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INSTRUCTORS' NOTES

Editors

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

The Notes contained in this volume have been double blind refereed, and each was required to have a complete companion Case before consideration. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. The Case for each 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.

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

Inge Nickerson, Barry University

Charles Rarick, Purdue University, Calumet

WAR IS BUSINESS AND BUSINESS IS GOOD FOR THE UNITED STATES: THE MILITARY ARMS INDUSTRY GOES GLOBAL

Charles A. Rarick, Purdue University Calumet
Roberta A. Brooke, Eastern Washington University
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CASE DESCRIPTION

The primary subject matter of this case concerns international trade and comparative advantage. Secondary issues examined include social responsibility and international relations. The case has a difficulty level of three, appropriate for junior level courses. The case is designed to be taught in one class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

This case explores the growing international trade in military goods by the United States as the defense industry tries to accommodate a declining domestic market. The case explains the complexities in dealing with exports that require government approval, involve political jockeying, and are controlled by various governmental agencies. The case looks at military markets and manufacturers, and explores the legitimacy of exporting war machinery at record levels and at the same time promoting global peace.

"Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those that are cold and not clothed. The world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hope of its children … President Dwight Eisenhower, 1953[1]

INSTRUCTORS' NOTES

Target Audience and Teaching Strategy for the Case

This case can be used in a number of courses. Perhaps most relevant would be in international business or economics/public policy courses, however, the case is relevant for any course in which the role of government in international trade and/or industrial policy is covered. In almost all international business classes which act as an entry class (either undergraduate or graduate) the topic of political economy is discussed. This case allows for a greater discussion of that subject, in an applied format. The case is written to be used at both the undergraduate and graduate level. At the graduate level a greater level of depth in answers would be expected, however, at both levels students could do additional research and should engage in critical thinking about the subject and its consequences. Additional research by students could be helpful, but is not required to use the case effective in order to achieve the case objectives.

The case is written to be used in a number of formats. The case is flexible enough to be used for individual and group assignments. The case can also be assigned to be read and discussed in class in a traditional format with the instructor leading a discussion based on student responses to the discussion questions. Instructors should remember that there are no "right" or "wrong" answers to the discussion questions, just answers that have varying degree of merit based upon analysis. An important aspect of the teaching strategy is investigation and critical analysis on the part of the student based upon essentially ambiguous information, which is in essence the basis of much of managerial decision-making.

Objectives of the Case

The case seeks to have students explore in greater depth the relationship between business and government as it relates to international trade, especially exports in a select industry. The case also seeks to have students think in greater detail about job creation through exporting and the possible cost of that job growth. The case also seeks to acquaint students with the restrictions, rules, and regulations that sometimes accompany international business and the above normal role of governmental involvement in business when it is conducted abroad. When engaging in international business one must be aware of a variety of governmental restrictions, both imposed by the importing country and in some cases those imposed by the exporting country. In this case the restrictions are mainly of concern from the exporting, or home country, due to the unique nature of the industry.

Analysis

The case asks students to answer four discussion questions. Instructors using the case should feel free to add any additional questions they feel are important for their course, or eliminate questions not considered appropriate. While the discussion questions listed at the end of the case are ones considered important by the author of the case, they in no way are meant to represent the only way to approach the analysis of the case.

1: The United States, it could be argued has an absolute advantage in the production of military weapons, or at least in some weapon systems. Using a completely free market perspective in terms of economic freedom in general, and in particular

international trade, companies should be allowed to sell whatever and to whomever they want. Explain how this thinking is either valid or flawed.

While instructors may have strong positions concerning this question, especially as it relates to the industry in question, allowing for competing answers and critical thought on the part of the student is a useful part of the exercise. Opinions concerning the appropriate level of government involvement in our lives vary from one extreme position to its opposite, but perhaps the majority of opinions fall somewhere in the middle. This issue has been a topic of interest recently as government spending has increased and the amount of the economy controlled by government, especially the federal government, has expanded. There are some who would argue for complete economic freedom for individuals and companies, taking a more libertarian view, however, the number supporting such a position may be quite small. Even the father of capitalism Adam Smith, felt government had a role to play in the economy. Smith supported government involvement in defense, justice, and the provision of public goods.

While public opinion may have tilted a bit in recent years away from government involvement in the economy (Tea Party movement, failed government green company initiatives backlash), it would be difficult to support a position whereby the government does not have a role in the economy and its regulation. International trade since GATT, and continuing with the WTO, become freer, at least in terms of tariffs, and to a lesser extend non-tariff barriers. No economy is completely free of government involvement, including Hong Kong and Singapore, which score first and second in economic freedom respectively, according to the Heritage Foundation. The United States is in 10th position in the same index and has dropped in recent years. It could be argued that there is a difference in needed government involvement in small city-states and the world's largest economy. When it comes to military sales and the sale of other goods that have a direct relationship with national security it would be even more difficult to argue for a completely free environment in which individuals and firms were allowed to do whatever they choose. The interesting discussion from this question will most likely not come from the extreme positions, but rather the differing positions found in the middle. The most important part of leading a discussion on this question is allowing for independent thinking, however, it should also include pointing out any potential flaws in the argument.

2: Does a United Nations treaty making for multinational regulations of arms exports make sense to you? Why do you think the United States isn't enthusiastically supporting the agreement?

As with all the discussion questions, there isn't necessarily a right or wrong answer, including this one. Some arguments are, however, better than others. The argument made in support of an arms treaty is that "the trade in bananas has more restrictions than arms." The ATT (UN proposed treaty) could be supported as a necessary step in making the world a more peaceful place in that it would impose restrictions on arms sold to questionable regimes. If effective, and that isn't assured, the Treaty would help reduce internal and external conflict which results in many deaths annually, including the death of innocent children caught in these bloody battles. The definition of what constitutes a questionable regime is a troubling point, and the problem of weapons sold in the black market will not go away with the Treaty. Countries such as Saudi Arabia may be considered "questionable" in that the country's record on human rights is considered by some to be questionable. Countries opposed to the Treaty are the countries that are either benefiting from arms exporting or importing to an extent that supranational oversight might interfere with their transactions.

The United States voted against an earlier attempt to create an international arms treaty but it is presently unclear how the U.S. will respond to the upcoming UN action. The reason for the lack of support in the previous UN action was probably due to a concern that an external body would be regulating the sale of arms to allied nations that do not possess a good record on human rights. Essentially the United States does not want anyone telling it what, or to whom, it can sell its exports. An interesting relationship with a discussion of the points made with question 1 could be raised in this regard.

3: Take a position either in support or against increased U.S. arms exports and explain your position in detail.

A good answer to this question would be one in which a considered position is supported. Or in others words, an answer that is more than opinion. Opinions differ concerning arms exports, and opinions matter, but they should be supported by a reasoned argument. Factors that should be considered are employment in the United States, profitability of weapons companies, support of allied nations, the ability of the sales to support peace and avoid conflict, protection of intellectual property and trade secrets, national security, the ability of the United States to continue to be the world's leader in military equipment, and world perception and opinion. While positions on either side of the question can be supported and could be considered acceptable answers, this teaching note will provide rationale for increasing exports.

A position supporting increased arms sales abroad will certainly include the positive effect on domestic employment, and employment which is in generally well-paying jobs. Jobs in the defense industry, from research and development to actual manufacturing are generally considered very desirable jobs for an economy in terms of pay and benefits. An argument could be made for exporting goods in which the United States as at least a comparable advantage and not trying to hold on to low-level manufacturing jobs. Competing with countries like China, Vietnam, India, and other very low-wage locations in textiles or labor-intensive, low value added products is not practical. The defense industry is a profitable industry and this profitability is used for further research into cutting-edge technology (which also has non-military applications) and providing a return to investors, including pension funds for American retirees. A viable defense industry supports overall advances in research and innovation and needed income for the country.

Additionally, many of the sales of the latest weapons systems go to allied countries that are in little danger of changing their political structures or affiliations, and it is reasonable to assume they will remain friendly towards the United States (although as the Arab Spring has taught – stability can be is fragile). These sales not only increase their ability to defend themselves against hostile attacks, but can also facilitate their role in global peace interventions. There are times when multinational military peace interventions have been successful in preventing further loss of life and the restoration of civil order. Providing allied countries with additional military power to carry their burden in this effort can be viewed as a very positive outcome of increasing arms exports. Additionally, not all military sales involve offensive weapons. Some military exporting consists of goods which can be used purely for defensive purposes (Patriot missile defense system) or lack much destructive capability (military trucks). Nevertheless, increasing military exports must be managed in such a way that the U.S. is not viewed as a merchant of death and maintains the security of the country. It has long been the policy of the government to protect the most advanced military equipment and to make sure it does not fall into the hands of countries and regimes which may harm the United States. Any recommendation for increasing arms exports should certainly include a continued and careful analysis of this policy.

4: Corporate Social Responsibility (CSR) is a concept that is spreading throughout the world. CSR is defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations of stakeholders (customers, shareholders, employees, and communities)[1]. Customers, shareholders and employees are considered internal stakeholders while communities are considered external.

Today, more and more citizens expect corporations to be good citizens and this means that they cannot focus solely on meeting the expectations of internal stakeholders, but must also behave in ways that benefits society or its external stakeholders. A firm must meet its obligations to both in order to be considered in compliance with CSR standards.

To meet the needs of internal stakeholders the defense industry must be active, vibrant and productive. It must be managed in a way that keeps it providing state of the art equipment to the U.S. government, thus, keeping our troops combat ready in case the need arises. Shareholders will expect it to yield profits, which in times of peace can mean increasing exports to other nations' military or freedom fighters.

Employees expect that the industry will be a place that employs talented citizens and provides high paying jobs.

But meeting the expectation of society can be paradoxical. Defense industry activities are good for our economy. It stimulates innovations, and positions our nation to be combat ready in case the need arises. This readiness allows the U.S. to maintain its military might which can be a deterrent to hostile aggressions throughout the world. It can be argued then that ensuring the vibrancy of the military defense industry meets the expectations external stakeholders as well because it aids in keeping peace worldwide, thus providing a benefit to the greater society.

On the other hand, it can be said that producing weapons of death is not a benefit to the greater society. War disrupts economies, destroys productive labor forces and industrial infrastructure, as well as agricultural resources, to list a few. According to this line of reasoning, it can be said that the military defense firm is not in compliance with CSR expectations.

Further study of CSR requires students to examine the difference between legal aspects of business and ethical aspects of business. It is possible for something to be legal and unethical. Thus, if the firm is acting within the law is it CSR compliant?

For instance, one could say that external stakeholders are not equal to internal stakeholders because legally you only *take account of* the external stakeholder but are *held accountable to* the internal stakeholder. Therefore, according to this reasoning, unless the law holds a firm accountable to its external stakeholders there is no legal accountability and, therefore, no unethical behavior.

This leaves the student to ponder whether a firm that produces weapons of death can provide profits, jobs, and national security while turning a blind eye to the ethics of enabling war simply because it is not legally held accountable to the greater society.

5: Consider the economic and political effects the U.S. arms industry could potentially have over the next 5 years. Over the next 50 years.

Economically, the U.S. has been undergoing a recession and the country's budget deficit is growing. Should defense spending be cut, many American jobs could be lost. The U.S. arms industry's increasing exporting of military equipment is a way that jobs can be maintained, at least in the short-term. Profit from outside military sales allows for less dependence on the federal budget to keep the industry afloat. However, as this industry is currently in a growth market, sustainable profitability may be more difficult as the industry matures.

In the long-term, an arms industry cannot be sustainable unless there is war, necessitating new equipment due to the destruction or outdating of the old. The more equipment exported into the arms "market," the more likely saturation will take place. Just as with any other industry, once maturation occurs clients will either a) need to buy more to keep the industry afloat or b) replace old or destroyed products. In either case, differentiation of product becomes essential. The U.S. currently provides the highest quality military equipment and is the largest supplier of military equipment in the world. The U.S. will need to continue to differentiate its military equipment from those of competitors (Russia, etc.).

Politically, the U.S. has been at peace on the domestic front and the "world's peacekeeper" on the international front. As much of the military equipment is currently exported to "allied" countries, the likelihood of retaliation is low. Additionally, the U.S. may be viewed as a force for good, also supplying those countries that would uphold human rights. Having a band of allies that are properly equipped allows for political influence and helps maintain balance in areas where there is political instability.

In the long-term, allegiances can change. It is highly suspected that both the U.S. and the U.K. assisted and funded the rise of Saddam Hussein to power in Iraq in the 1960's. Neither allied nation could have predicted the extent of abuse this dictator would impose on his own people and on the people of Kuwait in later years, requiring an allied invasion to depose Hussein. Students should consider the long-term implications of changing allegiances among nations, particularly the possibility of the U.S. exporting arms to countries that may prove to be enemies in later years.

Side-Note: The reality of a black market for military goods has both economic and political implications. A black market inflates prices and can make it difficult for military suppliers to track their equipment. Arms may be sold on the black market to those countries that are not "approved" or friendly to the U.S. and its allies. Thus, military equipment could end up "in the wron

ENDNOTES

1 Cavusgil, S.,Knight, G. and Riesenberger, J. (2012). *International Business: The New Realities*. Upper Saddle River: Prentice Hall..

SMART MOVES NIGERIA, LTD.

D.K. (Skip) Smith, Baze University

CASE OVERVIEW

Ever wished you had a case to expose students to the issue of "difficult customers" and to provide them with one or two theory-based conceptual frameworks for working through the challenges they themselves or their friends and colleagues are likely to encounter when faced with customers (either internal or external to their organization) who fall into this category? The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a one hour and a half class session, and is likely to require at least a couple hours of preparation by students.

CASE SYNOPSIS

Mr. Albert Youngman is Head of HR at Smart Moves Nigeria, Ltd., a British-based consulting company operating in Nigeria. His boss, Mr. Kingsley Michaels, the Chairman of Smart Moves Nigeria (hence, SMNL), is notorious for making plans but then changing them at the last minute. The most recent example of this behavior: Late yesterday afternoon, Michaels asked Youngman to book him a first class ticket tomorrow night, to travel from Abuja Nigeria to London using Global Airlines, Ltd. (a real airline whose name, in this case, must be disguised). Using his contacts at the Global Airlines office in Abuja, and by calling in some favors from those contacts, Youngman had been able to get Michaels a confirmed first class ticket for tomorrow's flight. Getting the first class tickets on such short notice had been very tough; at the end of the day yesterday, however, Youngman had the tickets and had been pleased with the results of his efforts. This morning, however, in his just-concluded early morning meeting, Michaels indicated that he had changed his mind, and that Youngman should cancel the first class tickets he had worked so hard to procure yesterday afternoon. As indicated above, this is not an isolated incident; this sort of thing happens frequently. Youngman finds that the stress associated with Michaels' behaviors is not only giving him headaches but also keeping him awake at night. Youngman believes he needs to take action to address this situation; the alternatives he has identified include: 1) Continue on in his role at SMNL and live with the consequences of that decision; 2) Request a change in his role at SMNL; or 3) Resign from SMNL. At this point, he has not decided what action to take.

Additional data and information in the case include:

1. *Regarding the situation: Information on the dilemma Mr. Youngman is facing is provided.*

2. *Regarding the company: A bit of background is provided on the company.*
3. *Regarding Chairman Michaels: Information is provided on the background, characteristics, and accomplishments of the chairman.*
4. *Regarding Mr. Youngman: Information is provided on his background, characteristics, and accomplishments.*

INSTRUCTORS' NOTES

As indicated in the case, the situation faced by Mr. Albert Youngman is that he is feeling very distressed (and has headaches, and is not sleeping well) due to the stress caused by frequent and/or last minute changes in plans by his boss. As regards lessons and/or information students should learn from this case, at least three points can be made:

1. At the beginning of the case, students will need to consider the extent to which developed-world models and conceptual frameworks can be applied to challenges and opportunities in the developing world. By the end of the case discussion, they will have discovered that some conceptual frameworks (for example, a model for systematic decision making and/or the analysis of the psychological profiles of individuals) can be useful guides to managerial action not only in the developed but also in the developing world. .
2. In the discussion of the case, students will be exposed to a systematic decision process (Hammond et al. 1999) plus a personality types-related tool (Merrill, D.W. and R.H. Reid 1981), either of which could be used to help them deal with customers (either inside or outside their organization) including those who (at first glance) appear to fall into the category of "difficult customers."
3. In the epilogue to the case, students will have the opportunity to compare their answer to the answer which Mr. Youngman selected, and to benefit from a paraphrase of Youngman's own comments regarding the way the situation has turned out and things he believes he might have done differently, if he had known (at the time he made his decision) what he knows now.

DISCUSSION QUESTIONS

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

1. Solicit from many students the details of the case, including information on the situation Mr. Youngman is facing, information on the company; information on the

boss, and information on Mr. Youngman. Usually, I write much of this information on the board, so that if questions on "facts of the case" arise, I will have much of that information in front of us.

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

1) What is the main problem?

Students usually conclude that Mr. Youngman needs to take action to resolve the stressful situation in which he finds himself. I reinforce the idea that this is a reasonable statement of the challenge Mr. Youngman faces.

2) What kind of problem is this?

Instructors should not be surprised if there are as many answers to this question as there are students in the class. Clearly, there is no one "right" answer. However, two alternative approaches, each of which seems quite relevant to the situation, are as indicated below:

1. Difficult customer problem (where in this situation, "customer" Kingsley Michaels is the difficult and internal customer).
2. Decision making problem.

3) For the kind of problem selected, what are the key variables and which expert says so?

For students concluding that the main problem is a "difficult customer" problem, a paraphrase of the approach recommended by Bender (see website reference) involves:

1) Recognize that in reality, there is no such thing as a "difficult customer; rather, the issue is that customers can be (and often are) quite different than yourself.
2) Know yourself (that is, analyze and then classify yourself as one of the following four Merrill-Reid (1981) personality types: analytical, driver, amiable, and expressive). For definitions and elaborative information on these four personality types, see Appendix 1.

3) Based on intensive listening and/or observation, analyze and then classify (as one of the above personality types) the customer with whom you are interacting.
4) use the recommendations provided by Bender (ibid) as a guide to how best to interact with the customer, given your understanding of both your own personality type and the personality type of the customer.

For students believing that the main problem is "decision making," the PROACT decision model developed by Hammond et al (1999) seems very relevant. According to Hammond et al (1999), the eight key elements steps in a sound decision process include:

1) Problem (make sure to work on the right decision problem)
2) Objectives (specify them)
3) Alternatives (create imaginative ones)
4) Consequences (understand the extent to which each of the alternatives will satisfy your objectives).
5) Tradeoffs (strike a balance between conflicting objectives)
6) Clarify uncertainties (judge the likelihood of different outcomes and assess their possible impacts)
7) Risk Tolerance (assess your willingness to accept risks)
8) Consider linked decisions (that is, the fact that goals and/or choices selected today can influence goals and/or choices which will be available in the future).

5) What data from the case relate to the key variables?

As implied above (and this is one of the key learning points of the case), the data students present will depend on the main problem they identify. Students believing the main problem is "difficult customer" problem will focus on the key variables identified by Bender (ibid), that is: 1) Recognize that people are different, not difficult; 2) analyze and classify yourself as one of the four Merrill-Reid (1981) personality types; 3) analyze and classify the customer as one of the four Merrill-Reid (1981) personality types; and 4) implement the recommendations suggested by Bender (ibid) regarding interaction styles likely to work well between these two different personality types. Appendix 2 overviews the data from the case associated with these steps. Students believing the main problem is "decision problem" will focus on the eight variables identified by Hammond et al (1999), that is: 1) Problem; 2) Objectives; 3) Alternatives; 4) Consequences; 5) Tradeoffs; 6) Uncertainties; 7) Risk tolerance; and 8) Linked decisions; Appendix 3 overviews the data from the case associated with these variables.

6) **What alternative solutions can be identified**?

Because research suggests we make better decisions if we identify alternatives and then chose one, I require students to identify at least two alternatives. Of course, students having difficulties coming up with a second alternative can be reminded that one possible solution is to "do nothing."

7) Which one alternative does the class/student recommend, and why?

"Doing nothing" is unlikely to help Mr. Youngman address the situation he faces. Thus, students believing the main problem is a "difficult customer" problem could recommend an approach which utilizes the 4 steps of the process suggested by Bender (ibid). Students believing the main problem is "Decision making" could recommend an approach which focuses on the eight key elements of the decision process identified by Hammond et al. (1999).

8) What negatives are associated with the alternative selected by the class leader and/or other members of the class?

Very few solutions are risk and/or problem-free. Negatives associated with the solution proposed by the class leader and/or other members of the class could include the following: The chosen alternative could be costly to Mr. Youngman, both in terms of time and money. Also, because the case probably doesn't provide all the data a decision maker would need (in other words, it is likely that some important data is missing), it could be that some of the assumptions made are incorrect. If so, the proposed solution might be inappropriate.

The third and final step in discussing a case with students is to share with them what actually happened and to discuss with them the implications of that outcome. As he considered how to tackle the challenge he faced, Mr. Youngman's thought process was quite close to the first five steps (but only those first five steps) in the approach to decision making recommended by Hammond et al. (1999). Step by step, Mr. Youngman's thinking was approximately as indicated below:

1) Problem: Working for Mr. Michaels is very stressful, and is negatively impacting both my health and my quality of life.
2) Objectives: I want to resolve this situation so as to restore both my health and my quality of life.
3) Alternatives: the alternatives I have identified include:
    a. I could continue on in my current role at SMNL.
    b. I could change the role that I play at SMNL.
    c. I could resign my position at SMNL

4) Consequences: the consequences I associate with the above alternatives include:
    a. Continuing on in my current role at SMNL: While I will continue to be very well paid,, my health and my quality of life will continue to be negatively impacted.
    b. Change my role at SMNL: I could discuss this option with Mr. Michaels. While it is possible that he might agree to changing my role (for example, having me reduce my role at SMNL to a part-time assignment), my impression is that when a person is part of Mr. Michaels' team, Michaels expects that person to be available 24/7. In other words, while he might agree in principle to my having a part-time role, it seems unlike that at SMNL there will be any such thing as "part-time."
    c. Resign my position at SMNL: As indicated earlier, the compensation (that is, salary and benefits) I receive from SMNL is very good. If I resign, I will of course lose that compensation; furthermore, it is possible that finding another good job in Nigeria will be difficult. On the other hand, if I resign, both my health and the day-to-day quality of my life should be positively impacted.
5) Tradeoffs: The obvious tradeoffs include (on the one hand) the level of compensation I currently receive and (on the other hand) my health, the quality of my day-to-day life, and my peace of mind.
6) Uncertainties: As indicated earlier, I did not think systematically about this issue.
7) Risk tolerance: As indicated earlier, I did not think systematically about this issue.
8) Linked decisions: As indicated earlier, I did not think systematically about this issue

At the end of the day, and having considered (at least informally) the first five of the eight steps in the decision process recommended by Hammond et al. (1999), Youngman decided that his best alternative was to resign from SMNL. Having made that decision, the next day he wrote Mr. Michaels a letter of resignation, thus starting the clock on the 30 day notice he was required to give.

EPILOGUE (1)

After resigning from SMNL, Youngman took a month to visit with family and friends in South Africa. After that month, however, he returned to Nigeria to see if he could find a new job. It turns out, however, that finding a new job in Nigeria has been much more difficult than he imagined. While he has finally been offered a job as Head of Administration at a small private school, the compensation he has been offered is far lower than what he was receiving at SMNL. Knowing what he now knows, a paraphrase of Youngman's observations about his decision to resign from SMNL would include the following points:

1) In making my decision to leave SMNL, I considered only the first five steps of the Hammond et al. (1999) model. It would have been helpful to me to consider the last three steps as well.
2) If I had considered the last three steps of the Hammond et al. (1999) model, my thoughts at the time I was making the decision to resign would probably have included the following:

Hammond et al. (1999) Step #6) Uncertainties: As indicated in the case, it is not clear whether or not I will be able to find another job in Nigeria that pays as well as my job at SMNL. One implication is that I might have considered more carefully the possibility of hanging on at SMNL until I found a suitable (and well-paying) new job in Nigeria.

Hammond et al. (1999) Step #7) Risk tolerances: A key issue here is how willing I was to resign the well-paid position at SMNL, given that I did not have any job offers from any other company in Nigeria. As indicated earlier, I took the risk of resigning before I had lined up a new job; in retrospect (and as indicated above), it might have been better if I had continued on at SMNL until I had found a new job.

Hammond et al. (1999) Step #8) Linked decisions: Given that my compensation at SMNL was very good, and given the fact that I lost that compensation when I resigned, there were of course implications for other dimensions of my life. For example, I was interested in selling a flat I own in South Africa and buying a different flat in a better neighborhood. After I became unemployed, a bank might still be willing to lend to me if members of my family co-sign; however, no bank would be willing to lend to me alone. Also, I knew that after resigning, I would need to adjust my lifestyle and cut back on my expenditures. Finally, I knew that if I resigned, I would (until I found a new job) have to pay (out of my savings) the mortgage on my flat and the contribution I make each month to my pension plan. In other words, while my health and my day-to-day quality of life and my peace of mind all improved immediately when I resigned, both my cash flow and my savings account were negatively impacted plus (after I discovered how much time finding a new job in Nigeria was taking) the levels of stress I was feeling started to increase again.

3) The bottom line here is that if I had systematically considered all eight steps in the Hammond et al. (1999) decision making model, instead of resigning immediately from SMNL I might have immediately started seriously searching for a new job but waited to resign from SMNL until after I had succeeded in finding a new job.

