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**Instructors' Notes**

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## TABLE OF CONTENTS

EDITORIAL BOARD MEMBERS.....	III
LETTER FROM THE EDITORS.....	IX
ALICE CHEUNG: THE CASE OF THE CHEATING STUDENT - INSTRUCTOR NOTE .....	1
Shirley Wilson, Bryant University	
Harsh K. Luthar, Bryant University	
FIRESTONE AND ROBERTSON: “MAKE MINE A DOUBLE!” .....	15
Marlene C. Kahla, Stephen F. Austin State University	
Robert M. Crocker, Stephen F. Austin State University	
TXTBOOKRENTAL:NETFLIX OR BLOCKBUSTER?.....	19
Joseph Trendowski, University of Evansville	
Peter Sherman, University of Evansville	
BATTER BLASTER .....	25
Shelley Morrisette, Shippensburg University	
Louise Hatfield, Shippensburg University	
DIAGNOSTIC DENTAL: A MEDICAID DILEMMA .....	31
Elton L. Scifres, Stephen F. Austin State University	
Octavio Romero, Mkenz Management Consulting	
Tarek Yousef Aly, OrthoDent Management	
Joe K. Ballenger, Stephen F. Austin State University	
Larry O’Neal, Stephen F. Austin State University	
WASTE MANAGEMENT INC. - INSTRUCTOR’S NOTES .....	39
Jennifer Nevin, Towson University	
Arundhati Rao, Towson University	
Charles L. Martin Jr., Towson University	

GOOD TIMES AT YOUBESTRESSED .....	47
Dana M. Cosby, Western Kentucky University	
CROWD FUNDING: A CASE STUDY AT THE INTERSECTION OF SOCIAL MEDIA AND BUSINESS ETHICS.....	53
Barry L. Padgett, Belmont University	
Clyde Rolston, Belmont University	
BENEVOLENT HEALTH CHANGES ACQUISITION STRATEGY.....	59
John L. Wilson, Regis University	
DESIGN PROTOTYPES INC. PROJECT MANAGEMENT (B): PLANNING THE ALPHA C306 PROJECT .....	65
Patricia A. Lapoint, McMurry University	
Carrol R. Haggard, Fort Hays State University	
FEDEX IN CHINA.....	73
Mijeong Ryu, Ewha Womans University	
Mihee Han, Ewha Womans University	
Seungho Choi, Ewha School of Business	
CASE OF THE ABANDONED PARTNER.....	77
Beverly McCormick, Morehead State University	
Janet M. Ratliff, Morehead State University	

## LETTER FROM THE EDITORS

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

The notes contained in this volume have been double blind refereed, and each was required as a companion to a complete teaching case, which are published in a separate issue. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. The Instructor's Note for each case in this volume will be published in a separate issue of the *JACS*.

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

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Shih Yung Chou, University of Texas of the Permian Basin

Herbert Sherman, Long Island University



# **ALICE CHEUNG: THE CASE OF THE CHEATING STUDENT - INSTRUCTOR NOTE**

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

## **INSTRUCTOR NOTE**

### **CASE DESCRIPTION**

*The primary subject matter of this case concerns the individual processes that influence ethical decision making and behavior in organizations. This case examines and analyzes the impact of personal values, motivation, attitudes and decision making on ethical behavior in an academic setting.*

*This case can be used to discuss several of secondary issues such as the role of tenure at universities, cultural differences and organizational culture and group norms. In addition, the case highlights the various types of pressures faced by both students and professors at a University. The case has a difficulty level of three or four and is best utilized with juniors and seniors in Organizational Behavior (OB) and Human Resource Management (HRM), Ethics, and Education classes. It can also be used with first year MBA, MA, or MS, students in OB, HR, Education, or Business Ethics classes. This case can be used at any point in the semester as an illustration of both individual and organizational processes that influence ethical behavior in organizations. It can be taught in two hours of class time and requires approximately two to five hours of outside preparation by students, depending on the assignment given by the professor.*

### **CASE SYNOPSIS**

*This is a practical case based on a real life scenario. In business situations managers are faced with ethical dilemmas every day. The same is true in the class room, where students must make choices about how to behave in order to accomplish their goals. To do this effectively, individuals must be aware of their own ethical frameworks and the personal values which form the foundation of ethical behavior.*

*This case discusses two possible incidents of cheating by Alice Cheung, a student in a Human Resource Management class at a fictitious University referred to as Eastern University. The case is told through the eyes of the professor, Dr. Kumar Sethi.*

*Although Dr. Sethi does not actually see Alice cheat, he suspects that she might have cheated on both of the exams given during the semester. The first suspected case of cheating occurred when another student informed the professor that she saw Alice using her cell phone*

during the first exam. The student said that the phone was in Alice's lap and Alice appeared to be texting and then recording the answers. Dr. Sethi after speaking to Alice about this decided not to do anything but to watch her more closely in the future. The second incident occurred during the mid-term where Dr. Sethi suspected Alice of smuggling unauthorized notes into the exam. After that incident, Dr. Sethi again asked to meet with Alice to discuss the matter.

The case raises a variety of issues including how our personal values affect our ethics, and what motivates individuals to act ethically or unethically. Further the case explores decision – making processes in the context of cultural influences, and the influence of group norms and organizational culture on the choices we make. This case, which may appear straight forward on its surface, can be used to provide an in-depth discussion of ethical behavior from the perspectives of both Alice Cheung, the student and Dr. Kumar Sethi, the professor who is coming up for tenure.

## BACKGROUND

The highly publicized unethical and sometimes criminal acts of business executives from companies like Enron, Pfizer, WorldCom, and Goldman Sachs have created a need to devote attention to ethical education at colleges and universities across the country. Everyone needs to understand that all of the choices we make on a daily basis have ethical implications. Some ethical choices are very clear while others are not so straight forward. This case focuses on a dilemma faced by many professors as they try to highlight the importance of ethical behavior for students in the education process. The case also identifies the competing pressures on professors from their personal ethics and values as well as from the organizational factors and cultural norms that guide decisions and actions.

Students can strongly identify with the persons and dilemmas presented in this case. Academic cheating has become widespread among high school and college students (McCabe & Trevino, 1999; Park, 2003; Pullen, Ortoff, Casey, & Payne, 2000; Williams & Hosek, 2003). In fact, most college students claim that they cheat (Taylor, 2007). The importance for students to examine classroom cheating behavior and its consequences in depth is critical as these are the same students who will be the leaders in business and education tomorrow making decisions that will impact a number of stakeholders. Therefore, the students in the class need, as a start, to analyze the behavior of each main character and decide if an ethical breach has occurred.

In the case of Alice Cheung students will decide if she cheated on one or both exams. In Professor Sethi's case, students will decide what are the appropriate actions in this case of suspected cheating and whether he was influenced by his conversation with the Department Chair and a colleague on how to handle such incidents. In order to make these decisions students need to understand the personal and organizational factors that underlie the behavior of each character. The case discussion can focus on how the actions of each character are related to his or her own ethical framework in the context of pressures faced by them.

Prior to being assigned this case, students should have had some exposure to different ethical frameworks and possess the ability to incorporate the values and principles that distinguish right from wrong in making decisions and choosing behaviors. The students should also be informed about the political nature of organizations and specifically how the tenure process works at colleges and universities.

The following background provides the necessary foundation to analyze the ethical behavior of the characters in this case.

Ethics refers to “the rules or principles that define right and wrong conduct” (Davis & Frederick, 1984, p. 76). Individuals develop rules of ethics from their personal value systems and apply these rules when faced with making an ethical decision (Carlson, Kaemar, & Wadsworth, 2002). Therefore, ethics is a decision making process where one’s personal values of what is right and wrong are used to assess a particular issue or situation and behave accordingly.

Rest (1986) proposed a four component model of ethical decision making and behavior that can be used to analyze the behavior of characters in this case. According to this model, an individual must (1) recognize the moral issue, (2) make a moral judgment, (3) resolve to place moral concerns ahead of other concerns (establish moral intent), and (4) act on the moral concerns. These stages can be thought of as a decision schema where each stage is expected to occur sequentially. As such, the recognition of a moral issue prompts the individual to make a moral judgment about what is considered right or wrong. This moral judgment requires the person to decide whether or not to engage in ethical behavior (establish moral intent) and finally act accordingly. The sequential nature of this model implies that a lack of success in one component of the model will not trigger the components that follow. For example if a person does not recognize the moral and ethical implications of a given situation (stage 1), the rest of the model will not be activated and the individual will not make decisions or act according to moral considerations. Then, the resolution of the issue is based on other factors such as personal considerations or economic issues (Jones, 1991). The sections below explain Rest’s model in greater detail.

**Moral awareness.** Moral awareness occurs when a party recognizes that a moral issue exists in a particular situation. Since perceptions of ethical situations vary according to the individual’s personal value system, what one person sees and an ethical dilemma may not be the same as what another person sees as an ethical dilemma. If individuals don’t perceive that moral issues are relevant in the situation in question, the ethical issues of the situation will never be considered or debated.

**Moral judgment.** This component reflects the process people use to determine whether or not a particular action is considered ethical or unethical. Models of ethical decision making (Jones, 1991; Rest, 1986) suggest that moral judgment processes are more likely to be present if moral awareness is present. For example, if students feel that cheating is acceptable in certain situations, they may not see the ethical implications and may be unlikely to make moral judgments about cheating.

**Moral intent.** Assuming that the individual is aware that a moral issue exists and makes a moral judgment to choose the right course of action, he/she must want to act ethically. Moral intent is the individual's commitment to the moral course of action.

**Ethical behavior.** The model suggests that when all of the earlier components are taken together, the individual is morally aware, makes moral judgments about the situation or issue in question, and when they possess moral intent; their actions are likely to be ethical. However, if one of these factors is out of line with ethical behavior, the resulting behavior may be seen as unethical.

In using the above model to examine Alice Cheung's ethical behavior we can determine clear areas where components of the model do not occur in sequential fashion. As a result, she is open to behaving in an unethical manner. The case itself provides the background to conduct this analysis through inferences as well as explicit and implicit statements.

Similarly, Dr. Sethi is facing certain pressures in his career. To what extent this may have influenced his judgment regarding how to handle the cheating incident is a matter of speculation. However, some inferences may be made regarding the influence of his peers on him from his conversations with his Department Chair as well as his colleagues.

### **APPLICATION OF REST'S FOUR COMPONENT MODEL TO ALICE CHEUNG**

**Stage 1: Moral awareness.** Here, we can ask whether Alice recognizes that she is facing a moral issue. An analysis of the facts presents opposing viewpoints which students will need to take into consideration when making a judgment as to whether or not Alice cheated on one or both exams.

When Dr. Sethi confronted Alice about the possibility of her cheating on the second exam, she vehemently denied cheating stating that the way she used the notes during the exam was how she was taught to do things in the boarding school she attended in Hong Kong. From this statement we can infer that, at least, part of her education took place outside of the United States. As a result, her culture may have different values and ways of doing things. However, we can also infer that part of her education has occurred in the United States where there are strict rules against cheating. In the U.S. system of higher education, examples of cheating and dishonesty are well publicized, both on individual campuses and in the academic literature (McCabe, Trevino, & Butterfield, 2001; McCabe, 2005; Kleiner & Lord, 1999).

Further, Dr. Sethi's classroom management style illustrates that he has strict rules against cheating and informs the students of his feelings about cheating at the beginning of each semester. For example, he inserts a warning against cheating in his syllabus which is read in class on the first day. Also, he has students sign an honor code that clearly spells out what is or is not ethical behavior in the classroom. Finally, he continually explains the consequences of cheating throughout the semester.

Given the opposing viewpoints presented above, students will decide if Alice was aware that a moral issue existed.

**Stage 2: Make a moral judgment.** If the students in the class determine that Alice is aware that a moral issue exists in cheating decisions, then she will make a judgment about the rightness or wrongness of cheating behavior. In examining Alice's background, several factors can help students decide what kind of moral judgment Alice is likely to make in this situation.

The case does not describe Alice's ethical framework or personal value, therefore, it is necessary to make inferences based on the information contained in the case. Alice is described as a hardworking, ambitious student. She feels overworked and stressed because she is involved in many activities beyond her heavy course load of 16 credit hours. Alice works, participates in athletic activities, and spends most of her free time studying to maintain her 3.8 GPA. Additionally, she feels pressured by her family to perform well in college. Given all of these pressures, Alice may view cheating as appropriate given the circumstances. According to Norris and Doddler (1975), the rules which govern cheating in college may not be considered rigid but depend on the circumstances involved (p.545).

**Stage 3: Moral intent.** Moral intent is the individual's commitment to the moral course of action, wanting to behave ethically. This may be the case with Alice, intending to succeed through the legitimate means of taking notes and studying, but not wanting to risk failure, felt that there was no alternative but to cheat. She may know that cheating on exams is wrong, but decides to cheat anyway in order to accomplish her personal goals and objectives.

**Stage 4: Ethical behavior.** Based on the analysis presented above, we can state that Alice should have the moral awareness to recognize that cheating is a moral issue. While she stated that things were done differently in her home country, she has been educated in the United States as well. Her professor warned students of what constitutes cheating behavior and warned students of the consequences. The case does not give the reader any information about Alice's value system, but she is described as hardworking and ambitious. We can also infer that she is personable and has pleasant personality characteristics because she often interacts with Professor Sethi outside of the classroom. Therefore, if students decide that Alice cheated on one or both of the exams the cause of the behavior can be attributed to her need to satisfy personal goals and not on moral considerations.

### **APPLICATION OF REST'S FOUR COMPONENT MODEL TO PROFESSOR KUMAR SETHI**

**Stage 1: Moral awareness.** Dr. Sethi's rules against cheating clearly indicate that he views cheating as a moral issue. Therefore the background information presented in the case shows that he has moral awareness regarding this issue. He further demonstrated his moral awareness by reading the syllabus aloud on the first day of classes, requiring the students to sign an honor code and taking time throughout the semester to reinforce the consequences of cheating.

**Stage 2: Make a moral judgment.** The case presents evidence that Dr. Sethi has made a moral judgment about cheating. He emphasizes the importance of honest and ethical behavior in the class room to the students as part of their education and character development. Dr. Sethi also goes to great lengths to explain that cheating can result in loss of reputation, a zero on an assignment; and at its worst expulsion from college. In addition, when he suspects Alice Cheung of cheating, he calls her into his office to discuss the matter with her. Dr. Sethi's statements and actions show that he regards cheating as highly detrimental to the academic life as well student's character development.

**Stage 3: Moral intent.** Moral intent is the individual's commitment to choosing the moral course of action. In this case, Dr. Sethi feels positive that Alice Cheung cheated on at least one of the exams and possibly on both tests. He realizes that he must take some action in this situation, but the question is what action should be taken in this case. His dilemma is that in the first case of suspected cheating he did not actually witness the questionable behavior. Rather, the charge of cheating came from a third party and he did not want to make an unwarranted charge if Alice did not cheat.

In the second case of suspected cheating, Dr. Sethi is almost certain that Alice smuggled answers to exam questions into the classroom and used them during the test. He spoke with his Department Chair about the issue but found her comments in the context of his career and tenure to create more pressure on him. Talking further with his former colleague Dr. Juan Gonzalez is likely to have made him more cautious on how to proceed. In addition when he confronted Alice Cheung with his concern, he found her denial of cheating to be so strong that it created a dilemma for him in terms of actions to be taken against her.

**Stage 4: Ethical behavior.** Here, the issue is not whether Dr. Sethi's actions are ethical or not. However he decides to proceed in this case would result in ethical behavior. But will and should Dr. Sethi's actions be influenced by the comments made by the Department Chair and his colleague Dr. Juan Gonzalez? What if the ethical framework of the professor is not in line with that of the Department Chair? Who can judge the ultimate right or wrong?

It can be argued that in the first suspected case of cheating Dr. Sethi was correct in not accusing Alice of cheating based on the claim of a third party. After speaking with Alice about her Grandmother's illness as the reason for her having the smart phone on during the exam, Dr. Sethi gave Alice the benefit of the doubt. Should he have been firmer in his approach? Can kindness in such situations encourage ethical misconduct later on? What course of action was proper after the first incident depends on the individual's value system.

In the second case of suspected cheating, Dr. Sethi felt he had more conclusive evidence that Alice had, in fact, cheated by smuggling unauthorized notes into the exam. It can be argued here that Dr. Sethi should take strong and decisive action even in the face of Alice's vehement denial. While Dr. Sethi did confront Alice with his suspicions, he appears unsure of himself and is facing a dilemma regarding what course of action to take.

Now the question becomes what should Dr. Sethi do? Is he simply afraid of making a false allegation even if the chances of that are very small? How strong should the evidence have to be for Dr. Sethi to make a formal allegation of cheating?

### **OTHER POSSIBLE CONCEPTUAL APPLICATIONS IN THIS CASE**

*The influence of cultural values.* Cultural values are defined as shared beliefs about desirable end states or modes of conduct in a given culture (Colquitt, LePine, & Wesson, 2011, pg. 295). Both Alice Cheung and Professor Sethi were born in different Asian countries (India and China respectively) but shared some similarities. They were both immigrants. Both Indian and Chinese cultures emphasize respect for education. It can be asked whether cultural values should be considered here. Is Dr. Sethi more likely to commit the “Similar to me error” in making his judgment about Alice.

