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Instructor's Notes

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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.

INSTRUCTOR'S NOTES

The case can be analyzed by either individual students or by student groups. Suggested discussion questions and answers:

1. Describe the different strategies implemented by the company under the three different eras: The Lee brothers, Greg Baker, and Jack Colwood. How did the company's operations change to reflect the strategies used during each era?

Initially, the company pursued a differentiation strategy. The active participation by the company founders and sales staff in activities associated with the products sold by the company resulted in a high level of product knowledge and word of mouth advertising. The Lee brothers used this product knowledge to carry products that were in demand in the local marketplace, but were not sold in enough volume to be carried by large national retailers. In anticipation of an initial public offering Greg Baker was hired to change the company strategy to one that was based on cost while increasing volume through a program of rapid expansion. He centralized the purchasing function and standardized the products carried by the stores to the point that many were the same or very similar to that sold by the national retailers. In addition, he reduced the number of employees and their compensation levels. While saving some costs, the company could not compete on price with the national retailers that possessed a higher level of purchasing power. Because of the disappointing results from implementing this cost strategy, the company hired Jack Colwood to return the company to a differentiation strategy. The company has now successfully re-implemented a differentiation strategy due in large part to emphasizing the elements of differentiation that had proven to be successful for the Lee Brothers. This strategy fostered a return to an entrepreneurial organizational culture that empowered store managers and their sales staff to select and promote products tailored to their markets and rewarded them for successfully doing so.

2. The case describes two role transitions. One is the transition from the role of college student to employee and the other is from the role of employee to manager. These transitions require a transition in both attitude and behavior. What is the nature of those transitions?

The role of employee and college student differ in several ways. The roles differ as to the degree each role is structured. For example, the college student receives frequent, rapid and specific feedback. The employee may receive very infrequent and ambiguous feedback. The schedule for a college student is fairly rigid. Semester start and end dates, class meeting times and requirements for progression are known well in advance. Employee schedules may change drastically with little or no notice. Requirements for employee progression may involve factors beyond the employee's control such as overall organizational performance and the criteria for progression may never be fully disclosed to the employee. The college student enjoys a large measure of control over activities and how time is spent. An employee may be very limited as to control over his or her schedule. The college student also may enjoy a high degree of freedom with respect to personal appearance and behavior. Employees are often expected to conform to dress codes and behavior that conforms to organizational norms.

The transition from employee to new manager also requires a change in attitude and behavior. The new manager's future success is no longer primarily dependent on his or her individual efforts as an employee, but rather depends upon the collective efforts of all employees in their area of responsibility. A new manager that uses a too authoritarian management style often suppresses employee creativity and cooperation. The new manager should strive to create an organizational culture that fosters entrepreneurial activity by encouraging and rewarding innovative thinking by the employees that identifies new opportunities and successfully acts upon them. The new manager should attempt to foster a cooperative team attitude that works to readily adapt to changes in company operations. Such an organizational culture also seeks to help each employee develop competencies to better realize his or her full potential and to achieve the organizational goal of developing and maintaining a competitive advantage.

Experience also plays a significant role in developing managerial skills. To accelerate the process of experiential learning managers need to understand the value of peers and superiors as a source of guidance in gaining the necessary experience. Gaining experience lends insight into the realities of the manager's role, improves manager ability to accurately assess employee strengths and weaknesses and teaches managers how to successfully deal with them. Experience also improves a new manager's ability to manage stress, and to establish and maintain a beneficial organizational culture.

3. What assumptions were made in the due diligence process prior to the purchase by AAP and to what extent were those assumptions inaccurate?

The acquiring company assumed that profitability would not be affected by a change from a differentiation strategy to a low cost strategy. Granted, the rate of expansion for the company would have been much slower for the company if it had continued the differentiation strategy. However, the profitability of the company before acquisition was due in large measure to the competencies stemming from the differentiation strategy that was abandoned in favor of a cost based strategy.