EPILOGUE (2)

As indicated earlier, there is another way to think about this case. Some students may believe that using the "difficult customer problem" approach suggested by Bender (ibid) could be quite an appropriate approach to the problem faced by Mr. Youngman. If one worked through the four steps of the process recommended by Bender (ibid), the outcome of doing that might have looked approximately as indicated below:

1) Mr. Youngman reminds himself that people are different, not difficult.
2) Based on his own perceptions plus comments he had received from friends, Mr. Youngman could do a self-analysis using the Merrill and Reid (1981)-based tool shown in Appendix 4. Using the data provided in the case, Mr. Youngman would (as indicated below) end up classifying himself as an “Amiable” personality type:

Results of Self-Analysis Conducted by Mr. Youngman (A)

☐ 1. Competitive	☐ **1. Decisive**	☐ 1. Daring	☐ 1. Argumentative
☐ 2. Joyful	☐ 2. Talkative	☐ 2. Expressive	☐ 2. Light-hearted
☐ **3. Considerate**	☐ 3. Controlled	☐ 3. Satisfied	☐ 3. Nonchalant
☐ 4. Harmonious	☐ 4. Conventional	☐ **4. Diplomatic**	☐ **4. Adaptable**
☐ **1. Unconquerable**	☐ 1. Persistent	☐ 1. Outspoken	☐ **1. Aggressive**
☐ 2. Playful	☐ 2. Lively	☐ **2. Companionable**	☐ 2. Life-of-the-party
☐ 3. Obedient	☐ **3. Generous**	☐ 3. Restrained	☐ 3. Easily fooled
☐ 4. Fussy	☐ 4. Well-disciplined	☐ 4. Accurate	☐ 4. Uncertain
☐ 1. Stubborn	☐ 1. Will power	☐ 1. Takes risks	☐ 1. Restless
☐ **2. Attractive**	☐ 2. Open-minded	☐ 2. Warm	☐ 2. Popular
☐ 3. Sweet	☐ **3. Cheerful**	☐ **3. Willing to help**	☐ 3. Neighborly
☐ 4. Avoid	☐ 4. Obliging	☐ 4. Not extreme	☐ **4. Abides by rules**
☐ 1. Determined	☐ 1. Bold	1. Assertive	☐ 1. Nervy
☐ 2. Convincing	☐ 2. Charming	☐ 2. Confident	☐ 2. Jovial
☐ **3. Good-natured**	☐ **3. Loyal**	☐ **3. Sympathetic**	☐ **3. Even-tempered**
☐ 4. Cautious	☐ 4. Easily led	☐ 4. Tolerant	☐ 4. Precise
☐ 1. Tries new ideas	☐ **1. Positive**	☐ 1. Powerful	☐ 1. Original
☐ 2. Optimistic	☐ 2. Trusting	☐ 2. Good mixer	☐ 2. Persuasive
☐ **3. Wants to please**	☐ 3. Contented	☐ 3. Easy on others	☐ **3. Gentle**
☐ 4. Respectful	☐ 4. Peaceful	☐ **4. Organized**	☐ 4. Humble
☐ 1. Self-reliant	☐ 1. Forceful	☐ 1. Brave	☐ 1. Eager
☐ 2. Fun-loving	☐ 2. Admirable	☐ **2. Inspiring**	☐ 2. High-spirited
☐ **3. Patient**	☐ **3. Kind**	☐ 3. Submissive	☐ **3. Willing**
☐ 4. Soft-spoken	☐ 4. Non-resisting	☐ 4. Timid	☐ 4. Agreeable

The terms in **bold** are the choices which Mr. Youngman selected (based on the data from the case, which are in turn based on his own self-perceptions plus comments he has received over the years from friends and colleagues) as the terms which best describe him.

SUMMARY		
	Term is characteristic of:	Number of these terms selected:
.1	Driver	4
.2	Expressive	3
.3	Amiable	13
.4	Analytical	4
	TOTAL	24

3) Mr. Youngman could also do an analysis of Mr. Michaels. Based on data in the case, and using the same Merrill and Reid (1981)-based tool, he will conclude that Michaels is a "Driver" personality type:

Results of Mr. Youngman's Analysis of Personality Style of Mr. Michaels (A)

☐ **1. Competitive**	☐ **1. Will power**	☐ **1. Powerful**
☐ 2. Joyful	☐ 2. Open-minded	☐ 2. Good mixer
☐ 3. Considerate	☐ 3. Cheerful	☐ 3. Easy on others
☐ 4. Harmonious	☐ 4. Obliging	☐ 4. Organized
☐ **1. Unconquerable**	☐ **1. Bold**	☐ 1. Brave
☐ 2. Playful	☐ 2. Charming	☐ 2. Inspiring
☐ 3. Obedient	☐ 3. Loyal	☐ 3. Submissive
☐ 4. Fussy	☐ 4. Easily led	☐ **4. Timid**
☐ **1. Stubborn**	☐ **1. Positive**	☐ 1. Argumentative
☐ 2. Attractive	☐ 2. Trusting	☐ 2. Light-hearted
☐ 3. Sweet	☐ 3. Contented	☐ 3. Nonchalant
☐ 4. Avoid	☐ 4. Peaceful	☐ **4. Adaptable**
☐ **1. Determined**	☐ **1. Forceful**	☐ **1. Aggressive**
☐ 2. Convincing	☐ 2. Admirable	☐ 2. Life-of-the-party
☐ 3. Good-natured	☐ 3. Kind	☐ 3. Easily fooled
☐ 4. Cautious	☐ 4. Non-resisting	☐ 4. Uncertain
☐ 1. Tries new ideas	☐ **1. Daring**	☐ **1. Restless**
☐ **2. Optimistic**	☐ 2. Expressive	☐ 2. Popular
☐ 3. Wants to please	☐ 3. Satisfied	☐ 3. Neighborly
☐ 4. Respectful	☐ 4. Diplomatic	☐ 4. Abides by rules
☐ **1. Self-reliant**	☐ **1. Outspoken**	☐ **1. Nervy**
☐ 2. Fun-loving	☐ 2. Companionable	☐ 2. Jovial
☐ 3. Patient	☐ 3. Restrained	☐ **3**. Even-tempered
☐ 4. Soft-spoken	☐ 4. Accurate	☐ 4. Precise
☐ 1. Decisive	☐ **1. Takes risks**	☐ 1. Original
☐ 2. Talkative	☐ 2. Warm	☐ **2. Persuasive**
☐ **3. Controlled**	☐ 3. Willing to help	☐ 3. Gentle
☐ 4. Conventional	☐ 4. Not extreme	☐ 4. Humble
☐ **1. Persistent**	☐ **1. Assertive**	☐ 1. Eager
☐ 2. Lively	☐ 2. Confident	☐ **2. High-spirited**
☐ 3. Generous	☐ 3. Sympathetic	☐ 3. Willing
☐ 4. Well-disciplined	☐ 4. Tolerant	☐ 4. Agreeable

The terms in **bold** are the choices which Mr. Youngman believes (based on data provided in the case, which are in turn based on his own self-perceptions plus comments he has received from friends and colleagues who know Mr. Michaels) as the terms which best describe him.

SUMMARY		
	Term is characteristic of:	Number of these terms selected:
.1	Driver	18
.2	Expressive	3
.3	Amiable	1
.4	Analytical	2
	TOTAL	24

4) As Bender (ibid) points out, "amiables" and "drivers" are at opposite corners of the personality type matrix. In other words, they are very different. Regarding the characteristics of "drivers," the best way (in general) to communicate with them, and advice Bender (ibid) offers to "amiables" who are dealing with them (see Appendix 1) includes :

   a. Characteristics of drivers: "The Driver is a high achiever—a mover and a shaker who is definitely not averse to risk. The individual is extroverted, strong-willed, direct, practical, organized, forceful, and decisive. Look for someone who tells it the way it is and is very persuasive. Watch out or you'll be worn down and bowled over. A driver is task-oriented rather than relationship-oriented and wants immediate results. This individual is not concerned with how something is done, but what is being done and what results can be expected. What is his or her battle cry. What's going on? What's being done about it? What you should do is . . The Driver can be stubborn, domineering, impatient, insensitive, and short-tempered, with little time for formalities or niceties. He or she can also be demanding, opinionated, controlling, and uncompromising—or even overbearing, cold, and harsh. The Driver's pleasure is power, control, and respect. His or her pain is loss of respect, lack of results, and the feeling that he or she is being taken advantage of."
   b. Best way (in general) to communicate with Drivers: "Focus on the task; talk about expected results; be businesslike and factual; provide concise, precise, and organized information; discuss and answer "what" questions; argue facts not feelings; don't waste time; don't argue details; provide options."
   c. Advice to "amiables" dealing with "drivers": "Speed up . . . ; talk more, listen less; take control occasionally, be assertive; take some risks"

      Source: *www.**peterursbender**.com*

5) For Mr. Youngman, it seems that the implications of the above advice could include:
   a. Perhaps (following the recommendations of Bender (ibid)) Youngman should speak up and attempt to take control of this situation. He could tell Michaels that the pattern of "last minute purchases of tickets followed by last minute

cancellations of those tickets" will (over time) result in a situation where the airlines (including Global Airline) will refuse to provide any last minute tickets at all. In other words, if Michaels wants to protect the ability of SMNL to purchase last minute tickets from the airlines, he must discontinue the pattern of "last minute purchases followed by last minute cancellations." As it happens, this is a true statement; Global Airlines has already indicated to Youngman that this is indeed the case.

b. As similar situations come up (that is, where Michaels makes last minute changes to his plans), Youngman could reinforce the message that vendors and suppliers faced with last minute changes and/or cancellations may decide that dealing with SMNL is not a good use of their time and energy. In other words, Youngman could tell Michaels that unless the pattern of "last minute orders followed by last minute cancellations" is discontinued, good suppliers and vendors are unlikely to continue to be interested in doing business with SMNL.

c. Of course, there is a risk that Michaels will react negatively to Youngman and his suggestions. On the other hand, however, if (in response to Youngman's comments on the above issues) Michaels begins to change his behavior, it is possible that the stress Youngman is feeling could be dramatically reduced and his health and quality of life could be restored without his having to resign from his role at SMNL.

CONCLUDING COMMENTS

At this point, it seems useful to review briefly the lessons which can be learned from this case. In the opinion of the author, those lessons include:

1) If one defines the generic problem as "decision making," it seems clear that Mr. Youngman could have benefitted by considering all eight of the key variables in the Hammond et al. (1999) decision process, not just the 5 variables that he did actually review. Additional observations one could make here include:
   a. Regarding this specific case study: Considering all eight of those key variables might or might not have changed Mr. Youngman's decision; however, a systematic review of all eight variables would have ensured that he did consider systematically implications flowing from the issues of uncertainty, risk tolerance, and linked decisions.
   b. More generally: Once one has identified a model which is appropriate to the problem faced by the decision, it is very important to consider every variable in that model, not just a subset of the variables. There are reasons the expert(s) who have developed the model have included each variable; dropping or ignoring one or more of their key variables defeats the purpose of using the model to benefit from the wisdom and knowledge of the expert(s) who developed it.

2) If one defines the generic problem as "difficult customer" and then uses the process developed by Bender (ibid) to work through the problem, the observations which can be made include:
   a. It is not so much that customers are difficult; rather, it is more the case that customers are different.
   b. Tools to help us understand the differences between our own personality and the personalities of others do exist; furthermore, there are (associated with these tools) recommendations regarding how a personality of one style should interact with a personalities of other styles, so as to be as effective and impactful as possible. In situations where personalities are very different, these tools have the potential to be very useful.

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APPENDIX 1: DEFINITIONS OF THE FOUR PERSONALITY TYPES (DRIVER, EXPRESSIVE, AMIABLE, AND ANALYTICAL) PLUS ADDITIONAL ELABORATIVE COMMENTS

The Analytical

The Analytical is polite but reserved, logical, fact- and task-oriented. This person's focus is on precision and perfection. Other strengths include persistence, diligence, caution, and a systematic approach. Weaknesses involve being withdrawn, boring, quiet, reclusive, and even sullen at times. If he or she seems indecisive, it's because of a need to assess all the data. Perfectionism can be a fault if the Analytical pushes it too far. This person is definitely not a risk-taker. The Analytical needs to be right, and won't openly discuss ideas until confident in a decision. His or her pleasure is accuracy. Pain is to be wrong and criticized. When communicating with an Analytical

- Be systematic, thorough, deliberate, and precise
- Focus on the task
- Be prepared to answer many "how" questions
- Provide analysis and facts
- Don't get too personal
- Recognize and acknowledge the need to be accurate and logical
- Don't rush unnecessarily
- Expect to repeat yourself
- Allow time for evaluation
- Use lots of evidence
- Compliment the precision and accuracy of the completed work.

The Amiable

Devoted, consistent, dependable, and loyal, the Amiable is a hard worker and will persevere long after others have given up. He or she is a team player, cooperative and easy to get along with, trustful, sensitive and a good listener. Working in groups with cooperative individuals, the Amiable tries to avoid confrontation. He or she enjoys company, performs best in a stable environment, and often has a stabilizing effect on others. Weaknesses include indecision and an inability to take risks. Amiables are often too focused on others, conforming, quiet, and passive. They often won't speak up for themselves, are too compliant and nice, and often painstakingly slow to make decisions. The Amiable's pleasure is stability and cooperation. His or her pain is change and chaos

When communication with an Amiable

- Be relaxed and agreeable
- Maintain the status quo
- Be logical and systematic
- Create a plan with written guidelines
- Be prepared to answer "why" questions
- Be predictable
- Agree clearly and often
- Use the word "we"
- Don't push
- Don't rush

- Compliment him or her as a team player
- Be a good listener

The Driver

The Driver is a high achiever – a mover and shaker who is definitely not averse to risk. The individual is extroverted, strong-willed, direct, practical, organized, forceful, and decisive. Look for someone who tells it the way it is and is very persuasive. Watch out or you'll be worn down and bowled over. A driver is task- rather than relationship-oriented and wants immediate results. This individual is not concerned with how something is done, but what is being done, and what results can be expected. "What" is his or her battle cry. "What's going on? What's being done about it? What you should do is …!" The Driver can be stubborn, domineering, impatient, insensitive, and short-tempered, with little time for formalities or niceties. He or she can also be demanding, opinionated, controlling, and uncompromising – or even overbearing, cold, and harsh. The Driver's pleasure is power, control, and respect. His or her pain is loss of respect, lack of results, and the feeling that he or she is being taken advantage of.

When communicating with a Driver

- Focus on the task
- Talk about expected results
- Be businesslike and factual
- Provide concise, precise, and organized information
- Discuss and answer "what" questions
- Argue facts, not feelings
- Don't waste time
- Don't argue details
- Provide options.

The Expressive

The Expressive, a verbally adept personality, is engaging, accommodating, supportive of others, persuasive, socially adept, and relationship- rather than task-oriented. He or she loves to be one of the gang, and is always ready for something new and exciting, especially if the gang is ready to participate. Additional strengths include enthusiasm, diplomatic skills, and the ability to inspire others. Weaknesses involve impatience, a tendency to generalize, verbal assaults, and sometimes irrational behavior. The Expressive can also be egotistical, manipulative, undisciplined, reactive, unorganized, and abrasive. The Expressive readily exchanges information and life experiences. His or her main need is to be appreciated and accepted. The Expressive's pleasure is recognition and approval. His or her pain is isolation and lack of attention.

When communicating with an Expressive

- Focus on developing a relationship
- Try to show how your ideas will improve his or her image
- Be enthusiastic, open, and responsive
- Relate to the need to share information, stories, and experience
- Be forthcoming and willing to talk
- Ask and answer "who" questions

- Remember to be warm and approachable at all times
- Work to minimize his or her direct involvement with details or personal conflicts.

Source: *www.**peter**urs**bender**.com*

APPENDIX 2: DATA FROM THE CASE RELATING TO MERRILL AND REID (1981) MODEL OF PERSONAL STYLES

1) Recognize that people are different, not difficult: The case study provides 24 terms which individuals who know Mr. Michaels would use to describe him; the case also provides 24 terms which people who know Mr. Youngman would use to describe him. The two sets of terms are very different.

2) Analyze and classify yourself as one of the four Merrill-Reid (1981) personality types. As indicated in the case, the terms people who know Mr. Youngman well would use to describe him include: considerate, unconquerable, attractive, good natured, eager to please, patient, decisive, generous, cheerful, loyal, positive, kind, diplomatic, companionable, willing to help, sympathetic, organized, inspiring, adaptable, aggressive, abides by rules, even-tempered, gentle, and willing. As indicated in the teaching note, this pattern of terms suggests that Mr. Youngman can be classified as having an "amiable" personality style.

3) Analyze and classify the customer as one of the four Merrill-Reid (1981) personality types: As indicated in the case, the terms people who know Mr. Michaels well would use to describe him include: competitive, unconquerable, stubborn, determined, optimistic, self-reliant, controlled, persistent, lots of will power, bold, positive, forceful, daring, outspoken, risk-taker, assertive, powerful but yet surprising timid sometimes, adaptable, aggressive, restless, nervy, persuasive, and high-spirited. As indicated in the teaching note, this pattern of terms suggests that Mr. Michaels can be classified as having a "driver" personality style.

4) Implement the recommendations suggested by Bender (ibid) regarding interaction styles likely to work well between different personality types. As indicated in the teaching note, Bender (ibid) indicates that when "amiables" interact with "drivers," the amiable should: "Speed up . . . ; talk more, listen less; take control occasionally, be assertive; take some risks."

APPENDIX 3: DATA FROM THE CASE RELATING TO HAMMOND ET AL. (1999) "SMART CHOICES" DECISION MAKING MODEL

1) Problem: Mr. Youngman is eager to reduce the stress he is feeling from working for Mr. Michaels, and eager as well to protect his health and improve his quality of life.
2) Objectives: As indicated above, Mr. Youngman is eager to reduce the stress he is feeling, protect his health, and improve his quality of life.
3) Alternatives: Mr. Youngman is considering the following three alternatives:
    a. Continue on in his current role at SMNL.
    b. Request a change in his role at SMNL; one possibility would be to request that he become a part-time (as opposed to his current status as full-time) employee.
    c. Resign from SMNL.
4) Consequences: For the alternatives listed above, the consequences Mr. Youngman foresees include:
    a. Continue on: The stress will continue, and his health and quality of life will continue to be negatively impacted.
    b. Request a change in his role at SMNL: Mr. Youngman suspects that if he asked to become a part-time employee, Mr. Michaels might (in principle) agree but would probably continue to expect him to be available to him 24/7.
    c. Resign from SMNL: While it appears likely that the levels of stress Mr. Youngman is experiencing would decrease and his health and quality of life would improve, the financial consequences (because he has a both a monthly mortgage payment and a monthly pension payment as well) on both his cash flow and his savings would be substantial.
5) Tradeoffs: The case does not indicate how Mr. Youngman is likely to make tradeoffs between (on the one hand) the stress he is feeling and his desire to safeguard his health and improve his quality of life and (on the other hand) the financial consequences of resigning from SMNL without knowing whether he will be able to find another job in Nigeria.
6) Uncertainty: While the case does not comment on this issue, it is clear that Mr. Youngman could start looking for a new job; if he finds a good job opportunity, this would dramatically reduce the uncertainty he is facing around the tradeoffs identified above.
7) Risk tolerance: The case does not provide information on the extent to which Mr. Youngman is tolerant of risk.
8) Linked decisions: The case indicates that SMNL pays Mr. Youngman very well and that if he does decide to resign, Mr. Youngman will need to reduce his expenditures.

APPENDIX 4: INSTRUMENT FOR ASSESSING PERSONALITY PROFILES

Personality Profile Assessment
Merrill & Reid

Name: ___________________________________ Date: _____________________________

Step 1: Here is a chance for us to get a better idea of who you are. Please take a few minutes and check one of the four words or phrases per each box that best describes who you are. Be honest with yourself. Choose only the words or phrases that express you, not how you would like to be.

☐ 1. Competitive ☐ 2. Joyful ☐ 3. Considerate ☐ 4. Harmonious	☐ 1. Decisive ☐ 2. Talkative ☐ 3. Controlled ☐ 4. Conventional	☐ 1. Daring ☐ 2. Expressive ☐ 3. Satisfied ☐ 4. Diplomatic	☐ 1. Argumentative ☐ 2. Light-hearted ☐ 3. Nonchalant ☐ 4. Adaptable
☐ 1. Unconquerable ☐ 2. Playful ☐ 3. Obedient ☐ 4. Fussy	☐ 1. Persistent ☐ 2. Lively ☐ 3. Generous ☐ 4. Well-disciplined	☐ 1. Outspoken ☐ 2. Companionable ☐ 3. Restrained ☐ 4. Accurate	☐ 1. Aggressive ☐ 2. Life-of-the-party ☐ 3. Easily fooled ☐ 4. Uncertain
☐ 1. Stubborn ☐ 2. Attractive ☐ 3. Sweet ☐ 4. Avoid	☐ 1. Will power ☐ 2. Open-minded ☐ 3. Cheerful ☐ 4. Obliging	☐ 1. Takes risks ☐ 2. Warm ☐ 3. Willing to help ☐ 4. Not extreme	☐ 1. Restless ☐ 2. Popular ☐ 3. Neighborly ☐ 4. Abides by rules
☐ 1. Determined ☐ 2. Convincing ☐ 3. Good-natured ☐ 4. Cautious	☐ 1. Bold ☐ 2. Charming ☐ 3. Loyal ☐ 4. Easily led	1. Assertive ☐ 2. Confident ☐ 3. Sympathetic ☐ 4. Tolerant	☐ 1. Nervy ☐ 2. Jovial ☐ 3. Even-tempered ☐ 4. Precise
☐ 1. Tries new ideas ☐ 2. Optimistic ☐ 3. Wants to please ☐ 4. Respectful	☐ 1. Positive ☐ 2. Trusting ☐ 3. Contented ☐ 4. Peaceful	☐ 1. Powerful ☐ 2. Good mixer ☐ 3. Easy on others ☐ 4. Organized	☐ 1. Original ☐ 2. Persuasive ☐ 3. Gentle ☐ 4. Humble
☐ 1. Self-reliant ☐ 2. Fun-loving ☐ 3. Patient ☐ 4. Soft-spoken	☐ 1. Forceful ☐ 2. Admirable ☐ 3. Kind ☐ 4. Non-resisting	☐ 1. Brave ☐ 2. Inspiring ☐ 3. Submissive ☐ 4. Timid	☐ 1. Eager ☐ 2. High-spirited ☐ 3. Willing ☐ 4. Agreeable

Source: http://www.relevantchildrensministry.com/2012/06/personality-test-for-new-volunteers.html

ZBN NEWS: AN EXAMINATION OF ISSUES RELATED TO THE CORPORATE OWNERSHIP OF MEDIA

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CASE DESCRIPTION

The primary subject matter of this case concerns business ethics and media ethics. The case can be used to explore the important connection between TV news and corporate ownership of the news in a business ethics or media ethics course. A secondary issue examines outsourcing. ***.*** *Students are asked to analyze data and issues in order to determine whether corporate ownership of the news media presents a conflict of interest among SBUs. The case has a difficulty level of two. The case is designed to be taught in two class hours and is expected to require 8-10 hours of outside preparation by students.*

CASE SYNOPSIS

Walter Lipscott, VP of the News Division of ZBN, a wholly owned media subsidiary of the LRV conglomerate, Scott Drewhurst, the 30 year old nephew of the majority stockholder, Merrill Chandler, and Thadius Rockwell, Washington veteran investigative reporter for 45 years sat in Walter's office sharing a bottle of scotch and ruminating over how journalism has changed over the past 4-5 decades. "In the old days, journalists were tough-nosed, no nonsense reporters who went after the story," Walter stated. "Those guys who covered the White House were considered the 'elite' of our industry; they were not afraid to ask the tough questions of the administration. Today, journalism has become a matter of sound bytes, selectively edited for marketing appeal." "You are right, Walter," chimed Thadius. "In my early career as a cub reporter, I was 'hungry' for a news story. The editorial staff trained me to find the truth—go after the facts no matter where they may take you. It seems we lost our way when the news became big business in the 80s and 90s."

In order to address industry-wide declining viewership, and "corporate's" push for profits, Walter established a strategy team to plan a direction for the news division. The team discussed two primary options: charge other LRV SBUs (Strategic Business Units) for positive "news" coverage of their operations, in essence covert advertising; and outsourcing of the news. In the former case, the team is faced the issue of how ZBN should cover a story about a LRV power plant which is dumping a highly deadly poison into a rural watershed. In the latter case, *the team must consider the human toll involved in further reducing its staff. In both scenarios, the team must evaluate profits juxtaposed with ethical considerations.*

INSTRUCTORS' NOTES

Recommendations For Teaching Approaches

This case provides an opportunity for students to examine the unique nature of the connection of media, specifically, Television News, as an unrelated Strategic Business Unit (SBU) with other unrelated SBUs. While unrelated SBUs operate as truly independent entities, media SBUs have the potential, via news coverage, to either positively or negatively affect other unrelated SBUs. Students are challenged to examine both the financial and ethical issues related to the overlap between media and other unrelated SBUs. In order to conduct such an examination, students will have to investigate options for producing profits while balancing those profits with ethical concerns. These instructor notes include information that will be useful to the discussion leader in guiding students through the process of analyzing the decision and examining the potential impact of network decisions.

The preferred teaching strategy for this case includes student assignments and class discussion. After assigning the case for reading ask the students to prepare written responses to the questions listed below in the "discussion questions" section.

In order to frame the issues, instructors may wish to assign a video for students to view. Three excellent videos are available. The first is *News War: What's happening to the News?* (Bergman, Talbot, & Lyma, 2007). This 87 minute *Frontline* DVD examines how pressure for profits by corporate owners and the internet are remaking the economics of network news. The program suggests that news divisions and indeed the very definition of news itself is being transformed as a result. The program examines the battle for survival and increasing market share in a rapidly changing news world. Also examined are how pressure from Wall Street to cut costs and to effectively compete for "eyeballs," affects future of news coverage.

