. They were responsible for reviewing and approving each loan application that exceeded the bankers' lending limit. The Loan Committee was charged with making sure that the pricing on each loan was commensurate with the amount of risk the bank would assume as well as reviewing the structure of the proposed loan including: maturity, variable or a fixed rate, interest rate floor, etc. Keep in mind that the bank's primary source of revenue was interest income. Accordingly, Park Sterling bankers had to offer rates that were competitive in the marketplace. However, loans needed to be priced such that the bank would generate an attractive net interest margin. Further, the bank desired to minimize credit risk (i.e., the possibility that the borrower would not be able to meet its obligation to make timely payments of principal and interest). Therefore, the Loan Committee was charged with reviewing the financial position and credit history of prospective borrowers. It should be noted that the overwhelming majority of Park Sterling customers had a long-standing relationship with one or more of the bankers.

The Audit Committee's function was very important, albeit less glamorous. They served as the internal watchdogs. Their mission was to ensure the accuracy of the financial statements and all reports to regulators and adherence to policies established by the Board of Directors. Further, the Audit Committee was charged with maintaining an effective system of internal control. The Audit Committee hired the independent auditors and a host of consultants who performed information technology, money laundering and bank secrecy audits. The Audit Committee also received complaints filed by employees and had the responsibility of investigating any such complaints received.

Clearly, each student will likely base his/her choice of committee assignment based on his/her major or personal interest. It would not be surprising if the Audit Committee received the least number of votes.

2. What do you think of Park Sterling's initial strategy?

Park Sterling's initial strategy was to market "comfortable banking" to professionals, small business owners and real estate developers. The bank desired to differentiate itself by establishing close personal working relationships with its customers and responding to their needs in a timely fashion. This approach previously worked well at Park Meridian Bank.

The decision to pursue a real estate niche made sense given that the City of Charlotte was undergoing a rapid rate of growth. New commercial and residential developments were being announced on a regular basis. Further, the Park Sterling bankers had long-standing relationships with members of the development community. Many of the loans brought to Park Sterling by the bankers who joined the de novo bank were real estate loans. The risk, of course, was that the real estate market would cool and developers would have difficulty completing their projects and servicing their debt. There were no signs that the economy would sour or that the real estate market would decline at the time the bank began operations.

3. What fueled Park Sterling's rapid growth?

Park Sterling's rapid growth was the result of the following.

1. Bryan Kennedy and Frank Ix had deep ties in the community. They were able to attract business to the de novo bank.
2. Bryan and Frank were also successful in recruiting experienced bankers, whom they had worked with previously, to join the bank. Each brought a book of business with them.

3. The Board of Directors moved some or all of their business to the bank and actively solicited family, friends and business associates to become customers.
4. Park Sterling bankers were successful in drumming up new business by offering very competitive loan terms and fast decision making.

4. Differentiate between core deposits and wholesale funding.

Core deposits are those made by customers at one of the bank's branches or via ATM or direct deposit. Customers who make such deposits usually have a stronger relationship with the bank and are more likely to leave their monies on deposit for a longer period of time. They tend not to move money from bank to bank solely to earn a few additional basis points of interest. Accordingly, core deposits are valued significantly more than wholesale deposits by bank personnel and regulators.

Wholesale deposits are deposits (i.e., certificates of deposit) obtained through brokers. Here, the brokers' customers primarily shop to obtain the highest interest rate they can receive for a given maturity. There is no loyalty to a given bank. These customers will move their money from bank to bank in order to receive the highest yield. Accordingly, wholesale deposits are often referred to as "hot money."

5. The bank became "cash positive" in its 7th full quarter of operations. Explain this term.

De novo banks typically generate losses during the first three years or so of operations. Initially, operating expenses (i.e. salaries, rent, utilities, etc.) are substantially higher than interest income. Interest income increases as the bank books more loans. However, it takes time to build the loan portfolio and generate a sufficient amount of interest income. Further, the bank must recognize bad debt expense (i.e., allowance for loan losses) at the time each loan is made. Park Sterling Bank adopted the policy of adding 1.5% of the amount of each loan to the allowance for loan losses. This expense was recognized immediately while interest revenue would be generated over subsequent months. This was a non-cash expense like depreciation. Thus, the allowance for loan losses resulted in net losses, but did not result in a cash outflow. Accordingly, de novo banks add back the allowance for loan losses to the net loss per the income statement to determine if and when they become "cash positive." This is the first milestone for a de novo bank. The second, and more important, milestone is to become profitable taking all expenses into account.