4. How does the detailed information available through the IT system function as part of the control system potentially assist store managers in improving store performance and making the assessment of managerial performance at each store more objective?

Both the store manager and top company management have the ability to receive extremely detailed reports related to virtually all aspects of company operations. For example, sales and gross profit by product or product category is available for each store, each region or the company as a whole. Therefore, store performance details are easily visible. Using this information, top company management can easily identify the leaders and the laggards among the ranks of their store managers. Store managers can also use the system to easily determine what areas of their store are doing well and which are underperforming and adjust store operations accordingly.

5. Two store managers were highlighted in the case. One was successful the other failed. How did the behavior of these two managers differ?

The primary difference between the two managers was the degree each understood and embraced the differentiation strategy the company had implemented. The successful manager translated the company strategy into concrete actions at her particular store. She understood the value of establishing constructive relationships with superiors and peers to help guide her in configuring her store operations. In addition, she leveraged her abilities to entrepreneurially identify and exploit marketplace opportunities by empowering her employees to do the same. She utilized the managerial tools the company provided, such as the ability to receive custom IT reports, and to tailor her stores operations to the local market. She also conveyed and received information at the managerial retreats that not only lead to improvement of the performance of her store, but other stores as well. The unsuccessful manager failed to embrace the company's return to a differentiation strategy and to find ways to implement it at his store level despite being given several opportunities to do so. This manager also failed to take advantage of the managerial and developmental resources provided by top management. Because he did not conform to the strategic direction of the company and refused to utilize the guidance and tools provided by top management that would have facilitated a positive change of strategy and culture for his store, management is considering whether to terminate his employment or to make an additional attempt to change his managerial approach.

6. Company management must decide how to reward the performance of the Tacoma store. What process would you use to determine that reward, how large should the reward be and how would you recommend the reward be distributed among the employees at the store?

Management needs to foster behavior that is consistent with the strategic goals of the company. Providing financial rewards for that behavior should encourage more of it. Certainly the Tacoma store is deserving of a financial reward. Management must determine the size of the reward and how it is distributed among the store employees. Obviously, there is no single answer to how large the reward should be. Some factors management should consider include the level of performance in excess of that achieved by similar stores and the differences in each store's competitive environment. Similarly, the distribution of the reward can be done in many ways. Company leadership can specify the reward for each employee and the store manager. Alternatively, company management can decide the overall reward for the store and leave the allocation of the reward solely to the discretion of the store manager.

7. Company management must also decide what change, if any, to make at the Eugene store. What changes would you recommend that management make?

The store has not embraced the differentiation strategy and the organizational culture associated with it. The store manager has been made aware of the problem and has chosen not to make changes in his store to align it with the strategic direction of the company. Management will very likely have to terminate his employment and replace him with a person that has been successful in implementing a differentiation strategy in their area of responsibility at another store. Management does have the option of giving him further guidance and an additional opportunity to conform. Unfortunately, most current employees at the store do not fit the current strategic direction either, and, as a result, many of them will need to be eventually replaced as well. However, it is possible that the elements of differentiation strategy and the reasoning behind its implementation can be successfully communicated to them and many, if not all, would be then able to meet the expectations of the company once this is done.

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

Charles Y. Tang, Pace University
Raymond J Elson, Valdosta State University
Susanne O'Callaghan, Pace University
John P. Walker, Queens College - CUNY
Leslee N. Higgins, Eastern Kentucky University

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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

The article, *The Earnings Game: Everyone Plays, Nobody Wins* (Collingwood, H. HBR 2001), can be used as a good background reading. This article provides vivid descriptions on earnings management, its motivation and consequences. It is important for students to understand the ethical issues imbedded in the case. Without the background knowledge, students might be too focused on the technical aspect of the case. This case is suitable for the second course in managerial accounting at the undergraduate level or the similar courses at the graduate level. It can also be used in advanced level financial accounting courses or in auditing seminars on contemporary accounting issues. Students should be given background information on the philosophical principles (theories) of ethics (or the Standards of Ethical Conduct by the Institute of Management Accountants, the alternate framework), and on the role of manufacturing overhead and its allocation mechanism in determining reported accounting income.