The second is a 29 minute 2004 DVD entitled *Media Manipulation: New Game for Big Business* (Doyle, Schmiedeler, Heisler, & Gnorski, 2004). Noting that large corporations own a wide array of media outlets, this program examines the relationship between those corporate owners and their daily media outlets. The program demonstrates how much power corporate owners exercise over news decisions and suggests that corporations maybe slanting the news.

The third is a 30 minute 2005 DVD entitled *Virtual objectivity: Media and the Critics* (Chomsky, Horvat, Dalrymple, Klozer, & Bishop, 2005). This program examines the increasing corporatization of the mass media, evaluating the concept of journalistic "objectivity" in that context. The program argues that television news in the U.S. is really show business.

Note that the decision point in this case is very apparent; Lipscott's Strategy team must select an option which will insure future profitability of the news division. To make the decision, students must deal with the ethical issues involved in the use covert advertising and/or in outsourcing of the news.

This case will allow the instructor to meet the following objectives: To:

1. explore the conflict of interest issues related to the ownership of media and product divisions that might financially benefit from biased news coverage.
2. examine issues related to changes in traditional investigative journalism.
3. provide a basis to examine ethical issues.
4. consider ethical elements in making financial decisions.

Case Overview

This case revolves around the decision of which option should be selected in order for the news division to remain profitable. Profit projections, once developed from the various strategies will serve as the basis for operational decisions. The strength of the case lies in demonstrating the relationship between profit projections and operational decisions. Students must realize that decisions regarding profit projections must precede and will affect operational decisions and must also be counterbalanced with ethical concerns.

DISCUSSION QUESTIONS

1. Identify and discuss the conflict of interest issues.

While answers will vary, students should recognize that there is a POTENTIAL conflict of interest due to news coverage of other SBUs. Better answers will realize that the conflict of interest may be overt, i.e. they follow Scott's suggestion to in effect sell coverage of other SBU activities, to much more subtle in that "objective" reporting may be subconsciously influenced by the topics being covered.

2. What are the legal and ethical issues related to cross SBU promotion?

Answers will vary, as some students will see nothing wrong with cross promotion and others will be offended at the idea. Students should build an argument for their position. Better answers will address the issue of the influence of the role of public airways in their response.

3. Is the creation and use of a "promotional rate charge chart" ethical? Does keeping their goal "secret" affect the ethics of their actions?

Again answers will vary; however, responses should deal with the fact that such a chart represents an overt promotional strategy on the part of ZBN.

4. Is it ethical for corporations to "color" the news (i.e., Is it ethical for corporations to disguise their opposition to governmental regulations as "news")?

Again, answers will vary. This question requires students to build a case either for or against the "control" of the news by corporations. Answers should address the issue of "objectivity" –what is it, and is it possible to achieve? Better answers will also examine the differences between overt versus covert promotion of the corporate agenda.

5. At what point does favorable "news" coverage of one of the other SBUs move from "news" to "advertising?"

Since this is ultimately a question for the courts to address, answers will vary as there is no definitive "right" or "wrong" answer. Answers should build an argument as to where the line that separates news coverage from out and out product promotion lies. Answers should be evaluated based on the clarity and strength of the argument advanced.

6. Given the power plant issue raised in the case, how should ZNB cover the issue?

Again, answers will vary, however, regardless of the position taken, answers should address the conflict of interest issue. Answers which suggest ZBN provides positive coverage of the story to the benefit of the other SBU should address the ethical aspects beyond the financial gains. Answers that reject "selling the news" should address the issue of taking an ethical position at the expense of profits.

7. Develop an argument for and against the political influence(s) and private sector ownership of news media.

Answers will vary, but the conflict of interest issue should be addressed. Answers may also get into government ownership of the media and the problems inherent in that ownership model.

8. How does this model of an unrelated SBU differ from that of the traditional unrelated SBUs?

In a typical situation, unrelated SBUs operate as truly independent entities with their own goals, management and operations. However, when media is one of the unrelated SBUs, then there is a potential for overlap as media coverage of other SBUs has the potential for either a positive or negative impact. This impact becomes especially relevant if the parent company decides to exploit that relationship.

9. What are the potential cost savings given outsourcing a portion of the news to BNN?

The case presents three possible scenarios in relation to BNN: 1) \$500,000/week for 60 minutes of news, 2) \$350,000/week for soft news, and 3) \$150,000/week for shared news stories. Answers should reflect all three options and should provide for an amortization of the \$100 million in buyouts as part of the expense, not just the \$25 million/year savings for the reduction of 50 reporters. The first option would actually be an INCREASE as \$500,000 x 52 weeks = \$26 m/year. The second option, 350,000 x 52 weeks = 18.2 m, a savings of \$6.8 m /year after the amortized cost of the buyouts. The third option would produce a savings of \$17.2 m/year after the buyouts (150,000 x 52 weeks = \$7.8 m). The first option will never be profitable. The second option requires 15 years to achieve profitability (\$ 6.8 m x 15 years = \$102 m). The third option achieves profitability in 6 years (\$17.2 x 6 years = \$103.2 m).

10. Which strategy should the team adopt?

Answers will vary. The third BNN option is clearly the most financially advantageous of the outsourcing options. However, answers should attempt to balance the cost savings, and thus the profits generated, with the human costs of the lost jobs. While profits generated by "selling" the news are only estimates, this could also be a lucrative option. Answers which support this position should also discuss the ethical issues involved in either the overt or covert advertising process.

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THE DIFFICULT BOSS

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CASE DESCRIPTION

This case study demonstrates workplace bullying and its direct impact on the work of an employee. The case revolves around Karen and her relationship with her supervisor, Dianne. Karen feels intimidated by the hostile, rude and untoward behavior of Dianne which negatively impacts her work and personal life. Karen is unable to concentrate on her work, her performance suffers, and she is left wondering on how to resolve this problem. This case could be used by students when learning about the topic of workplace bullying and stress in Organizational Behavior. This case study would be useful for undergraduates in an Organizational Behavior class. This case has been designed for a 90 minute session slot. The instructor can distribute the case study along with the discussion questions to the students during class time. Students would require approximately 30 minutes of class time to read and prepare answers to the discussion questions.

CASE SYNOPSIS

This case examines the concept of workplace bullying within a healthcare organization. Workplace bullying can be defined as repeated "unwelcome negative act or acts (physical, verbal or psychological intimidation) that can involve criticism and humiliation, intended to cause fear, distress or harm to the target from one or more individuals" (Bartlett and Bartlett, 2011: 71). The case revolves around Karen and her supervisor, Dianne. Karen, a pleasant office assistant is confronted with hostile, rude and insulting behavior and comments from her supervisor. The case study traces these various incidents which Karen undergoes at her office. The incidents range from incivility, verbal abuse, unfair criticism and inappropriate performance evaluations. Karen loses her confidence, self-esteem, becomes depressed and stressed out. She starts hating work, is unable to concentrate and wonders about her options.

INSTRUCTORS' NOTES

Research Methodology

The case study is based on interviews conducted by the secondary author with the victim.

Teaching Objectives

This case study could be used by students when learning about the topic workplace bullying and stress in Organizational Behavior. This case study would be useful for undergraduates in an Organizational Behavior class.

The teaching objectives of this case study are as follows:

(i) To introduce students to the concept of workplace bullying,

(ii) To allow students to engage in various techniques to confront workplace bullying,

(iii) To design strategies to minimize workplace stress.

Teaching Methods

The following is a sample teaching for a 90 minute class:

1.	Distribution of case study & discussion questions in class Reading the case study	30 minutes
2.	Discussion on workplace bullying & stress	25 minutes
3.	Discussion Questions	25 minutes
4.	Summarize and discuss the answers	10 minutes

DISCUSSION QUESTIONS

Q1. What was Karen's problem?

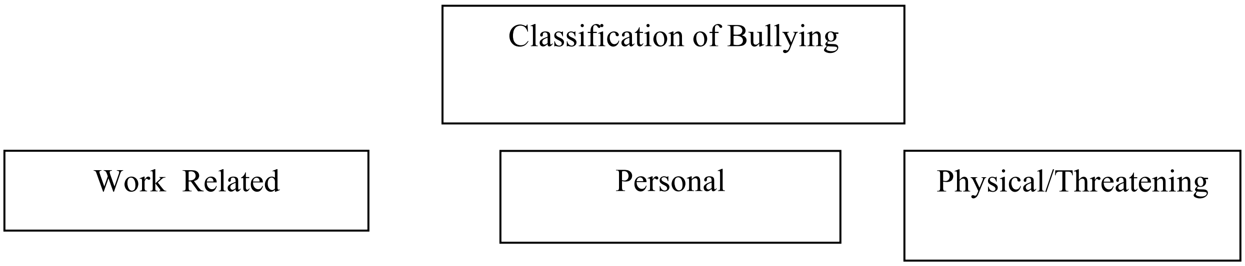
Workplace bullying constitutes repeated and persistent negative actions aimed at one or more individuals which result in the creation of a hostile working environment. 'Bullying involves a desire to hurt + hurtful action + power imbalance + (typically) repetition + an unjust use of power + evident enjoyment by the aggressor and a sense of being oppressed by the victim" (Rigby, 2010: 6). 'Bullying is a systematic campaign of interpersonal destruction that jeopardizes your health, your career and the job you once loved. Bullying is a non-physical, non-homicidal form of violence and because it is violent and abusive, emotionally harmful" (Namie, 2011: 4). It involves unreasonable undermining, or threatening of an employee or group of employees. It involves offensive behaviors, over a period of time involving repeated incidents and patterns of behavior. The outcome is a hostile, intimidating, and abusive work environment. Bullies engage in a variety of condescending to verbal abusive external behaviors (Hellriegel & Slocum, 2011: 239).

It can be argued here that Karen was being bullied by her supervisor, Dianne. Dianne was giving Karen a hard and difficult time at work. She was rude, humiliating, openly criticizing Karen and ridiculing her behind closed doors. This was negatively affecting Karen's personal and professional life.

Q2. Do you think Dianne's behavior was reasonable or unreasonable?

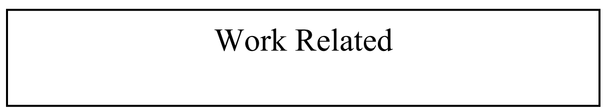
In workplace bullying literature, the bully is referred to as an instigator and the person being bullied as the target. Workplace bullying can take a variety of forms—workplace, personal and physical/threatening [see Figure 1]. In the first case of work related bullying, which is centered on workload, individuals are given heavy workloads, their application for leaves are refused and they are allocated menial tasks (Fox and Stallworth, 2006). Sometimes, unrealistic goals may be created by the bully to demean the target and make him/her look like a failure. The objective is to negatively impact the target's career advancement. While in case of work processes bullying, behaviors include shifting opinions, overruling decision, professionally attacking someone and openly flaunting one's status and power (Yildirim, 2009). The third category of work related bullying revolves around evaluation and advancement, which occurs between a supervisor and subordinate. It takes the form of excessive monitoring, unfair criticism, judging work wrongly and blocking someone's promotion (Randle, Stevenson and Grayling, 2007) [see Figure 2].

Figure 1 Classification of types of bullying



Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.

Figure 2 Work related bullying types



Workload	Work Processes	Evaluation & Advancement
Work Overload	Shifting Opinions	Excessive Monitoring
Removing Responsibility	Overruling Decisions	Judging Work Wrongly
Delegation of Menial Tasks	Flaunting Status/Power	Unfair Criticism
Refusing Leave	Professional Status Attack	Blocking Promotion
Unrealistic Goals	Controlling Resources	
Setting up to Fail	Withholding Information	

Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.

Psychological/personal types of bullying can be divided into direct and indirect types where interactions between target and the bully negatively harm the target (see Figure 3 and 4). Indirect personal bullying includes behaviors like ignoring, not returning phone calls, memos, emails, spreading gossip, lies, false accusations and undermining an employee (Hershcovis, 2010). In direct personal bullying, bullies use direct tactics like verbal harassment, yelling, belittling remarks, interrupting the target repeatedly (Fox and Stallworth, 2006), engaging in persistent criticism, personal jokes, intentional demeaning and humiliation (Fox and Stallworth, 2006). More severe forms include intimidation, manipulation and threats (Von Bergen, Zaraletta and Sopen, 2006).

Based on the above facts, it can be stated that Dianne was obviously bullying Karen at work. She had resorted to a number of unacceptable behaviors like:

(i) Humiliation: humiliating Karen in connection with her work –"*your work is simple and rudimentary, performance is inadequate and ideas are beginning to lack substance or appeal".*

(ii) Ignore: ignored Karen's greetings and attempts at conversation.

(iii)Verbal Abuse: ridiculed and humiliated Karen inside the confines of her office.

(iv) Flaunting: openly haunted her power and status—"*Karen should remember her place…just a junior employee...".*

(v) Yellying: Dianne lost her temper and shouted at Karen on being questioned about her behavior. She was so loud that all other employees could hear the entire conversation placing Karen in an embarrassing situation.

Dianne's behavior does seem to be unreasonable.

Figure 3 Indirect personal bullying behaviors

PERSONAL

Indirect

Isolation	Gossip
Ignoring	Lies
Excluding	False Accusations
Not Returning Communications	Undermining

Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.

Figure 4: Direct personal bullying behaviors

PERSONAL

Direct

Verbal Attack/Harassment	Persistent Criticism	Negative Eye Contact/Staring
Belittling Remarks	Intentionally Demeaning	Intimidation
Yelling	Humiliation	Manipulation
Interrupting Other	Personal Jokes	Threats

Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.

Q3. How had Dianne's behavior affected Karen? What resources are available to Karen?

Workplace bullying has numerous consequences such as loss of human capital effectiveness, legal costs, increased health care costs, increased need for training and turnover leading to recruitment and retraining costs (Bartlett and Bartlett, 2011) (see Table 1).

Table 1: Organizational Impacts Of Workplace Bullying				
Productivity	Cost	Culture	Legal	Reputation
Absenteeism	Health plan increase	Climate	Wrongful discharge lawsuits	Customer relations
Decreased performance	Recruiting	Ineffective interpersonal relationships		
Employees use of time	Turnover/retention	Ineffective teamwork		
Loss of creative potential	Worker attrition	Lowered morale		
Missed deadlines	Worker compensation claims	Organizational commitment		
Workplace errors		Work environment		
Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.				

Productivity of the employees decreases due to increase in absenteeism, late submission of work, increase in workplace errors and loss of creative potential (Bartlett and Bartlett, 2011).

Bullying leads to increase in health care costs, worker compensation claims on employee turnover leading to increase in costs of rehiring and training of new employees (Bartlett and Bartlett, 2011).

Workplace bullying builds up a toxic organizational culture, it reduces morale, organizational commitment and negatively impacts the relationships between the target and his/her peers and supervisors (Bartlett and Bartlett, 2011). Organizations with higher incidents of workplace bullying report increased turnover, lower customer relationships, lower creativity and lower productivity (Johnson, 2009; Bartlett and Bartlett, 2011).

At the individual level, workplace bullying has an effect on worker safety, job satisfaction, humiliation, fear, job loss and reduced performance (see Table 2). Targets of bullying reported an increase in smoking, alcohol, sleep disruption, use of sleep-inducing medications and drug abuse (Bartlett and Bartlett, 2011). Some reported clinical depression, post-traumatic stress disorders (PTSD), psychological health issues and even suicide (Bartlett and Bartlett, 2011). Individual victims cut back on work hours and were agreeable to income loss (Gardner and Johnson, 2011). They reported impaired social interactions inside the workplace, intolerance to criticism, decreased job satisfaction leading to unfair evaluations (Yilirim, 2009).

Table 2 : Individual Impacts of Workplace Bullying

Work	Physical	Emotional	Affective Domain
Absenteeism	Cardiovascular disease	Depression	Anger
Career impact	Headaches	Psychological health/psychological affects	Anxiety
Commitment impact	Headaches	PTSD	Concentration loss
Commitment lower	Health decrease	Suicide	Easily upset/tenseness
Concentration loss	Higher body mass		Exhaustion
Errors in workplace	Increased smoking, alcohol, and drug use/abuse		Fear
Income loss	Medical costs		Humiliation
Intolerance of criticism	Physical health		Impatience
Job satisfaction lower	Sick time		Isolation feeling
Loss of time due to worrying	Sleep disruption		Motivation
Morale	Sleep-inducing drugs		Powerlessness
Performance/productivity			Sadness
Quit/thinking of quitting			Self-confidence
Social interactions outside work			Social interactions outside of work
Work hours (hours cut)			Stress

Source: Bartlett, J. E. and Bartlett, M., E. (2011). "Workplace Bullying: An Integrative Literature Review", *Advances in Developing Human Resources*, 13 (1), 69—84.

Workplace bullying has a direct effect on feelings, attitudes and emotions. Victims have struggled with lack of concentration, motivation, lowered self-confidence and feelings of powerlessness. These individuals become upset, impatient and exhausted easily. These individuals have experienced feelings of stress, depression and humiliation for no fault of theirs (Bartlett and Bartlett, 2011).

Karen also experienced similar symptoms like headaches, disruptive sleep, lack of concentration, not wanting to go to work, wanting to leave work early, stress, loss of hair and weight and depression. Karen should seek external help—talk about her situation with a friend, family member or colleague, someone in the human resources department at the hospital. She should try counseling or some other type psychological therapy. She could also try some relaxation techniques like yoga, reiki or meditation. Usually organizations have an employee assistance program which provides such programs free of cost for employees. Karen should approach the hospital regarding its employee assistance programs to overcome her depression and stress.

Q4. What options does Karen have? If you were Karen, what would you do?

Bullying is a critical workplace issue which has a direct impact on individuals and organizations. Human resources department is required to work with individuals and organizations to eliminate workplace bullying to create a safe working environment (Bartlett and Bartlett, 2011). However currently there is no federal legislation in United States that provides employee protection from workplace bullying. 16 states have introduced legislation and some have adopted the bill for a healthy workplace (Healthy Workplace Bill, 2010). In March 2012, the state of Massachusetts became the first state to create a law which encourages employers to prevent bullying from occurring. The anti-bullying Healthy Workplace Bill provides workers with a legal right to seek damages for bullying behaviors that have caused psychological and physical harm. It classifies defamation, false accusation, insults, verbal abuse, and physical assaults as workplace (Anonymous, 2012).

To seek legal recourse, victims have been advised to do the following:

(i) Speak directly to the bully—tell him/her that their behavior is unacceptable and needs to be stopped.
(ii) Enquire whether others in office are also being subject to workplace bullying or if you happen to be the sole target.
(iii) Keep a diary of the specific incidents and behaviors of bullying and when each occurred.
(iv) Discuss the experience of being bullied with someone in the human resources department.
(v) If the above steps are ineffective, file a formal written complaint consistent with the organization's policies (Hellreigel and Slocum, 2011).

Karen did approach the bully and sought feedback. But her action failed to yield any positive results. She should now try to find out if anyone else has similar problems with Dianne, keep a log book tracing the bullying incidents, approach the human resources department of the hospital, find out if the hospital has any anti-bullying policies (other than sexual harassment and workplace aggression), and then seek advice as to whether she can take legal action against Dianne.

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ROLE OF HOSPITAL'S HUMAN RESOURCE DEPARTMENT

The human resources department of the hospital is responsible for the following functions:

- New employee orientation
- Recruitment and selection
- Performance Evaluations
- Compensation
- Development of Job descriptions
- Training Facilities: skills enhancement, learning resource center, manager/supervisor training.
- Organization Development: managerial consulting, assessment diagnosis, group process consultation and facilitation, design and development of improvement strategies, team building, consultation on the design and delivery of customized department training, referrals to operational and administrative.
- Employee Benefits: health insurance, wellness, pension & retirement
- Employee Assistance Program: assessments, counseling and referrals, on-site critical incident stress debriefings, on-site education for managers and employees (reasonable suspicious, sexual harassment), fitness for duty assessment (psychological and chemical, DOT-SAP evaluations)
- Employee Harassment Policies and Procedures (no mention of Workplace Bullying)

GEORGIA LABOR LAWS ON WORKPLACE HARASSMENT

Georgia follows U.S. Equal Employment Opportunity Commission (EEOC) guidelines concerning workplace harassment. Depending on the type of harassment involved, several federal laws governing job harassment and discrimination protect employee rights. Some petty grievances, annoyances and less serious isolated incidences are not enforceable harassment claims. Employees have legal rights when enduring harassment becomes a requirement of continued employment or the severity creates an unreasonable, hostile, intimidating or abusive situation.

Harassment Types

Federal law prohibits harassment or discrimination based on race, color, gender, religion, national origin, age, disability or genetic information. The law also protects against various forms of retaliatory and sexual harassment. The EEOC defines enforceable harassment as unwelcome conduct based on discrimination. Harassment covers a range of discriminatory practices including verbal abuse or slurs, intimidation, physical threats or assaults, ridicule and other actions that interfere with work performance.

Reporting Harassment

Excluding federal employee, workers may report workplace harassment to the Georgia Department of Labor and the EEOC. Federal employees follow a different complaint process. The applicable agency investigates the claim and notifies parties of a decision. If the employer is found at fault, the EEOC may negotiate a settlement or proceed with a lawsuit. If the EEOC does not file a lawsuit, the employee may file a private lawsuit within 90 days of the EEOC's decision. Filing a private lawsuit prior to the EEOC's decision or before the agency authorizes further action may result in closure of the initial investigation.

Penalties and Compensation

If the employee remains employed, EEOC policy requires elimination of harassment through employer compliance. Victims of discriminatory harassment may be awarded back pay, reimbursement of court and attorney fees, punitive damages and other monetary compensation. The law limits most punitive damages to between $50,000 and $3,00,000 depending on the number of workers a company employs. Victims of age or sex wage discrimination may receive back pay and other damages depending on the severity of harassment involves.

Protection from Retaliation

Employers cannot retaliate against employees exercising their rights to file a harassment case, complain about discriminatory harassment, threatening to file a complaint or for refusing to obey discriminatory orders at work. Retaliation includes but is not limited to demotions, changed job assignments, reduced wages, intimidation or denying a promotion based on a discrimination or harassment case. Additionally it is illegal to retaliate against other employees closely associated with the alleged victim of discrimination or harassment.

Source: http://www.ehow.com/info_12086075_georgia-labor-laws-workplace-harassment.html. Retrieved January 1st, 2013.

GREENLIGHT PLANET: MADE IN CHINA OR MADE IN INDIA?

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CASE DESCRIPTION

This case has been designed for use in junior and senior level undergraduate courses in Social Entrepreneurship or Business Planning, since students in either course may pursue business ideas that include social objectives or focus on the "triple bottom line."

CASE SYNOPSIS

In 2008, Greenlight Planet found itself making a critical manufacturing decision. The company had determined that the only affordable production opportunities for their solar-powered lanterns would be in Asia and began looking into cost and logistical details. Manufacturing in India, their target market, would lower transportation costs, avail them of tax breaks and provide the opportunity to create a grassroots movement. But the founders also discovered that Chinese manufacturers were financially competitive and allowed Greenlight Planet to consolidate their supply chain. What should the founders do and which country makes the most sense for the manufacturing decision?

INSTRUCTORS' NOTES

Overview

In 2008, Greenlight Planet found itself making a critical manufacturing decision. The company had determined that the only affordable production opportunities for their solar-powered lanterns would be in Asia and began looking into cost and logistical details. Manufacturing in India, their target market, would lower transportation costs, avail them of tax breaks and provide the opportunity to create a grassroots movement. But the founders also discovered that Chinese manufacturers were financially competitive and allowed Greenlight Planet to consolidate their supply chain.

Patrick Walsh, the founder has some experience with Chinese manufacturers and is leaning towards manufacturing in China. His partners, both Indian, have strong contacts in India and think a one-country solution makes the most sense. They argue that manufacturing and selling lanterns in India makes the most sense.

The students will discuss and decide upon which manufacturing solution Greenlight Planet should adopt.

Teaching Objectives

This case has been designed for use in junior and senior level undergraduate courses in Social Entrepreneurship or Business Planning, since students in either course may pursue business ideas that include social objectives or focus on the "triple bottom line." In this case, a social enterprise serving the Base of the Pyramid (BoP) is faced with manufacturing decisions and the founders must think through both the monetary and social impact of their decision. While the case is an easy read and the decision may seem "straightforward", the case discussion soon evolves into a ferocious debate on what should be done. It is critical for the instructor to highlight that this manufacturing decision determines the growth and success of the company.

There are two key learning objectives:

- <u>Affordability of product is critical when serving the BoP</u>. For this market place, founders have to choose a cost structure that makes the product affordable to the users. Doing so is of paramount strategic importance in reaching the goals of the business, which may include both social and profit considerations. Often founders have to strike a balance between costs and quality with the developing world context in mind.
- <u>There can be environmental and other tradeoffs involved when trying to minimize costs</u>. In this case the partners decided to keep costs (and hence prices) as low as possible and so choose to manufacture in China. In turn, this leads to Patrick moving to China, creating a larger carbon footprint and introducing challenges with repairs and local parts sourcing.

Case Analysis

1. **Based on your financial analysis, which production destination offers Greenlight Planet the most cost effective option?**

Students can use the various assumptions provided in the case and arrive at the conclusion that manufacturing in China will be approximately 10% cheaper than assembling components in India. It is critical to point out that not all components are available in India so that regardless of the decision, at least some will have to be imported. Students will assume different levels of import costs so the final numbers may vary. This calculation is really designed to lead the discussion into the final question on where the company should manufacture its lanterns.

