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TABLE OF CONTENTS

MANAGERIAL CARROTS AND STICKS: ENCOURAGING STRATEGY IMPLEMENTATION

John Leaptrott, Georgia Southern University
J. Michael McDonald, Georgia Southern University
Jerry W. Wilson, Georgia Southern University

CASE DESCRIPTION

This case addresses many strategic management issues. Selected issues related to the formulation and implementation of both low cost and differentiation strategies are illustrated. The importance of lower level managers embracing their company's strategy and showing initiative to implement that strategy is also highlighted. The case illustrates the importance of having these managers understand and recognize the need to use informational resources available within an organization to objectively assess their area of responsibility in the context of strategy implementation and gives examples of how they can act constructively based on that information. Other topics include a discussion of challenges in transitioning from the role of college student to employee and from employee to manager. The case also provides students with a perspective as to how they might be evaluated by their superiors once they are employed as managers. The case has a difficulty level appropriate for senior level and graduate level students in strategic management courses. The case is designed to be taught in 1-2 class hours and is expected to require 3 hours of outside preparation by students.

CASE SYNOPSIS

The case chronicles the strategic evolution of a fictitious privately held small local company that grew to become a midsize regional sporting goods retailer. The company was founded by three brothers who used their enthusiasm for sports and the knowledge gained from their participation in those sports to formulate and implement a successful differentiation strategy. This strategy resulted in steady growth of the company in multiple locations. A private equity firm bought the company and after a failed attempt at pursuing a strategy primarily designed to lower costs and increase profitability prior to an initial public offering, the firm replaced their CEO hired to pursue that strategy with a new CEO who is orchestrating a return to a differentiation strategy. The company has now regained profitability by returning to that strategy.

As part of the company's new evaluation and control procedures associated with the differentiation strategy, the CEO and the Vice President of Managerial Development meet individually with each store manager each year to review the performance of their store for the prior year. The case describes two of those meetings. In one meeting, a store manager receives praise for achieving a high level of performance by successfully formulating and implementing a differentiation strategy tailored to the local market. In the other meeting, a different store *manager receives criticism for the substandard store performance at his store due in large measure to his failure to embrace the company's return to a differentiation strategy. This manager continued to implement the unsuccessful companywide cost-based strategy instituted by the prior CEO. The new CEO must decide how to reward the personnel at the high performing store and what changes need to be made at the lower performing store.*

THE COMPANY

Sport Life Outfitters, Inc. is a regional sporting goods retailer serving Washington, Oregon and Idaho through approximately 30 small and mid-size retail locations. The Seattle based company was founded in 1950 by three brothers, Jim, Bill & Tom Lee. The original business model included selling high quality sporting goods that corresponded to the recreational interests of each brother. Jim was an avid golfer and a member of one of the larger country clubs in the Seattle area. Bill was a camping and hiking enthusiast who enjoyed the recreational opportunities in the nearby Cascade Mountains and Olympic Peninsula. Tom regularly played tennis at one of the area's tennis clubs. The brothers brought their enthusiasm and knowledge of their particular sport to their retailing activities at the store. Jim was in charge of golf related sales. Likewise, Bill was in charge of camping and hiking related sales and Tom was in charge of tennis related sales. The brothers' activity in their particular sports resulted in productive relationships with the public that lead to both increased sales and positive word of mouth advertising. Their in-depth product knowledge allowed them to purchase inventory that was in great demand in their local area and was usually not available at the national retailers' Seattle area stores. Because of their success at their initial location, they soon expanded to five new stores in Washington and three in Oregon. The brothers recognized that their primary distinctive competitive advantage in their marketplace was the level of product knowledge and enthusiasm for recreational activities possessed by their sales staff. That knowledge and enthusiasm was gained through actual participation in recreational activities in their respective market areas. As a result of this success, the company required new employees to be active or past participants in a recreational activity that corresponded to a merchandise category sold in that particular store.

As the brother's approached retirement age in the mid 1990s, they were approached by Auctus Argentarium Partners (AAP), a large private equity firm located in New York. AAP performed due diligence on the company and, based on the outstanding past performance history of Sport Life Outfitters, Inc., made the three brothers a cash offer for their ownership interests which they accepted.

THE BAKER ERA

While performing their due diligence preceding the offer to purchase the company, the analysts at AAP noted that the gross profit and operating profits of the company were typically 35% and 11% of sales respectively, which were about 5% higher than the 30% gross profit and 6% operating profit percentages common to the industry. The company's plan was to acquire Sport Life Outfitters, Inc at a price based on operating profit percentages at the industry average and at a multiple that was lower than the price earnings ratio of publically traded companies in that industry. Once the company was acquired, they planned to grow the company as fast as possible by adding additional stores and boost the profit percentages implementing a cost based strategy. Bolstered by anticipated higher sales and net income increases achieved through cost cutting, they would then take the company public and realize a substantial profit on their investment.

Soon after the successful acquisition from the Lee family, AAP hired a management team to oversee the implementation of this plan. The new CEO, Greg Baker, started his career as a staff accountant with a public accounting firm, transitioned to a CFO position at a manufacturing company and was promoted to CEO after initiating a significant cost reduction program at that company. Subsequently, he accepted CEO positions at progressively larger manufacturing companies. He continued his history of successful cost cutting at these companies. Once AAP selected Mr. Baker as CEO for Sport Life Outfitters, Inc., he chose to bring his operational and accounting team with him from his last manufacturing company assignment even though the team had minimal retail and sporting goods industry experience.

Mr. Baker's team rapidly opened 19 additional stores in Washington, Oregon and Idaho. The company sought to reduce costs in many ways as part of the implementation of a cost based strategy. Except for the positions of store manager and assistant store manager, wages were lowered to a range that began at minimum wage and ended at $2.00 per hour above minimum wage. In addition, they no longer provided the high deductible medical insurance to their employees that had been offered to employees by the Lee family. The number of sales staff in each store was also reduced by approximately 20% and, in order to facilitate the staffing of stores during the rapid expansion, the requirement that employees currently or formerly participated in sports activities related to products sold in the stores was discontinued. These new policies substantially reduced labor costs. In addition, in order to lower purchasing, logistics and merchandise costs through volume purchasing, they standardized the product offerings in every store and centralized the purchasing activity in the Seattle home office. Unfortunately, soon after these cost cutting changes were made, same store revenue and profitability began a slow, steady decline. After four years under Mr. Baker's management the company was no longer profitable and, by the sixth year, the company reported a substantial loss. Because of this disappointing performance, AAP had to postpone plans to take the company public and decided to replace Greg Baker with Jack Colwood.

THE COLWOOD ERA

After receiving his bachelor's degree in marketing, Jack Colwood started his career as an assistant store manager for a national retailer that was pursuing primarily a cost leadership strategy. He soon became frustrated by the amount of inappropriate inventory shipped to his store. The company utilized a centralized purchasing activity that provided similar merchandise to each store. The advertising and marketing functions were also centralized. As a result, promotions and advertising activities were identical from store to store. While most merchandise sold satisfactorily at his store, a substantial amount was out of season for his location or was simply not in demand in the local marketplace. This merchandise tied up display space and had to be highly discounted to be sold. Savvy local and regional retailers were much more sensitive to the particular needs of his local area and were able to tailor their inventory to better meet the demands of the local customer base. He recognized that a national retailer could not easily customize their product offerings to optimally fit each local market. As a result, these larger national companies had to offer lower prices for goods that may not be optimal for some customers, but rather acceptable to most customers, in order to generate a satisfactory level of sales. He also realized how difficult that cost leadership strategy was to implement since a high volume, low margin operation required a high capital investment for the logistics system, IT system, high inventory levels and large retail stores necessary to produce a high volume of sales. However, Jack did successfully utilize whatever little discretionary purchasing and advertising authority he had as assistant manager, and later as store manager, to tailor his store to best meet the needs of his local customer base. His marketing skill in selecting and promoting products over which he did have purchasing authority resulted in higher performance for his store compared with similar stores in his region.

While he felt very positive about his store achieving higher performance due to his limited purchasing and marketing activity, he felt somewhat constrained by the centralized, cost based strategy of the company. He realized that he would prefer a management position in a company that would allow him substantially more decision-making authority. In preparation for that career change, Jack returned to his University and received an MBA with a marketing emphasis. After receiving his degree, Jack was hired by a small regional hardware retailer as their marketing manager. He recognized that his new employer could not be price competitive for merchandise that was essentially the same as that sold by the national discount stores and national hardware retailers because of their greater purchasing power. Therefore, he embarked on a strategy to increasingly differentiate the company based on customer service and product availability. He instituted an employment policy that required new employees possess prior experience in the hardware or building industry and provided in-house training for employees conducted by the major vendors on many of their products that were sold by the company. He had each store manager set up meetings between Jack, the store manager and a few major contractors in each store's area to determine what additional items could be carried by that store to better serve the contractors' needs. In addition, he had the IT department provide each store manager with a summary of sales by product for that store and the average for all stores. This allowed each manager to identify specific product categories that might possibly receive an increased emphasis and categories that may well be over emphasized given their level of sales. He placed store employees on an incentive system based on each store's profitability. He also returned purchasing and employment decision-making authority to the store managers. In a short period of time, the efforts to differentiate the company from its competition resulted in significant increases in performance. Both revenue and net income increased substantially. Jack's success was noted by AAP after they had acquired the hardware retailer and Jack was soon reassigned to be CEO of Sport Life Outfitters, Inc.

In the three years since replacing Greg Baker, Jack instituted many of the policies he used successfully at the hardware company. He delegated a substantial degree of decision-making discretion to the individual store managers. An incentive system was instituted that rewarded store managers and their sales staff if they met profitability goals based on their store's previous performance. Colwood's primary mandate to his store managers was to build competencies in product areas that were likely to be the most successful in each location. This involved seeking personnel that had considerable expertise in those product areas to replace the relatively unskilled sales associates hired in conjunction with the previous cost-based strategy. He also suggested that store managers involve those personnel that possessed high levels of product knowledge in the purchasing and promotional decisions related to their product area. The policies he developed at the hardware company also included a commitment to the development of store managers.

He recognized that there was a major transformation of roles when someone was promoted to store manager and that the company had a responsibility to assist new store managers with making this transformation. Based on his experiences managing the hardware retailing company, Jack observed certain problem areas that their new managers typically encountered. His observations were also confirmed by research he read while seeking his MBA (e.g. Hill, 2004; Knippen & Green, 1999; Pearce, 1982). He found that many new managers had difficulty adjusting to an environment where they did not receive frequent specific guidance from a superior, but rather were expected to use their discretion to manage in ways that achieved the company's objectives. Often, the anxiety new managers had regarding the lack of specific guidance was heightened due to the time required to deal with unanticipated problems that would arise, or by the perceived need to "do it yourself" rather than properly delegate tasks to the other employees. Many new managers also had difficulty in forming proper relationships with their store employees. Frequently these problems arose when other unsuccessful candidates for the store manager position remained at the store and bore some degree of resentment to the successful candidate. Relationship problems also arose when the new store manager was relatively unskilled at giving instructions or disciplining employees. Some managers felt hindered in disciplining employees because of relationships that were formed prior to being selected as the manager, similarities in age, education or experience between themselves and their subordinates or because of a perceived need to be friends with all the employees.

Jack's primary tool in helping new managers prepare for and execute their new responsibilities at Sport Life Outfitters, Inc. was to establish the position of Vice President of Managerial Development and hired Patrick Raines to serve in that capacity. Patrick's developmental program consisted of two primary activities, onsite one-on-one new manager orientation sessions and annual store manager retreats. When a new manager was designated for a store Patrick would spend about two weeks at the store site helping the new manager adjust to his or her new role. During that visit Patrick would emphasize that the new manager's future success was no longer primarily dependent on his or her individual efforts, but dependent upon the collective efforts of all the store employees. He would also stress that the company's differentiation strategy was based on offering unique products tailored to the local market and high levels of customer service. Therefore, the training provided by Jack Colwood and Patrick Raines was directed toward teaching store managers to differentiate their stores by providing excellent customer service and specialized product selection. To help achieve this goal they encouraged store managers to create an organizational culture which fostered entrepreneurial activity that encouraged and rewarded innovative thinking by employees.

Jack also realized that experience plays a significant role in developing the managerial skills of the new store managers. To accelerate the process of experiential learning Jack asked Patrick to moderate annual full day retreats attended by the store managers at corporate headquarters. The goal of these retreats would be to allow the more successful experienced store managers to act as mentors to the newer store managers through their leadership of small group breakout sessions. These sessions consisted of small numbers of store managers that were generally located fairly close to one another. Common topics included the realities of the manager's role, assessing employee strengths and weaknesses, and how managers successfully deal with those strengths and weaknesses, managing stress, and establishing and maintaining the type of entrepreneurial culture that Sport Life wanted to develop. Other topics included various decision making techniques, how to best use the IT resources of the company for store management purposes and significant developments in the industry and within the network of the company's stores. The breakout sessions usually resulted in an ongoing informal mentoring relationship between the newer store managers and the store manager that lead the breakout session and peer to peer relationships between the breakout session attendees.

Jack was also aware that many other factors could affect the success of a differentiation strategy. As leases for stores approached expiration, the facilities manager for the company consulted with each store manager to determine whether the current store location was optimal for their customer base or whether a different location might be preferable. In addition, Jack had the IT department prepare detailed product sales histories for each individual store and for the company as a whole. Store managers could also request any additional performance information reports they felt were helpful in managing their store. The annual store manager's retreats had resulted in most managers' requesting similar IT reports that they collectively felt were genuinely helpful in managing store operations.

The individual store managers reacted to Jack Colwood's leadership in different ways. Almost all store managers adapted to the return to a differentiation strategy quite successfully. They appreciated the increased decision-making discretion, particularly in product selection, marketing and employee hiring decisions and welcomed the opportunity to be financially rewarded along with their staff for high levels of performance. However, a few store managers were more resistant to the changes implemented by Jack Colwood choosing to continue in varying degrees to operate as they did when Greg Baker was CEO.

THE TACOMA STORE

Nancy Harding, manager of the Tacoma, Washington store, had been hired by the original founders of Sport Life to work in one of the Seattle area stores prior to the purchase of the company by the private equity firm. She played on the golf team for her University and regularly competed in amateur golf tournaments after graduation. One of the brothers, Jim Lee, had met her at a tournament and recruited her for a sales associate position. Because of her success in building the golf related sales at the store she was soon promoted to assistant store manager and then store manager. She personally supervised the golf sales for the store. She was quite successful promoting golf apparel and equipment at amateur golf tournaments and at related social functions held in conjunction with the tournaments. She received periodic incentive bonuses for her promotional activities. After the company was acquired by the private equity firm (AAP) and Greg Baker (then CEO) instituted centralized purchasing, the type of golf merchandise available to sell became very restricted and Nancy's store was no longer able to purchase many of the brands that had proven so successful in the local area. Once these brands were no longer available, the remaining golf merchandise was usually also available at the national sporting goods retailers at prices that were slightly lower than could be offered by Sport Life Outfitters, Inc. As a result, her incentive bonuses began to decrease. Because of the lackluster performance of the store in the final year of Baker's tenure as CEO, she received no incentive bonus and had begun to contact potential employers about employment opportunities.

Jack Colwood's appointment as the new CEO and the company's return to a differentiation strategy came as welcome news to Nancy. She recognized the opportunities that he had provided to store managers and employees through the granting of expanded store level decision-making authority. She looked forward to the ability to earn incentive bonuses once again. In an effort to better understand the demand in her particular area, she requested product sales histories for the period prior to the implementation of Baker's low cost strategy and compared that to her personal recollections of store activity by product type during that period. The sales history data confirmed her recollection that the store had previously performed exceptionally well in the area of higher priced bicycles and women's golf apparel and equipment. The information also indicated that sales in these areas rapidly declined when the centralized purchasing office replaced the more expensive specialty items with lower price point items that were also frequently available at many large national retailers.

Many of her sales staff left when the company cut wages and benefits under Baker's policies and were replaced with associates that had little or no knowledge of the products. After Baker left and the company once again implemented a differentiation based business strategy, Nancy began to change the organizational culture in her store. She returned to the hiring policy of the Lee brothers that required new employees to be active or past participants in a recreational activity that corresponded to a merchandise category sold in her store. She provided her sales staff with training by product vendors to educate them regarding their products. Any sales staff persons that resisted the new requirements for increased product knowledge were replaced. She also provided incentives, such as partial club membership fee reimbursement for her sales staff, which encouraged them to participate in activities involving merchandise sold by the store. For example, Nancy reimbursed Ernest Michaux for his membership fee in the local mountain bike club and provided him with a demo bike to ride in the club's events. Similarly, Nancy reimbursed George Snyder for his entry fees for local fishing tournaments and provided him with the latest in high quality fishing tackle to use in those tournaments. The sales personnel, by virtue of their increased customer contact, were now in a position to offer Nancy valuable advice on which products to order. This approach, coupled with modest financial incentives for the sales personnel based on increased sales, had resulted in a much higher public profile for the store and greatly increased sales and profits for those product lines that were promoted by the sales staff.

Many of her managerial ideas had been adopted by other store managers after she presented them at store manager's retreats. She looked forward to the midyear review visit by Jack Colwood as it represented an opportunity to gain new ideas and draw upon his experience in dealing with issues that affecting her store.

THE EUGENE STORE

Don Canard, manager of the Eugene, Oregon store, was hired as a sales associate in that store and had been promoted to store manager during the period when the company was managed by the previous CEO, Greg Baker. Don originally was a hiking and camping enthusiast when he joined the company, but found participating in outdoor activities less appealing as he reached middle age. He was promoted to store manager after the previous manager, hired by the Lee brothers, quit after the incentive program was reduced. He had received recognition from Baker for reducing the store's labor costs by replacing employees that were lost due to the wage and benefit reductions with part time employees that did not qualify for the modest benefits the company provided to full time employees. These part time employees were generally willing to work for minimum wage rates. This hiring policy reduced overall labor costs for the store. Typically, these employees were either retirement age and were supplementing their social security income with their wages or were second income earners in their family.

Unlike Nancy, Don chose to make only small, incremental changes to his store's operation once Jack Colwood took over the management of the company. He had developed close friendships with most of his store's suppliers over the years and trusted their judgment when selecting what merchandise to carry in the store. Unfortunately, because these suppliers did not offer a great variety of products, the product mix currently offered in the store heavily emphasized hiking and camping equipment and had not changed significantly since the company was acquired by AAP. Many of the products that were offered by the store were very similar or identical to what was offered by the national retailers although Don did take advantage of discounts offered by suppliers on manufacturer overruns and discontinued products. None of the current sales staff participated in activities related to sports merchandise the store offered, and few were eager to attend after hours training sessions the suppliers would occasionally volunteer to present. However, Don felt strongly that all the members of his sales staff were really dedicated, dependable people although he felt that their managerial ability was limited to the point that he needed to personally make all important decisions related to the store. Sales and profits had been stable since Colwood took over, but at a level that was well below that of the company's stores in similar size markets. Although he would have liked to receive additional pay from the incentive bonuses, he felt that it would take too much effort to bring his store's sale performance to that level. Instead, he tried to reduce costs as much as possible through his hiring practices and through the purchase discounts his suppliers offered him, primarily on closeout merchandise. Like all store managers Don had access to whatever accounting information related to his store that he needed. However, he did not have a business degree and did not possess much understanding of the accounting process or financial statements. He did focus on the "bottom line", the monthly net income figure each month, and was content if each month was profitable and not substantially less profitable than in that same month during the previous year. He was uncomfortable being gone from the store for any length of time and often did not attend the store manager's retreats because he felt it was more important to be at his store. When he did attend retreats, he felt much of the discussion was not relevant to his particular store because he perceived his store's market to be somewhat unique. Don did not look forward to Jack Colwood's midyear review visit for many reasons. It took time away from overseeing the many aspects of store operations and often resulted in some measure of conflict as Jack did not seem to fully understand the unique character of his store or its marketplace.

THE REVIEW PROCESS

Jack Colwood instituted a two part annual managerial review process. The first part was a series of on-site midyear reviews conducted in the late summer or early fall after the six month financial statements were completed. Armed with financial results for individual stores, Jack and Patrick Raines traveled to each store to meet with the store manager. They would also meet privately with employees without the store manager present to hear their concerns. They would end each visit with a meeting with employees and the store manager to discuss the company's differentiation strategy, developments in the industry and management's performance expectations for the coming year with respect to that individual store and the company as a whole.

The second part of the review process was unofficially called "judgment day", the day when each store manager met privately with Jack and Patrick at corporate headquarters to review the performance of his or her store for the previous year. The "judgment day" process consumed much of the months of March and April and began once the accounting for the previous calendar year was completed. This afternoon both Nancy and Don were at company headquarters to meet with Jack and Patrick to receive their official annual review.

NANCY'S REVIEW

As Nancy entered Jack Colwood's office she felt a bit nervous. Jack and Patrick were seated at the conference table in Jack's office. On the wall adjacent to the conference table was a large flat panel television displaying line graphs containing the past two year's month by month sales and gross profit results for her store by major product area. After she was seated, Jack addressed her:

Jack: Welcome Nancy. It appears your store has had a very good year. I am particularly pleased with how well you have understood the company's efforts to return to a differentiation strategy.

Nancy: I'm really pleased with the company's return to a differentiation strategy. Your new policies have allowed me to feel that I'm empowered as a store manager. They have provided an incentive system that allows my staff and I to receive significant financial rewards if our store's performance results in increased profitability for the company. My staff sincerely appreciates the opportunity to be rewarded for high performance.

Patrick: As you are well aware from our meetings at your store and the various store managers' meetings I've conducted, Jack and I are convinced that a differentiation strategy is the only way the company can compete with large national retailers who enjoy a cost advantage. The large chains have much higher purchasing power and extremely efficient in-house logistics systems. I know that implementing a differentiation strategy in the sporting goods retail marketplace is difficult, but it's not impossible. When you consider how sports related recreational activities can differ among our many store locations, the company has to give store managers the ability to seek out market opportunities in ways our larger competitors simply can't pursue. When this company was founded by the Lee brothers, it initially employed a differentiation strategy with great success. When it was purchased by AAP it got off track strategically. Since we've returned to a differentiation strategy, and once again begun to focus on giving store managers more discretion to be innovative in finding ways to pursue that strategy, we're getting really good results.

Nancy: A good example of how the new strategy has worked to our advantage has been our success in selling mountain bikes. My store sponsored Ernest Michaux, the sales person most knowledgeable about mountain bikes. The store paid his membership fees for the local mountain bike club, paid his expenses to participate in several high profile events, and negotiated with the representative from one of our mountain bike suppliers to provide him with one of their bikes that they thought would be a good fit for the mountain bike enthusiasts in our area. Based on the feedback Ernest received while participating in the events, we stocked bikes that these enthusiasts preferred. The large retailers stock bikes for the general public that generally sell in the under $500 range. We've found that our market is in the $1,000+ price range. We now pretty much own that segment of the market in our area. To solidify our market position, we've dedicated part of our square footage to a bike service facility and have hired Rachel Rusch, a technician that Ernest met from his club activities who's also active in the club. The store also sponsors her and provides her with a demo bike from a different supplier that also fits our market well. We've added to the activities of the service facility as we've seen the demand develop. Even though we're not large enough to compete with the national retailers in obtaining volume discount pricing, the size of our company allows us to realize some discounts single store retailers don't receive. In addition, our multiple store locations and resulting volume allow us to demand exclusive rights to market the bikes we carry in our area.

Jack: As a result of your initiative, you've not only built a core competency related to that product for your store, but that competency is a distinctive one. You're now insulated from national retailer competition in a large segment of the mountain bike market in your area. Plus, you've made it very difficult for a small independent bike shop to compete. In your market segment for bicycles you have a purchase cost advantage, dealership exclusivity and, in addition, you have the intangible value of the relationships Ernest, Rachel and other sales personnel have with the bicycle enthusiasts in the area. The ability to develop these types of competencies is exactly the type of attribute I am looking for in store managers.

Now let's review how the store has performed over the past year. Because of the ease of accessing accounting data, the company can readily assess numerous metrics related to your store's performance. We can get a very detailed picture of how your store performed compared to prior years and also how the store performed in comparison to our other stores in the area. Meeting quantitative expectations is a reality we all have to face. I'm no exception. The board hired me to increase the profitability of this company. If I cannot do that they will quickly find someone that can. The same standard has to apply to store managers as well. However, in your case you need not worry. Your store's quantitative measures have been excellent. As you can see by the year over year sales and gross profit by product line you have produced a dramatic increase in almost every area. You can see the increase in the bike sales which our analysts had already identified in comparing your store's results with our other stores. The next few slides show your store's performance in each product area compared to the other stores in your area and companywide averages. You will note that your store compares favorably with both the stores in your area and the company as a whole. Great job!

Nancy: Thank you very much. However, it has been a team effort and my staff deserves credit as well. I have been very careful about my human resource management policies at the store and I believe these policies have made a significant contribution to our success. In addition to using valid criteria in the hiring process, I feel a manager should be actively involved in developing their subordinates. One area I emphasize is developing new employees that are recent college graduates and helping them transition from being college students to being productive employees. This developmental activity includes explaining the differences between their former role as a college student and their current role as an employee. I also carefully and thoroughly communicate our company's expectations for their behavior and performance as employees, observe them closely during the initial period of employment and assign a very experienced colleague as a mentor for their first year.

Jack: It is certainly true that your store's success has been a team effort and your employees' contribution to your store's success will be recognized. I agree that not all recent college graduates can make the transitions from college student to employee successfully. None of our store managers have the time to give detailed instructions on what each employee should be doing like they receive from a professor in a college class. We have to have employees who are self-motivated, resourceful, and who understand how different our company's expectations are from what is expected of a college student. I am glad to hear you share my perspective on both hiring and employee development.

In reviewing the data for your store our analysts noted that sales and profitability in the areas of children's soccer and ladies' workout wear was exceptional strong. What is the story behind those numbers?

Nancy: That is an interesting story. One of my two assistant store managers, Amber, has two sons, Lucas and Hunter. They both play soccer in the youth soccer league and Amber is an avid runner. She is also a very astute marketing person. Amber suggested that we give the youth soccer teams a 5% discount on shoes and apparel. She felt that would increase traffic as the soccer players' parents would bring their kids into the store to get them outfitted with shoes, shirts and shorts. We then placed the soccer items in the back of the store and placed men and women's running and workout wear between the entrance and the soccer items so the parents would have to pass through those items to get to the soccer section. In addition, she and her husband, Jeff, informally discuss running and workout wear with their friends on an ongoing basis to insure we stocked items that the friends prefer that are not stocked by the national retailers. While it has increased men's running and workout wear sales, the women's sales have really taken off. In addition, Jason, my other assistant manager, has also been a source of sound advice. He avidly surfs in the Pacific Ocean and has steadily increased sales of boards and wetsuits in our store. While it may not have shown to be a significant sales item in the sales reports yet, I expect it to be very significant in the near future. His wife, Christine, and two sons often accompany him on his surfing trips and Christine and Jason have been working together trying to identify unique beach friendly tents, seating, coolers and cooking systems that our store could carry.

Patrick: I wish more of our store managers could be as resourceful and proactive as you are. You treat managing the store like it's your own rather than it simply being a job. A manager in this company needs that kind of attitude to succeed. The Company is very pleased with how you're running the store and encourage you to keep up the good work. You also have made many good suggestions at our store manager's retreats that have been adopted by other store managers. Someday soon we will be asking you to start leading breakout sessions at the retreats. The bottom line is that you and your team have performed exceptionally well and deserve to be rewarded.

Jack: Patrick and I will inform you of how we will reward you and your team after we have an opportunity to discuss it further. I'll call you next week and inform you of our decision.

Nancy: Thank you very much. I will be looking forward to hearing from you. We are eager to continue to find opportunities for the company in our market and appreciate your recognition for our efforts.

As she left Jack's office, Nancy felt highly motivated to continue her efforts to explore ways to tailor the store's sales to better meet the needs of customers. She appreciated the fact that both Jack and Patrick noticed and valued what she and her staff had done. She also believed that the bonus compensation system would fairly reward her and her staff's efforts and provide significant motivation to continue their efforts to achieve a high level of store performance.

DON'S REVIEW

As Don entered Jack Colwood's office he also felt somewhat nervous. That nervousness increased as he sensed a somewhat hostile tone in Jack's voice as he directed Don to have a seat across from Patrick at the conference table. Jack started the conversation.

Jack: Don, I have been reviewing the financial information for your Eugene store for last year and, quite frankly, I am very disappointed by the results. As you can see from this graph, the current year's month by month sales and gross profit have shown no significant increase over the prior year. In addition, your store posted the lowest increase in sales for your area in all product categories. What's your explanation for these substandard results?

Don: The numbers do not tell the whole story. It was a tough year for the economy and we did the best we could.

Patrick: Sorry Don. We are not buying that explanation. Your store faces the same economic conditions that all our stores face. Eugene's economic conditions are about the same as those in Tacoma and Corvallis. Each of those stores posted significant gains in sales and profitability over last year's levels. Exactly what steps did you take to increase sales and profits and to identify and act upon new opportunities in your market?

Don: Hiking and camping equipment are our big sellers and I was afraid that making any major changes would be too risky. I certainly didn’t want to lose sales in those product areas.

Jack: When we met at your store last summer I pointed out that your product offerings had not significantly changed since I became CEO. We also talked about the fact that your store had the lowest performance numbers in the area. That should have been a wakeup call for you to try to change your store’s operations. During that meeting I explained to you in great detail why your store had to change its strategic orientation from trying to compete on cost to trying to meaningfully differentiate yourself from the national retailers in order to achieve the levels of performance our other stores enjoy. I also told you to analyze past sales patterns for your store and compare them to the sales patterns at our other stores in markets similar to that in Eugene.

Don: I really haven’t had the time to get that information together. You have been to all the stores and talked to the other managers. Why haven’t you told me exactly what product changes I needed to make?

Patrick: This isn’t college where your professor gives you detailed instructions on how to complete every assignment. You’re the store manager. You’re in charge and you need to make good things happen. Maximizing sales and profits is your job! You need to figure out what it takes to achieve that goal with your store. Most of our store managers and assistant managers do that very well. In addition, it’s clear to me that either you do not understand our differentiation strategy or you’re choosing not to implement it. We’re trying to provide products that customers want that are not available from the national retailers because we cannot compete with them on price. What those products may be can be completely different from store location to store location. Neither one of us can identify those products unless we are actively communicating with current and prospective customers. You just can’t wait for customers to come to your store and buy whatever the store may be offering. You and your staff have to be proactively trying to discover what products your market wants and then promote them along with promoting your store.

Don: I don’t feel that the sales staff is paid enough to get them involved in that kind of communication and promotional activity, so I don’t feel right about asking them to do that sort of thing.

Jack: You have the authority to use incentives to get your staff involved. Our strategy is to differentiate ourselves from the national retailers by selling merchandise that better suits our customer’s needs. Your job is to implement that strategy at your store. There are thousands of students in Eugene attending the University. Where are they buying bikes, hiking and camping gear, fishing equipment, and other recreational and sporting equipment items? Couldn’t your staff get involved with clubs and groups that are active in these recreational activities? Couldn’t your staff and yourself work together to identify new market opportunities?

Don: What about costs? I’m sure that because I employ only part time employees at minimum wage with no benefits and chose to focus on buying manufacturer closeouts whenever possible that my costs have to be lower than any other similar stores in the company. Sponsoring employee activities costs money. In addition, I would have to pay those type of employees a higher wage.

Patrick: You really don't understand our business strategy do you? Your costs are lower than our comparable stores. However, because of the level of sales by your staff and your purchase decisions to stock merchandise that is similar to the national retailers, your stores sales and profits are much less than any other store in the company. The national retailers pay approximately the same wage rates and, even with the purchase discounts you receive, they can still buy merchandise cheaper than you can. Our Tigard store also emphasizes hiking and camping equipment. Their employees are involved with numerous organizations that are active in hiking and camping in the Cascade Mountains and, as a result, they sell lots of higher priced specialized merchandise for both hunting and camping. That store is three times more profitable than your store with twice the sales per salesperson. Because of their bonuses and higher wage rates the employees are paid more than the employees in your store, but the store achieves much higher profitability for that higher pay.

Don: It is just not fair to make these kinds of comparisons. Our situation in Eugene is different.

Jack: Every one of our stores faces market conditions that are somewhat different. That is one of the reasons we have implemented a differentiation strategy and achieved great success. Each store can tailor their operations to best fit the local market. You have been reluctant to embrace that strategy and your stores performance has been adversely affected. We may wish to make some changes at the store. Patrick and I will discuss both the performance of your store and your leadership activities and inform you of what changes we will make some time next week.

WHAT TO DO?

Shortly after Don left Jack's office, Jack and Patrick reviewed their notes from the meetings with Nancy and Don and the performance of both stores for the prior year. It was now time to decide what to do about rewarding Nancy's store for their performance and what steps to improve the performance of Don's store.

How should Nancy and her staff be rewarded? Nancy and her store's employees certainly deserved a performance reward, but how big should it be and how should the reward be allocated among the employees? Was money enough? Should there be other types of rewards given? How much should performance awards differ between stores? Several of her newly hired staff were very talented and productive. How could Sport Life Outfitters keep them from leaving the company and going elsewhere? How could the company and Nancy keep them motivated and provide them with further development? For that matter, how could Sport Life keep Nancy motivated? How could they keep her from leaving the company and continue to motivate her to be innovative?

Jack was also concerned about Don and his store. Don had been with the company for a long time. Because of the stage of his career, it would be tough for him to find other employment if he were fired. He was known throughout the company and was respected for his loyalty. In prior years under the previous CEO he'd had a modestly profitable store. However, his store was no longer keeping pace with the rest of the company and changes needed to be made. Should Don continue as manager or should he be fired and replaced? Was it really possible to get Don to change his ways? Could Patrick Raines (V.P. of Managerial Development) get Don to change his managerial philosophy by working with him in a very intensive mentoring approach? Should Don be placed in another position within the company that might be a better fit for him? What actions would be needed to change the Eugene store's organizational culture to be more like that of other stores that were implementing a successful differentiation strategy? What other measures would be required to improve the Eugene store's performance? Could it be done with the current roster of employees? Both Jack and Patrick were very much aware of how important making the right decisions in these circumstances can be.

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EARNINGS MANAGEMENT AND ETHICAL CHALLENGES AT THE SUCCULENT COOKING INC. – A CASE STUDY

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CASE DESCRIPTION

The primary subject matter of this case is earnings management that often takes place in financial reporting for business enterprise and ethical issues involved therein. It demonstrates to students that reported accounting earnings can be managed by seemly innocent actions such as increasing production and building up inventories. This case will expand students' understanding of the motivation of earnings management and raise their awareness of ethical issues involved in financial reporting for business enterprise. The case is appropriate for the second course in managerial accounting at the undergraduate level or similar courses at the graduate level. It can also be used in advanced level financial accounting courses or in auditing seminar on contemporary accounting issues. The case requires approximately three hours of outside preparation by students to arrive at reasonable solutions. The case could then be debriefed in class using calculations and discussions. This would require one class hour.

CASE SYNOPSIS

Earnings management occurs when firm management attempts to alter reported earnings for reasons other than objective reporting of firm performance. This opportunistic behavior is motivated by managers who seek job security and/or financial rewards. It is in direct violation of professional ethical standards and, in many cases, could be in violation of law. The purpose of the Succulent Cooking, Inc., ("the company") case is to demonstrate to students that earnings can be managed by seemly innocent actions such as increasing production and building up inventory levels. During the process of solving this case, students develop an understanding of the role of overhead and how overhead is allocated to determine reported accounting earnings. Students will be intellectually challenged as the case does require strong analytic skills and good understanding of accounting concepts related to product costing.

As described in the case, the company is about to miss the Wall Street earnings expectations which can adversely affect firm stock prices. The company is considering two alternative course of action to manage earnings by either reducing the commission rate paid to its sales force or increasing production level. Students are first required to apply analytic skills to provide a specific solution to the question. Then they will realize that all the proposed actions are forms of earnings management which are either illegal or unethical.

INTRODUCTION

Succulent Cooking, Inc., ("the company") produces barbecue ovens. The company's common stocks are actively traded on the stock exchange and closely followed by financial analysts on Wall Street. Analysts' average earnings forecast for the firm's current fiscal quarter, ending June 30, 20X5, is 11.5 cents per share of common stock outstanding or $4.025 million in net income available to common stockholders, before any extra-ordinary items and discontinued operations. Since Wall Street has a short term focus, the investment community places great attention on companies' quarterly earnings. Missing the market earnings expectation could cause the financial analysts to downgrade the stock, which, in turn, could have a devastating effect on Succulent's stock price.

THE ACCOUNTING SITUATION

On June 5, 20X5, about 25 days before the end of the fiscal quarter, the controller, James Butler, was asked by the company's chief executive officer, Marshall Adler, to attend a senior management meeting to explain and discuss some management accounting issues. At the meeting, the CEO points out that sales have been disappointing for the quarter so far and that the company is operating below its production capacity. The total sales revenue for the quarter is projected at $33.25 million with an average selling price of $350 per unit for each barbecue oven. The sales revenue includes all sales that are completed to date and all the pending sales that are expected to be completed before the end of the quarter.

At this sales level, Marshall explains that the company will miss the market earnings expectation of $4.025 million in total net income available for stockholders for the quarter. He reminds the other managers in attendance that meeting the market expectation has been the number one priority for the firm since its inception. Marshall notes that he is fully committed to protecting the investors' interests and that he will take every measure available to protect the investors' financial interests and ensure their continuing trust in the company and its management team. Marshall asks James to present the quarter's pro-forma balance sheets and income statements which are provided in Tables 1 and 2.

Marshall believes it is still possible to meet the market earnings expectation if sales commissions are reduced. He states that for many years the company paid the highest sales commission in the industry in order to attract the most experienced and skilled marketing specialists and sales personnel. The five percent commission the company pays in the current year is significantly higher than the industry average which is about three percent of sales revenue. Marshall argues that it is justifiable to cut the commission temporarily when the company is facing a challenging business climate.

This proposal is not welcome by Carla Hardy, the chief marking officer ("CMO"), who is also at the meeting. She points out that her marketing and sales teams have worked hard to meet all sales targets. She insists that the five percent sales commission should be paid as promised.

On the other hand, the chief financial officer ("CFO"), Kate Williams, proposed that the company can still meet the earnings target even if the commission remains unchanged. She suggests that to meet the current earnings expectation, the company can increase its production in the remaining 25 days of the quarter. She believes that there is enough unused production capacity to increase production in the remaining time of the quarter to a level that will assure the company will meet the earnings target.

Table 1
Succulent Cooking, Inc.
Balance Sheets
In USD 1,000
As of the Date of June 30 of the Year

	20X5	20X4
Current Assets		
Cash and cash equivalent	**773**	729
Accounts receivable - net	**1,150**	1,055
Raw materials and supplies	**488**	550
	2,411	2,334
Long Term Investments in Securities	**104**	150
Intangible Assets		
Patents and Other Intangibles	**1,098**	1,298
Goodwill	**845**	845
	1,943	2,143
Fixed Assets		
Property and Plant Equipment – Net	**2,981**	2,683
Total Assets	**7,439**	7,310
Current Liabilities		
Accounts Payable	**1,108**	988
Notes Payable	**306**	420
	1,414	1,408
Long-term Liabilities		
Bonds Payable	**1,341**	1,225
Deferred Taxes	**383**	381
	1,724	1,606
Total Liabilities	**3,138**	**3,014**
Preferred Stocks	**43**	43
Common Stockholders' Equity		
Common Stocks (Par value 1 cent)	**350**	350
Paid in Capital Excess Par	**3,051**	3,137
Retained Earnings	**857**	766
Shareholders' equity	**4,258**	4,253

Table 2
Succulent Cooking, Inc.
Income Statements
In USD 1,000
For the Quarter Ending

	06/30/20X5
Sales Revenue – net	**33,250**
Cost of goods sold [1]	(23,750)
Gross profit	**9,500**
Sales Commission (5% of sales)	(1,663)
Executive Salaries [2]	(1,900)
Rent, Depreciation, Insurance [2]	(460)
Profit from Operation	**5,477**
Interest Expenses	(220)
Net Income Before Income Taxes	**5,257**
Income Taxes (31%)	(1,630)
Net Income	**3,627**
Income to Preferred Stockholders	(36)
Income Available to Stockholders	**3,591**
Total shares of stock outstanding (000)	**35,000**
Basic Earnings per Share	**10.26 C**
Dividends per Share	**10.00 C**

Note to Income Statements:

[1] Since there is no beginning and ending finished goods inventories, cost of goods sold consists of the entire manufacturing costs during the quarter. Since the barbecue ovens are produced in a fully automated production facilities, per unit variable costs, $135 per unit, are mainly (1) parts, stainless steel sheets, and tubing, and (2) labor costs for manual inspecting and testing each unit. All other manufacturing costs can be considered fixed costs showing no variation to changes in the number of ovens produced;

[2] Succulent's marketing and sales personnel are paid on a commission basis which equals 5% of net sales revenue. The administrative personnel receive fixed salaries. Other selling and administrative expenses include expenses such as office rent, depreciation, and business insurance which are paid or incurred as fixed amounts on monthly basis;

[3] About 1% of firm equity is owned by one of Succulent's founding families in the form of preferred stocks. The preferred stocks are participative in dividends and new stock insurance, and therefore, it should always maintain the same 1% share of the firm. The preferred stocks are not publically traded and do not have voting power.

Carla is not sure profit could be increased by increasing production when sales have already topped out at $33.25 million.

The chief operating officer, Bart Collins, also expressed opposition to the Kate's proposal. Bart points out that, without corresponding increases in sales, the increased production will go directly into inventory which, in turn, would require more warehouse spaces. This is against the company's zero inventory policy. He explains that for years the company has implemented a just-in-time inventory management system and continuously has managed to maintain zero inventory of its finished products. James adds that given skyrocketing real estate prices, the zero inventory policy has served the company well in the past since it reduces the costs of storage and the risks for future write offs due to inventory obsolescence. James also explains that Succulent uses absorption costing not only for external reporting, but also for internal management planning, control and decision making.

James is asked by Marshall to evaluate the proposals discussed at the meeting and to arrive at the best option for the company. James felt conflicted as he walked from the meeting. He could simply follow senior management's "suggestion" and ensure that the quarterly financial statements show results that meet the market expectations. However, this could create legal and ethical issues for James and the company. On the other hand, if he refuses, he might lose his job or face demotion. This could create financial difficulties and limit his ability to provide for his family. "What to do? What to do?" James mumbled to himself as he turned on his computer to continue his day's work.

HOMEOWNERSHIP IS NOT ALWAYS A BLESSING

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CASE DESCRIPTION

This case can be used to illustrate problems that arise when homeowners get into financial difficulties and have to make hard choices on which monthly bills to pay and which to ignore. Little known to many homeowners is that failure to pay mandatory Homeowner Association dues can lead to foreclosure on the family home. A cruel reality sets in when the family home is sold at a foreclosure auction. The new deed holder can extract rents from the property and use slow-moving court procedures to forestall a primary lienholder's foreclosure, thus increasing the time rent can be collected on the property. The case is designed for discussion on the topics of financial literacy and basic real estate transactions. These issues can be covered in one class session and requires one hour of preparation time from the students. This case can stand alone, or it may be used in conjunction with a related case—"Taking Advantage of Homeowners Association Foreclosures: Investors or Predators?"—by the same authors.

CASE SYNOPSIS

Fred and Megan Schmidt are a married couple who found themselves in financial straits when their expected and unexpected expenses exceeded the amount of Fred's paycheck. The couple failed to pay mandatory dues to their Homeowners Association (HOA), which allowed the HOA to take a lien against their house. The HOA then foreclosed on the property. Jack Dawes, an attorney, gained a trustee's deed to the property by being the highest bidder at the foreclosure auction. Even though the trustee's deed is often subject to the first lien on the property, held by the original borrowers' mortgage company, investors such as Dawes are able make a profit on the investment by renting out the property until the mortgage company foreclosed. Investors with legal acumen can delay the mortgage forclosure process by filing suit against the mortgage company to tie the matter up in the courts, giving them more opportunity to collect rent.

BACKGROUND

Fred Schmidt graduated with a bachelor's degree in accounting from a small college seven years ago. His spouse, Megan, a social worker, held down a job to pay the bills, as Fred completed graduate school, earning a master's degree. Because Fred and Megan both had student loans, the young family struggled to make ends meet. The financial forecast looked brighter as Fred began his career in accounting. He was first a staff auditor, then senior auditor, and most recently an audit manager for a local audit and accounting firm. No SEC work, but the firm had a nice audit practice out of a string of local construction companies, two small-town banks, a half-dozen water districts, and the like. Salary wise, Fred's paycheck did not seem to be to him to be as big as it should be, given the deductions for taxes, Social Security, Medicare, health insurance, etc. But with his last raise, Fred appeared to be doing OK.