The case states that Dr. Sethi moved to the United States from India as a teenager. After many years in the United States it can be inferred that U.S. cultural values are stronger than Indian values in his case. Alice is of Chinese descent; however the case does not specify when she moved to the U.S. Nevertheless, it is expected that one operates according to the norms and values of their host country. Values in U.S. colleges and universities strongly prohibit cheating behavior of any kind. To that end, there is a reasonable expectation that Alice would know that any kind of unauthorized assistance on an exam or assignment would be considered unacceptable and subject to disciplinary action.

*The influence of organizational values.* Organizations must develop a culture that does not tolerate cheating. Researchers predict that students who cheat are likely to repeat the cheating behavior with increasing frequency (Nonis and Swift, 2001). Therefore, faculty and administrators must do more than just disapprove of cheating. Students must know that they will be punished for violating university academic integrity policies (Iyer and Eastman, 2006). Hutton (2006) offers the following elements for creating a college culture that stresses academic integrity that may be initiated by college administration:

- Freshman orientations and first-year experience programs should involve a discussion of academic policies, enforcement and penalties; sharing ethical goals; and team-building and role-playing activities that reinforce ethical goals.
- Administration should regularly communicate with faculty academic misconduct policies and practice how the administration supports faculty.
- Administration should communicate to faculty the importance of punishment and students’ expectations and acceptance of punishment.
- Administration should communicate to faculty information on the incidence of cheating.
- Administration should communicate to faculty information about the creative ways in which students cheat.

- Recommend that faculty provide behavioral leadership by clearly articulating under what circumstances an activity is considered wrong, the punishment associated with wrongdoing, that reporting observed wrongdoing is a student's responsibility, and what students should do in response to observing wrongdoing.
- Recommend that faculty become aware that teaching and assessment pedagogy may influence the incidence of cheating.
- Suggest that faculty develop a more participative leadership style with students.
- Recommend opportunities to create strong relationships with students that are not limited to the classroom and teaching pedagogy.

*The influence of group norms.* The case makes no specific reference to any group influences in this situation. However, we can infer from Dr. Sethi's conversation with the Department Chair and also Dr. Gonazalez that a culture in Academe exists that is highly conflicted regarding cheating. If Dr. Sethi indeed were to make allegations of cheating against Alice, he could face adverse consequences for his career. So the lip service regarding upholding honesty may not be in line with actual support shown to professors when they make such allegations. This could explain why academic cheating has become a widespread problem among students at both high school and college levels.

The literature on student cheating states that cheating used to be done by weaker students who could not get good grades on their own. In times past, there was a fear of reprisal and shame if caught cheating. This has changed. Today, cheating appears to be a normal part of academic life and there is no stigma left in getting caught cheating. Further, cheating is no longer limited to weaker, low achievers. Cheating is more likely to be done by the good students who have the ability to achieve at high levels without cheating. As a result, most students admit to having cheated at some point in their academic careers (Taylor, 2007; Parker, 2003; Williams & Hosek, 2003; LaBeff, Clark, Hains & Diekhoff, 1990).

There is a large empirical and theoretical literature that indicates that expectations and beliefs about peer's behavior influence individual behavior choices. Social norms theory states that people tend to maintain behavior consistent with peer behavior (Hard, Conway & Moran, 2006). Therefore, if students see others cheating without negative consequence, they are likely to engage in similar behavior. Similarly, if new professors see more senior professors ignore cheating behavior, the message from their peers is loud and clear.

### **WORKPLACE IMPLICATIONS OF ACADEMIC DISHONESTY**

What are the implications of academic dishonesty and unethical behavior in the workplace? If a student cheats in college, does this cheating behavior affect workplace performance? The research literature on student cheating does show some clear implications of cheating behavior that should be considered.

First, faculty members end up evaluating students on the basis that falsely-completed work is a valid assessment of the students' knowledge and capabilities. Thus, the student's transcript may not accurately demonstrate the student's college achievements. Yet, college grade point averages are often considered in hiring decisions.

Second, the student who cheats in college misses a clear opportunity to master the material. As a result, they may enter the workforce less qualified than their non-cheating counterparts. This may disadvantage the student who cheats in terms of their job performance.

Third, students who cheat may develop the attitude that cheating is easy, everyone does it and therefore, they may become desensitized to the cultural norm of integrity in learning. This could well extend into professional practice – resulting in significant consequences for the individual, employer, customers and the broader society (Harding, Carpenter, Finelli & Passow, 2004).

As the above points illustrate, there are implications for college cheating and workplace behavior.

## CONCLUSION

At this point students are asked to decide if Alice Cheung did cheat, what motivated her actions and what would be the appropriate action by Dr. Sethi to take in this situation. Also after deciding on the appropriate course of action for Dr. Sethi, students are asked to analyze what may have motivated his decision. A version of this case was tested on 45 incoming accounting freshmen participating in a summer management ethics workshop. Based on the feedback, some issues and topics were clarified more and the case was revised.

Most students felt that Alice probably did cheat on both exams. While Dr. Sethi did not actually witness the cheating behavior, there was evidence to indicate that cheating did occur. In the first situation, a student reported to Dr. Sethi that she saw Alice using a cell phone during the exam. Whether or not Alice was texting or retrieving stored information or simply receiving texts on her grandmother's condition is a matter for debate. However, the use of any unauthorized technology is not allowed during exams and Alice knowingly ignored that.

Most students also felt that Dr. Sethi should handle the second situation by taking decisive action against Alice with regard to his suspicions of cheating. Students in the management ethics workshop asked what good are policies against cheating and honor codes if they are not enforced.

Students felt that Alice knew exactly what she was doing and stress, intense schedules, and cultural difference were not acceptable explanations for her behavior. Although she was not seen as an unethical person in general, Alice's actions in this situation were motivated by personal factors such as an intense desire to do well or lack of studying and adequate preparation.

Dr. Sethi was viewed by students as a person with a high ethical framework. Students viewed him as an individual who does not favor students and tries to treat everyone according to the rules. Students felt that Dr. Sethi's desire to treat students kindly could prevent him from taking the appropriate action in this case. Students felt that, at the very least, Alice should be required to take a makeup midterm exam with some sort of academic penalty. They felt that a more appropriate penalty would be either a zero on the midterm exam or having to appear before a college disciplinary committee. Students felt that Dr. Sethi did not give Alice preferential treatment because they shared a similar culture and would face the same dilemma with any of his students.

Dr. Sethi warned students against cheating in his syllabus, reinforced the written warning with a verbal warning on the first day of class, and had students sign an honor code. Yet, when confronted with a case of suspected cheating, he was conflicted about how to handle it. Students questioned why have policies against cheating if they are not going to be decisively enforced. As part of the class discussion, a number of questions and issues can be addressed which include the following.

### **DISCUSSION QUESTIONS**

#### **1. Discuss the role of values and ethics in this situation.**

Ethics and values play a major role in this situation. Ethics is defined as the rules or principles that define right or wrong conduct. Individuals develop their ethics from their personal value systems. Therefore, ethics is a decision making process where one's personal values of what is right or wrong are used to assess a particular issue or situation and behave accordingly. In this case both characters faced an ethical dilemma. Alice Cheung had to decide whether or not to cheat on exams given in her Human Resource Management class, and her professor, Dr. Kumar Sethi had to decide how to deal with his suspicions that she cheated on the exams.

#### **2. Do you feel that Alice cheated on either of the exams? Why or why not?**

Student answers will vary. Some students will feel that there is a possibility that she did not cheat on the first exam because the student making the accusation did not know for sure what she was doing with the cell phone. However, using any kind of unauthorized technology is prohibited during tests and Alice was wrong for even having the phone in her lap during the exam.

In the second case of suspected cheating the evidence was a lot stronger and students may feel that she did cheat. Alice turned in a blue book which did not appear to come from the same lot of blue books that was used during the exam. Further, Alice's outline book contained answers to questions that were not asked on the exam. The blue book that

contained the outline contained answers to all of the study questions that were distributed before the test

**3. What do you feel is the correct action that Dr. Sethi should take in each of the cases of suspected cheating? How severe should the penalty be?**

Student answers will vary. In the first case of suspected cheating, some students were willing to give Alice the benefit of the doubt and felt that Dr. Sethi acted correctly by not accusing her of cheating when he did not actually witness the suspicious behavior. Students may feel that just discussing the accusation of cheating with her serves as a sufficient deterrent against any cheating behavior in the future.

In the second case of suspected cheating students may feel that the evidence that Alice cheated was overwhelming and there should be some consequence for her action. Students felt that because Dr. Sethi was conflicted about how to proceed, he was too forgiving and willing to accept an excuse when the evidence was clear. They felt that a lack of action would diminish the effectiveness of the rules against cheating, warnings, and honor codes. Students may feel that the tenure pressures on Dr. Sethi and his conversations with the Department Chair and his colleagues could influence him in making his decision about formally accusing Alice Cheung of cheating. However, regardless of Dr. Sethi's own individual pressures regarding his tenure situation, he should impose some form of disciplinary action against Alice for cheating on the second exam.

**4. Is culture a factor in this case? Do you feel that Sr. Sethi may treat Alice differently because they share a similar culture?**

Student answers may vary and class discussion might provide insight into cross-cultural issues in higher education. According to the information contained in the case, it appeared that Dr. Sethi treated all students with similar levels of attention. He was known across campus as a kind, caring person who took a personal interest in his students. Dr. Sethi was also respected and highly regarded among his colleagues as well. The case provided no suggestion that he would treat anyone differently based on cultural factors.

**5. What are the implications of this case from an academic perspective?**

This case contains references to issues which are very central to Institutions of higher education. The problem of academic dishonesty has implications for the classroom and also for the validity of research that is published in various fields.

According to the research literature on student dishonesty, cheating is increasing at an alarming rate. This issue is critical for colleges and universities because it seems to mirror the growing concerns of ethical problems in the business community.

Therefore, faculty and administrators have a responsibility to challenge students who engage in cheating and to create a learning environment that will try to prevent misconduct. Unfortunately, as illustrated in the case, the university policies on zero tolerance for cheating may not be consistent with the actual decision of the administrators when it comes to supporting professors who make allegations of student cheating. Addressing the culture of cheating seems like no easy task.

#### **6. What are the implications of this case from a workplace perspective?**

The workplace implications of this case are numerous. First, prospective employers often base hiring decisions on the applicant's college grade point average. If the student cheated on assignments and exams, the transcript is not an accurate demonstration of the student's college achievements. Therefore, employers may base hiring decisions on faulty or incorrect information.

Second, the student who cheats may lack a mastery of the material. As a result, they may enter the workforce less qualified than their non-cheating counterparts. This may disadvantage the student in terms of their job performance.

Finally, the student who gets away with cheating in college may falsely conclude that cheating is easy, everyone cheats, and may become desensitized to the cultural norm of acting with honesty and integrity. For such a person, acting unethically and without integrity to achieve personal objectives may seem perfectly appropriate in the workplace.

### **EPILOGUE**

#### **What actually happened?**

Professor Sethi reflected on the fact that Alice Cheung was overall an excellent student with a high GPA. If Alice did cheat on the second midterm, as he strongly suspected she did, why did she only get a C? He could not understand that.

When Professor Sethi had confronted Alice earlier with his suspicions and the evidence he'd gathered from the last exam, she had appeared shocked and remained on the verge of tears throughout the conversation. Alice had emphatically denied the implied allegations and offered some of her own explanations that made Professor Sethi begin to doubt his original conclusions about her guilt.

Although the evidence from the second midterm seemed to clearly suggest that Alice had cheated, Professor Sethi was hesitant to make a formal allegation, even if there was only a small probability of it being wrong. Professor Sethi felt that a wrong allegation of cheating could cause

a lot of stress for Alice and may even ruin Alice's academic career and that he was not willing to take that risk.

Professor Sethi met Alice again and told her that she would be required to sit in the front row in a specified seat for the Final comprehensive exam which was worth 35% of the class grade. Although Professor Sethi did not formally accuse Alice of cheating, the message to Alice was clear. Alice readily agreed with the idea of sitting in the front row for the Final Exam and appeared relieved.

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## **FIRESTONE AND ROBERTSON: “MAKE MINE A DOUBLE!”**

**Marlene C. Kahla, Stephen F. Austin State University**  
**Robert M. Crocker, Stephen F. Austin State University**

### **INSTRUCTOR’S NOTES**

#### **CASE DESCRIPTION**

*The Spirits industry is one of the fastest expanding industries in the United States, and Leonard Firestone and Troy Robertson wanted to become a successful part of that industry. There are only 250 micro-distillers in the United States ([www.360westmagazine.com](http://www.360westmagazine.com)) Both from Fort Worth, Texas, Firestone and Robertson had been friends for a few years, but never knew the other had the same dream about getting into the business of distillation.*

*Each followed his dream to an artisan craft distillery in Kentucky to learn how to establish a business model within the industry and to learn how to distill some of the best bourbon ever tasted. As one of the distillery directors was talking with Robertson, he noted that another fellow from Fort Worth was scheduled to go through the distillery the next week, and he also mentioned that he knew Robertson.*

*The case unfolds to a crescendo of demand for a blended whiskey that is not yet on the liquor store shelves. The lists of names of people waiting to get a call letting them know that the whiskey has arrived are long. All of “cow town” is ready to wet their whistles with a flavor that is purely great-tasting and founded in Texas.*

*So many people want the product that before all the bottles can be bought to be filled, the creators of the brew fear that they will never be able to keep up with production. When they consider that they have at least one other product aging in the oak barrels, they are overwhelmed by constant demand for their products.*

*Students will have a natural interest in the case because there is just something intriguing about how the best whiskey and bourbon is made. Couple this curiosity with the elements that build equity for the brand before it even hits the shelves, and you have an exciting dilemma of everyone loving the product, and not enough product to meet demand.*

*This could be a good problem to have, yet the students will be challenged to determine lead time for production, especially with the pure bourbon, and marketing dollars to support the rapid growth of the new product.*

*If ever there was a star in the Boston Consulting Group matrix, it is TX blended whiskey. And, it comes with all the benefits and draw-backs of a true BCG star. There is enough material here for discussion of the entire matrix.*

## CASE SYNOPSIS

*“Make mine a double!” really describes the character of the case. Since Firestone & Robertson Distilling Company started business in 2010 as the only artisanal bourbon whiskey distillery in North Texas, the waiting lines for their products have doubled, the production capacity has doubled, and the advertising budget has doubled.*

*People in the North Texas area are drawn to the unique strand of yeast that is available only in the Firestone and Robertson whiskey. They hired an artisan who knew the original process for developing strains of yeast. As head distiller, he collected over 100 samples of yeast from fruits, nuts and soils native to North Texas. Eventually, he isolated a single strain found in a pecan tree nut grown near Glen Rose, Texas that was suitable for the fermentation of the bourbon and provided the specific flavor and aroma profiles Firestone and Robertson wanted.*

*As they prepare to roll out the first bottles of blended whiskey, they are faced with addressing demand as it increases at an increasing rate.*

*They want to keep people wanting the product and not turn away customers.*

*This situation doubles the problems they anticipated when starting their dream. The case that follows presents more of what makes their products unique, and challenges management and marketing student guru’s to map a path from Fort Worth to everywhere while holding true to budget.*

## PREPARATION

Require students to read the case prior to addressing the decision points in class. The case presents many opportunities to discuss the good and the challenging parts of having a product that is so good and so much in demand that all the initial budgets had to be doubled just to meet demand.

Divide the class into teams of four people each and have students prepare scripts for Robertson when he is actually in front of the “committee” asking them for funding for bottles.

Encourage students to learn more about the distilled spirits industry in America and the rest of the world.

Remind students that there are essentially two products in the case, the initial blended whiskey and the soon-to-be-released bourbon. The first product has a significant role in laying the foundation for brand equity.