Manufacturing in China:

Cost Per Unit = [(Solar Panel + Battery + LED's + Casing & Circuit + Assembly)
x (1 + 10% Import Duty)] + Freight and Customs Charge
= $9.94

Assembling in India with Components Imported from China:
Cost Per Unit = (Solar Panel + Solar Panel Duty) + (Casing & Circuit + C&C Duty)
+ (Assembly – Assembly Savings) + Battery + LED's +
(Freight & Customs – F&C Savings)
= $10.77

2. Besides cost considerations, what other factors should come into play in making the decision?

- Consolidated supply chain - India would provide a one-country solution for Greenlight Planet. The lanterns could be assembled and sold in India, eliminating many shipping and excise tax issues that would arise if the lanterns were made in China.
- Higher Carbon footprint of manufacturing in China versus sticking with the one-country solution. For a "green" business to choose a low cost solution with undesirable environmental outcomes, the choice may seem counter to their mission.
- Tax incentives from the State Government of Orissa. A partnership with a state government can be beneficial beyond just tax breaks. In the developing world, government officials wield power and can smooth out difficult business transactions.
- The quality control and manufacturing centralization offered by Chinese manufacturers. Having the entire lantern assembled with an hour's radius of Shenzhen allows for easy production control.
- Relocation to China – one of the partners would have to upend their lives if they chose China as the manufacturing hub.
- Existing connections that Anish and Mayank have in India that can be leveraged.
- Possible import tax changes/hikes that may make manufacturing in China unattractive in the future.

- The association of "Made in China" with "cheapness of product" that Indian consumers have could impact the desirability of the band
- Possible repair and defect challenges if production is not in India. Returning defects to China would be additional cost.
- India is more politically stable compared to China with a larger population of English speaking natives.
- Finally – there needs to be consensus amongst the partners to ensure everyone is on the same page.

3. Where do you think Greenlight Planet should manufacture its solar lanterns? Why?

The answer to this question is based on how the decision-makers weight the various considerations. For Greenlight Planet itself, the founders actually chose to manufacture the lanterns in China as to minimize cost and have the highest quality product. According to Patrick, "China offered quality at the lowest possible price and when addressing needs of the BoP, cost is paramount. The product needs to be affordable and simple enough that allows users to adopt it quickly." However, students may reach a different decision if they assign different weights to other factors.

Note: We find that students get creative and some may go online to find local LED manufacturers in India (for example) and argue that in fact, manufacturing in India is the overall lower cost option. What happens is that as the case discussion progresses, the balance between costs and quality becomes more apparent and the fact that China offers a quality-manufacturing environment at a low cost is critical to the final decision.

We should also remind the students that this decision was being made in 2008 and even today (2013), the company has not found a local (India) solution. The lanterns are still being manufactured in China.

Teaching Plan

The students should have read the case and answered the questions (individually or in a group) before class.

- The initial introduction should consist of going over the major highlights of the case and then asking students to submit a ballot indicating where they would locate their manufacturing facility.
- The instructor should then start the discussion by asking students what they think about the case and if anyone thinks there is an "obvious" answer.

- The case discussion can then begin by answering the questions at the end of the case.
- The final question wrap up should consist of asking students submit another ballot on where they would locate their manufacturing facility, after having listened to other opinions and considered additional factors.
- Query why some students may have changed their minds and why some students are still adamant and are sticking with their initial decision.
- Reveal the Greenlight Planet decision and explain why the partners chose China as their manufacturing location. Emphasize that cost considerations are paramount when selling to the BoP customer and that the quality-cost balance influenced the decision.
- There will be some students that may disagree with Patrick's decision and the instructor should note that part of being an entrepreneur is making tough decisions. The right/wrong decision is often played out over time but it is the entrepreneurial leader that needs to decide and move on in a timely manner.

As of 2011, Greenlight Planet had sold more than 200,000 lanterns, raised a million dollars in venture funding and is in the process of introducing another revolutionary product that would actually generate electricity as it gives out light.

Suggested Breakdown of Time (50 minute class)

First 10 minutes:	Quick overview of case, initial poll of which country students would manufacture in.
Middle 30 minutes:	Discussion questions (more time spent on Q3, encourage strong defense of selection)
Final 10 minutes:	Discussion on what actually happened, and the relevance of case lessons to each student. Final poll on if any students changed their minds. Wrap up.

A FORENSIC ACCOUNTING INTEGRATED CASE

John P. Osborn, California State University, Fresno

CASE DESCRIPTION

The subject matter of this case consists of three parts. The first part involves the effects on financial statements of recording fictitious transactions and the effects on financial statements of not recording required transactions. The second part involves the analysis of financial information when there are apparent (or should be apparent) inconsistencies between the information reported in the financial statements and other provided information. The third part consists of the analysis of an internal accounting control system that contains some areas of weakness.

This case can be useful in any accounting course after basic accounting topics, including internal control, have been covered. All three parts of the case have been student tested in a Forensic Accounting course after the applicable topics were reviewed in class. The individual parts, or the entire case, can be assigned either as an in-class/group project, take home assignment, or in-class exam.

This case has improved student learning when used relatively early in a Forensic Accounting course as it provides a solid base of the rules surrounding financial accounting and internal control that students need to solve advanced forensic accounting cases. When combined with lecture this case will help get students "up to speed" with their understanding of financial accounting relationships and internal control.

CASE SYNOPSIS

This case provides a practicable example of a small business that has just begun operations and is experiencing business and accounting issues. There are multiple topics included in the case. First, is a real world example of a business recording inappropriate transactions and failing to record appropriate transactions, in order to produce financial statements that reflect a financial position and results of operations that is better than the application of Generally Accepted Accounting Principles (GAAP) would produce.

The information contained in financial statements may look perfectly acceptable, prior to closer scrutiny. There are danger signs that accountants and other users of the financial statements should be aware of. The second part of this case provides an opportunity for students to analyze financial data based on financial relationships and other information to determine whether additional information may be required to determine the accuracy of the financial statements and their component parts.

Third, small businesses with few employees have a built in disadvantage with regard to the application of appropriate internal control. This case provides an opportunity for students to apply some basic concepts of internal control to a business that contains weaknesses that occur in real world situations.

INSTRUCTORS' NOTES

Part 1: Facts and Requirements

Facts--Financial Information at the End of the First Year of Operations

Big Al was aware that Big Al's Pumps experienced cash flow problems in the later part of 2012. During the first week of December 2012 he confided to Martha that he was worried that the lender, Valley Bank, would be unhappy with the first year financial results and might even demand immediate repayment of the loan. He asked Martha if there was anything she could do to make the financial statements "look better".

The year-end for Big Al's Pumps is December 31, 2012, a Monday. Martha said she could keep the books open through January 11, 2013 for transactions involving sales of inventory and cash collections of accounts receivable. She added that she would make the fictitious sales of inventory on credit only, no cash sales, for the sake of simplicity. Martha told Big Al she would treat the cash collected through January 11, 2013 as a deposit of cash in December 2012 and a deposit in transit on the December 31, 2012 bank statement. She would reduce Inventory at December 31, 2012 to reflect the sales for the period during 2013 that would be treated as 2012 sales. Martha assured Big Al that even though the transactions would be recorded in the wrong period the books would be in balance as of December 31, 2012 and the cash in the general checking account would agree to the December 31, 2012 bank reconciliation. She also told Big Al she could record the sales discounts taken by customers during the month of December 2012 in January 2013.

Requirement 1: Read the Introduction and Facts provided and prepare the journal entries for all the transactions described by Martha in the 'Financial Information at the End of the First Year of Operations'. Use the journal entry format provided in Figure 1. Number your journal entries because you will use each journal entry number in Requirement 2. Record the journal entry required by GAAP in the Correct column when the transaction required the journal entry at 12/31/2012; if the transaction did not require a journal entry at 12/31/2012 write 'no entry' in that column. Place the journal entry in the Actual column when Martha made a journal entry at 12/31/2012; if Martha did not record a journal entry for the transaction at 12/31/2012 write 'no entry' in that column.

Requirement 2: Based on the journal entry numbers from Requirement 1 and using the format provided in Table 1—Format for Overstated and Understated Accounts, record the journal entry number in the correct box when an account would be overstated or understated at December 31, 2012. For example, if cash is understated in three of the journal entries the understated cash box would contain the three journal entry numbers. Alternatively, if cash is not understated in any of journal entries the understated cash box would be empty.

Show ALL effects of an overstated or understated account. For example, if you believe the effect of one of Martha's recommendations is an overstatement of cash then you would place the journal entry number in the overstated cash box AND in the overstated Current Assets box AND the overstated Total Assets box.

FIGURE 2: SOLUTION FOR PART 1, REQUIREMENT 1—JOURNAL ENTRIES
At 12/31/2012

	CORRECT			ACTUAL		
	Account	**Dr**	**Cr**	**Account**	**Dr**	**Cr**
1.	No entry			Accounts Receivable	xxx	
				Sales Revenue		xxx
2.	No entry			Cost of Goods Sold	xxx	
				Inventory		xxx
3.	No entry			Cash	xxx	
				Accounts receivable		xxx
4.	Sales Discounts	xxx		No entry		
	Accounts Receivable		xxx			

Table 3: Solution for Part 1, Requirement 2
Overstated and Understated Accounts

Account	Overstated	Understated
Cash-Operating	3	
Cash-Payroll		
Cash-Money Market		
Accounts Receivable	1,4	3
Allowance for Doubtful Accounts		
Inventory		2
Prepaid Insurance		

Table 3: Solution for Part 1, Requirement 2 Overstated and Understated Accounts		
Account	**Overstated**	**Understated**
Prepaid Rent		
Current Assets	1,3,4	2,3
Property, Plant, and Equipment		
Accumulated Depreciation, P, P &E		
Total Assets	1,3,4	2,3
Accounts Payable		
Current Liabilities		
Long Term Debt		
Al B. Seeinyou, Capital	1,4	2
Liabilities and Owner's Equity	1,4	2
Sales Revenue	1	
Sales Returns and Allowances		
Sales Discounts		4
Net Sales		
Cost of Goods Sold	2	
Gross Profit	1,4	2
Wages Expense		
Rent Expense		
Insurance Expense		
Depreciation Expense		
Utilities Expense		
Payroll Tax Expense		
Bad Debts Expense		
Interest Expense		
Miscellaneous Expense		
Interest Income		
Net Income	1,4	2

Part 2—Requirement

Read the Introduction and Facts provided and analyze the Financial Information for Big Al's Pumps provided in Table 2--Financial Information for 2012. Big Al has come to you because of your extensive accounting and forensic background. He completely trusts Martha but thought Big Al's Pumps performed better during 2012 than the financial information indicated. Based on your initial analysis of the information included in the Facts of this case and the Table 2--Financial Information provided by Martha to Big Al identify specific accounts you want additional information, being specific about the factor(s) you noted in your initial analysis that makes you want the additional information. Include other than specific accounts in the column 'Account/Other' when you think the other information will help you analysis. For example, you may want to look at a financial statement that isn't provided in the information provided. Do not comment on internal control deficiencies and disregard information provided in previous Big Al's Pumps cases. Assume the provided financial information is post-closing for the year 2012, the Leasehold Improvements & Equipment account is fairly stated at 12/31/2012, depreciation expense of $18,397 for 2012 was computed correctly and bad debt expense of $6,734 for 2012 was computed correctly. Please organize your answers using the format, as follows:

Account/Other---What factor(s) in your initial analysis makes you want the additional information

Solution for Part 2

Account/Other---What factor(s) in your initial analysis makes you want the additional information

1. **Statement of Cash Flows**-- will explain cash inflows and outflows for 2012. The Statement of Cash Flows provides information regarding the cash account not available from the Balance Sheet or Income Statement, helping to explain the relatively small cash balances at 12/31/2012.
2. **Balance Sheet**--$28,000 Accounts Payable not included in Balance Sheet totals.
3. **Balance Sheet**--when $28,000 Accounts Payable is included in Balance Sheet totals the Balance Sheet is out of balance by $28,000.
4. **Income** Statement--A large number of **expenses** (seven of the eleven listed) on the **Income Statement** that have totals that are exactly $1,000 or multiples of $1,000.
5. **Cash (three accounts)**—the cash accounts have small balances at 12/31/2012. Bank reconciliations along with copies of the appropriate bank statements should be asked for.
6. **Accounts Receivable**—the 12/31/2012 Accounts Receivable balance of $57,908 appears to be too large. The average monthly 2012 sales on account of approximately $22,749($545,967 + 2 = $272,984 + 12 = $22,749) represents an upper limit of estimated Accounts Receivable collectible at any one time during the year.
7. **Allowance for Doubtful Accounts**--according to the Facts of this case Martha computed the bad debts expense amount of $6,734 correctly and wrote off some specifically uncollectible accounts during 2012 so the Allowance for Doubtful Accounts balance at 12/31/2012 should be less than the $6,734 reported and should be analyzed.
8. **Inventory**—the 12/31/2012 Inventory balance of $87,341 appears to be too large. Average monthly Cost of Goods Sold is $22,916($275,000 + 12 = $22,916). According to the Facts of this case Big Al keeps enough of each type of pump to last no more than 8 weeks. So even if there are 8 weeks of each pump at 12/31/2012 the inventory would be estimated at $45,832($22,916 per month for two months).
9. **Prepaid Insurance/Insurance Expense**—the prepaid balance of $12,000 at 12/31/2012 is almost the same amount as the Insurance Expense for 2012. And the $12,000 balance amount is another account with a multiple of a thousand dollars.

10. **Accounts Payable**—according to the Facts of the case Big Al has directed Martha to pay all the bills immediately as they are received so an Accounts Payable balance of $28,000 at 12/31/2012 seems large enough to warrant an investigation.
11. **Wages Payable/Wages Expense**—according to the Facts of the case the three employees were paid $109,200(a combined $2,100 per week for 52 weeks is $109,200) but that amount does not include wages incurred but not paid for Monday, December 31, 2012.
12. **Al B. Seeinyou, Capital**--at the end of the first year should be $79,140(Big Al's investment of $100,000 less the 2012 loss of $20,860).
13. **Sales Returns and Allowances**—the $17,475 amount, more than 3 percent of Sales Revenue, should be investigated. The returns and allowances could be because of faulty ordering from the manufacturer, faulty receipt of phone orders from customers, delivering the wrong pumps, and/or faulty pumps. These "legitimate" reasons for returns and allowances are potentially correctible once the reasons are understood. However, an account balance that results from a debit entry could also result from a reason that is not legitimate, such as used to disguise the theft of cash.
14. **Sales Discounts**—according to the Facts of this case, sales on account for 2012 are approximately $273,000 (one-half of gross Sales Revenue of $545,967). The payment terms are 1/10, net 30 so if a cash discount was received on all credit sales the cash discount would be $27,300 (one percent of $273,000). The recorded amount of $30,233 exceeds the estimated amount of $27,300 by approximately $3,000.
15. **Payroll Tax Expense**—the expense amount of $14,000 is almost 13 percent of Wages Expense of $109,200. This expense is estimated to be approximately 8 percent of wages based on the employer's payment of the social security and Medicare taxes and federal and state unemployment taxes.
16. **Interest Expense/Interest Payable**—the interest rate is stated in the Facts of this case at 6 percent per year. Six percent of $100,000 for eleven months (February 1 through December 31) and six percent of $100,000 for three months (October 1 through December 31) could be estimated (using a simple interest calculation) at interest expense for the year at approximately $7,000, compared to $1,000 in the Financial Information.
17. **Miscellaneous Expense**—the Miscellaneous Expense amount for 2012 of $8,000 is relatively large. The Miscellaneous Expense account should be used as little as possible because all account titles should be descriptive of the contents. The only way to determine what types of expenses are in this account is to analyze it.
18. **Rent Expense/Rent Payable**—according to the Facts of this case rent for 2012 includes an additional two percent of annual gross sales so both rent Expense and Rent Payable should be increased by $10,919 (2 percent of $545,967).
19. **Interest Income**—included in the Financial Information with the cash accounts is Cash-Money Market. The money market should have earned some interest during 2012 but no Interest Income is included in the Financial Information.

20. **<u>Income Tax Expense</u>**—the business form of Big Al's Pumps is a sole proprietorship so there should not be income taxes on the entity. Even if the entity was a taxable corporation there was 2012 loss so there would be no income tax expense for 2012.
21. **<u>Other</u>**—The list above contains the most obvious examples of concerns with accounts and other information and the additional information to be requested. It is not intended to be an exhaustive list.

The above list is not intended to provide an all-inclusive list of answers.

Part 3—Requirement

Read the Introduction and Facts provided for Big Al's Pumps. Big Al has come to you because of your extensive accounting and forensic background. He told you he completely trusts Martha but thought Big Al's Pumps performed better during 2012 than the financial information indicated. He provided you with the information in the Facts and asked you to analyze the internal control that currently exists in Big Al's Pumps. Organize your answers according to general headings. For example, one heading could be 'Control over cash receipts and sales'. Keep in mind though that Big Al cannot afford to hire another employee.

Please organize your answers based on the format 'General Area--Specific Internal Control Procedures' and number each internal control general heading.

Solution for Part 3

General Area—Specific Internal Control Procedures

1. Control over cash receipts and sales--cash receipts received from customers by mail should come to a post office box with the only key in Big Al's possession. Big Al should go to the box daily and make a list of the checks received from customers, both the customer name and amount of check (making copies of the checks is also a good idea). For over the counter sales only Little Al and Big Al should have access to the cash register. At the end of the day either Big Al or Little Al should reconcile the cash and checks received that day to the over the counter sales invoices. Big Al should keep the reconciliation and give the cash and checks and sales invoices to Martha to make the deposit slip and record the sales transactions. Big Al should compare the deposit slip to the over the counter sales reconciliation and the list of receipts received by mail. If the deposit slip is correct Big Al should make the deposit. All sales should be made by Little Al (or Big Al in Little Al's absence) on pre-numbered sales invoices. Little Al should maintain a copy of each sales invoice with each sales invoice containing an itemized list of sales by specific pump if Big Al's Pumps does not have a cash register that maintains an accounting of inventory numbers by specific pump. Little Al should regularly turn over to Big Al periodically, every week for example, the pre-numbered sales invoices. Because Big Al has the cash receipts numbers he can periodically reconcile that total to the total from the invoices for the same period.

2. Control over cash payments and expenses including inventory--all payments should be made by check. Suppliers and other vendors should be directed to mail bills to the post office box so that Big Al can examine the bills for the vendor and amount and reason for the purchase. If he isn't sure about any aspect of the bill he should make inquiries directly to the vendor. After Big Al is satisfied with a specific bill he gives it to Martha to prepare a pre-numbered check for payment. Big A's signature is the only acceptable signature on a Big Al's Pumps check. Martha prepares the check along with the appropriate original vendor invoice stamped paid and with the check number and date and an envelope addressed to the vendor. Big Al signs the check and mails it at the post office. Big Al should order inventory based on his records of purchases and sales of specific pumps. When the vendor bills come in he will compare his purchase order to the bill and the receiving documents prepared by Henry.

3. Reconciliations--the monthly bank statement should be mailed to the post office box so that Big Al can perform the monthly bank reconciliation. He may need to engage an accounting firm to help him with this task initially. Big Al will also periodically conduct an inventory count and reconciliation of physical inventory to inventory according to the records. Either the cash register will keep track of inventory numbers by specific pump or Big Al will keep track from the sales invoices he receives from Little Al. Martha will reconcile the general ledger accounts receivable balance to the subsidiary accounts receivable balances and prepare an accounts receivable aging report by customer for Big Al.

4. Segregation of duties--Big Al should be involved at important junctures of duties as much as possible. This is especially important because there are so few employees and also because of the relationships between the employees. See the first three general areas for cash receipts, cash payments, and reconciliations for the insertion of Big Al into the job responsibilities of his three employees. When a business has few employees the owner/boss will necessarily be involved at critical junctures. And when one of three employees is sick or otherwise absent Big Al should fill in for them rather than another employee.

5. Hiring practices--Big Al may want to hire through a reputable employment agency so that there will be reference checks and drug tests.

6. Credit checks--in addition to the controls mentioned in part 1, control over cash receipts and sales, Big Al should consider credit checks on potential customers.

7. Computer access--there will have to be passwords to enter into Big Al's Pump's computers. Also, access to different information is limited to certain users. For example, only Big Al and Martha should have access to the financial information.

The above is not intended to be an all-inclusive list.

ILLINOIS ADHESIVES, INC: A CASE OF UNFAIR LABOR PRACTICES?

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Robert J. Williams, Valdosta State University

CASE DESCRIPTION

This case examines the process of good faith bargaining between a labor union and a company. More specifically, this case involves an acquisition and the law of successorship as well as the duty to bargain in good faith and employer lockouts. The behavior of both striking employees and a security firm hired by the company during the lockout are also issues. Further, the acquiring firm has to negotiate a new labor agreement with the employees' union, and the case examines whether the company engages in fair or unfair labor practices as specified in Section 8(a) of the National Labor Relations Act and whether the union engaged in unfair labor practices specified in Section 8(b) of the NLRA.

The case has a difficulty level of three, appropriate for junior/senior level students. The case is designed to be taught in one class hour, and is expected to require one or two hours of outside preparation by students.

CASE SYNOPSIS

A firm and its employees' labor union(s) often share an adversarial relationship. This may be particularly true when one firm acquires another firm and negotiate a new labor agreement with the employees' union. Charges of unfair labor practices and bad faith bargaining may arise in these situations. This case helps students understand what actions are fair and unfair in negotiating an acceptable labor agreement, management's duty to provide information to the union negotiating team, and unfair labor practices during a lockout. This case is an effective teaching tool for students in a labor relations course, a human resources course, and can also be used in the introductory management principles course.

INSTRUCTORS' NOTES

Learning Objectives

The two learning objectives of this case are:

1. To illustrate actions considered by the NLRB to be violations of the duty to bargain in good faith.
2. To illustrate obligations of a company when it acquires a unionized plant.
3. To expose students to those practices that constitute unfair labor practices by management as defined by Section 8 of the National labor Relations Act, as amended.
4. To expose students to those practices that constitute unfair labor practices by unions as defined by Section 8(b) of the National labor Relations Act, as amended.

QUESTIONS FOR DISCUSSION

1. If you represented the union what specific actions would you cite to support an unfair labor practice charge that the Company was not bargaining in good faith?

The union could cite the delay in beginning negotiations with the Company on a new contract, as well as the delay in beginning negotiations on economic items. Another issue involved the Company's refusal to provide information on a timely basis, both before and during the lockout. Also of concern to the union involved the Company's withdrawal from several tentative agreements and the replacement of these agreements with a regressive contract proposal.

2. Was the lockout of employees by the company legal or illegal?

In this case, the NLRB found the lockout to be illegal. A lockout which is in support of a legitimate bargaining position, and not motivated by unfair labor practices, does not violate the Act. The NLRB found that this Company had engaged in bad faith bargaining as early as May 12, but clearly no later than July 6. Thus, the lockout was in support of an illegitimate bargaining position, and therefore, violated Sections 8(a)(1), 8(a)(3), and 8(a)(5) of the Act. The lockout was also illegal because the Company failed to respond to the Union's pre-lockout information requests on a timely basis. The relevant sections of the Act are:

UNFAIR LABOR PRACTICES

Sec. 8. [§ 158.] (a) [Unfair labor practices by employer] It shall be an unfair labor practice for an employer--

(1) to interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in section 7 [section 157 of this title];

(3) by discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labor organization: Provided, That nothing in this Act [subchapter], or in any other statute of the United States, shall preclude an employer from making an agreement with a labor organization (not established, maintained, or assisted by any action defined in section 8(a) of this Act [in this subsection] as an unfair labor practice) to require as a condition of employment membership therein on or after the thirtieth day following the beginning of such employment or the effective date of such agreement, whichever is the later, (i) if such labor organization is the representative of the employees as provided in section 9(a) [section 159(a) of this title], in the appropriate collective-bargaining unit covered by such agreement when made, and (ii) unless following an election held as provided in section 9(e) [section 159(e) of this title] within one year preceding the effective date of such agreement, the Board shall have certified that at least a majority of the employees eligible to vote in such election have voted to rescind the authority of such labor organization to make such an agreement: Provided further, That no employer shall justify any discrimination against an employee for non-membership in a labor organization (A) if he has reasonable grounds for believing that such membership was not available to the employee on the same terms and conditions generally applicable to other members, or (B) if he has reasonable grounds for believing that membership was denied or terminated for reasons other than the failure of the employee to tender the periodic dues and the initiation fees uniformly required as a condition of acquiring or retaining membership;

(5) to refuse to bargain collectively with the representatives of his employees, subject to the provisions of section 9(a) [section 159(a) of this title].

3. Did the company have to recognize the union and agree to abide by the existing labor agreement even though the company was not party to the negotiations which produced that contract?

The union had been the recognized employee representative when the Company was operating as Bluffs City Chemicals. An acquiring company is required to recognize the existing union as long as: (1) the company continues to operate largely as operated by the previous employer, (2) the acquiring company hires most of the previous employer's employees, and (3) the bargaining unit remains appropriate. These conditions were met in this case. Thus, Illinois Adhesive was required to recognize the existing union and also has a duty to bargain in good faith on a new labor contract with the union. The company is not obligated to recognize the existing labor contract negotiated between the union and the previous employer, although in this case, the company chose to do so.

4. **Striking union members did engage in some prohibited conduct on the picket line, including throwing nails on the road at the plant entrance to flatten the tires of the replacement workers' vehicles, and yelling obscenities at the replacement workers as they arrived at the plant. Does this fact have any impact on the contract negotiations or the lockout?**

Employee misbehavior on the picket line is unlikely to have much impact on contract negotiations or the lockout. In this case, the employee behavior was directed primarily at the replacement workers (called "scabs"). However, employees engaging in violence or destruction of company property could lose their status as "employee" under the NLRA and be terminated.