Megan quit work after the birth of their first child; so, of course, the Schmidt family income took a hit. Although the couple had group insurance through Fred's employer, the health plan they could afford had high deductibles and large co-pays. Because of complications with the recent birth and ongoing healthcare needs of the child, medical expenses were higher than the couple had expected. To make finances even tighter, Fred spent a recent bonus check on a new car—and because it was a high-performance sports model, insurance costs were steep. The couple also bought a house, a starter home, for $175,000. Anticipating steady increases in Fred's pay, and a rising real estate market, they bought all the house they could, enticed by an adjustable rate loan and 5% down payment. Their dream home was in a neighborhood with a community pool, and green spaces. These neighborhood amenities came at a cost of about $100 a month—mandatory dues to be paid to their Homeowners Association (HOA).

Credit card debt rose for Fred and Megan as they bought furnishings for the home and charged medical expenses. They took annual SCUBA vacations, which was Megan's passion. For the past two years, property taxes on the house crept up, requiring an increase in the amount the mortgage company held in escrow. Insurance costs were high, including both homeowners coverage for casualty loss, and private mortgage insurance (PMI), which lenders require when the down payment is less than 20% of the home's value. The Schmidts' house payment jumped up with a scheduled increase in the adjustable rate on the mortgage. This meant that they were only able to make the minimum payments on their several credit cards. The couple started questioning whether they had made sound financial decisions on the home front.

Then matters took a turn for the worse. In *Hamlet*, Shakespeare wrote: "When sorrows come, they come not single spies, But in battalions." He could have been talking about Fred and Megan. Things fiscal immediately unraveled when the partners at Fred's firm announced that due to the loss of one of the two biggest clients, the firm needed to save some money on people costs. Rather than downsizing by letting 15% of the employees go, the company reduced everyone's gross pay across the board by 15%. Fred and Megan had no savings. This pay cut pushed them into the red.

In shock and unable to prioritize what fat to cut from the budget, Fred ran the numbers on selling the couple's largest asset, the house. With a real estate sale one does not always get full price (especially if the money is needed quickly), and real estate transactions come with substantial built-in costs, such as commissions to the brokers, title insurance, and other closing costs. Fred realized they were upside down in their mortgage (with the debt exceeding his estimated value of the property). As the bills piled up, Fred and Megan focused all of their resources on paying the mortgage. Credit card bills and those mandatory dues to the Homeowners Association could wait.

Fred and Megan were ignorant to the fact that real estate developers establish HOAs as legal entities tasked with providing services to residents who buy homes in subdivisions or other planned communities. The amenities in a nice subdivision—swimming pool, landscaped green spaces, gated entries, etc., come at a price, paid for by each other's neighbors in the way of HOA dues. Before any lot was sold or house built, the subdivision developer typically drafts a declaration that defines covenants and restrictions by which all future homeowners must abide, and set up an HOA to administer the rules of the subdivision. These rules, or covenants, are attached to the deeds of each parcel and filed with the county clerk. The restrictions run with the land, meaning that even as owners to the property may change, the covenants endure on the deed. By way of example, a covenant may provide that the deed holder of a parcel must keep current in the payment of monthly HOA dues. If a homeowner falls delinquent in paying such fees, the HOA file a lien with the county clerk that encumbers the property. Such a lien comes with the corresponding right to foreclose the lien. This gives HOAs a big stick to compel the collection of dues so that may meet their obligations to pay expenses, such as for the community pool, landscaping, the monthly newsletter, etc.

When the Schmidts failed to pay their monthly HOA assessments, they received repeated notices of collection. The HOA, by right, filed a lien against the deed to the real property and foreclosed. Foreclosure laws vary from state to state. In Texas, for example, the process is relatively simple. The HOA declarations in the deed can stipulate that a non-judicial foreclosure is an available remedy. Notice of the intended foreclosure sale must be posted on the door of the courthouse in the county in which the property is located not less than 21 days prior to the sale. The HOW must give the homeowner 20 days written notice, sent by certified mail, so that they are on notice that they can cure the default by paying the amount owed. The party foreclosing then appoints a trustee who conducts a foreclosure auction. By Texas law, such auctions must be held on county courthouse steps on the first Tuesday of each month. The highest bidder takes title to the property in the form of a trustee's deed. But bidders at these auctions should careful. While liens junior to the lien foreclosed are cut off, the property is conveyed subject to any liens that are superior to the foreclosed lien. Put another way, the high bidder at the auction on the HOA foreclosure (for unpaid dues) may become the deed holder to a property with a mortgage lien against it. When the mortgage company, as primary lienholder, plays its trump card, it then takes ownership of the property—and the value of the property from the HOA foreclosure extinguishes.

Jack Dawes, a local attorney, bought Fred and Megan's home at the HOA foreclosure auction for $1500. Dawes, a shrewd investor, purchased the property with a bid that exceeded the amount of the back dues the Schmidts owed to the HOA, plus collection and foreclosure costs. Typically, a bid of $1 more than the HOA dues owed, plus collection expenses, generally satisfies the HOA that brought the foreclosure and stops it as a competing bidder. As the new owner, Jack offered the family the opportunity to stay in the house, in exchange for $1,000 a month rent, or to vacate the premises, in which case he would just bring in another tenant to rent the property.

Dawes is not concerned about the mortgage that the Schmidts had on the property. He has no intention of making any payments. He knows from experience that it will take the Schmidts's lender from six months to a year to go through the delinquency process before posting the properties for foreclosure of the superior first liens. During this period, Dawes will collect $1,000 a month rent on the property. That is $6,000 to $12,000 of rental income from an investment of $1,500. When a mortgage company eventually forecloses on its lien, Dawes can file a law suit claiming that he did not receive notice of the delinquencies (because notices would have been sent to the Schmidts, not him). The purpose of such a law suit is not to prevail on the legal merits, but to tie the matter up in court so that more rent can be collected on the property. When Dawes tires of this game, he can simply turn his deed over to the mortgage company in lieu of a foreclosure, or more simply not pursue the lawsuit. Eventually, the suit will be dismissed by the court for lack of pursuit, and the foreclosure against Dawes will proceed.

ORGANIZING AND FINANCING A NEW BUSINESS VENTURE

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CASE DESCRIPTION

The primary subject matter of this case concerns business startup issues. Issues examined include the components and importance of a business plan, evaluation and selection of a business organization form, and evaluating sources and types of startup capital. The case requires students to have an introductory knowledge of accounting, finance and general business issues thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 2-3 hours of preparation time from the students.

CASE SYNOPSIS

Eric Colin has learned that his employer, a regional chemical manufacturer and distributor, had been sold and he will soon be unemployed. Colin, a young business professional, had been the Director of Sales for the distribution division of Superior Chemical. As a result of his chemical distribution business experience, he is considering beginning a chemical distribution business. Superior has a solid understanding of the chemical industry and the distribution process but his knowledge of accounting and finance is limited. He has completed a preliminary investigation into a number of business startup issues but is not sure how to put everything together.

The learning objectives of the case include: 1) An introduction to the purpose and content of a business plan 2) A review of the different business organization forms and the importance of organization selection to the new business and 3) An examination of the alternative sources of startup capital and the type of capital provided by each. The case also introduces students to the chemical distribution process, the Small Business Development Center (SBDC) Program administered by the U.S. Small Business Administration and the RMA Annual Statement Studies.

THE SITUATION

Eric Colin, the Director of Sales at Superior Chemicals, a regional chemical manufacturer and distributor, has been told that the company has been sold to a large multi-national chemical manufacturer. While he was aware of a possible sale, the actual sale came as a surprise to Colin and most employees. The company had entered sale negotiations a number of times during the previous years, but for a variety of reasons the sale was never completed. As a result of the sale, Colin was told his position would be eliminated and that his services would no longer be required. Most members of Superior's senior management received the same message. This didn't necessarily reflect unfavorably on Superior's management team but without staff adjustments, combining the two firms would result in substantial management duplication. While the actual sale of Superior was unexpected, Colin had considered his career options.

Colin is thirty-two years old and has been employed by Superior Chemical, since graduation from University of Missouri with a degree in chemical engineering. With Superior he moved through a number of management positions, each with an increased management responsibility, but only in his current position as Director of Sales for the distribution operation in Kansas City did he have Profit & Loss (P&L) responsibility. In an effort to develop the business skills necessary to handle a senior management position and to increase his accounting and finance knowledge, he continued his formal business education. He recently earned an MBA from University of Missouri – Kansas City after attending evening classes for three years.

Colin's career has reached a decision point. Should he seek a management position with another firm or pursue his aspirations of someday owning and operating a chemical distribution business?

Colin previously investigated beginning a chemical distribution business in the Kansas City area and understands the availability of startup capital is the critical factor in the process. At this point, the required startup capital is only a very rough estimate but he believes a minimum equity investment of $500,000, and maybe as much as a $1,000,000, will be required.

The proceeds from the sale of his Superior holdings (stock and stock options), severance pay and family savings could be used to start the new business. Although he is not sure of his exact tax liability, he expects to net about $280,000 from the buyout of his stock options and the sale of his Superior stock. In addition, he will receive a severance package amounting to $90,000, of which $60,000 could be used to start the new business. He and his wife could contribute $120,000 from savings, and a second mortgage on their home could add another $40,000, but his wife is hesitant to consider a second mortgage. In fact, his wife has reservations about the whole idea of starting a business.

Colin and his wife have sufficient other funds to cover living expenses for nine months. If they sold their luxury SUV and leased a more economical vehicle, they could cover another three to four months of living expenses.

Despite the reservations expressed by his wife, Colin estimates personal assets would, at a maximum, provide only the minimum required equity investment of $500,000.

		$
Sale of Superior stock and buyout of stock options		280,000
Severance package		60,000
Savings		120,000
Second mortgage on home		40,000
Family contribution		500,000

Colin's father may be another source of startup equity capital. His father is retired and living in Florida but recently sold a chain of fast food restaurants for a profit of more than $12,000,000. He has expressed a willingness and interest in investing in new business ventures. Colin thinks his father may be willing to invest as much as $500,000 in his new business.

Preparing projected financial statements for the first three years will allow a more accurate estimate, but at this time Colin feels sufficient startup capital could be raised using his personal assets and a substantial investment ($500,000) from his father.

CHEMICAL DISTRIBUTION

A chemical distributor is a wholesaler. Operations may vary but a typical distributor purchases chemicals in large quantities (bulk - barge, rail or truckloads) from a number of manufacturers. They store bulk chemicals in “tank farms,” a number of tanks located in a diked area. The tanks can receive and ship materials from all modes of transportation. Packaged chemicals are stored in a warehouse. Other distributor activities include blending, repackaging, and shipping in smaller quantities (less than truckload, tote tanks, 55-gallon drums, and other smaller package sizes) to meet the needs of a variety of industrial users. In addition to the tank farm and warehouse, a distributor needs access to specialized delivery equipment (specialized truck transports, and tank rail cars) to meet the handling requirements of different chemicals. A distributor adds value by supplying its customers with the chemicals they need, in the quantities they desire, when they need them. This requires maintaining a sizable inventory and operating efficiently. Distributors usually operate on very thin profit margins. *RMA Annual Statement Studies* indicates “after tax net profit as a percentage of sales” for Other Chemical and Allied Products Merchant Wholesalers (NAICS number 424690) is usually in the 3.0% range. In addition to operating efficiently, a successful distributor will possess 1) a solid customer base and 2) supplier contacts and contracts which will ensure a complete product line is available at competitive prices.

COLIN’S EXPERIENCE

Colin has a solid understanding of the chemical distribution process. While with Superior, Colin developed customer contacts in the Kansas City metropolitan area, as well as with major customers in Missouri, Kansas and other Midwest states. He has also developed valuable contacts with key chemical manufacturers. While at Superior, he had Profit & Loss responsibility but he is uncomfortable analyzing and interpreting financial results. He has very limited balance sheet responsibility.

Colin had completed a preliminary site location investigation and examined other startup issues but is not sure how to put everything together. Colin has discussed his situation with a friend who is a commercial lending officer with a large local bank. He suggested Colin visit the Small Business Development Center (SBDC) at the University of Missouri – Kansas City. His friend thinks the Small Business Development Center could provide the assistance Colin needs to determine if his new business is feasible.

NEW VENTURE FINANCING

Based on Colin's initial (very rough) projections, there is sufficient capital to begin operations but with little (if any) margin for error. If planned assets are insufficient, sales projections are overly optimistic or unforeseen costs and delays occur, additional financing will be required. It would be prudent to arrange additional reserve financing to avoid a cash emergency.

Typical sources of startup or seed capital for new ventures include:

1) Personal resources of the individual or individuals involved in the new venture are usually the first source of capital. Colin has personal assets that he intends to use but his resources are limited. The majority of funds provided by Colin will be classified as equity. Colin and his wife have no additional resources to provide reserve financing.
2) The resources of family and friends are another source of startup capital. Colin's father's contribution would be an example of this type of financing. As with Colin's contribution, a portion of his father's contribution would likely be classified as equity with the remainder taking the form of an interest bearing loan or perhaps a loan that is convertible to equity at a later date. His father appears to have the resources to provide additional capital but he is already contributing fifty percent of the capital and may be reluctant to add more.
3) Other friends and relatives are also potential sources of startup funds.
4) Former business associates at Superior could be approached to invest as either shareholders or partners, depending upon the business organization form. A partnership would require Colin to share control, but may make the venture a more attractive investment.
5) Another financing source sometimes used by new ventures is credit cards. Using credit cards is a high cost, short-term option and is usually considered only when no other capital is available.
6) Business angels are wealthy individuals who provide startup capital (debt and/or equity) to new businesses. In addition to providing capital, angels usually want/require an active role in company management.
7) Venture capital firms raise capital from a variety of sources and usually invest (debt and/or equity) in established businesses that need capital to finance growth (expansion capital). Venture capital may be an option once the company is operating and requires additional capital for expansion, but is less likely as a source of startup capital.
8) Commercial banks are typically not interested in investing in startup business ventures, but banks may provide debt capital if sufficiently secured by a personal guarantee. In essence the bank is making a personal loan and the borrower is using the funds to finance a business. Colin and his wife do not have additional personal assets that could be used as collateral, thus a commercial bank loan does not appear to be an option.
9) When the firm begins operations and purchases inventory and other stock, it will receive short-term financing (reflected as accounts payable on the firm's balance sheet) from its vendors.
10) Once the firm is operating and earning a profit, retained earnings become a source of internally generated equity.

SMALL BUSINESS DEVELOPMENT CENTERS

The U.S. Small Business Administration administers the Small Business Development Center Program to provide management assistance to current and prospective small business owners. SBDCs are a combined effort of the private sector, education community and government (state and federal) to stimulate economic growth by aiding development of new businesses. Most SBDCs are housed on university campuses and receive a portion of their operating funds from the schools. Many SBDC counselors are faculty members from a variety of academic fields.

Anyone currently operating a small business or interested in starting a business can receive free, confidential assistance from the SBDC. Counseling and training activities include preparing a business plan, examining sources of financing, preparing loan requests and in general providing guidance on how to start a business.

THE MEETING

Colin arranged a meeting with Joe Blake, the Director of the Small Business Development Center at the University of Missouri - Kansas City, to determine what assistance, if any, the SBDC could provide in beginning his new venture. Before becoming the Director of the SBDC, Blake owned and operated a number of small businesses as well as worked as a commercial loan officer for a commercial bank. Blake explained the services available and asked Colin to describe his proposed new business.

Blake described the chemical industry and the role of a distributor. He would begin operations in Kansas City from a leased warehouse/office building located in an industrial park. The facility would be leased for five years at an annual cost of $90,000 and includes two, five-year renewal options. The facility would need to be modified to handle both liquid and dry chemical repacking operations, as well as storage tanks for bulk liquids. Exact numbers have not been developed but he thinks the modifications would cost approximately $400,000. With the modifications and six employees, Williams estimates the facility would support an annual sales volume between four and six million dollars. First-year sales dollars are estimated to approach five million, with his existing customer contacts providing the majority of the sales. Initial inventory would require an investment of $600,000. Colin expects to offer credit terms of net 30, the industry average. Colin is very confident the estimated first year sales can be achieved and can be doubled in the second year of operation. According to *RMA Annual Statement Studies*, distributors report a "Sales/Total Asset" ratio between 2 and 4.

In addition to questions regarding financing requirements for the new venture, Blake asked Colin what form of business organization he intended to select. Colin indicated he hadn't really given it much thought and didn't know much about any organization form other than the corporation.

Given the industry experience of Colin, Blake thinks the proposed new business venture has merit, but told Colin he needs to convert his ideas and thoughts to a business plan. A formal business plan would provide Colin with a guide to starting the business. Colin has been involved in preparing three-year plans and annual budgets but has had no experience in preparing a business plan. Colin admitted he doesn't even really know what a business plan includes. Blake suggested that one of the SBDCs counselors could provide help in preparing the plan. Blake said the plan would also help quantify the assets and financing needed to start the business. Colin agreed to work with a counselor to develop a plan before a final decision to begin the business is made.

THE TASK

Assume the role of a SBDC counselor and help Colin determine if beginning a chemical distribution business is a viable venture before significant funds are expended. Prepare answers to the following questions.

1) What is the purpose of a business plan? What are the components of a business plan? How will Colin benefit from preparing a business plan?
2) What business organization forms are available for selection? What are the advantages and disadvantages of each form? What organization form would be best for Colin's new venture? Why?
3) What sources of capital, other than personal funds and his father's investment, might Colin consider? Examine the type of capital provided by commercial banks, venture capital firms and business angels. What are the characteristics of each?
4) Colin has considered some startup costs. What other costs might/should be included in determining financing requirements? What operating costs should be included and how should they be estimated?
5) Describe the function of Small Business Development Centers.

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TAKING ADVANTAGE OF HOMEOWNERS ASSOCIATION FORECLOSURES: INVESTORS OR PREDATORS?

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CASE DESCRIPTION

This case can be used to illustrate the ethical dilemma that may arise when an investor seizes on the opportunity to purchase a real estate interest from a Homeowners Association that has placed a lien on a neighborhood house for unpaid dues owed by the homeowners. Little known to many homeowners, who live in subdivisions that assess mandatory dues, is that failure to pay these dues can lead to a lien being placed on the family home, subjecting the property to a foreclosure auction. Following a foreclosure sale, the purchaser of the real estate interest can collect rental income on the property—either from the original homeowner or, in the event of the homeowner's eviction, new tenants. Judicial proceedings to aid the original homeowner, as well as any primary mortgage holder, typically get mired down in slow-moving court procedures. During this period, the purchaser at the foreclosure profits from the collection of rents, while the original homeowner can spiral into deeper debt.

This case study is designed to prompt discussion on the topic of a real estate foreclosure and shrewd maneuvering through the legal system by a sophisticated investor, who is an attorney. These issues can be covered in one class session and require one hour of preparation time from the students. This case can stand alone, or it may be used in conjunction with a related case—"Homeownership Is Not Always a Blessing"—by the same authors.

CASE SYNOPSIS

In difficult economic times, homeowners with financial worries have to make hard choices on which monthly bills to pay and which to ignore. When the homeowners in this case failed to pay mandatory dues to their Homeowners Association (HOA), they violated covenants governing the formation of their subdivision. Exercising its legal rights pursuant to the covenants, the HOA placed a lien against the homeowners' house and duly posted the property for foreclosure on that lien. While sale of the property may have been subject to any mortgage the homeowners owed, the winning bid at the foreclosure sale covered the amount of back dues owed to the HOA (about $1,000). At the foreclosure auction, an attorney investor, knowledgeable about real estate law, gained a trustee's deed to the property by being the highest bidder—his $1,000 bid satisfying payment of the delinquent fees and penalties owed to the HOA on the property. Even though the deed the attorney purchased at auction was subject to prior liens on the property, such as those held by the original borrowers' mortgage company, the investor can make a profit on the investment by renting out the property—and ignoring any *payments owed on a mortgage. When the mortgage company gets around to foreclosing on its lien secured by the mortgage, the attorney investor can delay the foreclosure process by filing suit against the mortgage company, tying the matter up in the courts, allowing more time to collect rent. Meanwhile, the original homeowners have morphed into renters of the property, or face eviction.*

BACKGROUND

As the saying goes out West, this was not Jack Dawes first rodeo. Dawes, a real estate attorney, recently acquired a trustee's deed to Fred and Megan Schmidt's home. The Schmidts are a married couple with a new baby. Fred has a good job with an accounting firm, but his pay was recently cut due to restructuring at his firm. Megan had to quit her job as a social worker when their daughter was born. Medical bills owed for complications at the birth caught the Schmidts financially off guard. Also, the young couple had made some questionable decisions in financing an expensive sports car for Fred, signing mortgage papers on their dream house (with a nightmare adjustable rate loan and bare-minimum down payment), and putting stylish furnishings for the new house on revolving credit and credit cards. When bills came due at the end of each month, the payment of a $100 to their subdivision's Homeowners Association did not seem to be a priority. When the couple received a notice of payment for $1,000, with the threat of a foreclosure, they were frightened. Little did they know that Jack Dawes would soon be their landlord.

Dawes has made a business of buying homes at foreclosure auctions. What Dawes purchases at a foreclosure auction is a trustee's deed subject to the previous owner's mortgage. A winning bid at auction is typically an amount that exceeds what original debtor owed the lienholder who has foreclosed on a property, plus that lienholder's expenses (filing fees, attorney expenses, etc.). Dawes particularly likes to bid on foreclosures for delinquencies on the payment of Homeowner Association dues because the amount of the back dues owed to the HOA are often less than $1,000. Thus, a bid of $1 more than the HOA dues owed, plus collection expenses (about $500), generally satisfies the Homeowners' Association that brought the foreclosure, and stops the HOA as a competing bidder. In the last three or four years, Dawes has bought over 300 houses that had been foreclosed on by HOAs. For many of them, the purchase prices were around $1,500.

HOA liens are typically inferior to valid purchase money liens, *i.e.*, mortgages. So the foreclosure properties Dawes acquires are encumbered by any former owners' original mortgage debts, which Dawes would then be obligated to pay. Dawes, of course, would decline to make any monthly payments on any of these mortgages. He knows from experience that it takes lenders from six months to a year to go through the delinquency process before posting the properties for foreclosure of the superior first liens. During this period, Dawes simply collects rent on his properties. Who are his renters? The original homeowners who did not pay their HOA fees, unless they refuse to pay rent, in which case they face eviction so Dawes can bring in new tenants.

When a mortgage company eventually forecloses on its lien, Dawes files a law suit claiming that he did not receive notice of the delinquencies—because notices would have been sent to the original borrower, not him. The purpose of such a law suit is not necessarily to prevail on the legal merits, but to tie the matter up in court so that in the meantime more rent can be collected on the property.

On any given property obtained by Dawes through the foreclosure process, the owners who did not take care of their personal finances, and lost their home to foreclosure could be anyone. What these (and most) homeowners do not know is that HOAs are legal entities created by real estate developers to provide services to residents who buy homes in subdivisions or other planned communities. When setting up an HOA, a developer typically drafts a declaration that defines covenants and restrictions by which all future homeowners must abide. When attached to the deeds of each parcel, the covenants (in legal parlance) run with the land. Thus, they can be enforced by filing a lien that encumbers the property, with the corresponding right to foreclose the lien. Such liens are security interests that the HOAs can wield to induce the collection of dues so that they can meet their obligations to pay expenses, such as for the community pool, landscaping, the monthly newsletter, etc. When homeowners fail to pay their monthly HOA assessments, despite repeated notices of collection, the Homeowners' Association can file a lien against the deed to the real property, and then foreclose on the unpaid lien.

Foreclosure in Texas, by way of example, is relatively simple. If the HOA declarations in the deed so provide, a non-judicial foreclosure is an available remedy. Notice of the intended foreclosure sale must be posted on the door of the courthouse in the county where the property lies, not less than 21 days prior to the sale. The homeowner must be given 20 days written notice, sent by certified mail, to cure the default. Next, the party foreclosing appoints a trustee who conducts a foreclosure auction. Such auctions must be held on county courthouse steps on the first Tuesday of each month. The highest bidder takes title to the property. Liens junior to the lien foreclosed are cut off, but the property is conveyed subject to any liens that are superior to the foreclosed lien, such as, in many cases, the original purchase money mortgages. Typically, an investor would not want to buy a property that came with a mortgage obligation. But investors such as Dawes have no intention of paying on any mortgages. Their investment profits come from the collection of rent during the drawn out periods it usually takes for the mortgage companies to foreclose their liens.

Foreclosures can be a cold-hearted reality for families like Fred and Megan Schmidt, who lost their home for the comparatively low sum of a thousand dollars in delinquent fees owed to an HOA, but, as some say, "business is business." Savvy investors such as Jack Dawes can often find bargains at foreclosure sales, and once-happy homeowners turn into tenants of the investor who bought their homes at auction. The unlucky ones get evicted. Besides filing frivolous law suits to stop or delay foreclosure proceedings, Dawes does not always follow the letter of the law in evicting the former owners. People like the Schmidts may find NO TRESPASSING signs posted in what they thought was their front yard, or that their locks have been changed.

Postscript.

The Schmidts tried to stay in their house. After Dawes sent his real estate manager over to the house of couple of times, meeting no success in getting the Schmidts out, Dawes sent them a certified letter demanding they pay the rent of vacate.

Thirty days later (on a dark and stormy night,) a deputy sheriff parked in front of the house, with his lights flashing on top of the patrol car. The deputy banged on the door, and handed Fred a copy of a legal petition that Dawes had filed with the local Justice of the Peace. The petition was a suit for eviction and damages in the amount of the unpaid rent, and it gave Fred and Megan a deadline by which they had to answer or appear before the Justice of the Peace. The Schmidts felt sure that goodness and justice were on their side, so they planned to appear in the J.P. court to tell the judge their story.

On the day of the hearing, Fred and Meagan went to the J.P. court. It was in a little office building owned by the county, about a mile from their subdivision. Dawes was an attorney, so he represented himself. The Judge called the court to order, and then called the Dawes v. Schmidt case. Dawes spoke first, reciting that he was the legal/record owner of the property, that the property lay within the jurisdiction of the court, that rental had not been paid, and that he had given them written notice to pay or get out. He had a receipt from the Sheriff's Deputy showing the suit had been personally served on the Schmidts. The judge then asked Fred if it were true that they had not paid the rent demanded by Dawes. Fred started to tell the Judge about the foreclosure process springing from non-payment of the HOA dues, and that they didn't know why they had to pay rent to live in their own house, and that they were short of cash, and so on, until the judge banged his gavel and entered a judgment for the plaintiff, Dawes. The Schmidts went home. A week later, another Deputy arrived at their door, this time with a moving truck and a couple of workers. He handed them a copy of the court order for plaintiff Dawes, and began loading the Schmidts furniture into the truck, to haul it off to a storage yard. Fred and Megan did not know what to do next.

BUILDING ORGANIZATIONAL CAPABILITIES AT CYMSTAR: THE ROLES OF CUSTOMER NEEDS AND COMPANY CULTURE

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CASE DESCRIPTION

The case provides insight into the evolution in the organizational approach of a small business engineering services company in order to take advantage of growth opportunities that cannot be supported by the existing organization. The change is initiated by a Sr. Project Manager in response to the unique human resource needs of a new type of project, demonstrating the importance of middle management initiative and an organizational culture that provides effective support and encouragement to change. The case is appropriate for courses addressing organizational development, organizational change, and organizational behavior at the junior, senior and graduate level with a difficulty level of 3, and is designed for courses addressing organizational change, leading change, and leading teams. The case covered in a 1-2 hour class. Preparation for the case is expected to require 2-3 hours.

CASE SYNOPSIS

The case begins with the recognition of the lack of resources to accomplish what was needed at CymSTAR. Brad Baker, Sr. Project Manager recognized this need, and then took the necessary steps within his positional power to begin the change process. Once Baker had reached his boundary, he sought the help of other middle managers that could assist in the development of the change program. After the change program was developed and goals were set, Baker and the change team developed an effective strategy to introduce the change to the leaders at CymSTAR. They were expecting to face resistance and prepared themselves with the knowledge necessary to inform the rest of the company.

After the change team received the support from CymSTAR's senior leadership team, the team started implementing changes which consisted of hiring Field Service Technicians (FSTs) to complete the program installation process. Baker and team hired one FST as a pilot program to test the benefits of the new change. The FST that was hired fit right into the position and proved to the change team and the rest of the company that the benefits that were expected could actually be realized. After the success of the first FST at CymSTAR, additional FSTs were hired and used in other programs. The FST model has been so successful that the model will eventually be incorporated as part of the bid process for all new programs for the entire company.

INTRODUCTION

"My daily life at CymSTAR has changed drastically from two years ago." Sitting at a table with several of his colleagues, Chris Carpenter reflected on how things had changed at CymSTAR since the implementation of the Field Service Technician (FST) pilot program. "We have a whole new group of people who are capable, and our customers even ask for them by name." As nods from the original implementation team circled the table, Carpenter's remarks were strengthened by a statement from the Electrical Engineering Manager, "It really has been a successful change for CymSTAR."

From zero to six in the matter of a year, the addition of FSTs was proving to be beneficial at CymSTAR. Prior to the FST pilot program, CymSTAR employed only professional engineers to handle all aspects of every project. When new programs were awarded to CymSTAR, covering the new programs began to spread the engineering department thin. The FST pilot program began as a solution to the issue of existing resources being spread thin for a particular program and ended up turning into a change that was incorporated across the entire organization in various programs. In spite of initial reluctance and resistance, the implementation of the FST pilot program had opened new doors with new opportunities.

Many programs' successes, measured in terms of meeting and frequently exceeding cost, schedule, and technical goals, could be partially attributed to the addition of the FSTs. The successes realized on CymSTAR's KC-135 IOSR program, which served as the pilot program for FSTs, were remarkable examples. In addition to the successes on this program, FSTs were beginning to move onto other programs across the company. The FSTs were traveling to sites all over the world, working on US Government Classified programs and equipment, had exceeded company engineers in their knowledge and ability to troubleshoot technical issues on certain programs, and were creating overall cost savings to CymSTAR. Their performance inspired confidence in their ability to accomplish the jobs asked of them.

The implementation of the FST pilot program had created value for the engineering department and Program Management in several ways. Engineers were happier because their travel requirements were eased; they were no longer traveling as frequently, or for as long. Engineers also appreciated the ability to focus their time and effort on design work for future programs and prototype efforts. Program Managers valued the cost savings, and after the initial spin up, efficiency netted on their programs.

As the end of the pilot program was drawing near, it was time to decide how to further proceed with the FSTs and establish a way to roll-out the program to the entire company. As Curtis Choice, Brad Baker, Chris Carpenter, and Andrew Hand – most of whom were the members of the original implementation team, discussed the facets of the FST program, the questions flowed. "What worked efficiently? What needed to change? What areas could be improved?"

BACKGROUND

CymSTAR LLC opened their doors in 2003 as a HUBZone Certified and Service-Disabled Veteran-Owned Small Business (SDVOSB) to provide engineering and systems integration of newly developed or modified weapon systems. CymSTAR's core competencies are in the areas of systems integration, training device modifications, new trainer development and production, and

Training Systems (TS) support services. One substantial aspect that sets CymSTAR apart from other businesses in the simulation and training industry is their focus on utilization of non-proprietary, commercial off the shelf (COTS) products, open system designs, and providing unlimited rights on all elements developed. Additionally, CymSTAR's business is centered on three core values: customer satisfaction, motivated employees, and investor satisfaction. These values, combined with the experience and proven past performance of CymSTAR's personnel, have successfully and repeatedly translated into lower cost, schedule, and performance risk to customers, and is a key factor in the company standing apart from competitors.

CymSTAR has shared success with numerous customers, including many departments of the military, including the: United States Army, United States Navy, United States Air Force, United States Marine Corps, and Mexican Air Force. Within these organizations, CymSTAR has worked on a variety of aircraft platform and simulator types; including aircrew and maintenance training devices for the KC-135, KC-10, F-16, A-10, C-130, C-5, and AV-8B.

There are several distinct internal aspects of the company that have added value and brought about success for CymSTAR. CymSTAR has delivered all military contracts early or on time. Growth for the company has been set at a 20 – 25% annual growth rate – which has been achieved every year, representing a controlled and profitable growth. The management and engineering core team is made up of experienced professionals with over 20 years in the training and simulation industry.

COMPANY CULTURE

The culture at CymSTAR is one that focuses on the importance and value of their employees. Since the employees are who make CymSTAR successful, the goal is to empower them in day to day business. One of the most well-known talks at CymSTAR refers to an "inverted triangle." Where most companies utilize a "normal" triangle in their companies – the lower levels serve as a support to the higher levels, or management, CymSTAR's belief is that management of all levels serve as support to the lower levels – no matter the position or title.

From the top level of management all the way to the bottom of the organization, CymSTAR employees learn their responsibilities and understand what authority they possess to make changes. Rather than tie up everyone in tedious meetings over minor things, employees are encouraged to look for ways to make things better, take risks, and initiate change within their boundaries – on their own.

Where many companies require permission and signing off on new ideas and changes, CymSTAR employees can take their ideas and plans to management for buy-in and sponsorship – rather than required permission. As long as the individual or team has established a thorough way of working through everything, communicated their point of view and how it will better the company in some manner, and laid out how they plan to implement the new plan or idea, management will provide sponsorship for the new idea to be carried out. Taking risks is encouraged and employees are supported in the decisions they make.

In order to successfully implement changes, employees at CymSTAR are not only prepared to take risks, but they are also prepared to move others out of their comfort zone and discuss issues that others may not want to discuss. When these uncomfortable discussions take place, the focus remains on how to make the area, program, or company more efficient, improve financial performance, or create a better working environment.

While CymSTAR employees are empowered to make decisions and changes, they still have to be aware of political issues that can arise from customers, other programs, etc. CymSTAR employees also have to learn which battles should be fought, and which they should just walk away from.

Within the CymSTAR culture, change in order to better the company is a way of life. Looking for areas to improve efficiency or achieve cost-savings is encouraged, and has become the foundation for how CymSTAR conducts their business. This foundation also allows CymSTAR to attract and retain talented professionals.

VARIABLE BONUS PROGRAM

One of the reasons that CymSTAR is able to attract and retain talented management and engineering professionals, and therefore allows them to effectively sustain their business, is due to the compensation structure in place. Similar to many other companies, CymSTAR maintains an incentive compensation (bonus) program in addition to the normal salary compensation. In contrast to most other companies, CymSTAR's baseline bonus program is supplemented by a Variable Bonus program that consists of sharing internal cost savings achieved on completed contracts. Employees are split into two groups for the purposes of the bonus programs, with only Engineers, Program Managers, Engineering Managers, and Engineering Technical Specialists being eligible for the Variable Bonus program.

The specific implementation of the Variable Bonus program has proven over time to establish high connectivity between participating employees' total compensation and the company's profitability. Successfully connecting compensation and profitability is based upon the model that consistently meeting or exceeding the company's targeted profitability is mandatory for long term success, and that this can only be achieved by consistently delivering upon and exceeding customer expectations. The bonus successfully serves as the link between these two principles.

A basic example of the Variable Bonus program's operation is as follows: CymSTAR successfully bids a firm-fixed price customer contract, upon completion of any negotiations, the final contract award is made and the program's budget is thus set. The program team (made up of a Program Manager and engineers from various disciplines) begins execution of the program. Over the course of execution, the program team works to under run the allocated budget while still meeting or exceeding contractual requirements, thus creating a positive cost variance on the program; i.e. the work is completed while realizing a cost savings. The amount saved on the program is placed into a pool, along with cost savings from other programs. This pool, representing the cost savings realized on company programs over a single calendar year, is then shared between the company and its employees. The result is that the more cost effective and profitable CymSTAR is in a given year, the higher the employees' compensation. Alternatively stated, the bonus program encourages employees to focus on profitability for the company as long as the bonus is aligned with profitable behavior.

CHANGES

How CymSTAR Works (Previous to Change)

Design and implementation were the two major phases in CymSTAR's operation. CymSTAR would bid a contract to the customer based on preliminary design assumptions. Once the contract was awarded to CymSTAR, a program team would establish a detailed design, lay out a plan to achieve completion of the design, and create an implementation plan. The plan would then be executed by the program team, with completion of the project typically characterized by implementation and testing of the modification on the given customer's simulator. This implementation process was carried out by CymSTAR engineers and required a deep level of interaction with the final customer.

CymSTAR's program managers and engineers worked on multiple concurrent programs. To allow for this archetype, program teams were created in steps. Initially, a Program Manager would be selected to lead and manage a yet to be created program team. The Program Manager was selected by executive management based upon multiple factors, including experience level, customer and technical knowledge, and availability. Once assigned to the program, he or she would sit down with the company's three engineering managers (Electrical, Mechanical, and Software) to establish how many engineers of each discipline would be required over the life of the program, and when they would be scheduled on the program. After establishing the number of engineers needed and the initial schedule, the engineering managers would decide which engineers would fit best on the new program. This fit could be due to availability, specific system or device knowledge, capabilities, or numerous other factors.

As a simulation engineering company, CymSTAR attributed much of its success to the engineering knowledge and capabilities held by their staff. CymSTAR engineers possessed at least college level education – many of the engineers had a higher level of education. This education requirement was due not only to the technical complexity of CymSTAR's work, but to the customer-centric role that was a necessity for engineers during both design and implementation.

Historically, CymSTAR had always used engineers for design work and implementation of the modification. This approach held many benefits since the engineer who was implementing the design modification was the one who had originally created the design plan. This method allowed for efficient troubleshooting, however, it could become very expensive. In addition to being expensive, the approach held significant opportunity costs. If an engineer was on-site implementing a modification, that engineer was no longer available to design future modifications, which is a more complex task. As more business opportunities appeared for CymSTAR, resources became scarcer, with multiple programs and activities competing for engineering resources.

KC-135 IOSR Program, The Catalyst for Change

In late 2011, CymSTAR was awarded the KC-135 IOSR (Input/Output System Refurbishment) program, with Brad Baker being appointed as the Program Manager in January 2012. Needing an engineering team - made up of multiple engineering disciplines, set immediately, the first of the challenges presented itself. Baker met with the engineering managers and one thing became clear – resources were going to present a hurdle for the IOSR program. CymSTAR engineers were spread thin due to other programs across the company.

It also became clear that the KC-135 IOSR program was a unique situation. Historically, CymSTAR had been primarily a prototype company and had dealt with few programs requiring implementation across numerous production units. The prototype effort for the IOSR program had been designed under a previous project, leaving just the building and implementation of production units to be completed. The program would involve two years of installations of the modification – requiring a shift in focus for CymSTAR and the IOSR team away from integrated design/implementation to installation.

There were additional challenges to overcome. Baker realized that many of the installations had overlaps at different sites – thus creating the need for at least two teams with some rotation. The installation teams required a certain makeup of engineering disciplines (software, electrical, mechanical) in order to cover every area. Scheduling had to be flexible as it had to be coordinated with the various KC-135 customer sites and other contractors working programs on the same sites as CymSTAR. Finally, manufacturing and factory testing of the IOSR equipment was done at CymSTAR – and was typically performed by the same engineers who would be traveling to customer sites to integrate and test the equipment. The manufacture and factory testing of the next set of equipment typically occurred simultaneously with an installation trip – stretching engineering resources even more thinly.

An additional major concern began to surface around this timeframe. Many of CymSTAR's engineers were beginning to express dissatisfaction at being on the road for weeks at a time. The amount of time being spent traveling was as much as 50 – 75%, and was likely to continue for the next two years with the addition of the IOSR program. Extensive and extended travel was not something that most engineers believed they had signed up for, and the first rumblings of discontent were emerging.

BEGINNING STAGES AND DECISION MAKING

Brad Baker knew that in order to achieve a successful modification, something needed to change. The current structure and business model would not effectively support the unique challenges of the IOSR program. There were not enough engineers across the company to efficiently accomplish everything that had to be done while keeping customers and employees satisfied. Baker recognized the need to modify the approach in order to successfully support the IOSR program and to develop organizational capabilities that could support growth in future programs.

Baker sat down with Curtis Choice, CymSTAR's Electrical Engineering Manager to explain the problem and discuss possible options. After Baker explained the need for change from his perspective, it was easy for Choice to see why change was needed. They naturally began talking about possible solutions. The meetings between Choice and Baker were informal and laid-back, but as the two bantered back and forth, ideas were generated and options presented.

Choice and Baker agreed that CymSTAR could always hire additional engineers, but there were many reasons why this did not seem like the best solution. The implementation focus of the IOSR program eliminated the need to use engineers. Because installation work did not require an engineering degree, the historic approach of hiring additional engineers would have been an unnecessary and expensive option. There was also the issue of what the newly hired engineers would do once the IOSR program was completed in two years if there was not enough design work to keep all the engineers busy and gainfully employed.

After several sessions, Baker and Choice agreed that the best option for CymSTAR and the IOSR program team would be to look at hiring Field Service Technicians (FSTs). The thought processes and discussions were straight-forward – here is the issue, what are the possible solutions? In addition to the FST option, Baker and Choice discussed the options of using temporary hires and contractors. The two quickly dismissed those options for the following reasons: they were expensive, it would be difficult to find the right kind of people, and there would be no long term benefit to the company.

Their next challenge was to establish what should be required for the hiring of FSTs. Baker and Choice brought in Chris Carpenter, a Senior Electrical Engineer at CymSTAR and the Project Engineer for the IOSR program to provide input on these key decisions. Baker, Choice, and Carpenter gathered in an office and as they tossed ideas and suggestions around the room, they were able to establish what was needed in a FST:

- *They were not looking for an engineer; they didn't want to pay for an engineer.*
- *No degree would be required.*
- *They were looking for individuals with an electrical background and possibly some mechanical knowledge.*
- *Strong troubleshooting capabilities were a necessity.*
- *A military background was a plus since CymSTAR interacted primarily with military organizations.*
- *Also a necessity was someone who was willing and able to be a "road warrior." This major requirement was due to the fact that there was a possibility of being on-site for up to six weeks at a time, with little to no time spent at home.*

Before taking the final idea for a FST program to upper management, Choice, Baker, and Carpenter discussed how to best approach the proposal. The group anticipated some resistance, as the proposed change was something very different from the way CymSTAR had successfully done things. However, due to CymSTAR's culture that allowed employees a high level of autonomy and ability for decision making, the three knew that if the idea was presented and explained well enough, the initial resistance would subside and political sponsorship would begin to line up.

After establishing the basic requirements for FSTs, Choice took the solution to his boss, the Director of Engineering, in order to get buy-in on the approach. While the Director of Engineering was on board with the plan to bring in FSTs, there was some reluctance expressed by other members of management. This reluctance stemmed from the fact that the decision would change the way CymSTAR had always done things and some uncertainty as to the benefits the decision would provide was expressed. Baker and team were able to provide additional information and answer questions to help upper management become comfortable with the idea of hiring FSTs.

Because of CymSTAR's culture, Baker and team were not required to conduct official presentations or meetings. Instead, the team sat down with top management in their offices and just talked through their plan – why it was needed, how it would be implanted, and how it would benefit the company. The team effectively communicated their plan and approach. As a result, the go ahead was given by upper management to begin the search for FSTs.

Before that search took place, there were several aspects that had to be defined. In addition to specific hiring criteria, how the FSTs should be paid and managed needed to be decided. While CymSTAR engineers were salaried employees, it was decided to make any FSTs hourly employees rather than salary employees, because of the lower educational and technical expertise required for

FSTs. CymSTAR management decided to maintain the current organizational structure, even with the addition of FSTs. Engineers currently reported to an Engineering Manager based off of their discipline (i.e. Software Engineers reported directly to the Software Engineering Manager) and then to the Program Manager that they were assigned to (**Exhibit 1 and 2**). FSTs would be involved primarily with electrical work, so they would be placed under the Electrical Engineering Manager - Curtis Choice.

With all of the initial required decisions made, company leadership agreed to proceed with the FST search. Choice began the search for FSTs – with the caveat of starting with just one FST to be hired and used specifically on the IOSR program to determine if the introduction of FSTs provided the cost savings and opportunities identified by Baker, Choice, and Carpenter. This was the beginning of the FST pilot program.