## DECISION POINTS

### **1. Prioritize the problems and issues for the case.**

*Students will separate the dream from reality. Students can logically validate while the problems they choose are the most expedient to be addressed.*

**2. Everything may appear so “rosy,” but is there a fatal flaw looming in the distance?**

*Everything is happening just like Firestone and Robertson have predicted. The students can review other companies that expanded too quickly, i.e., Crocs, and can compare the rapid growth of Crocs and the rapid growth of TX Blended Whiskey.*

**3. Will the entrepreneurs lose their dream in the whirlwind of high demand and fast, not thought out decision making?**

*The students can follow the thought here by contemplating poorly planned growth. With the BCG matrix and the blended whiskey star, students can attempt to predict the size of the circle and where it will follow.*



# **TXTBOOKRENTAL:NETFLIX OR BLOCKBUSTER?**

**Joseph Trendowski, University of Evansville**  
**Peter Sherman, University of Evansville**

## **CASE DESCRIPTION**

*This case is designed for undergraduate students in management, marketing and entrepreneurship. The primary actor in the case is Alex Beaver who is in an industry that is facing rapid technological change. Students should be able to have a better understanding of the challenges associated with the credit crises, start up cash flow management, product obsolescence, environmental analysis and creative destruction.*

## **CASE SYNOPSIS**

*Alex Beaver arrived on campus with aspirations to become an engineer however his entrepreneurial passions quickly led him down a new path. His first year at the university, he began carrying a notepad full of business ideas that he still carries today. His entrepreneurial passion combined with his frustration of high textbook prices caused him to develop a business model similar to Netflix where students could rent a textbook for a fraction of the bookstore price. With a \$17,000 cash advance and \$15,000 in credit, Alex launched TXTBookRental in 2008. Early on, his business faced significant cash flow problems, because the textbook industry is highly cyclical with peak periods coinciding with the fall and spring semesters.*

*The rapid expansion of TXTBookRental convinced Alex to expand to Bloomington, Indiana. Alex hired his staff and began operations from a distance. However, the staff didn't share his work ethic or accountability and the business was a failure. Reluctantly Alex closed the Bloomington location and focused on the Evansville location. As the textbook industry is evolving Alex faces a strategic inflection point with the industry and his business. Historically, the textbook industry was slow to change and dominated by a few larger competitors. However in recent years, technology is changing the business environment. With sales of Kindle Fire and iPad growing exponentially, the opportunity for eBooks is evident, although the market share for e-textbooks remains low. As the textbook industry faces an uncertain future, Alex must decide whether to stay and compete, change the business model, or get out altogether*

## RECOMMENDATIONS FOR TEACHING APPROACH

### OBJECTIVES OF THE CASE

In analyzing this case students should have a better understanding of environmental analysis, specifically how economic and technology factors play a role in the attractiveness of an industry. Additionally, students should understand the cash flow challenges that arise from a cyclical business and apply that knowledge to other corporations. At the decision point in the case, the protagonist Alex Beaver is considering his options which include staying in business, changing the business model or selling the company. Each option carries with it both opportunities and challenges. The primary challenge of selling the business is the valuation of the business in an uncertain industry. Students should be able to understand the difficulty of economic valuation for a business with uncertain future cash flows.

### STUDENT PREPARATION

Students should allow about an hour and a half to prepare for the case and the case should take approximate an hour to discuss. The instructor may wish to distribute the discussion questions prior to class to encourage more interaction.

### RECOMMENDATION FOR TEACHING APPROACH

For initial discussion, the instructor may want to ask if any of the students have rented a textbook before. If so, why did they choose to do so? Many of the students will have strong opinions about the requirement of college textbooks and the costs surrounding them. Alex Beaver had a passionate dislike for the college bookstore, which ultimately drove him to start his business. The conversation with students may head toward the high cost of tuition, or other course packets that costs substantially less than a textbook. In contrast, other students may defend textbooks as they are a source of specific knowledge that ultimately summarizes the course material. Regardless of the personal point of view of the student, there should be substantial discussion on the importance of textbooks.

As a follow-up question, the instructor may want to ask the students where they see the industry moving in the next 5to10 years. As the case points out, readership of eBooks is on the rise. However, eTextbooks haven't risen as significantly. You may ask the students why this trend exists – more eBook adoption than eTextbok adoption?

### DISCUSSION QUESTIONS

- 1. How did the external environment differ in 2008 and how did that affect TXT Book Rental's initial stages?**

*Alex began his business venture before the credit crunch. Back then, students and entrepreneurs alike found it relatively easy to have access to credit. He was able to get \$32,000*

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to be able to begin his business. As a fresh college graduate, he was able to obtain \$17,000 in credit and an additional \$15,000 in loans. In today's economy it is more difficult to obtain this initial \$32,000. He was loaned an additional \$7,000 from friends and family in the first year, a sum that not all entrepreneurs would be able to come up with.

A second critical difference is that, at the time the business was started, many of the electronic devices that are common today did not exist. The Kindle Fire and iPad were still several years from being on the market and might have played a significant role in the decision to enter the market. There are also sociocultural differences. At the time of the company's founding, the share of people who used digital books was comparatively low. It was not until the release of tablet computing that the usage rate of digital books began to grow at its current pace.

## **2. What contributing factors enabled Alex Beaver to spot this opportunity?**

As a student himself, Alex was able to see this opportunity. Each semester, he grew increasingly frustrated with the bookstore's policies. Often new opportunities are spotted by entrepreneurs who are outsiders to the industry because they may pose a novel perspective that insiders fail to see. See Schumpeter's (1942) work on creative destruction. This industry is dominated by a few large key players. Technological improvements and cost-cutting measures provide an opportunity for small competitors such as TXT Book Rental to compete successfully.

At the time he was researching his idea, he began to ask why the major players in the market were not entering into the rental market. The answer he kept coming back to was that they did not have to. The major players, college campus bookstores, had a protected monopoly and little incentive for change. Although there was some competition online, these companies relied on the convenience they offered to keep students coming back. Alex recognized that if he could offer convenience that was similar to that of the bookstore, students would go out of their way to save money. That was how the clicks and mortar idea, with retail space near campus, came into fruition.

## **3. Using Porter's five forces model, explain which force has the most significant impact on TXT Book Rental's industry and why.**

The major threat looming for Alex is the threat of substitution; however, the timeline on that threat is relatively unknown. If digital textbooks were to immediately become a major force in the industry, TXT Book Rentals would struggle for survival. However, as other rivals anticipate and respond to this threat, it's possible that larger competitors will exit the industry, leaving markets available for midsize companies such as TXT Book Rental. Regarding the threat of new entrants, there are some significant barriers to entry that would inhibit companies from entering the market. The biggest deterrent is that this is considered a dying industry by many; therefore, the chance of new major competition is minimal. The industry does have frequent new entrants in the form of small book buyers who do not have retail and/or inventory space; however, they do not represent a major threat for Alex at this time. Another barrier to entry is that there are some significant capital constraints in the form of software and real estate that would prevent smaller companies from moving into the Alex's market. While the threat of new

entrants and the threat substitutes play a major role, the bargaining power of the buyers and suppliers plays a less significant role in shaping the industry for the following reasons.

Since TXT Book Rental works exclusively with secondary markets, suppliers are usually individuals who have little influence in the industry. Once on the secondary market, textbooks become a commodity and are bought and sold primarily on the basis of price, where Alex often has an advantage. For the buyers (who are mostly individuals), there are few switching costs, but since Alex strives to be the low cost provider through his rentals, he has developed a loyal following. Therefore, the buyers in the industry do not exert a great deal of power. The rivalry amongst the firms is strongest for online purchases and sales. The larger companies, including TXT Book Rental have deployed software programs that list inventory at what they believe will be the optimal selling price for each textbook. With these systems, the pricing is competitive, but it's rare that a major competitor would try to significantly undercut on the basis of price. At the bricks and mortar level, the competition is not great given that TXT Book Rental is the recognized low cost leader in the area.

To summarize, the pressures on this industry are weak, with the exception of the threat from digital textbooks and digital textbook rentals sometime in the future.

**4. Alex's business has been growing at an exponential rate since its inception. Given the looming changes in the business, would he be able to continue with some of this growth? How?**

There is every possibility that Alex would be able to continue to grow at a fast rate for a number of years. He could simply continue with the same approach that has made him successful and tighten up his operational systems. He has made significant investments into software that will allow him to buy and sell textbooks more efficiently. In addition to the above mentioned factors, there is a strong possibility that some of the larger competitor such as Chegg would exit the market. As mentioned in the case, some of these competitors that have greater resources have begun to sell digital textbooks. Even with predictions of rapid implementation of digital textbooks, the most aggressive e-adoption forecasts still indicate many years of hardcopy textbook sales and resale on the secondary market. The question for Alex is to determine the ultimate endgame strategy because he does not want to be largest company in the world holding obsolete inventory.

**5. What are some of the risks that TXTBOOK Rental faces going forward?**

Although TXT Book Rental is currently generating strong cash flows, there are several risks facing Alex at this time. The most obvious risk is obsolescence. Sometime in the future, hardcopy versions of texts book will represent only a small portion of the market share. Since no one can accurately predict when this will happen, Alex must assess the risk of continuing to build inventory of a product that will, at some point, be obsolete. A second significant risk for Alex is the cash flow management of TXT Book Rental. If Alex hopes to continue to grow at the

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company's current trajectory, he will likely have to continue to rely on lines of credit and loans to cover the cyclical of his business. If lenders were to examine his situation closely, they may determine that the industry is too risky to continue to loan. A third, but important, risk is the opportunity cost of remaining in business. Alex can see the writing on the wall and believes that he will have to exit the business eventually. Therefore, any time and/or resources he invests into TXT Book Rental are preventing him from being able to pursue other opportunities. One of Alex's biggest regrets is that he believes he entered the textbook market a few years too late. He does not want to repeat the mistake in another industry.

## 6. What should TXT Book Rental's strategy be going forward?

There are a number of options that could be categorized into selling or keeping the business with a new business model.

### *Selling Options*

If he were to sell, the primary question would be how much time he would want to invest in the process. The simplest would be to liquidate inventory and try to find a buyer for the software systems he has developed. The advantage of this process is that he could move on to another venture and not risk holding onto inventory. Another advantage is that Alex has the systems in place to be able to obtain good prices on the inventory. A second option for selling would be to find a buyer in the hopes that someone might assign a higher value to the business than he could get through liquidation. The risk is the amount of time and effort that would go into that process as well as finding a qualified buyer.

### *Remaining in Business*

Alex could simply continue with the business in hopes of gaining market share from exiting competitors. This is a viable strategy; however, it's impossible to tell how long this strategy would last. A second option would be to continue with business under the management of a partner while Alex pursues new ventures. His prior experience with partnership would create some hesitation for this route. A final and expensive option would be to capitalize on the knowledge and experience from TXT Book Rental so that he could begin to compete in the digital era. This would likely cost a new business strategy as well as some additional rounds of funding.

## EPILOGUE

After 5 years in business, Alex Beaver decided to sell his business. He states, "The main reason we're closing up shop is that we started with very high ambitions that don't seem worth pursuing at this point. For instance, growing to 10 stores requires a lot of capital and the state of the textbook market makes it riskier each semester." He spent the 2013 spring semester narrowing down a list of buyers and interviewing them. He found a buyer in April who put \$40,000 down with the expectation that Alex would run the business through the summer semester. Unfortunately by July, the buyer backed out of the deal leading Alex to liquidate the business.



# BATTER BLASTER

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## INSTRUCTOR'S NOTES

The case authors would like to thank Matthew Bahoric, MBA student, for his work on this case.

### CASE DESCRIPTION

*This case can be used to focus on several different types of analysis – innovation and new product development, marketing, small business management, and strategy. The case traces an innovation and the marketing and capital challenges of introducing innovative products from a start-up company. This case would be most appropriate for undergraduate courses in entrepreneurship, small business management, innovation, and marketing -- and graduate courses as a class discussion. The case is designed to be discussed in one to one and one-half hours and should take students no more than three hours of outside preparation.*

### CASE SYNOPSIS

*Sean O'Connor is an entrepreneur who begins his small business endeavors in the restaurant industry. The case traces how Sean changes his business to meet the changing economic environment, and then hits upon an innovative product in his kitchen at home with his family, ready to use organic pancake batter in a spray can. Sean proceeds to meet the challenges of raising money for his new venture, and convincing retail outlets to carry his innovative product. He is creative in his marketing efforts and outlets and learns what works and what doesn't. The product is a success its first year on the market. Now, 5 years later, Sean is really for growth and must decide what his next step will be in product development and innovation and marketing.*

### CASE QUESTIONS

1. Is Batter Blaster now poised to revisit wholesale clubs as a market for their product?
2. How should Batter Blaster expand their sales; new flavors, new products, or new marketing campaign?
3. To what age group of people would this product most likely appeal (i.e. Gen-Y, Gen-X, or baby boomers)?
4. What is Batter Blaster's biggest hurdle?

5. Explain the different product categories in the Boston Matrix and how it applies to this case. Why is this a useful tool for businesses?
6. Evaluate why market research can reduce the risks of a new product launch.
7. How does Batter Blaster differentiate itself from its competition?
8. Evaluate Batter Blasters gross profit margin, operating profit margin and net profit margin. What does each tell you about Batter Blaster?
9. What conclusions did you draw after studying the case?
10. Do investors really want innovation, or do they want tried and true?
11. Based on the financial data provided what is the company worth?

### ANSWERS TO CASE QUESTIONS

The information in this case is taken from many published resources (see bibliography). Consequently, students can easily research the case or follow-up on the actions of this company. We have tried to be “true” to the publicity of Batter Blaster and its’ CEO Sean O’Connor. Any mistakes or inaccuracies are completely our fault and we would appreciate any feedback. This case provides students with a rich background about entrepreneurship and new product development. About 90% of new consumer products fail. Every expert seems to have a different reason – poor market research, inadequate branding, inadequate promotion, or the most obvious, bad product design and development. This case illustrates a new product success – at least, so far. Additionally, it allows students to analyze a market category where there is some familiarity and interest – who does not love pancakes? The case sets up for all kinds of marketing and entrepreneurial discussions. The supplied questions are only to help students focus on some of the important issues. We have used the case in many classroom settings and the discussions never seem to go in the same direction.

1. Is Batter Blaster now poised to revisit wholesale clubs as a market for their product?  
Yes, now that there is consumer awareness and the product is successful, especially among families (who frequent such stores), it’s a good time to re-enter the wholesale clubs. However, they would need to do market research and a marketing campaign aimed at families to ensure success. One of the things to consider is the number of servings in a can (13), what is the shelf life of the can. Unlike many other food items that can be bought in bulk and stored in a pantry this product needs to be refrigerated, so they would need to determine usage and customer likelihood of wanting to buy the product in bulk.
2. How should Batter Blaster expand their sales; new flavors, new products, or new marketing campaign?  
Fruit flavors and cupcake batter (depending on the results of the current brownie and cupcake market tests) would be good expansions – not too risky

but definitely unique/new. They are already using a wide variety of marketing techniques which seem to be working well. However, if they choose to enter the wholesale clubs they would need a marketing campaign aimed at families with young children, that highlights fun for the children and hassle free and healthy for the parents.

3. To what age group of people would this product most likely appeal (i.e. Gen-Y, Gen-X, or baby boomers)?

There is nothing in the literature that provides a profile of Batter Blaster's customer profile. It appears that they currently have a broad appeal. However, the product probably has the greatest appeal to families with young children, which would be Generation X (36-46 years old). However, Generation Y (18-35 years old) is a much larger group who like convenience and are starting to have children.

4. What is Batter Blaster's biggest hurdle?

Convincing consumers that something healthy can come from a can.

5. Explain the different product categories in the Boston Matrix and how it applies to this case. Why is this a useful tool for businesses?

Cash cow products (successful products) provide excess cash to fund new products (question marks), which hopefully can be grown to become Stars and eventually Cash cows (original pancake batter in a can) themselves. Unsuccessful products (Dogs) should be discontinued. A company needs cash cows for positive cash flow, having only questions marks and stars would be a cash drain because these products need investment to grow them.

6. Evaluate why market research can reduce the risks of a new product launch.

Market research is essential to know what products consumers want and what they are willing to pay for them. Without it a company is flying blind. Still it is difficult for consumers to evaluate a really new product. For example, before the PC was invented marketing research found that consumers had no need for a personal computer. Marketing research found that consumers would not watch cable TV news. Apple did no marketing research on the iPod because marketing research could not make consumers understand what was really different from an MP3 player. Thus, when products are radically different than existing offerings research might not adequately measure demand.

7. How does Batter Blaster differentiate itself from its competition?

First, the product has a unique package – a spray can. Batter Blaster is the only pancake product that is delivered via a spray can. Additionally, this product formula is patented. This product package has several advantages –

it gets rid of the kitchen mess, it requires no measuring, it is fast, it is easy, and the taste is great. It is can easily be stored and re-used. And it is organic. Batter Blaster is also promoted via non-traditional channels that create a cult following.

8. Evaluate Batter Blasters gross profit margin, operating profit margin and net profit margin. What does each tell you about Batter Blaster?

Gross profit margins have remained at 75% for the past four years. This is a very high gross profit margin and indicates that Batter Blaster has a control over its production process. Additionally, sales have increased by at least 30% for the past three years. Operating income has been great and not so great. Between 2008 and 2009 operating profits increased by 30%. Between 2009 and 2010 operating profits only increased by 7.6%. Finally, between 2010 and 2011 operating profits increased by 69%. This clearly indicates that Batter Blaster had a tough 2010. The reasons are not obvious, but something happened to operations in 2010. These problems impacted net income as well. Between 2008 and 2009 net profits increased by 50%. Between 2009 and 2010 net profits increased by 7.6%. Between 2010 and 2011 net profits increased by 69%.

9. What conclusions did you draw after studying the case?

Several issues came into focus with this case. First, sometimes it takes a long time to perfect a new product. Sean O’Conner took three years perfecting the Batter Blaster formula. Second, it may take a great deal of capital to launch a new product. Sean raised \$6 million to fund the start-up. Third, gorilla-marketing is critical for a start-up. Fourth, channel selection is important (and consumer education is critical). Fifth, so far Batter Blaster has not make a critical mistake, but this industry is filled with tough competitors.