5. **Did the company have any legal duty to provide the information requested by the union?**

Yes, the Company had a legal duty to provide the information to the union. The NLRB found that the Company violated Sections 8(a)(1) and 8(a)(5) by failing to provide the information requested by the union, both before and during the lockout. Often, the Company is the only source of certain information needed by the Union to effectively represent employees in the bargaining unit during contract negotiations. The union has a right to information relevant to carry out its bargaining responsibilities for members of the bargaining unit. The NLRB generally applies a very generous standard as to what information is relevant. The union's request for information about customer complaints, quality, bills of lading and invoices for goods received was relevant. Also, the Company had alleged during negotiations that it was setting production records with fewer employees as justification for withdrawing from previous tentative agreements and as a basis for its regressive counteroffer. The union stated that it had received no documentation or evidence which supported this claim.

6. **If you were the NLRB investigating officer, how would you rule on the union's charges that the company violated sections 8(a)(1), 8(a)(3) and 8(a)(5) of the NLRA?**

There seems to be clear evidence that several violations of Section 8 of the Act did occur. The first evidence that the company was not bargaining in good faith occurred in response to the union's request to begin negotiating a replacement contract. The union's request to begin negotiations was presented in a letter dated March 31. Nevertheless, the Company responded that it would be ready to begin negotiations on

May 12. This delay in beginning negotiations reduced the time available to reach an agreement, since the 120 day contract extension would expire just a little over three weeks later on June 4. The union arrived at the first negotiation session ready to negotiate all contract terms, but the Company was not willing to discuss economic issues until all non-economic issues were finalized. It was not until May 31 that the Company first presented an economic proposal. The Company's unexplained delay in beginning negotiations plus the refusal to discuss economic items until 4 days before the contract extension expired left little time for proposal and counterproposal. Further, the Company presented its last, best final offer at 5:20 pm on June 3, giving the union very little time to analyze this proposal before the scheduled lockout began at 7 am the next morning. The Company's bad faith is magnified by its refusal to provide relevant information needed by the union to evaluate the Company's final offer.

The Company's pre-lockout bargaining conduct, particularly its failure to provide the union with requested information on a timely basis was evidence that the company intended to frustrate negotiations and, therefore, constituted a breach of the duty to bargain in good faith which violates Section 8(a)(5). Further, the company violated Sections 8(a)(5) and 8(a)(1) by failing to provide the union with relevant information about its productivity during the lockout. The lockout also violated Section 8(a)(3) because the company instituted the lockout to avoid bargaining with the union. The Company also violated Sections 8(a)(1) and 8(a)(5) by failing to provide the union's post-lockout information requests.

It is also clear that the company had been bargaining in bad faith since July 6 when it withdrew from several tentative agreements and replaced these agreements with a regressive contract proposal. The July 6 regressive contract proposal submitted by the Company is clearly evidence of bargaining in bad faith. The proposal was designed to frustrate reaching an agreement. In a previous case involving another employer, the NLRB had ruled that "the withdrawal of a proposal by an employer without good cause is evidence of the lack of good faith bargaining by the employer in violated of Section 8(a)(5) of the Act where the proposal has been tentatively agreed upon. " Illinois Adhesives offered no explanation for its withdrawal from the tentative agreements or for its regressive counterproposal.

7. Did the Union violate Section 8(b) of the NLRA as amended?

Section 8(b)(3) imposes the same duty to bargain in good faith on the union as section 8(a) imposes upon management. Management alleged that the union was not bargaining in good faith because it asked to return to management's pre-lockout offer rather than bargain on management's regressive July 6 offer. Management's July 6 offer was in itself an instance of bargaining in bad faith since Management unilaterally withdrew from previous tentative agreements on several items and replaced them with a regressive offer. Bargaining in good faith is described in Section 8(d) of the NLRA: "to meet at reasonable times and confer in good faith with respect to wages, hours, and other terms and conditions of employment or the negotiations of an agreement or any question arising there under and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession."

Source: Based on NLRB Advice Memo on Celanese Emulsions, March 17, 2006.

AUDUBON HILL: A RELATIONSHIP MARKETING CASE STUDY

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Lindsay R. L. Larson, Georgia Southern University

CASE DESCRIPTION

The following case demonstrates how local businesses can flourish even in tough economic times. The case highlights two dominant marketing topics, relationship marketing and customer gratitude, and reveals their favorable effects for a small local business. The case is particularly applicable in an introductory marketing course, although it is also suited for undergraduates enrolled in management, fashion merchandising or retailing courses. It is recommended that students will assess the company's marketing strategy as well as target market, and examine the company's practice of relationship marketing and generation of customer gratitude. Students should expect to spend two hours outside of class reviewing and responding to the case questions in groups. An in class discussion can follow, in which the class hears all of the different group responses.

CASE SYNOPSIS

Audubon Hill Antiques and Gifts is a gift shop located in Saint Francisville, Louisiana. Saint Francisville was founded in 1809 and has traditionally been a popular tourist attraction due to its historic plantations, churches, cemeteries, gardens and renowned golf course. Audubon Hill is located in the downtown market district and the rustic design of the store fits in well with the town's history. The store has been in business for six years and carries a wide assortment of high-end merchandise including gifts, antiques, home décor, jewelry, bath and body products, children and baby items, women's and men's clothing, accessories, seasonal merchandise, souvenirs, and traditional Louisiana specialty foods. Gifts can be found for weddings, baby showers, holidays, and birthdays for all ages. The owner, Kathleen, describes the store as being the place where you can find a gift for anyone and take a little piece of Louisiana home with you. Although Audubon Hill has survived the 2008-2012 global recession thus far, the owner worries about the company's future. Since 2008, tourism in Saint Francisville has been unpredictable and Audubon Hill's current year-to-date sales are down from last year. Kathleen's afraid that Audubon Hill may not experience enough sales to keep the business operating.

INSTRUCTORS' NOTES

Learning Objectives

Students will learn how Relationship Marketing (RM) may be used by a small boutique to enhance the shopping experience for tourists while also building a base of repeat customers through the generation of gratitude amongst locals as well. Students will have a chance to explore and discuss the value of different RM activities, and their ability to build customer loyalty.

Position in the Course

The case can coincide with topics on retailing, customer service and satisfaction, strategic analysis, relationship marketing or other Marketing concepts.

Student Preparation:

Students should be asked to read the case and discuss the topic questions. If possible, students may be encouraged to bring in outside source material to add to their understanding and appreciation of the material.

Teaching Method

The definition of Relationship Marketing should be clearly understood by the class before beginning the discussion questions (see instructors notes). The instructor should moderate student discussion of the case, which can be assigned individually, in groups, or as a full class. If group or individual work is chosen, time during class should be allotted for the entire class to speak collectively about their response to the case. The discussion is designed to be focused around an analysis of Audubon Hill's Relationship Marketing Program.

QUESTIONS

1. **What is Audubon Hill already doing, that would fit into the definition of Relationship Marketing (specify whether each activity is Social, Structural or Financial Relationship Marketing)?**

   Audubon Hill primarily engages in social relationship marketing programs through personalized communication with customers. Customers are known by name and Audubon Hill maintains knowledge of individual merchandise preferences. Audubon Hill utilizes this knowledge when communicating with customers via email or facebook and when assisting customers in selecting gifts for others. This technological aspect can be seen as Structural Relationship Marketing. The annual teacher's promotion, as well as their gift wrapping, delivery and special order policies can also be categorized as Structural Relationship Marketing. There is also mention of Financial Relationship Marketing in the form of discounts, sales and coupons.

2. **How might Audubon Hill's sales force model give the store a competitive advantage over larger retail chains? What kinds of relational benefits can Audubon Hill potentially provide that larger retail competitors, such as Wal-Mart, cannot?**

Students should appreciate that with such a small select sales force, Audubon Hill can create more personalized relationships with customers. With Kathleen at the helm of the store, the case describes several ways in which she gives individual attention to her local customers to include name recognition, assistance with selecting gifts for a particular person, taking over-the-phone last minute orders and selecting merchandise that would suit certain regular customers. Because Audubon Hill is a small business with the owner out front, students should appreciate the level of personalized service and attention which sets Audubon Hill apart. As Audubon Hill sells many gift items for special occasions, it is a great match for creating this type of one-on-one environment.

3. **In an attempt to increase sales in a difficult economy, Audubon Hill has put a lot of merchandise on sale or clearance but Kathleen says that it isn't effective. Based on your understanding of the three types of Relationship Marketing programs (Social, Structural and Financial), why do you think this strategy has not shown a significant benefit to Kathleen's store?**

Students should be reminded that financial Relationship Marketing programs have overwhelmingly been found to lack great benefit in most situations, and the class can easily begin a discussion of 'why' this might be. (Instructor's notes on Relationship Marketing Programs can help to guide this discussion.) Some reasons for this include the following: Financial incentives are difficult to sustain, and they can eventually become 'expected' benefits rather than 'augmented' benefits. Competitors can easily copy or match a financial program, which is less true of structural/social Relationship Marketing programs (Day & Wensley, 1988). Customers may become highly price sensitive and less profitable when a company emphasizes financial incentives (Cao & Gruca, 2005). Furthermore, as Kathleen's store is presenting itself as a high-end boutique, there may be a mismatch between this strategy and consumer perceptions. Students should appreciate that lowering prices is not the only motivator of consumer behavior.

3. Reflecting on your response to the previous question, discuss how the pricing strategy impacts customer trust. In what ways might large, sporadic price reductions on high-end merchandise actually erode customer trust in the long term?

This discussion piece might hinge around the notion that, although all customers would certainly indicate that they 'like' sales, large or sporadic sales can erode trust and beliefs regarding the true value of products. With Audubon Hill attempting to redirect their emphasis from tourists to local customers, they must also prepare for the reality of repeat visitors to the store. Customers might actually experience negative emotions if they purchase an item at full price and return to find that the item has been dramatically devalued. Sporadic price reductions may cause regular customers to become hesitant towards purchasing items at full price, and may make them feel that the 'full' price is merely an untruthful number.

5. Considering changes in tourism and consumerism, what suggestions do you have regarding Audubon Hill's target market, merchandise offerings, and overall marketing mix? Take a look at Table 3, which shows revenue for all the major product categories at Audubon Hill.

The discussion may want to focus on changing Audubon Hill's marketing strategy by refining merchandise offerings to better match local preferences, while still satisfying tourist preferences. In addition to a changing target market and product line, discussion may also consider new promotional activities. Students should consider Kathleen's assessment of the product categories commonly purchased by locals compared to tourists. Students should also integrate the sales data presented in Table 3 into their responses. The discussion may also revolve around the importance of targeting and segmenting, and the notion that most companies cannot satisfy all consumers.

6. How does Audubon Hill generate gratitude among customers? Do you think socially or financially generated customer gratitude is stronger?

Discussion should again focus on Social Relationship Marketing activities, and emphasize the interpersonal connection with customers. The discussion can also revolve around the additional services that Audubon Hill provides such as gift wrap, delivery, merchandise expertise and customer knowledge. Although benefits can be reaped through both social and financial programs, it has been found that social programs generally produce the greatest returns for firms. As cited in the instructors notes, it is anticipated that customer generated financial gratitude vanishes when economic incentives stop, while socially generated gratitude continues until the termination of the relationship. The discussion may also revolve around the differences between passive and active customer loyalty. While the question is phrased as an opinion piece, it is helpful for students to engage with their existing beliefs regarding the value of interpersonal versus financial incentives to consumers, so that the presentation of empirical evidence has contextual meaning for them.

8. Identify organizations that incorporate gratitude into their marketing programs. Describe two relevant ideas that Audubon Hill could modify and use from these stores.

Student responses to this question could be as simple as sales representatives saying 'thank you' for your business, to a more visible approach, such as the 'Thank You' credit card program established by Citibank. Some examples for discussion might include Procter & Gamble's "Thank You Mom" advertising campaign during the 2012 summer Olympic Games. In addition, Shutterfly, White House Black Market, J. Crew, Best Buy, Crate and Barrel, and DirecTV, are just a few companies that thank customers via email. Specifically, White House Black Market recently emailed customers stating, "There are many things we're thankful about. But what we're most thankful for…is you. Thank you for a wonderful year…and may your holidays be merry, warm and bright." Several companies, such as Nordstrom are even known to send hand-written notes and keep track of customer information through database marketing to offer more personalized service.

Given that customer gratitude results from perceiving an individual (i.e. sales representative, service provider, customer service agent) as improving a customers' well-being, there are several ways in which Audubon Hill customers may feel gratitude. Audubon Hill's existing practices may motivate customers to feel grateful for making the shopping process easier. Audubon Hill may want to develop an advertising campaign to further demonstrate appreciation for customer business. Moreover, Audubon Hill may wish to consider sending a thank you message via email and facebook. Kathleen may enhance her service by beginning to keep track of personal customer data digitally, so that her other part-time employees can provide the same level of personalized service as she does.

8. With a lag in local tourism, how can Audubon Hill reach new customer segments? In what ways can they use their strengths in *Relationship Marketing* to attract local residents to what was traditionally a store for tourists?

The discussion may want to revolve around increasing the number of local shoppers instead of tourists. Audubon Hill's knowledge of customers' individual merchandise preferences has been a strong asset and discussion may want to consider ways in which Audubon Hill can exploit this competitive advantage. In addition, students may want to consider the possible partnerships that could be made between Audubon Hill and tourist attractions (e.g. gardens, plantations, museums etc.). Some students may also suggest online retailing, and the ways in which Kathleen could provide that personalized touch that many consumers would appreciate from such an otherwise removed form of retailing.

9. Are there any potential pitfalls or problems when a small business implements Relationship Marketing programs?

This question may lead students to several potential answers, and is meant to get the class thinking. For example, students might reflect on how a consumer could build loyalty towards a particular sales person at a small store, and the business might not retain the customer's relationship if that particular sales person terminates employment. Students might also get into discussion of the potential cost of maintaining Relationship Marketing programs over the long term.

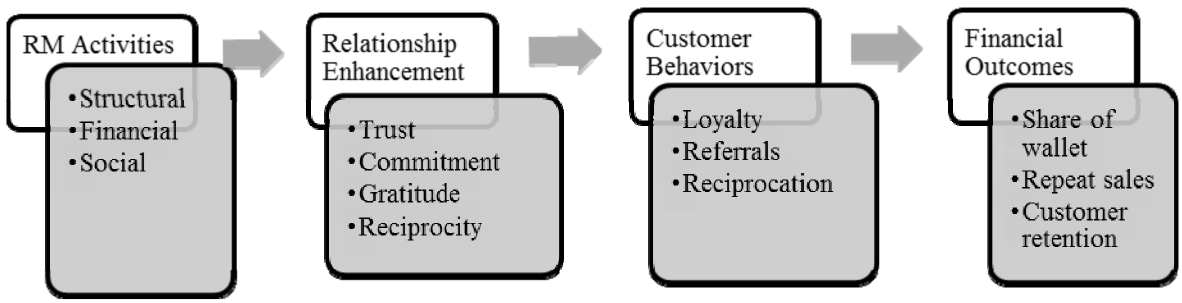
ADDITIONAL INSTRUCTOR'S NOTES

The downturn in the economy and decline in tourism has presented many challenges for small businesses relying on tourism purchases. The objective of this case is to demonstrate how relationship marketing activities, particularly social programs and customer felt gratitude can benefit retailers in times of such hardship.

RELATIONSHIP MARKETING

Relationship Marketing (RM) refers to the set of specific programs put in place by a company in order to foster a personal relationship with customers. RM programs are thought to increase customer loyalty as well as profitability through the creation of a relationship-based exchange (see Figure 1), in which customers come to trust and invest emotionally with either the business owner, sales team, or the brand itself. In this way, RM activities are thought to bring benefits both to the customer (in the form of augmented and enhanced services) and to the company (in that these activities foster reciprocity behavior). However RM can take many forms, not all of which benefit the company equally.

Figure 1



*Adapted from Palmatier (2008)

RM activities are commonly classified into one of the three following programs: Structural, Financial or Social. Structural RM programs may include anything from the implementation of more customer-friendly store policies, to creating more enjoyable and user-friendly interfaces for online retailing. Financial RM programs may include some fairly common tactics such as price reductions, discounts, and loyalty programs that reward purchases with either 'points' or discounts. Social RM programs are somewhat distinct from these other activities, in that the core of Social RM is truly the enhancement of interpersonal interactions with customers through personalized care.

The goal of all RM activities is to build and maintain relationships with the customer; to enhance trust, commitment and reciprocity norms. Many companies attempt to implement one or another form of these programs, as their mutual benefit is quite apparent. However, RM activities are known to be differentially effective when it comes to their impact on customer behaviors and impact on a company's financial performance. It has been suggested for example, that company activities which build on the quality of interpersonal relationships with customers have a greater effect on outcomes than other RM activities. Studies of return-on-investment indicate that while Structural RM programs tend to break even and Financial RM programs fail to pay off, Social RM programs have significant payoff for the company (Palmatier, Gopalakrishna & Houston, 2006).

Why might social RM activities produce more valuable outcomes than financial or structural RM activities? One reason is that customer loyalty can exist in a passive or active state. For example, customers who are provided with financial incentives may display loyalty devoid of any affective or interpersonal component, which is more akin to consumer inertia (Jeuland, 1979). When a company ignores the intangible *feelings* a customer experiences, they make themselves vulnerable to duplication; any single competitor can offer a better sale or reward. Active customer loyalty is more than just the static state of repeat purchase due to convenience or financial incentive; a truly loyal customer is one who embodies these relational assets of emotional engagement with the company.

GRATITUDE

Gratitude is an emerging topic in marketing and recent findings support the idea that gratitude is an important component in relationship marketing (Palmatier, 2008; Palmatier et al., 2009; Raggio, Walz, Bose, and Folse, 2013). Gratitude, which is not an uncommon emotion, is defined as “the emotion that arises when an individual (beneficiary) perceives that another person (benefactor) or source (e.g. God, luck, fate) has intentionally acted to improve the beneficiary’s well-being” (Fredrickson, 2004, p. 150). In fact, gratitude is the second most common positive emotion that individuals experience (Fredrickson, 2009). Specifically, 10% - 30% of people surveyed assert that they experience gratitude “regularly and often,” and that they feel gratitude is a useful and constructive emotion (Sommers & Kosmitzki, 1988). Research has indicated three primary functions of gratitude (McCullough et al., 2001). First, gratitude acts as a *moral barometer* by indicating a change from a person’s previous emotional state. In this way, gratitude is an “affective readout” that someone has done something for another’s benefit (McCullough et al., 2001, p. 252). Second, gratitude acts as a *moral motivator* by prompting grateful individuals to behave prosocially themselves. This suggests that a person who feels grateful will be motivated to act prosocially towards their benefactor and to other outside parties. Third, gratitude can function as a *moral reinforcer*, such that when a person expresses gratitude towards his or her benefactor, the benefactor is encouraged to act prosocially again in the future.

Marketing research investigating these three functions of gratitude in buyer-seller relationships demonstrates several intriguing findings. In their study of customer gratitude, Palmatier et al. (2009) find that gratitude is positively associated with trust in the buyer, and that grateful customers indicate higher likelihood of repatronage intentions. Likewise, gratitude has been positively associated with word-of-mouth (Soscia, 2007), satisfaction (Morales, 2005), and emotional commitment to the seller (Raggio & Folse, 2009). Although a seller’s benevolent intentions are a primary driver of gratitude (Tsang, 2006), customer gratitude can also be generated when sellers produce outcomes congruent with consumers’ personal goals (Soscia, 2007) Together, these findings demonstrate the importance and favorable impact of customer gratitude on key relationship marketing outcomes.

Besides having a favorable impact on relational outcomes, research advocates that gratitude is necessary for relationship formation and maintenance (Algoe, Haidt, and Gable, 2008; Gordon et al., 2012; Raggio et al., 2013). It has been claimed that “grateful customers are hardwired to reciprocate,” (Palmatier, 2008, p. 11) and that sellers should present grateful customers with an opportunity to reciprocate in effort to reduce guilt and establish reciprocity norms. Note that gratitude is different than reciprocity due to its emotional core (Fitzgerald 1998). By giving grateful customers the opportunity to reciprocate, the grateful emotion is converted to a long-term relational norm (Palmatier, 2008). In essence, gratitude prompts a cycle of continuous reciprocation, which is at the heart of relationship marketing. Given that service providers (i.e. frontline employees, sales representatives, customer service agents, etc.) directly interact with customers, there are several instances in which a customer may feel gratitude as a result of perceiving the provider as improving his or her well-being. Thus, organizations need to recognize these situations to reap the benefits that accompany customer felt gratitude.

EPILOGUE

Kathleen recognized that changes in merchandise offerings were warranted. She therefore has stopped carrying merchandise that falls within the accessories and antique categories. Audubon Hill also reduced its assortment of food and clothing items and maintained best sellers. Kathleen also recognized that the backroom was not a large source of revenue. As a result she worked with a local realtor and advertised in the front of her store that selling space was available for rent within Audubon Hill. The backroom is now rented and carries bedding and furniture that matches the style of merchandise carried by Audubon Hill. In this way, she has been able to secure regular income from rent while also expanding her 'home' category, which as noted in the case, is very popular with her increased market of local customers. In addition, the section of the store that originally displayed children's merchandise is rented by another individual that sells women's clothing, targeted towards women within the age range of 25-40, further differentiating her store from her competitors noted in the case, such as the store selling clothing meant for women over 60. The combined rent for both spaces is $1960 per month. The revenue generated by renting out these spaces covers the cost of Kathleen's operating expenses. As a result of decreasing the amount of selling space available for Audubon Hill merchandise, Kathleen remodeled part of the backroom so that a small space could be used to display children's merchandise. Although these changes have helped Audubon Hill, Kathleen is still looking for ways to improve her business.

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1 As of September 2012

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CAPE CHEMICAL: NEW VENTURE FINANCIAL PLANNING

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CASE DESCRIPTION

The primary subject matter of this case involves a review of the fundamentals of financial statements, preparing projected financial statements for a new venture and examining sources of information, which will aid financial statement preparation. The case requires students to have an introductory knowledge of accounting, finance and general business issues thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 3-4 hours of preparation time from the students.

CASE SYNOPSIS

The case tells the story of Ann Stewart, a young business professional who decided to start a new business. Stewart was a sales manager for St. Louis Chemical, a distributor of chemical headquartered in St. Louis. St. Louis Chemical was sold and the acquiring firm did not require her services. As a result of her chemical distribution business experience and the contacts with customers and suppliers, she decided to begin a chemical distribution business. Stewarts has a solid understanding of the chemical industry and the distribution process and while at St. Louis Chemical, she had Profit & Loss (P&L) responsibility, but her knowledge of accounting and finance is limited. She has met with a counselor from the Small Business Development Center at Southeast Missouri State University and has been given a crash course in preparing and using a business plan. She has decided to organize his business as a Corporation. The cash she received from the buyout of her St. Louis Chemical stock options, severance package and savings will provide initial capital. Her father who recently sold a successful business will also be a shareholder and the largest provider of equity capital. Her brother will also provide a small equity investment.

The case contains information on the chemical distribution process and the Small Business Development Center (SBDC) Program administered by the U.S. Small Business Administration. SBDCs provide management assistance to current and prospective small business owners.

INSTRUCTORS' NOTES

Case Overview

As the case opened Ann Stewart learned his employer, a regional chemical manufacturer and distributor, had been sold and he will be unemployed. Stewart, a young business professional, had been the Director of Sales for the distribution division of St. Louis Chemical. As a result of his chemical distribution business experience and contacts with customers and suppliers, he has decided to start a Cape Girardeau based chemical distribution business. Stewart has a solid understanding of the chemical industry and the distribution process but her knowledge of accounting and finance is limited. After meeting with a Small Business Development Center counselor, Stewart began developing the operating assumptions necessary for the preparation of financial projections for the first year of operation.

The learning objectives of the case include: 1) Preparing financial projections, including a beginning and ending year one balance sheets and year one income and cash flow statements 2) Determining financial requirements for a business startup 3) Performance evaluation using ratio analysis and 4) Understanding the importance of an accurate sales projection to the planning process.

DISCUSSION QUESTIONS

1. **Prepare the following statements:**
   a. **Beginning balance sheet (year 0), complete schedule one. Hint: Do not attempt to complete the ending year one balance sheet until the income statement is complete.**
   b. **Income statement for year one, complete schedule two. Also complete sub-schedules associated with schedule two.**
   c. **Ending balance sheet for year one,**
   d. **Cash flow statement for year one, complete schedule three.**

   See completed schedules one, two and three. Partially completed schedules will aid the students in this process.

2. **Will Stewart have sufficient capital for the first year of operation? Explain**

   See schedule one. Yes. The projections indicate the company will use only $300,000 of the $500,000 line of credit provided by the bank and no additional funds are required from Venture Investors. The company has a healthy cash balance in excess of $250,000.

3. **Explain the importance of the assumptions developed by Stewart.**

The assumptions provide the basis for the projected financial statements. If the assumptions are reasonable, then the probability of achieving projected performance will be great and vice versa.