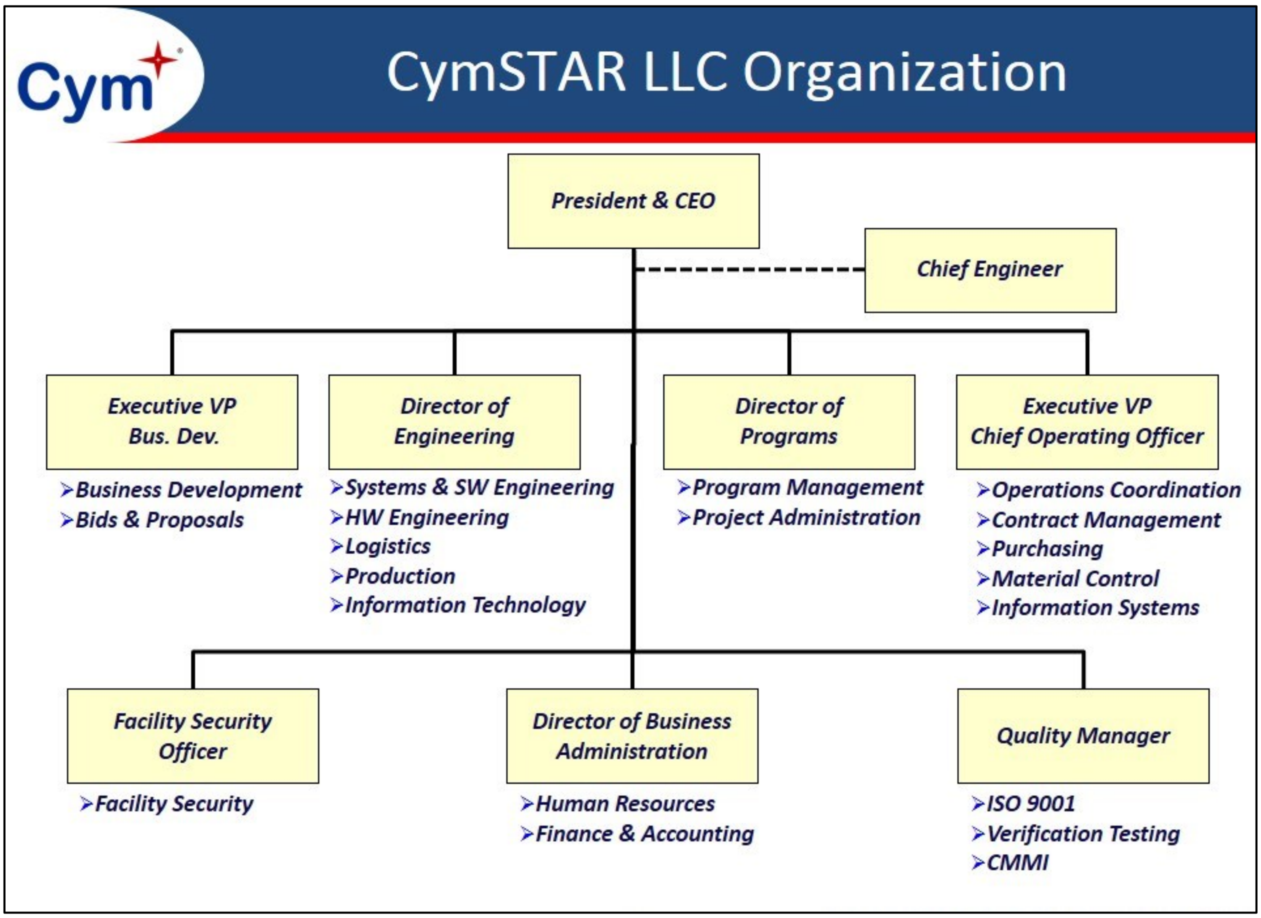

Exhibit 1

IMPLEMENTATION

The FST pilot program kicked off with the hiring of Chris Williams to work on the IOSR program. Williams had no simulation experience; however, he possessed strong troubleshooting capabilities, an electrical background, and a military background. One of the first roadblocks that presented its self was due to the original engineering process. Engineers were used to doing both the design of prototypes and then the installation of the prototypes and future production units. This process meant that all of the information such as instructions, documentation, tasks to be done, etc. were generally held in the engineer's head, and not necessarily documented on paper. It became hard for engineers to delegate tasks to the FSTs, since they had to first document what needed to be done, before they could show the FST what to do.

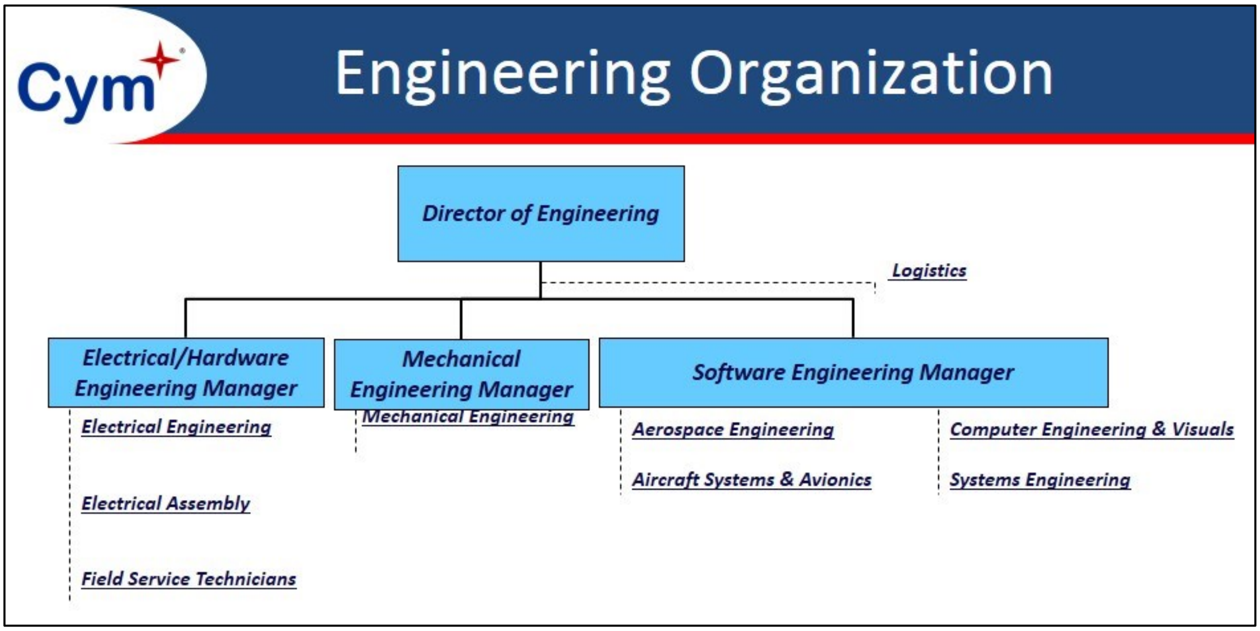

Exhibit 2

CymSTAR did not have official training programs in place for incoming engineers or FSTs. The company utilized a "mentorship" training process – placing new employees under experienced engineers to soak up knowledge, learn about the simulation industry, and learn how things were done at CymSTAR. As a way of training, Williams was placed with Chris Carpenter – the IOSR Project Engineer. This process was continued and utilized for training the FSTs.

Unaware of the attention that was focused on him from the start, Williams quickly picked up the necessary knowledge and became an efficient member of the IOSR installation team. As Williams proved that FSTs could be quite useful in the IOSR installations, CymSTAR made the decision to expand the pilot program and hire additional FSTs to be used on the IOSR program.

Eventually the pilot program was further expanded from one FST on the IOSR program, to multiple FSTs on the IOSR program, to finally, multiple FSTs on multiple programs. This further expansion was highly beneficial to CymSTAR. As new contracts and programs were brought in to CymSTAR, it was apparent that the current FSTs did not possess the knowledge necessary to successfully install the new modifications. CymSTAR would have to either better prepare incoming FSTs for what they would need to know, or hire individuals with simulation experience so there was less spin-up required.

RESISTANCE

Initial resistance was experienced by both engineers and Program Managers as new FSTs were hired on. While engineers were cautiously optimistic about the opportunity for less travel and site work, they were also hesitant. Chris Williams had proven that adding FSTs to the team was valuable for the IOSR program. However, the success of future FSTs was an unknown to others in the organization. Andrew Hand, one of CymSTAR's senior software engineers and Project Engineer for the next program to utilize FSTs (DRI-MCLS), described some of the questions that were being asked in the engineering department: Would the new FSTs have the capabilities as Williams did? Would they be able to pick up the knowledge that was unique to the simulation industry? Could they do what, prior to this decision, engineers had done for years on site?

On the Program Management side, the initial reluctance to add FSTs to the program team came from the fact, again, that the FSTs were an unknown. The Program Managers wanted to protect their program, and in order to conduct the program as efficiently as possible. They wanted individuals that they knew, had worked with, and could trust to have the necessary knowledge. The goal was always to finish the project on time and under budget. Until the Program Managers were assured of the FSTs ability to assist with that goal, they would remain hesitant.

Engineering and Program Management buy-in and acceptance of all the FSTs happened – some of it quickly, some of it over time. The fact that hiring FSTs provided a benefit for engineers helped aid the engineering buy-in and acceptance of FSTs. Engineers were able to lessen their travel and time on the road. They were also able to focus more time and energy on design work. One by one, as the FSTs were hired on at CymSTAR and trained on the IOSR and DRI-MCLS programs, they began to prove their capabilities and impress engineers and Program Managers alike with their troubleshooting abilities.

Two of the FSTs hired had knowledge of a competitor's legacy system for the DRI-MCLS program – a program involving a complex motion and controls system that CymSTAR had been put under contract to replace/upgrade, but still make the user interface exactly the same as the legacy system. No one else at CymSTAR held the knowledge that the two FSTs did. The two FSTs contributions were a big part of the successful modification design and installation. Instances like this, and many others over time, were what gave both Program Managers and engineers confidence in the abilities of CymSTAR FSTs and paved the way for final acceptance of and belief in the success of the FST program.

EXPANSION

In addition to the system knowledge that the two FSTs possessed and the proof of the FST capabilities, there were other factors that convinced upper management of the benefits of expanding the FST program from just one FST on the IOSR program, to multiple FSTs on the IOSR program, to multiple FSTs on the IOSR program and the DRI-MCLS program, to finally, multiple FSTs working on multiple programs across the company.

Every quarter, each program underwent a review with various members of CymSTAR management. The review examined the program's budget and costs, schedule, and overall health. After Chris Williams was hired on as the first FST, Baker briefed progress on the IOSR program and how Williams was doing. He discussed Williams' interactions with customers, his knowledge base and how he was coming up the learning curve, and how having Williams on the IOSR program was proving beneficial to both costs and schedule.

As these quarterly reviews took place and the benefits of having an FST were evidenced, it was becoming obvious that the resources on IOSR were still spread thin. This prompted a discussion involving Baker, Choice, and other management individuals in one of the quarterly review meetings addressing the need for additional FSTs. The discussion resulted in agreement from all parties that additional FSTs should be hired on at CymSTAR to work on the IOSR program.

In the process of hiring on additional FSTs, Choice found individuals who had worked on a competitor's legacy system for the DRI-MCLS program. As CymSTAR had been put on contract for the new DRI-MCLS system, Choice approached Baker about putting those FSTs on the DRI-MCLS program, instead of assigning engineers who were unfamiliar with the program. Baker was in agreement and this marked the expansion of the FST pilot program to another program.

The continued success of the FST program experienced on the IOSR and DRI-MCLS programs prompted Choice to consider the possibility of assigning FSTs to other programs across CymSTAR. Senior engineers Chris Carpenter and Andrew Hand had worked closely with many of the current FSTs and were in support of Choice's idea. Since the management and hiring of electrical/hardware engineers was Choice's responsibility, input from other departments or upper management was not necessary. However, CymSTAR's process for interviewing potential candidates required the involvement of upper management, human resources, program management, and engineering. After the individuals interviewed the potential candidate, they met together to discuss their opinion of the candidate. This meeting established whether or not the candidate would be hired.

Several additional FSTs went through the interview process and were hired on at CymSTAR. When the effort on the IOSR program began ramping down, FSTs started to free up. At the same time, other CymSTAR programs were beginning to ramp up and needed additional resources. The move of FSTs to these other programs marked the final expansion of the FST program.

Over the course of a year and a half, CymSTAR went from zero FSTs to six full-time positions. The experienced success of the pilot program sparked the utilization of FSTs across many CymSTAR programs – including Classified programs. In addition to being utilized on current programs, FST positions had begun to become included as positions to be bid for new contracts.

LESSONS LEARNED AND LOOKING FORWARD

Over a lunch frequently punctuated with laughter and loud conversation, Baker, Choice, Carpenter, and Hand discussed the ups and downs, negatives, and positives of the FST program. The mirth settled down as they focused on what worked well during the program and what could be better.

A selling point during the discussion of whether or not to bring on FSTs to CymSTAR, was the cost savings that would occur as tasks were moved from engineers to FSTs. Baker sat down to compare the actual hours and associated dollars for FSTs versus engineers to find out whether or not the initial cost savings assumption was correct. While the hourly rate for FSTs was lower than the engineering rate, the FSTs were also paid overtime (1.5 times their hourly rate for hours worked beyond forty per week), which could have possibly offset the rate.

After all the calculations were done, Baker could see the tradeoff between engineers and FSTs. As seen in the chart below (Exhibit 3), once FSTs reached the mark between fifty and fifty-five hours, the cost savings of using FSTs was diminished (Dollar amounts have not been included in the chart as it is data proprietary to CymSTAR). This led Baker to ask the question: was it truly a cost savings to use FSTs if they were going to be working the long weeks that were typical on site?

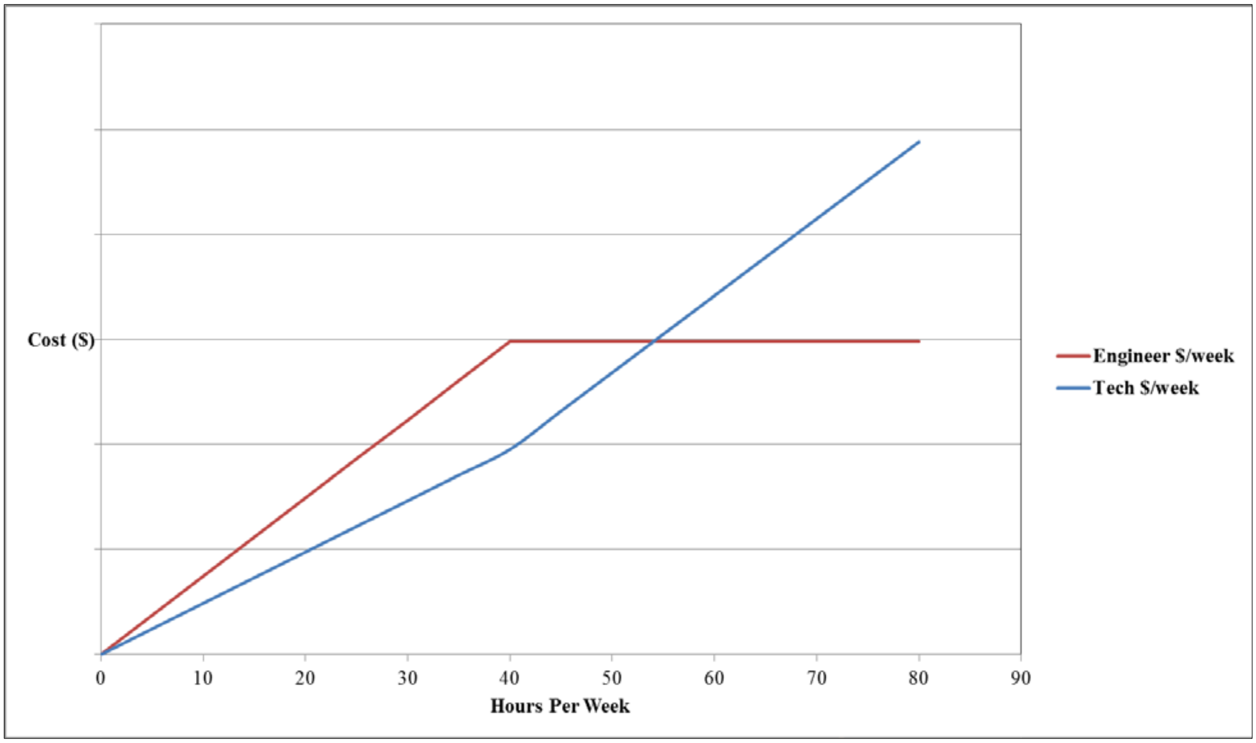

Exhibit 3

One conceivable issue that could be seen over the two years was the difference in pay structure between the FSTs and engineers. While the salaried exempt engineers had a bonus structure to incentivize them to accomplish tasks as quickly and cost-efficiently as possible, the overtime pay that non-exempt FSTs received might shift the incentive towards working increased hours, rather than fewer. This opposite approach in pay structure could lessen the efficiency on programs that program teams strived to achieve.

Curtis Choice made the observation that CymSTAR experienced a learning curve with FSTs. The right balance of FSTs and engineering had to be established. It had to be determined when engineering could be phased out of the program. By the end of the FST pilot program, a process had been realized – engineers could design and install prototypes, and at some point, the production units could be handed off to FST for completion. However, Choice, Hand, and Carpenter all agreed that while this was a good starting point for a plan, a settlement on how exactly the handoff should occur needed to happen.

Taking the handoff point a step further, Baker referred back to the training process that CymSTAR utilized. While having a mentor to learn under was a positive for incoming FSTs, was solely using that method of training the best way to spin up the new individuals - who may or may not have any knowledge of the simulation industry, the best option? The move towards engineers documenting processes and instructions on paper, rather than just it being contained in their head had helped immensely with training FSTs on programs, but could it be taken a step farther?

During the conversation between Baker, Carpenter, Choice, and Hand, the topic arose regarding the possibility of utilizing FSTs on the software side of engineering. Some of the FSTs had become so familiar with the DRI-MCLS program that the team began to wonder if they could experiment with handing off the software portion to be incorporated by FSTs. In addition to the current programs, could CymSTAR find FSTs who had some software engineering background and hire them to do the on-site software engineering tasks?

FINAL DAYS – WHAT'S NEXT?

Sitting in a Quarterly Program Review, Brad Baker made the statement: "The FSTs have continued to work well on the IOSR program and much of the success on this program can be attributed to them." The evidence that the FST pilot program was successful was apparent for all to see –in the schedules, engineering's pleasure at being off the road, the ability to utilize engineers for future design work, and the customers' satisfaction.

This statement from Baker evoked a discussion between the management staff. As the end of the IOSR program and the FST pilot program were nearing, it was evident that FSTs were becoming a vital part of CymSTAR. The FSTs had valuable troubleshooting capabilities, had quickly picked up the work being conducted on the simulators, eliminated the resources issue, and had added to the cost savings on programs. In addition, the FST positions were now being included in new bids for contracts, were traveling overseas to work on various modifications, and were working on Classified programs.

With the extremely successful completion of the two year pilot program, discussions began to ensue and decisions needed to be made. After the successful program, what considerations needed to be made in order to take the pilot program and fully implement it across the entire company? Were there lessons learned that CymSTAR could gain from? Were there areas that could be improved upon? What changes needed to be made in order to make the FST program a company culture change?

SEXUAL HARASSMENT: CAUGHT OFF GUARD

Raquel Y. Madkins, Stephen F. Austin State University
Robert M. Crocker, Stephen F. Austin State University
Marlene C. Kahla, Stephen F. Austin State University

CASE DESCRIPTION

Paris, the Human Resource Director for the Alternate Treats, Inc. warehouse, has enjoyed a meteoric rise to her position and is looking forward to a promotion. Although she lacked human resources experience when she took this position, her Business Management degree provided the basic foundation knowledge and her hard work has earned the respect of the warehouse employees.

Jacob is the warehouse manager who hired Paris. After a whirlwind courtship Jacob and Paris were married but vowed to keep their marriage a secret at work. Jacob has been selected to manage the new expansion in North Carolina and has told Paris that she will soon be announced as the Senior Human Resource Manager and together they will open and operate the new production facilities and warehouse.

Renita has not been a very dependable employee and is renowned for the excuses she gives to explain her work-related deficiencies. She is very close to being terminated when she comes to Paris to file a sexual harassment complaint against a warehouse manager.

Although Paris is shocked and outraged by the allegations, she is determined to conduct a complete and thorough investigation without interruption or bias due to personal feelings.

The storyline of this case is absolutely false and in no way does it portray any real company.

CASE SYNOPSIS

Sexual harassment in the workplace is something that none of want to experience in any form, neither as a victim nor as a person responding to a complaint. Employers today typically require prevention training that includes making employees aware of behaviors that comprise sexual harassment. Sexual harassment policies should include mechanisms for both reporting and investigating sexual harassment complaints. Zero tolerance policies are commonplace for sexual harassment violations.

As students read this case they will be exposed to an incident of sexual harassment in the workplace and are given access to additional information and statistics related to workplace sexual harassment in the Appendix.

Students will be drawn into this case because it has several exciting components including a young and inexperienced human resource professional, an allegation of sexual harassment coming from an employee known for making outrageous claims, the relationship between the accused and the investigator, and an end to the case that is as sudden as it is surprising.

Students should be able to put themselves in the role of Paris and decipher whether or not she made the right decision based on the information given.

This case provides a basis for multiple end-case scenarios and provides the instructor the opportunity to engage students in a thorough examination of workplace sexual harassment.

SEXUAL HARASSMENT: CAUGHT OFF GUARD

Dazed

She sat listless in her office. Her wildest nightmares did not prepare her for the emotions that were ripping her life apart like an EF5 tornado. "Never in a million years did I think this would happen," Paris said aloud as thoughts raced through her exhausted mind. The sealed envelope on her desk marked the end of what seemed to be a never ending investigation, but it had all transpired in the past few hours. Although she felt lost, hurt, and confused, she convinced herself that, from a business standpoint, she was doing the right thing.

The Promotion

Two years ago, Paris was hired as the Human Resource director for Alternate Treats warehouse after their second relocation to Austin. She didn't have any experience in human resources, nor had she ever worked in a warehouse a day in her life.

However, she was well equipped with a Bachelor of Business Administration in Management, a warm personality, and a desire to learn. The Operations Manager, Jacob, hired her right on the spot.

In the beginning she wasn't taken very seriously. Some of the older employees thought she was too young and that she had gotten hired only because she was drop dead gorgeous.

She was determined to prove everyone wrong. She wanted to make it clear that her ability to do the job had nothing to do with her looks and she'd demonstrated a superior work ethic that slowly but surely won the respect of even the old-timers in the warehouse. Now almost two years later she has been promised a promotion as Senior Human Resources Manager of the new expansion project the company is waiting to reveal.

This move would expand Alternate Treats production to North Carolina which in turn will reduce costs associated with transporting goods from Texas to the East Coast, as well as being conveniently close to the port of Norfolk where shipments to a growing European market are expected to increase.

Paris was excited as she considered her soon-to-be responsibilities as Senior HR Manager. She would be working alongside the new Operations Manager in staffing the new facility. She wondered if she was ready to recruit, select, and train the approximately 100 employees needed for the warehouse and production facility.

She was desperately eager to disclose her exciting information but Jacob, who was now her husband, suggested she keep it to herself until he formally announced the opening of the position. Jacob had already been announced as the Operations Manager of the new facility, and he knew that she would be announced as the Senior HR Manager, but he wanted to make it appear as if every applicant was being carefully considered.

She was absolutely head over heels for Jacob. They hit it off immediately, even though they didn't have a date until almost seven months after she was hired. She admired the fact that he appreciated her strong organizational skills and that he saw potential in her even when nobody else did. She appreciated the way he respected the people he managed. She loved the way he took care of her and how he always found a way for them to separate their life together away from work. She respected that he didn't want to tell the company that they were married because he wanted to keep business separate from personal. In her eyes, he was perfect in every way. So she kept her promise and didn't tell a soul.

December 1, 2013

Knock! Knock!

Paris usually kept her door open but she had just finished a phone interview with a prospective operations manager to replace Jacob. She opened the door and wasn't surprised to see Renita Adams.

Renita was a frequent "visitor" to the HR department and was known around the warehouse as "excuses" because of her ability to generate so many different reasons why she couldn't come to work and or why she failed to complete an assigned task. Most of her family has "died" at least twice and she has contracted virtually every disease known to man, along with several that have yet to be discovered! Renita didn't come to work for last year's Thanksgiving family luncheon because she claimed her sister Renee had past. This year brought her sister Renee to the Thanksgiving Luncheon this year.

She also complained about absolutely everything but the other workers seemed to tolerate her because she was quite entertaining and very cute.

The last time Renita came to the HR office she had been notified that she was a mere 5 points away from termination according to company discipline policy. That meant that there was no room for any more mess ups from her.

The Complaint

Paris cracked a smile and invited Renita to come in and take a seat. She was prepared for her to give a reason for why she needed to leave early, but something was different this time.

Renita starred quietly at the floor, rocked back and forth, and held herself to keep from shaking.

Paris came around the desk and sat beside Renita. She softly placed her hand on Renita's shoulder and asked, "What's the matter?"

Paris wasn't prepared for the story that ensued.

"Mr. Kyle called me in his office today around 10:15 a.m. I remember because that's the time I usually start loading the trucks."

Renita paused then continued, "When I got to his office he complemented me on my eyes and told me to have a seat. He leaned on the corner of his desk and went on to ask me if I was interested in earning some points back on my discipline record."

She looked up at Paris and said, "You know that in the past he would give me probationary periods which allowed me to gain back five points for every ten days that I could go without getting into any trouble. In order to qualify for the probation however, I would have to help him clean around his office. So I was thinking this time would be that same thing."

"So I said that I was willing to "help him, help me" so he smiled and told me to start in his personal bathroom. So, I walked into the bathroom and bent over to reach the cleaning supplies under the sink and when I stood up Mr. Kyle was standing behind me."

She took a deep breath to steady herself. "He pushed me against the kitchen sink and tried to kiss me. He was pulling on my shirt. I turned my head and tried to get away but his weight was too heavy."

"I don't think I was able to say anything out loud because I was just shocked and scared. When I started crying he pushed himself off of me. He walked back to his desk, knocking over a few things on the way."

"I was hurrying up trying to get out of there when Mr. Kyle told me not to tell nobody or I'd be fired. The he said I could forget getting any points back."

"When I got back to the loading dock around 10:25 Greg noticed that I was crying and asked me what was wrong. I brushed him off and finished loading my truck. When I was done I asked my Shift Lead if I could come talk to you."

Denial

After filing the formal written complaint, Paris walked Renita to her car then came back to her office and closed the door.

She shut the blinds and stared blindly at nothing, then at the empty seat where Renita had been.

She replayed the conversation in her mind stared at the written words of the complaint.

She read the words over and over again.

The investigation

Paris' initial thought was that Renita was lying and that this had to be another one of her incredible excuses. Everybody knows that she does this all the time.

Paris thought. Could this be true?

Things began to add up.

The way he looked at her when they were both in her office. She still has a job even with a horrible performance record. When he brings lunch for everybody he makes sure there are leftovers for her, even in her absence. He had always had a thing for her.

Even though her woman's intuition said he was guilty, she needed more proof. She wanted to wait to confront Mr. Kyle about the situation until last, after she had enough evidence to where he had no choice but to confess.

Paris visited the warehouse secretaries.

Discretely and privately she asked them if Mr. Kyle had ever made them feel uncomfortable sexually.

Gwendolyn, the older of the two said no, he has always treated her with respect.

Lille, the part time college student said otherwise. She expressed that on numerous occasions Mr. Kyle has asked her to diner and drinks saying that he had a lot of strings around the company and could get her a job upon graduation.

"I never said anything because I didn't want to risk losing my job" she said.

Paris apologized on his behalf and suggested that she file a sexual harassment claim in the HR office.

Paris' next stop was the custodian closet.

There she found Josh and Darlene. Josh said he had never seen or heard anything and that Mr. Kyle was nothing but nice to everyone he came into contact with. Darlene stated the same.

Paris moved on.

"He has a thing with caressing my shoulder" Mariah from taste testing said "but I never thought of it as weird or anything, just kind of like an uncle touches his niece. But now that you say something he has "accidentally brushed my buttocks a couple times. Now that, I do think is weird".

Paris didn't bother to go talk to anyone else.

It was obvious he was in the wrong. She decided she wanted to hear it straight from the horse's mouth. She went back to her office and picked up the phone and said "Mr. Kyle can you please see me in my office" over the intercom.

She felt the whole place grow silent as they knew something was up. Word gets around fast around the warehouse.

It's over

He walked in without knocking as he always did.

"Hey honey" he said as he hugged her and kissed her cheek then sat down.

Paris just stood there with arms folded and eyes piercing through him. Without saying a word she handed him a manila folder with his name on it then she handed him an envelope. He looked up from his lap and his eyes slowly met hers.

All she said was "get out."

He wanted her to explain what all of this was about but all she kept saying was "get out."

In disbelief he stood up. With his eyes big, and head down, he slowly walked out.

As he made his way back to his office he opened the manila folder. On the top of the stack of papers was the company policy against sexual harassment.

Next was a letter of suspension, and behind that were the complaints Paris had acquired against him today.

He got to his office and sat down to open the envelop that read "Jacob Kyle" on the front with a red kiss on the seal. Inside were a house key, wedding ring, and a note that read "It's over".

APPENDIX A: SEXUAL HARASSMENT IN THE WORKPLACE

Sexual Harassment is defined by the EEOC as "any unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature when this conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance, or creates an intimidating, hostile, or offensive work environment." It is sometimes hard to determine if certain actions can be classified as sexual harassment, however every report should be taken seriously by both the employer and the harassed.

Prevention is the best tool for employers to utilize. Providing employers with training on sexual harassment and making them aware of company policy regarding the subject will protect the employers in the event that sexual harassment does happen.
Taking proper precautions doesn't always mean incidents won't arise. Both the employer and employees should know what to do should this happen. If one is sexually harassed while at work they should be aware that "there are two ways to go about filing a complaint; an internal procedure (Human Resources) or an external procedure (EEOC), and that they have 180 days prior to the event to file" (TAASA).

If an employee decides to take the internal route it is important for supervision to know the steps of a fair investigation.

1. Fully inform complainants of their rights
2. Fully and effectively investigate
3. Promptly and effectively remedy (law requires more than a request to stop conduct)

*Provided by the Texas Association Against Sexual Assault

Sexual harassment has the ability to negatively affect everyone in a work environment if not handled properly.

APPENDIX B: THINGS TO KNOW ABOUT SEXUAL HARASSMENT

- The victim as well as the harasser may be a woman or a man. The victim does not have to be of the opposite sex.
- The harasser can be the victim's supervisor, an agent of the employer, a supervisor in another area, a co-worker, or a non-employee.
- The victim does not have to be the person harassed but could be anyone affected by the offensive conduct.
- Unlawful sexual harassment may occur without economic injury to or discharge of the victim.
- The harasser's conduct must be unwelcome

*Provided by the Equal Employment Opportunity Commission

APPENDIX C: STATISTICS

1. 64% of Americans see sexual harassment as a problem in this country.
2. 88% of women have been harassed.
3. 79% of victims are women, 21% are men.
4. 27% experience harassment from a colleague.
5. 17% experienced harassment from a superior.
6. 12% received threats of termination if they did not comply with their requests.
7. 66.6% of victims were not aware of the workplace policies regarding sexual harassment.
8. 50.4% were not aware of what department or person should be contacted regarding the sexual harassment.

Top 5 Industries with Highest Sexual Harassment Incidents

1. Business, Trade, Banking, and Finance
2. Sales and Marketing
3. Hospitality
4. Civil Service
5. Education, Lecturing, and Teaching

*Statistics provided by Brandongaille.com

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MAMA SAYS WASH! THE ULTIMATE DILEMMA

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CASE DESCRIPTION

Not yet over the death of her sister and business partner, Jean, Sarah finds herself faced with a difficult decision. She is waist deep in past due bills and late orders, sales increasing at a decreasing rate, a seven figure offer from an unidentified person, and a cousin and savvy marketer, Joann, wanting to help grow the business. Now she must decide what is best for the specialty soap making company. Time is ticking.

Joann, Sarah's not so favorite cousin along with Jeff Summers, have both come to her with offers that will change the business, Mama Says "Wash!" Joann's ideas may serve to grow the business and bolster sales. Summers' clients' offer would remove all the business decisions from Sarah's shoulders and let her do what she likes to do best—create new soap designs. It is up to her to weigh the cost and benefits of both offers and start calling the shots.

Therein lies the rue, calling the shots has never been a forte for Sarah, never. She is just not that kind of person. She is always strong in design and creativity, not in calling the shots.

Students will be able to relate to Sarah on at least two levels: (1) They have been in a situation that requires them to make a serious decision with little to no guidance and (2) they know how it feels to have been betrayed by a close family member or friend and having to put their differences aside in order to reach a common goal. As business students, they will be able to tie this case into course work related to marketing and management classes, i.e., product life cycle, diffusion of innovations, business development, etc.

The case presented here is based on a true business with fictitious characters. Though the plot isn't real, it allows insight to decision making that happens throughout small businesses encountering similar dilemmas every day.

The difficulty of this case is at least a 3 as students will feel empathy for the main character, Sarah, because everything was going so well for her and her sister and their business, then her sister dies. Suddenly, Sarah has to move from her creative cocoon into business mode, and she is terrified. To make matters more intense, her cousin steps into the picture that she left many years earlier calling the business a potential failure. The blood pressure rises after yet another person, unidentified throughout the case, makes a very interesting offer for purchasing the business, and even suggests that Sarah can remain as a creative director.

As students read through this case they will become more familiar with the Collegiate Licensing Company (Appendix A), Millennials (Appendix B), and actual costs of advertising associated with Mama Says "Wash!" (Appendix D).

Her choices are to manage the place herself and risk losing the business, partnering with her cousin Joann, or selling the business to Summers' client. The offer really adds to the dilemma as it is enough money to get Sarah's attention and causes her to hesitate in going forward as the sole proprietor.

CASE SYNOPSIS

Although Jean is dead, she continues to impact decisions regarding the business she started when she decided to stay home and raise her son. Sarah, her sister, brought the creative design and energy to the soap business that makes it unique and desired by many college stores and boutiques. Throughout the duration of the business, Sarah's designs and imagination drive people to ask for the soap, Momma says, "Wash!"

Sarah never really sees herself as an integral part of the total package that the small business, Momma says "Wash!" has become. She delights in getting to be creative, being left to her own devices and imagination, she is able to make the soap product so distinct that it commands attention and prestige pricing. She simply enjoys being creative.

And, as long as Jean, her sister, managed each step of the business, Sarah could excel and profit at something she truly enjoys—creating and designing.

Death strikes suddenly, and Sarah must become the face of the business. She may not be up to it. Is she ready for such a role in the company? Being the alive is not the only criteria needed for sound, business decision making. What will Sarah do about the intrusive, yet full of sound ideas cousin, Joann? How should she respond to the offer initiated by Summers on behalf of his client?

This is the setting. Everything was Utopia until death stole the scene. What decisions should Sarah make? Time is ticking.

MAMA SAYS WASH! THE ULTIMATE DILEMMA

Introduction

Sarah and Jean are successful entrepreneurs because they happen to be sisters that work together well. Each one's forte complements the other. For example, Jean is the manager and business decision maker. She invented the business so that she could stay home with her son and be a strong contributor

Alone In Her Grief

"It's been three weeks and the phones won't stop ringing. Part of me wishes the calls were from potential clientele, but more than anything I wish she would call and tell me she's coming back," Sarah thought to herself.

"Oh how I would give anything to hear her say, 'We've got Texas Tech on board!' or 'We have got to figure out how to market to TCU17.'"

"It's just not the same without her," Sarah lamented.

Sarah's thoughts continue, "My business partner, my sister, and above all my friend--how could she be so selfish as to leave me like this? After all the time we spent planning for the future, it was all for nothing."

Her doubts begin to cloud her thinking as she faces the future alone, "I can't run a business by myself. The only thing I'm good at is carving soap and training soap artists. And I sure don't want Joann coming around thinking she can just take over what we built. I mean, who does she think she is?"

Ring! Ring!

"Mama says wash, where cleanliness is next to Godliness, this is Sarah, how may I help you?" I managed to include her favorite greeting for the first time since the accident. I never liked that greeting; it was something she made up. But it's one of the few things she left behind.

"Hello, Sarah, my name is Jeff Summers, is Jean in the office by chance?"

This was it, I finally had to acknowledge what I'd kept telling myself was nothing more than a nightmare. I would soon wake up and Jean would be here with me," Sarah thought as she felt herself becoming ill.

Swallowing my vomit and holding back my tears, I forced open my locked jaws and said, "I'm sorry Mr. Summers, but Jean is no longer with us. She passed away last month. Is there something I can help you with?"

"I'm sorry to hear that. Are you taking over the entire operation? I think I may have a buyer for the business with an offer you can't resist." Summers continued.

"I was no longer in the room, mentally I checked out weeks ago," Sarah avoided his question.

Not letting a little thing like death deter him, Summers continued about his client and his offer.

"You posted just over $225,000 in sales last year. And, I know from talking with your sister that you picked up several new clients this year. You've been keeping the Collegiate Licensing people busy. We need to talk. My client is making a very generous offer for the business. Who knew that when your sister decided to be a stay-at-home mom and make soap that she would be the bread winner in that family?"

Sarah, just a little rattled by the tone of Summers' last remark, retorts, "What do you mean by that, "bread winner in that family?"

After huffing a response to Sarah's question, Summers continues about the offer, "Look here, Sarah, Jean had lots of business sense. I know that she would at least consider the offer my client is prepared to make. It is seven figures."

"Seven figures," Sarah thinks. "Do you mean at least a million dollars?" she quizzes.

"Yes, at least," Summers replies. "And, my client made it clear that you would still be a major player in the operations of the business."

"Maybe next week, I'll call you," Sarah replies.

"Though this proposal did seem to be the light at the end of the tunnel, speaking about selling the business was the last thing on my mind. Is that offer really very good?" Sarah thinks quickly.

I have bigger things to worry about. Why don't they understand that? I just lost a sister. If I could just get some help around here I would be able to start designing products for Texas Tech University that would change things around for sure. That was something Jean really pushed for, I cannot let her down. I need to clear my head so I am taking a break from the mound of past due bills, late orders, and trash on my desk to go do what I love--carve soap.

The Intruder

Sarah just enters the carving room, when she hears an all too familiar voice from her childhood.

"Hello, dahling. So sorry about Jean. She was such a dear, there were so many people at the funeral. And, flowers! So many beautiful flowers," Joann's voice pieces the atmosphere before she enters the room.

"I thought I asked you not to come here!" Sarah lashed out.

"Now Sarah, you know that we will always be there for each other. Why shut me out?" continues Joann.

"Always!! No matter what I did as a kid, she always won, always! Why can't she leave me alone now?!" Sarah thought to herself.

The anger and the passion behind my words are enough to break the toughest man, but not Joann. She is a different breed of people. And despite her talent and love for the art of soap making, we never get along.

It all started when we were children. Our mothers are sisters so Jean and I spent quite a bit of time with Joann growing up. She was always a bossy, snobby, coldhearted sellout.

We started off as a threesome, our soap selling that is. However, Little Miss Know-It-All felt like the business would never make it past churches and garage sales, so she left us and the business to work for a marketing firm in Dallas. Neither Jean nor I have spoken to Joann in the last 10 years.

Washing My Hands

Since 2002 Mama Says "Wash!" thrives as one of the few companies to make licensed collegiate soap. With a few extra hours, good ideas, and of course, funds, "Mama Says 'Wash!'" will be able to upgrade our packaging and provide website enhancements that should grow our retail presence online, in campus bookstores, just about everywhere.

"I can't do this by myself, but I refuse to partner with Joann. The irony of wanting to wash my hands of this business becomes increasingly real each day," Sarah becomes engulfed in her thoughts.

"Maybe Summers' client's offer is something to consider after all. At least I would be able to stay with the company, maybe as Lead Soap Artist, and let him take care of all of the things I seem to know nothing about. His offer isn't half bad either considering the way the business is going this past year," tension leaves her thoughts at the possibility that she no longer has to be the decision maker.

"I have to make a decision, the accountant will need figures soon to submit sales taxes for last quarter," Sarah steps back into reality.

Keeping Up With The Younger Generation

Whatever the decision, it must include a plan to market to Millennials. Keeping up with this generation isn't easy. These kids are not very brand loyal—they are fickle.

Our packaging should incorporate school spirit with fun, and be featured in an upbeat, eye-catching display. We should be able to reach potential customers online and through the various forms of social media.

"Social media, what a jungle. All this social media stuff will create more work for me than I know how to handle," Sarah ponders.

"All this stuff about mobile optimized websites, really?!" tension is again in her world.

"The store managers are beginning to note that the soap sales are not increasing at the rate they were last year. Why? The soap is still the same, so why is it not selling like it was? Is it the name? Price? Packaging? What?" Sarah mulls things over as she thinks about the offer.

"Making sure that each university has the amount of soap for the bookstores' inventories is so confusing to me. Jean did all of that so effortlessly," Sarah's thoughts are true.

Joann's Change of Heart

I finally permitted her to speak and her words were shocking! After apologizing for abandoning our friendship and business, and for the lack of faith she had in the company's success, she explains her presence.

She shares that she wants to be here for me in this devastating time, wants to incorporate her experience into the company. She explains, "A plan to find out the most popular scents amongst late teens and young adults must be set into action, along with a plan to market to sororities, fraternities and other major organizations on campus through personalized soaps."

"We had never before considered fraternities and sororities, but I could see how it may be beneficial to expand the line," Sarah evaluates Joann's ideas.

Joann continues, "Another way to reach out to the collegiate community would be to hire student workers to pass out samples on campus, and possibly implement an internship program. Being that college students love to go out and mingle with each other, it would be beneficial for Mama Says, "Wash!" to place soaps in the restrooms and counters of college town favorite hangouts to further popularize the name of the business."

Sarah is impressed by the immense thought Joann has put into this and how eager she is to take the brand to the next level.

Joann continues with yet another strategy, that we obtain a smaller market, such as Stephen F. Austin State University or University of North Texas, handing out t-shirts that read, "I smell good" to market on campus, and selling gift baskets. Joann includes a loyalty program for returning customers.

"From the college campus to whatever the future holds—Wow! Could Mama Says, "Wash!" be the next product in Bath and Body Works?" concludes Sarah, rather surprised at her own enthusiasm.

"I guess it all comes down to where I see Mama Says, "Wash!" Am I really ready to forgive Joann and become business partners with somebody who has hurt me throughout life? There's always the option to stick it out by myself. Or do I want to just rid myself of the worries all together and accept Mr. Summers' client's offer?" Sarah's enthusiasm ebbs, she is perplexed.

Time is ticking.

APPENDIX A: A NEW GENERATION

Generation Y, sometimes referred to as "Millennials" were born during the 1980s and early 1990s. Products of the Baby boomers, this group of young people have grown up around technology most, if not all, of their lives.

Millennials are what most companies aim to reach. According to Author of Forbes Magazine Alyse Lorber, there are a few things these companies should focus their efforts on when it comes to marketing towards the younger generation. That is innovation, community, and values.

Millennials are innovative in the fact that they are constantly coming up with new ways of doing things. It is not unusual nor is it unheard of for the inventor of the hottest new app to be a teenager who promoted the app via social media. "They especially enjoy things that make their lives easier and more convenient" says Lorber. Anything that has the capability of frequent updates and conforms to their busy lives will catch their attention.

Lorber goes on to say that in order to reach this generation companies should feed off the fact that this group enjoys the feeling like they are a part of a group. This can be done via social media and blogs.

If one person likes something, they want somebody else to like it too, therefore will not hesitate to express their feelings. The same goes for disfavoring a product or service.

When it comes to values, Generation Y favors businesses that think, feel, and act the way they do. For instance, there is a growing desire to want to help the environment, eliminate animal cruelty, make cultural advances, etc. If this is something they care about then the Millennials will go the extra mile to support their products.

Companies who thrive off innovation, group thinking, and values will have this generation wrapped around their fingers.

APPENDIX B: COLLEGIATE LICENSING COMPANY

CLC: What Is It?

According to the Collegiate Licensing Company (the trademark licensing affiliate company) "colleges and universities have some of the most loyal and passionate fans in the world". Since 1981, the CLC has partnered with hundreds of colleges to help promote their brands and fan awareness by "protecting, preserving, and maintaining both the integrity and long-term brand value of collegiate trademarks" (Collegiate Licensing Company). Their efforts have helped bring in billions of dollars.