10. Do investors really want innovation, or do they want tried and true?

Investors want a great return on their investment (and their principle). Naturally, risk impacts their decision. Additionally, investor risk attitude plays a huge part, as well. New and innovative products without a market history of performance are naturally more risky – especially in rather mundane industries such as consumer foods. Investors worry about the new product “points of difference” – comes in a can, must be refrigerated, organic product, etc. These PODs require consumer introduction and education – all of which leads to higher risk. Yet, the product is also convenient and fun – which is always a plus.

Innovative products that clearly hold a competitive advantage over existing products are pretty easy to gain investor confidence and backing. The problem comes when investors cannot clearly see the benefits of the new products. It becomes the duty of the entrepreneur to share a product vision which most savvy

investors can accept. Thus, it is not so-much the product innovativeness, but the ability for the investment community to “buy-into” the entrepreneurial vision. Without a compelling narrative it is difficult to fund any start-up (even non-innovative products).

11. Based on the financial data provided what is the company worth?

Every entrepreneur is interested in what his/her company might be worth. The Batter Blaster product has a patent, so it cannot be directly copied. Several competitors (i.e., Kellogg’s, Aunt Jemima, Hungry Jack) might be interested in acquiring Batter Blaster to create a flanker brand or possibly extend their brands. With their channel presence, they could easily “push” Batter Blaster to grocery coolers. Additionally, smaller specialty companies might be interested in the Batter Blaster brand.

Because we do not have projected company cash flows, we will be forced to value the company based on comparable earnings multiples or value-to-earnings ratio.

$$\text{Earning multiple} = \text{value/earnings}$$

The earning multiple is based on many things --- growth potential, margins, industry, market share, market position, brand, etc.

The average earning multiple for the S&P 500 for the last 75 years is 8 times earnings. For a retail firm it is 3. For a service firm it is 5.4. For a manufacturing firm it is 8.5. For a small firm requiring average executive ability, but operating in a highly competitive environment it is 4. Consequently, the “floor” value for Batter Blaster is

$$4 \times \$6,813,825 = \$27,255,300$$

Certain financial items “may” increase the value of the firm. First, the margins are very good. Next, the growth of the company has been very good. During the last three years net income increased by 50%, 7.6%, and 69%, respectively. While the 7.6% is disappointing, the net income of this product has been spectacular. Finally, this is a unique product without “direct” competitors. Therefore, it seems reasonable to seek a higher multiple --- possibly 5 or 6, which would significantly raise the value of the company. Negotiation will be critical in this setting.

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## **DIAGNOSTIC DENTAL: A MEDICAID DILEMMA**

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### **INSTRUCTORS NOTES**

#### **CASE DESCRIPTION**

*This case is widely applicable because it is, fairly brief, easy to understand, involves an industry that students are familiar with, yet offers the opportunity for in-depth discussion of some basic strategic issues. The case illustrates the downside of building a competitive advantage based on positioning alone and gives the students an opportunity to grapple with the difficulty in building competitive advantage from a position of apparent disadvantage. It also presents an example of how strategy can emerge from a seemingly inconsequential decision.*

*This case has a difficulty level of 3 or 4. It could be positioned at the beginning of an undergraduate course in strategic management, or be used later in a strategic management course to support a discussion on competitive advantage and/or strategic change. It could also be easily used in a small business or entrepreneurship course when covering the topic of strategic management.*

#### **CASE SYNOPSIS**

*Thirty years ago Dr. Jack Flower began his dental career by opening up a practice in Jonesville, a small town in East Texas. Shortly after starting his practice he made a decision to accept Medicaid insurance. As it turned out, his was the only practice to accept Medicaid patients in the entire region. Over time the practice became increasingly dependent on the Medicaid segment, but flourished as Dr. Flower became proficient in offsetting lower Medicaid reimbursements with reduced costs. Unfortunately keeping costs low meant longer wait times and reduced amenities for the patient, and a low level of investment in equipment and infrastructure for the office. In 2007 the State of Texas substantially increased Medicaid reimbursements for dentists. This, along with a general decline in the economy, attracted new entrants into the Medicaid segment. The effect was a fairly drastic downturn in patients over a two year period. At the end of the case Dr. Flower was struggling with how to respond to this turn of events.*

## DISCUSSION QUESTIONS

Q1: How would you describe Diagnostic Dental's Strategy? Why was this strategy successful for over 30 years?

Q2: Use a SWOT analysis to assess Diagnostic Dental's current competitive position.

Q3. What would you do if you were Dr. Flower?

### **Q1. HOW WOULD YOU DESCRIBE DIAGNOSTIC DENTAL'S STRATEGY? WHY WAS THIS STRATEGY SUCCESSFUL FOR OVER 30 YEARS?**

Diagnostic Dental did not appear to have a "plan" but the company did have an emergent strategy that served it well for quite a long time. The case provides a good example of how seemingly small decisions can have major implications and how strategy can emerge as a pattern of activity over time (Mintzberg,1978). The decision to accept Medicaid patients led the practice into a niche where there was growing demand and practically no competition. Of course, the downside was that Medicaid reimbursements were fixed at a very low level and patients tended to be less conscientious about keeping appointments. Over time Dr. Flower figured out how to thrive in this niche by reducing his costs and compensating for lower margins with higher volume. It is notable that his efforts to service the Medicaid market led him to make certain tradeoffs that made the practice increasingly dependent on that segment.

In terms of Porter's generic typology one could describe Diagnostic Dental's strategy as focused with a low-cost approach. However, there is an obvious twist in this situation. A successful strategy usually creates competitive advantage by offering some sort of unique value creating proposition for the customer. A company following a low cost approach typically offers value to the customer in the form of lower prices. Price sensitive customers generally are willing to forego certain services and some degree of quality to obtain a better deal. In the case of Diagnostic Dental the customers had little choice and it is probably fair to say that some tradeoffs such as overbooking appointments and foregoing office and equipment upgrades resulted in a substandard if not miserable experience for the patient. Of course this was sustainable only because Dr. Flowers' practice had a virtual monopoly on the Medicaid market in that region.

Given the minimal value proposition offered their patients, an interesting question concerns how Diagnostic Dental was able to sustain a monopoly in the Medicaid market over a relatively long period of time. After all, it would take very little effort for competitors to offer a higher level of service and it would not take many competitors to put a sizeable dent in the practice's patient load. In other words, Diagnostic Dental would seem to be vulnerable to entry. The answer is that the Medicaid segment is simply not a desirable niche. The vast majority of dental practices target private pay and private insurance patients. Accessing the Medicaid segment would necessitate accepting a significantly lower profit margin on that portion of the

practice or would require lowering costs, which would be inconsistent with servicing the core business. Of course, it is possible that a practice could intentionally target the Medicaid segment as their primary market, but it would be forced to fight a competitive battle with Diagnostic Dental. Competitive battles in the Medicaid segment would likely be a recipe for disaster for all firms involved. Unless a practice could figure out a way to keep its cost structure low, while maintaining higher levels of service, competition would squeeze already tight profit margins.

In essence, Diagnostic Dental's source of competitive advantage for the last 30 years has come from staking out a corner of the market that is highly undesirable to other dental practices. Some authors refer to this as a "positioning" advantage (Saloner, Shepard, & Podolny, 2001). However, as evident in the case, such an advantage can be highly vulnerable to external shifts in the market. For example, even an undesirable segment of the market can become more desirable when competitive conditions become tighter in the rest of the industry. Also, it is possible that other firms could work out a way to become more competitive in the more undesirable segments. In the case, Kool Smiles seems to have figured out a way to become competitive in the Medicaid segment by taking advantage of economies of scale, lowering labor costs (hiring dentists right out of school) and utilizing low rent facilities. Suddenly Diagnostic Dental finds itself threatened with increased competition.

## **Q2: USE A SWOT ANALYSIS TO ASSESS DIAGNOSTIC DENTAL'S CURRENT COMPETITIVE POSITION.**

### **Strengths:**

1. Although the practice has been experiencing a recent downturn, profits are still fairly strong and Dr. Flower has cash to invest back into the business should he desire to do so.
2. The practice has practitioners and staff that are highly experienced at dealing with Medicaid patients. They are used to coping with the type of severe dental problems these patients tend to have and several dentists and staff members are bilingual.
3. Although the practice does not have a great reputation for customer service, they have a very large customer base and are well known throughout east Texas.
4. Twenty percent of the patient load is non-Medicaid. Most of these patients have been seeing Dr. Flower for many years and are quite loyal.

### **Weaknesses:**

1. As noted in the case, the practice has made certain tradeoffs resulting in lower levels of customer service. Wait times are particularly problematic.

2. Dental equipment, office furnishings, and office appointment and filing systems are all in need of upgrades and the physical space is laid out awkwardly. The practice projects an image of neglect.

3. Diagnostic Dental is known in the community as a Medicaid provider and has developed a poor reputation with its own patients.

5. Over time the practice has made tradeoffs that have made it increasingly dependent on the Medicaid segment.

6. Although the practice is not in dire financial straits, there is a clear downward trend in revenues and profits.

### **OPPORTUNITIES:**

1. There is a large underserved market of people who fall through government safety nets and cannot afford dental care.

2. The overall demand for dental services nationwide is projected to grow.

3. Recent increases in Medicaid funding have improved margins.

### **Threats:**

1. The economy has recently gone through a severe recession and remains stagnant.

2. The local market has become somewhat over-served as more dentists have opened practices.

3. Increases in Medicaid funding and the decline in the economy has prompted local dentists to enter the Medicaid segment.

4. A regional chain has targeted the Medicaid segment and found ways to be competitive without sacrificing service.

5. There is talk of health care legislation that could further impact Medicaid funding and dental insurance in general.

### **Summary:**

Diagnostic Dental is experiencing some clear threats that are already having a sizeable impact. The practice has built its success around servicing a corner of the market that has historically been undesirable. Recent changes in the political environment (increased Medicaid funding) have made the Medicaid market more desirable. In addition, an economic downturn

and local competitive conditions have made it tougher to compete in the more upscale markets. As a result, a number of local and regional dental practices have entered the Medicaid segment. Dr. Flower does not seem to be adequately prepared to cope with this increasingly competitive environment.

### **Q3. WHAT WOULD YOU DO IF YOU WERE DR. FLOWER?**

The following is a list of options that Dr. Flower might consider.

#### **Option 1: Make no changes and hope for the best.**

It is possible that the recent downturn will level off as local dentists limit the number of Medicaid patients they take, and the economy picks up. It is also certain that many of Dr. Flower's current patients will not find it possible to travel to Fairview to visit the Kool Smiles clinic there. If Dr. Flower is willing to accept a downsized practice this option could be viable.

Of course the risk with this option is that there is no guaranty that the downturn will level off. If the competition decides to move aggressively into the Medicaid market or if Kool Smiles (or another similar provider) opens locally, the company may be in for a drastic and unacceptable decline. Essentially, the practice remains at the mercy of the competition.

#### **Option 2: Stay in the same market, but try to become more competitive.**

This option is to maintain the current strategy, but try to figure out a way to improve the practice's competitive position relative to the new entrants. Generally speaking this requires building capabilities/resources that translate into building competitive advantage, or at least competitive parity. There is a great deal of room for improvement in Diagnostic Dental, and one can easily come up with a long list of possibilities. Some of the obvious ones are to develop computerized appointment and filing systems, make major renovations to the office, replace dental equipment, "spruce up" the waiting room, and improve wait times. Other less obvious possibilities may be to move to an entirely new office, hire additional personnel, spend money on advertising, and make the office more "kid friendly."

After generating a list of possibilities consideration should be given as to how to prioritize them. Should they attempt to do all these things? Should some be eliminated? Why? In order to do this, some thought should be given to the appropriate decision criteria. Potential criteria include cost, strategic consistency, importance to customer, and competitive advantage. Of course, the criterion chosen will influence data collection and priorities. It is clear that in order to compete in the Medicaid segment costs must be controlled. Local dental practices with a higher cost structure may enter the segment and may even be willing to accept lower margins for a portion of their practice, but they will not have the staying power to remain in the segment in a major way. Thus, it would be unwise for Diagnostic Dental to attempt to compete directly with those practices. Kool Smiles is a greater threat, because this is a larger chain that has developed some strong capabilities for competing in the Medicaid segment. Thus, Dr. Flower should closely examine their approach to see if Diagnostic Dental could imitate some of their strengths and/or exploit their weaknesses.

It would probably be unwise for Dr. Flower to engage in a complete “makeover” of his practice. Initially, efforts should be directed toward improving activities that do not require major outlays or cost increases, but may have a substantial impact on the customer experience. The most obvious issue is the practice of overbooking and customer wait times. Instead of dealing with “no-shows” by overbooking, perhaps the practice could develop a practical system for reminding patients of their appointments. It should also be relatively easy and inexpensive to make some cosmetic changes to freshen up the office. In the intermediate term, consideration should be given to investing in resources that may actually improve the overall cost structure of the practice. For example, moving to a computerized scheduling, filing, and billing system may actually improve efficiency by allowing the practice to reduce clerical personnel. This could also indirectly improve customer service. In the long run, more significant considerations such as major office renovations, the addition of kid friendly services (play area, video games, etc...) or even an office relocation may be considered. An important point to make is that there are two important criterion that must be balanced when prioritizing all these options: strategic consistency (low cost) and improving the customer experience.

**Option 3: Begin moving into other markets**

The advisability of this option depends largely on the other markets being considered. A shift into higher income and/or private insurance markets would likely be a very tough transition. For one thing, it would be very difficult to straddle the current Medicaid market and higher end markets. Moving into a higher income market would require a major transformation that would likely negate any cost advantage currently held. This would make it difficult to continue to profitably serve the Medicaid market. Also, Diagnostic Dental has a reputation in town as a low end, Medicaid provider. Needless to say, it would be very difficult to shake this image. In short, moving into a more upscale market would entail all the risk of opening a new practice, while dragging along the additional baggage associated with the old practice. One other issue is that the local market is already over-saturated with dentists.

A much more viable approach may be to tap into the low-income private pay market that is price sensitive, but not covered by Medicaid or CHIP. As noted in the case, this represents a potentially large market segment. One immediate way to enter this segment is to start marketing to the parents and other family members of his Medicaid patients. Because this segment is likely to put off dental care, Dr. Flower could begin to market his practice as a lower-priced alternative for patients seeking restorative and emergency treatments (e.g. fillings, root canals, and crowns). This approach targets a potentially large segment and is consistent with the practice’s current strategy.

**Option 4: Open another office**

Opening another office could be a reasonable alternative and could be combined with other options mentioned above. If Dr. Flower chooses option 2 (try to become more competitive in the Medicaid market) opening an additional location offers several advantages. First, there is the possibility of finding a location in a nearby community that is less competitive. Second, opening up a new location, gives him an opportunity to experiment with a new approach. He may be able to do something similar to Kool Smiles by finding a low rent opportunity in an

underutilized retail space and create a more welcoming and contemporary environment, while keeping costs low. Of course, if he wishes to go after a high end market, he could open a second location in a more “high rent” location that mirrors the approach taken by most other competitors. If he opened the location under a different name, he may be able to offset the problem with reputation mentioned above. Of course, it should be pointed out that this approach carries the risk associated with opening up any new business.

**Option 5: Pursue the student market**

Because Jonesville is a university town, students may point out the student market as being a viable option. East Texas State is a university that largely attracts traditional students from larger metropolitan areas. Most of these students will likely seek dental treatment through family dentists in their hometown. However, there may still be a moderate sized population of full time non-traditional/married students who would be quite willing to seek out a low cost solution to dental treatments. It may be worth figuring out a way to target this market.

**Option 6: Sell the practice**

Dr. Flower is reaching the age where retirement may seem more desirable than dealing with major change. Of course, this depends completely on his personal aspirations, energy level, and financial wherewithal. However, if he is thinking of retirement in the near future, it is certainly worth considering the possibility of moving up that date.

**Summary**

A good way to conclude this section is to ask students to indicate which choice they would take and to defend their position. It is not important to come to an agreement, but it is important that students recognize that their choices are based on certain criteria and underlying assumptions. Understanding that strategic decisions are rarely clear cut is in itself an important lesson for students.

## RESEARCH METHODOLOGY

Two authors of this case, Dr. Octavio Romero and Dr. Tarek Aly, are employed by Diagnostic Dental, and all information related to the dental practice was taken from their personal experience as well as interviews and documents provided by the clinic owner. Demographic data was collected from city and county web sites. Other secondary sources are cited in the case. All names, including location, company name, and individual names were changed to maintain anonymity.