4. **Evaluate projected performance using ratio analysis. Calculate the following ratios and evaluate performance. (Current ratio, Quick ratio, Accounts receivable turnover, Days sales outstanding - DSO, Inventory turnover - using cost of goods sold in the numerator, Total asset turnover, AP deferral period, Times interest earned ratio - TIE, Debt ratio, Basic earning power - BEP, Profit margin, Return on assets - ROA and Return on equity - ROE)**

Ratio	End of year one	Ratio	End of year one
Current ratio	1.95	AP deferral period	36 days
Quick ratio	1.19	TIE	1.28x
A/R turnover	9.36x	Debt ratio	65.24%
DSO	39 days	BEP	5.62%
Inventory turnover	7.60.0x	Profit margin	.35%
Days invested in inv.	48 days	ROA	.88%
Total asset turnover	2.50x	ROE	2.53%

The fact that the first year is projected to be profitable is positive but it should be emphasized the profitability and subsequent ratios are the result of the assumptions used to develop the projections. Ratio calculations provide an opportunity to discuss performance evaluation. Ratios for a single year can provide insight into a company's performance but to increase the information content of ratio analysis, ratios need to be calculated for a number of years (trend analysis). Since Cape Chemical is a new firm, trend analysis is not possible but the projected first year performance could be compared to industry standards found in RMA Annual Statement Studies.

A systematic evaluation of projected performance would indicate the company's liquidity position at the end of the first year is forecasted to be adequate but profitability is expected to be marginal.

5. **Analyze projected performance from a banker's perspective. Why would the bank renew the short-term loan? What ratios would prove useful in this analysis? Explain.**

This question provides an excellent opportunity for class discussion. Projected performance indicates a first year profit and a current ratio of 1.95, both of which are favorable. On the down side, the company's times interest earned ratio is projected to be less than two. The bank would most likely renew the loan if first year performance were relatively close to expectations because it indicates that Stewart has a good understanding of his business. The bank also has Stewart's personal guarantee and the firm's assets as collateral; in addition, the company has a projected ending cash balance of over $250,000.

6. Most entrepreneurs believe it is a positive indicator if expected sales can be exceeded. Explain why this may not always be the case.

Assets are required to generate sales and assets require financing. If sales grow at a faster rate than expected, more assets will be required and additional financing will be needed. Most business startups have limited capital thus if sales grow faster than expected a capital shortage may occur. If capital is limited, a new firm needs to control sales growth to avoid a cash or capital crunch.

Schedule One
Cape Chemical
Projected Balance Sheets for Years Ended December 31

	Year 0		Year 1	
	$	%	$	%
Assets				
Current Assets				
Cash	600,000	30.00	251,854	10.67
Accounts receivable		0.00	630,411	26.70
Inventory	300,000	15.00	558,641	23.66
Total Current assets	900,000	45.00	1440906	61.03
Fixed assets				
Machinery and equipment	700,000	35.00	700,000	29.65
Less: Accumulated depreciation	0	0.00	140,000	5.93
Net fixed assets	700,000	35.00	560,000	23.72
Leasehold Improvements	400,000	20.00	360,000	15.25
Total assets	2,000,000	100.00	2,360,906	100.00
Liabilities and Equity				
Accounts payable	300,000	15.00	418,981	17.75
Short-term bank loan	100,000	5.00	300,000	12.71
Accruals	0	0.00	21,240	.90
Current liabilities	400,000	20.00	740,221	31.35
LT Venture capital loan	800,000	40.00	800,000	33.89
Total liabilities	1,200,000	60.00	1,540,221	65.24
Common stock ($1 par)	800,000	40.00	800,000	33.89
Retained earnings	0	0.00	20,686	.88
Total equity	800,000	40.00	820,686	34.76
Total liabilities and equity	2,000,000	100.00	2,360,906	100.00

Schedule Two
Cape Chemical
Projected Income Statement for Ending Year 1

	Year 1 $	Year 1 %
Net sales revenue	5,900,000	100.00
Cost of goods sold	4,248,000	72.00
Gross profit-product	1,652,000	28.00
Plant operating expenses	612,770	10.39
Depreciation expense	140,000	2.37
Amortization expense	40,000	.68
Total Plant operating expenses	792,770	13.44
Gross profit	859,230	14.56
Selling expenses	376,300	6.38
General administrative expenses	350,200	5.94
Total S&GA	726,500	12.31
Total operating expenses	1,519,270	25.75
EBIT	132,730	2.25
Interest on ST loan	24,000	0.41
Interest on LT loan	80,000	1.36
Total interest expenses	104,000	1.76
EBT	28,730	0.49
Less: Taxes	8,044	0.14
Net income	20,686	0.35
Less: Dividends on common	0	
Additions to retained earnings	20,686	

Schedule Two A	
Plant Operating Expenses	Year 1
Manager (salary)	70,000
Manager (benefits)	21,000
Warehouse Employees (wages)	124,800
Warehouse Employees (benefits)	31,200
Terminal Yard Employees (wages)	104,000
Terminal Yard Employees (benefits)	26,000
Facility Lease Expense	60,000
Utilities Expense	12,000
Repairs & Maintenance Expense	18,000
Supplies Expense	24,000
Delivery Expense	118,000
Miscellaneous Expense	3,770
Total Plant Operating Expenses	612,770

Schedule Two B	
Selling Expenses	Year 1
Outside Sales Representatives (salaries)	100,000
Outside Sales Representatives (benefits)	25,000
Commissions	59,000
T&E	36,000
Auto Expense	52,800
Inside Sales Representative (salary)	40,000
Inside Sales Representative (benefits)	10,000
Promotion and Advertising	24,000
Bad Debt Expense	29,500
Total Selling Expenses	376,300

Schedule Two C	
General Administrative Expenses	Year 1
Officer’s (salaries)	100,000
Officer’s (benefits)	30,000
T&E	24,000
Auto Expense	30,000
Administrative Staff (wages)	31,200
Administrative Staff (benefits)	7,800
Technology Services	28,800
Utility Expense	24,000
Office Supplies	12,000
Insurance Expense	24,000
Legal & Professional	28,800
Miscellaneous Expense	9,600
Total General and Administrative Expenses	350,200

Schedule Two D
Depreciation Expense

Year		Capitalized Amount	Depreciation Expense	Accumulated Depreciation
	%	$	$	$
1	20.00	700,000	140,000	240,000
2	32.00	700,000	224,000	364,000
3	19.00	700,000	233,000	497,000
4	12.00	700,000	84,000	581,000
5	11.00	700,000	77,000	658,000
6	6.00	700,000	42,000	700,000

Schedule Two E
Amortization Expense

Year		Amortized Amount	Amortized Expense	Leasehold Improvements
	%	$	$	$
1	10.00	400,000	40,000	360,000
2	10.00	400,000	40,000	320,000
3	10.00	400,000	40,000	280,000
4	10.00	400,000	40,000	240,000
5	10.00	400,000	40,000	200,000
6	10.00	400,000	40,000	160,000
7	10.00	400,000	40,000	120,000
8	10.00	400,000	40,000	80,000
9	10.00	400,000	40,000	40,000
10	10.00	400,000	40,000	

Schedule Three
Cape Chemical

Projected Statement of Cash Flows for Year 1	**Year 1**
	$
Cash Flow from operating activities	
Net income	20,686
Sources (Uses) of Cash	
Depreciation	140,000
Amortization of Leasehold Improvements	40,000
(Increase) Decrease in A/R	(630,411)
(Increase) Decrease in inventories	(258,411)
(Decrease) Increase in A/P	118,981
(Decrease) Increase in accruals	21,240
Net cash flow from operating activities	(548,146)
Long-term investment activities	
Acquisition of fixed assets	0
Financing activities	
Increase in ST debt	200,000
Increase in LT debt	0
Issue of common stock	0
Net cash flow from financing activities	200,000
Net increase (decrease) in cash	(348,146)
Cash at beginning of year	600,000
Cash at end of year	251,854

THE ROOF IS ON FIRE: THE ETHICAL MINEFIELD OF THE TEXTILE INDUSTRY IN BANGLADESH

Joseph J. French, University Of Northern Colorado
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CASE DESCRIPTION

This case is motivated by a recent fire in a textile factory in Bangladesh in which scores of workers lost their lives while producing garments for multinational firms. The case focuses on a multitude of issues involving a multinational corporation's global ethical sourcing program. This case describes a hypothetical assignment facing a public relations and operations manager of Wal-Mart. The assignment revolves around the dilemma of trying to maintain low costs of production while simultaneously trying to ensure tragedies like this one will not happen again. The case provides detailed background information on the social, economic, and political climate in Bangladesh, the current situation of the textile industry in Bangladesh, applicable laws, ethical frameworks, and competitive market considerations. At the end of the narrative the reader is asked to formulate ethically, legally, and financially sound recommendations. The suggested audiences for this case study are upper level undergraduate students and graduate students.

CASE SYNOPSIS

In light of several tragic garment factory fires, including one in which 112 people were killed, this case details the harsh economic realities of the Bangladesh garment industry. Throughout this case our hypothetical manager, Matt Lelander must confront and resolve a multitude of strategic, ethical, and legal dilemmas. Mr. Lelander is presented with a career changing and prodigious task of developing and presenting to his corporation's board of directors a long term strategy to keep the company out of tragedies while maintaining a competitive cost structure. Simultaneously, Mr. Lelander must lay out a plan to repair his company's global image as an ethically responsible organization. Matt has been asked to travel to Dhaka, Bangladesh, to take care of these issues. Additionally, Matt has been presented with several ethical and legal issues, some personal, he must confront. This case provides a detailed background on the Bangladeshi business climate, discussion of applicable domestic and international laws, as well as analysis of appropriate ethical frameworks and decision making.

INSTRUCTORS' NOTES

This case is based on a series of recent tragedies in the Bangladesh garment industry. This case presents several potential ethical, financial, and legal issues which a multinational firm must confront. After reading this case it is suggested the students formulate an economically, strategically, ethically, and legally sound course of action to be presented to the firm's board of directors. As students present their recommendations they should also discuss potential resolutions for the multitude of legal and ethical issues which are imbedded throughout the case.

LEARNING AND TEACHING OBJECTIVES:

1. Explore the delicate balance between a firm's brand image and the financial benefits of multinational outsourcing.
2. Recognize and assess potential ethical and legal lapses in Matt's, Tabby's, and Sammy's actions.
3. Explain and explore the various potential courses of action available to a corporate manager presented with these dilemmas and issues.
4. Outline what steps or programs a large multinational retailer should implement to avoid future scandals.
5. Evaluate and envision what an appropriate ethical sourcing program is.
6. Contemplate how to govern corporate culture, and in particular supplier regulations internationally.
7. To lay a foundation for ethics discussions by introducing ethical theories and their applications.
8. Create an appreciation for the intricacy of ethical decision making in a multinational corporation.
9. Discuss dynamic interaction of a firm's global ethical standards with corporate initiatives which may violate these standards while still adhering to local regulations and laws.

CLASS USE

This case can be used as a vehicle for introducing several strategic and ethical quandaries a multinational organization may encounter. The case is intended to be introduced, analyzed, and discussed over multiple class periods. The first class period can be an introduction to the topic followed the assignment of the discussion questions. The requested written report completed by the students is often helpful in facilitating a healthy discussion. It is often helpful to break up and assign specific discussion questions to groups as opposed to individuals as the concepts covered can be challenging for students. It is imperative that the class read the entire case and not just their questions if there is to be any meaningful discussion. As discussed below there is a multitude of potential ethical decision making frameworks available. This case is not tailored to any one specific framework or text, and should be compatible with most business ethics texts.

QUESTIONS FOR DISCUSSION (WITH SUGGESTED ANSWERS):

1. What recommendations should Matt make to the Board of Directors? What actions should Matt implement?
2. What is ethical sourcing? Is it realistic in today's competitive global market? Should this corporation continue to contract with suppliers using facilities in Bangladesh?
3. Should Wal-Mart instigate a zero tolerance policy for suppliers? If implemented how should they communicate and enforce this policy.
4. What possible economic, social, and ethical factors have helped create the dangerous conditions in the Bangladesh garment industry?
5. Is Wal-Mart responsible for the actions of its suppliers? Does Wal-Mart have any potential legal liability, as a result of the factory fire?
6. How can this organization avoid future ethical lapses?
7. Should Matt fire Tabitha? Does Matt have an ethical obligation to resign himself?
8. Does Samuel any obligation to report Matt's alcohol issues?

1. What recommendations should Matt make to the Board of Directors? What actions should Matt implement?

Simply put, there is no easy solution to this dilemma. Matt needs to act decisively, transparently and honestly. It is recommended that students present or at least discuss a SWOT analysis and identify a corresponding organizational objective. Analysis of the strengths, weaknesses, opportunities, and threats (SWOT) of an organization should be a part of any strategic planning initiative for an organization. This analysis should report on how a firm is positioned in the competitive marketplace, and in this case the cost competitive garment industry. After presentation of a student's SWOT analysis the instructor should verify that the stated firm objectives are attainable given the student's analysis.

Matt has several concerns when presenting to the board of directors. These concerns include: labor issues in Bangladesh, shareholder unrest as a result of the bad press, the tarnishing of the corporate brand as the result of this tragedy, the firm's dependence on suppliers who use Bangladeshi factories to supply low cost textiles, and a supply shortage due to the factory burning down.

Students need to evaluate whether or not continuing business in this region is an economically and ethically sound decision. Most students will recognize the benefits of maintaining contracts with low cost suppliers who operate in Bangladesh. The costs are low and Bangladesh is strategically located to take advantage of India's expanding market and abundant transportation options.

However, many students are unaware of the potential negative effects on the company's brand image. While Bangladesh suppliers provide both a low cost source and a competitive advantage, they are not without risk. Labor unrest is growing and strikes are common. The series of fires which have plagued the garment industry is an emotionally sensitive issue. In today's society where images of these fires are instantly transmitted and broadcasted worldwide an organization must be careful. Situations such as these are especially risky for high profile organizations such as Wal-Mart who often are an easy media target. Given these considerations students should consider the possibility of removing Bangladesh as an approved source for suppliers.

2. What is ethical sourcing? Is ethical sourcing realistic in today's competitive global market? Should this corporation continue to contract with suppliers using facilities in Bangladesh?

Depending on the text you are using there are a variety of definitions for ethical sourcing which are generally very similar. Two are provided below. According to one popular text ethical sourcing is "the inclusion of explicit social, ethical and/or environmental criteria into supply chain management policies, procedures, and programs," (Brown, 2005).

As defined by Wal-Mart themselves ethical sourcing is, "a collaboration with other retailers, brands, NGOs and government leaders to verify the products we sell are produced in a way that provides dignity and respect for workers in our supply chain. As the world's largest retailer, we strive to positively influence global supply chain practices by raising our own standards and improving working conditions in the countries from which we source." http://corporate.walmart.com/global-responsibility/ethical-sourcing

As several commentators have observed there is an increasing amount of evidence highlighting the link between responsible ethical sourcing, sustainable business, and financial performance. Organizations such as the Ethical Trading Initiative is an alliance of companies, trade unions and voluntary organizations This organization works in partnership to improve the working lives of poor and vulnerable people across the globe who make or grow consumer goods (a link to their website is include here: http://www.ethicaltrade.org/). Students should research this organization and others to gain a better understanding of what ethical sourcing means and how multinational organizations are incorporating these practices.

Whether or not Wal-Mart should continue to contract with suppliers who use Bangladeshi factories is a crucial strategic decision. The global garment industry is certainly cost competitive and losing their strategic low cost suppliers is prohibitive. The best strategy here may not be to simply abandon the region, but rather to partner with NGOs, local governments, the ILO and organizations such as the Ethical Trading Initiative to ensure this tragedy is never repeated. Rather than abandon the region (which is a viable public relations option), committing resources to change the underlying condition may be the most impactful. As mentioned in the case, a slight increase in Wal-Mart's overall fees paid to suppliers could cover the costs of many needed factory safety improvements.

For students who believe the risks of continuing to use suppliers based in Bangladesh outweigh the benefits ask the students a few questions. Where does Wal-Mart go to replace their sources? Is China, currently and foreseeably the world's largest garment exporter, a viable option? Even if a substitute low cost source is found, how does this help the Bangladeshi workers and economy? Does Wal-Mart have any obligation to these workers? It is certainly arguable that abandoning this country will create a worse economic and social situation in Bangladesh then exists now.

At this point it may be helpful to facilitate discussion by reminding students that the garment industry is a crucial economic engine for Bangladesh as it constitutes 80% of its exports, with earnings of around $19 billion a year, (Al-Mahmood, 2012). If Wal-Mart decides to cut off all suppliers operating in Bangladesh what happens to the local economy. Will the workers they are trying to protect going to be any better off? Where are they going to find new employment?

3. Should Wal-Mart instigate a zero tolerance policy for suppliers? If implemented how should they communicate and enforce this policy.

After the fire in Bangladesh where charred Wal-Mart clothing was discovered in the ruins, Wal-Mart did in fact adopt a "zero tolerance" policy. Wal-Mart is "warning suppliers that it is adopting a 'zero tolerance policy' for violations of its global sourcing standards, and soon plans to immediately sever ties with anyone who subcontracts work to factories without the retailer's knowledge," (Banjo, 2013). A link is provided to fact sheet regarding Wal-Mart's ethical sourcing policy: http://az204679.vo.msecnd.net/media/documents/ethical-sourcing-supplier-letter-fact-sheet-2013_130032855783843527.pdf

Students may debate whether this policy is sufficient or fails to address some of the core issues such as low wages, low fees paid to suppliers, poor working conditions, and weak monitoring systems.

Additional suggestions include the establishment of retailer financed inspections and the creation of a fund to help factories make the necessary safety improvements. A zero tolerance sourcing policy on its own may appear to be nothing more than a public relations exercise. To effectuate true change, a material commitment to resolving the root causes needs to be considered. Establishing lines of credit or funds for suppliers and manufactures so they have the resources necessary to implement improved labor polices and safety mechanism would undoubtedly help. This certainly may not be the most cost effective plan in the short term, but it will certainly help avoid future ethical and legal issues which will help the organization's long term brand image. It can be argued that avoiding future disruptions and ethical crisis like these fires, will increase profits over the long term, see http://ethisphere.com/wme2011/.

To be effective any proposed course of action or new ethical sourcing policy must be communicated clearly and quickly to all stakeholders, especially the suppliers if it is to have any meaningful result.

4. What possible economic, social, and ethical factors have helped create the dangerous conditions in the Bangladesh garment industry?

There is no simple answer to this question as the likely culprit stems from a multitude of forces and factors. The labor unrest in Bangladesh, increased global cost competition, consolidation amongst retailers, the youth migration, poverty, gender biases, poor infrastructure, and corruption are just a few of the potential factors contributing to these dangerous working conditions.. If change is to take place, attention needs to be given to the core economic and social causes, and this will take time and money few multinational firms are willing to provide. As many students often conclude, it may be easier to simply find different suppliers in a different region, than to attempt whole scale reform.

In the current Bangladesh garment industry, if a supplier is cutoff for using factories which are failing inspection, another supplier will likely take its place using the same factory. As has been reported by several commentators, in Bangladesh even though one supplier has stopped using a particular factory other suppliers will continue to use the same factory and may not know it has failed an inspection. Part of the issue is that suppliers, and not the retailers such as Wal-Mart, are responsible for the inspections and have little if no incentive nor motivation to notify other suppliers of failed inspections, (Mattioli, 2012).

Aside from the more macro considerations of local economies and culture, multinational organizations can have a deep impact on the stability of a local region. The social and economic impact of a multinational organization's decision can be profound. Corruption, greed, regulatory oversights, as well as loose corporate governance policies certainly can contribute. Additionally, as several academics have suggested there seems to be a growing "conduct gap" between a corporation's beliefs and its actions (Paine, 2011).

While Wal-Mart and other multinational organizations have created some clearly well intentioned, if not aspiring, codes of conduct/ethics (see, http://ethics.walmartstores.com/StatementOfEthics/BasicBeliefs.aspx) implementation of these codes is often inconsistent. Crucial to the successful implementation of a particular code of conduct or the creation of a desired culture is a firm's commitment to corporate governance. Corporate governance is generally defined as "the formal system of oversight, accountability, and control for organizational decisions and resources," (Thorne, Ferrell, and Ferrell, 2011, p. 85). A successful corporate governance program will help ensure that the firm's desired ethical culture is created. As the authors cited above state, "the philosophy that is embraced by a board or firm regarding oversight, accountability, and control directly affects how corporate governance works," (Thorne, Ferrell, and Ferrell, 2011, pg. 87).

Without complete "buy-in" from management a corporate governance program and the requisite desired culture is bound to fail. Wal-Mart has instigated ambitious ethical sourcing standards and statements of ethics as referenced above. However, and regrettably, as many reports indicate, (including Wal-Mart's ongoing bribery scandal see, http://money.cnn.com/2013/01/10/news/companies/walmart-investigation/index.html) this commitment has not been adopted by all employees. There clearly has been a failure by corporate leaders to create or govern the aspired to culture across the entire organization.

However, as a signatory to the U.N. Global Compact, Wal-Mart (which has several operations or wholly owned subsidiaries with various names operating abroad), has made a legitimate effort to foster better global business practices The U.N. Global Compact is a platform for business and non-business entities to proactively network and engage in areas of human rights, labor, environment, anti-corruption and contributing to UN goals in order to achieve the common objectives of building a sustainable and inclusive global economy. With more than 10,000 participants spread across 145 countries, the Global Compact is constantly expanding its reach and enhancing opportunities for engagement, (see, http://www.unglobalcompact.org/HowToParticipate/index.html).

The U.N. Global Compact is a voluntary initiative, with two objectives: mainstream their ten principles of human rights, labor, environment, and anti-corruption in business activities around the world; and catalyze actions in support of broader UN goals, such as the Millennium Development Goals, (These tem principles can be found at: http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html.)

While it appears Wal-Mart's management has engaged in several constructive initiative, it appears they have not done enough to ensure their core principles are adopted throughout their global enterprise. It seems clear that some employees are not adhering to Wal-Mart's code of ethics, including their guiding principles. It should be mentioned how difficult this task is. Most Multinational corporations deal in industries which are invariably fragmented. Geopolitical considerations and fluctuations often drastically change the financial landscape. The garment industry is highly cost sensitive and regulatory changes can often tilt the scales from cost effective to cost prohibitive.

5. Is Wal-Mart responsible for the actions of its suppliers? Does Wal-Mart have any potential liability, as a result of the factory fire?

This question often produces a vigorous debate. Obviously, Wal-Mart has an ethical obligation to ensure all employees and independent contractors adhere to their own statement of ethics. Certainly their own code promotes serving all stakeholders under their core principle of a common purpose. Reviewing their own vision statement it is clear that Wal-Mart aspire to value all stakeholders. Wal-Mart's vision statement reads as follows: The vision of the Global Ethics Office is to promote ownership of Wal-Mart's ethical culture to all stakeholders globally, (see, http://ethics.walmartstores.com/StatementOfEthics/BasicBeliefs.aspx.)

Legally, an entity is generally not liable for the torts of their independent contractors, except in a few unique exceptions such as inherently dangerous activities or specifically authorized torts. Wal-Mart is fairly well shielded in this scenario from most if not all criminal or civil liability based on the presented information. As the case indicates most retailers contract with the supplier and not the factory or manufacturer directly. Wal-Mart may successfully argue that they never contracted with the factories and were in fact unaware of any danger. Ask the students if or how Wal-Mart's ethical and professional responsibilities change if there is no concern of criminal or civil liability.

If this case is being conducted in a Business Law course, a brief discussion of the Alien Tort Claims Statute and its applicability (usually used in cases of genocide, torture, and slavery) is suggested. The Supreme Court is currently rehearing arguments in the case Kiobel v. Royal Dutch Petroleum, which debates the applicability of this statute for lawsuits by foreign citizens against corporate organizations. While, Wal-Mart on the presented information should have limited criminal liability, this is a fascinating case which students often enjoy discussing as the human rights impact of this decision may be lasting. A decision is due in late 2013.

6. How can this organization avoid future ethical lapses?

Ethical decision making does not take place in a vacuum as there are several factors which influence the ethical decision making process. Ethical lapses and crisis are generally not created overnight. They are often cultivated over time through lax corporate governance. As some of the leading scholars have theorized, "individual actors, organizational relationships, and opportunity all interact to determine ethical decision making in business," (Thorne, Ferrell, and Ferrell, 2011).

Matt needs to be aware of all these factors as he contemplates Wal-Mart's plan of action. Matt needs to assess and reinforce Wal-Mart's global ethical climate and culture. Serious attention needs to be paid the ethical sourcing department to ensure its leadership is adhering to Wal-Mart's stated vision and values. By adjusting this culture to accurately reflect their fundamental principles, future ethical catastrophes may be averted.

When discussing the best course of action for Wal-Mart and after the students' SWOT analyses have been presented, the class should attempt to use an ethical decision making framework. As there are a plethora of ethical decision making frameworks for students to choose from this question can lead to beneficial discussion. The authors suggest assigning the following article for students to review when contemplating the ethical decision making process. The article, *A Contingency Framework for Understanding Ethical Decision Making* (Ferrell & Gresham, 1985), provides a workable framework which students can readily understand and apply. Students must identify the relevant dilemmas, individual factors, opportunities, organizational relationships, and the cultural environment amongst other factors when using this decision making model. A similar framework can be found in the cited text (Thorne, Ferrell, and Ferrell, 2011). As previously mentioned there are several potential ethical frameworks to choose from, we are simply providing reference to the framework the authors us in their own classes.

7. Should Matt fire Tabitha? Does Matt have an ethical obligation to resign himself?

There appears to be several issues with the organization's ethical sourcing division in Bangladesh. Matt, despite his personal feelings, should consider terminating Tabitha's employment. As presented, Tabitha may have a drinking problem; she failed to notify suppliers and factories of failed inspections, and she has insinuated the practice of bribery. All of these actions may constitute a violation of her employment contract and certainly the organizations statement of ethics.