Services

Services provided by the CLC include brand protection, brand management, and brand development. Brand protection is essential for the collegiate institutions in that it gives them a peace of mind when it comes to collegiate trademark laws and such. Brand management focuses on what exactly each individual client needs and wants out of the relationship and what each party needs to do to reach those goals. Brand development does exactly that, it develops long lasting brands that will have the ability to meet and surpass any marketing or financial goals a partner may have. Whether an institution is looking to start up a new brand or enhance their current brand

Costs

FIRST YEAR LICENSING COSTS		
Potential & Required Costs	**License Type**	
	Standard	*Local*
Application Fee	$1,000	$100
Adobe Acrobat (in order to create PDF files)	$0-$450	$0-$450
*FLA Fees***	$500-$10,000+	$100-$1,000
Holograms	$50-$500	$50-$200
*Institution Royalty Advances**	$2,500-$5,000	$250-$1,000
Internet Access	$0-$500	$0-$500
Liability Insurance	$250-$3,500	$200-$2,500
Logos on Demand (electronic artwork access)	$250-$500	$50-$250
Total Potential & Required Costs	**$4,550-$21,200+**	**$750-$6,000**

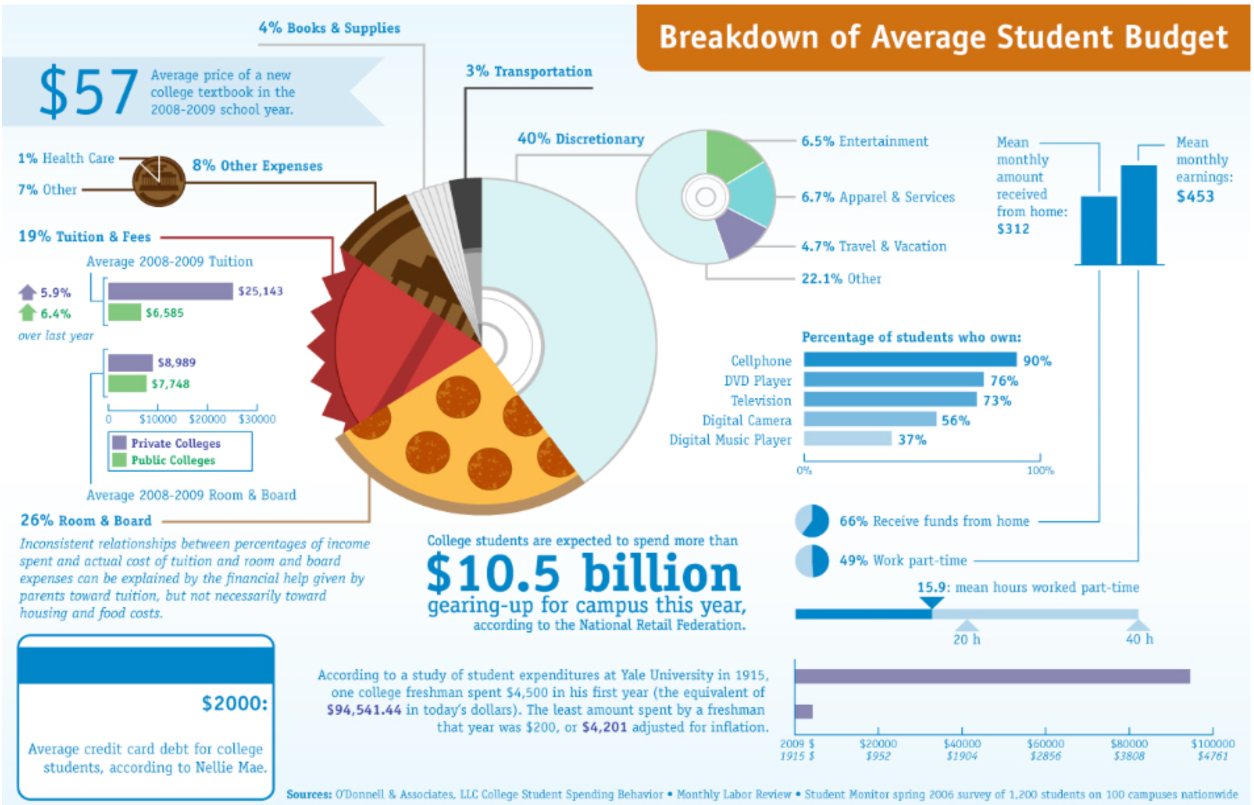
** Average advance cost example based on 10 institutions for Standard and 2 institutions for Local applicants.*

*** FLA fees vary based on the overall revenue generated by your company. Please review the additional FLA Information insert in the application package to determine the fees you would incur if you wish to obtain a license with an FLA member institution.*

The Collegiate Licensing Company's Texas Partners

School	Approximate Student Population
University of North Texas	36,000
Rice University	6,082
Stephen F. Austin State University	13,000
Texas A&M University	50,000
University of Texas	52,213
Texas Christian University	9,925
University of Texas El Paso	23,000
Texas State University- San Marcos	35,568
Texas Tech University	33,111

APPENDIX C: AVERAGE STUDENT BUDGET



APPENDIX D: ADVERTISING BUDGET

Description	**Total ad Budget**
Website Enhancements:	
Create TTU web page	750.00
Create TCU web page	750.00
Add new UT and TX A&M products	700.00
Add new seasonal soap projects	1500.00
Revise Where to Buy Pages	100.00
General edits & maintenance to site	400.00
Print Advertising:	
Horns Illustrated- 7 insertions: 1/6 page plus as design; Oct- Dec 2012; Jan-Apr 2013	1900.00
Texas Monthly Marketplace- 6 insertions; 1/6 page plus ad design: Nov, Dec 2012; Jan, Mar, Apr, May 2013	4500.00
Aggieland Illustrated- 7 insertions; 1/6 page plus ad design; Oct-Dec2012; Jan-Jul2013	1500.00
Lubbock Visitors Guide; 1 insertion; 1/24 page	600.00
The Alcalde- 3 insertions; 1/3 page plus ad design; Sep, Nov 2012; Jan 2013	3900.00

Description	**Total ad Budget**
Graphic Design:	
Design soap labels- 26 designs	500.00
Design folding gift cards-22 cards	550.00
Design hang tag- 4 tags	100.00
Design UPC tags- 5 tags	100.00
Update UT Sales Flyer	300.00
Create TTU Sales Flyer	500.00
Create TCU Sales Flyer	500.00
Create Season al Line Sales Flyer(s)	750.00
Other Designs:	
Modify Wood Shelf Display Box Design	100.00
Design Display Rack(s) Solution	300.00
Custom Wood Boxes & Racks:	
400 Boxes at $10 each	4000.00
15 Table top display racks at $50 each	750.00
15 Floor standing display racks at $100 each	1500.00
Printing:	
Soap Labels- 26 labels; 43K total labels	2300.00
Folding gift cards-22 cards; 14K total cards	1500.00
Hang Tags- 4 tags; 6K total tags	500.00
UPC tags- 5 tags; 9 K total tags	200.00
UT Sales Flyers- qty 200	150.00
TX A&M Sales Flyers- qty 200	150.00
TTU Sales Flyers- qty 200	150.00
TCU Sales Flyers- qty 200	150.00
Seasonal Line Sales Flyer(s)-qty 200	300.00
Direct Mailing:	
200 Marketing Packets for Retailers- copies of cover letter, price sheet, folders, large envelopes; include sales flyers form above; estimate $1.50 per packe	300.00
Postage for Marketing Packet- qty 200	400.00

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AUDITOR SKEPTICISM, MANAGEMENT BIASES, AND THE SLIPPERY SLOPE

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CASE DESCRIPTION

The primary subject matter of this case concerns auditor skepticism and the ability to recognize signs of financial reporting fraud. Secondary issues include promoting an understanding of the environment where financial reporting fraud is likely. The case is developed for use in both undergraduate and graduate classes in accounting, forensics, or auditing. The case has been successfully used in undergraduate classes (levels 3 and 4) and in graduate classes (level 5).

CASE SYNOPSIS

The case, based on actual SEC fraud action filings, examines a company where the CEO exhibits strong signs of overconfidence. The CEO had a compelling belief in the success of the company that contrasted with the economic realities. When economic conditions did not support the achievement of goals he had promoted with stock analysts and with investors, he chose to alter financials to meet his goals rather than adjust downward his goals. He promoted within the firm a culture that rewarded employees who found ways to misreport financials. The audit firm who examined the financials missed major fraud that affected many accounts. The total amount of the fraudulent misstatement was estimated at $60 million or 64% above the proper pre-tax income. The case is written from the standpoint of the audit team. Students should identify with the new hire, Valerie, as Valerie struggles to explain audit evidence and with the audit in-charge, Luis, who must decide whether to investigate further (and incur higher costs) or accept the viewpoint of his superiors. The introduction from the audit manager's viewpoint forces students to acknowledge that audit failure has consequences for the auditors, the audit firm, the investors, and the audit client. Three years after the audit concludes the in-charge (now an audit manager) is forced to examine how the audit failure could have been prevented.

The case explores the role the CEO's association with the audit firm may have had on the level of professional skepticism in the auditors. The CEO had worked previously as a manager with the audit firm. Using the characteristics of professional skepticism recognized in the fraud literature, students are encouraged to examine how to assess professional skepticism in the audit. This case is intended to help students who later become audit professionals recognize threats to maintaining a high level of professional skepticism and acknowledge signs of potential financial reporting fraud. The case also examines the concept of the slippery slope where *individuals who choose to commit one indiscretion continue to commit more—suggesting the initial ethical violation leads to further indiscretions. (In this case, both the CEO and employees faced a slippery slope.)*

CASE BODY

Introduction: Delish Pasta Audit

Luis Ramez, the audit in-charge had just wrapped up the audit of Delish Pasta. He felt the audit went well. The audit workpapers were clean—all management's assertions about the financial statements had been confirmed. Jim, the audit manager, and John, the audit partner would have little difficulty issuing a clean audit report. His audit team worked well together. The new hire, Valerie, responded well to his guidance and he would use her on future audits.

Three years later, Luis' view of the audit was completely different. Delish Pasta was restating the financials. The Securities and Exchange Commission (SEC) estimated the overstatement of pre-tax income at approximately $60 million or 64% above the proper pre-tax income The SEC was investigating the restatement and the audit firm was facing class action lawsuits. Moreover, Luis was sitting outside John's office waiting for his exit interview. Sitting outside for what seemed like ages, Luis reflected on what went wrong. How could he have missed the obvious signs?

1. The CEO whom everyone trusted had committed major financial reporting fraud.
2. The Profit Achievement Task Force was a brainstorming group to find new ways to commit financial reporting fraud.
3. The audit had failed to disclose capitalizing production costs that should have been expensed. Internal budgets prepared included line-item amounts for these capitalized production costs. Variances in production costs, also line items in the budget, were capitalized, as were additional amounts so that costs met expectations within the budget. These were clearly GAAP violations.
4. The fraud affected many accounts. It included improper booking of entries related to revenue recognition, delayed depreciation entries, accrued liabilities, overstated inventory, receivables (related to research and development), reserves, amortization, contingent gains, and employee liabilities.

Luis knew now that he should have seen signs that something was amiss. In the weeks ahead, Luis would have time to consider why the audit failed.

Delish Pasta Company Background

Founded in 1988 in the Midwest, Delish Pasta Company manufactures and sells pasta products throughout the U.S. The products produced fall under consumer and private label brands for sale in retailer, mass merchandiser, and warehouse clubs. The Company has registered trademarks on products produced and the extensive product line includes over 2,000 stock-keeping items (SKUs).

The Company's business strategy is focused on using state-of-the-art production facilities combined with quality inputs to production. Manufacturing facilities operate in the US and in Italy. The company considers itself to be an expert in production. By purchasing wheat products directly from farmers, the Company can purchase products that meet specifications while not relying on one supplier for production.

In 2008, under the guidance of the Chief Executive Officer (CEO) the Company initiated a capital expenditure program to increase productive capacity by approximately 90%. The expansion was intended to provide a means for the Company to take advantage of increased demand for pasta products. Management projected increased demand for pasta as more and more consumers recognize the convenience and nutrition of pasta based meals.

The board of directors of the Company consists of 8 members. During the relevant time period, two directors held management positions, owning in effect over 8% of the voting shares in the company. Directors in total owned just under 10% of the voting shares of the company. Directors at Delish Pasta are required to own stock in the company. The audit committee consisted of three members. All the members were deemed to independent as defined by New York Stock Exchange rules and Sarbanes Oxley.

The Chief Executive Officer at Delish Pasta

After a successful career in public accounting, Daniel Mason was offered a job with one of the audit firm's engagement clients. Delish Pasta Company was a newly formed corporation Management at the Company found the general accounting and industry experience that Daniel Mason could provide to be very valuable. Mr. Mason, reluctantly, left his job as an audit manager to work at Delish Pasta.

One month after beginning work at the Company, Mr. Mason was appointed Chief Financial Officer (CFO). In the same year, Mr. Mason was named as a director in the company. Mr. Mason was promoted in the following year to Chief Operating Officer (COO). Three years after his initial hire date, Mr. Mason was named President. In the next year, Mr. Mason was promoted to President and Chief Executive Officer (CEO).

Mr. Mason always had been positive about the growth potential of the Company. He believed that the Company could be highly successful. His personal goals for the company were to make the company a high growth company in a low growth industry. He set financial goals for the company on numbers investors would understand such as earnings per share and asserted to both investors and fellow executives that the goals were quite obtainable. Goals were disclosed to analysts following the stock. Annually, the CEO set goals for the company to achieve with "aggressive revenue and profit expectations for the coming year." Discussions within the

Company suggested that an annual growth rate of between 15 to 20 percent would meet the EPS goals over the next two years. Specifically the plan was given a name, "4-5-1 Triple Crown Performance" for annual revenues of $400 million, EBIT of $50 million, and EPS of $1. The predicted stock value, according if all went as planned was $50. In the past the Company had been able to meet analyst's expectations. Therefore, it was believed that by beating consensus estimates for likely performance, the company would gain additional attention and respect in the capital markets.

The Task Force

In the first year of implementation, the Company was unable to meet the internal budgets that would support the 4-5-1 Triple Crown Performance plan. Recognizing that the financial goals were not being met and that analysts were relying on the financial goals presented in assessing the Company's success, Mr. Mason established a "Profit Achievement Task Force" to enable the company to meet goals. The task force was required to establish initiatives to meet the goals, so as to assure that financial goals were met. In the first year of the Triple Crown Performance plan, a shift in pasta buying preferences occurred in the US. Spurred by a book on carbohydrate intake, a diet based on reduced consumption of carbohydrates, such as pasta, became popular. The increase consumption of low-carb diets negatively impacted the revenues of the Company. Daniel Mason continued to use the Profit Achievement Task Force to insure financial goals were met.

The Annual Audit

Delish Pasta, a publicly traded company was audited by the CPA firm of KRST, LLC. KRST served as Delish Pasta's auditors for the past 10 years. The external auditor's assessment of audit risk (risk that financials were misstated and the auditors fail to find the misstatement) was low for several reasons: (1) The audit was a continuing audit, therefore, KRST knew the company well; (2) The company was financially sound, and in fact, thriving financially; and (3) Corporate oversight (within the company) was strong. Despite the low audit risk, the annual audit conducting in the second year of the Company's 4-5-1 Triple Crown Performance plan disclosed a few accounting inconsistencies.

The KRST audit staff assigned to the audit included Mary Jones, Richard Lime, and Valerie Smith. Mary and Richard had served on the previous year's audit team and had 2 years of industry experience. This was Valerie's first year on the Delish Pasta audit team and her first year working for KRST. The three staff auditors were supervised by Luis Ramez, an audit senior with 4 years of experience on the Delish Pasta audit. As fieldwork progressed, the audit staff found exceptions in their review of the accounting records.

Valerie, the first year auditor, found that Delish Pasta had capitalized production costs that she believed manufacturers generally expense. She remembered studying in cost accounting that certain costs should be expensed and yet Delish Pasta was including the costs as assets. She considered bringing this to the attention of the in-charge, but she remembered to check the work papers from the previous year audit. In the previous year, Delish Pasta had also capitalized the costs. Still, something did not seem quite right and she resolved to ask Luis about it.

Luis told Valerie that some manufacturing companies apply GAAP in different ways. He commended Valerie for bringing this to his attention, but assured Valerie that his discussions with Daniel Mason, the CEO, indicated that other firms were also capitalizing the costs.

Mary Jones reviewed revenue contracts and found that in some instances the contracts to support the sales were missing. She discussed the missing contracts with Delish Pasta's in-house legal counsel and found that the Company was in the process of digitizing legal documents. The process was handled offsite and Mary noted the exception in the audit workpapers. Luis asked Daniel Mason about the digitization process. Daniel Mason responded, "The digitization process to secure accounting and legal records was long needed." Luis commended the CEO on his strengthening of internal controls.

Richard Lime reviewed depreciation entries. Although most companies record depreciation on a fixed schedule—for example, all depreciation entries booked on the 15th of the month—Richard noted that depreciation entries were not punctual. In the previous year's workpapers, Richard had also reviewed the depreciation entries and so he knew this was typical of Delish Pasta's accounting system. However, this year, Richard found more entries and entries for larger amounts. Richard asked Daniel Mason about the depreciation entries, "Daniel, I know that we have had this issue in the past, but I need to clarify again, sometimes your depreciation entries are booked late, but someone does review at month end to be sure all the entries are made and for the proper amount right?" Daniel commended Richard for bringing this to his attention and confirmed that depreciation entries were reviewed during the closing process. He asked Richard if the amounts were correct. Richard was able to confirm the amounts as reasonable according to the asset base. Daniel Mason said the timing would not have a material impact on the financials as most entries were offsetting. Richard informed Luis of the conversations and documented in the workpapers. Luis directed Richard to not investigate further. He agreed with Daniel Mason, the amounts were likely offsetting and not material.

The audit fieldwork was completed on time and on budget. The in-charge's opinion on the financial statements at the close of fieldwork was that they appeared to be free of material misstatement and that a clean audit report would likely result. A few irregularities were later found related to the way accrued liabilities were calculated, but the understatement of liabilities was so small that the Company was not asked to adjust the financials.

Valerie, the first year auditor, still had concerns about the audit. She knew she had much to learn and wanted to be successful at KRST. She wanted to feel as confident about the financials as Luis did. On the final day of fieldwork, as the laptops and workpapers were packed for transport back to the office, she asked Luis about the audit, "Why were there so many errors and yet no adjustment to the financial statements?" Luis responded,"Valerie, this is one of your first audits and your first exposure to Delish Pasta. KRST has audited Delish for many years. No major accounting errors have ever been found in a Delish Pasta audit. The audit is a low risk audit. You did a marvelous job of documenting the results, but on this audit you can learn from Richard and Mary." Then Luis took Valerie aside and said, "Jim (audit manager) and John (audit partner) have known Daniel Mason for many years. Daniel was trained in accounting systems design and internal controls. He served as an audit manager with our firm and understands the audit process. The 4-5-1 Triple Crown Performance Plan will increase both the efficiency and effectiveness of operations. We have confidence in his ability to maintain a system of strong internal controls."

Now Valerie understood the audit manager and partner had a close relationship with the CEO. Valerie was grateful to Luis for letting her know the circumstances and felt fortunate to learn the lesson early in her career.

Epilogue

Financial reporting fraud occurred over a two year period, corresponding with the 2 year period of the Triple Crown Performance plan. The Company announced restatement of financials approximately 3 years after the initial fraudulent acts. Mr. Mason resigned from the Company three months later. The financial reporting fraud was discovered by the SEC and the first legal complaints were filed 6 years after the fraudulent acts originated. The SEC complaints were directed at the Company, the chairman of the board, Mr. Mason, the CFO, the controller, and a former CFO. The former CFO, who was a part of the management team and the Profit Achievement Task Force, had formerly been an audit partner in a national public accounting firm.

Delish Pasta, still in existence today, paid a penalty of $7.5 million to the SEC. The controller paid a $25,000 penalty. The CEO and CFO paid penalties and are barred from serving as officers or directors of publicly traded companies. The former CFO paid penalties and was barred from serving as an officer or director of publicly traded companies for 5 years and from "appearing or practicing before the SEC as an accountant". The vice president of accounting and finance was issued a cease and desist order.

Class action lawsuits were filed against Delish Pasta and former officers and employees. The lawsuits were consolidated and settled for $25 million. The audit firm was also sued in a class action lawsuit. A cash settlement of $3.5 million was paid by the audit firm.

Understanding the Audit Failure: The Fraud Triangle

A common framework used to assess the likelihood of financial reporting is the fraud triangle. The fraud triangle consists of three points of interest: incentive, opportunity, and rationalization. In firms where each of these is present, there is a heightened likelihood of financial reporting fraud. Incentives or pressure suggests there are financial or other gains to be had from committing the act. Opportunity addresses the internal (within company) and external (without company) environment where management or employees were circumstances provide opportunity of financial reporting fraud. Rationalization or attitudes is the internalized approach the individual has to fraud. Specifically it addresses the rationalization that the fraudulent act is ethical. An individual who can rationalize the act is more likely to commit the act.

Understanding the Audit Failure: Identifying CEO Overconfidence

Overconfidence is a tendency of individuals to both optimistically see outcomes and to feel more certain in projected outcomes. Because the individual believes in self assessments, there is a tendency to discount the assessment of others. Research in overconfidence, suggests that there are clues as to the overconfidence of management that can assist the auditor in evaluating the representations of management. This research suggests differences in firms where overconfidence is likely:

1. There is a reliance on debt versus equity financing within the firm (Hackbarth, 2007; Ben-David et al., 2007; Malmendier & Tate, 2008).
2. There is a tendency for executives to hold stock options (Malmendier & Tate, 2008).
3. The CEO tends to be the founder of the firm (Busenitz & Barney, 1997; Hayward & Shepherd & Griffin, 2006; Cooper & Woo & Dunkelberg, 1988; Pinfold, 2001; Camerer & Lovallo, 1999).
4. There are acquisitions of other companies (Malmendier & Tate, 2003; Hayward & Hambrick, 1997).

If the executive believes more strongly in the prosperity of the firm than others do, then he or she will feel that the stock is under-valued. Thus, when considering financing options, the executive will see stock as undervalued and opt for a lower cost of capital from debt financing. The executive reasons that issuing stock in the future, after the market properly values the firm will bring in more cash per issued share.

Likewise, if the stock price is expected to increase more than the market currently reflects, there is no need to exercise stock options in a timely manner. There is no risk involved in holding stock options because the stock price will only increase.

When individuals decide to start firms, they do so in an environment where most firms fail. Yet, they somehow believe that there abilities will cause the firm to succeed or that the firm will succeed where others fail. Thus, companies run by founders are more likely to have overconfident CEOs.

When individuals are overconfident, they also tend to acquire other companies. Again, the individual believes that they can take the resources in the acquired company and use those resources in a more productive and efficient way. In other words, the company under their direction would be more profitable than under the current leadership. This, again, suggests the individual believes that they know something others do not.

Understanding the Audit Failure: The Slippery Slope

In 2009 and 2010, the Center for Audit Quality sponsored discussions on fraud deterrence and detection. One finding of CAQ (2010) was a recurring scenario under which financial reporting fraud occurs. Researchers are referring to this scenario as "the slippery slope" (Schrand & Zechman 2012). The slippery slope to fraud begins with a misstatement to bridge gaps between actual and intended financial results. One misstep leads to another and the executive is committed to a course of action that leads to major financial reporting fraud.

With this finding, then, the auditor's evaluation of the likelihood of financial reporting fraud should include both an assessment from the fraud triangle perspective and an understanding of the slippery slope scenarios. Schrand & Zechman (2012) suggest that executive overconfidence, strong beliefs in the success of the company, result in the executive setting performance goals that are unattainable. The gaps between actual performance and the intended financial results (from the executive's overconfidence) prompt the executive to find ways to bridge the gaps. The executive commits to a course of action that, consistent with the slippery slope, leads to financial reporting fraud. Other researchers support the finding of Schrand & Zechman (2012) that overconfidence, CEO overconfidence, results in restatements.

Understanding the Audit Failure: The Need For Professional Skepticism

When restatements of audited financial statements occur, auditors have failed to find material misstatements. One contributing factor to audit failure is a lack of professional skepticism. Professional skepticism is defined in auditing standards (AU 320) as the presence of a questioning mind and a critical assessment of the evidence provided. Also, within the standard, the auditor should not let their assessment of honesty impact the level of persuasiveness of evidence accepted (AU 320.09). The Center for Audit Quality report, "Deterring and Detecting Financial Reporting Fraud: A Platform for Action" suggests that professional skepticism can be addressed through six characteristics.

1. Questioning Mind—A disposition to inquiry, with some sense of doubt.
2. Suspension of Judgment—Withholding judgment until appropriate evidence is obtained.
3. Search for Knowledge—A desire to investigate beyond the obvious, with a desire to corroborate.
4. Interpersonal Understanding—Recognition that people's motivations and perceptions can lead them to provide biased or misleading information.
5. Autonomy—The self-direction, moral independence and conviction to decide for oneself, rather than accepting the claims of others.
6. Self-Esteem—The self-confidence to resist persuasion and to challenge assumptions or conclusions.

THE MINORITY ENTERPRISE

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CASE DESCRIPTION

The primary subject matter of this case concerns an ethical dilemma faced by an executive assistant dealing with a fraudulent report created by her boss, the CEO of a not-for-profit organization, as well as the fiduciary responsibilities of the board of directors in overseeing the action of the CEO. Secondary issues examined include: emotional intelligence, leadership styles, and politics associated with power positions within a not-for-profit organization. The case has a difficulty level of three, appropriate for junior level classes. The case is designed to be taught in a one hour and fifteen minute class period and is expected to require 3 hours of outside preparation by students.

CASE SYNOPSIS

As the executive assistant to the CEO, Jane Moore is in a unique position to see the changing leadership of the Minority Enterprise from the perspective of many constituents in the organization: clients, employees, and even the board of directors. Because of her association with every CEO of the company from its inception, Moore provides extraordinary insight into the culture of the company through her personal history and viewpoint. A year ago, the Enterprise made a bold move in hiring Melissa Adams, a new and aggressive young marketing manager, to take over the reins as CEO. This new direction was the first step in transforming this not-for-profit organization business model to one that is more sustainable with increased efficiency, higher productivity and less reliance on government support. The case deals with the organization's struggle to change the corporate culture and find a suitable leader with the emotional intelligence competencies to provide flexible leadership as the organization matures. Issues of power, politics and ethics are addressed as Adams attempts to provide leadership for the organization. When some of her tactics were unsuccessful, she got in over her head and was unable to fulfill her responsibilities. As the pressure mounted, she made unethical decisions. In addition to Adams' ethical behavior, the case also addresses the fiduciary responsibility of the board of directors in overseeing the actions of the CEO. The board's pressure to create change in the organization accompanied by its' lack of supervision of the new CEO created a volatile environment increasing the likelihood that unethical behavior would surface as a way to cope with the pressure. Finding a fraudulent report creates a dilemma for Moore that may jeopardize the reputation of the Enterprise as well as the jobs of both her boss and herself.

CASE BODY

It was the end of the first year of leadership of the new CEO of the Minority Enterprise, Melissa Adams. The Minority Enterprise is a not-for-profit organization that provides technical support and educational assistance to small and minority business owners in the Northwest region of the country. Its services include: financial, accounting, marketing and management assistance for the purpose of starting, maintaining and growing entrepreneurial enterprises. Jane Moore, the executive assistant to Adams was having an exceptionally challenging day. Adams was taking no phone calls and it was Moore's job to take messages and make excuses. This practice had become increasingly the routine. Just today she had taken two calls from Fred Tyler, a client and the owner of Raytech Dynamics. Tyler was an innovator with a background in engineering. He was an experienced business leader well connected and highly respected by the community. This year he had made a life changing decision to move from a corporation job to open his own firm. Although he had the engineering experience, he needed consulting help from the Enterprise for the business and financial side of his new venture. He met with one of the highly qualified consultants at the Enterprise and put together an action plan for developing his business. However, after his initial meeting, he was unable to get any meaningful assistance from consulting staff which seemed to be stretched beyond their capacity. He decided to take his complaints directly to the top. He made several attempts to reach Adams without success. His call this morning revealed his high level of frustration as he demanded to talk with Adams. Moore made her normal excuses that Adams was in an important meeting with donors and could not be disturbed. He demanded to know when she could be reached and indicated that he was through dealing with her stalling tactics. If she did not return his call today, he would take matters into his own hands. Moore relayed the message to Adams who as normal added it to her stack of unanswered client calls. However, later in the afternoon, Tyler called again asking for Adams. Unable to reach her, he left a message with Moore that he had called his friend Jim Jones, one of the members of the board of directors, to complain about the service and to get some resolution. In the past year, Moore had heard a number of threats from clients several of which had made calls to the board of directors. But this time Tyler seem determined to get resolution and he had the connections to get action from the board. Jim Jones was a neighbor and good friend of Tyler. Moore knew from her past experience with Jones that of all the board members, he was a man of action. This issue would be on the agenda at the next board meeting.

It was later that same afternoon when Moore decided to complete some filing before she left for the day. As Moore was filing the "Monthly Client Services Report" she started looking at some of the numbers. These were reports that she had been responsible for creating under the previous CEO, Anthony James. The reports brought back memories. Moore's background which consisted of a bachelor's degree in accounting had been very helpful to her in creating these reports in the early day of the Enterprise. She fondly remembered working with James on the format and how meticulously they worked together to make sure the numbers accurately reflected the work of the consultants. Moore began to realize how hurt she had been when Adams pulled the reports from her purview. However, things change. Adams brought with her a new CFO, John Warner, from the corporate sector who was assigned the responsible of putting together the reports. Moore was no longer involved in the research or compilation of the figures. Although the report was always an item on the boards' agenda, it was moved to the bottom of the list with items the board seldom had time to look at in detail. It seemed Adams saw the reports as a nuisance that got in the way of more important business. The board's agenda in the past year focused more on the flashier marketing slide presentations than the numbers.

As Moore's thoughts came back to her filing and the report, she glanced through the most recent report and noticed some discrepancies in the numbers. How could there be more clients served than there were minority businesses in the region. That's impossible. She began to look for statistics to back up the numbers, but no documentation was provided. In looking over the reports for the past few months, the number of minority businesses stayed the same. In fact, the number of minority businesses had not changed since the last report that she and James had put together a year ago. However, the number of clients served each month had grown significantly. How could that be? The staff had not grown. In fact, several consultants left and had not yet been replaced. The numbers just didn't add up. She checked to see who had signed off on the report. The sole signature was Melissa Adams, the company CEO.

All types of thoughts began to run through Moore's head. She was beginning to suspect that there were other reasons for removing her from participating in the development of statistical and financial reports. Her mind started to race with questions. How had the service level increased so dramatically over the last 12 months? Why had Jack Warner, the CFO, not signed off on the report? Was Adams creating the reports herself? If the consultants were seeing so many business owners, why was she getting so many complaints about the lack of services? Was she misreading some of the numbers? On the other hand, she knew Adams was under a lot of pressure and thing had not gone as smoothly as either the board or Adam had predicted in the beginning. How could she confirm her suspicions and if they were true, what should she do next?

As Moore's focus came back to the room, she noticed that Adams had left for the day. Glad that she did not have to face Adams this afternoon, she began to think about her options. She found herself questioning everything and began to realize the seriousness of the situation. What should be her next move? Should she tell someone about her suspicions concerning the fraudulent reports? If she did tell someone who would it be and what would be the consequence to the reputation of the Enterprise and to her job? Jim Jones was a businessman that Moore respected. They had worked together since the inception of the Enterprise 15 years ago. Was he a person she could trust? Should she go directly to him or should she send him an anonymous letter? Maybe she could go to Anthony James, her mentor and friend for advice. How had the job she loved so much gotten so far off track? How could the events of one day have change everything associated with her life?

Profile of the Assistant

The executive assistant, Jane Moore a multi-talented young accounting professional is a first generation college graduate from a small town; she is the eldest of five siblings in a close-knit, blue-collar family. As the first person to graduate with a college degree, her family stressed honesty and integrity; morals that she stood by her entire life. As a role model for her younger siblings, she felt it was important to “walk the talk.” Her goal in life was to make her family, church and community proud.

Upon graduation from college where she excelled, she was recruited by a top notch accounting firm but left a lucrative position within a year because she felt like a “fish out of water” in terms of the company culture. The “dog-eat-dog,” “cover your ass” mentality was overwhelming; she was not that competitive and only wanted to do a good job. Questioning the value of her career choice, she wondered whether she should stay on the same career path. A school counselor met with her and through self-reflection and candid conversation she found a viable path for using her accounting degree- the non-profit sector.

Working for a small non-profit seemed to make sense and fit her values. When the opportunity presented itself, she used marketing and branding strategies (online and face-to-face) to highlight her qualifications as a suitable candidate. Once hired by the Minority Enterprise she began the next phase of her career strategy, to gain experience in order to advance into a leadership position.

James, the previous CEO, respected and relied heavily on her accounting expertise to provide monthly reports to the board of directors on client services and accountability reports for several of the grants from which the Enterprise still received funding. That all changed when Melissa Adams took the helm. Never in her wildest dreams could Jane have predicted the turn of events that rattled the very foundation of everything she ever believed.

Throughout her career, Moore respected those in positions of authority, tended to be loyal and not to “speak unless spoken to.” But now, although never asked to look the other way, the culture of the organization was one of quiet complacency and she was a key player. In fact, to make matters worse the new CEO promised a huge promotion if funded the next year.

Moore's only connection to the past was an occasionally lunch with James. Respecting her opinion he often asked about her take on the new CEO. Her answer was always neutral and hopeful with responses such as, “she is still new, I think she is on the right track,” “she appears to have the talent to get the job done.” Moore never wanted a reputation as an infamous whistle blower and was determined to allow someone else to make that call. As the organization continued to spiral downward, she began to experience tremendous anxiety and guilt; however, she insisted it was not her place to point out the “character flaws” of her boss. Moore, a soft spoken person with a very gentle demeanor could not imagine getting tied up in office politics, particularly at this level. Moore was of the mind that it would be best to just, “gaze the other way” whenever possible and “always see the good.”

Background with the Enterprise

As she drove home, Moore found herself thinking about 15 years ago when she started as a rooky assistant to the first CEO of the Minority Enterprise. From her perspective up until a year ago, the Minority Enterprise was operated by a group of highly dedicated CEO’s mainly from the not-for-profit sector and a highly engaged board of directors dedicated to maintaining high standards for quality counseling for minority businesses. Started with government funding which has been cut little by little over the years, recently the Enterprise is sustained through corporate donations. Back during the early days Moore learned a lot about entrepreneurship and economic development in the region. However, she learned the most about leadership and business ethics from Anthony James, the previous CEO with whom she had worked for the past 8 years.

What made the Enterprise special to Moore was that they serves the most vulnerable small and minority businesses in the region, which were not currently in a position to pay for the assistance provided by the center. However, as the years passed, she witnessed many of the Enterprise's clients grow and provide employment for the region as well as giving back to the community through donations to the center. For the Enterprise, seeing these successes provided a sense of pride and accomplishment for everyone. Moore felt like an active contributing member of the Enterprise team and considered many of the employees, clients, and even her bosses to be friends.

Until the last year, the organizational structure of the Enterprise was relatively informal with a rather flat participative approach in which counselors often went directly to the president and CEO for advice or funding approvals on micro business loans. The counselors although not paid top dollar, pride themselves in the manner in which they respond to the needs of business owners in the community. The philosophy of the Enterprise reflected a belief that change and innovation should come from those closest to the problem; creating a bottom up management perspective. The Enterprise's culture represented an environment where meeting client needs and improving sustainable economic business development are valuable assets. Internal and external stakeholders were enriched by their contributions, and the entire community views the organization as one of its local "treasures."

The success rate among served clients was good; however, the percentage of small and minority businesses served in the region was relatively small. With a tight budget based on some government support, but mostly relying on funding derived from corporations, the Enterprise was constantly seeking funds to keep it doors open and to provide high quality services to its clients. Despite the tight budgets, staff morale remained high, the turnover rate among employees was extremely low and the Enterprise was considered a leader in helping minority business expand marketing opportunities. However, on the financial side, most years the Enterprise operated with a budget deficit due to their insistence upon providing high quality counseling and innovative business initiatives. The low staff/client ratio was very costly, but the success rate with local minority businesses was outstanding.

Before his retirement last year, the past CEO, Anthony James was well known in the community and highly respected. He had an academic background with a Ph.D. in economics. During his tenure as CEO, he served as a role model for other counselors and personally trained many of the current employees. You would often find him working directly with clients. His personal style and focus set the current policies, procedures and direction for the Minority Enterprise. For Moore, he was the ideal boss. He understood client needs and provided an internal atmosphere that fostered creativity and loyalty in employees. She loved her job and enjoyed coming to work every day.

New Leadership

As the Enterprise evolved over the years the character of business changed and matured. This required a new perspective focused more on growing the business client base and funding. Therefore, before he left the Enterprise, James asked the board of directors to investigate the possibility of recruiting a new CEO with corporate business experience and credentials in fund raising and marketing. An outside person from the for-profit sector could provide expertise in moving the Enterprise to more efficient operations through strategies that include: increasing the client/staff ratios, decreasing costs, restructuring financially and redefining the vision, mission and goals. A new leader would have the advantage of entering the enterprise with a fresh eye and more objectivity, and could spot problems that may not be visible to company insiders, including current board members and stakeholders. Moore and James talked about his leaving and how important choosing the right successor was to the Enterprise. Moore knew her role would change. She was both anxious and excited about having a new boss and a new direction for the Enterprise.

The board also knew that their choice of a new CEO would have a major impact on the future of the Enterprise. One of the board members read an article on Emotional Intelligence (EI) by David Goleman (2000) titled, "Leadership That Gets Results." The research indicated a positive relationship exists between EI and successful leadership results. The article went on to define EI competencies to include self-awareness, self-management, social-awareness and social skills. The research indicated that different EI competencies would be needed over time and successful leaders should be able use their competencies and related leadership styles as business conditions change. For example, in a turnaround situation a coercive style may be appropriate whereas a business floundering for direction may need an authoritative style. If morale building is important, an affiliative style may surface; on the other hand, for building innovative ideas a more democratic style may be a better option. Self-motivated employees may benefit most from a pace-setting style where a high performance standard is set or a coaching style that fosters personal development. The board could see that many of these situations could occur as a new CEO transitions into the Minority Enterprise from its origins as a full service hands-on government supported organization to one that focused more on fundraising from corporate donors, increasing its staff/client ratio and other more efficient self supporting activities through the use of technology and other creative options. As the focus of the organization changed it would be important to keep staff motivated and involved in the process. The new CEO would need to be an external fundraiser one day and an internal cheerleader building staff morale the next. This would require a leader with strengths in many of the EI competencies they had identified and the ability to be adaptable to each situation from day to day.

Based on James' advice to bring in someone with more corporate experience and the board's basic although somewhat limited knowledge on leadership style, they interviewed and hired Melissa Adams to head the enterprise. Adams was the vice president of marketing at a major Fortune 500 company and had major responsibility in corporate development in her previous job. Her resume was impressive and her assertive personality was exactly what the board felt was needed at this stage of the Enterprise's development. The perception was that

Adams would provide a strong authoritative leadership style. As the new CEO she would need to chart the direction for the Enterprise and mobilize the employees and donors. In the interview she articulated a clear vision that was consistent with the board. Overall, she projected an aura of self-confidence and enthusiasm about the Enterprise and its future direction. Everyone seemed confident that she could provide leadership to the Enterprise that would both increase funding and offer first class client services. As the Enterprise began to meet its initial goals, she could transition to a more democratic or coaching style as deemed appropriate based on various needs and demands of individuals within the company. As part of the interviewing process Moore met with Adams. Although Adams came across as having a more aggressive personality than James, she seemed confident and outgoing. Moore thought she would be a good representative for the Enterprise with the public and donors.

At the time Adams took over as president and CEO, the organization had 10 employees and 6 board members. Although, the organization openly claimed many successes in assisting struggling minority businesses and had an outstanding reputation in the business community, the board identified the most pressing issue was to increase donations from wealthy supporters. Adams directly addressed the funding issues in her initial talks with the board and knew corporate development would be a major part of her new role in the Enterprise. Coming from the corporate sector, Adams felt that changes needed to be made in how the Enterprise approached fundraising. In her evaluation of the current situation, the Minority Enterprise leadership had not embraced the concepts that were important in networking and fostering major corporate contributions. She suggested significant upgrades to the facilities including her office and conference facilities. In addition, she would need a budget for entertaining corporate executives. She insisted that it was necessary to wine and dine corporate executives to get their attention focused on the Minority Enterprise. To generate significant sums of revenue would require spending time and money influencing corporate and wealthy individual donors. Because of her focus on the importance of image, to some she seemed arrogant and extravagant, but her track record with corporate development as part of the marketing team in her previous position was impressive. Her personality certainly captivated the heart of The Minority Enterprise clientele and she seemed to have a good rapport with a majority of the members of the board of directors. Because of her success with past corporate donors, the board trusted Adams to implement these new initiatives without much supervision.

During this first year under Adams leadership the Enterprise underwent significant change. Adams implemented a number of policies that changed the direction of the organization. She brought in several management people from the for profit sector. Their more aggressive manner tended to create internal competition with the current employees. Adams felt that competition was healthy and a competitive environment would improve productivity and foster the more capitalistic structure that she was used to in her previous for-profit organization. To Moore, Adams' managerial style seemed to be more formal and hierarchical, which was a significant change from the way the Enterprise had been operating. But as with any new CEO, change was expected. Moore knew the board felt that change was good and that although a few current employees may leave, after the initial shake up the enterprise would be much better off. However, as Adam's leadership style continued to evolve, Moore became more and more uncomfortable. There seemed to be more conflict, stress, absenteeism and turnover which tended to reduce the flow of information across the organization. Images of success seemed to be more important than actually helping minority businesses that were struggling. Moore noticed that the chatter of her colleagues around the hallways had disappeared and people tended to stay in their own areas and venture out only to grapple for resources or budgets. The new people brought in by Adams did not seem to mesh well with the current employees. One of Adams' recruits from her previous company was John Warner as the new chief financial officer (CFO). His style was very structured to the point of being somewhat aloof. John pretty much kept to himself and followed Adams' directives. His quiet no nonsense demeanor did not seem like a good fit with the rather open unstructured style of the Enterprise. From time to time Moore heard disagreements between Adams and Warner and could sense tension between the two executives, but they always seemed to work things out. She recalled one argument over $30,000 worth of tickets to football games which Adams insisted were essential to get corporate donations. Another conflict stemmed from meals at expensive restaurants and travel expenses incurred by her family members who were "helping" with transportation of executive she was courting as donors. Moore had a gut feeling that the disagreements between the CEO and CFO were not healthy for the company. Although John seemed to be well qualified to handle the oversight and governance of the company's finances, he always gave in to Adams' demands.

Moore's relationship with Adams was quite different than with James, her previous boss. She felt Adams focused too much on the external donors at the expense of the internal functioning of the organization. Adams spent a substantial amount of time out of the office under the auspices of visiting donors. However, Adams did not always let Moore know when she would be out of the office or who she was visiting. There were parts of her schedule that were just blacked out. At times no one knew whether she has in town or out of town. To Moore, who was used to having open access to her boss's calendar and a more cordial relationship, this veil of secrecy created major issues. When clients called demanding to talk to Adams, Moore was put in a very precarious position. Should she lie or make up excuses? Neither was very helpful for the client. When Adams did take calls her responses were often vague, "It depends on a number of factors, I need to look into that" or "I've been out of the office this entire week, I'm not sure what has happened in that matter." Moore had never heard Adams set up a consulting appointment with a client or give a response that solved the client's issue. These types of issues seldom occurred under the previous leadership and Moore found she was ill-equipped to deal with problems without adequate information. Other procedural changes were also upsetting to Moore. Interim donor reports that Moore had created under previous CEOs were provided directly to the board by Adams. The reports indicated major corporate support for donations that would materialize into funding within the next few months or may take a little longer as funding projects often do. Corporate funding, as Adams often said, needed to be courted and would require some time to actually be seen on the financial statement.

Over time, the bickering between management and consultants continued to grow and clients were adding to the tension with complaints about the level of response and lack of services. Moore, who had loved her job under James, now began to complain to her friends about her work situation. Her co-worker Jill had already moved to another not-for-profit agency and seemed much happier. Moore seemed to have more days filled with client issues and fewer with the satisfaction she felt in helping entrepreneurs succeed. Too often at the end of the day it seemed like she spend the entire day putting out fires for issues that did not exist a year ago under James. And now, if Moore was right about the Client Services Report being fraudulent, the board was receiving falsified numbers. Moore was not sure why, but this incident seemed to have taken her to the limit of her endurance. How had the Minority Enterprise with such good intention for the community gotten so far off course. She wondered how much the current situation was affecting the reputation of the Enterprise in the community. She was also concerned about her own future.

By the time Moore reached home she had formed only one conclusion; her first decision needed to focus on what to do about the fraudulent report. But the answer wasn't that simple. Every option she considered had consequences that may affect her career for the rest of her life. Adams was aggressive and would fight forcefully any accusations against her. The board of directors thus far exhibited a rather laissez-faire attitude and therefore seemed either unable or unwilling to provide the necessary supervision. If she brought the report to their attention would they have the courage needed to deal with the situation. If she decided not to tell anyone could she live with herself and function in her role as an executive assistant daily. She even though of going to Anthony James for advice, but worried that he would overreact in this dedication to the Enterprise and get her into more trouble than if she calmly figured out an option. At this point, sending an anonymous letter sounded appealing based on her other options, but what if someone traced the letter back to her. And to whom would she address the letter? Even if the letter were successful in getting Adams fired, the Enterprise would be in a state of flux and recovery? Moore was sure there must be other options available she just had not thought of yet. However, she knew the report was not the end of her worries. Eventually she would have to answer some very tough questions about the type of environment in which she wanted to work. Should she stay or leave the Enterprise?

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HARRIS MEDICAL CENTER AND HARRIS MEMORIAL HOSPITAL: UNFAIR LABOR PRACTICES OR MANAGEMENT'S RIGHTS?

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CASE DESCRIPTION

This case examines the fine line between unfair labor practices and management's rights. More specifically, this case involves the application of labor law to disputes that might arise between management and unions regarding non-solicitation and non-distribution policies. The recurring question is where does management's right to impose limits on solicitation and distribution of union related material end and the rights of employees to engage in protected activity begin. The case examines whether the hospital engaged in unfair labor practices specified by NLRA Section 8(a) when it invoked a non-solicitation and non-distribution policy. The facts present challenges that may be encountered by employers that are lax in the enforcement of non-solicitation/non-distribution policies and who might disparately enforce such policies. The scenario is also illustrative of challenges presented to the employer relative to surveillance and retaliation against employees.