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## **WASTE MANAGEMENT INC. - INSTRUCTOR'S NOTES**

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### **CASE DESCRIPTION:**

*This case describes a financial statement fraud perpetrated by top management of Waste Management Inc., with the knowledge of their external auditors. It describes the business opportunities and circumstances leading to the growth, the fraud and eventual downfall of the top management and its implication for the shareholders. The primary objective of this case is to explore the requisite external audit planning and resulting audit performance of a high risk audit client. Another important aspect of this case covers the role of the Audit Committee, who should serve on the Audit Committee, the importance of Audit Committee Member independence, and auditor interaction with the client's Audit Committee. Lastly, students examine how the Sarbanes-Oxley Act may have protected stockholders through preventive or punitive actions under the law which may serve to dissuade top executives from committing fraud. This case study is based on library research involving Accounting Series Litigation Release No. 17435 and Administrative Proceeding File No. 3-10513. It is designed for an Undergraduate Auditing course with a difficulty rating of 3, Graduate Auditing course with a difficulty rating of 3 or a Graduate MBA course with a difficulty rating of 4. Classroom presentation and discussion time of 1 hour. Outside preparation time of 4 hours. The case may be presented individually or in a small group.*

### **CASE SYNOPSIS:**

*After a humble childhood in South Dakota, Dean Buntrock worked his way up the corporate ladder to become an industry leader and founder and CEO of Waste Management Inc. Whenever an opportunity presented itself, Buntrock made the most of it; it seemed like he had the "Midas Touch" in the garage business! He was also known for his charitable contributions and even has a building named after him at his alma mater. Unfortunately this real life story has a sad ending. Although he began Waste Management as an honest businessman making it big in America, Buntrock turned into a dishonest businessman when his company began using accounting methods to recover from bad decision-making during times of intense regulation in the industry. The auditors, Arthur Anderson, knew about the accounting irregularities the entire time. In 1998, 30 years later after going public, Waste Management Inc. acknowledged that it had misstated its pre-tax earnings by approximately \$1.7 billion over a 5-year period and had to*

*restate earnings; at the time, this was the largest restatement in corporate history. This case study examines how the Sarbanes-Oxley Act may have protected the stockholders.*

## **DISCUSSION QUESTIONS AND SUGGESTED ANSWERS**

### **1. Waste Management regularly changed accounting estimates related to the depreciation of material assets. What is an accounting estimate and who creates these estimates? How should one account for changes in accounting estimates? How do auditors evaluate the reasonableness of accounting estimates?**

“An accounting estimate is an approximation of a financial statement element, item, or account.” The need to estimate the useful life and salvage value of assets makes depreciation an accounting estimate. Management is responsible for developing a process for determining accounting estimates and, subsequently, developing those estimates. According to AU 342, this process should include:

- “Identifying situations for which accounting estimates are required.
- Identifying the relevant factors that may affect the accounting estimate.
- Accumulating relevant, sufficient, and reliable data on which to base the estimate.
- Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.
- Determining the estimated amount based on the assumptions and other relevant factors.
- Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.”

Sometimes, management finds that it is necessary to change an accounting estimate. According to ASC 250-10-05, “a change in accounting estimate should be accounted for in the period of change if the change affects that period only or the period of change and future periods if the change affects both. However, it should not be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods.” Waste Management violated this principle when executives recalculated depreciation expense for the year and recorded a macro entry to adjust the entire year's amount. What executives should have done was account for the changes in useful life and salvage value only in the period of the change and in future periods. They should have accounted for the changes prospectively, not retrospectively.

Even if management had accounted for the change in estimate correctly, the new estimates were not justified or reasonable. During the audit, the auditors must determine if management's estimates are reasonable. In order to do this, the auditors must first obtain an understanding of the client's business environment. This will allow them to have greater insight as to what the underlying asset is used for. They should also learn how competitors account for similar assets.

Auditors can test accounting estimates using one or more of the following three techniques:

- a. Review and test management's process of developing the estimate
- b. Review subsequent transactions and their impact on the estimate
- c. Develop their own estimate to compare to management's

In reviewing management's process for developing estimates, auditors identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered through other audit tests. Had the auditors of Waste Management done this, they would have found that there was no formal process for developing depreciation estimates, nor was there any underlying data to support them. The auditor should also evaluate whether the estimates are consistent with each other, and consistent with historical data. The auditors at Waste Management should have found that the estimates were not consistent with each other, nor were they consistent with historical data.

In reviewing subsequent events, an auditor may find something that occurs after the last day of the fiscal year, but before the issue of the audit report that are important for the evaluation of an accounting estimate. The macro entry to reduce depreciation expense at year-end should have been a red flag that the changes in estimates were not accounted for correctly.

Lastly, in developing their own estimate, auditors should examine the facts and the data and develop a reasonable estimate for what the accounting estimate should be. Waste Management auditors instructed the executives to conduct a one-time study to determine the useful lives and salvage values of their assets however the auditors never developed their own estimate. The auditors should have analyzed the data and used their knowledge of the industry to develop a reasonable estimate for depreciation expense. They would have seen that the changes in estimates were not, by any means, justified or reasonable.

**2. Arthur Andersen's Chicago office, the office in charge of the Waste Management engagement, placed Waste Management on its list of clients that may pose a threat to the firm. How should the audit team have planned and completed the audit, knowing that Waste Management was a high-risk client?**

The fact that Waste Management was evaluated as a high-risk client would have been considered during the planning phase of the audit. In planning an audit, the engagement team determines the nature, timing, and extent of procedures to be performed throughout the audit. Some of the following matters should be considered when planning the scope of the audit:

- a. Matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes;
- b. The extent of recent changes, if any, in the company, its operations, or its internal control over financial reporting;

- c. Legal or regulatory matters of which the company is aware;
- d. Public information about the company relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of the company's internal control over financial reporting;
- e. Knowledge about risks related to the company evaluated as part of the auditor's retention evaluation.

Most significant to Waste Management is the knowledge related to the company evaluated as part of Andersen's retention evaluation. As stated in the case, before the 1993 audit, Waste Management was placed on a list of high-risk clients; clients that posed a threat to the audit firm. Knowing this, the auditors should have extended the nature, timing, and extent of the audit.

Andersen should have also extended the nature, timing, and extent of the audit because the waste industry, as a whole, began to face tough times. As stated in the case, it was clear that divisions of large waste corporations began struggling in the early 90s. Waste Management's largest competitor even dropped its hazardous waste division because of this. Analysts also continually questioned the profitability of Waste Management; this should have increased the nature, timing, and scope of Andersen's audit as well. The state of the waste industry, paired with the pressures from analysts should have been a red flag to the auditors and considered in the planning of their audit.

Auditing Standard Number 9 states that the auditors may have to change their audit plan if issues arise during the course of the audit. Such issues may include changes due to a revised assessment of the risks of material misstatement resulting in Waste Management executives agreeing to numerous Action Steps. The auditors should have considered the effects of the Waste Management not completing the Action Steps in planning their 1994 audit.

Materiality should also be considered during the planning phase. Auditors should establish a materiality level for the financial statements as a whole that is appropriate given the particular circumstances of the client. In order to do so, they must consider the company's earnings and other relevant factors. In determining materiality, auditors also determine the amount of tolerable misstatements; the quantified amount of misstatements that will be accepted before materiality is compromised. Since Waste Management was a high-risk client, auditors should have created a low level of tolerable misstatements. In evaluating the impact of the misstatements, the low tolerable misstatement would have caused Andersen to assess that the misstatements were material, and consequently, prohibit AA from issuing unqualified audit opinions.

- 3. Each of the years that the fraud occurred, Arthur Andersen issued unqualified opinions on the Waste Management financial statements. Name the 4 main types of audit opinions and when it appropriate to issue each of those opinions. What type of opinion should Andersen have issued given the state of its clients financial statements?**

Audit clients always hope to receive an unqualified audit opinion. According to AU 508, “An **unqualified opinion** states that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.” Thus, if the all audit evidence has been gathered, and the auditors believe that the financial statements are presented fairly in all material aspects, they can issue an unqualified opinion. This is the type of opinion that was issued by Arthur Andersen in relation to the 1992 through 1997 audits. However, since the financial statements of Waste Management, were not fairly presented in all material aspects, the auditors were reckless in rendering this opinion.

The opposite of an unqualified opinion is an **adverse opinion**. This type of opinion states that the financial statements do not fairly present the financial position, results of operations, or cash flows of the entity in conformity with generally accepted accounting principles. When the auditors issue an adverse opinion, they should include a separate paragraph stating the reasons for this opinion. The explanatory paragraph should state all substantive reasons for the adverse opinion, and the principal effects of the matter on the financial position, results of operations, and cash flows of the client.

The circumstances surrounding a disclaimer of opinion are different than the previous two options. A **disclaimer of opinion** states that the auditor does not express an opinion on the financial statements. A disclaimer should not be rendered because there are material departures from GAAP, or material misstatements on the financial statements. However, auditors could choose to issue a disclaimer of opinion for a number of other reasons, the most common being scope limitations or independence issues. A scope limitation occurs when auditors cannot gather enough evidence to prove the financial statements are fairly presented in all material aspects. When this is the case, the auditor should issue a disclaimer of opinion and include an explanatory paragraph stating that the scope of the audit was not sufficient enough to render an opinion.

Sometimes it is difficult for auditors to choose whether they want to issue an adverse opinion, a disclaimer of opinion, or a qualified opinion. A **qualified opinion** is rendered if the financial statements present fairly, in all material respects, financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, except for the effects of the matter to which the qualification relates. This opinion may be rendered under the following circumstances:

- a. There is a lack of sufficient and appropriate evidence or restrictions on the scope of the audit that lead the auditor to conclude an unqualified opinion cannot be issued, but the auditor concludes not to disclaim an opinion.
- b. The evidence leads the auditor to believe that the financial statements contain a material departure from generally accepted accounting principles and they have concluded not to express an adverse opinion

If this type of opinion is expressed, the auditor should explain the substantive reasons for the opinion in a separate paragraph.

Each year from 1992 to 1996, the auditors recognized that Waste Management used non-GAAP principles and materially misstated multiple accounts. Consequently, the client's financial statements were non compliant with GAAP and were not fairly presented in all material aspects and the auditors should have rendered an adverse opinion.

**4. Although Andersen presented the Summary of Action Steps to each of the top executives at Waste Management, the audit committee was never informed of the agreement. What is an audit committee? Do you think that the audit committee of Waste Management should have been informed of the Action Steps agreement? Why?**

An audit committee is a body “established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer.” Audit committees have been around since the 1970s, but it was not required that all publicly traded companies have an audit committee until the Sarbanes Oxley Act was passed in 2002. The audit committee should include at least three financially competent individuals and a chairperson with accounting or financial management expertise. One of the main responsibilities of this committee is the hiring of the auditor. Then, throughout the audit process, the auditor and audit committee communicate about the process and findings of the audit.

Section 204 of the Sarbanes Oxley Act requires that the auditors communicate regularly with the client's audit committee and ensure, in a timely fashion, that the committee is aware of information regarding the following:

- a. The initial selection of and changes in significant accounting policies or their application. As well as methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial areas for which there is a lack of authoritative guidance or consensus
- b. The process used by management in formulating particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates
- c. Adjustments (proposed corrections) arising from the audit that could either individually or in the aggregate, have a significant effect on the entity's financial reporting process
- d. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the issuer, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm.
- e. Other material written communications between the registered public accounting firm and the management of the issuer, such as any management letter or schedule of unadjusted differences.

If the rules regarding what to communicate to an audit committee, set forth in Sarbanes Oxley, had existed in the early 1990s, the auditors would have been required to inform the committee of the Action Steps and of other information shared with management. The Actions

Steps agreement outlined information that was materially important to Waste Management's financial statements. This information included instructions on how to fix improper non-GAAP practices, and properly revise accounting estimates. The Audit Committee should have been made aware of all changes agreed upon in the Action Steps. Had the committee been informed of the agreement, maybe management would have been more inclined, or pressured, to comply.

**5. Each top executive at Waste Management that was involved in the fraudulent scheme profited greatly from performance based bonuses. What has been done to discourage management from inflating profits to meet certain quotas and receive performance based bonuses? Will these measures prevent fraud?**

Performance based bonuses are very popular in business because they encourage employees to strive to make the company profitable. However, in this case, the incentive of these massive bonuses was one of the many pressures that led managers of Waste Management to issue fraudulent data.

The Sarbanes Oxley Act of 2002 sought to put an end to such bonuses as an incentive to commit fraud. Section 304 of the act states that executives who receive inflated performance based bonuses due to fraudulent financial reporting, have to forfeit those rewards. "If an issuer is required to prepare an accounting restatement as a result of noncompliance with any financial reporting requirement under the securities laws, the chief executive officer and chief financial officer of the issuer must reimburse the issuer for the following: Any bonus or other incentive-based or equity-based compensation received from the issuer during the 12-month period following the first public issuance or filing with the Commission (whichever occurs first) of the noncompliant financial document." Those individuals must also return any profits realized from the sale of securities (stock options) of the issuer during that same 12-month period.

Although the punishment described above does not concern other top executives, such as the controller or chief accounting officer, Sarbanes Oxley also tightened jail time and fines for securities frauds as well. These punishments apply to any individual involved in the fraud. Under this act, any person or persons who certify that the financial statements are correct and fairly represent the issuing company, when in fact the statements are not compliant with accounting standards and do not fairly represent the company's financial position, can be fined up to \$1,000,000 or sentenced up to 10 years in prison, or both. It also states that any person or persons who willfully certifies that the financial statements are correct and fairly represent the issuing company, when in fact the statements are not complaint with accounting standards and do not fairly represent the company's financial position, can be fined up to \$5,000,000, or imprisoned for up to 20 years, or both.

Although fraud can never be eliminated completely, the standards set forth in the Sarbanes- Oxley Act should greatly discourage executives from committing management fraud. The reimbursement regulation eliminates the incentive for the CEO and CFO of an issuing

company to collect bonuses based on falsified profits because those rewards could be taken away. The high fines and long sentencing times encourage not only the CEO and CFO to comply with accounting standards, but also encourage compliance of all other individuals in a management position.

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# GOOD TIMES AT YOUBESTRESSED

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## INSTRUCTOR'S NOTES

### CASE OVERVIEW

*This case begins with a recent college graduate on the early days of her first “real job” as a human resource specialist for a growing manufacturing company in rural Alabama. The company that she has joined faces a number of challenges and she is tasked with proposing a performance improvement initiative. Specifically, she has been asked by Human Resource Manager to put together a plan for supervisory training, but through systematic analysis she may discover other items important to address.*

*At least three important lessons can be learned from this case. (1) Because it is based on true experiences, this case provides a realistic example of the types of issues encountered by managers in organizations. (2) A systematic approach to creating the plan allows students to apply theories and models learned in class to an actual workplace setting. (3) This case illustrates the different types of performance improvement interventions that can be proposed to address the needs or challenges of an organization.*

### RECOMMENDATIONS FOR TEACHING APPROACHES

A basic understanding of human resource management, and in particular, performance improvement, is required for meaningful case discussion and participation. Several resources are provided in the appendix in the instructor's notes that can assist with a review of concepts, tools, and methodologies of the requisite skills needed to complete the case. Significant discussion and class engagement can occur with an understanding of the four key roles of human resources as a foundation. These roles proposed by Ulrich (1997) include:

- *Strategic partner*, supporting the vision and mission of the organization
- *Administrative expert*, creating the talent infrastructure, policies, and practices to support the business objectives of the organization
- *Change agent*, assists the organization in moving from a current state to a desired state through effective change management techniques
- *Employee champion*, links company objectives with policies for fair and equitable treatment of employees

- (1) Create small groups of four to five students. Ask them to brainstorm the key issues or challenges that the case presents and to create a written list. Review the ground rules of brainstorming which include (a) creating a listing of as many ideas as possible, (b) including all ideas and not making value judgments during the process, and (c) seeking ideas from all group members. Allow the students 10-15 minutes of discussion time. Provide them with the four key roles of human resources and ask them to categorize their ideas based on “fit” within the roles. Debrief the activity by allowing the groups to report on their findings.
- (2) For courses with an emphasis in performance improvement at the macro-level, ask the students to consider a systematic approach to performance analysis. One resource is “Mager’s Performance Analysis.” Using the Mager Performance Analysis Flowchart (see Appendix 1), ask the students to (a) identify the causes of the problem(s), (b) determine which problems may have a value-added solution, (c) describe interventions that may help the organization solve the problems, and (d) assess which solutions are practical and feasible.
- (3) Ask the students to create a pre-assessment plan that Katie could use as a starting point for her proposal to senior management. Components of this plan could include the following information: (1) Statement of Opportunity (provide a description of the issue(s) or challenge(s) faced by the organization, (2) Existing Environment (detail the current culture, including observed artifacts such as policies, procedures, and norms; describe any major business objectives that may influence performance), (3) Target audience (who will be impacted by the proposed intervention, such as the organization, a department, or an individual), (4) Resources required (estimate financial, material and equipment, labor, intellectual capital, and other factors needed), (5) Sponsor (who is the senior-level person committed to the intervention), (6) Performance Improvement Goal (describe the anticipated benefit for a successful intervention), (7) Metrics and Measurements of Success (what are measurable changes to people, processes, organizations or society proposed by the project), and (8) Anticipated Challenges or Difficulties (what might prevent or deter the accomplishment of goals). (Plan information adapted from *Fundamentals of Performance Improvement: Optimizing Results Through People, Process and Organizations*, 3<sup>rd</sup> edition, p. 60. Permission granted for unlimited duplication for noncommercial use.
- (4) Review the basic functions of a human resource management system. These functions include (a) staffing, (b) compensation and benefits, (c) labor and employee relations, (d) training and development, (e) safety and security, and (f) ethics and sustainability. Ask students to choose one of these basic functions as the “lens” for reviewing the article. For the selected function, they should analyze the article for related problems and create a Human Resource Development Intervention Proposal Report. The intervention design proposal can be a written report that includes the following information: (a) Problem identified, (b) Root cause analysis, (c) Proposed intervention (human resource development focus), (d) Resources required, and (e) project timeline. The deliverable for this activity should be 5-10 written pages and follow professional business communication guidelines for formatting and professionalism.