6. What are your observations regarding Park Sterling's growth in assets, deposits and loans from 2006-2008 (see Table 2)? What challenge(s) does this growth cause?

Students should note that 2006 was a short year. The bank began operations in October. Phenomenal growth in assets, deposits and loans occurred in 2007 and 2008. Assets grew by 73.5% between 2007 and 2008. During the same time period, deposits grew 89% and loans grew 64%.

The bank raised $45 million during its initial capital raise. This amount could support a bank with approximately $450 million in assets (i.e., capital could be leveraged by a factor of 10). Park Sterling had $428 million in assets at 12/31/08 so the bank's future growth was quite limited. Accordingly, additional capital would be required soon if the bank desired to continue to grow.

7. Differentiate between interest income and interest expense (see Table 3). What is the source of each?

Most community banks generate nearly all of their revenue by making loans to customers and charging interest (i.e., interest income). National and large regional banks often have other revenue sources such as fees and commissions received from mortgage origination, investment banking and wealth management services. Accordingly, interest income is the "lifeblood" of community banks. Interest expense is the interest banks pay to their customers for amounts on deposits (i.e., checking, savings and money market accounts and certificates of deposit). Banks want to maximize interest income, while minimizing interest expense. Competitive forces, however, play a major role in the interest rates charged for loans and paid for deposits in a given community.

Banks use the spread between interest income and interest expense to cover operating expenses and provide a return for the shareholders of the bank.

8. Would the subordinated debentures issued by Park Sterling have appeal to you as an investor? Why or why not? What do you think motivated the bank to issue debt securities with an 11% interest rate?

Students should recognize that an 11% interest rate was quite appealing in 2009. This rate was offered in order to attract a sufficient number of investors to invest in these securities. The board noted that it was extremely difficult to attract capital in the economic climate that existed at that time. Further, investors would likely consider these securities to carry a significant amount of risk given that the issuer was a relatively small bank operating in a limited number of markets. Also, these securities would be subordinated to all other creditors of the bank (i.e., the claims of the subordinated debenture holders would be satisfied only after the claims of all other creditors were satisfied in the event of the bank's failure).

Most students should be willing to make this investment given the attractive interest rate. Some, however, may be highly risk averse and, therefore, unwilling to make such an investment.

9. How do you think management and the board responded to changes in the economy, a real estate market in decline and heightened regulatory scrutiny?

Management and the board responded proactively to the challenges presented by the downturn in the economy and the decline in the local real estate market. Bankers were assigned to monitor all outstanding real estate loans. Loan terms were revised in some cases to afford developers the opportunity to successfully complete their projects. The methodology for computing the loan loss allowance was modified. Significant amounts were added to the allowance for loan losses to provide a cushion against perceived problem loans. Unfortunately, these actions were insufficient to offset the decline in the real estate market and the inability of a number of borrowers to satisfy their debt obligations.

10. What were the advantages and disadvantages of the partnership proposal submitted by the Cherry Group?

First and foremost, the Cherry Group proposed to raise $400 million in capital. This amount of capital would serve to provide:

1. An infusion of capital that would make the bank extremely well-capitalized even in the face of potential loan losses.
2. Capital that could be used to acquire community banks operating in North Carolina, South Carolina and Virginia. There were a number of community banks with "tired" boards. They needed capital and had a lack of management depth. Such institutions were actively seeking a buyer or merger partner. Park Sterling would have the capital to pursue those banks seeking to be acquired.
3. An immediate increase in Park Sterling's stock price. The stock was trading in the $6.50 range. If the Cherry Group was successful, the price would move up to $9 or more per share.

Further, the Cherry Group included experienced bankers who had run very large banking franchises. These bankers would enhance Park Sterling's management team and provide additional skill sets to the bank. Additional expertise would also be added to the Board of Directors.

The disadvantages included:

1. There was no guarantee that the Cherry Group would be successful in raising $400 million. The bank would be liable for all costs incurred in attempting to raise the capital.
2. There was no guarantee that Park Sterling would subsequently be able to acquire other banks on favorable terms and successfully integrate them into a cohesive banking franchise.
3. All but two of the existing directors would be required to resign.
4. The character of the bank would change significantly. There could be pushback from local customers as Park Sterling grew significantly and potentially lost some of its "comfortable banking" appeal.