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

CASE SYNOPSIS

Management and employee labor unions often have an adversarial relationship, especially when a non-union environment can potentially become unionized. There is a constant struggle between management, which seeks to dissuade employees from joining a union and employees who believe that forming a union might be beneficial. Charges of unfair labor practices and bad faith bargaining may arise in these situations. The Harris case presents students with an opportunity to review and examine ways in which management policies and union activity conflict. For example, the case presents circumstances wherein unfair labor practices might occur, how disparate enforcement of management policies is treated by the NLRB, and circumstances wherein retaliation and unlawful surveillance may be found. This case is an effective teaching tool for students in a labor relations course, a human resources course, and may also be used in the introductory management principles course.

- *To illustrate actions considered by the NLRB to be violations of Section 8(a) (1) and Section 7 of the Wagner Act, as amended.*
- *To illustrate the effects of not enforcing policies prescribed by a business or non-profit.*
- *To expose students to actions which constitute unfair labor practices by management under Section 8 of the National Labor Relations Act, as amended.*

HARRIS MEDICAL CENTER AND HARRIS MEMORIAL HOSPITAL" UNFAIR LABOR PRACTICES OR MANAGEMENT'S RIGHTS?

Background

Harris Medical Center and Memorial Hospital is a nonprofit corporation with offices and health care facilities in Rosemont and Rancho Cordova, California. Harris operates inpatient and outpatient clinics as well as two hospitals. Harris Medical Center is located in Rosemont, California and Harris Memorial Hospital is located in Rancho Cordova, California. A total of 450 registered nurses (RNs) at the two facilities are combined into a single bargaining unit. Since October 1, 2009, the California Nurses Association (CNA) has been the exclusive bargaining agent for Harris' full-time, regular part-time, and per diem registered nurses who provide direct patient care at Harris Medical Center and Harris Memorial Hospital. Harris and the CNA have been engaged in collective bargaining for an initial contract since November 2009.

The Friday Meeting

The room was silent as Robin Pass, HR Director for Harris Medical Center and Harris Memorial Hospital walked in to the room. At the conference table were Peggy Smith, Director of Nursing for Harris Medical Center; Beth Witte, Director of Nursing for Harris Memorial Hospital; Lindsay Barton, Director of Women's and Children's Services, and Brad Johnson, Labor Relations Manager. Before Robin could sit down, Peggy remarked, "They really filed a formal unfair labor practice charge with the National Labor Relations Board (NLRB)? "No," replied Robin, "They filed several!"

"What? Don't they understand we're trying to run a hospital here and that there are many patient lives at stake?" Beth asked. "I can't think of anything wrong that any of us have done!" "I hope that's true," replied Robin. "The reason I asked you all to meet on a Friday afternoon, is that we have to prepare a response to these charges. I'd like to review each charge and what the union alleges we did that violates the National Labor Relations Act (NLRA)." Lindsay responded "I have talked with both Beth and Peggy about what they and some of their nurse supervisors did and I can't see that anyone did anything wrong."

"Let me review each unfair labor practice charge filed by the union and what they allege our managers and supervisors did," suggested Brad. "Then we can analyze them and develop an appropriate response."

Since 1985, Harris has maintained a No Solicitation/No Distribution Policy at both medical facilities:

Employees at Harris may not solicit during working time for any purpose.

Employees at Harris may not solicit at any time, for any purpose, in immediate patient care areas, such as patient's rooms, and places where patients receive treatment, such as therapy areas, or in any other area that would cause disruption of health care operations or disturbance of patients, such as corridors in patient treatment areas and rooms used by patients for consultations with physicians or meetings with families or friends.

Employees may not distribute literature during working time for any purpose.

> *Employees may not distribute literature at any time, for any purpose in working areas. Workings areas are all areas in the hospitals, except employee lounges and parking areas.*
>
> *Working time include the working time of both the employees doing the soliciting or distributing and the employee whom the soliciting or distributing is directed. Working time does not include break periods, meal periods or any other specified periods during the workday when employees are properly not engaged in performing their work tasks.*

On April 19, 2010, Mary Waters, an RN on the medical-surgical floor at Harris Medical Center had a conversation with her supervisor, Karen Carter. Carter said that she heard from another supervisor that her employees said that Waters was talking to them about joining a union. Carter told Waters that she preferred that Waters talked about the union in the break room during her break. Waters responded that discussions about the union had been going on among employees for over a year. Other supervisors admitted that employees often discussed non-work subjects during working hours, and that employees occasionally solicited other employees to purchase Christmas cookies and other items for school fundraisers.

The CNA alleges that Harris selectively and disparately enforced their no solicitation/no distribution policy in violation of employees' Section 8(a)(1), and Section 7 of the National Labor Relations Act, as amended.

RNs Sandra Martin and Toni Hill were active in various union activities, including helping to organize the union, acting as an observer during the NLRB supervised election, serving on the CNA bargaining committee, and speaking to employees about the CNA. On June 15, 2010 both received written discipline letters from the Director of Nursing, Peggy Smith. The letters stated:

> *Management has received reports that Sandra Martin (Toni Hill) has been observed conducting personal business by passing out information and materials and speaking to employees during working hours in patient areas of Harris Memorial Hospital. Some employees reported your words and actions as threatening and intimidating. These actions must never occur again.*

On June 25, 2010, these letters of discipline were rescinded by the Director of Human Resources, citing previous inconsistent enforcement of the No Solicitation/No Distribution policy. The letter from the Human Resources Director stated "We acknowledge that enforcement of the policy in the past has been lax, and therefore the disciplinary letter was not appropriate in this case."

The Union alleges that the discipline of Martin and Hill violated Section 8(a)1 of the NLRA as amended due to the disparate enforcement of the No Solicitation/No Distribution policy.

On June 20, 2010, management at the Harris Medical Center sent a memo to nurses that beginning today, any time a nurse called in sick when they were on call, it would count against their attendance just as if they called in sick when they were scheduled to work.

The union charges that this is a violation of Section 8(5)(a) of the NLRA because it is a unilateral change in a mandatory bargaining subject. CNA was not given any notice or opportunity to bargain about this change in policy. Management argues there is no violation because the changes to the policy have not been implemented. The union replies that there is no evidence that management ever notified employees that the new policy has been rescinded.

In April 2011, Harris installed a hidden surveillance camera in a Wound Care office/break room at Harris Memorial Hospital. In May 2011, a camera was installed in the

Operating Room break room at the hospital. Both of these rooms were used by bargaining unit nurses. No notice was given to the CNA and both cameras were removed within three to four days.

Since the installation of surveillance cameras in work and break areas is a mandatory bargaining subject, the union alleges that their installation is a violation of Section 8(a)(5) of the NLRA.

On August 25, 2010, Susan Chilton, the Director of Women's and Children's Services at Harris Memorial Hospital told employees they could not distribute union material or discuss the union in the hospital hallways. She did, however, allow employees to solicit and distribute nonunion material. The next day, Chilton saw RN Katie Bellows give union literature to another RN in the hallway. Chilton immediately told Bellows that she could not pass out union literature. Bellows responded that she could pass out the union literature to which Chilton stated again that she could not and that she had been told to stop all union activities. Bellows stated that in the past employees had passed out forms for selling Christmas cookies in the work areas and that employees routinely discussed non-work related subjects in these areas.

The union alleges that this is another instance of Harris management disparately enforcing its no distribution/no solicitation policy in violation of Section 8(a)(1 and Section 7 of the Wagner Act, as amended.

On August 23, 2010, the CNA announced that a one-day strike was scheduled for August 31, 2010. The Director of the Home Health Center notified employees that if they did not work on August 1, 2010, they could not work their September 1 and 2 shifts. Nygen Tau was an RN in the Harris Home-Health Center. Tau was scheduled to transfer to the Cancer Center on September 2. On August 29, The Director of the Home Health Center, Andrea Huggins, asked Tau if she planned to go on strike on August 31, because if she was Huggins would have to hire a replacement for her on her last three scheduled work days. Tau was scheduled to have a day off on August 31. Tau replied that she was not going on strike since she was transferring to the Cancer Center. While she was off work, on August 31, Tau called Huggins and told her that she had changed her mind and had decided to participate in the strike. Huggins replied that Tau should have let her know before and that she would be replaced on September 1 and 2.

The union alleges that Huggin's questioning of Tau constituted illegal interrogation in violation of Section 8(a)(1) of the Wagner Act, as amended.

The union also alleges that refusing to allow Tau to work her last two scheduled days in the Home Health Center on September 1 and 2 violated Section 8(a)(3) of the Wagner Act, as amended. Specifically, the union argues that this act was retaliation for Tau engaging in protected concerted activity.

On September 24, 2010 management reissued its no solicitation/no distribution rule:

> *Since 1985, Harris has maintained the following rule pertaining to non-employee solicitation and distribution:*
>
> *Persons not employed by Harris Health Care Group may not solicit or distribute literature on Harris property at any time for any purpose.*

Beginning around January 1, 2010, George Bennett, CNA Labor Representative, regularly visited nurses at Harris facilities to answer questions about collective bargaining and to distribute union literature. He frequently went to the break rooms on each floor of the hospital and the medical center, as well as the nurse's stations. He usually entered the break rooms via public access areas of the hospital, but in some areas, such as the ICU, he had to be buzzed in by an employee. Bennett often encountered nursing supervisors, but no one told him he could not be present in the break rooms or nurse's stations.

CNA Organizer Don Harlan also met with nurses in break rooms and at nurse's stations. While he was also observed by nursing supervisors, no one told him he could not be in these areas. On September 28, 1020 Harlan was in the Harris Medical Center ICU break room. Medical Center security guards approached him and told him he had to leave the break room. On October 2, 2010 both Bennett and Harlan were with another CNA Organizer in a hallway just outside the visitor's waiting room in Outpatient Surgery when a nursing supervisor told them they were not allowed in patient care areas and had to leave. Five days later, Bennett and Baker were near a nurse's station on the second floor of Harris Memorial Hospital and were approached by the Director of Nursing who told them they were not allowed in patient care areas.

On October 15, 2010, the Harris Labor Relations Manager issued the following statement to employees:

> *Union representatives do not have a right under the National Labor Relations Act or state law to enter the premises and go to work areas or to patient care areas except for limited purposes, and even then they must have prior authorization.*

Three days later, legal counsel for Harris sent a letter to Bennett which read, in part:

> *As you know, although non-employee union organizers have been permitted to access the main lobbies and cafeteria areas of Harris facilities, they are not permitted beyond those areas absent advance authorization.*

Several employees recalled instances when a union representative was asked by a member of management to leave patient care areas of Harris facilities. While friends and family members of employees regularly visited employees in break rooms, there was no evidence that non-employees from other organizations were permitted on patient care floors or in break rooms. There were specific instances of non-employee vendors being denied access to patient care areas.

The union alleges that Harris began enforcing its policy that prohibited non-employees access to its facilities, only after the CNA increased its efforts to negotiate a collective bargaining agreement. The union argues that non-enforcement of the policy with respect to family and friends of the nurses is a type of disparate treatment that violates section 8(a)(1) of the NLRA as amended.

On September 25, 2010, CNA Labor Representative George Bennett and Organizer Don Harlan were in the Harris Memorial Hospital cafeteria meeting with nurses. During the meetings, the hospital's Director of Nursing, Beth Witte, and Director of Security Ben Schwartz, were also in the cafeteria for 1 ½ hours and about 20 feet from the table where Bennett and Harlan were meeting with the nurses. During the meeting Witte walked up to Bennett and asked for a flyer. Schwartz stated that he was present for only about 20 minutes and that his view of Bennett and Harlan was obstructed by a pillar. Schwartz stated that he and Witte left the cafeteria after about 20 minutes. Bennett claimed that Schwartz may have left and returned a few times, but was present for most of the time that Bennett and Harlan were present. There is no evidence that Witte or Harlan did not regularly use the cafeteria.

On October 10, 2010, Harlan testified that he was in the Harris Medical Center cafeteria to meet with nurses and noticed a security guard enter and sit about five feet away. When Harlan went to the bathroom, the guard followed him there and then followed him back to the cafeteria. When Harlan left the cafeteria and walked to his car the guard followed him several blocks to where he had parked. The guard looked at Harlan's license plate and then said "Oh, I see you are from the Bay Area."

The union alleges that these activities constitute unlawful surveillance of employee's protected Section 7 rights which is in violation of Section 8(a)(1) of the NLRA.

On January 10, 2011, nursing supervisor Cheryl Monroe sent an email to bargaining unit RNs Val Parry and Trish Newsom asking about their interest in making Saturday a scheduled shift for them rather than an on call shift. The union alleges that bypassing the union violates Section 8(a)(5) of the NLRA and erodes CNA's position as the exclusive bargaining agent for nurses in the bargaining unit. Management responded that there was no violation because Monroe had no authority to make changes to the schedule and that no changes were made.

On April 15, 2011, the group got back together in the Human Resources Department conference room. Robin welcomed everyone and sat "We have just received the Administrative Law Judge's decision on the unfair labor practice charges. We won some and we lost some. Basically the Judge said that we violated the National Labor Relations Act by engaging in surveillance of employees, interrogating employees about their union activities, threatening employees, and not scheduling employees to work because they engaged in the strike. The Judge ruled that our disciplining of nurses was not a violation nor was prohibiting non-work related solicitation and distribution of union material in work areas. Management has decided to appeal this decision to the National Labor Relations Board (NLRB). I also just found out that the union isn't happy with the Judge's decision and they are also appealing the decision. I have a handout for you with more detail about the Judge's ruling.

As Brad Johnson took the handout from Robin he asked her "How do you think the NLRB will rule on these charges? Robin replied "I wish I knew."

ROOFS OF DISTINCTION

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CASE DESCRIPTION

This case focuses on a small business and the challenges faced by the manager after the owner passes away without a succession plan. After reading the case, students should come up with a strategy for the manager. One of the main options open to the manager is to buy the business. Therefore, students can be asked to develop a negotiation strategy for the potential leveraged buyout of a business by its current manager. The case is most suited for undergraduate majors, especially those majoring in business or a related field. It would work well in a variety of courses including Entrepreneurship/Small Business Management which discusses the buying of an existing business and succession planning, Negotiations, or any management course that includes negotiation strategy. The case does not require any significant industry background, accounting knowledge, or exposure to advanced management topics.

CASE SYNOPSIS

Roofs of Distinction (ROD) emerged from a construction business partnership between Rod Evans and Curt Simon in the Boston area. Rod had developed an expertise in the fabrication and installation of copper roofing and split off to form ROD. Rod hired Tom Speyer as project manager with the intention of slowly turning power over to Tom across several years. Unfortunately, Rod became ill and passed away before finalizing plans for Tom and his future at ROD. The company was ultimately left to Rod's widow Anne who was not actively involved in the business, leaving Tom to do all the work with no change in pay or title. The case focuses on the challenges Tom faces after Rod passes away and what he should do in the future. This case is based on an actual business but names and other identifying information have been changed to protect identities.

INTRODUCTION

I know it's hard to believe, Tom, but Rod is dying," said Curt Simon, as he paced about the cramped, dingy office of Roofs of Distinction (ROD). "He and I were partners for 15 years and friends for a lot longer than that. Anne and his kids are devastated; hell, he's only 50 years old. I don't know how she's going to get through this – you know what kind of person she is."

Yes, I know what kind of person she is, thought Tom. She's worked in this office for the past four years, if you could describe what she did as work. In addition to successfully building Roofs of Distinction for the past five years, Rod had always taken care of Anne and the children, made even the smallest decisions for them. And now he's going to be leaving them on their own...

He's going to be leaving me on my own, too, Tom's thoughts continued. "This certainly explains Rod's odd behavior over the last few months" said Tom, shaking his head. "He's pretty much put me in charge of everything lately – sales, supervision, ordering material, paying bills, the works. He hired me last year as a project manager, but he's been around here so little I feel like the owner."

"That's good," replied Curt, "because it looks like you are going to be the owner. When I saw Rod yesterday, he told me how proud he was of the way you took up the slack and kept the business going smoothly over the past six months. He told me that he wanted you to own ROD and was going to see his lawyer to put something about it in his will. I agreed with him, possibly for the first time since we split up our partnership five years ago; you have really been a lifesaver for this business – without you, it would have been doomed, just like Rod... You are Roofs of Distinction, you know."

"Now all we need to do is arrange something equitable with Anne," continued Curt. "I've known her so long... perhaps I can help."

ROOFS OF DISTINCTION BACKGROUND

Roofs of Distinction had recently emerged from a previous partnership between Rod Evans and Curt Simon, who twenty years ago pooled their talents to develop a construction business called Salem Contractors. Salem began by building single-family homes, but eventually concentrated on special-purpose buildings such as churches, college dormitories, and doctor's offices. They also began to win some contracts to rehabilitate historical buildings owned by colleges or governmental units in the greater Boston area, finding quickly that the competition in this market was not as strong and the profit margins significantly higher.

In the process of completing a number of large historical rehabilitation projects, Rod began to develop an expertise in the fabrication and installation of copper roofing, an expensive specialty which required a large investment in tooling and equipment and a crew of highly-trained craftsmen. Demand for copper roofing had soared in recent years as both institutions and wealthy individuals wanted the old-fashioned look it provided, in spite of the cost. With few reliable contractors in the field, Salem began to do a brisk side business in installing these roofs, using materials purchased from one of three existing supply houses in New England.

Rod was enthralled by the skill required in this new business segment and the profit potential it presented, but Curt was concerned about the $100,000 of fabrication equipment needed to compete successfully and the limited market for such expensive hand-crafted work, especially during recessionary periods. After much discussion, the partners decided to amicably end their partnership; Curt would continue running Salem and Rod would form Roofs of Distinction to pursue the opportunity he saw in making new roofs look as if they were 200 years old.

Roofs of Distinction was an immediate success. Rod's growing knowledge of the craft, his contacts within the industry, and his ability to attract qualified fabricators and installers soon made him a significant player in this small market. He quickly found that there were only a handful of firms in New England capable of doing this sort of work, and he was thus able to capture 30-40% of the work he bid on while still maintaining healthy profit margins. He also found that even when he lost a bid, he often wound up selling materials to the winning contractor, who rarely had the fabrication equipment that was needed. The business grew so quickly that after three years Rod was able to afford to hire Tom Speyer as a full-time project manager to round out his office staff, which had previously only included his wife Anne and a part-time bookkeeper. Rod was confident that hiring Tom would allow him to expand the business while simultaneously reducing his own workload somewhat. The first year's income statement for ROD after Tom's hiring appears as Exhibit 1.

TOM SPEYER

Tom Speyer seemed to be the right sort of person to fill Rod's need for a "right-hand man." The son of an Ohio doctor, he had obtained an engineering degree from Case-Western Reserve University in Cleveland, and then moved to Massachusetts to follow his college sweetheart. Fifteen years later Tom had lost his college girlfriend, but he had gained extensive experience in most phases of the construction industry- estimating, purchasing, drafting, crew supervision, and overall project management. He had also acquired a wife and a young daughter to support. This concerned him greatly, since at age 37 he had not yet achieved any significant financial independence; he and his family still lived rent-free with her parents as they tried to save enough money to buy their own home. “A guy with my education, experience, and willingness to work hard ought to be doing better than this,” he frequently complained to his wife. “I keep bouncing around from company to company; I can’t seem to find the right position.”

The opportunity at ROD seemed to be the right situation. While the starting pay was somewhat modest, Rod had given him the chance to learn the whole business, and had recently begun to teach him a very important skill: how to sell specialized construction services where price was not the overriding concern. This was a tough lesson to learn, but after a year of following Rod around on sales calls, Tom was finally starting to get significant new work on his own. Since Rod had only two daughters who were not keen on roofing as a lifetime occupation and had often expressed a desire to “live the good life” as he got older, Tom began to picture a future in which control over ROD gradually passed from Rod to him over the next 5-10 years, with his compensation rising accordingly. Someday he might even own this thing, he mused. But now Rod’s illness had changed all that...

SIX MONTHS LATER

“Do you know how long it’s been since I’ve had a day off?” Tom complained to Curt over coffee. “It’s been four months since Rod died; I worked six days a week while he was sick and seven days a week ever since. And I do it all for $55,000 a year... How did I get into this situation?”

The situation Tom was in was not a pleasant one. Rod’s death from cancer was mercifully quick; he died within a month of Tom’s first conversation with Curt. Now Tom was totally on his own and in charge of everything at ROD. At first he had responded to the crisis, working even longer and harder to be able to assure the Evans family that the business was in good shape. He hadn’t known Rod all that long, but he had liked him and felt strongly that keeping ROD running smoothly was the best way to “pay his respects”. Anne hadn’t returned to work after Rod’s death, but what little work she previously did was easily covered by extra effort from Tom and the bookkeeper. She had given Rod power of attorney to sign contracts and tax returns, but for the most part she remained in hibernation, refusing to speak much to anyone about Rod or the business. Indeed, about the only time Tom saw her was when she came in to pick up the weekly $3,500 paycheck that Rod used to take. It seemed quite unlikely that she would ever return to work at Roofs of Distinction.

Meanwhile, Tom had taken over making the hard decisions usually reserved for the owner. He had to decide by himself how much to bid for a large new job, whether to buy a new piece of fabrication equipment, and whether to fire a talented installer who had taken to coming to work slightly drunk. Personnel decisions were the hardest, because the employees were the heart of the business and he had built up a good rapport with them, but that was before he had total responsibility for the business. To his extreme frustration, Anne had rebuffed his repeated attempts to significantly improve his pay; she seemed to want only to maintain the status quo and not be bothered with anything about ROD. To top it all off, last week Rod’s will had been probated and ownership of the business had been left to his wife, with no mention of Tom at all. Of course he knew that it would have been very unusual for him to have received a substantial bequest, but somehow he still felt cheated. Tom knows he needs to make a decision about his future soon.

Exhibit 1 Roofs of Distinction Income Statement		
Sales		$935,868
Cost of Sales:		
Materials	$200,090	
Labor	227,270	
Overhead	105,468	532,828
Gross Margin		$403,040
Overhead Expenses:		
Officer's Salary	$199,369	
Office Salaries	75,484	
Rent and Utilities	21,374	
Office & Telephone	27,423	
Other Expenses	31,627	355,277
Pre-tax Income		$47,763
Note: Other Expenses include approximately $27,000 of vehicle leases, travel, entertainment and life insurance expense directly related to the Evans family.		

VOLUNTARY SUSTAINABILITY REPORTING: A CASE EXPLORING ETHICAL, REGULATORY, AND STRATEGIC CONSIDERATIONS

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CASE DESCRIPTION

The primary subject matter of this case concerns ethical, regulatory, and strategic considerations that may arise relating to voluntary sustainability reporting by business organizations. The case explores the issues from the perspective of accounting professionals and corporate decision makers involved in the reporting process and presents ethical dilemmas that must be addressed. Secondary, the case provides opportunities for students to gain knowledge and understanding of an important global reporting trend and to research standard-setting and regulatory efforts relating to the development of sustainability reporting standards and guidelines.

The case has a difficulty level of four to five and can be taught in approximately 40 minutes. The case can be assigned as an individual or group project. Approximately two hours of outside preparation is necessary for students to address all the questions in a group setting. The case can be utilized in an upper division accounting course to help students gain awareness of an important global reporting trend and to enhance students' understanding of ethical issues that may arise relating to sustainability reporting. The case can also be utilized in an accounting ethics course focusing primarily on ethical concerns of accounting professionals, or in a graduate course focusing primarily on the research and analytical aspects of the case. This case and the related independent questions can be utilized to enhance students' understanding and awareness of ethical issues and related professional and regulatory requirements, as well as their analytical, research, and communication skills.

CASE SYNOPSIS

Sustainability reporting has become an important global reporting trend. While in some countries, sustainability reporting is required by public companies, in the U.S., reporting is largely voluntary. Currently, the majority of large U.S. companies and some small and midsize companies voluntarily issue sustainability reports. Even though global sustainability reporting guidelines such as those issued by the Global Reporting Initiative (GRI) exist, and new guidelines such as those currently being developed by the U.S.-based Sustainability Accounting Standards Board (SASB) are emerging; the scope, detail, and format of the information presented in formal sustainability reports vary considerably among companies. Many companies choose to report information only on selected environmental and social issues and provide primarily qualitative information. Accounting professionals can provide important support for sustainability reporting, but may encounter ethical dilemmas that need to be addressed.

This case focuses on ethical concerns encountered by a new staff member of the sustainability reporting group of a fictitious company. The case scenario includes highly optimistic projections relating to environmental issues made by the company's sustainability director that pose concerns for the new staff member. The case enhances students' awareness of the sustainability reporting trend and the potential ethical concerns that may arise, and requires consideration of pertinent professional ethics rules and analysis of related factors. The suggested assignments include a set of ethics-related questions and a set of questions requiring additional research and analysis of sustainability-related standards, career-opportunities for accounting professionals, and the benefits and challenges for reporting companies. The case can be utilized in an accounting ethics course or in another upper division financial or graduate accounting course, and may enhance students' analytical, research, and communication skills, as well as their awareness of related ethical issues and knowledge of professional ethics rules.

BACKGROUND

In its 1987 report, the World Commission on Environment and Development (also referred to as the Brundtland Commission), formally defined sustainability development as a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987, 37). Sustainability reporting continues to become more and more prevalent. For example, currently, 95% of the global 250 companies and 53% of the S&P 500 companies formally report on sustainability; in comparison, in 1990, few companies issued sustainability reports (EY & Boston College Center for Corporate Citizenship, 2013).

While the format and content of sustainability reports vary significantly among companies, the sustainability reporting standards most frequently utilized by reporting companies are those that are developed by the Global Reporting Initiative (GRI). For example, approximately 63% of the S&P 500 companies that are publishing sustainability reports utilize the GRI's framework and guidelines (E&Y and Boston College for Corporate Citizenship, 2013). The GRI is an independent organization that originally was created by the U.S.-based Coalition for Environmentally Responsible Economies and the Tellus Institute (Doupnik & Perera, 2012); its headquarters are in Amsterdam. The GRI's mission is "To make sustainability reporting standard practice by providing guidance and support to organizations" (GRI, vision and mission, n.d.).

The GRI guidelines are continually evolving. Currently, most companies that utilize the GRI guidelines issue reports that are consistent with the G3 or G3.1 guidelines. In addition, GRI recently issued the fourth generation of its guidelines (GRI, 2013). Consistent with the GRI guidelines (GRI, 2011), three application levels are available – A, B, and C. The three levels differ with respect to the types of issues that must be addressed in the sustainability report and the number of performance indicators for which information must be presented. Level A requires the greatest amount of detail, requiring that companies report information about 63 core performance indicators. Compliance with specific application levels may be self-assessed by the reporting company, verified by GRI, or third-party verified (i.e., audited) (GRI, 2011).

THE CASE – SUSTAINABILITY AT NORBERT CORPORATION*

Elena Gerhard is a new member of the accounting staff of Norbert Corporation, a publicly held mid-size consumer products company. Fifteen years ago, the company's management, with the support of its board of directors, made a commitment to environmental and social sustainability. Since then, the company has implemented a series of programs that preserve scarce resources, reduce the company's environmental impact, and enhance its employee and community oriented programs. For example, energy efficiency represents an important criterion influencing all equipment replacement/purchase decisions; recycling of all paper, plastic, metal, and glass is mandatory; employees are encouraged to utilize reusable water containers, which are refillable free-of-charge at convenient company locations; the in-house cafeteria utilizes only reusable dishes and utensils; and employees and their family members are encouraged to utilize the company's state-of-the-art exercise facilities.

Elena, a recent accounting program graduate, who is currently studying for the Certified Public Accountant (CPA) examination and plans to pass all parts of the exam within the next twelve months, had several attractive employment opportunities. One of her reasons for accepting the position at Norbert Corporation was her personal commitment to conserving energy and preserving natural resources. She strongly believes that it is every individual's responsibility to preserve current resources for future generations.

Elena's commitment to sustainability grew gradually. As a growing child, her parents instilled in her the importance of recycling, reducing energy consumption by turning off lights, and walking or bicycling short distances instead of driving. As a college student, she carpooled to campus on most days and arranged her schedule so that she could minimize the number of trips necessary.

Then, during her senior year at the university, Elena enrolled in the elective course entitled, "International Accounting." In addition to the traditional topics taught in an International Accounting course, the course also included discussions of "Corporate Social Responsibility Reporting." As part of the course work, Elena researched current practices and emerging trends in Corporate Social Responsibility reporting. She learned that globally, the majority of large companies issue what is commonly referred to as a "Sustainable Development Report," "Sustainability Report," "Corporate Social Responsibility Report" or Environment, Social, Governance (ESG) Report." While researching sustainable development and reviewing actual company reports, her interest in accounting professionals' role in supporting sustainability increased tremendously.

During her interview with the Chief Financial Officer (CFO) of Norbert Corporation, she expressed a strong desire to join the team involved with the company's sustainability reporting function. The CFO assured her that provided she accepted their offer, and after completing a rotation with the financial reporting department, she could join the sustainability reporting group. During the first three months at Norbert Corporation, Elena is very busy familiarizing herself with the company; its products, operations, corporate governance, co-workers, and financial accounting and reporting function. In addition to working full-time at Norbert Corporation, she also devotes approximately 14 hours per week preparing for the CPA exam and staying informed about developments in financial and sustainability reporting. Finally, at the beginning of April, Elena joins the company's sustainability reporting group; she very excited about her placement and plans to make an important contribution to the company's ability to create value and to report on its activities in a meaningful way.

Norbert Corporation's Sustainability Report

Although no formal reporting on sustainability is required in the U.S., Norbert Corporation started issuing a separate sustainability report five years ago. Its reports are issued at the beginning of May of each calendar year and posted on the company's website in a downloadable format. Currently, the company is not utilizing the reporting guidelines issued by the Global Reporting Initiative and the report is unaudited. The report is organized into three sections: Section I presents information about the company's mission, profile, products, and corporate governance; section II deals with employees and society; and section III deals with the environment.

The majority of the information provided is qualitative and descriptive in nature; however, the company provides some quantitative information, including information about (a) the company's and employees' philanthropic activities, (b) its recycling efforts, and (c) its reduction in CO_2 emissions and water usage. Furthermore, the company provides projections of its estimated reduction in CO_2 emissions and water usage over the next five years. The industry in which the company operates is currently under close scrutiny regarding these two factors; thus, the company decided that reducing water usage and CO_2 emissions and reporting the results of their efforts would be beneficial, not only to the environment and society, but also to the reputation and long-term success of the company. The company has started referring to its "green initiatives" in promotional materials and hopes that this will further enhance the company's reputation and encourage environmentally-concerned consumers to purchase its products.

Aware of the continually growing use of the GRI framework and guidelines for sustainability reporting, Alfred Gruen, the company's sustainability director who is responsible for the company's sustainability reporting, considered adopting the GRI's current G3.1 sustainability reporting guidelines. However, he delayed his final decision in light of the U.S.-based Sustainability Accounting Standard Board's ongoing efforts to develop industry-specific sustainability reporting standards (SASB, n.d). In addition, he is concerned about the potentially higher reporting costs associated with implementing specific sustainability reporting standards.

Elena takes the prior year sustainability report and a draft of the current-year report home to review over the weekend so that she will be ready to assist Alfred Gruen with finalizing the current year report. While reviewing the draft of the current year report, Elena notices that the company predicts reductions in CO_2 emissions and water usage over the next five years by 18% and 15%, respectively. She is very excited about this prediction. Since Elena is interested in sustainability, on the following Monday, she reviews the engineering documentation that supports these estimates. The engineering report indicates a likely reduction of 10% and 8%, respectively. The engineering report further indicates that if the company were to implement certain process changes, CO_2 emissions could be reduced by 18% and water usage by 15% over a five-year period. Elena asks her supervisor, Alfred, whether the company is planning to implement these process changes. He indicates that the changes had been considered, but were delayed for a few years because of funding needs in other sustainability-related areas. Elena points out the discrepancy between the draft report and the engineering projections and asks whether she can make the necessary revision to the draft of the current year sustainability report. Alfred replies that she should not be concerned about it.

A few days later, Elena notices that the report has not been revised. When she mentions this to Alfred, he tells her that the company's CFO, Angelika Macht, and he decided that the revisions are not necessary. When she Elena asks why no changes will be made, he explains as follows:

1. Estimates are inherently inaccurate. The company may well be able to achieve the reported goals.
2. Sustainability reporting is voluntary. The company does not have to issue a report and the information does not fall under financial reporting rules.
3. Overall, the company is very conservative. For example, during the prior year, the amount of bad debt expense the company accrued exceeded the actual bad debt that had to be written off by 20%.
4. The company has already publicized the projected reductions of 18% and 15% in its recent public relations announcement. Revising the percentage in the formal report would only serve to confuse stakeholders.

Elena is concerned about the situation, but does not know what to do. The next day, Alfred calls Elena to his office and tells her that he has an important project for her that will require a significant amount of time. He tells her that during their in-house interview and based on her performance to date, he is very favorably impressed by her excellent research and analytical skills. He explains that the company is considering adopting formal sustainability reporting standards during the next few years. He asks her to investigate the requirements of the currently available GRI global reporting guidelines and the status of the developing SASB standards, and to report her findings to him. He asks Elena to consider her findings in the context of the company's competitive position and the potential benefits and challenges that may arise relating to the adoption of a specific reporting framework. He tells her that this represents an important long-term project and that he trusts her ability to thoroughly research, analyze, and report her findings. He also mentions that he will not need her further assistance in finalizing the current year sustainability report.

Elena is very pleased about the new project and is eager to get started; she wants to make a valuable contribution to the company's future sustainability reporting. Later that evening, she reviews the conversation she had with Alfred and continues to feel uneasy about his explanations regarding the highly optimistic CO_2 and water usage projections. She is still concerned about this situation, but feels reluctant to once again bring up the issue. She is uncertain about how to proceed.

ASSIGNMENTS

Pretend that you hold Elena's position. Address the specific questions assigned by your instructor. Be brief and to the point and properly cite any sources that you are quoting or paraphrasing.

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AUTHOR'S NOTE:

*The case deals with a fictitious company; any similarities with real companies, individuals, and situations are purely coincidental.

OLYMPIAN MACHINE, LLC: A CASE FOR GROWTH

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CASE DESCRIPTION

The key subject matter of this case is strategic management for small business. Its focus is on the decision to implement a growth strategy. The primary drivers of the growth strategy in this case are to increase the capacity of the firm and reduce the risk of a production interruption. This case describes the firm's capabilities and market position and the role these played in the success of Olympian Machine, LLC. Also examined are the options for implementing the growth strategy. Secondary issues include identifying the firm's target market, exploiting a source of competitive advantage and choosing an ownership structure. The case has a difficulty level of four and is designed for junior and senior level undergraduate strategic management courses after the topics on Porter's Five Forces of Competition (Porter, 1979), business- and corporate-level strategies and subsequent implementation are covered. It is intended to be taught in one class hour and is expected to require three hours of preparation time outside the classroom. The events described in this case are based on real world experience.

CASE SYNOPSIS

Kent Bonvillain and Whitney Guidry, co-owners of Olympian Machine LLC, achieved more success during their first five years in business than they ever imagined. This was accomplished despite the cyclical nature of the oil and gas industry in which they competed and unexpected events such as the economic downturn, hurricanes and the Deepwater Horizon oil spill. For years, Olympian, the manufacturer of the highest quality, specialized production tools for oil and gas exploration and development industries had been operating their machine shop twenty-four hours a day, seven days a week. However, in an industry dominated by powerful buyers, this was not enough. In response, the owners spent two years developing, refining and implementing a plan to grow the firm. The pros and cons of different options were weighed in terms of maintaining the firm's mission and defending its position in an increasingly competitive global industry. A decision had to be made, and it had to made now.

INTRODUCTION

It had been only five years since Kent and Whitney had opened the doors to Olympian Machine, LLC in 2007. Now, as the partners contemplated making the final decision on how to implement their growth strategy, they could not help but wonder how things had happened so quickly, and what the future held. "Once we commit, there is no turning back" said Whitney, " We will not only be expanding operations at a substantial cost, but doing so at a facility that will be over 300 miles from home." "No need to even think about turning back" replied Kent, "Once the decision is made, we will only look forward. We performed our due diligence and the consultants agree that there is great potential for creating economies and synergies with a second facility, regardless of how we implement our expansion. Besides, if we don't grow, our customers will find another supplier who will." Both Kent and Whitney hoped that growing the firm would allow them to better position Olympian in increasingly competitive markets as a manufacturer of the highest quality, specialized production tools in the oil and gas industry. They also hoped that their belief in their ability to effectively manage a separate, and distant, facility was the correct one. Despite their confidence, there was little doubt that Kent and Whitney were taking a risk. But as Kent likes to say, "We are in business to take risks."

GROWING THE FIRM: THE NEED FOR ADDITIONAL CAPACITY

Olympian enjoyed early success; necessitating the machine shop to running at full capacity; twenty-four hours a day, seven days a week. The business was profitable and all debt incurred to start the firm had been repaid within three years. So, despite being a relatively young firm, Kent and Whitney had discussed expansion for the previous two years. "We'd known for quite some time of the need to grow the firm." stated Kent. "It was essential that we keep up with demand from our very powerful customers. We had established ourselves in a growing niche**--**the highest quality materials, lowest tolerances, exacting standards, etc. If we didn't increase capacity, our customers would look elsewhere for their products. With the amount of money at stake in the oil and gas industry, our customers are not going to wait because you are backlogged. And while we felt strongly that competitors couldn't provide the same levels of quality, we didn't want to give them an incentive to try. In addition, our international customers don't want to hear that we've been hit by a hurricane and it knocked out the power. They just want to know that their product will be delivered on time."

The owners recognized that not only did they need to increase capacity but at the same time decrease the risk of an interruption in production due to uncontrollable events. As a result, they felt that a second facility, in a distant location, might be their best option. "When we did a risk assessment the potential for storms like hurricanes Katrina and Gustav were seen as the biggest threat to our ability to produce." Still, while the owners recognized the need to expand operations, they were unsure of the optimal means of implementing the growth strategy.

THE BIRTH OF OLYMPIAN MACHINE

Kent and Whitney became acquainted though multiple projects on which their respective employers had collaborated. Each respected the other's knowledge and work ethic, and both were successful in their careers. While successful in their roles, each had contemplated the idea of owning and operating their own business.

During his tenure as a facility and operations manager Kent had recognized the opportunity to produce specialized equipment for the oil and gas industry. He tried to convince his employer to expand their product line but was met with resistance. Kent resigned himself to the fact that his employer was focused only the present and they would never seriously consider his ideas. Unless he acted on his own, Kent felt that this would be another opportunity lost to competitors.

Whitney had spent years developing and honing his skills in machining. This process, also known as *subtractive manufacturing*, is one in which raw material is formed into a desired end state by removing material. His 25-plus years of experience had also allowed him to gain important interpersonal and communication skills. As a supervisor, Kent was both respected and liked by his co-workers, and while he thoroughly enjoyed his work, he felt that he had accomplished all that he could in the field, at least while working for others.

With years of experience in areas such as sales, management, operations, supervision and manufacturing between them, Kent and Whitney decided that they would, together, seek to identify and exploit an opportunity in the oil and gas industry--an industry the two of them knew well. Despite the cyclical nature of the industry as a result of fluctuations in oil and gas prices, the industry presented many opportunities for those who able to identify and exploit a niche. Literally, thousands of entrepreneurs in south Louisiana had made their fortunes in the industry. Kent and Whitney decided they would join that group. They mutually decided to engineer and machine high quality tubular products--the same idea Kent had presented to his now previous owner. Machine shops servicing the oil and gas industry were plentiful. However, Kent and Whitney's collective experience told them that these companies either did not seek to target the high end segment of the market (instead seeking to win contracts based on the being the lowest bidder for any particular job), or could not deliver quality products on a consistent basis. According to Kent, "We felt that our decision to concentrate on those customers willing to pay higher prices for higher quality products would provide Olympian with an advantage over potential competitors, if we could deliver." In addition, the duo decided to focus on serving international markets, both existing and emerging instead of the Gulf of Mexico which was, literally, in their back yard, and a significant producer of oil and gas. According to Kent, "We felt that international markets were more attractive, especially for the type of products we were manufacturing. We identified specific areas around the world that we knew we could serve especially well with the highest quality materials, state-of-the-art production capabilities and service that was second to none. In addition, the Gulf of Mexico market was saturated with competitors and we wanted to avoid the price wars we were seeing."

In structuring the ownership of Olympian, Kent and Whitney each felt that a 50/50 partnership would be beneficial. With Kent's diversity of skills and experience, the two felt that he was especially qualified to run the business side of Olympian. According to Kent, "After graduating from college I went to work for an international oil and gas service company that manufactures particular products in the industry. I started out on the ground level doing data entry, cost accounting and inventory control. I was able to work my way up through sales, quality manager, facility manager and then operations manager. I gained valuable experience and I became well rounded. I chose to take different positions so that I could build my resume. Whitney on the other hand is sort of a pioneer in the machining business. His initial work was on manual machines, and he was very good at what he did. As the machining equipment became more technologically advanced, it required programming capabilities. Whitney also excelled in this area. He is well known in the region and did a lot of programming work internationally. His skills set continued to grow and now it is phenomenal. His supervisory skills are also superior. He was a perfect candidate to handle the technical side of the business. It was decided that if there was a technical question or problem that needs to be addressed, I would give my input but at the same time recognize his expertise. The same with me and the business side of operations. We felt that these diverse but complementary skills would serve the company well."

On March 28, 2007, Kent Bonvillain and Whitney Guidry opened the doors to Olympian Machine in Gray, Louisiana. The company began with three employees and a plan to service a niche market by engineering and machining high quality, tight-tolerance castings, mechanical tubing, casing, and other production tools for the oil and gas industry. Through hard work, extensive networking and a focus on international markets customer interest in the company's products and services grew beyond their expectations.

It soon became apparent that the company would require more machinery, technology, and space to keep up with customer demand. As such, by 2008, Olympian, now with 15 employees, had outgrown its leased space. In response, the firm purchased 2.5 acres of property and built a new facility to accommodate growth. Included were state-of-the-art computer controlled lathes, mills, multi-tasking manufacturing machines and measuring devices. This resulted in a further expansion of Olympian's capabilities. They also invested significant time, money and other resources in developing their labor force. According to Kent, "We recognized the need to have the very best employees if we were going to establish and maintain a position in the high-end segment of the market. Poor workmanship and defects were not an option."

Despite their early success, the partners were challenged by a series of events that reduced the level of activity in energy exploration and development. A decrease in exploration and development is generally followed by an immediate decrease in the demand for periphery products such as those provided by Olympian. First, the global economic downturn, beginning in 2008, resulted in lower industrial output and worldwide demand for energy. In addition, few in south Louisiana expected the impact of the 2008 hurricane season, just three years after the region was devastated by Hurricane Katrina in 2005. Gustav, the second most destructive hurricane of the 2008 Atlantic season, made landfall on September 1st less than 30 miles from Olympian's new facility. Just 12 days later, Hurricane Ike made landfall in nearby Galveston Texas. "It was at this time that we really began to realize that Hurricane Katrina was not a once-in-a lifetime event" said Kent.

Uncertainty in the industry, at least for domestic US energy exploration and development, reached an all-time high on April 20, 2010 when the Deepwater Horizon rig exploded and killed 11 men. This explosion occurred just 40 miles off the coast of Louisiana. The ensuing oil spill, recognized as the worst in U.S. history, continued until the well was finally capped 87 days later. The explosion and spill resulted in an immediate hold on the issuing new offshore drilling leases and a six month moratorium on offshore drilling that suspended work on over 30 rigs.

During those challenging times most oil and gas service companies struggled to survive and many did not. Olympian, with its focus on high quality products in international markets, avoided some of detrimental impacts of these events. That strategy paid off by allowing

Olympian to remain profitable by reducing hours worked (there were no lay-offs), staying focused on its mission, and benefiting from the partnerships formed in global markets.

Due in large part to increasing energy prices, worldwide demand rebounded quickly. Before long, the shop was again running twenty-four hours a day, seven days a week. Still their backlog and continuous customer inquiries raised expectations. This resulted in Olympian purchasing new equipment and hiring additional personnel to increase production capacity. Continued growth was forecasted as far as the firm could realistically predict. While that news was welcome, it did leave Olympian with a new challenge. The partners recognized that they were operating at maximum capacity in the existing facility. The firm had simply run out of room. It was time to look for more space.

THE DECISION TO EXPAND

Like other firms, Olympian had several options for implementing its growth strategy, which included building a new facility (organic growth), collaborating with another firm (cooperative relationship) or acquiring an existing firm.