Students should be given time to prepare the case on their own. A minimum 3-4 hours would be fair to expect an average student to come up with some reasonable solution. The case could then be debriefed in class using calculations and discussion. This would require approximately one hour class time. The case can be completed as a whole or in parts with the time adjusted accordingly.

Learning Outcomes

The learning outcomes of the case are as follows:

1) To understand and analyze overhead costs and overhead allocation mechanism and their impact on reported earnings;
2) To understand and analyze behavior patterns of production costs. (Fixed manufacturing costs are considered as a part of the product costs by the current US GAAP and IFRS and are allocated to all production units, sold or unsold.)
3) To understand the motivation, consequences, and ethical dilemmas associated with earnings management.

Case Implementation and Effectiveness

The case was class tested at one university in summer 2013 in a graduate level class. Students had already completed their intermediate financial accounting and cost accounting courses. The case was used as an in-class project and students did not have prior preparation time. However, the course instructor led them through the class discussion and calculation process. Although the students found the case challenging they noted that it was an interesting assignment, and that it met the applicable learning outcomes.

For the first proposal, average students are expected to be able to determine that commission needs to be cut by about 2% in order for income to meet the earnings target. They are also expected to point out that cutting commission might hurt the moral in the marketing department which can compromise future sales. They might also be able to point out that cutting commission might inflict labor dispute and lawsuits by employees.

Students with stronger analytic skills are expected to provide a reasonable solution as to the level of production that is needed to meet the earnings target. However, their answers won't be accurate. They may be able to determine the inventory level in units, but usually unable to determine the costs of inventory that will appear on the balance sheet once production is increased.

More importantly, students may recognize that increasing production in this context is a form of earnings management. Management would be acting unethically as they are motivated to artificially alter reported earnings which will mislead investors and other financial statement users in general. This could be in violation of integrity and objectivity which are important building blocks of the standard of ethical conduct for accountants.

Students might be able to point out that increasing production would result in increased inventory which can compromise future earnings.

DISCUSSION QUESTIONS AND ANSWERS

1. *How much will the sales commissions have to be cut in order to meet the earnings target (in dollars and percentage)?*

Income Statements For fiscal quarter ending June 30 20X5 In USD 1,000		
Sales ($350 x 95000)	33,250	**33,250**
- Cost of Goods Sold ($250 x 95000)	23,750	23,750
Gross Profit	**9,500**	**9,500**
- Sales Commission (5% of sales)	1,663	X=1028
- Executive Salary	1,900	1900
- Rent and Depreciation	460	460
Profit of Operation	**5,478**	6,112
-Interest Expense	220	220
Net Income Before Taxes	**5,258**	5,892
-Income tax (31%)	1,630	1,827
Net Income	**3,628**	4,066
-Minority Interest	36	41 (.01)
Income Available to Stockholders	**3,591**	4,025 (.99)
Basic Earnings Per share Excluding Extraordinary Items (cents)	**0.1026**	***0.115***

$9500 - X - 1900 - 460 = 6112$; **X=$1,028,000 or 3.0917% of Sales**

Column 1 represents the original income statement information as provided in the case. Column 2 represents the calculation used to solve for the unknown value, the new sales commission or X. X is approximately 3% as noted above; therefore the sales commission would be reduced by 2% in order to meet the earnings target. The details are outlined below:

In order for the earnings per share to reach $0.115 per common share, total income available to common stockholder: $0.115 x 35mil shares = $4.025 mil. (Note the number of common shares is implicitly given in the case: $0.115 EPS x 35 mil. Shares = Total net income $4.025 mil.)
Total net income before minority interest: $4.025mil. / 0.99 = $4.0656566 mil.
Total net income before income tax: $4,065,657 /0.69 = $5,892,256
Operating income before interest & tax: $5,892,256 + $220,000 =$6,112,256
The commission rate, X, can be determined as follows (000): $33,250 – $23,750 – $33,250 X – 1900 – 460 = $6,112.256. Solve, X=3.0917%. This means commission needs to be cut by about 1.91% from the current 5% level.