11. If you were a member of Park Sterling's Pricing Committee, would you have voted to accept the revised deal per the investment banker? Why or why not?

It would be easy for a student(s) to suggest that he/she would have voted to reject the revised deal. In fact, it would not be surprising if the majority of students took this position. The investment banker stated that only $150 million could be raised as opposed to the proposed amount of $400 million. Further, shares would be issued at $6.50 as opposed to the $9 – $11 range that had been previously projected. Accordingly, existing shareholders would not realize an immediate increase in their wealth. This was a significant departure from the original proposal made by the Cherry Group.

Students should be reminded that the bank faced significant challenges as a result of the decline in the real estate market, the bank's niche market. The addition of $150 million would provide sufficient defensive capital to ensure that the bank could weather this storm. Accepting the deal would also provide offensive capital that could be used to acquire other banks. The Cherry Group would also bring additional banking expertise to Park Sterling.

There should also be a discussion of the role of directors in making this decision. It should be stressed that it is imperative that directors act in the best interest of their shareholders. They have a fiduciary duty to do so. Note that members of Park Sterling's board had a conflict of interest. If they approved the deal, they effectively eliminated their ability to continue to serve on the board.

EPILOGUE

The Pricing Committee accepted the revised deal. $150 million was raised at $6.50 per share. Bud Baker, a member of the Cherry Group, became Chairman of Park Sterling's Board of Directors. All but two of the existing directors resigned and the board was revamped.

The new management team brought in a Chief Risk Officer and Chief Credit Officer to address the problems in the loan portfolio. Loans were written down to their expected realizable value. Accordingly, the bank posted sizable losses in each quarter after the deal was consummated. The stock price declined.

In May, 2011 the bank announced that it had reached agreement to acquire Community Capital Corporation of Greenwood, South Carolina. After completion of the deal, Park Sterling grew to $1.2 billion in total assets. Park Sterling continues to seek additional deals.

SHANGHAI-TOKYO INTERNATIONAL FERRY COMPANY: A RISK MANAGEMENT CASE

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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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

The objective of the case is (a) to encourage students to learn about elements of the COSO/ERM framework and (b) to integrate risk assessment into understanding the challenges facing small multinational organizations that might impede them from achieving their business objectives. Risks exist in all organizations and the risk responses will vary. Students will learn that there are different ways to response to risk and that they can be avoided, accepted, shared or reduced. The case also exposes students to joint venture relationships and specifically a Chinese-Japanese relationship.

This case can be used in a graduate international accounting or auditing course, a risk management course, or an international business course, to supplement class discussion of risk assessment. A discussion of risk assessment including the COSO/ERM framework should precede the assignment of this case. Students may need to supplement classroom discussions by consulting a business law textbook and a reliable website to learn more about joint ventures and especially Chinese joint ventures.

The case provide students with the opportunity to demonstrated skills that are essential for college graduates as noted in the AICPA's Core Competency Framework. The specific areas addressed are the broad business perspective competency since the case has an international or global perspective, and the financial category, since it uses a risk analysis approach.

The case is best completed in groups either as an in-class or out of class graded assignment. The group size, grading scale and assigned points is at the specific instructor's discretion.

Learning Outcomes

Students should be able to:

1. Identify business risks facing a small multinational organization.
   a. Define the specific business risk 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.

3. (Note: control activities are usually risk reduction strategies which may not be necessary for all risk responses)
4. [Optional] Calculate the foreign exchange gain/loss to the company based on current exchange rates. Assume one unit of goods for purpose of this calculation.

DISCUSSION QUESTIONS AND SOLUTIONS

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.

2. Suggest control activities that management could implement to address the risks identified.

The business risks and control activities identified by students will vary but the following suggested solution is provided to assist the instructor in evaluating students' responses.