Option 1: According to Whitney, "Right away we eliminated the idea of expanding capacity at our current location. The risks of operating out of a single shop were just too great given the potential interruptions from hurricanes. However, building a second facility in different location was definitely a possibility. While we knew this might be especially time consuming and expensive, it would have allowed us to get exactly what we wanted. Also, the ability to incorporate the Olympian culture and management style from the start could be important." A second location also dovetailed well with the partners' management style. Both felt that multiple small manufacturing centers were more advantageous than one larger one. Smaller teams, fewer layers of management and a family type atmosphere and culture were seen as being more important that any economies that might be achieve in a single but larger facility.

Option 2: Another option was to form some type of collaborative relationship (joint venture or alliance) with an existing firm. However, Kent and Whitney knew that because their current shop had been operating at full capacity, any alliance would require either using the partner's facility, or a third, separate location co-owned and/or operated by the two firms. The advantages of such partnerships can be significant. Two firms should be better positioned to raise necessary capital for further expansion and/or capital expenditures. Additionally, the financial stability of the two firms can translate into a lower cost of capital, thus increasing profitability. Furthermore, a broader pool of knowledge, skills and networks could assist in developing additional competencies, such as greater insight into industry best practices, effective marketing techniques and efficient manufacturing processes. It is important to note that potential concerns might arise in a collaborative relationship. According to Kent, "While it would be nice to share the risks, especially the financial risk, we were concerned about potential constraints. For example, in this industry, as with many, you often don't have the luxury of taking your time when making decisions. Bringing in another firm might deter Olympian's ability to make effective decisions quickly. It might also lessen our ability to manage and perform tasks in what we refer to as the Olympian way." In addition, the owners would have to identify a partner with different, but complementary capabilities. The inability to do so would decrease the value that any partner would contribute to the alliance. According to Kent, “We know that Olympian has a specific bundle of capabilities that enables us to effectively compete in our chosen markets. We were beginning to wonder if we could find a partner who created additional value.” The owners had spent significant time in identifying and vetting potential partners. Several did seem to have some of the attributes to justify creating into a collaborative relationship. However, there were concerns. Did they truly share Olympian’s mission and objectives? In addition, differences in management and leaderships styles were a concern, as was variations in cultures.

Option 3: While the owners continued to consider building or partnering, they sought out potential acquisition targets as well. “We had specifics we were looking for in a company if we were going to acquire.” stated Kent. “We wanted a physical facility with at least some complementary equipment and a knowledgeable and motivated team of technicians. Exceptional managerial skills weren’t a pre-requisite because we were confident that we already possessed the necessary skills to effectively manage the new location. We believed we could transfer some of the skilled individuals we already had in our existing facility and train those in the acquired firm.” Within about 16 months of initially discussing expansion, Kent and Whitney identified a manufacturing firm just outside of Houston. While the location still left some vulnerability to hurricanes, the owners felt that being in the Houston area outweighed that risk. According to Kent, “We began to concentrate our efforts on growing in this area because we felt it was far enough away from our current facility to diminish risks of production interruption and because Houston is the oil and gas capital of the world. Many of the executives with the larger companies in the industry actually look down on firms who do not have a presence in the Houston area. On more than one occasion our being located only in south Louisiana had diminished our reputation, at least in the eyes of some. We saw this from executives in the larger firms who often didn’t know what we were about because they are four or five steps removed from what we are doing in the industry. This is quite ironic considering the history and size of the oil and gas industry in south Louisiana, but it definitely occurs.”

One firm Olympian Machine had identified as an acquisition target, Wadko Precision, had been in business for almost 30 years. They possessed some of the equipment and much of the technical skills that Olympian Machine was seeking. The firm had fallen on hard times as the recession had taken a toll on the demand for their products. As a result, the company was struggling to stay afloat. Because it was underperforming, Kent and Whitney hoped it could be acquired at a discount price, use Olympian’s name, reputation, current customers and management philosophy, and integrate them with Wadko’s technical expertise to create a significant profit center. It would result in an expansion of manufacturing capacity and capabilities, as well as diversify the product line. These were seen as critical components of Olympian’s mission to continuously improve service for their clients’ growing needs. If Olympian were to proceed with an offer and successfully acquire Wadko Precision, it was important for the president and owner of Wadko Precision to remain on with Olympian to oversee manufacturing in the new facility. Such a move would assist Kent and Whitney in the near-term of having to oversee two faculties in different locations.

Olympian's owners were also aware of the risks associated with an acquisition. Of particular concern was the potential inability to effectively integrate the cultures and management styles of the two firms. Kent and Whitney were acutely aware of the need to maintain these and other capabilities of Olympian. Wadko had been in business for 30 years and coming in and effectively changing the way things were to be done would not be easy. Certainly they would meet some resistance.

It had been two years since Kent and Whitney had begun developing a plan to grow Olympian. The pros and cons of different options had been weighed. The time had come to put their plan into action. Their buyers were anxious to secure a source of additional products and another hurricane season was set to begin in just a few months. A decision had to be made, and it had to made now.

INITIAL PUBLIC OFFERING VALUATION AND UNDERWRITING ISSUES FOR PHARMCORP, LLC – A CASE STUDY

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CASE DESCRIPTION

This hypothetical case study assesses whether PharmCorp (an assumed name), a closely held pharmaceutical company, owned and operated by family members and friends for the past 10 years, should issue an initial public offering to address its twin intractable problems that it is currently facing. First, it has outgrown its capacity to deliver sustainable exceptional performance and needs to retool its long term strategic and operational goals. Second, and just as important, is that tensions have been brewing under the surface among the owners about the existing make up of the company's ownership and compensation structure. As a result, the company has reached a critical point where it has to resolve these burning issues sooner than later. After much deliberation, the owners finally agreed that it is in everyone's best interest to use the market as the final arbiter and issue an initial public offering to address these problems.

The owners were left with no better alternative and decided to take their company public to secure additional financing they need to revamp and expand the company's existing operations. While doing so, they also planned to explore whether they should issue shares through underwriters on either a guaranteed price or commission basis. In addition, they agreed to use the market as a catalyst to align the existing ownership and compensation structure with their respective contributions in creating additional value to the firm.

This case has a difficulty level of five and can be analyzed by senior level business or first year MBA students. Students will be required to assess the company's opportunity cost of capital and the value of the firm before competitive bids are solicited by the firm from investment bankers and recommend solutions. In addition, students will be asked to offer suggestions on how the markets can be used as a vehicle to resolve the conflicts of among the owners about the makeup of the company's ownership and compensation structure. The case is designed to be taught in three class hours and is expected to require five hours of outside preparation by students.

CASE SYNOPSIS

Pharmcorp is a closely held pharmaceutical company that has been owned and operated by family members and friends most of whom are renowned medical research scientists. The owners were able to use their technological knowhow, research skills, talents and personal fortunes from their previous work experiences to set up a state of the art research and manufacturing entity. Over the past 10 years, their company has been successful in obtaining a number of patents for its products while two more products are in the pipeline waiting for final approval by the Food and Drug Administration (FDA). The company has been able to extract economic rent from its proprietary drugs. It does not foresee any threat of competitive pressure in the immediate future.

As the company's operations grew rapidly both in size and complexity, the need for financial and human resources has become more dire . Compounding the problem is the simmering tension that has been brewing under the surface among the owners where a few of them complained about a free rider problem and expressed their dissatisfaction with the makeup of the ownership structure which they believe does not adequately reflect their marginal contributions to the firm. These select key partners contend they are not being recognized and *sufficiently rewarded for the indispensible role they play in creating additional value to the firm. Specifically, they argue that most of the products they have been working on are the ones that gained FDA approval for which they were not given due credit. The current ownership structure only calls for equal profit sharing solely based on the company's financial performance reports.*

The company's growth problem coupled with the disagreement the owners have about its existing ownership and compensation structure has reached a tipping point that if they are not resolved soon could derail the success the company has attained so far. In order to avoid the untended consequences of these problems and after many deliberations, the owners agreed to use the financial market as the final arbiter to settle their differences amicably by taking their company public. Doing so will allow them to assess the underlying value of the firm and how it should be divvied up by the various claimants.

BODY OF THE CASE

Pharmcorp Inc. is a closely held company owned and controlled by a group of family members and close friends most of whom are medical doctors with stellar medical research credentials. The owners were able to use their research skills, knowhow and talents from their previous experience in their newly formed company from the get go by setting up state of the art research laboratory and manufacturing entity. As a result of their concerted effort, their company has been successful in obtaining a number of patents for its pharmaceutical drugs by the Food and Drug Administration.

The rising demand for the company's existing products as well as its potential to obtain new patents for two blockbuster drugs that it has applied for and is awaiting final approval soon is causing capacity constraints in its existing manufacturing facilities. The company has been expanding rapidly year over year, and its future prospects look very promising while the threat of competitive pressure is not much of a concern in the immediate future. The company has, so far, been able to extract economic rent from its proprietary drugs and will continue to do so into the foreseeable future since it has several years left before the patents from some of its pharmaceutical products expire. In addition, the company expects to drastically expand its operations beginning in 2013 as it starts producing its new breakthrough drugs. There is, however, always a possibility that some other potent drugs may be developed by its competitors. The owners are, however, currently feeling the pinch from the financial pressure needed to keep up with the blistering pace of the company's growth trajectory.

As the company grew in size and complexity, some tension has also been brewing, on a different front, among the founding members as to how the value of the firm and the benefits from its potential growth opportunities should be divvied up fairly. This case is much more complicated to resolve since the owner managers have different sets of skills, operate at different capacities and their relative productive inputs and outputs vary greatly. Some have expressed their concern that profits that were being shared equally among the principal owners based on the company's financial performance reports does not accurately reflect and, therefore, fail to address their relative contributions in creating additional value to the firm. After much soul searching discussions among the managing partners and having realized that it is in everyone's best interest to unlock the potential value of the firm, they all agreed to take their company public and allow the market to dictate a solution to their most pressing problems.

It has been a while since the owners realized the constraints the company has been facing in terms of its existing human infrastructure and its need to hire more skilled labor, especially scientists, and expand the firm's research and production facility. The company's challenges have, however, currently become even more acute with the advent of the new drugs that could soon be added to its existing product mix. This requires additional manpower and financial resources and streamlining of the firm's operating capacity, which can only be achieved if and when the company goes public.

In order to capitalize on the company's future growth opportunities, its proven track record of profitability and widely accepted and renowned products, the owners finally reached a consensus to explore the possibility of hiring an investment banker to assist them to take their company public. Because of their lack of experience, they were, however, not sure whether they should solicit the advice of an investment banker on commission fee basis to raise as much money as they can, which is usually dictated by the market through an initial public offering or otherwise solicit and settle for competitive bids for a guaranteed offer price from one or more underwriters. They were, however, not sure which approach serves their best interest in raising the necessary funding to implement their expansion needs. The owners also expressed their willingness to either maintain a controlling interest or even relinquish some control and assume a minority stake in the company, as the case may be, to enhance the company's sustained growth prospects and unlock the potential value of their firm.

As word of the company's pending plan was leaked to the press, a major brokerage firm, which had prior knowledge about the company's success story, approached the owners and expressed its interest to underwrite the entire issue for a guaranteed offer price of $ 15.50 per share. It also expressed its willingness and interest to raise as much money as possible by soliciting the best price from the investing public on a commission basis and left the choice for the company to decide.

Over the past ten years, the company has been growing its revenues and its operating profits at an annual compound growth rate of 20 and 25 percent, respectively, which is much higher than the industry average. Its net profit margin has also consistently been above 10 percent each year, while the profit margins for the past two years were 12% and 14.8%, in that order (Table 1), again above average for the industry. Moreover, the company was able to generate and grow its free cash flows by more than 11 percent each year, at the high end of the range for the industry. The income statement for the latest two years, 2012 and 2013, is given in Table 1. The dollar amounts are expressed in thousands of dollars for simplicity and could very well be restated in a graduated scale.

Towards the end of 2013, Harold Marcus, the chief financial officer, was given the task of assessing the underlying value of the firm before considering any underwriters' offer. In order to determine the value of the shares, Harold came up, based on the company's past financial performance and its future prospects, with a very conservative estimate of the free cash flow streams to be generated by the company over the following four-year (2014-2017) period. From the company's balance sheet (not addressed in this case), he made note that the company increased its capital expenditure from $1.5 million in 2012 to $2.5 million dollars in 2013 and plans to raise this amount substantially along with its planned increase in its productive capacity. Net working capital was about 2.5% of sales in 2012 and 2013. Harold estimated leveraged free cash flows to increase by 20% in 2014 and 2015 as a result of the anticipated ramp-up in production and top and bottom line growth, 10% in 2016 and 2017, and 5% thereafter. Harold projects a sustainable growth rate of 5% which is actually much lower than the industry average of 6.5%.

The company has two outstanding loans, a $10 million, 6% coupon, due in 5 years and a $20 million, 8% coupon, due in 20 years, interest payable semiannually. If the company goes public, it has the opportunity, to refinance is existing loans by issuing bonds of similar risk at much lower yields of 4 and 6 percent, respectively. These loans are assumed to be rolled over at their current yield upon maturity.

Since Pharmcorp is not a publicly listed company, Harold plans to use the weighted average cost of capital for its peers of 15 percent as a reasonable discount rate for his company's future cash flow streams. The average cost of equity for the industry is 15 percent. Harold is confident that because of his company's proven track record of operating performance and the efficacy of its pharmaceutical drugs, his company could raise equity financing from the markets under better terms. The company has plans to issue 5,000,000 shares. Table 2 provides a summary of the additional data used in this case.

Table 1

Pharmcorp LLC
Income Statement
For the Years Ended December 31
(In thousands of dollars)

	2012	2013
Revenue	$29,580	$35,496
COGS	17,750	20,300
Gross Profit	11,830	15,196
Less: Operating Expenses:	3,550	4,500
Depreciation	1,000	1,000
Operating Income (EBIT)	$7,280	$9,696
Less: Interest Expense	2,200	2,200
Taxable Income	5,080	7,496
Less: Income Taxes (30%)	1,524	2,249
Net Income	$3,556	$5,247

Table 2

Financial Data

Proposed number of shares to be issued (12/31/13)	5,000,000
Average beta for the peer group (12/31/13)	1.5
Projected industry growth rate	6.5%
Assumed Pharmcorp growth rate	5.0%
Tax rate	30.00%
Cost of equity for the industry	15.00%
Average long term loans outstanding for the industry	30.00%

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RE-NAMING "HOMETOWN U" UNIVERSITY OF SOUTH CAROLINA BEAUFORT ASSUMES A NEW ROLE

Lynn W. McGee, University of South Carolina Beaufort

CASE INTRODUCTION

This case describes a university identity change and the subsequent re-naming and re-branding process. Secondary issues include strategic marketing, branding, services marketing, non-profit marketing, public policy, higher education leadership, legislative relations, and consensus management. The case is designed for graduate students and doctoral students in public administration, higher education leadership and business. The case can be taught in a single, 2 hour class session. Student preparation, including team meetings and research will require 4 hours.

CASE SYNOPSIS

An entrepreneurial "comprehensive" university seeks to raise its visibility to grow rapidly. USCB changed its role and mission from a 2 year campus on eight acres in the small town of Beaufort, SC to a "full service" university with a newly constructed, technology rich campus on 200 acres at the gateway to Hilton Head Island. Rapid enrollment growth, declining state appropriations and increasing competition for students demand marketing leadership. Re-naming offers the most powerful--and the most risky--strategy to position this "new" university and sustain its growth trajectory. The student plays the role of branding manager at a critical decision point: should this university attempt a name change now? The student designs and implements a successful change process, showing sensitivity to multiple, diverse audiences and stakeholders.

Students tackle branding in a service marketing setting, where the faculty who create the service also lead organizational governance. The complexities of government and nonprofit management become apparent as students identify the participants in the branding process (students, faculty, system leaders, board members, legislators, mayors, community leaders, donors). Because master's and doctoral students are university stakeholders themselves and have significant personal experience with higher education, they quickly grasp the context and issues, then move into a deeper consideration of underlying concepts.

Students are challenged to think about branding in a nonprofit setting, where consensus is valued and marketing leaders can have the perfect business case for change--but fail without sensitivity to the culture of the organization and the political environment.

Provide student teams with specific assignments prior to the class discussion to move them beyond focusing on the "best name" to designing the branding/change process. Teams will represent different stakeholder audiences, list that audience's concerns, and represent them in *the ensuing class discussion. Each team must propose a new name for USCB and a process to build support for that name with all stakeholder audiences.*

CASE BODY

In the late summer, Charlotte Wilson looked out the window of her office on the Hilton Head Gateway campus of the University of South Carolina Beaufort. She enjoyed the view of the splashing fountain on the plaza and the blue Carolina sky, obscured partially by the palmetto tree fronds brushing the window in the light breeze.

In the reception area for her office, Charlotte could see some results of four years' work to communicate the "new" USCB: a baccalaureate institution serving the Lowcountry of South Carolina. Magazines featured the work of the new Ph.D. prepared faculty and their students and new print recruiting pieces told the story of the state's newest baccalaureate institution. Even more important were the branding projects. The university's first chancellor's medallion, featuring the seals of Beaufort College 1795 and the University of South Carolina, conveyed the partnership between the region and the USC system since 1959. The Sand Shark mascot, created for the new NAIA athletics programs, designed to be strong for athletics, to resonate with local citizens and to position USCB nationally as a coastal university.

As Vice Chancellor for Advancement for a university that had completely changes it role, mission and facilities, Dr. Wilson had built a marketing communications program from nothing. The communications staff team--a graphic designer, web master and public information officer--tackled at least one major new project to build the university's visibility and recognition--and accelerate enrollment growth--each year. As she considered next year's "big marketing goal," again and again Dr. Wilson came back to the fact that the school's name did not convey its new identity. USCB was a rapidly growing baccalaureate institution located in the heart of a pristine tidal ecosystem, in a region rich in Southern history and African-American culture and adjacent to the beaches, golf courses and international resorts of nearby Hilton Head Island. But the brand name was the same one that had represented the two year junior college.

The name "USC Beaufort" did not represent both campuses. The eight acre Historic Beaufort campus overlooked the Intracoastal Waterway and was part of a National Historic District. Moss-draped live oaks and palmetto trees surrounded the original Beaufort College, chartered in 1795 as the second higher education institution in the state. This campus straddled a city street leading into quaint downtown of Beaufort--and included several other historically significant buildings, a few 1960's structures and a 1940's era elementary school. The Hilton Head Gateway (HHG) campus sat on 200 acres about 12 miles outside the Hilton Head Island resort. The HHG campus, opened in 2004 and quickly become the "main" campus. It incorporated impressively designed buildings with exciting technology, including a BSN in Nursing teaching facility, bright, modern classrooms, a beautifully furnished library with a Starbucks® coffee shop, USCB's first on-campus housing and its athletics department. Repeatedly, prospective students and parents read "USC Beaufort" on the website, put "Beaufort" in their GPS systems and arrived for prospective students' day in Beaufort, a 35 minute drive from the main campus.

As a "new" university, conferring its first baccalaureate degrees in 2004, USCB needed to introduce itself to prospective students with a distinctive and powerful message describing how the region's strengths could enhance students' educational opportunities and living/learning experiences. Nearby institutions, the College of Charleston and Coastal Carolina University, had successfully leveraged their locations to achieve dramatic growth.

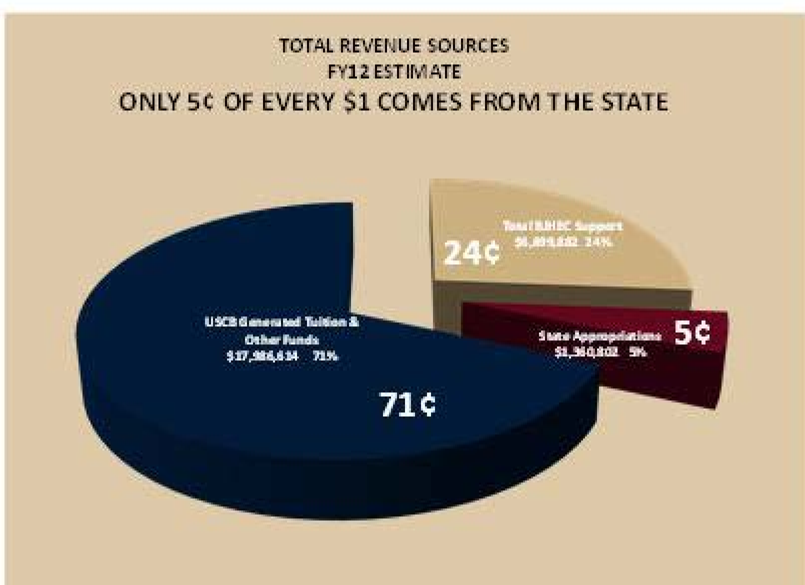
With an MBA and corporate marketing experience, Charlotte knew the classic process to brand a product. Re-branding a client-centered services organization like a university, where staff shared governance with faculty, taxpayer support was crucial, and donors and alumni must not be alienated, might require a different process. Charlotte's decisions would also be subject to guidance from the University of South Carolina and the state legislature.

University of South Carolina Beaufort--Financial drivers

In 2002, USCB was given the authority from the USC system and the state to expand its role and mission from a two-year junior college to a baccalaureate member of the University of South Carolina system. USC Beaufort became a cutting edge case study in operating a public comprehensive university while adapting to the changing business environment of higher education.

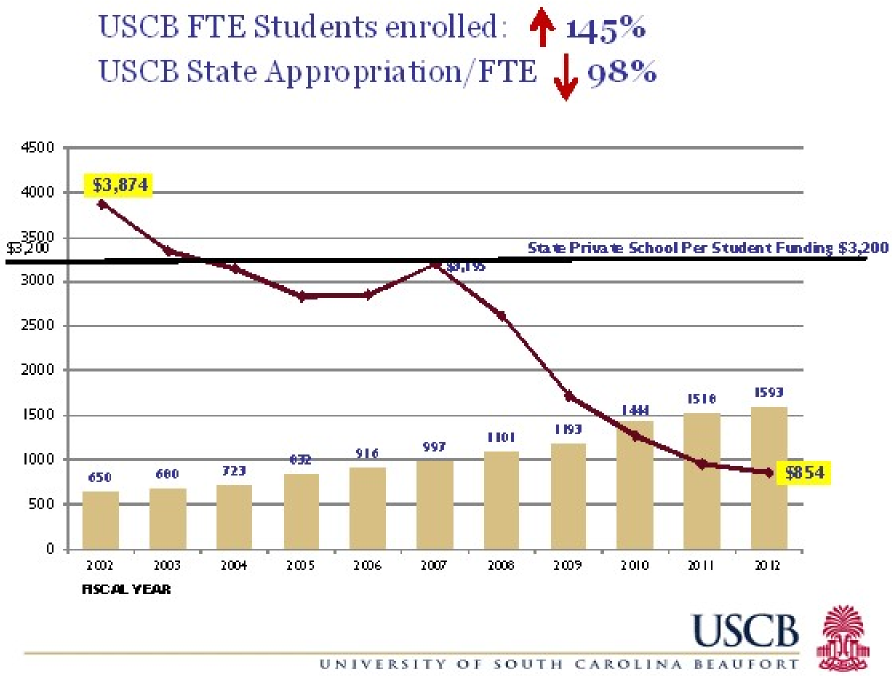
As states have reduced their funding for higher education dramatically over the last 15 years, universities have had to engage in broader partnerships—public/private entities to deliver key services. USCB was no exception; partnering extensively with local counties to build facilities and expand profit-making operations and deliver key services. Contributions to the revenue stream from the state of South Carolina declined to 5% (Figure 1). This level of state funding was exceptionally low, by both South Carolina and national standards.

Figure 1:
USCB Revenue Sources FY 201



This decline in state funding, coupled with student enrollment growth reduced state support per student from a high of $3824 in 2002 to $1300 in 2010. During this same time period, the state continued to subsidize private colleges and universities in South Carolina who at an annual rate of roughly $3200 per South Carolina resident student (Figure 2).

Figure 2: USCB Enrollment Growth and Decline in per Student Appropriation



For USC Beaufort, attracting out of state students, who paid the actual cost of their education and who brought geographic and cultural diversity to class discussions and campus life was a strategic goal. Enrollment growth to reach 3000 students would enable USC Beaufort to offer a greater range of academic majors and gain economies of scale in operations.

Even as she campaigned in 2010, Nikki Haley, soon to be elected Governor of South Carolina, began to press for "Accountability Based Funding" allocations to South Carolina higher education institutions. Funding would be allocated based on performance measures. As a new university, USC Beaufort's performance would be sub-standard on items like “six year graduation rate,” since many USCB students started locally, then completed a degree in their field of interest elsewhere, often at USC Columbia, the state's flagship research university. As the lowest funded public university in the state, USC Beaufort desperately needed the state to "level the funding playing field" for a couple of years, so it could build needed infrastructure before the state moved to allocate funding based on ABF performance measures.

The University of South Carolina System

In 1801, the South Carolina legislature founded South Carolina College. It offered a classical curriculum from its location one block from the state capitol in Columbia. With the onset of hostilities from the North in 1860, the College closed. In 1866, the college reopened as the University of South Carolina and added programs in law, engineering, mathematics and medicine. During Reconstruction, the University experienced a variety of setbacks. It reorganized in 1906 and by the 1930s, the USC consistently increased enrollment and enhanced its reputation within the southeastern United States. As World War II began, the U.S. Navy established training programs at the University.

In 1957, the University of South Carolina system began to take shape with the addition of 2-year campuses in communities distant from Columbia. By 2010, the USC system included the research university in Columbia, three “senior” (independently accredited masters and/or baccalaureate degree granting campuses) and four “regional” (two-year campuses accredited under the Columbia campus). The University of South Carolina system is governed by a 20-person Board of Trustees, 16 of whom are elected to four-year terms by the General Assembly. The Board, in turn, appoints a President who serves as the head of the flagship campus in Columbia and, simultaneously, as the head of the eight campus system. A chancellor reporting to the President leads each senior, baccalaureate campus. A dean reporting to a USC vice provost manages each regional campus. The entire system serves over 44,000 students and offers a variety of undergraduate, masters, and doctoral degrees in the liberal arts, sciences and professional programs.

University of South Carolina Beaufort

Beaufort College was chartered in 1795 to offer a curriculum similar to that of European universities to the children of planter families, many of whom completed their education at Harvard, Yale and South Carolina College. The College flourished during the antebellum era when Beaufort was one of the wealthiest and most cultured communities in the state. Beaufort College closed in 1861 as the Civil War commenced and its students entered the CSA military.

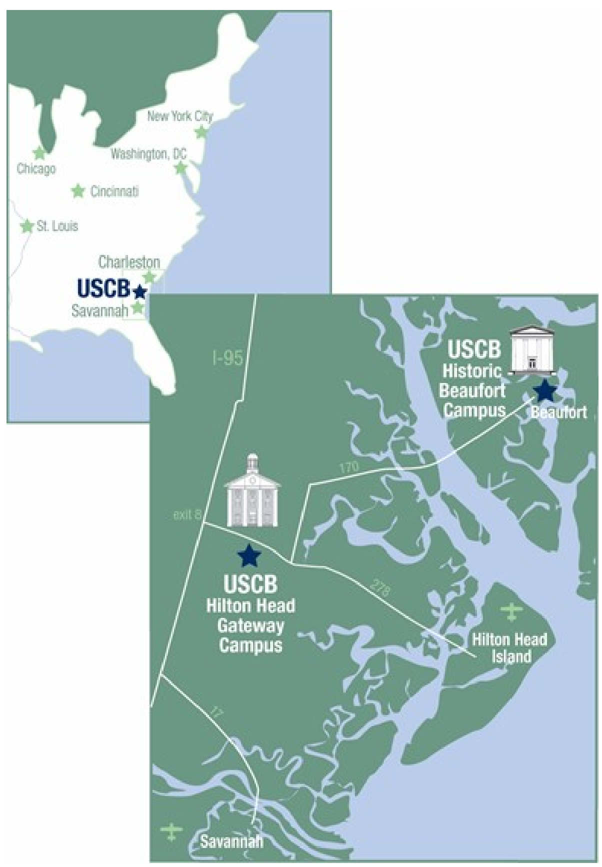
In 1957, Beaufort community leaders organized support for a campus. The University of South Carolina opened a two-year regional institution in the small, historic waterfront town in 1959, in the 1852 Beaufort College building. Opening with 57 students, the campus increased enrollment while slowly expanding from its initial footprint. By the 1990’s USC Beaufort had developed into an eight-acre campus on the waterfront in Beaufort which included two new buildings, a renovated elementary school, and historic properties utilized for offices and an art studio. USCB students pursued a few baccalaureate degrees through USC Aiken and USC Columbia cooperative programs.

USCB began offering classes on Hilton Head Island in 1985. When International Paper donated 80 acres of land near Hilton Head Island to USC Beaufort in 1994, campus leaders contemplated expanding USC Beaufort’s two-year associate degree programs into four-year baccalaureate degrees. Under the leadership of Dean Jane Thomas and with support from faculty, students, staff and prominent community leaders, the university sought baccalaureate status in 2000, earning it by 2002.

USC Beaufort opened the new campus on 200 acres at the gateway to Hilton Head Island in Bluffton, South Carolina in August 2004 (30 miles from Beaufort) (Figure 3). In the fall of 2005, USCB's first housing, student apartments, opened on the Bluffton campus. A library designed to leverage the growing use of digital resources and science building with student and faculty research labs were added. By 2010, USC Beaufort offered baccalaureate degrees in 14 majors and numerous concentrations; it had opened a CCNE accredited Nursing program which was housed in a new facility; and had built its first campus center with dining and lounge/exercise facilities.

The change in university role and mission in 2002 and the continuous opening of new degree programs, athletic programs, housing and campus life facilities led to a dramatic increase in student enrollment. From 2002 to 2010, USC Beaufort doubled its Full Time Equivalent (FTE) enrollment from 690 to 1444. However, the Admissions Director reported that enrollment from the four local counties in USCB's service area had flattened for the Fall Semester of 2010 and that future enrollment growth would need to come from outside the region.

Figure 3:
USC Beaufort Campus Locations



USC Beaufort's Re-branding, Re-started

In the fall of 2007, USC Beaufort reconstituted its “Partnership Board” and convened the first meeting since earning baccalaureate status. Members included several successful, entrepreneurial business leaders, a few very high level donors and individuals representing organizations such as the Hilton Head Island/Bluffton Chamber of Commerce and the Beaufort Jasper Higher Education Commission (which controlled uses of county funding and other gifts). When an external consultant facilitated the January, 2008 meeting to elicit and gain consensus on the board member's priorities for the University, 20 ideas were generated; the “name change” was the most extensively discussed. While located in Beaufort County, the university was not leveraging the powerful "Hilton Head" brand. It received funding and political support from Jasper County and served Colleton and Hampton Counties as well. Branding the school with a single town name unfairly ignored the contributions of a wide range of partners.

The Hilton Head Island entrepreneurs on the board spoke passionately in support of a name change and were adamant that the change could be accomplished within a year. However, the members of the board with deep roots in the region and experience in non-profit and government management were very quiet. Many of these individuals knew the question had been unsuccessfully raised in 1987—when classes were first offered on Hilton Head Island, in 1994--with the gift of 80 acres in Okatie for the Hilton Head Gateway campus, and in 2002--when the change to baccalaureate status was approved.

Actually, as it had grown and changed, USCB had used many names, including "USC Beaufort," "USCB at Hilton Head" and "USC New River." During her first year at USCB, Wilson had moved quickly to develop a short-term naming solution, given her level of authority:

> *Our policy is to use the full name of the university, “University of South Carolina Beaufort” for the first reference and the designator “USCB” in second and subsequent references. We have moved away from “USC Beaufort” as it puts too much emphasis on a single location—and on the role the institution played in the region for the first 46 years of its existence. "USCB" is a placeholder that serves us well in the short term, but will not help us build a regional or national reputation.*
>
> *As a second interim step, to leverage two of the most powerful brands in our region, we have re-named the individual campuses from "North" and "South" to “Historic Beaufort” and “Hilton Head Gateway."*

Significant population expansions over the past 50 years, beginning with the development of Hilton Head Island as an international resort in the 1960’s, changed the character of Beaufort County. The flow of retirees into Hilton Head and the nearby mainland accelerated dramatically in the 1990's and when "Sun City Hilton Head" opened in 2002. As the political and economic power shifted to the southern half of the county, the main campus of USCB moved there as well, while the county seat remained in Beaufort, the historic center of the region since 1711. The "loss" of the name "Beaufort" in "USCB" would generate an emotional reaction in the small, historic community which had hosted the university for over 200 years and was losing its influence to Northern and Midwestern newcomers with no understanding of Lowcountry history and culture.

Figure 4: Limitations of "USC Beaufort" and "USCB"

Campus locations confuse everyone--except employees and current students.

Does not convey the distinctive strengths of our region to new audiences outside SC

Is divisive between communities in our own county/region.

Single community name does not convey role as the USC 4-year university serving four counties.

Forces reliance on “USCB” to reduce confusion. Acronyms are meaningless to new audiences.

In 2004, with the support of former USC President Edgar Swenson and the Board of Trustees of the University of South Carolina, “USC Spartanburg” was re-named “USC Upstate,” conveying the fact that is served a multi-county area including the substantive industrial development in nearby Greenville, SC. When they voted in favor of that name change, the board was reminded by President Swenson that “other institutions represented in this room will need to make similar decisions.”

Knowing that the time for change might be at hand, Chancellor Thomas commissioned research on the identity issue in April 2006. Dr. Wilson, who had joined USCB in August 2006, shared the consultant's analysis of focus group results in a letter to the Partnership Board in the spring of 2008 (Figure 5).

Figure 5:
Market Research Report: Recruiting Recommendations
April 19, 2006

Study design: A series of five (5) focus groups were held in Atlanta metro-area schools, one public and one private. Students were presented with a series of discussion points such as preferred method of communication in the college search process, awareness and opinion of the Hilton Head area and name options for USCB. Participants were selected based on the following criteria: interest in attending an out-of-state institution, current sophomores or juniors, top 50% of their class. 35 participants: 63% female, 37% male, 77% Juniors, 23% Sophomores.

Results: All focus groups participants had either heard of Hilton Head or visited the region before. They all had positive impressions of the area and thought it would be an appealing area to attend college.

“University of South Carolina South Coast” was the overwhelming favorite. “USC Sea Islands” was the second favorite. USC Hilton Head did not receive as strong of a response, although most thought it was better than USC Beaufort since it is more recognizable. It is possible that an out-of-state student may not have heard of Hilton Head, so in that case, it would not be a selling point. The focus group participants agreed that “South Coast” sounded “cool” and “beachy,” and from their knowledge of the area, represented it well. From a promotional perspective, most thought "South Coast" would be more instantly appealing than any of the other choices. "USC Sea Islands" was labeled by some as "too Disney" and as the favorite to others.

Consultant recommendation: Change the name to one that is easily identifiable as a southern/coastal area school …and that encompasses both campuses.

Dr. Wilson realized most Partnership Board members had little or no experience with university governance. She developed a summary of the deep constituent support required for an "identity" change. Using this handout (Figure 6), Wilson attempted to "bridge the gap" between the conflicting groups on the Partnership Board at its July meeting. The government agency, nonprofit and large corporation leaders valued the strategic analysis of the stakeholder groups. The entrepreneurs viewed this discussion as "stalling" a time-sensitive marketing opportunity.

Figure 6:
Working in the University Sector:
Critical Audiences for Strategic Change at USCB

***Partnership Board*:** Leadership group with no formal authority, but a deep knowledge of the community and commitment to advancing the University. Key donors and representatives of collaborating organizations. No members have prior service on a university governing board.

Current and Prospective Students:

*Tuition provides **55% of current revenues. [71%]****

Can we bring our current students with us? Will a name change attract more students from a broader geographic region?

Beaufort and Jasper Counties—citizens and their elected representatives

*Counties contribute **25% of current revenues [24%]****

Will the governor-appointed Beaufort-Jasper Higher Education Commission support this change?

Will Beaufort County Council and Jasper County Council support this change?

Will local mayors advocate for their community's name, versus a regional approach?

State Legislature

*USCB line item direct funding: **20% of current revenues [5%]****

Will the local legislative delegation support this change?

Will state legislators resist this change, due to loyalty to their local campuses or perceived risk to their legislative agendas?

Will the USC Board of Trustees, who are appointed by the legislature, support this change if it takes on political overtones in the legislature?

University Reporting channel:

"USC" is our primary brand; USC system provides vital services to USCB.

USCB Chancellor→

University of South Carolina President (and USC Columbia leadership team support)→

(implies USCB's local Judicial Circuit Board of Trustees member support) →

Board of Trustees, University of South Carolina.

If this becomes a political issue in the legislature, will the USC system leadership put their legislative agenda at risk to help a senior campus in the system succeed?

***Accreditation Agencies*:**

Authority to grant degrees and ability to for USCB students to use state and federal financial aid to pay tuition.

South Carolina Commission on Higher Education (CHE)

Southern Association of Colleges and Schools (SACS):

Internal leadership team:

USCB Faculty Senate**:** *faculty shared governance* is a key tenet of university leadership. Every faculty member—tenured, tenure-track and instructor—is a Senate member.

Administrative Council and Staff directors and above, especially recruiting team.

Student Government leaders

Groups with no formal organization: Parents and Alumni

****Percentage*** *of annual revenues provided in* ***FY 2008*** *[% for* ***FY 2012*** *in parentheses]*

Partnership Board handout 7/31/08

Ready to Claim its Role as a "Full Service University"

In FY 2009-2010, USC Beaufort awaited the results of its Southern Association of Colleges and Schools re-affirmation of accreditation as a baccalaureate university. It was also and celebrating the 50th year since its founding. Dr. Wilson felt these two events, along with the opening of the first campus center and on-campus food service were critical milestones to pass before using the name change to shine a statewide spotlight on the "new" university, "USC Beaufort must demonstrate it can deliver on the implied promises of a 'full-service' university before we invest in this university re-branding," she argued. (Figure 7).

Figure 7:
USCB Milestones to "Full Service" University Status

Is the timing right? Is this new university delivering a "new product" successfully?

Requirements to open identity issue		***USCB Accomplishments***
New role, mission or level of performance	√	2002/2004--Role and mission change 2010--SACS 10 year accreditation
Portfolio of academic programs accredited regionally and nationally	√	2010--13 degree programs, 10 concentrations, 6 professional tracks, 10 certificates
New facilities express the new vision	√	2010—New HHG campus; New art degree and new facilities on HB campus
Active campus life	√	2010--Fitness, dining, and recreation opens. "Sand Shark" Athletics achieving success.
Marketing opportunity/need for growth	√	2010--Goals: reach 3000 FTE, add degrees and faculty, reach economies of scale.

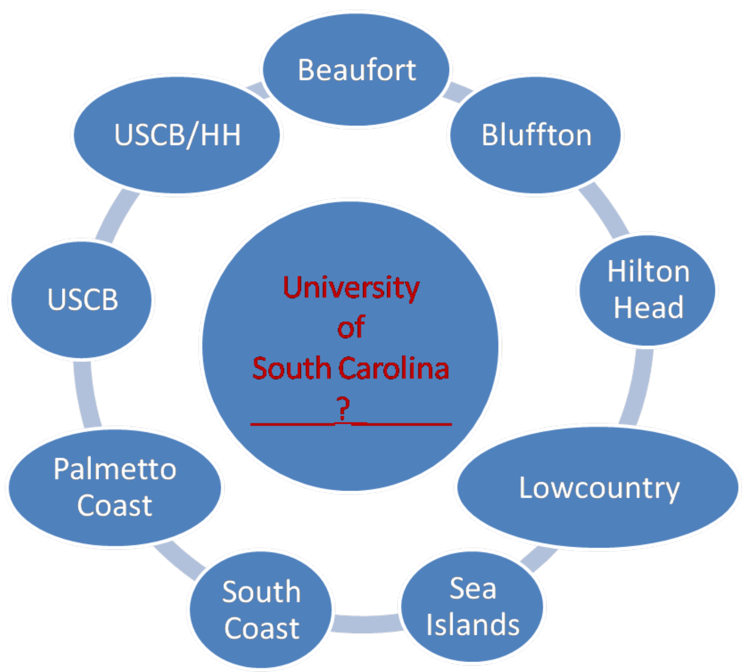
Strong leader with track record who can withstand any negative response	√	2010--"Founding" chancellor has led radical change since 1999.

If the risks of attempting the identity change were difficult to assess, Dr. Wilson felt the board must also acknowledge the cost of delaying the decision:

> ***USC Beaufort has never effectively communicated its change to baccalaureate status.*** A name change will
> 1. Re-position the University in the eyes of local audiences.
> 2. Establish a brand position with key audiences across the Southeast.
>
> ***Every year we delay, the costs of the change increase, and we continue to invest in an identity that cannot take us into the future.*** The longer we repeat "USCB", the more we invest in a weak identity. The more "USCB" alumni we graduate, the more emotional the decision to move away from "Beaufort" will become.

Dr. Wilson held exploratory conversations with key leaders. "Beaufort" (no change), "Hilton Head," "Sea Islands" and "Lowcountry" (historical descriptors of the region) and the combined "Beaufort/Hilton Head" were proposed, along with other possibilities (Figure 8).

Figure 8: Possible Descriptors



In her conversations with stakeholder groups, Charlotte sought support for the three criteria used to guide the final decision:

- Conveys the mission, vision, history and heritage of the *University*
- Resonates with our constituencies by conveying the distinctive strengths of the *region*
- Promotes university's *growth*. Intrigues/welcomes individuals from outside the region.

Other criteria suggested included a name that has staying power for 50-100 years, that describes an authentic impact on student education and that serves both campuses, rather than favoring one campus or community over the other. Dr. Wilson particularly wanted the African-American leaders in the region to find the name welcoming and inclusive.

USCB's Entrepreneurial Leadership Culture

USC Beaufort's culture had been one of strong, forward movement since Jane Thomas had taken leadership of the two-year institution in downtown Beaufort in 1999. Her unswerving commitment to build a baccalaureate institution for a region in which the educational attainment among the indigenous population was among the lowest in the nation had generated exceptional results. A direct, outspoken woman and a powerful, emotive speaker, Dr. Thomas had invested 27 years of her career at USC Beaufort, rising from adjunct faculty member to chancellor, earning her Ph.D. and position as tenured professor of mathematics in the process. The move to baccalaureate status and the development of a tract of rural pine forest into a 200 acre, $70M new campus for her institution was, as she said, "her passion." The fast pace at which Dr. Thomas made decisions and pushed forward sometimes created resistance, but this did not trouble her. She challenged her staff: "Have the courage of your convictions. Do what is right for USCB."

In 2007, Dr. Wilson led the first consensus-based branding initiative at USCB, developing the Sand Shark athletic identity. She scoped the project, hired a design consultant, set strategic guidelines, and solicited input into the decision through multiple layers of committees and community-wide surveys, completing the project in nine months. The process resulted in wide-spread acceptance and support for the new athletic identity. She realized changing an existing university identity would be different from branding a new intercollegiate athletic program.

First Steps Forward

In response to the Partnership Board's interest in the identity project, Wilson created a "white paper" approved by the Partnership Board for circulation. Thomas and Wilson met with key county and university leaders privately to gauge support for the "descriptor" change (while leaving the "University of South Carolina" part of the name in place). These leaders had supported the initiative to "take USCB baccalaureate," and agreed that their vision for the institution included stronger branding. Privately, they encouraged USCB to move forward.

The higher education consultants Dr. Wilson contacted to discuss the university identity project asked for a detailed institutional strategic plan. Since it was in an entrepreneurial growth stage, USCB's strategic decisions relied heavily on the instincts of Dr. Thomas, the founding chancellor and the support of County leadership. The institution had no local Board of Trustees and its local leadership group, the Partnership Board, was still in the development stages. One consultant described moving forward on the branding change without an extensive, consultant-led research process and a detailed, "bottom up" strategic plan as leading to "possible, but not probable" success. Yet, Wilson knew that the simple act of hiring a consultant for the re-branding project—"spending good university money to tell us what we already know about ourselves" as a Partnership Board member described it, would anger influential Beaufort community members and donors with strong ties to USC Columbia, the legislature and state-wide leadership.

USCB's Administrative Council was deeply concerned about future financing. Aided by the expansion in athletics, enrollments looked good for the fall of 2010. New housing, which would raise the residential student capacity from just under 300 to 460, was planned to open in the fall of 2011. However, the 10 year business plan to raise tuition from 2-year to 4-year baccalaureate levels had been stalled in the legislature for two years. The local legislative delegation was not able to raise USCB's state funding from $1300/student to its peer institution levels of $2500/student. Even USCB's chief academic officer pushed for action on the branding issue in a public meeting: "We need solutions now, not two years from now."

WHO OWNS A "PUBLIC" UNIVERSITY?

Historically, state universities have been owned and managed by the state—under the authority of the elected representatives of the citizens, the state legislature. As Millet (1974, p. 61) noted in his work with the Ohio Board of Regents, "the really important decisions affecting higher education in Ohio were made by the Governor and the General Assembly….The power to raise revenue and to appropriate funds for current operations and capital improvements rested with the Governor and General Assembly. The power to enact legislation creating new state universities, establishing a student aid program, defining the authority of higher education institutions and fixing certain requirements of institutional behavior rested with the Governor and the General Assembly."