2. *How many units need to be produced and sold for the quarter in order to meet the earnings target if the sales commission is left unchanged at 5%?*

Income Statements
For fiscal quarter ending June 30 20X5
In USD 1,000

Sales ($350 x 95000)	33,250	**33,250**
- Cost of Goods Sold ($250 x 95000)	23,750	X=23,115
Gross Profit	**9,500**	**10,135**
- Sales Commission (5% of sales)	1,663	1,663
- Executive Salary	1,900	1900
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Net Income	**3,628**	4,066
-Minority Interest	36	41 (.01)
Income Available to Stockholders	**3,591**	4,025 (.99)
Basic Earnings Per share Excluding Extraordinary Items (cents)	**0.1026**	***0.115***

$UC \times SUnit = \$23115$; $UC = \$243.32$; $U.FMO = \$108.32$

$U.FMO = \$10925000$ / Punits = $108.32; Punit = 100.859 Units

Operating income before interest & tax must be $6,112,256 (=$5,892,256 + $220,000) in order for earnings to meet the earnings target. Thus, cost of goods sold, CGS, must be:

$33,250 – CGS – $33250 x 5% – 1900 – 460 = $6,112.256, so CGS = $23,115.244
Because CGS = Unit Costs x Unit Sold, $23,115,244= UC x 95000, therefore, UC=$243.3184.
Unit Variable Manufacturing Costs = $135 (+)
Unit Fixed Manufacturing Costs = U.FMC
Unit Costs =$243.3184
Therefore, U.FMC = $108.3184 = Total FMC / Unit Produced.
Since Total FMC = $10,925,000 [=95,000 units x ($23,750,000/95,000 – 135)], we have
UFC = $10,925,000 / Production Units = $108.3184, Solve, Production Units = 100,859 units.
Produced goods not sold but added to inventory = 100,859 – 95,000 = 5,859 units.

Total production for the quarter has to be 100,859 units which is 5,859 units more than what can be sold. These remaining units will be added to the warehouse as inventory items.

3. *If the production is to be increased, estimate the value of the Finished Goods Inventory that will appear on the balance sheet?*

Reconcile Units and Costs

	Units	Variable Mfg. Costs	Fixed Mfg. Overhead	Total Costs
Unit Costs		\$135.00	\$108.32	\$243.32
Units Produced	100,859	\$13,615,965	\$10,925,000	\$24,540,965
Cost of Goods Sold	95,000	\$12,825,000	\$10,290,356	\$23,115,356
Ending Finished Goods	5,859	\$790,965	\$634,644	\$1,425,609

4. *What are the ethical issues of cutting sales commissions retroactively? Frame your answer using the Philosophical Principles (Imperative, Utilitarianism, and Generalization) in Ethics.*

The first principle, Imperative, directs a decision maker to act according to the requirements of an ethical rule. According to its leading proponent Kant, reason and the strict duty to be consistent should govern our actions. Therefore, individuals should act only as they think everyone should act all of the time.\

From the Imperative principle it would be inappropriate to retroactively cut the sales commission since the marketing and sales teams worked diligently to generate the sales and should be compensated accordingly. There is a clear expectation for the company to pay the commission that was agreed to by both parties at the beginning of the transaction.
The second principle, Utilitarianism, examines the consequences of the action rather than following specific rules.

Clearly, the marketing and sales team would suffer if their commissions were retroactively reduced. However, the company would receive a benefit from this action. If looking at it from the company's perspective, the action would be beneficial to the company and should be done. However, from the sales team perspective, the company is reneging on its promise and they would be hurt by the action. Therefore, the commissions should not be retroactively reduced.

The third principle, Generalization, considers the consequences of the decision made by similar persons acting under similar circumstances.