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## DISCUSSION QUESTIONS AND POSSIBLE ANSWERS

- (1) What are the key challenges and issues for the human resources function at JugoPress?

Examples of key challenges, by major human resource function, might include the following:

- a. *Security problems.* There was no company representative in the front lobby of the plant. The contact listing was not professionally updated and could pose a security risk by leaving employee names and contact information in an attended way.
- b. *Safety issues.* While Jenna indicated that hearing protection was required, she neglected to use them as she walked back through the plant.
- c. *Diversity issues.* On two occasions employees used the term “gal” or “gals” to describe women in the organization. While not illegal, the use of the term is unprofessional and should be avoided in business communication.
- d. *Employee relations.* Human Resources professionals serve as cultural stewards of a positive work environment. Jenna’s comments during the introduction about “plantees” and the corporate types create divisiveness between work groups and should be avoided. A second issue relates to the new employees discussing not having time off for long periods of time. The overtime situation, if true, can reduce job satisfaction and create morale issues. The associated fatigue can result in increased injuries and accidents.
- e. *Staffing.* There are several issues relating to the staffing process that may cause problems downstream. These include the following: (i) Park’s “sifting” question. Allowing managers to ask interview questions that are not related to the job is a dangerous practice. (ii) Using untrained personnel from a temporary agency to engage in staffing activities on behalf of the company is also a “red flag” item for human resources. Without proper training, there may be elements of the staffing process taking place that are illegal or inappropriate. (iii) The lifting requirement may be an issue. The company would have to prove that activity is a bona fide occupational qualification. (iv) The comments and the description of the background check process is problematic from both legal and ethical standpoints. (v) The use of Worker’s Compensation information reports in the selection process is an illegal hiring practice. (vi) The candidate group interviewing process does not allow for appropriate selection techniques nor does it provide the one-on-one engagement employees need with a prospective employer. (viii) There appears to be no standardized criteria for selection of employees in the staffing process.
- f. *Human Resource Information System.* The use of the shared Excel spreadsheet to document headcount and labor needs for the organization represents an inefficient and ineffective tool. The secondary issue of Jenna, the human resource manager, having “no idea” about monthly turnover indicates a lack of metrics and measurement for key human resource indicators. This underscores the need to develop a strategy for improving the human resource information system at Jugopress.

g. *Training and Development.* From the macro level, there is an overall lack of professionalism that could be improved by performance intervention strategies. The specific training session shows an unprepared and unprofessional trainer. Colita did not confirm presentation equipment operations, resulting in a major delay in starting the training session. The techniques used by Colita (requiring participants to view a Power Point for a significant portion of the day) are not likely to be effective in training retention or transfer. Also, Jenna's repeated allusion to retirement points to the issue of succession planning. Does the organization have a plan for replacing Jenna?

- (2) Describe the overall impact on the organization and employees for the issues identified in the case.

The overall impact of the issues identified in the case can include a decrease in job satisfaction and lowered morale (from the general unprofessional culture); increased turnover (inadequate staffing and training functions); legal costs associated with litigation (unlawful hiring), accident and injuries (inadequate training, long working hours), diminished decision-making (data and reporting deficiencies).

- (3) Does a supervisory training program seem to be the most appropriate intervention based on the information that you know from the case? What tools can you use to critically assess the value of that particular intervention?

A supervisory training program may be one intervention needed to help JugoPress solve its problems. A comprehensive review or audit of the human resource system could help senior management craft a more complete plan of action for improvement.

- (4) What are likely next steps for Katie as she prepares the proposal for senior management?

Katie should conduct an organizational needs analysis as a first step in developing her proposal. Because she is a newcomer to the organization, she needs to learn as much as possible about the organization's mission, vision, and goals.

### HELPFUL RESOURCES

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# **CROWD FUNDING: A CASE STUDY AT THE INTERSECTION OF SOCIAL MEDIA AND BUSINESS ETHICS**

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## **INSTRUCTOR'S NOTES**

### **CASE DESCRIPTION**

*The primary subject matter of this case concerns ethical issues involved with crowd funding. Crowd funding is the use of social media to raise funds for various purposes, ranging from community-based endeavors to personal wants. There are several ethical issues surrounding crowd funding: what people actually do with the money; how to deal with people who do not fulfill their promises; whether or not websites should limit funding to specified goals; whether or not recognized artists should be prohibited from participating, in effect competing against aspiring artists. Specific attention is given to the case of artist/musician Amanda Palmer, who raised over \$1 million on Kickstarter.com for an album project that had only \$100,000 as an initial goal. She later admitted that she spent the rest of the money that was raised on personal expenses. This case has a difficulty level appropriate for a junior or senior level course, although it may be used at a first-year graduate level, depending on the amount and complexity of the background information that is assigned. This case requires from one hour (if the instructor's goal is class discussion only) to four hours of preparation (if the instructor's goals involve presentations by individuals or teams of students). This is a timely topic of much interest to young students who are heavily influenced by social media, and particularly those entrepreneurial students who might view social media as a means of raising funds for their projects.*

### **CASE SYNOPSIS**

*Social media, especially in the form of crowd funding, presents many ethical issues. For the websites and platforms, what sorts of projects should be funded? For the artists, what types of projects should be funded and for what amount? For investors, which artists should be funded, for how much, and what should one do if the artist does not fulfill their promises? This analysis focuses on the real-life case of Amanda Palmer, an artist/ musician who posted a \$100,000 album project on Kickstarter.com. Palmer offered several levels of incentives for contributions, from autographed copies of the album, to concerts at the contributor's home.*

*Within a short period of time Palmer raised over \$1 million. She later admitted that she used some of the additional funds for personal expenses. This case raises numerous ethical issues. For the websites: should they allow established artists to raise funds through their websites? Should those who seek funding be limited to the amounts necessary to fund their projects? Also, should the proprietors of the websites monitor those who seek funding to determine how they actually use the money that is raised? For the contributors: should they contribute to projects that already exceed the requested amount by the artists? And how should one deal with artists who spend contributions frivolously or do not fulfill their promises to contributors? For the artists: what is the appropriate amount of funding to request for project? How should an artist deal with excess funds that are contributed to a project? Are there ethical obligations to contributors, especially when many of them may know that they are contributing funds in excess of a project's requirement?*

Crowd funding (hereafter CF) is a contemporary social media phenomenon. There are many factors which could account for the rapid growth of CF, by both investors and seekers. It obviously lowers the risk for individual investors by utilizing lower amounts of investment per investor, clearly making them more willing to take a risk in many cases than otherwise. So it seems good in the sense that it can attract capital in a way that other forms of capital aren't possible. In the case of creative projects like art or music, CF may give the small investor a greater sense of ownership in the creative process as well as in the finished work.

For the recording artist CF may be the only alternative in a shrinking industry. Over the past decade the number of record labels has shrunk from five (BMG, SONY, Universal, Warner and EMI) to three (SONY, Universal and Warner). The remaining major labels, as well as the independents, have cut back their artist rosters and the number of albums released each year making it even more difficult for recording artists to pursue the traditional path to success.

Record labels serve three functions for the artist: project capitalization, marketing and distribution. With the Internet taking care of distribution and arguably, marketing, CF has stepped in to fill the role of capitalization of recording projects, replacing the usual venture capitalists, the labels. Artist Share (artistshare.com) is the first and most exclusive of the CF companies. Others include Gofundme.com and the most visible, Kickstarter.com. All three companies charge the artist a five percent fee. Artistshare.com and Kickstarter.com limit fundraising to creative projects while Gofundme.com allows anyone to raise money for anything legal (Gofundme.com, 2013).

For the presenter of this case, there are several facts to be kept in mind: A) Kickstarter.com posts running donation totals, so contributors can see the amount of total contributions thus far and can know beforehand if their donations are in excess of requested

amount. A donor may choose to fund an artist beyond their requested amount, but the donor does so knowingly. B) Kickstarter.com does not monitor artists to see if they fulfill their promises to contributors. From their point of view, this is simply left open to the marketplace: let the contributors police the projects and communicate through social media any issues that may be raised. C) Amanda Palmer was an established artist before posting this project to Kickstarter. Unlike newcomers to the profession, she had a prior contract with the Roadrunner label, which she later abandoned. She denounced the corporate business model in words that cannot be quoted in this context (Dombal, 2009).

Because students are generally influenced by various forms of social media and are typically aware of popular music, this case generates a lot of interest and discussion. From an educational point of view this case has several ethical considerations. Each party in the case faces ethical dilemmas which have no easy answers.

Kickstarter:

- A. Should CF sites support only "aspiring artists" instead of established ones?
- B. Should CF sites monitor project submitters to see if they fulfill their promises?
- C. Should CF sites monitor project submitters to see if they spend contributions appropriately?
- D. Should CF sites limit contributions to the requested amounts?

Amanda Palmer and other artists, project submitters:

- A. Is it ethical to accept more than a project requires?
- B. If excess funds are acquired for a project, is it unethical to spend on one's desires?
- C. Does a project submitter have an obligation to be transparent as to how they spend the funds?
- D. Are there liabilities that come with accepting funding for a project?

Contributors:

- A. Should contributors avoid using CF sites to give to established artists?
- B. How should contributors react if artists do not come through with promises? What would be an appropriate response?

For Kickstarter, the issue of established artists versus aspiring artists seems to never go away. Yancey Strickler, one of the website's founders, continually speaks out about their commitment to the relatively unknown artist. In an interview Strickler said, "The thing is, if Michael Bay came along and wanted to do a Kickstarter we'd probably tell him, please don't, I would never want to scare the girl who wants to do a \$500 lithography project, 'cause that's why we started this thing. We think we have a moral obligation to her" (Chafkin, 2013). That moral obligation notwithstanding, the company's most buzzed-about projects involve celebrities. One industry critic noted, "Rob Thomas launched a campaign to bring 'Veronica Mars' to the big

screen. Bjork launched an (unsuccessful) campaign for an app. Melissa Joan Hart launched a campaign to finance a film called 'Darcy's Walk of Shame.' And most recently, Zach Braff launched a campaign to fund a follow-up to his popular in the movie 'Garden State'" (Fiegerman, 2013). Concerning internationally famous Icelandic artist Bjork, another industry critic speculated, "Nearly all artists raising funds on Kickstarter and other crowd funding platforms are totally independent or on independent labels. I think the jury is out on whether or not fans will wholeheartedly support artists on crowdfunding platforms who are perceived to have the support of record labels. There's a certain do-it-yourself aspect inherent to crowd funding that's antithetical to corporate backing" (Peoples, 2013). The company continues to defend its position, amid controversy over the most recent example: the successful funding of a project by Spike Lee. On the Kickstarter blog, the company's founders claim, "outlets like CNBC and Bloomberg accused him of abusing Kickstarter and taking money from other creators. As we've shown before [in previous blog posts] arguments like these are not grounded in fact. Kickstarter is not a zero-sum game where projects compete for pledges. All projects benefit from the network effect of a growing Kickstarter ecosystem" (Kickstarter blog, 2013). Yet only 43.94% of all project offerings have been successfully funded.

For Amanda Palmer, the backlash has continued over her solicitation of musicians to play for free after she had raised over \$1 million for her project. She recently defended her request by calling her critics outsiders who just don't get it. It is all about connecting with one another, she argues, and that having the willingness to accept someone's help is simply another way of connecting (Digital Music News, 2013). "Is it fair?" To that question Palmer responded with the metaphor of crowd surfing: her connections with fans are the economic equivalent of leaping onto a crowd of people and trusting them to keep you afloat. Skeptical of Palmer's revolutionary "creatively disrupting established business models and summoning Utopia via WiFi," one critic noted: "Palmer's logic here is itself generally identical to cold, hard free market capitalism. Yes the exchange she's describing is 'fair' – everyone involved is willing and happy to engage in it. It's also 'fair' to pay someone minimum wage for work that makes you millions, and 'fair' for a male musician to spend every night having sex with starstruck consenting young fans, but fairness is not the same thing as nobility, and neither of those arrangements is something you present as a revolutionary new relationship" (Abebe, 2013). On her blog, speaking at a TED conference in 2013, and in an interview with Billboard magazine, Palmer has continued to defend her actions. She touts her use of social media to subvert the traditional music business model: "But luckily nowadays I'm not totally at the mercy of the local promoter to get the word out about my shows because my reach and my fans' reach locally is probably, at this point in most cities, more powerful than what the promoter is able to do" (Peoples, part 1, 2013). Regarding the timeline for making good on her promises to donors, Palmer added,

"the only obligations on our side are the house parties. I haven't delivered the two \$10,000 packages yet. We told the fans that we would take about 18 months to fulfill all of those

things. All of the physical packaging has gone out.... My maniacal focus on customer service drives my team crazy. It also makes the fans very happy because they know they can twitter me directly and I will pass off their problem to the right arm of the system to make sure they get what they need. This is one of the problems with artists being so in bed with their fans and so totally involved with the business side of things: it makes the work almost never ending" (Peoples, part 2, 2013).

Indeed some industry analysts point to several risks, including liabilities and taxes, when it comes to crowd funding on Kickstarter (Akalp, 2013).

For contributors, these ethical and legal issues raise complex questions. The first successful Kickstarter campaign, by a graphic artist, sought to raise \$20 and ultimately raised thirty-five dollars. Palmer sought \$100,000 and ultimately raised over one million dollars. According to one projection, to date, more than \$680 million has been raised on Kickstarter. But the company does not enforce agreements between project creators and contributors (Kickstarter, Terms of Use, 2013). Hence failure to provide products or services in return for contributions is strictly between the artists and the donors. What is a proper response in case of such failure?

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# **BENEVOLENT HEALTH CHANGES ACQUISITION STRATEGY**

**John L. Wilson, Regis University**

## **INSTRUCTOR'S NOTES**

### **INTRODUCTION**

#### **DESCRIPTION OF CASE**

*Benevolent Health (BH) wants to continue growing and is determining whether to acquire larger and more mature hospitals than previously. Although successful with using a standardized approach for integrating smaller acquisitions, CIO Nancy Wilcox has concerns about applying the same approach to acquiring hospitals with more mature information systems and technology. She has asked James McDermott, a project manager, how Information Services could evaluate and integrate differently these larger hospitals, and to explore how value could be created from such acquisitions, without necessarily integrating them using Information Services standardized approach.*

*At this time, included in the case is some background information James has gathered related to his project. He realizes he has a long way to go before he can write his report and meet with Nancy to present it.*

#### **CASE INFORMATION**

The idea for this case is the result of the author's work completed while developing a Capstone Course for Regis University's School of Computer and Information Sciences (SCIS) masters program. The author researched hospitals to analyze their merger and acquisition (M&A) strategies. This allowed access to their information systems and technology (IS/IT) policies, procedures and infrastructure. He also had access to a specific hospital's procedures for evaluating and integrating new hospitals into their organization. The author based this case upon factual information from those hospitals he researched. The hospitals had pretty much figured out how to use standardized processes for integrating smaller, acquired hospitals. The hospitals recently were recently acquiring larger, more mature hospitals, where problems occurred trying to integrate them using a standardized integration process.

### **How Case Was Developed**

At Regis University's School of Computer and Information Sciences (SCIS), masters students nearing the end of their coursework are given an opportunity to take an intensive, eight week Capstone Course to complete their degree requirements. Capstone Course students have repeatedly and successfully analyzed the hospitals referred to, above, and their approaches for evaluating and integrating potential acquisitions using a standardized process.

This case is a miniaturized version of information Capstone Course students have successfully analyzed. Publication of this abbreviated case makes the information available for other colleges and universities to use in short classroom exercises (2 class hours; 3 hours of outside preparation).

### **How Case might be used in a Class**

By completing this case, students learn what is involved when a hospital performs due diligence to evaluate potential acquisitions. And, students learn about options available for integrating an acquired hospital's systems and technology with an acquiring hospital's systems processes and technology platforms. In this case, Benevolent Health's Information Services is responsible for performing these evaluation and integration activities.

## **STRATEGIES AND RECOMMENDATIONS:**

### **Teaching Approaches:**

(1) Classroom Approach: During the first class, have students form groups of 2 to 4 members. Handout this case and review with the students highlights within it. In particular, during the second class, groups present and discuss their reports, after they have had a week to work on preparing their answers to the open-ended questions in the case.

(2) On-line Approach: At the beginning of the first week, form groups. Post the case including introductory comments, especially emphasizing what CIO Nancy Wilcox is asking James to do. During the week, allow group members to collaborate, either within the on-line classroom, or using another collaboration tool, such as Google G Drive and Hangouts. As in the classroom approach, above, groups develop their answers to the open-ended questions asked in the case. At the beginning of the second week, groups post their reports to CIO Nancy Wilcox in the on-line discussion forum. Ask students to give feedback by commenting on all groups' postings.

## CASE OVERVIEW

The case contains background information about BH's Information Services' approach for integrating an acquired organization into Benevolent Health's standardized information systems processes and information technology platforms.