Additionally, if Tabitha is in fact providing bribes, Wal-Mart through one of their agents, may be violating the Foreign Corrupt Practices Act (FCPA) which prohibits payments or gifts to foreign official in exchange for a favorable ruling, regulation, or business advantage. The FCPA has a broad application and will be applied to U.S. citizens operating abroad. With regards to gifts it should be mentioned that, de minimis gifts are allowed. Multinational corporations must adhere to cultural norms while simultaneously abiding by all relevant laws. Students can debate what constitutes a de minimis gift or what establishes an attempt to get improper concessions form a government official. The implication of this case is simply that Tabitha has been receiving and providing clearly impermissible bribes.

The difficulty for Matt of course, in firing Tabitha is that he too may have an issue with alcohol and this difficulty is not readily known by his employer. As a on the rise manager with a great opportunity to become a corporate executive, Matt will certainly not want to jeopardize his own future. Nevertheless, resignation should be considered. Regardless, the best practice would be for both Matt and Tabitha to reveal their addictions to the company. This secrecy has clearly created a conflict of interest for Matt. Wal-Mart's own guiding principles state: an employee should reveal and report all information truthfully, without manipulation or misrepresentation. Work, actions, and relationships outside of your position with the company should be free of any conflicts of interest. By keeping their issues a secret both Matt and Tabitha seem to be violating the Wal-Mart code of ethics and possibly subjecting the organization to civil liability.

8. Does Samuel any obligation to report Matt's alcohol issues?

Students should review Wal-Mart's statement of ethics, (the link is provided here: http://ethics.walmartstores.com/StatementOfEthics/BasicBeliefs.aspx. This well-developed code of conduct seems to put an affirmative responsibility of Samuel to report Matt's alcohol issues. The guiding principles clearly state that an employee should always act with integrity, lead with integrity, expect others to work with integrity, and follow the law at all times, be honest and fair, and reveal and report all information truthfully, without manipulation or misrepresentation. As the case subtly indicates Matt himself may have a drinking problem. Based on Wal-Mart's statement of ethics and given Samuel's position he should discreetly disclose Matt's history to the appropriate department. This disclosure is of course based on the assumption that Samuel does not have a legal privilege or obligation, such as an attorney client privilege, to keep this information confidential. No such privilege is implied in the case.

Further, class discussion can be dedicated to debating what obligations Wal-Mart itself has to their employees and what type of support tor counseling they are required or should provide employees with dependency issues. In a Business Law or MBA class this question can often lead into a fantastic discussion of applicable employment laws including wrongful termination claims, public policy issues, and the application of the American with Disabilities Act (ADA) to those with alcohol dependency issues.

SUSTAINABILITY AND INTEGRATED REPORTING: A CASE EXPLORING ISSUES, BENEFITS AND CHALLENGES

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CASE DESCRIPTION

The primary subject matter of this case concerns sustainability reporting and the emerging trend of integrated reporting, which combines a company's financial results with information about its sustainability efforts. The case explores the related strategic and reporting issues and the benefits and challenges that sustainability and integrated reporting entail. Secondarily, the case addresses ethical considerations and dilemmas that company executives may encounter when reporting the results of their sustainability activities to stakeholders.

The case has a difficulty level of four to five and can be taught in about 45 minutes. Approximately three hours of outside preparation are necessary for students to address all the questions in a group setting. The case can be utilized in an upper division accounting course to help students become aware of important emerging global reporting trends and to explore the issues, benefits, and challenges that sustainability and integrated reporting entail. The case can also be utilized in a graduate accounting or business course focusing on the organizational and strategic issues. The case and the suggested independent questions have research, technical accounting, communication, and ethical aspects and can be used to enhance students' analytical, research, and communication skills, and may also enhance their awareness of reporting-related ethical issues and challenges.

CASE SYNOPSIS

During the past few decades, formal sustainability reporting has increased significantly in the U.S. and globally. Many public and some private companies have embraced this trend. While many companies currently report on their sustainability efforts and thus their impact on the natural and social environment, reporting is largely voluntary. In addition, most companies issue separate sustainability reports instead of including the information in their financial reports. Recently, a new trend toward combining the information about a company's sustainability efforts with its financial/economic results has emerged. This is referred to as integrated reporting or the integrated triple bottom line. This trend is supported by the

International Integrated Reporting Council's efforts to develop a globally accepted integrated reporting framework.

Companies and their stakeholders may derive significant benefits and encounter significant challenges from sustainability and integrated reporting. However, since sustainability reporting is largely voluntary, executives involved in the reporting process may also encounter ethical dilemmas that must be addressed.

This case explores the issues, benefits, and challenges that companies and their executives, who are planning to formally report their organization's sustainability efforts, will tend to encounter. The case can be used to develop students' awareness of the trend toward sustainability and integrated reporting and can enhance their understanding of the related issues, challenges, expected long-run benefits, and ethical considerations.

The case can be utilized in an advanced level accounting or business course; it also can be used in a graduate course focusing primarily on the strategic issues. The suggested questions are independent providing instructors with considerable flexibility to assign selected or all the questions. The case has communication, research, technical accounting, and ethical aspects and can enhance students' analytical, research, and communication skills as well as enhance their awareness of reporting related ethical issues and challenges.

INSTRUCTORS' NOTES

Teaching Strategies

Sustainability reporting has become common both globally and in the U.S. Currently, the majority of public companies issue a formal sustainability (also referred to as corporate responsibility) report. Private companies are also adopting this trend. In addition, integrated reporting, which combines an organization's economic/financial and sustainability performance into one "integrated" report, is gaining momentum. Accounting students and students in other business-related disciplines will benefit from being aware of these important reporting trends as they will likely encounter them in the workplace. Currently, most textbooks do not address sustainability and integrated reporting. This leads to a gap in knowledge and awareness. This case can be utilized to address this knowledge gap.

In addition, ethical issues are extremely important to accounting and business professionals and students should be exposed to such issues in a class setting. Furthermore, many state boards require that candidates for professional certifications complete courses with ethics-related content. The ethical aspects of this case can serve this important requirement.

The case deals with a fictitious company that is considering sustainability and integrated reporting. The case provides sufficient background information to help build students' awareness and spark their interest in the topic. The suggested assignments are largely independent providing instructors with the flexibility to assign all or only selected questions, depending on the time constraints and the learning objectives of the course. The case can be assigned as an individual course project or as a group project.

An early version of this case was successfully tested in an International Accounting course. All questions were assigned in a group setting. The instructor provided students with the following guidelines for addressing the case.

Guidelines for addressing the case in a group setting

1. Work in a group setting; the suggested group size is 2-4 students per group.
2. Only one cohesive "integrated" report is submitted by the group.
3. Your group report should be concise and to the point, while addressing the specific questions.
4. Number your answers, cite properly utilizing an APA format, and double-space your report.
5. For questions 7 and 8, print out and highlight information you are citing.
6. If you have any questions, please do not hesitate to ask me.

The case was well received by the students. Based on the results of an anonymous case debriefing survey, 89% strongly agreed that the case helped them understand global sustainability reporting issues and 90% perceived that the case helped enhance their knowledge of major trends in global reporting. Based on student feedback and suggestions, the case was adapted and will be utilized in future course sections.

SUGGESTED ASSIGNMENTS

Pretend that you are the CFO of Mergenthal Corporation. Please answer the specific questions assigned by your instructor.

1. Kerstin believes that the company would benefit from issuing an integrated report. Retrieve and review the report entitled "Understanding transformation—Building the Business Case for Integrated Reporting" available on the IIRC's (http://www.theiirc.org) website and answer the following questions:
   a. What are the five advantages of integrated reporting identified in the report? Consider one of these advantages and briefly relate it to Mergenthal Corporation.
   b. Explain the meaning of "Integrated Thinking."
2. Access the IIRC.org website and retrieve and review the IIRC's *Consultation Draft of the International Framework – Integrated Reporting* (available at http://www.theiirc.org/). Address the following questions:
   a. Identify the purpose of integrated reporting

  b. Identify and list the guiding principles of integrated reporting
  c. Identify and list the content elements

3. Identify the likely long-run benefits that Mergenthal Corporation will enjoy if it decides to issue a sustainability report.

4. Identify the likely long-run benefits that Mergenthal Corporation will enjoy if the company decides to issue an integrated report.

5. Identify two issues and two challenges that Mergenthal Corporation likely will have to address if the company where to start issuing an integrated or separate sustainability report. Identify the types of guidelines that are commonly used by companies reporting on sustainability.

6. Consider the issue of including what may be perceived as negative items in the sustainability or integrated report. What are the ethical issues? What would you do if you were the CFO of the company?

7. Select a company and review its sustainability (or corporate responsibility) report. (Print out and highlight information you are citing).
   a. List the types of sustainability-related issues the company reports on.
   b. Comment on the company's motivation for reporting on sustainability and other corporate responsibility issues.
   c. Indicate what reporting standards the company applies and at what level the standards are applied.
   d. Indicate whether the company's sustainability/corporate responsibility report has been audited; if it is audited, very briefly summarize the findings.
   e. Briefly describe the impact that the company's sustainability efforts have on the company's financial results (e.g., profitability).

8. Review the integrated report of a company that currently issues an integrated report. (Print out and highlight information you are citing). A good source of integrated annual reports can be located on the "Blacksun.org" website.
   a. List the types of information that is included in the report.
   b. Compare the information content of an integrated report with the content shown in a separately issued sustainability report (you may refer to the report utilized for answering question 7). Identify two (2) substantive differences you observe.

ANSWERS TO SUGGESTED ASSIGNMENTS

1. **Kerstin believes that the company would benefit from issuing an integrated report. Retrieve and review the report entitled "Understanding transformation—Building the Business Case for Integrated Reporting" available on the IIRC's (theiirc.org) website and answer the following questions:**
   a. **What are the five advantages of integrated reporting identified in the report? Consider one of these advantages and briefly relate it to Mergenthal Corporation.**

   According to research findings sets forth in the report, integrated reporting tends to (1) connect departments within an organization; (2) improve internal processes, (3) lead to better understanding of the processes that create value; (4) enhance management focus and awareness of sustainability efforts; (5) improve articulation of an organization's business model and strategies; and (6) help create value for the company's stakeholders (IIRC & BlackSunPlc, 2012) These benefits can be related to Mergenthal in various ways. For instance, the company's expenditures relating to the fine-particle filtration system throughout its factory will tend to reduce employee absences due to illness and potentially improve the quality of Mergenthal's products. These qualitative results can be related to the financial impact in terms of revenue and expense. Integration of the environmental, social, and financial impact of Mergenthal's operations will help management refine its strategies and relate them to the company's mission in a manner that optimizes the creation of value for the company's shareholders, employees, customers, and community members.

   b. **Explain the meaning of "Integrated Thinking."**

   The report refers to "Integrated Reporting" as "the ability of those within the organization, especially management, to understand the interconnections between the full range of functions, operations, resources and relationships which have a material effect on the organization's ability to create value over time" (IIRC & BlackSunPlc, page 1, 2012).

2. **Access the IIRC.org website and retrieve and review the IIRC's *Consultation Draft of the International Framework – Integrated Reporting* (available at http://www.theiirc.org/). Address the following questions:**
   a. **Identify the purpose of integrated reporting**

According to the Consultation Draft, the objective of integrated reporting is to show how an organization creates and preserves value over time (IIRC, 2013).

b. Identify and list the guiding principles of integrated reporting

According to the IIRC's Consultation Draft, the guiding principles for preparing an integrated report are: a strategic focus and future orientation; the connectivity of information; stakeholder responsiveness and inclusiveness; and conciseness, reliability, completeness, comparability, consistency, and materiality (IIRC, 2013).

c. Identify and list the content elements

The IIRC's Consultation Draft identifies the following content elements: organizational overview and external environment; governance; business model; risks and opportunities; strategies and allocation of resources; performance; and future outlook (IIRC, 2013).

3. Identify the likely long-run benefits that Mergenthal Corporation will enjoy if it decides to issue a sustainability report.

In the long-run, Mergenthal Corporation likely will benefit from formal reporting of its sustainability-related activities. Likely benefits include customer goodwill and loyalty; enhanced employee commitment and lower turn-over, which in the long-run will reduce costs and likely improve or preserve the quality of the company's products; and enhanced financing opportunities. In addition, formal sustainability reporting likely will enhance management's and stakeholders' understanding of how the company creates value; support reporting to governmental units if the company obtains government grants; and provide information that helps the company plan, implement and control its sustainability efforts.

4. Identify the likely long-run benefits that Mergenthal Corporation will enjoy if the company decides to issue an integrated report.

In the long-run, Mergenthal Corporation likely would derive similar benefits from issuing an integrated report as it would from issuing a separate sustainability report. (See answer to assignment question 3). However, integrated reporting would likely yield some additional benefits. Integrated reporting would help management understand the comprehensive impact of the company's actions on the financial/economic, environmental and social environment and on all its stakeholders. For example, integrated reporting would enhance management's understanding of how recycling saves costs, reduces its carbon footprint, and preserves natural resources for future generations. It would also help the company assess its processes and the interconnectivity of its departments and thus help it optimize both. It would also help the company continue to fulfill its mission.

In addition, issuing an integrated report would be more efficient than issuing two separate reports and thus be less costly. By issuing an integrated report, the company would be proactive and an industry leader. In addition, integrated reporting provides a great opportunity for the company to show stakeholders how their products and actions can support achievement of the stakeholders' own sustainability and value creation objectives (e.g., using healthy responsibly sourced ingredients can support the consumers' health and protect the environment, while achieving positive economic results).

5. Identify two issues and two challenges that Mergenthal Corporation likely will have to address if the company where to start issuing an integrated or separate sustainability report. Identify the types of guidelines that are commonly used by companies reporting on sustainability.

Issues: One of the most important issues is to gain not only the support of the board of directors and management, but also to gain the support of all key employees. Management and employee "buy-in" is critical for the success of sustainability and integrated reporting. Thus, from the beginning, management must convince key employees of the long-run benefits of sustainability and integrated reporting. The company also must decide on the reporting format. Kerstin should recommend that the company comply with the guidelines of the Global Reporting Initiative (GRI), which is utilized by the majority of companies that currently report on sustainability. It also will have to decide what level of reporting to comply with. There are three levels (A,B,C) with A requiring the most disclosure and reporting on the highest number of performance indicators (GRI, 2012)**.** Currently, most companies comply with level B (Ernst & Young, 2012). Another issue is whether the company will seek external verification; which is not required, but if obtained allows the company to achieve "A +" designation.

Challenges: The company will have to gather and evaluate the pertinent information. If the company chooses to issue an integrated report, the information should be interconnected and reported in a meaningful effective manner. The company also must establish effective procedures for gathering, analyzing, and reporting the information and must provide for periodic review and revisions of those procedures. This will be costly in the short-run, but provide opportunities in the long-run. In addition, the accounting information system will have to be adapted to support integrated reporting and the accounting staff must be trained.

6. Consider the issue of including what is perceived as negative items in the sustainability or integrated report. What are the ethical issues? What would you do if you were the CFO of the company?

The ethical issues that Kerstin and the company's management must address are whether to include events and sustainability-related performance that are perceived as negative events or failures to reach forecasted sustainability goals. Both under U.S. GAAP and International Financial Reporting Standards (IFRS), unbiased reporting is critical to preserving the quality and information content of financial statements. The same applies to reporting of sustainability-related activities regardless of whether the information is presented quantitatively or qualitatively. A report that focuses only on positive results and performance will diminish the information content and the value of the information. It will also greatly diminish the trust and the degree of reliance that report users will place on the report. Biased reporting would be especially detrimental if the company chooses integrated reporting because it could affect the perceived value of the entire report, including the financial results. In fact, guiding principles of the IIRC include "reliability and completeness" (IIRC, 2013). Thus, reporting only positive results will violate the guiding principles proposed by the IIRC's draft framework.

Thus, the CFO must convince the CEO and the board of directors that only complete and unbiased reporting will yield long-run benefits for the company and all its stakeholders. The CFO should refer to the company's code of conduct and its reputation in the market place and community in trying to convince the CFO and board of directors.

7. **Select a company and review its sustainability (or corporate responsibility) report. (Print out and highlight information you are citing).**
    a. **List the types of sustainability-related issue the company reports on.**
    b. **Comment on the company's motivation for reporting on sustainability and other corporate responsibility issues.**
    c. **Indicate what reporting standards the company applies and at what level the standards are applied.**
    d. **Indicate whether the company's sustainability/corporate responsibility report has been audited; if it is audited, very briefly summarize the findings.**
    e. **Briefly describe the impact that the company's sustainability efforts have on the company's financial results (e.g., profitability).**

Answers will vary depending on the company chosen. Good examples of companies with excellent sustainability reports are UPS, McDonald, General Electric, and General Motors. An excellent source of downloadable reports can be found on the BlackSunplc.com website.

8. **Review the integrated report of a company that currently issues an integrated report. (Print out and highlight information you are citing).**
    a. **List the types of information that is included in the report.**
    b. **Compare the information content of an integrated report with the content shown in a separately issued sustainability report (you may refer to the report utilized for answering question 7). Identify two (2) substantive differences you observe.**

Answers will vary depending on the company chosen. Good examples of companies with excellent sustainability reports are BASF, Novo Nordisk, Siemens, Mercedes Benz, and Sony. An excellent source of downloadable reports can be found on the BlackSunplc.com website.

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PORTLAND CABINET COMPANY

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CASE DESCRIPTION

This case was written to show the complex and multi-functional nature of managing a successful family business over the long-term. The information presented requires students to perform both qualitative and quantitative assessments in order to understand the problems, potential underlying causes, and possible solutions for the company. Students will have the opportunity to evaluate and assess the following topics:

1. *Evaluation of the major industry trends*
2. *Production management and quality control*
3. *Customer service management*
4. *Sales / marketing control*
5. *The role and impact of internal incentives*
6. *Implications of rapid organizational growth – "growing broke" phenomenon*
7. *Cash flow analysis*
8. *Family business dynamics*

The case has a difficulty level of three and up. The case is designed to be taught in two to four class hours in a management, small business management, or entrepreneurship class. The case could be used broadly in a more introductory management course or in depth in more advanced/focused courses, either at the undergraduate or graduate levels. The case is expected to require about four hours of outside preparation by students.

CASE SYNOPSIS

Portland Cabinet Company (PCC) is a family-owned manufacturing firm that has experienced significant growth since its inception in 1979 to become one of the largest kitchen and bathroom cabinet manufacturing firms in the Portland, Oregon metropolitan area. However, PCC is in serious financial condition. This case is written at a critically challenging point in the history of this 27 year old custom wood cabinet manufacturing company. Although *unfolding for nearly two years, only recently has the company fully realized the critical problems it faces.*

This firm is facing a plethora of problems and the financial difficulties are a symptom of a set of complex and interdependent issues. This case tries to expose these areas of concern for the company. It attempts to present the reader first with the main symptoms of these problem areas – the critical signs that have finally raised a sense of urgency for the company owner / managers. Ultimately, it is a worsening cash flow crisis that has finally reached a critical point for the company. However, the solution to this salient cash crisis is not obvious to the company, and in fact it is likely complex due to its multi-functional nature. However, time available to deal with the situation is short.

The primary decision makers are Jack Woodruff, 63-year old founder / owner / CEO / sales person for the company, and his 35 year-old son Simon who has worked for the company all his adult life, and currently officially holds the title of vice president and acting president. The current crisis has come at a time that has surely disrupted the intended transition of the business from the hands of one generation to the next. The future of the company, Jack's retirement, a former partner's buy-out arrangement, and family member employment are all at risk.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

The case was written to show the complex and multi-functional nature of managing a successful family business over the long-term. Despite a 27-year track record of success and current stature as one of the largest shops in the region, the company's future is not at all guaranteed.

The information presented requires students to perform both qualitative and quantitative assessments in order to understand the problems, potential underlying causes, and possible solutions for the company. The authors of the case hope to illustrate for students the significant challenges of sustaining a business by identifying specific areas of concern and highlighting the inter-play among them including: trends and forces in the external environment, internal operations process issues, human resource issues as well as organization-wide factors such as culture, structure, and transition.

Students reading this case will:

1. Learn about a 27-year old family business that has experienced success and growth.
2. Explore how such a company might now find itself in a state of crisis, despite favorable industry dynamics.

3. Consider operational, human, and cultural implications for business effectiveness and profitability.
4. Develop skills in identifying and discussing problem areas, and seeking root causes to organizational problems.
5. Propose organizational / process solutions in several distinct but potentially interconnected organizational departments and functional areas.
6. Realize that business growth must be carefully managed in order to avoid "growing broke" phenomenon.
7. Explore challenges common to small, family-owned businesses.
8. Propose and support both short-term and long-term courses of action for the company.

Proposed Assignment and Discussion Questions

1. Identify the problems (or problem symptoms) that the company is currently experiencing.
2. What factors are contributing to an increasing number of upset / unsatisfied builder-customers?
3. Explain how it is possible for the increasing sales volume to coincide with increasing cash flow challenges.
4. What is the cash conversion cycle for PCC? What has happened to this cycle over time and why? What are the implications of this for the business?
5. Construct an organization chart for the company as of December 2005. Comment on the chain of command, span of control, degree of specialization, and extent to which individuals appear to have the competencies to fill their roles in the organization.
6. Identify the incentives/goals within the organization for the following groups/individuals: sales personnel, installation crews, service manager, Jack, Simon, Max. Consider how these groups individuals are hired, evaluated, paid, etc. How do these incentives/goals impact PCC overall?
7. Based on the PCC situation, what are some of the business challenges associated with being a family business?
8. What should PCC do *in the short term* to deal with its cash flow crisis in order to keep its doors open (i.e., to meet weekly payroll and be able to purchase materials)?
9. What does PCC need to do *in the long term* to return to a healthy and profitable business?

Answers to Proposed Assignment and Discussion Questions

1. Identify the problems (or problem symptoms) that the company is currently experiencing.

All of the following should raise concern for the company:

Perpetual cash flow crisis
Payroll keeps warning that they may not be able to make weekly payroll
The managers have had to forgo paychecks and loan money to the company
Critical long-term employees have recently quit or been fired
Many customers are refusing to pay for jobs that have been installed
Frustrated/angry customers keep calling
The service department appears to be missing appointments, won't return phone calls, and won't fix customer problems
There has been rapid transitioning of people among key positions
Production is unable to reach output and quality requirements

2. What factors are contributing to an increasing number of upset / unsatisfied builder-customers?

Customers are frustrated, angry, and are at times refusing to pay for installed cabinets for some or all of the following reasons:

Communication between customers and PCC has been inadequate
Customers are receiving at best slow response to their service requests
PCC is no longer accepting phone calls from certain customers
Customers are receiving "rude" collections calls from PCC regarding jobs that may not be complete.
Manufacturing is likely attempting to operate above capacity to deal with record sales.
There is evidence of quality problems in cabinet manufacturing and/or installation.
Some customers have paid in full for jobs that remain incomplete / un-serviced.
High demand→ production operating beyond capacity → production / quality problems → heavy service volume → service operating beyond capacity → poor service response → unsatisfied/upset customers

3. Explain how it is possible for the increasing sales volume to coincide with increasing cash flow challenges.

There are likely several interdependent factors contributing to this situation. The main factors identified by the authors are as follows.

a) Mis-matched cash flow timing

During periods of business growth, cash requirements (capital necessary to purchase an increasing quantity of raw materials and increasing labor costs) typically outpace cash receipts. As companies grow, they consume more and more capital. In order to successfully manage its growth, PCC requires long-term capital growth to invest in the company. Given its current financial picture, this is nearly impossible for PCC to obtain at this point. Because of the timing of cash flow streams, the increasing cash received from increasing sales comes *after* the increasing expenses required to manufacture and deliver the product. Without sufficient cash reserves invested in the company, the result for a growing company is cash flow shortage due to the cash payable-to-receivable gap. This situation was particularly bad at PCC because many suppliers had placed them on COD terms, thereby lengthening the payable-receivable time gap, or cash conversion cycle. On the other side, slow customer payment further stretched this gap. The result was chronic, and worsening cash crisis as the company continued to grow in sales volume.

b) Production pressure

Sales growth placed additional stresses on PCC. The company was now dealing with record sales – and corresponding production – levels. Production processes and people had inadequate capacity for and experience with this increased volume of demand.

It appears there is a vicious cycle in manufacturing that has come with increasing pressure to raise production volume. As Max pushes his workforce to produce more, they are experiencing quality problems. And while it is convenient for Max to blame sloppy sales people and unreasonable customers, it is clear that many of the remakes and service parts are necessary as the result of rushed and possibly sloppy manufacturing. This arose because the job was late through production. Also service trips to correct misalignments and color variation are the result of poor production steps in the finals and paint departments.

c) Poor quality control

Due to the same pressures experienced by people and processes in production, attention to quality fell to the wayside as all management attention was placed on increasing production in order to meet the higher volume of customer jobs. Production workers were being asked to “work faster” in order to manufacture more jobs. Such pressures, when not balanced by incentives to ensure quality, often lead to shortcuts and mistakes that reduce output quality.

d) Lack of sales control

The excitement of the booming home construction industry and record sales, combined with unclear / shifting positions and responsibilities within the company, led to poor sales oversight. Sales people were not adequately controlled to ensure that they were selling the right kinds of jobs to the right kind of customers. Like most organizations, PCC does not do all things well for all customers. Historically, the company had successfully supplied small-medium-size builders in the mid-range price-quality spectrum. During the recent industry boom, the company took on a more diverse customer base, including large, low-end builders. In fact, recall that the company had specifically opened a new manufacturing division in late 2003, to better serve this new customer profile. It is likely that the company experienced pressures as they attempted to serve customers that did not fit their ideal customer profile, thereby reducing profit margins on these jobs.

e) Poor response to and learning from post-installation service problems

The final factor that served to make a bad situation possibly fatal, was PCC's inadequate response to its post-installation service problems. While not pleasant, hearing from unsatisfied customers is actually a very rich way for an organization to learn about its processes and future customers. Unfortunately, PCC was so concerned about feeding the front end of its sales-manufacturing machine, it did not take the time to listen to customers, to understand their concerns and how that translated to organizational problems, and to correct such problems. Thus, problems were repeated and customers were left unsatisfied. This contributed to the cash crisis as these customers refused to pay for their already installed jobs. It also meant the company did not learn from mistakes, thereby repeating the same costly mistakes with new customers. Additionally, there was a prevailing (lackadaisical) attitude toward the company's service personnel and systems of operation.