While other states' legislatures had established a strong Board of Regents to make politically difficult strategic business decisions for their state universities, the South Carolina legislature maintained direct, annual funding control over its public universities.

A complicating factor in gaining legislative support--or at least minimizing legislative resistance--to the branding opportunity was USCB's membership in the USC system. Each system institution had "given up the privilege of separate political endeavor each for its own advantage, binding itself into a common approach to state government on appropriation and other issues" (Millett, p. 27). Hence, USC Beaufort had no legislative relations staff. The chancellor maintained personal contact with legislative representatives from Beaufort, Jasper, and other local counties. Two USC legislative liaisons represented the flagship campus in Columbia on a daily basis. With the state capitol building just across the street from USC President's office, the legislators had immediate, personal access to USC officials.

Chancellor Thomas met informally with several legislative delegation members who indicated privately they supported the re-branding, but warned her one Beaufort legislator would fight against it. Dr. Wilson met with those legislators whose constituents were most likely to be angry about moving away from "Beaufort." She suggested "University of South Carolina Sea Islands" as a way of honoring Beaufort's historic role as "queen of the sea islands," and including the entire region--the resort islands of Hilton Head, Daufuskie, Fripp, Hunting, Harbor, and over 1300 sea islands in Beaufort County. One legislator appeared resistant in the meeting and did not stay to finish the discussion. Other legislators privately encouraged USCB to move forward.

The Mayor of Beaufort, believing that if the University grew, the Historic Beaufort campus would benefit, openly began to speak in favor of the regional descriptor, "Sea Islands." Other mayors from across the region were positive or neutral.

As the discussion of a potential identity change leaked into the media and into the South Carolina House, an unequivocal opinion from the Speaker of the House addressed to "Charlotte and John" (referring to Dr. Thomas' boss, USC President John Russell) popped up in Dr. Wilson's email inbox (Figure 9).

Figure 9: Legislative view: Ownership of Public Universities

USC Beaufort, just like all other public institutions, is owned by the state of South Carolina. The citizens of our state are like stockholders.

The citizens' representative to oversee their investment is the General Assembly. The General Assembly in fulfilling that responsibility appoints the Board of Trustees. The General Assembly grants the board the ability to set its tuition and fees. While a smaller percentage of your budget may come from direct funding, your ability to raise any money comes from authority granted to you by the General Assembly, in exercising the authority granted…by the citizens of our state, who own the school.

Regardless of the level of direct state funding, the citizens of our state own the school. … to imply that a low level of funding lessens the state's right to either allow or disallow any major decision the school would like to make is simply wrong.

-- Rep. Philip McGee, Speaker of the South Carolina House.

Risks and returns

Given its growth-oriented business model, did USCB have a viable alternative to taking responsibility for its future and moving forward with an identity change--a new descriptor after the USC in USC Beaufort? Since the initiative was in its fledgling stage, a single Board of Trustee member, legislator, strong donor, powerful community leader or member of USC President John Russell's staff could stop it. Getting caught in the crossfire between the state legislature, the USC system and the Partnership Board was a losing proposition for Dr. Wilson--and could damage her chancellor's career and influence as well.

Building support with the USC Board of Trustees and USC President in the face of legislative unrest would be unlikely. While the majority of the USCB legislative delegation supported the re-branding in private meetings, whether they would do so in public--or in legislative debate--remained to be seen.

Perhaps new, more entrepreneurial methods were justified by a young university with few alumni and few significant private donors to resist change. With no increase in state appropriations in sight, state mandated caps on tuition increases and the need to increase enrollment by reaching outside its four-county region, what level of strategic marketing risk could be justified?

Charlotte considered putting "a strong entrepreneurial hand on the tiller," hiring a consultant and moving forward with the name change as many Partnership Board members demanded. A slower and less risky plan might be to convene community and university task forces herself and work to build consensus. However, if university and community conversations built momentum for the change, would the many local audiences as well as the University of South Carolina leadership, including the Board of Trustees and the South Carolina legislature support this visible initiative?

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LAND O'LAKES:

TEACHING FARMERS IN BASE OF THE PYRAMID

Marlene C. Kahla, Stephen F. Austin State University

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CASE DESCRIPTION

Corporate social responsibility is a guiding theme for one of the largest agricultural cooperatives in the world and is illustrated here for students to explore effective corporate partnerships that reach and teach those in the Base of the Pyramid (BoP).

The benefits of partnering flow to everyone involved, i.e., the cooperative itself, its employees, the people in the various countries in the Base of the Pyramid, and supporting infrastructure from the partnerships, i.e., USAID, ENGINE, and VEGA. Land O'Lakes is successful in building realities for people becoming self-sufficient in countries such as Ethiopia and Afghanistan.

The case enables faculty to direct students to discover effective strategies in partnering with various organizations in enabling people in the BoP to improve their standards of living.

CASE SYNOPSIS

Caroline Tetrick, a Sales Representative for Land O'Lakes, finds herself with an exciting opportunity but doesn't know enough to make a life-changing decision. Mark Reynolds, her supervisor and the International Projects Director for Land O'Lakes, believes that Caroline's fast-track opportunity lies in Ethiopia. Caroline is all for corporate social responsibility but never expected to become a major player on foreign soil.

INTRODUCTION

"There is no escaping our obligations: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations – our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy – and our political obligations as the single largest counter to the adversaries of freedom." – John F. Kennedy

With the perceptions of the late John F. Kennedy underscoring the goal of what is now referred to as corporate social responsibility (CSR), the role of one of the largest agricultural cooperatives in the world, Land O'Lakes, is described as the driving force in the case presented here.

Cooperatives are defined, characters are presented, and the work of Land O'Lakes as it teams with entities such as, United States Agency for International Development (USAID), Empowering New Generations to Improve Nutrition and Economic Opportunities (ENGINE), and Ethiopia Dairy Development Project (EDDP) is highlighted through the success of the programs designed to help people in the Base of the Pyramid (BoP).

COOPERATIVES AND LAND O'LAKES

The business model for Land O'Lakes is that of an agricultural cooperative. "Cooperatives – like today's farms – run the gamut in size. While 31 cooperatives recorded more than $1 billion in sales, almost 34 percent of ag cooperatives (749) had less than $5 million in sales." [i]

The four biggest agricultural coops, CHS Inc., Land O'Lakes Inc., Dairy Farmers of America and Growmark, are really big. Their combined 2012 sales, $76.7 billion, equaled one- third of all agricultural cooperative business last year." [ii]

Cooperatives are member owned. The number of cooperative members in the United States is 2.1 million; the number of farms nationwide is 2.2 million. [iii]

Cooperatives play an important role in rural communities where they are an integral part of the social fabric. "The public-private partnership between farmers, land-grant universities and USDA programs has enhanced knowledge of the role cooperatives play as a tool for improving the economic well-being of the farming community and helping to boost the rural quality of life." [iv]

LAND O'LAKES INC. MISSION AND VISION

Mission: We are a market- and customer-driven cooperative committed to optimizing the value of our member's dairy, crop and livestock production. [v]

Vision: To be one of the best food and agricultural companies in the world. We will achieve this by being:

- Our customers' first choice;
- Our employees' first choice;
- Responsible to our owners; and
- A leader in our communities. [vi]

LAND O'LAKES INTERNATIONAL MISSION AND VISION

Mission: To generate economic growth, improve health and nutrition, and alleviate poverty by facilitating market-driven business solutions to:

- Agricultural productivity and competitiveness
- Enterprise and cooperative development
- Food systems and safety
- Food security and livelihoods
- Nutrition and health [vii]

Vision: To be a global leader in transforming lives by engaging in agriculture and enterprise partnerships that replace poverty with prosperity, and dependency with self-reliance. We achieve this by:

- Leveraging the value, skills, and capabilities of Land O'Lakes, a leading agribusiness cooperative.
- Delivering measurable and quantifiable results.
- Being accountable to collaborating with our beneficiaries, funding entities, and partners [viii]

BASE OF THE PYRAMID

Originally referred to by Franklin D. Roosevelt as "... the forgotten, the unorganized but the indispensable units of economic power . . . that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid," (radio address, April 7, 1932, as in The Forgotten Man)

Some researchers suggest that businesses, governments, and donor agencies stop thinking of the poor as victims and instead start seeing them as resilient and creative entrepreneurs as well as value-demanding consumers (see Prahalad 2004, Prahalad and Hart, 2004 and 2005).

As is suggested in LOL International Mission and Vision, people in BoP are the focus of the LOL world projects. Through independence is becoming producers in agriculture, the people are taught how to become partners in the marketing of their products, and are also guided into establishing and preserving the integrity of their food supplies.

CHARACTERS AND SETTING

The information from Land O'Lakes is retrieved from the cooperative's web pages where anyone curious about their projects can access them. All the data about specific projects can be found in the pages at www.landolakesinternational.com. [ix]

The characters that tell the story in the case are fictitious. One of them, Mark Reynolds, is an International Projects Director for Land O'Lakes, Corporate. He develops plans for continued international presence for LOL as it partners with organizations such as United States Agency for International Development (USAID), Empowering New Generations to Improve Nutrition and Economic Opportunities (ENGINE), and VEGA to address the plight of individuals at the Base of the Pyramid (BoP).

As International Projects Director for LOL, Mark is amazed by the work the team of LOL and USAID have completed, and he is even more impressed with the availability of grants that help propel the projects into successful levels.

He notes that the Ethiopia Dairy Development Project (EDDP) reaches over 33,500 smallholder farmers. In so doing, they see dairy sales for producer groups increase from

$620,000 to $7.3 million; assist producer groups in marketing 55,541 liters of milk a day which is beyond the goal of 33,000 liters per day, train more than 26,000 farmers in natural resource management (NRM), expand land managed through NRM practices from 80 to 7,500 hectares, and assist over 10,000 people living with HIV (PLHIV) to begin livelihoods activities along the dairy value chain (www.landolakes.com).

Another character in the case, Caroline Tetrick, is a Sales Representative for Land O'Lakes. She acknowledges attaining her first five year goals with the company and is planning her goals for the next five years.

She wants to live in Texas, but knows that corporate positions require moving to Minnesota. If she follows a plan that Mark is developing for her, then her next move with the company surprises everyone.

Back in Minnesota

Perhaps Mark Reynolds has the philosophy of John F. Kennedy (see introduction) in mind as he sits in his Minnesota office and reviews the progress Land O'Lakes, directs in several developing countries, Ethiopia in particular.

This all seems to fit with LOL's perspectives on international economic development that capitalize on the company's 90 years as a leading farm-to-market agribusiness:

"We use our practical experience and in-depth knowledge to facilitate market-driven business solutions that generate economic growth, improve health and nutrition, and alleviate poverty. (From "Innovative solutions for Global Prosperity". [x]

As Mark continues to review the reports from the EDDP, he contemplates the next step. How can LOL improve its game plan in Corporate Social Responsibility while continuing to be a leading worldwide cooperative?

What can he try that would avoid the highly protected memos going to LOL decision makers to "pray for our reps in those countries"?

Now in Texas

In Houston, Texas Caroline Tetrick sits in her new F150 crew cab, waiting for traffic on HWY 249 to clear and speed limits to become accessible. She has an 8:30 AM appointment with a feed dealer just ten miles away, and traffic will make it impossible to get there early.

Traffic, traffic, traffic. College Station traffic doesn't even compare to Houston traffic—especially during drive time. Which, now-a-days seems to be all day.

Sometimes she misses the college days. Wow, this is a far cry from Northgate in College Station and lying out by the pool after classes.

She may have placed at least one penny on "Sully" and managed to graduate from Texas A&M University (TAMU) with a degree in Agricultural Development in just less than three years.

"There is just something about TAMU that keeps me going back," she thinks. "Acting as a client in Dr. Litz's class last night was fun. It is so different being on the other side of the desk," she concludes.

Traffic hardly moves, and she recalls how she started working with Land O'Lakes. "Wow, that first internship was a real life changing experience for me. The little country girl from Texas moves to Missouri to work in St. Louis for a great big coop. I learned so much from that marketing internship."

"And, that sales internship the next year with Land O'Lakes literally baptized me in sales.

I lived from my suitcase that summer," she continues.

"Five years with the company this year. Well, I have met my five-year goal after college," Caroline thought. "Now what do I want for the next five years?"

Corporate contacted her about her goals for the next five years. Mark Reynolds especially wants to know what she plans to be doing in Land O'Lakes during the next five years.

Meeting in Houston

"Say, when will you be ready to try something new and exciting?" Mark quizzes Caroline as they meet at a Houston restaurant. He continues, "You know you are being watched, they want you to become part of the Minnesota team."

Caroline replies, “Mark, you know I am not cut out for cubicles and offices.” He replies, “I know! Guess what? I have a deal for you!”

“You know that LOL is very active throughout the world in partnering with other groups such as USAID, ENGINE, and VEGA, right?” Mark tries to keep her interest.

“What do you mean by ENGINE? VEGA? I know what USAID is,” she responds. “ENGINE is Empowering New Generations to Improve Nutrition and Economic

Opportunities, and VEGA is Volunteers for Economic Growth Alliance. LOL works with ENGINE in Ethiopia and VEGA in Afghanistan,” clarifies Mark.

“Where are you going with this?” Caroline says suspicious of Mark’s focus to get her promoted no matter what.

“It’s not where I’m going with this, it is where YOU are going with this,” he emphasizes. “Me! Now wait a minute. If you think I am traveling half way around the world and back to get to the top, you have another think coming!” Caroline is furious.

“Settle down. Think about this. In Ethiopia we have had success in getting farmers organized by strengthening their existing coops, we trained them in milk collection and cooling, and with the Ethiopia Dairy Development Project (EDDP) we are able to teach them to produce affordable, high quality, nutritious dairy products for their Ethiopian consumers. AND, we are helping people with aids to have a nutritious, safe source of dairy products.” Mark continues, “You know that Ethiopia has four times as many head of cattle as Texas.”

“Mark,” Caroline interjects, “I know beef. My experience is not in dairy. What do I have to bring to the table here, IF I become part of what seems to be a hair-brained scheme that you are concocting as you talk here?”

“You may be half right about my ‘scheme,’ so hear me out,” he emphasizes, “Most of the farmers we work with in Ethiopia are guided by the females of the households. Many times the females are the farmers; they are the ones trying to make a living for their children. I am thinking, and so are several others in corporate that it would be even more effective if we had a woman who knows agriculture and our business as a cooperative to talk with these women.”

“Okay, you do have a point there. I know that there are very few females in sales here with Land O’Lakes. I know what it is like to talk with an older male farmer or rancher who thinks I have very little to tell him.” Caroline concedes, “You may very well have a plan there.”

“So what’s in it for me?” she questions.

“First, you go to Ethiopia and interact with the farmers and their families there. See what’s going on and learn about their culture and the influence females have in their decision making processes.” Mark continues, “Then, we want you to go to Afghanistan.”

Silence at their table.

“Afghanistan.” Caroline responds with, “No.Absolutely not! You have got to be crazy!”

“I know the news shows so much war going on over there,” Mark tries to continue. “That’s because there is so much war going on over there,” Caroline interrupts.

“Let me continue,” Mark says, “Under the leadership of the International Executive Service Corps (IESC), Land O’Lakes is providing technical assistance to the Capacity Building and Change Management Project (CBCMP). We are working with the Ministry of Agriculture, Irrigation and Livestock in Afghanistan. AND, through an award funded by the USDA, the Volunteers for Economic Growth Alliance, the IESC, and Land O’Lakes are focused on creating sustainable, economic growth initiatives in developing countries.”

"Even more important here is that nearly all the extension people in Afghanistan are women. Yes, women. Land O'Lakes has helped train them," Mark emphasizes. "We think that after your visit in Ethiopia, we will send you to Afghanistan to work with the female extension agents in helping them with their farmers, also mostly female." He concludes, "At least think about it. If you do this, then you will return to the United States and get to pick your region, be promoted, get a significant increase in pay and get to do what you like to do—be in the field and out of the office."

"Wow, pick my region and get a significant increase in pay and a promotion. You and I will nail down that pay increase before I go anywhere." Caroline concludes with, "Let me think about it. When do you need to know?"

Mark responds, "That is only fair. Can you let me know your decision within the next two weeks?"

Caroline ends with, "Sure."

The Drive Home

"Ethiopia! Afghanistan?! Really??? Why am I even considering this? Aren't there any challenges in Hawaii?" Caroline thinks aloud.

"What is my life worth? One of my friends, a missionary, contracted some weird disease in some other country in Africa and nearly lost her life."

"On the other hand, this would be my way to the top, better salary, and I would get to do what I like to do, work outside in the fresh air and stay out of the office," Caroline continues to think about the offer.

ENDNOTES

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AN INFORMATION SYSTEM SECURITY BREACH AT FIRST FREEDOM CREDIT UNION[1]: WHAT GOES IN MUST COME OUT

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CASE DESCRIPTION

The primary subject matter of this case is information system security. Secondary issues include analyzing the difference between technology security and information system security and examining the role that organizational insiders must play in maintaining information system security. The difficulty level is three, four, and five. This case could be used to supplement or cover an information system security chapter in an undergraduate or graduate Introductory to Technology course. As part of a management curriculum, the case is suitable for both undergraduate and graduate courses. The case could also be used with an individual and group decision making chapter in Principles of Management, Organizational Behavior, and Organization Theory, or chapters which address the planning or controlling functions in Principles of Management. It can be taught in a single 75- minute class with two hours of student preparation outside of class in addition to time needed to read the assigned chapter.

CASE SYNOPSIS

Organizations face ongoing challenges to develop and maintain comprehensive systems to maintain information security. In order to do so, an understanding of both the technical and social aspects of an information system is necessary. Management must recognize the difference between information and technology security. By definition, an information system consists of (1) the environment, (2) the technology, and (3) the people. To have an adequate information system security strategy all three must be considered. The case involves an information system security breach at First Freedom Credit Union. In this case, member credit card information was stolen, not by technological means but rather because of human error. The executives believed that they had adequate information system security, but were taken by surprise when their members' credit card information was stolen. The case addresses the issue of the financial services environment, the technology countermeasures that are currently in place, and the people who are using the information systems. A point is made that information is not only stored within computer-based systems, but is reproduced in the form of printed reports, backup tapes, emails, etc.

BACKGROUND

First Freedom Credit Union (FFCU) is a financial institution located in a major metropolitan area in the southern United States. They have seven branches throughout the metropolitan area, consisting of approximately 200 full and part-time employees. Of the seven branches, one branch is located at the FFCU headquarters. At this location are the executive offices, the Information Technology (IT) Department, accounting, credit card services, wire transfers, and other back-office and support services typically found in organizations of this type. The turnover rate at FFCU is very low, with the majority of employees having over 5 years of service.

MONDAY 8:00am

Frank Sanders, the CEO of First Freedom Credit Union (FFCU), entered the conference room, carefully looking to see if all of the executives were present. Frank was accompanied by Jamie O'Dell, the Chief Information Officer (CIO). Frank made a silent head count: John Kramer, Vice President of Operations; Bob Matthews, Chief Financial Officer (CFO); Leslie Phillips, Vice President of Human Resources (HR); Mary White, Vice President of Lending.
Since all the key players were present, Frank began, "We had a security breach over the weekend. Our member credit card numbers and information were stolen… ".

Before he could complete the announcement, Mary interrupted, "All of them?"
Noting the looks of surprise on the others' faces, Frank continued, "That we don't know. We have already seen an increase in fraudulent activity on some accounts, but we don't know exactly how many members are at risk. So we have cancelled all current credit cards and are sending out replacement cards today to more than 200,000 members."

An obviously excited John Kramer exclaimed, "To all 200,000 members! That will be a nightmare for Operations. Our phones will be ringing off the hooks; plus think of the inconvenience it will cause for our members."

Obviously stunned by this news, there was a look of disbelief on the faces of the other executives, especially Jamie O'Dell. Jamie and the IT department had double checked their system security in December after hearing about the security incidents at Target and Neiman-Marcus department stores, where over 40 million customers' credit card information was stolen. Based on these checks, Jamie was confident that their system was secure. However *nothing like this* had ever happened. Jamie had been with the credit union for 7 years, but at the moment he wasn't overly confident about his job security.

As if anticipating Jamie's thoughts, Bob joined the conversation: "Didn't we just have an audit? I'm certain that the auditors said that our security was excellent. So how could this have happened Jamie? "

All eyes turned to Jamie. He was the CIO and system security was his responsibility. As the others gazed at him expectantly, he spoke up:

"I don't know how this could have happened. We have the system security countermeasures in place to prevent such an incident. Our firewall is top-of-the-line and has the latest software updates. Our virus protection database is updated on a daily basis. As an extra measure, we have an intrusion detection system that would have alerted me, on my smartphone, if someone had attempted to break into our system…and I got no such notice! ”

Frank continued: “Whoa. Hold on, everybody. Let’s not start pointing fingers yet. It’s important that we begin by figuring out *how* this happened so that we can make sure it doesn’t happen again. In the process we need to look at our other systems and make sure they are secure.”

The other executives nodded in agreement as Frank suggested that Jamie start an immediate investigation. Jamie, who was obviously feeling the pressure, was determined to find the root cause of the problem and fix it. He agreed to meet with Frank at 11:00am for a status update.

The others, apparently satisfied with this next step, filed out of the conference room. Jamie wanted to make sure he had considered the possible sources of the problems. *Was the breach the result of a technical problem or was it caused by human error? Did it originate from outside the organization or from within?*

THE ENVIRONMENT

The executives and management at FFCU understand that the financial industry deals with a greater amount of sensitive and potentially damaging information than other industries. Specifically, employees are made keenly aware that FFCU has a lot at stake when it comes to information system security. Within the last decade the availability and affordability of data storage have allowed FFCU to gather the vast amounts of information that is stored within their computer-based information systems. This information, though undeniably valuable, has also created a new challenge for management — keeping the information secure. Thus, Frank knew that he must get to the root of the problem so that executives and management could provide assurances to the credit union members that their sensitive personal information, such as credit card data, is secure.

Because of the potential for loss, FFCU faces strict regulatory requirements regarding the protection of personal and financial information. The Graham-Leach-Bliley Act (GLBA) was instituted in 1999 to protect financial information. GLBA requires all financial institutions to secure customer data from unauthorized access. FFCU is also subject to regular federal and state examinations to ensure regulatory compliance. For the past several years, information system security has become a major focus of both the federal and state examinations at FFCU. The credit union had recently undergone investigations by two outside groups – the state auditors and the federal examiners – who evaluated their level of security. Both auditors and examiners provided favorable reports in regards to FFCU’s level of security.

Despite such operational reviews and extensive efforts to protect their information, Frank was well aware that security incidents are always possible. This past holiday season opened his eyes to potential credit card theft once he learned that Target Stores were a victim of a massive security breach that exposed customer credit card information of 40 million customer accounts. That breach resulted in a 3% - 4% drop in the number of credit transactions as well as a class-action lawsuit against Target. An incident at Neiman Marcus also confirmed that the upscale department store's system was breached during the same time period. Earlier, in October 2013, Adobe reported a security breach that exposed 3 million customers' credit card information and 40 million user passwords. Similarly, restaurant chain P.F. Chang also reported a system breach that resulted in the theft of customers' credit card information. The credit and debit cards stolen from these establishments wound up for sale on an underground store known for selling stolen credit cards.

As troublesome as these incidents were, Frank was especially concerned about a recent hacking attack on the Federal Reserve Bank. Frank believed that if a large financial institution like the Federal Reserve Bank could be hacked, then undoubtedly FFCU too was vulnerable to such security breaches. After learning of these incidents involving thefts of customer credit card information and access to protected data systems, Frank and Jamie had gotten together to discuss the security of their own system. They felt their countermeasures were effective and believed the system was secure. Frank was confident in Jamie's ability to run all aspects of FFCU's technology, especially security. Much of their confidence was because they had never experienced a security incident—until now.

MONDAY 11:00am

Following his preliminary investigation, Jamie entered Frank's office carrying a folder containing his notes. He sat in the leather chair across the desk from Frank and began offering the promised update.

"Ok. I've made a complete review of all the system logs. There is no evidence that any outsider gained access to our credit card file. However, the credit card file was accessed twice on Friday…"

Before he could continue, Frank interrupted, "…not accessed by an outsider! Are you telling me it was one of our own employees who stole the credit card information?"

Jamie, picking up his explanation, continued, "Well….not necessarily. The credit card information file was first accessed at 3:00pm. According to the log information, Sandra Marcellones accessed the file and printed the records." Before Frank could interrupt him again, he added, "the file was accessed again late Friday night, when it was backed up along with the rest of the system data. Of course, that is standard practice, something we do every night."

Frank was shocked. "You mean one of our own employees stole the credit card numbers?"

Jamie raised his hand. "Hold on Frank. I checked the backup file; it was not accessed once the backup was complete… so we can rule that out."

Frank was puzzled and becoming more confused. "So," he questioned, "Sandra Marcellones is responsible?"

Jamie continued his attempt to explain exactly what took place. "Here's what happened. After this morning's meeting, I spoke to Mary White and she told me that, on the last Friday of every month, they (Lending Department) print a hard-copy record of all credit card information, for disaster recovery purposes. I actually went there, to the Lending Department, and personally saw several boxes of printed information. All of the boxes were stored in a locked area."

Looking down at his desk, shaking his head from side-to-side, Frank sighed, "now I'm really confused. Let me see if I follow. So you're telling me that (1) our security breach was not caused by hackers, (2) that it wasn't due to the nightly backup, and that (3) the printed information is kept in a locked area?" He held up three fingers on his left hand. Lifting his thumb he added, "that still points to someone on the inside".

"Well," Jamie continued, "there's more to be considered".

"Here's what we know so far. According to our policy, all reports must be shredded…. So, when the Lending Department prints the new credit card reports every month, they put the boxes with the old reports in the hall next to the shred bin to be picked up and shredded. Now, this has been the procedure for years. So even though the newly printed reports are kept in a locked secure area, the old credit card reports are not. Once they're put out in the hall, anyone could have access to them."

Frank, who had raised his head and directed a gaze at Jamie, was shocked. "So it has to be one of our employees," he concluded. "That's just hard to believe, but I guess you can never really know someone."

Rising from the chair, Jamie prepared to leave the office, stating "I'm on my way now to review the security footage for the weekend to see if we can pinpoint exactly who the guilty party is. I'll return at 1:00 pm with an update and provide a more complete explanation at that time".

THE TECHNOLOGY

When attempting to improve information system security at FFCU, a technology-based perspective prevails. What results is heavy spending on technology-focused solutions that emphasize preventing unauthorized users from accessing their computer-based systems. After all, according to the philosophy that supports this practice, a million dollars is as easy to steal as one dollar when the computer is used.

Hardware and software systems, such as firewalls, virus protection, and intrusion detection, properly installed and carefully maintained do create a solid foundation for effective information system security. As a result, FFCU's system contained the necessary technology-based solutions to protect outsiders from accessing their information. While these technology-based solutions are important to their overall information system security, they cannot be "lulled to sleep behind" or rely solely on this first line of defense, thinking that their security is complete.

Once data becomes processed, it becomes information that takes on many different forms. Current definitions of information system security seem to refer to protecting information contained *within* an organization's computer-based systems. However, information system security needs to also address protections for such information once it leaves and is no longer housed within these computer-based systems. Technology-generated output (e.g. processed data in various forms such as printed reports, any other documents or media—diskettes, CDs, DVDs and backup tapes—that contain sensitive or confidential organizational information) is as crucial to protect as the information contained within the computer hardware systems. Once the information is no longer contained within the computer systems, technology-based solutions are no longer sufficient to protect this valuable information.

MONDAY 1:00pm

As scheduled, Jamie returned to Frank's office and began his update. "I reviewed the security footage from several different cameras. I now know what happened."

Frank leaned forward, eager to hear the explanation.

Looking down at his notes, Jamie continued, "so we know that Sandra (the Lending Department employee who last accessed the system the previous Friday) printed everything and put the boxes of printed credit card reports in the hall at 4:15pm. At 9:05pm the cleaning crew picked up those boxes--"

Frank, interrupting, exclaims, "So it was the cleaning crew!"

Jamie, ignoring Frank's outburst continues, "—by accessing several different security cameras, I was able to track the cleaning crew member's movements once the boxes were picked up. He continued his rounds throughout the building, gathering trash in the other departments. When he finished collecting all that he believed was the trash, he went outside and emptied the containers into the dumpster."

Frank seems really confused now. With an air of disbelief, he stood, raised his hand, and questioned, "Wait. Hold on, here. You mean he threw our members' credit card information in the dumpster with the garbage? Why on earth would he do that? Didn't he know that those boxes contained reports that are supposed to be shredded?"

Jamie replied, "Actually, no… he didn't. Shredding documents is not his job. We have another company that comes on Thursdays to pick up the documents to be shredded."

Taking his seat, Frank continues his questioning, "So if, for example, these reports are printed on the last Friday of the month….and left out in the hall to be shredded on that same Friday…" he pauses to consider this possibility then resumes this thought, "…then does this mean that all of the credit card reports have been going into the dumpster?"

Jamie (sighs, in reluctant agreement), "it would appear so."

Frank presses the issue, "do we know WHO took the reports out of the dumpster?"

"Unfortunately no," Jamie admits. "It's not uncommon for identity thieves to go 'dumpster diving', looking for information…and what better place to do it than at a financial institution?"

Frank began to realize the potential seriousness of this breach. "Then I guess it's a miracle that those reports haven't been found before".

Jamie has to admit, "but our luck finally ran out".

Frank asks, "what do we need to do to ensure this doesn't happen again?"

"I think that's a question we need to ask the entire executive team," Jamie responds.

Frank agrees, "You make a good point. The technology didn't fail us. Clearly, this is really a people problem. I'll call a meeting for 4:00pm today".

THE PEOPLE

The technology-based solutions that FFCU used to protect their computer-based systems were inadequate to prevent this specific security breach. Situations such as the one facing the executive group indicate that information system security covers a much broader perspective than computer security. As such, it must include the human element. To properly protect information, existing approaches to information system security must be expanded to consider both threats to technology and the potential for human (people) threats.

When companies opt to pursue technology solutions, this human element of information system security can be overlooked. The example in this case, which is based on an actual incident, suggests that human factors need to be addressed first, with technology assisting in the encouragement and enforcement of desired human behaviors.

This is true because information systems are social systems. Thus information system security is not solely a technical problem, but a social and organizational issue because the technical systems have to be operated and used by people. Humans are responsible for what goes into the technology system. Since human beings are the users of the outputs generated from these systems, it follows that in both instances human intervention introduces elements of uncertainty and the potential for error.

FFCU must recognize that the human element, whether originating from outside the credit union or from within, is an important component for maintaining strong information system security. Technology based solutions go a long way toward addressing the potential for threats originating outside the credit union. In conjunction with the technological measures taken to secure resources, careful consideration should be given to actions that are designed to minimize the potential for harm caused by people in the organization. Violations of established security safeguards by insiders often lead to information system security incidents. A majority of computer security breaches occur because the actions of internal employees undermine technological effectiveness by subverting existing controls or unknowingly exposing security weaknesses. This is what happened at FFCU.

MONDAY 4:00pm

Frank enters the room where the executives who were present at the 8:00 am meeting are seated. The tension and apprehension is as heavy as their anticipation of what will be revealed in the session.

Wanting to get straight to the point, Frank begins, “I want to thank Jamie for his efforts in getting to the root of the security breach we experienced over last weekend. He and I have talked a couple of times today. Simply stated, what we thought was an external security breach was in reality an internal human error. Despite all the technology systems we have put in place and frequent reviews and checks by outside auditors and examiners, we have apparently overlooked the important and critical role that people play in maintaining system security. The breach points to a lapse in information system security, which is not the same as technology security. We experienced a security breach because we had a policy in place that was not supported by adequate and well-thought out procedures.”

Gazing directly at Jamie, Frank continues, "As a result, Jamie is not responsible for what happened last weekend. His job is technology security." Looking at each person around the table, Frank declares, "we are all, each of us, accountable for the security of our information systems. One of the things we have learned is human failings can undermine even the strongest security countermeasures".

1 This case is one of a series of information system security case studies involving First Freedom Credit Union. First Freedom Credit Union is not the real name of the organization; however the events that are the subject of these case studies are real and were obtained through onsite interviews and first-hand observations.

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FINE DINING

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CASE DESCRIPTION

This case is widely applicable because it is short, easy to understand, involves an industry that students are familiar with, yet offers the opportunity for discussion of some basic marketing or strategic management issues. The case illustrates the problems that arise when a service start-up fails to consider the demographics of the target market. It also gives students the opportunity to grapple with solutions to a seemingly intractable problem.

This case has a difficulty level of 3 or 4. It could be positioned in an undergraduate strategic management or marketing case to demonstrate the problems that arise when there is a disconnect between strategy and the external environment/target market. It could also easily be used in a small business or entrepreneurship course to demonstrate the hazards that even an experienced small business owner can face when they fail to consider the demographics of their market.

CASE SYNOPSIS

Six months after opening her restaurant, Stacy Brokaw was experiencing problems. From an operational stand point things seemed to be going well. Her restaurant had been reviewed favorably by a regional magazine and she was attracting a small but regular group of customers. On the other hand weekly sales were consistently 30% below her forecasts and she had lost $45,000 during her first six months of operations. A survey conducted among current customers suggested that many would prefer a more family oriented environment. She also opened at a time when the US economy was going into a steep decline. Stacy's dream had been to open a fine dining establishment in her home town. She had worked very hard to make this opportunity work, but now it seemed to be slipping through her fingers. At the end of the case Stacy is struggling with how to respond to this situation.

INTRODUCTION

Six months after opening her restaurant, Stacy Brokaw was feeling the pressure mounting. Weekly sales were consistently 30 percent below what she had forecasted while operating expenses were pretty much on target. The latest financial statements showed sales of $526 thousand and losses of over $45 thousand for the first six months of operation. This compares to her forecasted numbers of $1.5 million and a profit of approximately $97 thousand for the first year (see table 1). Clearly, things were not going as planned.

Stacy had opened the restaurant with the idea of bringing fine dining to the small east Texas town of Jackson. On the positive side, the restaurant had attracted a small group of loyal diners. They seemed to enjoy the food and atmosphere and demonstrated their loyalty by coming to Fine Dining once or twice a week. The bar area had also attracted a loyal group of regulars. People commented that it was nice to have an upscale bar that was both quiet and smoke free to carry on conversations. At the time of this case only about 20 percent of the restaurants in town were smoke free establishments. Another plus was that Fine Dining had been reviewed favorably by a Texas magazine. Since that time she noticed an increase in the number of out of town diners, especially on weekends.

Stacy felt she was clearly doing something right, but she was also hearing some negative feedback. She conducted a survey and found that many customers were turned off by the formality of the restaurant. They didn't find it to be a very good atmosphere for families and felt that it was more appropriate for a special night out. Parents of young children found the restaurant to be a particularly bad choice. Both the food and the atmosphere were inappropriate for young children. Of course this was true, but the fact that people were complaining about it forced Stacy to consider whether fine dining was a good choice for Jackson. Many people seemed to want a different type of restaurant.

Another problem was that her timing seemed to have been really bad. The restaurant opened just as the economy started experiencing a downturn (December 2007). While Jackson was spared the worse of this downturn, most businesses that offered luxury goods and services were starting to experience a drop in sales. This did not bode well for a fine dining establishment.

There was one thing that Stacy knew for sure. Fine Dining was not attracting enough diners to sustain its operations. She had worked very hard to make this opportunity work, but now it was slipping away. Things needed to change quickly if she was going to keep the doors open. The problem is that she had no clear idea of what to do.

THE COMMUNITY

Jackson has a population of about 33,000 with around 61,000 in the county. A regional state university with a student population of approximately 11,500 is also in the town and serves as its second largest employer. The largest employer is a chicken processing plant on the South side of town. There are several medium-sized manufacturing facilities in the area, as well as a medium-sized medical community.

There are about 11,600 people living in the county who are between the ages of 18 and 24. This group mostly consists of college students and constitutes a relatively large pool of labor for retailers in the area. The median annual household income in this county is $27,271. Also, only about 22 per cent of the 22,500 (4950) households in the county have incomes above $50,000 per year. This last number is relevant because this restaurant is positioned in the market as a fine dining experience, and it offers the atmosphere and service that goes with that position.

Jackson is about 20 miles from Covington, a town that is slightly larger and wealthier. This contiguous county's median annual household income is about $5,000 more at $32,004. That county has about 25% or 7350 households with $50,000 or more of income. Stacy included Covington when considering the viability of her restaurant and the two towns are probably in close enough proximity to be considered a single trading area for specialty products. The towns, considered together, are about one or one and a half hours driving time from any other larger town, so this trading area is very isolated and rural in nature.

BACKGROUND

Stacy Brokaw is a well know figure in Jackson. Her late husband was a former faculty member and president of the local university. After his untimely death, she opened up a bakery and café (Brokaw's). Brokaw's is a very popular and unique lunch spot in downtown Jackson. It is a very small operation that caters to a somewhat upscale clientele. The menu consists of light sandwiches, salads, and quiches and deserts consist of various pastries prepared in-house. Brokaw's is frequently packed with diners and usually requires a reservation. Hours are limited to lunch only, and Stacy does a limited amount of catering on the weekends. Stacy also recently ran for and won a seat on the local City Council.

The idea for opening Fine Dining came about when an upscale Mexican restaurant, La Castilla, went out of business. The restaurant was in a prime location. It was in an historic house located on nearly 3 acres of land on a main street near the university campus. The building was two stories with a total space of 10,000 square feet. The parking lot was built to hold 112 cars. The house had recently been thoroughly and very tastefully renovated. The lower level consisted of a number of rooms that could be closed off for private events and there was a wrap-around porch that had been closed in and overlooked a manicured lawn and large oak trees. The upper level contained the bar and restrooms. It was located across the street from a chain pharmacy and a small Cajun restaurant and next door to an empty restaurant building that recently went out of business.

Stacy sensed there was an opportunity to open a fine dining establishment in Jackson and that this location was the perfect spot. It also helped that the property owners were desperate to find a new tenant and were willing to work out a below market lease agreement. The lease was turn-key, meaning that the equipment and fixtures were included. Due to the building having been recently renovated, all equipment and fixtures were in excellent condition and ready to use. The only equipment that needed updating was the computer system.

POSITIONING

There are four full service competitors in Jackson, but Fine Dining's menu, atmosphere, and service level gives it a very unique position. Of the competition, two offer specialized menus (Italian and Chinese), one has a "mixed" menu but is a step down in quality and service, and the fourth is a closed (members only) club at the local, full service hotel. Stacy's strategy was to position Fine Dining as a step above the competition in terms of food quality, service, and atmosphere. In keeping with ambiance, prices were to be higher than the competition.

Competition in Covington include an exclusive country club with its attendant golf course and restaurant. Of course, this is a members only establishment. There are also a few high-end chain restaurants that offer nice dining experiences, but are a step below that being offered at Fine Dining.

The total planned sales of Fine Dining for the first year was to be from two sources. The sit-down restaurant receipts were expected to comprise about 70 to75% of sales, and catering was to provide the rest. Sales from catering is more profitable, usually, so this aspect of the restaurant was expected to yield from 35 to 40 % of the profit. Catering consists of both private inside parties and outside event. According to Stacy, net profit for this type of business is about 5-7% of sales.

OPERATIONS

Stacy hired four full time managers; a General Manager, an Assistant Manager, a bar/floor manager, and a catering manager. In order to try to assure high quality food preparation, three chefs were hired. The executive chef and the chef de cuisine were full time positions, and the pastry chef was part-time. All of the managers and chefs were salaried positions. The business plan also called for hiring from 24 to 25 servers which consisted of 2 to 3 head waiters, 2 cocktail waitresses, 4 to 5 bartenders, 2 bar backs, 6 service assistants (bussers), and 6 janitorial staff. The wait staff was to be paid a beginning salary of $2.15 per hour plus tips. A tip pool system was used to help reward bussers and others who do not usually receive tips directly from customers.

The owner was very specific and insistent about some policies relative to the wait-staff and their appearance and behavior. The servers were to wear uniforms which reflected the image of a fine dining establishment. The servers must buy their shirts and aprons and the clothes had to be either solid black or dark blue. The shirts could be open at the neck because no ties were required. Any tattoos could not be visible to customers, so, usually, the shirts had to be long sleeved.

Fine Dining is a totally non-smoking establishment, even in the bar area. Because of this, the employees are not permitted to smoke anywhere on the premises, especially while in uniform. They were told to not smoke even off premises while in the FD uniform. The penalty for being caught smoking while in uniform is immediate dismissal. As one can tell, these policies are to protect and enhance the image of the restaurant in this small town.

There was a relatively high turnover rate among the kitchen workers and wait staff, but this was probably related mostly to hiring students from the local university. For the most part Stacy received positive feedback concerning the working environment. She was strict about following the rules, but treated her employees with respect. Several had mentioned that they appreciated working in an environment in which they were never yelled at or intimidated. There was one incident that involved her head chef and several workers on the wait-staff. After a particularly heated argument the chef quit and left abruptly. He asked to come back the next day, but Stacey refused because she thought it would set a poor precedent for the other employees. Until she found a replacement she had to step in personally and rely on the other chefs to work overtime. This was very disruptive, putting a strain on the kitchen staff till a replacement could be found.

Despite this relatively minor incident, Stacy felt very good about the operations of the restaurant. The quality of the food seemed to be consistently good. She had not received any significant complaints about the service and the atmosphere was exactly as she had envisioned. She had received a few complaints about the menu selection, but this was from diners who expected a more family friendly atmosphere. There was not much selection for children, but that was by design. After all, her intention was to create a fine dining atmosphere and she felt she had done a very good job of doing just that.

CONCLUSION

Stacy had mixed feelings about her new restaurant. On the one hand she was proud of what she had created. Despite a few kinks, the restaurant was running pretty well. On the other hand, Fine Dining was simply not creating enough volume. The restaurant was losing substantial amounts of money and Stacy could not keep the doors opened much longer if things didn't pick up.

The lack of customers may be an indication that the local competition was simply too tough. Perhaps she had failed to differentiate herself enough to attract business from customers who were loyal to their old favorites. On the other hand it might simply be due to the fact that the local market was not able to support a fine dining establishment such as hers. This thought was particularly depressing. If the problem was tough competition she could figure out ways to become more competitive. If the problem was demographics she had few options. Stacy was beginning to feel her dream slipping through her fingers.

Whatever she did, Stacy knew she had to be careful. Restaurants are particularly vulnerable to customer perceptions. If she made a "big splash" in the form of a major change in strategy it would send a signal to the local market that there was a problem. If people perceive that a restaurant is in trouble financially they tend to stay away. Of course, this could set up a downward spiral from which there was no escape. Whatever she did needed to be fairly subtle and needed to happen quickly.

Figure 1: Fine Dining Projections and 6 Month Income Statement				
	Year 1 Projection	%	6 Month Actual	%
Sales	$ 1,530,500	00.	$ 526,144	00.
COGS	566,031	6.9	203,407	38.7
Gross Margin	$ 964,469	3.1	322,737	1.3
Expenses:				
Payroll	$ 464,640	0.4	$ 214,078	0.7
Operations	168,900	1.0	53,861	10.2
R&M	16,800	.1	7,716	.5
G&A	94,360	.2	36,823	.0
Rent/Taxes/Ins.	122,389	8.0	55,484	10.5
Total Expenses	$ 867,089	6.7	$ 367,962	0.0
Net Profit	$ 97,380	6.4	$ (45,225)	(8.6)

MWANDEGE BOYS SECONDARY SCHOOL (MBSS); LEARN AND SERVE

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CASE DESCRIPTION

The primary objective of this case is to provide basic knowledge on how to manage start-up phase for prospective entrepreneurs. Secondary issues include strategies that were employed to locate committed business partners; managing start-up challenges and how to strategically position the new business. The founder's success story provides a discussion ground for students and entrepreneurs on how they would have done it differently leading to alternatives solutions. The case requires a maximum of one-half to one hour of classroom discussion and is expected to require approximately two hours of students preparation outside class.

CASE SYNOPSIS

The case narrates an experience of an entrepreneur, Mr. Enock Walter who wanted to establish a secondary school immediately after bachelor's graduation. He was saddened by many teachers who believed they were in the wrong profession where they had to endure miserable lives. Besides lacking business knowledge and know-how on how to realize his dream, Mr. Walter struggled to acquire them and established the school seven years later. Going through his experience, students are provided with dilemmas requiring them to develop, analyze, and prioritize entrepreneur's challenges during start-up. Students can also perform financial ratio analysis from the financial statements provided.

Key words: Entrepreneurship, Entrepreneurial learning, Entrepreneurial school, Venturing

INTRODUCTION AND IDEA CONCEPTION

Back in 1996 during his first practical training (PT) at Arusha-Meru Secondary School in Tanzania, Mr. Walter observed that most of the teachers had houses.

> "*A classroom is made up of only four walls Why can't they build a school instead of building houses?"* he wondered.

Mr. Walter was against the idea that teachers must die poor, he wanted to bring about some changes in the profession. Seeing other professions excelling such as engineers and doctors, he wanted to make a difference. He wondered why teachers could not establish something of their own. It is by that time he conceived the idea of having a school.