From 2008 through 2012, Information Services' integration process has worked well. Hospitals acquired were primarily small. Starting in 2013, Benevolent Health's Governing Strategic Planning Committee considered acquiring larger and more mature hospitals. Nancy Wilcox, CIO, feels Information Services' evaluation and integration process needs revamping to accommodate larger and more mature acquisitions. So, she has asked a Information Services' project manager, James McDermott, to (1) assess the situation and report back to her within a week with recommendations on how Information Services could differently evaluate and integrate larger acquisitions, and (2) explore how Information Services could create value for BH without necessarily having to integrate large hospitals fully using the standardized approach.

The author recommends groups of students determine how James would complete the project given to him by the CIO. Groups of students are challenged with (1) determining how to revise Information Services' evaluation and integration policies and procedures to accommodate larger and more mature acquisitions, and (2) determining how Information Services could create value through acquiring a larger hospital without full integration using the standardized approach. The groups are to write-up their findings and report to CIO Nancy Wilcox within a short period of time (one week). Reporting results to the CIO is an excellent lead-in for an optional group presentation, reporting their findings to the entire class.

By completing this case, students should develop an understanding of opportunities available for improving BH's Information Services acquisition process. Students should be encouraged to perform literature searches to understand and apply merger and acquisition concepts, such as "due diligence" and "integration" to better understand the case and improve the quality of their results.

## DISCUSSION QUESTIONS AND ANSWERS

As described above, the case includes two open-ended questions, to which CIO Nancy Wilcox has asked James to respond. As a teaching case, each group is to "put themselves in James' shoes" and respond for him. Each group's report to the CIO will probably be unique; meaning, there are multiple possible responses to the two questions. The final deliverable is a report to the CIO from each group, written as though James is responding. An optional deliverable would be for each group to present their findings to the class.

## **FIRST REQUEST AND SUGGESTED ANSWERS**

Request: Assess the current acquisition situation, which uses a standardized approach, and recommend how Information Services could differently evaluate and integrate a larger and more mature hospital.

A different evaluation process could mean formalizing the way Information Services reviews a potential acquisition. This would include developing a due diligence process with formalized phases and checkpoints at the end of each phase. The first phase is what Benevolent Health is doing in their C-suite meetings – gathering information about potential hospitals to acquire, approaching those they feel have future potential for incorporating into BH, and then working with the Board of Directors and president/CEO to begin discussions about a possible acquisition. The second phase is where Information Services, and other key functions within BH perform a preliminary due diligence visit at the potential acquisition's facilities. For preliminary due diligence, groups could recommend Information Services formalize ahead of time the kind of information they want to gather. And, how they will analyze the information when the visit is completed. A checkpoint is a recommendation from each due diligence team of whether or not BH should proceed with pursuing acquisition. If BH executive management decides to do so, then officers of both organizations usually signed a letter of intent for the acquisition. Phase Three consists of Detailed Due Diligence, where all integration issues are worked out between Information Services representatives and their counterparts at the acquired company.

Details of this three phase process are available from consulting companies and in articles published by people specializing in performing IS/IT preliminary and detailed due diligence. A bibliography of sources is included at the end of the instructor's notes, for use if students ask for help locating information. Students should research this kind of information to understand what is involved in formally evaluating and integrating organization, in order to recommend to the CIO that Information Services adopt a formalized process for evaluating larger acquisitions. Benefits from doing so are reducing costs, minimizing risks, creating synergies, and better understanding how to integrate two organizations' information systems and technology, which is the second request.

## **SECOND REQUEST AND SUGGESTED ANSWERS**

Request: Determine how Information Services could create value through acquiring a new, larger hospital without fully integrating them using the standardized approach.

If the standardized approach isn't used, then choices for integrating include either not integrating at all, or partially integrating processes and/or platforms.

Not integrating the two organizations may be beneficial when the approaches they used are so different from one another for their mainstream information system processes and/or infrastructure platforms. For example, BH uses Cerner for their electronic health records system

(EHR). If the acquisition uses EPIC for EHR, along with other tightly interrelated systems, then it may be better to not integrate EHR processing from the acquiring hospital into the acquired hospital. The acquired hospital's EHR processing could be left as is, and an interface implemented between the two differing processes.

Distance is another factor that may determine whether or not to leave an acquisition alone. If the acquisition is performing extremely well, and is far enough away from BH that no interchange of services will take place, then it may be better to not integrate. One area that needs to be bridged between the two organizations is performance and financial information. The acquiring organization, BH, will want to know how well the acquisition performs in the future, and at varying levels of detail.

Partially integrating two organizations is often a compromise answer, especially for technology infrastructures and common administrative systems; for example, e-mail. Another consideration when looking at an acquisition is "best of breed" processes and/or technology. BH may want to consider adopting best of breed practices from the acquired organization for use across BH's enterprise. Partial integration is a way to create value for BH's enterprise by not duplicating resources and using best of breed practices across the enterprise.

## EPILOGUE

The Group Strategy Planning Committee was discussing the possibility that Benevolent Health's acquisition strategy should change from acquiring smaller hospitals to acquiring larger and more mature hospitals. As it turns out, the disguised hospitals, upon which this case is based, actually pursued this acquisition strategy, as shown by their acquisitions of larger hospitals, or health systems, shown in Table 1, below.

Acquisition Effective Date	Health Care System	Acute Care Hospital Beds
July 1, 2011	University Health System	870
April 1, 2012	Community Health System	479
July 2013 (Letter of Intent)	Hospital Health Center	446

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# **DESIGN PROTOTYPES INC. PROJECT MANAGEMENT (B): PLANNING THE ALPHA C306 PROJECT**

**Patricia A. Lapoint, McMurry University  
Carrol R. Haggard, Fort Hays State University**

## **CASE DESCRIPTION**

*The primary subject matter of this case concerns project management. This case can be used in Project Management, Operations Management, or Quality Management courses. The case has a difficulty level of four. The case is designed to be taught in two class hours and is expected to require four to six hours of outside preparation by students.*

## **CASE SYNOPSIS**

*After 9 years at Design Prototypes Inc., Raef Conley is leading his first major project. While Raef had worked on several small projects, he has never taken on the leadership of a major project. The Alpha C306 project is a significant opportunity for him, one that could advance his career in many ways. Although excited about the opportunity, Raef is also somewhat anxious, as while there is the potential for career advancement, he is also well aware that failure could mean the end of his career at Design Prototypes. Raef's first task was to assemble a project team. Although he has selected his team, he still needs to get time commitments from the supervisors so that he can finalize the team. The case starts with Raef completing the team selection process where he encountered an unexpected complication which had to be resolved. The next step is to complete the project planning process. In order to do this, the team developed a Work Breakdown Schedule (WBS). However a Critical Path Analysis (CPA) revealed that the initial WBS did not meet the 18 month timeline established by management, therefore the team developed a revised WBS. The case revolves around the question of whether the revised WBS is feasible.*

## **INSTRUCTORS' NOTES**

### **RECOMMENDATIONS FOR TEACHING**

This case, the second in a series of cases (Authors withheld, 2012) on project management, provides an opportunity for students to examine the nature of planning a project team. Students are challenged to apply the objective data produced by a critical path analysis

method to the process of planning the project. In order to develop a plan for the project, students will have to conduct a critical path analysis method to determine whether the Work Breakdown Structure (WBS) the team produced is feasible. 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 the 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. Two excellent videos are available. The first is *Project management strategies and tips* (Novello, & Texas Higher Education Coordinating Board, 2010). This 49 minute DVD covers creating a project plan, accountability, project life cycle, work breakdown structure, developing a timeline, and measuring performance.

The second is an 11 minute DVD entitled *Project management at Six Flags, New Jersey* (Karavel, & Sacramento, J, 2008). This video, which is volume 13 of the Operations management video series applies the planning, scheduling and logistics of the project management process used in the construction of Kingda Ka, the world's tallest and fastest roller coaster, at the Six Flags theme park in New Jersey. The video covers work breakdown structure and use of the critical path analysis.

If students need assistance in understanding critical path analysis, there are numerous free web based sources of information. Two of the better descriptions of CPA are found on the Stanford University website (Santiago, & Magallon, 2009) and at MindTools (nd).

Note that the decision point in this case is very apparent as students must determine whether the revised WBS is feasible. To make the decision, students must compute and apply objective data from a critical path analysis method to the revised WBS that the team developed.

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

1. Develop students' understanding of project management
2. Identify the technical elements of the Critical Path Analysis
3. Allow students to use software to calculate the critical path and integrate the results into management decision making.

## **CASE OVERVIEW**

This case revolves around the decision of whether the revised WBS is feasible. The decision should be based on the objective data which will be derived from the critical path analysis the students conduct. The strength of the case lies in demonstrating the steps involved in the development and interpretation of objective data in the project planning process.

Students must realize that while decisions regarding establishing the time components within the WBS are somewhat flexible and subject to negotiation, the data the WBS and CPA produces serves as an objective measure of the process.

### DISCUSSION QUESTIONS

**1. What is the result of the Critical Path Analysis on the revised Work Breakdown Structure?** A revised Critical Path Analysis will have to be performed on the revised task times and precedence relationships from the data in Table 4. Students should show the results of the Critical Path Analysis, the Critical Path network, and identify the activities/task on the critical path.

To run the CPA, there is a free download of Excel OM from the publisher website *Operations Management*, 10<sup>th</sup> edition. MHHE.com/heizer. (Heizer & Render, 2011).

Critical Path Analysis Initial Timetable						
Activity	Time	Predecessor 1	Predecessor 2	Predecessor 3	Predecessor 4	Predecessor 5
A	0					
B	60	A				
C	80	A				
D	6	B	C			
E	14	A				
F	20	E				
G	46					
H	75	E				
I	10	F				
J	6	E	F	G	H	I
K	92	J				
L	30	K				
M	10	L				
N	95	M				
O	30	N				
P	50	O				
Q	50	P				
R	100	Q				
S	20	R				
T	6	S				

<b>Results</b>					
<b>Initial Timetable</b>					
Activity	Early Start	Early Finish	Late Start	Late Finish	Slack
A	0	0	0	0	0
B	0	60	512	572	512
C	0	80	492	572	492
D	80	86	572	578	492
E	0	14	0	14	0
F	14	34	59	79	45
G	0	46	43	89	43
H	14	89	14	89	0
I	34	44	79	89	45
J	89	95	89	95	0
K	95	187	95	187	0
L	187	217	187	217	0
M	217	227	217	227	0
N	227	322	227	322	0
O	322	352	322	352	0
P	352	402	352	402	0
Q	402	452	402	452	0
R	452	552	452	552	0
S	552	572	552	572	0
T	572	578	572	578	0
Project Completion Time	578 days				

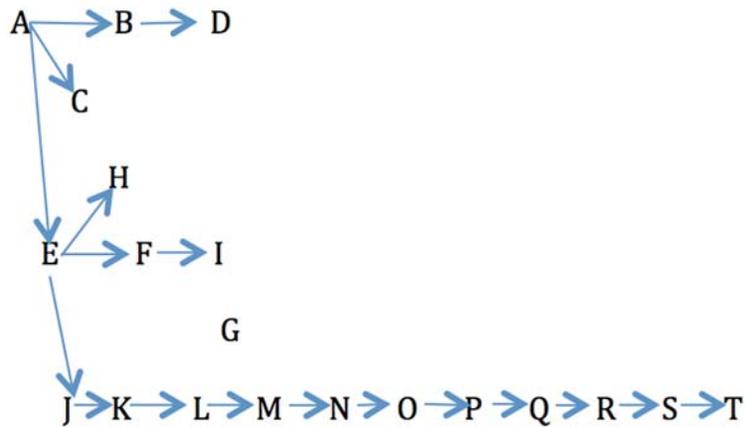
Critical Path Initial Timetable: A, E, H, J, K, L, M, N, O, P, Q, R, S, T

Critical Path Analysis Revised Timetable						
Activity	Time	Predecessor 1	Predecessor 2	Predecessor 3	Predecessor 4	Predecessor 5
A	0					
B	60	A				
C	80	A				
D	6	B	C			
E	14	A				
F	20	E				
G	46					
H	52	E				
I	10	F				
J	6	E	F	G	H	I
K	82	J				
L	30	K				
M	10	L				
N	95	M				
O	25	N				
P	40	O				
Q	50	P				
R	85	Q				
S	20	R				
T	6	S				

Results					
Revised Timetable					
Activity	Early Start	Early Finish	Late Start	Late Finish	Slack
A	0	0	0	0	0
B	0	60	449	509	449
C	0	80	429	509	429
D	80	86	509	515	429
E	0	14	0	14	0
F	14	34	36	56	22
G	0	46	20	66	20
H	14	66	14	66	0
I	34	44	56	66	22
J	66	72	66	72	0
K	72	154	72	154	0
L	154	184	154	184	0
M	184	194	184	194	0
N	194	289	194	289	0
O	289	314	289	314	0
P	314	354	314	354	0
Q	354	404	354	404	0
R	404	489	404	489	0
S	489	509	489	509	0
T	509	515	509	515	0
Project Completion Time	515 days				

Critical Path Activities Revised Timetable: A, E, H, J, K, L, M, N, O, P, Q, R, S, T

**ACTIVITY NETWORK**



**2. Based on the results of the revised Critical Path Analysis, is the project feasible within the 18-month timeline established by management? How long will it take to complete the project? What is the critical path?** The project is feasible based on the data from revised timetable (Table 4). The results from the critical path analysis on the data from Table 4 show that the project will take 515 days to complete. The 515 days fits into the expected 18-month timeframe established by management. The critical path which are the activities that have zero slack are: A, E, H, J, K, L, M, N, O, P, Q, R, S, and T. A delay in the completion of any critical path activity will delay the entire project completion time.

**3. What information should Raef include in his presentation to management? Students are expected to create a PowerPoint presentation with the relevant information and to present their findings to the class.** Raef's presentation to management should include the results of the Critical Path Analysis for both the WBS Initial Timetable and the WBS Revised Timetable. In addition, the presentation should show the Activity Network diagram, the Critical Path, and the time to complete the project. All of this information is shown in Questions #1 and #2.

Students will have flexibility in creating a professional PowerPoint presentation which they can show in class. Not only will the students or student teams present a professional presentation, but they will also demonstrate their ability to use the Critical Path Method software to analyze the case.

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## **FEDEX IN CHINA**

**Mijeong Ryu, Ewha Womans University**  
**Mihee Han, Ewha Womans University**  
**Seungho Choi, Ewha School of Business**

### **INSTRUCTOR'S NOTE**

#### **CASE SYNOPSIS**

The express delivery business in China is growing at a rapid speed and is considered as the third largest market for express services. The Chinese delivery market generated 105.53 billion yuan profit with the growth rate of 31.9% in 2012 alone. While FedEx occupies 20% of the market share in the international delivery market in China, it only takes up around 1% of the domestic express delivery market share. Even though the Chinese government reduced its legal barriers to foreign firms, Chinese Government's regulations are still barriers for FedEx to grow in the domestic express delivery market. In addition, intensive competition from domestic firms exists in the domestic express delivery market. What kind of strategies should FedEx come up with for the Chinese express delivery market?

#### **DISCUSSION QUESTIONS**

1. Should FedEx stay in the Chinese market, or withdraw its business?

Option 1. Withdraw from the domestic express delivery market

FedEx cannot expand its domestic market without gaining operation licenses from the Chinese government. This implies that FedEx's service coverage in the domestic delivery market depends on whether the Chinese government issues operating licenses to FedEx or not. This increases the uncertainty in the Chinese domestic market.

Furthermore, intensive competition exists in the domestic market with local firms such as EMS and SF Express. Local companies can increase their service coverage without getting licenses from the government. This allows them to reach more places and have more efficient distribution systems than FedEx.

While considering the unfavorable legal and highly competitive environment in China, FedEx might focus only on the international express delivery market in China that it already established its competitive advantage. For instance, DHL made an attempt to enter the domestic market by acquiring three Chinese express companies. However, DHL failed to create synergy from these acquisitions and suffered substantial financial losses. As a result, DHL left Chinese market by divesting the acquired companies in 2011.

### Option 2. Stay in the Chinese market

The environment of the Chinese delivery market has changed since DHL exited the Chinese domestic market. For example, the Chinese government has issued licenses for FedEx that allows FedEx to provide domestic express delivery services in eight cities with their own aircrafts. Furthermore, the eight cities that FedEx can provide domestic express delivery services are concentrated in eastern China that generates more than 80 % of the profits in the Chinese delivery industry (see Table 3).

If FedEx withdraws from the Chinese market, it will lose huge opportunities as the Chinese delivery market is growing rapidly (see Table 2 and Figure 1). In 2012, the profit generated from the delivery business accounts for 1055.3 hundred million yuan, and the growth rate of the profit compared to 2011 was 39.2%. Moreover, by 2025, China is expected to have 221 cities with more than 1 million residents, eight of which will have a population of more than 10 million.