Entity's Objective	Specific Risk	Risk Ranking/ Justification	Risk Response	Control Activity
Strategic	Diversification – a significant portion of business is obtained from one route	High – the company operates one route and has no intention of expanding	Accept	
Strategic	Diversification – a significant portion of income is provided by one source	High – the company receives 88% of its revenue from cargo shipments	Reduce	The company should continue to explore alternative passenger income sources.
Strategic	Diversification – income is not received consistently throughout the year	High – seasonal business with most income received in the 2nd half of the year	Accept	
Strategic	Natural and man-made disasters – poor weather conditions could affect the company's business	High – the 2011 Japan earthquake impacted company's finances	Share	The company should obtain business interruption insurance to protect against disasters (it may want to ensure that these disasters are specially insured)
Strategic	Natural and man-made disasters – piracy could have a negative impact on business	Low – the Sea of Japan is not an open sea	Accept	
Strategic	Political/Country – political tension between Japan and China could disrupt operations	Medium – the political climate between the countries is fairly stable	Accept	

Entity's Objective	Specific Risk	Risk Ranking/ Justification	Risk Response	Control Activity
Strategic	Competitors – the ability of competitors to enter the marketplace and negatively impact the company	High - The company already operates in a competitive marketplace and distinguishes itself through quality and timely delivery	Accept	
Strategic	Outsourcing –critical business operations are provided by third parties	Medium – the ship's crew is rented from one of the owners	Accept	
Strategic	Reputation – poor product or customer service could have a negative impact on the organization	High – the company's competitive advantage is that it provides a premium product with outstanding customer service	Accept	
Strategic	Succession Planning – no plan in place to address the departure of key personnel	High – a plan is in place to address the loss of key personnel such as the general manager	Share	Company could obtain "key person insurance" in case of the untimely death or disability of its key executives
Strategic	Joint ventures and alliance of the organization – joint venture partner relationship could deteriorate.	High – partners have opposing interests (i.e., continue investing capital or not) which could impact the relationship	Accept	This risk is outside the company sphere of influence
Strategic	Sufficiency of systems – accounting information system (AIS) may not provide management with accurate and timely information	Low – management is satisfied with its current AIS.	Accept	
Operating	Hiring – the company may not have the right personnel or number of people in place to manage its operations	Low – the company has employees in both operating countries and it has a seasoned management team to operate the business	Accept	
Operating	Customer Satisfaction – poor customer service could result in the loss of business as customers migrate to competitors	High – the company provides outstanding customer service and distinguishes itself through the timely delivery of its cargo	Accept	

Entity's Objective	Specific Risk	Risk Ranking/ Justification	Risk Response	Control Activity
Operating	Product Pricing – the company's product may not be adequately priced	High – company provides a premium product and so prices it accordingly	Accept	
Operating	Product Delivery – the company fails to deliver products on a timely basis or in poor quality	High – the company has a reputation for the timely delivery of its cargo (thereby ensuring good quality)	Accept	
Reporting	Availability of capital – company may not have adequate capital to replace ship	High – ship is aging and will need to be replaced	Reduce	The company could (a) review its cash flow and ensure that it is saving funds monthly for the eventual replacement of the ship, (b) exploring financing sources that it could use to help cover the cost of a new ship
Reporting	Financial reporting – company does not comply with accounting standards	Low – the accounting transactions are relatively simply	Accept	
Reporting	Accounting Issues – foreign currency losses could negatively impact the company's finances	High – the company currently absorbs all losses incur	Reduce	The company should consider entering into derivative contracts to hedge its exposure or pass on the losses to customers
Reporting	Accounting Issues – unpredictable crude oil prices will increase the company's costs and negatively impact income	High – fuel costs is an increasing percentage of the company's costs	Reduce	The company should consider entering into derivative contracts to hedge its exposure to increasing crude prices
Compliance	Laws and regulations – increase regulations could negatively impacted business	High – the company operates in a highly regulated business environment but it is in compliance with applicable laws	Accept	

Entity's Objective	Specific Risk	Risk Ranking/ Justification	Risk Response	Control Activity
Compliance	Environmental – ship pollutants could negatively impact the environment	High – the company complies with applicable laws and has certificates on file to demonstrate compliance	Accept	The company through continuous maintenance works to ensure that the ship is environmentally compliant

DISCLAIMER

This case and teaching note was prepared by Raymond Elson, Susanne O'Callaghan, John Walker, and Charles Tang and is intended to be used for class discussion rather than either effective or ineffective handling of the situation. The names of the organization, the individuals, and location have been disguised.

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