The demand for secondary school education was very high as many standard seven graduates were passing their final examination but were not selected because of limited secondary opportunities. By then there were on going policy reforms ETP (1995) to improve the quality of education at all levels. The reforms were aimed at encouraging partnership in the provision of education and training by private agencies. It is this time when the reforms started to bring the intended impacts and there was a recorded increase of 43% in enrolment in standard one though more than 80% of those who completed primary school did not proceed to secondary schools (URT, 2004). Furthermore, the curriculum in terms of knowledge and information did not enable them to fully participate in poverty reduction and national development (MOEC, 2004).

Unemployment was also another challenge facing graduates from primary to University level. By 2000/01 employment in the public sector had declined by 15% from its levels in 1990/01 (ITL, 2001). Particularly yearly of new job seekers influx onto the labour market of 550,000 – 700,000, only 5 – 7% was absorbed by the formal sector. In the education sector, it was and has been very common for new teachers in government schools to suffer salary delays for some time, even a year after formal employment. From this view point, teachers are left alone with no salaries and they support their lives by others means. Then, Mr. Walter thought deeply;

> *"How can I work without salary in a government school during the early months and not in my own school?"* Mr. Walter wondered.

MAKING HIS DREAM A REALITY

After the PT programme, Mr. Walter decided to mobilize a team of 10 closest friends from different disciplines to join forces. The plan was to get their commitment and therefore gradually raise money while still studying and start a school immediately after graduation. By then, he had already conducted a research in Kongowe area (Dar es Salaam) and found out that if each contribute small amounts monthly, by the end of 1997, they would have obtained Tzs. 1,400,000 (USD 1,400/-) enough to buy 14 acres of land. Using the same approach they could raise money to build 4 classrooms in the final year and establish the school immediately after graduation. After the meeting, none of the team members show commitment to the idea, however they managed to open a bank account for an NGO and for the remaining three years at the University none of the plans were realized. Consequently immediately after graduation Mr. Walter decided to gain teaching and management experiences. He was employed by ESACS *private* school (1999/2000), Benjamin Mkapa *government* Secondary school (2000-2001), Air wing *Army* Secondary School on part time (1999-2001) and Kifungilo *Religious* girl's secondary School (2002-2006).

Mr Walter continued selling his idea to colleagues in all these posts but he rarely found committed people. Mr. Walter started reading various inspirational books such as "Think and Grow Rich" by Napoleon Hill, "How to Win Personal Efficiency" and "Rich Daddy Poor Daddy" by Robert Kiyosaki. He learnt that in order to get potential partners, there is a need to research on *people's wants, likes and plans.* He noticed as well that, your close friends are the ones to uplift you or downturn you. Thereon, he started getting close to the people whose ideas and minds were in line with his future plans. Mr. Walter also developed four important goals for a team to grow successfully including commitment, willingness to investment in long term plans, information seeking and investing labour time to the business ones it starts. He realized that the previously selected teams were based on friendship and had no common goals and commitment. Based on the four goals, he approached nine unrelated people with different background whose minds and future plans were alike. In fact, Mr. Walter happened to meet one member while looking for a school construction plot. The seller was interested to know how the land will be used; Walter told him that it will be used for school construction purposes. The member was interested with the idea and gave out the land (4 hectors) as his own contribution.

> *"We are a group of close friends, professionals, and teachers as well as other experienced bankers, economist and ICT experts. Our Interest "is to make Difference in Knowledge Dissemination…* narrated Mr. Walter.

FINANCING THE SCHOOL PROJECT

The organisation was first registered as ETA (Education and Technology Awareness) in 2001. Through engagement on community activities ETA yielded funds amounting to Tzs. 20,000,000/= (USD 20,000/-). The funds were used to build a small administrative block and one classroom with the intention of starting a day school in January, 2002. However, the school location was far away from the city (20 km) and with this arrangement it was difficult to attract upcountry students. Hence a change to a boarding school was credible but required more time to equip the school in terms of facilities and equipments leading to severe financing challenge.

> *"We however got assistance from partner's friends and relatives in the process, for instance, one of the partner's friends, an engineer, prepared the master plan, architectural and structural drawings including bills of quantities free of charge. Another partner's relative produced fliers for the school. I also bought some furniture cheaply from Lushoto and had them transported as my personal effects to Dar es Salaam as I was leaving Kifungilo Sec School."* narrated Mr. Walter.

They then acquired 300 metal chairs from bars as they were in transition replacing metal chairs with plastic chairs at price of Tzs 4,000-7,000 (4 -7 USD) compared to the market price of Tzs 15,000-20,000/= (15 – 20 USD). The school needed at least additional Tzs 15,000,000/= (USD 15,000/-) to operationalize the schools. Attempts to raise additional funds from donors and banks failed since banks are ready to finance existing businesses with three years financial statements.

Seeing challenge in getting funds, partners in 2004 decided to change ETA as an NGO to company owned by shares to attract more shareholders to raise funds. It was by then, the name MBSS was born. Then the business was valued, the valuation included value of assets cash and time contribution of members. The value of the company was placed at Tzs. 96,000,000/= (USD 96,000/-). They got two shareholders who contributed USD 15,000/-, the amount was used to construct three additional classrooms in 2005.

THE OPERATIONALIZATION OF MBSS

The school officially started in 2006. Application forms and other promotional materials were designed well in advance. The objective was to get two streams, each 40 students for the first academic year. Promotion started two months before the first interview which was set in October, 2005. Advertisement strategies included news papers' free space, placement of adverts on public notice boards, brochures were also distributed. Moreover, the partners networked with Head Teachers of primary schools to sell the idea to their students as well as establishing centres in reputable institutions in different regions. The first interview was conducted in October, 2005; however none of the prospective students attended. They went on marketing the school and the second interview was conducted in November, 2005, yet there was no turn up.

By this time, none of the partners was working fully for the company; Mr. Walter himself was still employed at Kifungilo. From these poor market responses, Mr. Walter, officially terminated his contract and started marketing MBSS in collaboration with other partners. As he had a track record of good performance in previous working stations, he believed that parents and fellow colleagues could support him in his own school. Mr. Walter started marketing his school seriously.

In collaboration with other partners they started sending SMs (short message) to people they knew.

> *"Hello, kindly note that we will establish our own Boys Secondary School at Kongowe in January, 2006. For further details contact me (name of the sender)"* that was one of the text messages sent as narrated by Mr. Walter.

> They also prepared leaflets and distributed them to whoever they met.

> "*This year we got students from a parent I met in 2005. We happen to meet in a bus to Kilimanjaro Region and by that time his son had just completed grade 4. He has brought his son and other two in our school."* said Mr Walter.

The third interview which was scheduled in December 2005, 7 students attended; nevertheless, the number was too small to start a school economically. Therefore, the marketing strategies changed besides others it included personal selling, moving from one place to other visiting prospective students' parents. The effort was rewarded by number of calls from parents asking about the school. That was the opportunity for the school to increase the size of the class.

> "*If someone calls, I could follow the person at home to sell the idea, interview and examine the child, give an application form and provide him with a joining instruction."* Mr. Walter said.

The strategies added other 13 students totalling 20 who were sufficient to start the school, just a quarter of the target. Nevertheless only two passed the entry examination, the rest scored below 25% compared the pass mark of 50%. The school was opened on 14th January 2006.

During its inception, the school had two full time teachers and three part time teachers. The school hired two cooks and two watchmen. There was neither a cleaner nor a secretary.

> "*I used to clean my office*" said Mr. Walter.

Besides having no business knowledge, Mr. Walter got support in preparing financial statements on part-time basis from a close friend who was paid Tzs. 100,000/= (USD 100/-).

MBSS ACHIEVEMENTS AND PERFOMANCE

Following the completion of the first term, students went for a holiday for one and a half month. All students came back and that was a very big achievement for the school.

> *"I got a picture that my school has been accepted. In other new schools like mine, students sometimes relocate immediately after the first term"* narrated Mr. Walter.

Parents were saying that their children who had never had time to concentrate and plan for their time well in advance now can do so; they also guide their younger ones. They further added that, their children can now argue wisely and that they are becoming independent.

Currently, the school has a total of 229 students (Form I; 90 Form II; 75, Form III; 41 and Form IV; 23). The performance of the school is promising; and according to the performance of Form Two in National Examination (2007), MBSS was the second out of 12 schools in the district, despite the fact that only two students had passed the entry examination. The same position was maintained in 2008, out of 23 schools in the district. To date, the school has 15 full time teachers and 11 non-teaching staff. The work load for teachers is 18 periods per week versus recommendable 30 periods per week and the teacher student ratio is 1:15 compared to the recommended 1:23 (MOEC, 2004). The school is in the process of recruiting one patron who will as well perform health services and a secretary who will also perform administrative works.

The school has also launched a website www.mwandege.com as a marketing strategy. Having used a combination of marketing and promotional strategies, the referral among parents has been very more effective compared to other marketing strategies. Mr. Walter is now using his students and parents as school's ambassadors.

> "*My students will be my first ambassadors, then the society around and third the parents. Our school being owned by six teachers has also made us look different compared to others"* said Mr. Walter.

In addition the school is growing financially, see the exhibit 1 below.

Exhibit 1: STATEMENT OF FINANCIALPERFOMANCE
FOR THE YEAR ENDED 31ST DECEMBER 2007 IN TSHS '000'

	2007	2006
Fee income	52555	20997
Personnel costs	-20949	-12427
Other operating costs	-24248	-18706
Total operating costs	**-45197**	**-31133**
Operating surplus	7358	-10136

Finance costs	-1697	-1374
Profit before taxation	**5661**	**-11510**
Taxation	0	0
Profit after taxation	**5661**	**(11510)**

Source: MBSS *(the figures need to be divided by 1,000 to get equivalent USD amount)*

TEACHING AND LEARNING AT MBSS

At MBSS, students are given a diary in form of a text book named My Action Plan (MAP) for Life where they write their short and long term academic and spiritual goals. They also write their semester expectations which will be compared at the end of the semester to see if they have been realized and plan for corrective measures for the coming semester. The school has also introduced two new products; the "What is not Taught in School" (WTS) and a Vision of Change (VoC) club. The WTS program is compulsory for all students and the program is evaluated as other subjects except that it does not have national examination**.**

> *"...I did not know how to register a company until I came to establish my own; I knew nothing about shares until I came to inquire for the same during registering my school. Such things need to be known to students since their primary education Students can have very good A's in their exams without knowing how to do with them......"* narrated Mr. Walter.

WTS program inspires students to think outside the box, see things with their minds eye and building the habit of planning, setting goals and taking action to realize their goals. A goal must be written down together with a deadline. It helps to build self discipline and responsibility. As future citizens, students need to do their duties in their offices or wherever they will be because they have been prepared to face challenges rather than just doing something because the boss is breathing on their neck or for the sake of their salaries.

Also WTS program helps students to develop the habit of self-reading help books (inspirational books).

> *"Thus every morning we have morning talk and each student is supposed to have read a self help book. In the morning assembly, students share what they have read and see how it can be applicable in their daily lives at school and later in real world. In addition to that, in this program we invite mentors from the real world to come and talk with our students so as to expose them more of what is happening in their professions and share with them how to make it...*" narrated Mr. Walter.

This program has really inspired students and it has even helped to shape the way of thinking and asking questions.

> *"I am no longer doing interview for my new teachers. My students are helping me in most of these interviews. If they disqualify a teacher during the interview session, then I don't have*

an option, I have to look for an alternative teacher. The good thing is that I have been sharing the feedbacks from my students with the interviewed teachers and most of them have appreciated the system. Even if I won't take them to join MBSS they probably learn one or two things to help them in the future... " narrated Mr. Walter.

The VoC club does not differ significantly from the WTS program. It requires certain criteria; *"Are you a student? Are you self motivated? Are you a reader? Can you do things without being monitored?* If yes, register your name in the Chief Facilitators office, an interval of one week is given. "*This is how I get members of the VoC club"...*said Mr. Walter. Its major intention it so change more from **in-out** unlike the WTS which has more **out-in** outlook. In VoC club, a member is expected to change himself before he changes others. It goes with the slogan, "*change begins with me*." Members have to walk their talk. The club does not end up within the school boundaries;

"*We also go and inspire students in other schools and colleges. Now that our students are dynamic and challenging, we are also becoming more dynamic to address challenging questions posed by our students..."*narrated Mr. Walter.

Furthermore, the school inspires students to be job creators and not job seekers. So far, it has got two form three boys who are writing their book as they want to be authors in their future. Also one boy a form three found a project in his home village as he would like to pay his own school fees by the time he reaches form five. Another form one boy has started writing his story book and all of them are doing very well in the class.

The school does not use bells compared to other schools. Unlike other Secondary Schools, wrist watch is one of the school requirements for every student and this makes students plan their time without supervision.

FUTURE PLANS

"We are planning to maintain a total of 480 students i.e. three streams of 40 students for form I to IV before we plan for expansion" said the Mr. Walter.

Some parents are requesting for 'Advanced' level Secondary School so that their students can study within the same learning environment, others would like the school to open a new campus for girls. As far as expansion is concerned, the school has approached two banks for a loan. Both banks have visited the school and verified their financial statements. In short, they will expand geographically and vertically after the school is stabilized and positioned well in the market".

REVIEW QUESTION

1. Discuss the stages through which MBSS has passed in its development so far
2. If you were the credit officer of a bank what key aspects of the project would you be concerned with as you consider the loan application?

3. How rapidly should MBSS expand? Should the school expand at the same campus to having thousands of students? Should MBSS diversity to girls' school? Why?
4. What types of innovations can you identify in MBSS story?
5. People often say that it is hard to find committed partners who have integrity. What explains Walter's success in securing and working with partners?
6. Supposed Walter leaves MBSS, would the school continue on the same trajectory or direction? If so why? If not, what could be done to ensure that the business does not loose track?

REFERENCES

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United Republic of Tanzania (URT, 2004) – Joint review of the Primary Education Development Programme.

HOW MUCH TO CHARGE? AN EXPLORATION OF ETHICAL DIMENSIONS IN NORMAL OPERATING DECISIONS

Mark Linville, Kansas State University

CASE DESCRIPTION

The primary purpose of this case is to heighten a student's recognition of ethical dimensions in common decisions. The ability of a person to understand underlying ethical issues is critical to obtaining the ethical sensitivity needed in a professional. This case introduces a student to the ethical framework which underlies the code of conduct of the American Institute of Certified Public Accountants. The case introduces real-world ambiguity because the case has no "clean" resolution to the ethical dilemma and few specific rules that directly apply to the dilemma. In addition, the case provides a context to illustrate the value of an engagement letter for professional accounting services. The difficulty level of this case is four, meaning that it is appropriate for a senior level course. Students should have some understanding of the professional environment and exposure to the ethical concepts. The case was initially designed for a senior-level accounting class. This case works well in a 50-minute class period and should take students 0-3 hours of preparation depending on how the case is administered.

CASE SYNOPSIS

Many professionals are unaware of the ethical dimensions which often underlie routine decisions. To develop a proper moral compass, professionals must develop an ethical sensitivity so that ethical concerns are properly considered in decision-making. Ethical awareness will serve a professional well by allowing the professional to recognize and meet ethical obligations which might not always be initially obvious.

Sally Thompson, a young CPA who has just started her own accounting practice, contends with a routine decision. As Sally considers her options, she must consider her responsibilities to her clients and her profession while making a decision which affects her firm's success. As these ethical responsibilities are considered, a relatively straightforward decision becomes much more complicated.

CASE BODY

History of Thompson Accounting

Upon graduating from State University with a degree in accounting, Sally Thompson worked for a few years with a large, regional accounting firm. During that time, Sally had become a CPA and a member of the American Institute of Certified Public Accountants. In her fifth year with the firm, she decided that she would like to return home and work for herself and start her own public accounting practice.

Her simmering interest in such a move had been piqued by something her father had told her during a recent visit. One of her father's friends, who had once worked with the IRS, had developed a nice tax practice to supplement his retirement income. The friend no longer felt that he needed the supplementary income and wished to pursue other activities. He would be willing to sell the practice to Sally for a very reasonable price. The more Sally had thought about this possibility the more she liked it.

Because the tax practice involved almost exclusively tax preparation, the income was very seasonal. However, Sally had accumulated some savings and was confident that she could support herself in the next couple of years as she developed the tax practice into a full-service CPA firm. Sally already knew of a couple of companies for whom she could perform write-up services, a couple of nonprofit entities for whom she could do audits, and she was confident that she could drum up some other business using the contacts she has in her hometown. Combining the fees from these services, along with the existing tax practice fees, and a reasonable drawdown of her savings, Sally was pretty sure that she could make the monthly payment on the acquisition of the tax practice, pay the salaries of a receptionist/secretary and a full-time bookkeeper, and meet the other operating expenses while still having enough money to live on.

On December 1, 2012, Sally signed a contract to purchase the tax practice and signed a lease on office space. On December 5, 2012, Sally Thompson hung out her shingle and opened the doors to Thompson Accounting.

They Didn't Teach Us This in School

Sally quickly learned that there are lots of challenges to managing your own professional accounting firm. Things that Sally had taken for granted in the regional accounting firm now required her to make a decision. Every major decision had to be made by her with no one else to whom she could defer. Sally had wanted to be her own boss but she is not so sure now. It seems every day that her attention is so divided that it is hard to find time to perform work for which she can bill her clients. She is putting in long hours, getting home late but not able to bill more than about four to six hours per day. She is quickly realizing that tax season is harder as the boss than as an employee.

In early March, John Staggs came in with his tax return information. John is a new client who did not have his return done by the predecessor tax practice but by anther preparer across town. John selected Sally's firm because it was conveniently located near John's primary business interest. This year, John has a very complicated tax issue. In the initial interview with John, Sally explained that the issue is a difficult one which will require research to resolve the issues. John is a little hesitant but agrees to engage Sally's services at her normal $250 per hour fee for research and $150 per hour for other tax preparation services.

As Sally performs the research on John's tax issue, she believes that this is such an unusual situation that she is not likely to ever see it again. After 21 hours of research, Sally has her resolution and spends five more hours actually preparing John's return. Her final bill for services is $6,000 which John pays on March 15.

To Sally, this return was a godsend. She needs the money to make her monthly payments for rent (both for her practice and her own apartment) as well as her firm's payroll for her two employees. Sally has been alarmed at how fast her savings have been used and she is pleased that she would not have to make another withdrawal. Sally is also pleased to acquire a client such as John. While doing his return, she learns that John has several business interests which could be potential new sources of clients as well as being very involved in the several not-for-profit organizations.

On March 20, another new client comes to Sally's firm. Much to her surprise, this new client, Joy Wilkins, has the same tax issue as John Staggs. Sally had never expected to see that issue again. Thinking that maybe John Staggs had referred Joy to Sally's firm because of her previous work on a similar tax problem, she asked Joy if John had referred her to Sally's practice. Joy told her that she is a long-time friend of John and that they work together on several civil events during the year, however, she was unaware until now that he was a client of Sally's. Sally did not share with Joy that John had the same tax issue and therefore, Sally does not know whether Joy is aware the John has the same tax issue.

Because Sally had already dealt with the difficult tax issue with John's return, she only needed to do an hour of tax research for Joy's return. Joy's return was almost identical to John's and also took five hours of additional preparation time. On March 22, Sally is finished with Joy's tax return and is ready to call Joy and tell her. Sally is stopped by a sudden thought, "How much should I charge Joy?"

MISSED IT BY A DOT

Robert Crocker, Stephen F. Austin State University
Marlene Kahla, Stephen F. Austin State University
Marie Kelly, Stephen F. Austin State University

CASE DESCRIPTION

Small businesses across America can make a hit with the right combination of drive, talent, and timing. The result? They become successful for many, many years. As these businesses prosper and grow they often hire other firms to help them with their policies, procedures, payrolls, and taxes.

The two small business partners presented here, Gerad and Ernie, incorporated Great Expectations, a metal fabrication company that specializes in oil and gas products, and opened for business in February of 1994.

Initially, everything was bare bones necessities. Their first building was a 5,000 square foot metal building that they rented from Ernie's uncle.

Only six employees made up the payroll in the early days: Gerad as the production manager, a cutting machine operator, a lead fabricator, an equipment programmer, one welder, and Ernie. Back then Ernie handled all the paperwork, marketing, and payroll plus he often cleaned the toilets and shop floor.

CASE SYNOPSIS

In his frugality, Ernie bought a used Cincinnati time clock to record the hours worked for each employee. He believes the old ways can be the best ways to account for people and the hours they put in for Great Expectations.

Things would work out splendidly as long as every detail of the fabrication process and the people who made it all happen were taken care of. At least that is what Ernie thought as he continued to do things the way he knew how—he could see it happen, and he could account for each person's contribution to the bottom line. He was a stickler for detail.

So are the partners in the accounting firm that Great Expectations hired as their main payroll and tax preparer back in 1997, Hamilton & Company.

Ernie recalls that he hated getting another firm involved with the bookkeeping side of things, but business was growing so quickly, he had no other choice. Ernie took comfort in knowing that Hamilton & Company had been in business for almost 50 years.

Gerad and Ernie have great respect for each of their employees and the work that they accomplish. They have helped Great Expectations become the well-known fabrication shop that they are today. They are a large part of the brand equity for the shop.

Never would Gerad or Ernie seek to chisel money from their employees. Never would Hamilton and Company submit incorrectly prepared records for their clients.

However, as the case unfolds, an honest mistake sets the stage for an ethical dilemma that could cost someone more than money.

DISCOVERY

Candace stared in disbelief at the time sheet in her hand and the computer screen. Gathering herself, she quickly went to the file cabinet and pulled a time sheet from six months earlier and returned to her computer. She compared that hand-written time record to the computer entry for each employee.

Her heart dropped as she wondered out loud, "How long have these employees been underpaid?"

She went back to the file cabinet and searched for the oldest timesheet in the file. It was dated June 11, 2007 and covered the pay period from June 3-10, Sunday to Sunday. She assumed the older records had been transferred to microfiche or storage.

Returning to her desk, she searched the archived files on her computer and found the file with the June 11, 2007 pay period entry. Her fears were confirmed when she saw the error in the very first employee hour entry.

She now realized that she would need to find the older records to determine how far back the error went.

She did a few quick calculations and concluded that a "large" weekly error may be less than ten dollars for any given employee and an amount that could easily go unnoticed. Her head began to spin as she multiplied that little error by 40 employees and by at least seven years!

THE COMPANY

Gerad and Ernie incorporated Great Expectations, a metal fabrication company that specializes in oil and gas products, and opened for business in February of 1994 in an uninsulated 5,000 square foot metal building rented from Ernie's uncle. They began with six employees—Gerad as the production manager, a cutting machine operator, a lead fabricator, an equipment programmer, one welder, and Ernie, who handled all the paperwork, marketing, payroll and often cleaned the toilets and shop floor. Ernie picked up a used Cincinnati time clock to record the hours worked for each employee.

Cincinnati Time Clock

Once companies like Grey Wolf Drilling and Precision discovered them, their services became well in demand. The Texas Gulf Coast knows no limit to work the oil field can bring.

Back in 1994, real estate around Waller was a steal, and many people living there were driving into Houston for a job that paid enough to live. Within two years the guys bought two acres with frontage along highway 290 and built their first shop.

By 1997, the company employed sixteen hourly employees and now occupied a brand new 35,000 square foot state-of-the-art shop on the current site. Gerad had his hands full on the shop floor while Ernie spent all of his time managing the facility. Revenues were expected to top $2 million by the end of the year.

Prosperity brings its own set of challenges. The increase in revenues meant more orders, more work, and more employees. With so many employees and those ever changing tax laws, they hired an accounting firm, Hamilton & Company, to keep up with the money while they focused on fabricating steel.

Total revenues broke $10 million for the first time in 2005 and the company had 28 full-time and 4 part-time hourly employees. Plans were being made to break ground on a 24,000 square foot expansion next year to double its manufacturing space. The expansion will accommodate an additional powder coating line, an automated laser cutting cell, and a prototyping department.

Today, Gerad and Ernie are full-time managers and the company employees 44 full-time and 5 part-time hourly employees.

The old Cincinnati time clock is still keeping time.

THE OWNERS

Gerad could never walk away from tools, motors, or welding. He remains involved with being able the create things that people dream up to make money. Whether in the oil field, pipeline, or someone's shop, Gerad loves to be part of solutions that come from fabricating.

Throughout this life his home towns' names typically started with the word, "Fort," Fort Hood, Fort Bliss, Fort Bragg, etc. Yes, he was a military brat, and really proud of it. He feels part of the brotherhood of military brats with their own code of honor and ways of doing things.

While bouncing around the country with his family, he never lost sight of Texas A&M University. Everything it stood for beckoned him to become part of the Aggie Spirit.

It was no surprise to anyone when he graduated from TAMU with a degree in mechanical engineering.

Ernie, on the other hand, came from a stable, farming background in the Brazos River Valley between Brenham and Navasota. TAMU was just around the bend in the road for him. In fact, if he drove through enough fields, he would find himself very near West Campus. This was very appropriate for a young man who was raised on a farm and graduated from TAMU with a degree in Ag Economics. He loved business, too.

Of course they met at the "Chicken," the Dixie Chicken that is. It is as much a part of TAMU tradition as putting a penny at the base of Sully's statue. Back in the day, everyone gathered at the Chicken. This was before there was a "Northgate," currently a strand of bars that seem to attract their share of college students across from campus.

Enjoying a long neck while carving his name on the already carved up table, Gerad watched Ernie put away game after game of pool—it seemed as if he couldn't lose.

He knew that he just had to meet someone of such skill, and that is how the two owners of Great Expectations met.

Their love of the University and the region that it serves and their skills in business and engineering made them superb business partners. They are good ole boys that pride themselves in their skills and honesty. They enjoy success and getting there down the straight and narrow road.

THE ACCOUNTING FIRM

James Hamilton started his accounting practice in Tomball, Texas in 1949. His grandson, Jamie Hamilton, is now the CEO of Hamilton & Company and was responsible for bringing Great Expectations onboard in 1997. Jamie managed the account until 2002 when he became CEO.

Judi Johnson came to Hamilton & Company during the summer of 2001 and worked on the Great Expectations account with Jamie. When Jamie was promoted to CEO, Judi took over the account.

Candace Little joined Hamilton & Company in June 2012 having graduated with a Masters in Public Accountancy weeks earlier. She had offers from larger accounting firms but she was from La Grange, Texas and this was as far away as she cared to be. Candace worked under Judi and handled a portion of her client list, including Great Expectations. Judi was promoted to Partner in January 2013 and Candace assumed full charge of several accounts, including Great Expectations.

Pauline McKinney was 20 years old when she was hired as a clerk in 1968. She is now the head book keeper and resident historian for the company. She trains all the new clerks and book keepers and has been on the Great Expectations account since 1997.

THE ERROR

At Great Expectations, the old Cincinnati time clock was still being used to record employee hours. Every Monday morning time cards were pulled and the previous weeks' work hours were tallied for each employee. The total time was entered by hand using standard time notation: 42:30 for forty-two and one-half hours of work. Ernie used to be the one to do this, but nowadays he allowed another staffer to pull the cards and fill out the time sheet, but he still looked it over before sending it to the accountants.

When the accounting firm changed software, Candace noticed that the new software allowed the time data to be entered in hour notation (00:00) or decimal notation (0.0). She asked Pauline (the bookkeeper that had been there forever) whether she selected hour or decimal notation. Pauline replied that she had always used decimal notation.

Candace had the recent time sheet in her hand as she opened up the Great Expectation payroll file. Great Expectations pays to the minute and does not round. In the computer, the first employee record belonged to Aaron Andrews and record indicated that his pay rate was $21.50 per hour and that he worked 39.45 hours last week. When Candace looked at the time sheet, it showed that Mr. Andrews worked 39:45 hours last week. The next record belonged to Martin Brooks who worked, according to the computer 44.32 hours while the time sheet showed 44:32.

Candace calculated the differences. Andrews' gross pay was $848.18 but it should have been $854.63. It was a difference of $6.45. Brooks' was underpaid by $5.60.

What does Candace do next?

APPENDIX 1

Great Expectations Time Sheet for the Week ending March 8, 2014					
L_Name	F_Name	Job Code	Level	Pay Rate	Hours
Andrews	Aaron	51-4040	I	$21.50	39:45
Bell	Earl	51-4121	III	$12.50	41:00
Benson	Richard	53-7062	I	$10.25	40:00
Brooks	Martin	51-4121	I	$17.50	44:32
Bullard	Kim	51-4040	II	$17.50	41:05
Carr	Wesley	51-4122	III	$14.75	40:33
Chambers	Felecia	43-9199	III	$11.25	39:58
Chapman	Fannie	51-4122	III	$14.75	40:16
Cobb	Steve	51-4121	I	$17.50	38:55
Cruz	Sonia	43-9199	II	$14.00	42:51
Drake	Lawrence	53-7062	I	$10.25	41:33
Figueroa	Adrienne	43-9199	II	$14.00	32:42
Fisher	Terry	51-4122	III	$14.75	40:21
Garcia	Olivia	37-2011	III	$9.50	21:25
Gibbs	Ira	51-4040	I	$21.50	40:38
Glover	Patti	51-4121	II	$15.00	37:50
Gonzales	Henry	53-7062	I	$10.25	20:25
Graham	Christian	51-4122	I	$19.00	40:02
Gray	Kendricka	37-2011	II	$10.50	18:56
Griffin	Stewart	51-4121	II	$15.00	40:29
Hanson	Jane	43-9199	III	$11.25	39:58

Page 1 of 2

Great Expectations Time Sheet for the Week ending March 8, 2014					
L_Name	F_Name	Job Code	Level	Pay Rate	Hours
Hudson	Randolph	51-4040	I	$21.50	40:55
Hunt	Carroll	51-4040	II	$17.50	40:31
Hunter	Tim	51-4122	I	$19.00	41:05
Johnson	Marcus	37-2011	II	$10.50	32:12
Johnson	Jimmy	47-2110	I	$23.75	32:03
Lyons	Jonathan	51-4122	II	$16.50	40:06
Maxwell	Percy	51-4121	II	$15.00	40:37
McCarthy	Marcos	51-4122	III	$14.75	40:15
McDaniel	Stephen	51-4122	I	$19.00	39:46
Porter	Al	51-4040	I	$21.50	42:36
Pratt	Marshall	51-4122	II	$16.50	28:50
Ramos	Mario	47-2110	II	$15.00	40:15
Rivera	Rodney	51-4040	III	$14.75	39:48
Rowe	Terence	51-4121	II	$15.00	45:12
Russell	Dan	51-4121	I	$17.50	38:59
Salazar	Evelyn	37-2011	III	$9.50	19:20
Soto	Perry	51-4040	I	$21.50	41:07
Summers	Andrew	15-1150	I	$37.50	40:42
Thompson	Thomas	51-4122	III	$14.75	40:30
Underwood	Freddie	51-4122	III	$14.75	40:02
Vaugh	Loren	51-4122	III	$14.75	40:00
Vega	Irvin	53-7062	I	$10.25	36:02
West	Ronny	51-4122	II	$16.50	41:16
Wise	Susan	43-9199	I	$18.00	46:36
Page 2 of 2					

APPENDIX 2

# Employees	Job Code	Description
1	15-1150	Computer Support Specialists
4	37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners
5	43-9199	Office and Administrative Support Workers, All Other
2	47-2110	Electricians
8	51-4040	Machinists
8	51-4121	Welders, Cutters, Solderers, and Brazers
13	51-4122	Welding, Soldering, and Brazing Machine Setters, Operators, and Tenders
4	53-7062	Laborers and Freight, Stock, and Material Movers, Hand

KTKB 101.9'S RADIO BREAKFAST EXTREME (RBX): THE RADIO SHOW THAT PROVIDES BOTH ENTERTAINMENT AND EDUCATION

Josephine D. Evangelista, University of Guam
Rowena L. Macaraig, University of Guam

CASE DESCRIPTION

The primary subject matter of this case concerns radio broadcasting. Secondary issues examined include marketing and education. The case has a difficulty level of two, appropriate for sophomore level courses. The case is designed to be taught in three class hours and is expected to require six hours of outside preparation by students.

CASE SYNOPSIS

In a 2012 survey conducted by a leading market research firm in the Western Pacific region, KTKB 101.9 ("KTKB"), a Filipino broadcast station in Guam, ranked as the top most listened radio station during the weekdays from 6 AM to 10 AM with its Radio Breakfast eXtreme (RBX) morning show. KTKB somehow manages to capture the public's listening interests and preferences. KTKB has several challenges on its forefront. One of those challenges is how the radio station will sustain its supremacy on air for the weekday primetime slot and continually capture the listening public's interests. The other obstacle is how will KTKB thrive amongst the territory's other major broadcasting radio stations that may have more financial and political backing. This paper examines different aspects that KTKB can utilize to sustain its competitive edge as the top most listened weekday morning radio station on Guam.

A BRIEF HISTORY

KM Broadcasting of Guam, L.L.C. which is owned by Kevin Bae, a Chicago-based businessman, established the Filipino Radio Station KTKB 101.9 FM last June 9, 2003. Having been situated off-island, he hired Mr. Rolando Manuntag as the General Manager of the radio station. Mr. Manuntag initially established the station at the Boonsri Plaza Upper Tumon, Guam and later on moved to a better location at the Bank Pacific Building in the village of Dededo. Meanwhile, the radio tower is situated at Barrigada Heights.

Mr. Manuntag is considered a veteran in the radio industry back in the Philippines. His passion for music paved the way for him to jump on board as a radio personality under his moniker, Rolly M., playing old music as part of its radio programming. He held a weekday show entitled "Mornings with Rolly M", or simply called "The MRM Show", which ran for several years until he settled for a Saturday program, "Saturdays with Rolly M".

Several radio personalities joined the station which contributed to an interesting mix of music from different genre. The entertainment is extended to both local and Filipino listening audience with its Crossover music and Original Pilipino Music (OPM), thus, giving birth to the brand, Megamixx. Soon after, numerous companies sought the services of KTKB for media advertising.

However, it was not easy for Mr. Manuntag to bring KTKB 101.9 to the top of the survey list during the first few years. KTKB was surpassed by KOKU 100.3 and KUAM 93.9 in the list because of a well established identity and a large captured market. KTKB's radio programs and personalities lack ingenuity to stand out and beat the other radio stations.

Until February 2010 when KTKB opened its doors to Eduardo "DJ Doods" Tuason and launched the Radio Breakfast eXtreme (RBX) Program. He hosted the show solo until Josephine "DJ Zoe" Evangelista came on board in 2011. RBX is perhaps the most energetic morning radio program in the region which airs from 6:00 AM to 9:00 AM on weekdays. It delivers positive vibe during the morning rush that surely uplifts the listeners' mood. DJ Doods and DJ Zoe load the airwaves with carefully selected music from yesterday's hits and today's favorites from both the OPM and Crossover play list. It guarantees lively and revitalizing morning for listeners eighteen to sixty years old with a very strong following from the Filipino working class eager to hear the Manila sound. RBX delivers the most significant news on Guam and a blow-by-blow reportage on the most current and notable news from the Philippines. It spices the mornings with health and practical tips for everyday living, comical spiels, good uplifting news, trivia, inspirational thoughts, love advices and tons of live on-air games.

KTKB's goal is to bring a family-friendly and quality radio broadcasting on Guam. Holding the same vision throughout the years, KTKB finally and successfully topped the chart for the 2012's Top of the Mind Radio Station on island as conducted by the Market Research and Development, Inc. (MR&D) Survey. KTKB landed on the number one spot as the most listened to radio station from 6:00 AM to 10:00 AM through the RBX show hosted by DJ Doods and DJ Zoe. KTKB is not only heard on Guam but also in Rota, Tinian, and Saipan; and viewed at www.ktkb.com thru live streaming and at Channel 26.3 on cable.

Indeed, KTKB holds true to its brand as the Filipino Radio Station serving the Filipinos and Filipinos-at-heart alike. Entertaining. Educational. Committed.

As the tag line goes, Megamixx 101.9 FM…forever!

REGULATORY ENVIRONMENT

The Federal Communications Commission (FCC), an independent United States (U.S.) government agency overseen by Congress, enforces regulations of interstate and international communications that are transmitted by broadcast mediums in all parts of the U.S., the District of Columbia, and the U.S. territories. Therefore, all cable, satellite, television, wire, and radio are subject to FCC's regulations. Radio and television are subject to compliance under Title 47 Code of Federal Regulations (CFR) Part 73 ("47 CFR Part 73").

For all radio and television broadcasts, it is a federal offense to air obscene programming at any time. During the hours of 6:00 AM and 10:00 PM, it is a federal offense to air indecent or profane materials or programming. If a station broadcasts obscene, indecent, or profane programming on air, the FCC may revoke the station's license, institute a fine, or issue a warning notice.

MEDIA STUDY

In July 2012, MR&D conducted a Guam Media Study to assess the media's reach and impact on the local consumer market focusing on the media usage of Guam's residents; gauging the popularity of specific television programs, radio stations, magazines, movie theaters, and websites. The survey mode used was Computer Assisted Telephone Interviewing (CATI) using the Guam Telephone Authority's (GTA) public telephone listing. The CATI survey was conducted between July 14 and July 27, 2012. The target population was all Guam residents over the age of eighteen living in traditional households (i.e. apartments, condominiums, and single family dwellings). The study was comprised of 1009 Guam residents aged eighteen and older and they got a random probability sample and yielded a completed interview of 510 residents. The results are accurate to ±3.1% at a 95% confidence level.

According to the 2012 MR&D Survey, it shows a sample characteristic of the respondents taken from their village of residence in the northern, central, and southern part of Guam. The northern villages are Dededo and Yigo, which constitute the most populous residents in the island. The northern central villages are Barrigada, Tamuning Tumon-Harmon, and Mangilao. Meanwhile, the central villages are Agana Heights, Asan-Maina, Chalan Pago-Ordot, Hagatna, Mongmong-Toto-Maite, and Sinajana. The southern villages include Agat, Inarajan, Merizo, Piti, Santa Rita, Talofofo, Umatac, and Yona. The survey shows that no respondents were taken from the village of Hagatna while Dededo at 27% has the largest percentage of respondents for this study.

According to Weekday and Weekend Listenership Survey for Radio, the result shows that 63% of the Guam residents over the age of eighteen listen to the radio during a weekday "drive time" from 6:00 AM to 10:00 AM. While 39% listens on the weekend for the same time. However, the listening time on the weekday dropped to 26% and on the weekend to 24%, respectively, from 6:00 PM to 10:00 PM. Therefore, the peak audience for radio listening occurs between 6:00 AM to 10:00 AM on weekdays according to the 2012 MR&D Survey.

KTKB got the highest listenership frequency at 67 or 13% for the Radio "Top of Mind" Awareness survey result. The Filipino radio station beat the other veteran radio stations on Guam falling below the 10% rating.

Seventeen percent of the respondents listen to KTKB from 6:00 AM to 10:00 AM during the weekdays which landed the Filipino radio station at the number one spot for this category. Therefore, the prime time "driving hours" on KTKB hosted by DJ Doods and DJ Zoe of the RBX Program is the number one listened to morning radio program on the island of Guam based on the 2012 MR&D Survey.

CONCLUSION

Organizational Structure

Any organization, whether profit or not-for-profit, should develop and have two critical components: mission and vision statements. According to Kokemuller (n.d.), organizational mission and vision statements serve as pillars to help entities define, develop, and fulfill their goals. The importance of a mission statement is the organization's purpose. In other words, the mission statement defines the organization's reason for its existence. On the other hand, the significance of a vision statement serves as the entity's direction in the future. KTKB currently does not have mission and vision statements. As a result, the radio station may continually not be aware of its purpose of existence. KTKB may encounter difficulty in developing and implementing plans which can ultimately hinder the radio station's objectives.

KTKB 101.9's Radio Breakfast eXtreme (RBX) program should develop its own brand. Geller (2012) stated that a brand should be thought of with the following characteristics: promise, personality, look, voice, service, attributes, and memorability. According to Kozak (2014), a brand plays a role on how the audience, clients, and prospects visually perceive the entity. Therefore, RBX should seriously consider what its existing and prospective listeners can expect from its show.

Social Media

For RBX to maintain and interact with its current and potential audience and sponsors, the show should use a variety of social media platforms. Social media offers the following advantages: increased brand awareness and customer loyalty, usage of word-of-mouth advertising, and improved outreach to the audience (DeMers, 2013). At a minimum, RBX should consider using Facebook, Twitter, Google +, and LinkedIn to connect with its existing and prospective audience and sponsors. DeMers (2013) believes that people's view on social media will transform from 'should have' to 'must have' in 2014.

The radio station currently has two Facebook profiles, MEGAMIXX 101.9 KTKB and KTKB 101.9FM Studios. Based on the latest activity feeds, it appears that MEGAMIXX 101.9 KTKB is the radio station's active profile. A way to promote their own radio show, KTKB's disc jockeys use their own personal Facebook page. Rather than solely relying on the station's Facebook page, RBX should establish its own profile. According to Kozlovski (n.d.), a Facebook page is one of the leading ways of promoting a show. Sweet (2010) said that a Facebook page should provide value or relevant information to the show's friends. Facebook users can 'like' RBX's show that will allow information posted on the show's page to be seen by those users and others in their own interconnections. The creation of a Facebook page can allow RBX to create events, upload multimedia, and posts interesting and entertaining matters. The usage of Facebook includes sharing links, addressing inquiries, and others for the purpose of building the show's community. The RBX show could join Facebook groups in order to meet people who share similar interests. RBX can be more valuable in the Facebook community by making and being active with the show's friends. Kozlovski (n.d.) suggested the following when creating a Facebook page for the show:

1. *Incorporate the radio station's logo and the radio show's logo (if applicable).*
2. *Add and tag photos of the radio show's host(s) so that the pictures will appear in your Facebook friends' feeds.*
3. *Use a simple Uniform Resource Locator (URL) for the show's Facebook page.*
4. *Mention the radio show's Facebook page on-air.*

5. *Include the latest information about interviews and events so that the audience is aware when to listen to the show.*
6. *Upload audio and video content to the show's Facebook page.*
7. *Include other social media links to the page.*

Twitter's advantages for social media marketing efforts include: keeping messages short, connecting to influencers, and interacting with other Twitter users ("The advantages of Twitter," 2013). The radio show can search people with similar interests that may be captivated with the show's program. As a result, the show can add those people and add their friends and followers. Sweet (2010) suggested that rather than tweeting self-promotional messages, tweeting should be used to connect with the followers by giving news and opinions that are relevant, intriguing, or hilarious.

Google Plus ("Google+") offers the following benefits: establishment of brand awareness, customization of Google+ page, exposure to local users in the community, promotion of new sales or products, video streaming, and participation in communities to attract new audience (Lawrence, 2013). Google+ Hangouts on Air can be a viable tool for reaching more potential traffic to the show. This type of Google application is a video conference call. Hangouts on Air is public and streamed via YouTube, Google+ profile, and some other website that contains the inputted code (Nathan, 2014). Basically, if RBX uses Google+ Hangouts on Air, DJs Doods and Zoe can discuss the radio program anywhere in the world. There are numerous ways that RBX can promote its Google+ Hangouts on Air. Nathan (2014) suggested the following: share with Google+ profile's circles and communities including the Hangouts on Air groups, create a Facebook event, email targeted contacts about upcoming hangouts, advertise in Facebook, Google, and LinkedIn, create a tweet for followers, and much more.

Finally, RBX's hosts should establish a LinkedIn profile because it is an ideal networking site for professionals. LinkedIn offers the following benefits: connecting with other businesses (B2B) and customers (B2C), generating leads, attracting new talents, and evaluating customer satisfaction (Hughes, 2014). The hosts can connect with others for so many purposes.

By using various social media platforms, RBX can interact with its audience and sponsors. RBX also has great potential in gaining new listeners on a global level.

Other Suggestions

Giger (n.d.) shares the following ways to make a successful radio morning show.

1. *Bring together people that are close friends or could be friends as teammates for the show.*
2. *Have at a minimum three different personalities on the radio show. This approach can allow each host to talk about the same topic from a different perspective.*
3. *Make it a point to listen to air checks from an external viewpoint. This avenue can help determine how the program is doing on a periodic basis. This also allows for new opportunities to develop and at the same time, eliminate items that are no longer working.*
4. *For the last morning show, increase the music percentage by taking shorter breaks and play three songs on a nonstop basis for the last half hour.*
5. *Before changing the morning radio program, think again and avoid making rash modifications.*
6. *Remain to be true to yourself. Be genuine. Be authentic.*

7. *Stick to what works well with the show. Avoid making changes based on the successes of others.*
8. *Aim at making a connection with the radio show's audience.*
9. *As a deejay, establish other skills.*
10. *Make radio as part of your lifestyle and maintain the commitment on a continual basis.*

Prue (2012) shares a technique on how to keep the radio show's listeners. To encourage the audience to tuning to the show, the hosts persistently inform the show's listeners on what is still to come. Prue (2012) says that approach is a worthwhile investment. By producing interest on what will be featured in the upcoming shows, the show can greatly reach its audience and potentially increase its chances on gaining new listeners.

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