**2. If FedEx stays in China, how can FedEx improve its position in the domestic express delivery market?**

### Option 1. Strategic alliances and joint venture

The geographical coverage of FedEx is quite limited due to government regulations. FedEx might increase its service coverage by forming strategic alliances or joint venture with local firms. It will take substantial time and resources for FedEx to develop its own distribution channels. In addition, FedEx will have to acquire operating licenses from the Chinese government. Instead, FedEx can leverage the distribution channels and service coverage of local partner firms by forming strategic alliances or joint venture with local domestic express delivery firms. It might help FedEx to maintain the competitive price for its service and expand its service coverage quickly. Moreover, FedEx already has experiences in forming joint ventures with local firms such as Da Tian W group and Yangtze River Express.

On the other hand, operating through joint ventures or strategic alliances reduces FedEx's control over its distribution process and service quality. For instance, FedEx operated through joint venture with DTW group, a local logistics company. However, later FedEx completely acquired DTW group. One of the reasons for this acquisition was that FedEx planned to increase its direct control over operation and enhance its business flexibility.

### Option 2. Operating licenses

Alternatively, FedEx might focus on providing its domestic delivery services in the eight cities where it currently has operating licenses. The advantage of operating with its licenses is that FedEx can have a great control on its costs, services, and in educating employees.

Furthermore, Table 5 shows that more than 80% of the transactions and profits in express delivery services is generated from eastern China. Eight cities that FedEx currently has operating licenses are located in eastern China. This implies that FedEx might grow in the Chinese domestic express delivery market by increasing its market share in the eight cities. While focusing on the current eight cities, FedEx seeks opportunities to acquire more licenses from the Chinese government.

In contrast, there is uncertainty underlying for FedEx to expand in the domestic express market by acquiring operating licenses. If the Chinese government tries to protect its local firms from the foreign firms, FedEx might not rapidly expand in the domestic express market by relying on operating licenses. Moreover, even if FedEx acquires additional licenses, the cost of operating aircrafts can become another problem. Furthermore, even though FedEx acquires more operating licenses, it will take time and resources for FedEx to build its own distribution channel in the new cities.

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## **CASE OF THE ABANDONED PARTNER**

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### **CASE DESCRIPTION**

*This case deals primarily with management. The difficulty level of this case is three. The case is designed to be taught in approximately 2-4 class periods (the equivalent of 2 to 4 hours) depending on whether or not the instructor wishes to complete the live interview section. This case may or may not require outside preparation; this decision will be left up to the instructor. If the instructor decides to allow the live interview portion, then students should be prepared to discuss the legal issues related to discrimination in employment and questions that are appropriate and allowed versus those questions not permissible in an interview situation. This additional preparation would require outside research into the interview process. Depending on the depth of the content covered in class; an instructor may choose to have students research 1-2 hours prior to preparing interview questions and participating in the live interview portion.*

### **CASE SYNOPSIS**

*This case tells the story of Mary Ellington, a ten year partner of MJ Office Supply Company, and her approach to her business when the only other partner, John Clevinger, decides to leave the partnership. By necessity, the remaining partner, Mary, must change business forms because there is only one person remaining in ownership of the company and because she is the only partner remaining, she makes a decision to continue the business as a sole proprietorship. This requires an analysis of the responsibilities each partner had in the partnership as outlined in detail and the development of a plan to make sure the company moves forward in light of its new business form. As a result, Mary decides that she needs to hire someone to handle certain responsibilities in the company and she seeks to figure out who will match her job description best. This case contains the biographical information for all six applicants that applied for the Office Manager position for MJ Office Supply Company and it is an interesting process to ultimately find the best candidate for the job position.*

### **RECOMMENDATIONS FOR TEACHING APPROACHES**

Although this case appears to be just about hiring a person for a small business. This case is also about the hiring of a position to in part take the place of a partner because this business is now transitioning from a partnership to a sole proprietorship. So in essence, this case is also about that transformation and how important it is to figure out what that former partner's, John's, responsibilities are and what she, Mary, the remaining partner, can take on and what she then needs to hire someone to do.

This case was developed after having a discussion with a small business owner, and her expression of concern over hiring people. It is not always easy to recognize whether or not a person you are hiring will make you money or cost you money in the end. The hiring process is one of the most important decisions that a small business owner can make. This is a decision that is of the utmost importance in making your small business a success.

This case can be used in any small business and/or management course or either in the discussion of personnel/human resources or the changes that a business has to go through in the transformation process from one business type (i.e. partnership) to another (i.e. sole proprietorship). Additionally, it brings up the importance of a sole proprietor recognizing his/her strengths and finding resources to compensate for his/her weaknesses or inability to give enough attention, time and energy allocation to all areas of the business. Students need to focus on recognizing the need of the business owner (both professionally and personally) when hiring an office manager for MJ Office Supply Company.

This case can also be used in business law courses to exemplify the importance of partnership agreements that deal with the dissolution of the partnership and also the forms of business and why Mary had to change the type of business form she was using.

This case can be used as either an in class or take home assignment depending on the nature of the content being taught. It works very well as a small group activity. The case would be given to students to individually read the case and answer any questions that the instructor might assign them. Then in class, the students would be divided into groups of no more than 5 students. Within the small groups, students would share their answers and then as a group prepare a written response to the questions. Additional questions may then be asked that expands the depth of the original set of questions and ultimately leads them to make a decision as to whom they will hire for the office manager position at MJ Office Supply Company. When all small groups make this decision, the group leader of each will share their decision with the entire class. Then a discussion will ensue about the reasons used by each group in making their respective decision. Groups should be allowed to change their minds as persuaded by other groups if the rationale is convincing.

### **STUDENT LEARNING OBJECTIVES**

At the end of the case, students should be able to: (1) recognize the need to change business forms when a partner leaves a two person partnership; (2) analyze partner responsibilities for reallocation of duties; (3) examine the newly created office manager job description in terms of meeting Mary's needs and the needs of the business; (4) evaluate applicant qualifications to decide who could best meet Mary's needs.

### **CASE OVERVIEW**

The case itself sets up the situation in which a partner in an office supply company must leave the partnership which results in the transition of this company from a partnership to a sole proprietorship. The financial state of the company and its stability is very good. The remaining partner (now sole proprietor) must determine her new role in this new company. An analysis of

the responsibilities of each partner is outlined in detail. This leads to a recognition of the need to need for a new position of office manager. The duties and responsibilities of this position are delineated and a search is undertaken. Six people with varying backgrounds and skills apply for the position. Mary must choose which person will best serve her needs and lead to success in her company.

### **ISSUES IN THIS CASE**

1. Dissolution of a partnership
2. Creation of a sole proprietorship
3. Transition from one business form to another
4. Recognition of what the disassociating partner's role was to the business
5. Recognition of the remaining partner's role in the business
6. Delineating what the new sole proprietor would like her role in the company to be
7. Establishing the need of this new sole proprietor to fill some of the role of the partner who is leaving
8. The hiring process of a small business
9. Permissive questions that may be asked in interviews or particulars about a person that may or may not be legally used in the hiring process
10. The decision process of selecting an office manager to work under a sole proprietor
11. Understanding the importance of this decision to the overall success of the business (will it increase the revenue stream of the company or will it negatively affect the revenue stream)
12. How long will this transition from a partnership to a sole proprietorship take with a new office manager?

### **DISCUSSION QUESTIONS**

#### **Question 1**

Why did Mary decide that the partnership could not be maintained after John's announcement to leave the business?

#### **Answer 1**

In their partnership agreement, John and Mary had a preexisting clause outlining dissolution of the partnership. Since the business was financially sound, John's buy out was not an issue. A partnership requires two or more partners. With John leaving, there would only be one partner left; therefore, there is no remaining partnership. Mary could have decided to have gained a new partner or partners. Mary could have also chosen for her business to have become a corporation, but this choice requires a lot of legal formalities that she may not have wanted to have taken on with her immediate obligations in this business. Mary selected the sole proprietorship, which is the easiest and quickest of all business forms to create, and requiring only one person as owner. This allows her to keep the business open and operating without stopping to create a more

complicated form. This form of business does not require any formalities. All profit and loss pass directly to the sole proprietor who files an individual tax return.

### **Question 2**

What does Mary do on a daily basis?

### **Answer 2**

On a typical day to day basis, Mary does the following:

1. Maintains office staff by recruiting, selecting, orienting, and training employees.
2. Maintains office staff job results and team efforts by coaching, counseling, and disciplining employees; planning, monitoring, and appraising job results.
3. Maintains professional knowledge of the office supply business by attending educational workshops; reviewing professional publications; establishing personal networks; participating in professional societies.
4. Handles all personnel as well as customer service issues.
5. Performs all duties related to marketing.
6. Maintains facilities by planning space allocations, layouts, and product floor moves; arranging for and supervising building maintenance.

### **Question 3**

What is Mary's skill set?

### **Answer 3**

Mary has excellent people skills (evidenced by work with personnel, customer relations, and marketing).

### **Question 4**

What does John do on a daily basis?

### **Answer 4**

1. Prepares and monitors budget by gathering and organizing financial information; scheduling expenditures; analyzing variances; implementing corrective actions.
2. Maintains records by defining procedures for retention, protection, retrieval, transfer and disposal of records.
3. Maintains building services by identifying, selecting, and monitoring vendors.

4. Maintains office services by organizing office operations and procedures; preparing payroll; controlling correspondence; designing filing systems; reviewing and approving supply requisitions; assigning and monitoring clerical functions.
5. Maintains office efficiency by planning and implementing office systems, layouts, and equipment procurement.
6. Completes operational requirements by scheduling and assigning employees; following up on work results.
7. Keeps management informed by reviewing and analyzing special reports; summarizing information; identifying trends.
8. Achieves financial objectives by preparing an annual budget; scheduling expenditures; analyzing variances; initiating corrective actions.

### **Question 5**

What are some responsibilities of John's that Mary can perform?

### **Answer 5**

1. Prepares and monitors budget by gathering and organizing financial information; scheduling expenditures; analyzing variances; implementing corrective actions.
2. Maintains building services by identifying, selecting, and monitoring vendors.
3. Completes operational requirements by scheduling and assigning employees; following up on work results.
4. Achieves financial objectives by preparing an annual budget; scheduling expenditures; analyzing variances; initiating corrective actions.

### **Question 6**

What responsibilities of Mary's or John's can the new person be required to perform?

### **Answer 6**

From John:

1. Maintains records by defining procedures for retention, protection, retrieval, transfer and disposal of records.
2. Maintains office services by organizing office operations and procedures; preparing payroll; controlling correspondence; designing filing systems; reviewing and approving supply requisitions; assigning and monitoring clerical functions.

3. Keeps management informed by reviewing and analyzing special reports; summarizing information; identifying trends.
4. Maintains computer ordering, restocking, and inventory system.
5. Maintains office efficiency by planning and implementing office systems, layouts, and equipment procurement.

From Mary

6. Supervises building maintenance.

### **Question 7**

Does the job advertisement that Mary developed include everything she needs for an office manager?

### **Answer 7**

The job advertisement does seem to satisfy her most immediate needs. Some students may think that Mary has taken on many of the people skills and negotiation and sales skills; therefore, the question in most minds may be whether or not these skills are truly needed by the new person. Additionally, students may question whether or not Mary may later find that she can no longer continue to perform all of the responsibilities that she undertook when John left. Some of these may later have to be transferred to the new person or another reevaluation may be necessary. She may not want to continue to do all of the marketing duties over time, due to the increasing demands with personnel and customer relations.

### **Question 8**

Are there any additional skills that should have been included in the job advertisement?

### **Answer 8**

This answer may vary based on students; however, the most dominant item would be that this new office manager be able to take on Mary's responsibilities in her absence. Cross training could be an important aspect for such a small business and this responsibility was not listed. Additionally, "other duties as assigned" should be added due to the fact that one never knows what is truly needed especially in this newly created position. Although Mary took on all of John's financial management responsibilities, she may find that those responsibilities need support information from the new person and that may require a better grasp of financial matters than those listed in the job description (as familiarity of QuickBooks).

### **Question 9**

What assumptions have you made about Mary?

**Answer 9**

It appears as though Mary focused primarily on customer relations, personnel issues, problems with vendors, marketing and working with the products and product placement. It also appears as though she is very inexperienced about the financial matters related to this business. Even with the addition of the new person, she may also be taking on more responsibilities than she can handle due to her already busy activity.

**DISCUSSION OF APPLICANTS**

Any time there are job advertisements, there are always questions about those areas that are legal to use in making an employment decision. The following are common issues. Age is not able to be used as a qualification unless age would be considered an integral requirement for the position that could be defended in a court of law; therefore, age should not be used as a qualification for this position except for the above 18 for child labor laws of that state for full time employment. Gender should not be used as a qualification consideration in this particular position due to the fact that it does not require a particular gender to fulfill the duties of the position. Education and experience are very relevant to this position and the duties required of the office manager.

**Question 10**

What are some issues that students might have during the evaluation of applicants?

**Answer 10**

Is workstudy experience equivalent to experience outside a university environment? Workstudy experience could be used if appropriate for the position.

What role does personality play in making personnel decisions? In this case, where the person will interact with the public, people skills are important and at times vital to performing duties and the overall success of a business.

Is volunteer experience equivalent to experience in a paid position? Volunteerism can be equivalent, depending on the duties and authority given to the person in that position. Is experience in a different business transferrable to this business? Yes, many skills such as organization, people skills, management skills, computer skills are transferable regardless of the type of small business. In fact, a person with these skills or experience in a related or unrelated business may be extremely valuable because they may have created strategies and systems that could be valuable to Mary's business.

**Question 11**

Do you think job advertisements need to be followed rigidly? If so why? If not, why?

### **Answer 11**

A well thought job advertisement can certainly attract appropriate applicants; how those requirements are evidenced in applicants could be different from person to person. So an interviewer has to be flexible enough to recognize these differences and ways in which a particular requirement is found in any one applicant. You cannot expect applicants to have abilities that are not specified in the advertisement.

### **Question 12**

How does each applicant meet the preferred qualifications, required skills, and job duties?

### **Answer 12**

Applicant #1: Lester Button

Preferred Qualifications: He has met the required management experience; he has worked with a bookkeeping program (could be QuickBooks); he has experience with online ordering. Required Qualifications: He has computer skills in Word and Excel.

Applicant #2: Valerie Gomez

Preferred Qualifications: She is six months away from an associate degree in business administration. Job Duties: She has experience with special projects and keeps management informed by identifying trends in sales.

Applicant #3: Sam Townsend

Preferred Qualifications: He has a BBA in Finance. He has work experience with ordering, sales and tracking of inventory. Required Qualifications: He has excellent computer skills. He has sales skills (as implied by his workstudy). He has an outgoing personality (which implies people skills). He also seems to have organization skills (as implied by his workstudy).

Applicant #4: Luigi Costello

Preferred Qualifications: He is confident in management skills. He has owned the same type of business in another state. An area of caution might be how long he owned the same type of business and why he is no longer with that business. Required Qualifications: He is confident in his selling skills. Job Duties: He is familiar with all activities of this type of business (as implied by ownership of the same type of business). An area of caution is that he is very knowledgeable about this type of business and knows how it should be run (implying that he may be difficult to relate to because he is so self-assured, but then why is he no longer running that business).

Applicant #5: Ginger Haller

Preferred Qualifications: She must have a degree (as implied by being a retired faculty member). She must possess management skills (as implied by her three year interim department chair position). Required Qualifications: She must have excellent computer skills, especially in Excel (as implied by teaching the subject). Job Duties: She has experience with record keeping; She also has implied organizational skills with her maintenance of office services and efficiencies. She also monitored equipment need and use.

Applicant #6: Margaret St. John

Preferred Qualifications: Ten years of volunteerism with the cancer society implies management skills. She also has QuickBooks experience. Required Qualifications: She has fair computer skills. She has excellent communication skills (which can be transferred to people skills). She also has excellent organization skills (as implied by her continued work with the cancer society).

**Question 13**

Who would you hire for the office manager of MJ Office Supply Company?

**Answer 13**

There is no one correct answer. Each applicant has his/her own strengths and weaknesses. This case is more about the process that is used to evaluate each applicant than a specified result.

**EXPANDED TEACHING STRATEGY**

This case can be expanded upon by the use of a role play interview scenario. It is recommended for use approximately two months after the initial case discussion. This allows students to interview the paper applicants from the case study in a live and interactive format. The reason a teacher would wait a period of time to use this expanded strategy is so students will forget about the actual applicants, thus, allowing them to see the applicants from a new perspective. Students (including the ones designated as the applicants in the role play) will not realize these are the applicants from the original case. The names of the original case applicants will not be used. Please make sure to retain the original groups' work on the original case as well as their selection of applicant to fill the job position of office manager.

1. Select six students and take them outside of the classroom
2. Give each student an applicant description without the name. (Do not mention that these are the people in the earlier case study).
3. The rest of the class should be divided into 6 groups.
4. Indicate to the students that you are going to be interviewing and hiring an office manager for your small business.
5. Have the interviewers decide on 5 questions to ask all applicants.
6. Have applicants, using their own name, interview with each group. Allow 5-10 minutes per group.
7. Ask groups to pick the applicant that they think would work best. Specify 3 reasons for the selection.
8. Each group should share their selection and 3 reasons.
9. Ask if any part of this scenario seems familiar.
10. Let them know that these were the same applicants from the case study.
11. Did they pick the same or a different person for the job and why.
12. What differences did students notice between selecting an applicant based upon an application alone and an actual live interview.