Overall, it appears that organizational stress resulting in inadequate management oversight, poor decision making, rushed processing, poor production quality, inattention to customer concerns, etc. This resulted in unhappy customers, and a vicious cycle of failure and increasing cash challenges.

4. What is the cash conversion cycle for PCC? What has happened to this cycle over time and why? What are the implications of this for the business?

Cash Conversion Cycle = Inventory Held (Days) + Accounts Receivable (Days) – Accounts Payable (Days)
Where:
*Inventory (Days) = (Inventory Value / Cost of Goods Sold)*30 days*
Accounts Receivable (Days) = (Accounts Receivable / Sales Revenue) / 30 days
*Accounts Payable (Days) = (Accounts Payable / COGS) * 30 days*

Using these formulas and figures provided in Table 1 of the case, we produce the cash conversion cycle (CCC) numbers shown in Table TN 1.

Table TN 1: Monthly Cash Conversion Cycle for PCC

	Inventory (Days)	**Accounts Receivable (Days)**	**Accounts Payable (Days)**	**CCC**
Apr 2004	23.9	28.8	37.6	15.1
Aug 2004	42.3	37.4	58	21.7
Dec 2004	22.2	36.4	35.7	22.9
Apr 2005	16.5	33	28.8	20.7
Aug 2005	20.3	36.2	29.3	27.2
Dec 2005	16.2	39.5	22.6	33.1

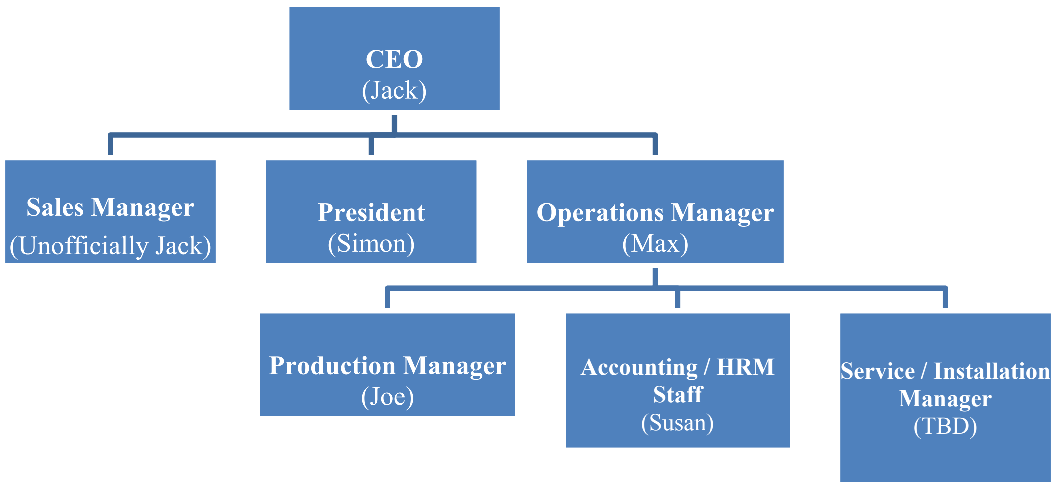
* We have used all monthly sales and COGS and A/R and A/P values in the calculations.

Much of PCC's cash flow problems can be linked to their extended cash conversion cycle. CCC represents the time to convert cash spent to cash received. This measure is moving in the wrong direction, making the cycle longer and longer over time as PCC is experiencing quality problems, delayed payment from customers, and less favorable borrowing terms from suppliers. This lengthening cash conversion cycle is feeding many of the other problems we see in the case. The company will soon fail if the CCC is not shortened ASAP.

5. Construct an organization chart for the company as of December 2005. Comment on the chain of command, span of control, degree of specialization, and extent to which individuals appear to have the competencies to fill their roles in the organization.

PCC has undergone several rounds of re-structuring in recent months. The organizational chart below depicts the current official state of the organization, Figure TN 1.

Figure TN-1 PCC Organizational Chart



Looking at the current organizational chart, it appears that responsibility / workload is not effectively divided among the management positions. In fact, most departments officially fall under the responsibility of Max. His span of control is very broad (all production staff, office support staff, and field work staff). On the other side, Simon does not appear to have any official span of control, although he is supposed to be the President. He has no official authority over the departments, but plays a critical decision making role in the company.

Beyond the concern of unequal distribution of responsibility among management positions, it is troubling that it is Max, the least skilled and experienced of the management team, who has been assigned such a broad span of control. Students might consider whether Max has the competencies to effectively deal with this broad span of control.

There may also be a problem with dual (or more) chains of command. Jack routinely steps into production and sales (as he sees necessary), even though he is not in the formal chain of command. This may lead to challenges for personnel who officially report to Max, but need to respond to Jack, the owner and CEO of the company.

6. **Identify the incentives/goals within the organization for the following groups/individuals: sales personnel, installation crews, service manager, Jack, Simon, Max. Consider how these groups/individuals are hired, evaluated, paid, etc. How do these incentives/goals impact PCC overall?**

Arguably, many of the problems that PCC is experiencing can be traced to underlying incentives and goals of various individuals and departments within the organization. We will explore the personal incentives of each of the family members, production staff, service staff, installation crews, and discuss the behaviors likely to result from such incentives, and how these may be contributing to PCC's problems. Many of the internal financial incentives are inappropriate for the company overall.

Jack: Eager to retire, and leave the company in a state that will allow it to operate profitably so that it can continue to provide retirement buy-out payments. Possibly short-sighted and overly optimistic as he focuses on his personal desire to get out of the company.

Max: Wants to succeed, but overwhelmed.

Simon: Torn between his own and his fathers beliefs about how the company needs to move forward.

Installation crews: paid by the installed job. Installation quality and completeness is not part of the payment process. Therefore, crews have the incentive to install jobs as quickly as possible, without much regard for quality. Incomplete/problem installs are not their concern – service picks up the issues. Install crews get their money regardless. This is a big root problem for PCC, currently experiencing record levels of problems and service complaints.

Production: Under pressure to produce high volumes to meet record demand. There is evidence that they are operating at a production level above their capacity / competency. This pressure on production #s (rather than quality) is undoubtedly contributing to quality problems and associated service complaints.

Service: Overloaded, yelled at by customers, pressured by finance to complete service so that customers pay. Not a good position to be in at PCC given its current quality/installation problems. Motivated to serve only critical customers – and not even able to do this well. Understaffed for the current and growing level of service requests.

7. Based on the PCC situation, identify some of the business challenges associated with being a family business?

Like many other family businesses, PCC had always assumed that the company would be able to provide retired partners and family members with ongoing payments. However, this becomes difficult financially because it places additional overhead on the company. In essence, the company must support multiple generations of employees and former employees, whether or not they are performing an active or value-adding role at the company. It had always been assumed that each generation would be able to continually grow the business in order to offset the increasing overhead associated with retirement payments. It is unclear that continued growth is a viable or optimal strategy for PCC or any other business.

Another challenge in a family business is that employee hiring is not entirely objective. By definition, a family business is staffed in part by family. What happens if a family employee does not possess the skills or experience required for a specific position? How does one effectively control / motivate / review a family employee? Can a family employee be fired? As has been the case at PCC, it is not uncommon for family employees to transition from position to position, as certain critical positions become vacant and need to be filled. While this has the benefit of training family members in a wide range of business functions so that they might ultimately be more qualified to manage the entire business, it can also mean that family members are merely being expected to fill in as and where needed, whether or not they have the interest in or experience for a specific position. The result can be an ineffective person is a key role, without the ability to remove that person because of family ties and expectations.

Finally, in a family business, business is inherently personal. As raised in the previous section regarding the staffing of such businesses, decisions beyond staffing are not necessarily made objectively. What happens when family members disagree, as do Jack and Simon, on major business decisions? To what extent do personal relationships interfere with quality decision making, and to what extent do difficult and contentious business decisions interfere with family relationships?

8. What should PCC do in the short term to deal with its cash flow crisis to meet weekly payroll and be able to purchase materials?

Given the many contributing problems to this cycle of failure, improvement opportunities exist in many facets of the business. However, students should be aware that a company in this critical state generally does not have the luxury of time to conduct a well-planned, organization-wide improvement effort. In the short term, they need cash. The company is in a state of financial crisis. Without an immediate infusion of cash, the company will not survive many more weeks. Given their current credit standing with the bank, additional lending is not an option until aged A/R are cleaned up. PCC's only viable solution in the short term is to collect on accounts over 90 days by focusing service teams on these accounts. By focusing on and cleaning up specific old accounts, PCC will expand its cash and borrowing capacity both by collecting checks from newly satisfied builders, and by an increase in the borrowing base that the bank will allow after the release of discounted 90+ day A/R accounts.

9. What does PCC need to do longer term to return to a healthy and profitable business?

Assuming they can survive in the short term by collecting on sufficient accounts due, they need to undergo various longer term management issues. Unless it can stop the cycle of high sales volume → rushed production → poor quality → inadequate response to customer service problems → unsatisfied and slow paying customers, the company will not survive for long. The cash flow crisis will worsen as customers continue to receive sub-standard product and inadequate service. In fact, left unchanged, the company is likely to begin to experience a loss in its established customer base, resulting in lower sales, and likely negative word of mouth throughout the regional construction industry.

Longer-term improvement strategies, which need to begin ASAP to stop the cycle of failure, include the following:

- **Clean up the service situation**

Many customers are currently due for payment, but have refused to do so because of unresolved service issues. These service problems must be addressed to generate an influx of cash. At present, one can see from the rates of new / completed service orders, that service is currently an unstable, out-of-control process. Its input rate far exceeds it output (completion) rate. As a result, some service orders will never be addressed, and the average waiting time is too high – and growing.

To correct this, the following are recommended.

1. Stop new service orders from entering the backlog – push otherwise new service orders back to the installation crews. A job should not be treated as installed until it is completely installed. This may also provide better incentives to these crews to do it right the first time.
2. Increase the rate of service order completions – in the short term by hiring additional service crew personnel.
3. Improved service scheduling to reduce waste (remakes and travel costs) – at present, due to poor record keeping, planning, and communication, it is not uncommon for multiple trips to be required to a specific job and for parts to be remade more than once.
4. Collection and analysis of failure data – begin keeping track of the reasons and frequency of various service problems in order to initiate process improvement strategies (in production and service) to avoid service on future jobs.

- **Tighten control over sales input**

The continuation of high (and growing) sales appears to be creating an out-of-control situation for PCC as they try to operate at a volume well above their technical and organizational capacity. Lower sales is likely to improve the situation. The company needs to evaluate its customer base, and determine the extent to which each builder (existing and prospective) fits their ideal customer profile – in terms of quality and price expectations, ease of working with the builder and associated subcontractors, etc. The company can no longer afford to be all things to all builders. Additionally, to the extent that service orders and remakes were caused by sales errors or oversight, sales accuracy needs to be monitored and improved.

- Improve production quality

The company can not afford to continue adding to their service back-log by shipping out jobs with quality problems. In the short term, a combination of attention to quality at each production department and final inspection is needed. Production management needs to be careful that the push for increased production volume is not at the expense of quality. Also, to the extent that common problems are found from job to job, production processes should be changed to avoid these errors.

- Human resources and organizational culture

It is also possible that some of the quality issues are the result of the relatively high turnover experienced by the company, generally among its shop employees, and more recently as the result of the quitting/firing of key personal. The organization should consider its attitude and culture towards its employees. It is possible that employees are not being adequately supported, trained, rewarded, valued, etc. Also the constant pressure (and rewards for) high productivity are likely creating a culture of output quantity rather than quality.

- Improve installation quality

To the extent that builders are finding unacceptable cabinet jobs after installation, it appears that PCC's installation crews may need clearer expectations and/or closer oversight of their work. The fact that most installation crews are contracted by PCC and are paid by the job may also have an impact on installation quality.

- **Need for organizational information system**

The organization also seems to lack basic knowledge regarding some of its key performance measures (e.g., cost per job, profitability of each customer, internal and external costs of non-quality, reasons for service orders, etc). Throughout the case it is clear that the key decision makers often lack information necessary for informed decision making. The collection of data pertaining to extensive operational and other information across all aspects of business functions as well as the ability to access and analyze this information is critical to making informed business decisions. Additionally, standardized reporting methods can provide a solid foundation that can be easily utilized and understood by all members of the business. In particular, the company needs to implement an improved financial reporting system.

TEACHING PLAN & ANALYSIS

- **Industry Situation**

The case discussion should start with a review of the industry dynamics over the past several years. In fact, it appears that industry trends, namely the booming new home construction industry, have been very favorable. There are more builders – and builders building more homes – than ever before in the region. This growing builder population correlates directly to a growing customer base for the company. And as evidenced by the graph of sales data, the company has grown significantly in sales revenue over the past several years. Next, turn to the company, to review its performance within this favorable-looking industry.

Discussion Question #1 - Signs of Problems

The discussion should turn to the problems (or problem symptoms) that the company is currently experiencing. Have the students identify – and list on the board – the signals that the company is in a critical state.

(See suggested answer to Discussion Question # 1)

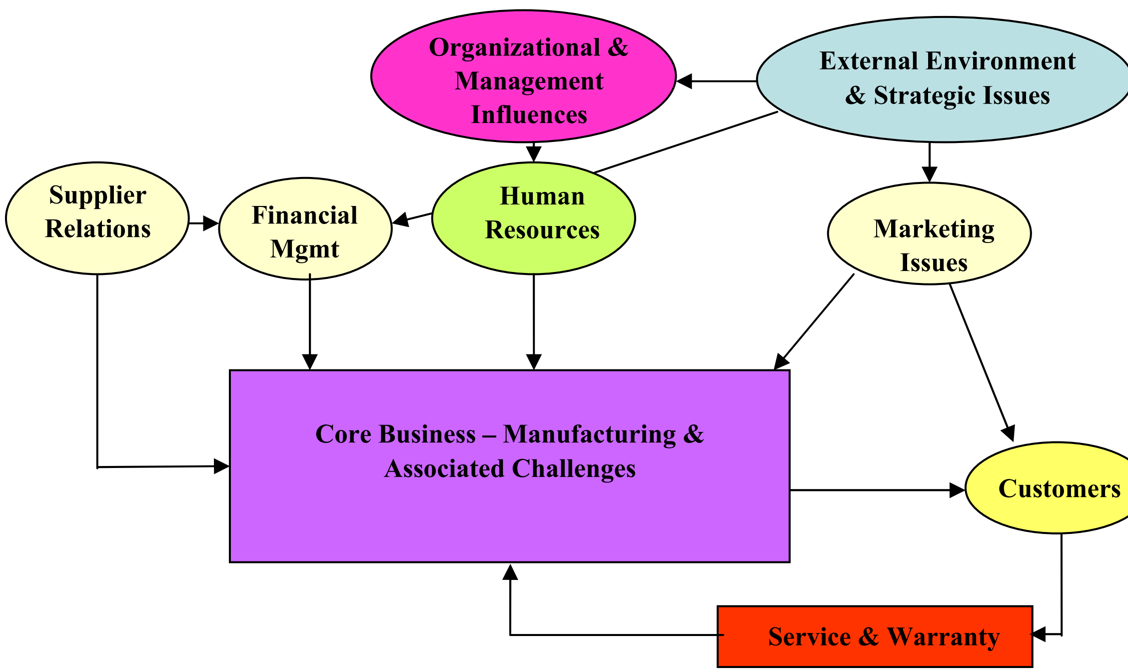
Discussion Question #2 – Contributing factors

(See proposed response to the discussion question.)

- **Interrelatedness of Problem Areas**

At this point, it might be helpful to illustrate for students the interrelated nature of some of these problem areas. This is one of the main purposes of the case, i.e., to highlight the complexity associated with sustaining a successful business because one must deal with challenges based in so many dimensions. The graphic in Figure TN-2 is intended to capture the factors well beyond the manufacturing core business of the company that have an impact on the company's ability to be effective and profitable.

Figure TN-2 Complexities of Business



For example, while there are many challenges to running an operation in and of itself to ensure high quality, efficient flow of materials through the process, and low manufacturing costs, one cannot view the operations function in isolation. The human resources that are an integral part of the manufacturing process bring their own set of challenges. How do employee skills, attitudes, work ethic, knowledge of expectations, etc impact the effectiveness of the operations function? Furthermore, to what extent are these employee characteristics defined or impacted by broader influences such as management style (e.g., Theory X vs Theory Y attitudes), hiring and training practices, organizational culture, workforce availability, etc. The instructor can use the figure to introduce these and other complexities and interrelations among factors that impact aspects of the business and business environment.

Discussion Question #3 – Cash Flow Challenges despite Record Sales

(See proposed response to the discussion question.)

Discussion Question #4 – Computation and Assessment of Cash Conversion Cycle

If students are not already familiar with the computation and interpretation of a cash conversion cycle, start the discussion with general background information on this measure.

Cash Conversion Cycle = Days Inventory Held + Days Sales Outstanding – Days Payable

Where *Inventory (days) = [Inventory Value / Annual COGS] * 365 days*
*Sales Receivable (days) = [Accounts Receivable / Annual Sales] * 365 days*
*Payables (days) = [Accounts Payable / COGS] * 365 days*

Use the financial figures given in Table 1 to compute CCC over time.

(See proposed response to the discussion question.)

- **Explore options for shortening the company's cash conversion cycle.**

To shorten the CCC, which PCC must do ASAP to prevent cash-flow induced failure, the company needs to find ways to 1) shorten inventory holding time (or production flow time), 2) shorten accounts payable, and/or 3) extend accounts payable timeframe. Discuss the extent to which any of these are feasible options for PCC. It is unlikely that suppliers will extend payment terms given PCC's poor recent payment history. It is unlikely that in the short-term PCC can effectively reduce their production flow time / inventory hold time. Although longer-term, this is an option to explore. Realistically, the only option PCC has control over and might be able to influence is tightening collections on Receivable accounts. This has been slipping because of poor quality and follow-up service. By focusing on cleaning up accounts for which customers are holding money, PCC can work to shorten this time ASAP.

Discussion Question #5 – Organizational Chart

(See proposed response to the discussion question.)

The instructor should also ask students how the current org structure has come about. In other words, what have been the drivers for the recent rounds of organizational re-structuring. In fact, rather than strategically-driven restructuring, PCC has been forced to repeatedly restructure because of internal HR challenges, as personnel in key positions have been fired or quit. Restructuring has also occurred in an attempt to reshuffle family personnel to prepare for gaps that will be created when Jack retires. In most cases, positions have been filled by family personnel, without regard for the competency match between position and person. This is obviously a concern.

The instructor can finish this discussion by asking students for suggestions in dealing with the problems identified with the current organizational structure. Note that some problems are difficult to deal with in a family-based business that is attempting to create a structure that includes family members in core positions, despite their personal / professional strengths and weaknesses.

Discussion Question #6 – Incentives and Goals

(See proposed response to the discussion question.)

Discussion Question #7 - Family Business Dynamics

The events of this case occurred right around the intended transition of the company from one generation to the next. The logistics of succession planning are often difficult in a family business. The current state of the cabinet company is such that successful succession is unlikely at this stage. Ask the students, how many of you would like the opportunity to become CEO/President of this company? What if your father expected you to take over and run the company? What if your father's future and retirement plans depended on you taking over, making the company profitable, and continuing to make monthly retirement payments to him? Does Simon owe anything to his father for his past 15 years of employment? How should one balance personal desires and financial needs with those of other family members?

Cover issues raised in suggested response to DQ #7

- Preparing for the Future

It is important to recognize that the company has to consider both short-term and long-term approaches for dealing with their current struggles. While it may be tempting to jump to critical long-term solutions, students must be aware that PCC is in such a critical financial state that they must first address some emergency short-term tactics to facilitate survival.

Discussion Question #8 – Short-term Strategy

(See proposed response to the discussion question.)

Discussion Question #9 – Long-term Strategy

Before proposing specific solutions in some or all of the functional areas, students can be asked to evaluate the overall state of the company and to consider whether or not a turn-around can take place. How realistic is it for this set of managers to make the necessary changes? Can Jack retire? Does the company need any outside help – financial or otherwise to effectively move forward? Could the company sell itself to another cabinet company wishing to grow? How would a prospective buyer value the company?

- **Proposed Solutions**

The instructor can now work with students to try to identify some of Jack's motivations for his proposed solution of growing sales to overcome the current financial crisis. Is there a basis for this approach? Can higher sales be effectively handled with current personnel, processes, and costs? Is it possible for Jack to have an objective assessment of the condition and capabilities of the company given his personal stake (financial and otherwise in the company)? Why does Jack feel so strongly that this is the way out of PCC's current challenges?

Students should then propose their own solutions and strategies for PCC. The discussion can consider the range of proposed alternatives, including those put forward by students, Jack, and Simon.

Assuming the students are prepared to try to make the company work with the current management team, identify areas for change and improvement. The authors believe such solutions can be identified in all key areas covered in the case, as address in DQ #9.

(See proposed response to the discussion question.)

- **Implementation Planning**

Discuss an implementation plan for the proposed changes. In defining the implementation plan, students should identify priorities in their recommendations, a timetable for addressing the proposed changes, responsibilities for ensuring effective change, a means of tracking progress, and any costs (financial or otherwise) that the company should anticipate as it works towards a turnaround. Students should also consider contingency scenarios. What happens if the company continues to lose money each month? How much time does PCC have to turn things around? What would happen to Jack if the business were to fail? What would happen to Simon and Max?

RESEARCH METHODOLOGY

This case is based on a 6-month field study of Portland Cabinet Company (PCC), where the lead author served as an in-house academic utilizing traditional qualitative methods to gather data and information. Field research and interviews were primarily conducted during June-December 2005. Occasional additional updates have been obtained since this period. In a few cases, specific data was not available because it had not been collected by the company. In such cases, if the data was essential to the case, the authors, in consultation with the CEO/VP, estimated figures. The names of the companies and employees have been changed, but all other information remains true and undisguised.

EPILOGUE

As of December 2006, the company remains in a critical, but optimistic state. There have been a number of changes since the writing of the case.

In the spring of 2006, and after many months of warning that the company was out of compliance with financial commitments, the bank who extends the operating line of credit to PCC, finally called the line. The company needed to repay the balance of $650,000. The company, of course, had no such money. Simon and Jack spent many days and hours discussing options. Jack feared that he would be bankrupt and broke in a forced retirement. Simon felt obligated to help his father, but had no interest in and limited ability to sink any further personal assets into the company.

Simon explored the possibility of selling the company to some existing cabinet companies who might be interested in growth. After doing some financial analysis, he came up with a proposed sales agreement that would allow the company to clear most of its debt payments, but left nothing for Jack's retirement. It also assumed the company would default on its buy-out deal with Jim. Still, this looked like the best alternative. Simon had meetings with 3 prospective buyers who showed some interest. However, in the end, none of the prospective buyers could justify the purchase at the required price.

Jack then decided he was committed to giving it one more round, trying to save the company and regain financial strength – for the company and himself personally. The company returned to a factoring company in order to get the capital required to pay down the bank line of credit. Fortunately the bank was willing to wait the 2 months required to obtain factoring company financing. The factoring company loans to 80% of eligible accounts receivable (those less than 90 days past due) and charges 18-20% interest. While a factoring company is an expensive way to get money, it has the advantage of more lenient terms for computing eligible accounts receivable for a borrowing base, and they wire cash as soon as jobs are shipped. Thus, there is no lag in shipment time to cash received. The cash from the factoring company plus $40,000 in personal assets (from former-partner Jim's personal credit line) was required to pay down the bank line of credit.

Jack was also finally committed to making some tough cuts in internal costs. In mid-2006, as part of the company's efforts to severely reduce overhead costs, there were some significant staffing changes. After serious discussion between Jack and Simon, Simon left the business to work in another industry. Simon no longer has ties to the family business, other than the $45,000 personal loan debt that the company owes him.

Jack's retired business partner Jim was forced to return to work for the company. The company could no longer afford payments on his buy-out deal, so Jim needed to return to work in exchange for his payments. This allowed the company to reduce costs by laying-off some other staff. Production staff was also trimmed significantly, requiring production to run much leaner. Administrative staff was also cut both in production and in the office.

By the end of 2006, PCC was shifting to a skeleton crew at the new division, staffing it only as needed to finish out remaining jobs. The new division opened to serve its most price-sensitive builders is now closed.

Jack remains optimistic. There have been some improvements. Through significant cost-cutting strategies, overhead and operating costs are much lower than before. Through improved communication among departments and learning and adjustments made in process design, the company is seeing the following results:

1. More clearly defined and stable organization chart / employee roles in the company
2. Tighter control over sales input
3. Improvements in production and installation quality
4. 50% reduction in cabinet remakes
5. 50% reduction in job flow time through production

Despite improvements and positive signs for the company, its future remains in question. The company sustained much damage during 2004-2005, the impacts of which remain to be felt. The company continues to suffer from its loss of critical employee talent, its out-of-control production costs and quality that resulted from struggling through its period of producing well above capacity and past experience, and its period of unresponsive / ineffective service management resulting in unsatisfied customers.