The decision to retroactively reduce the commission would be a benefit to the company but would hurt the sales team. However, this action would be for the 'greater good' and so the company should reduce the commissions in order to achieve its desired goals.

5. *Which proposal would you recommend and why?*

Under current GAAP, it is possible for a company to increase reported net income by increasing its production level. This is because increasing production without achieving a corresponding increase in sales allows the company to put units into finished goods inventory and thereby defer some of the fixed manufacturing costs to a future period rather than expensing all fixed manufacturing costs in the current income statements, resulting in an increase in net income for the current period.

Although increasing production is legal and Succulent is not violating any accounting standards, the purpose of this increase is to alter reported net income and thus it is a form of earnings management. By doing this, the company artificially increases its net income making its performance look better than it really is. It is misleading to investors and other financial statement users. The use of this approach is unethical since it contradicts the IMA standards of ethical conduct that requires accountants to be objective in reporting firm performance (IMA Statement of Ethical Professional Practice).

DISCLAIMER

This case and teaching note was prepared by Charles Tang, Raymond Elson, Susanne O'Callaghan, John Walker and Leslee Higgins and is intended to be used for class discussion rather than either effective or ineffective handling of the situation.

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HOMEOWNERSHIP IS NOT ALWAYS A BLESSING

Henry Elrod, University of the Incarnate Word
Michael Forrest, University of the Incarnate Word

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.

INSTRUCTORS' NOTES

This versatile case is designed for use in Accounting or Finance courses. It is designed (a) to introduce beginning students to some important aspects of financial literacy, including personal budgeting and financial planning and (b) as an entry point for a discussion of real estate law.

Financial Literacy Of The Schmidts.

The Schmidts lacked a basic understanding of planning and budgeting when they decided to buy a house, while car payments, unexpected medical bills, and credit card debt were getting out of control. They did not understand or did not think about the consequences of falling behind or skipping payments on their obligations. Business students contemplating graduation and the beginning of their first real careers and jobs may not appreciate the magnitude of deductions for Federal and state income taxes, social security, group insurance, retirement plan contributions, donations to charities, and so on, on their net pay. Students should consider the benefits in their own lives of simple financial planning steps, including (a) establishing a rainy day fund of roughly six months' net pay, and (b) making a simple budget of net pay compared to known expenses. These two simple steps could alert them to the delaying or foregoing the purchase of new furniture or sports cars until they have provided for their financial security. Buying less expensive cars and living in neighborhoods just below their income level, instead of living just above their means, can make a big difference to couples like Fred and Megan.

First time homeowners may not understand that the costs of home maintenance can be far different from the costs of apartment living. In a bills-paid apartment, Fred and Megan would have been used to paying just rent. As homeowners, they had to purchase hammers, saws, ladders, garden hoses, lawn mowers, shovels, and on and on. Inside the house they would soon learn that their apartment vacuum was too small to be useful, and their small screen television would soon be replaced with a big screen HD set. Large houses are expensive to furnish with the latest Mid Century Modern Furniture and Energy Star appliances.

Beside their mortgage payment, Fred and Megan may not have anticipated the taxes and insurance costs that would be part of their house payment, and they may not have accurately predicted the costs of electricity, water and sewerage, trash pickup, natural gas, water softening, telephone, cable TV, Internet service, and on and on. With apartment living, when the hot water heater leaks one Sunday morning, the tenant just calls the landlord. As a homeowner, Fred and Megan would have to call a plumber (double rates on Sunday), and then maybe have to buy a new water heater, pay a carpenter to replace or paint the wet ceiling, and have the carpet professionally dried. These are among the many "joys" of homeownership.

In constant dollars, residential housing prices in the United States today are just about where they were in the mid-1980s (US House Prices, 2013). Population growth, inflation, the continuing popularity of private home ownership in the United States, and government policy all auger for continuing gradual increases in the cost and resale value of residential real estate nationwide. Recent government policies and the crises in the securities markets, including significant structural challenges to the mortgage lending industry, and the recent recession, have all worked to dampen housing prices. Many homeowners who bought houses at the top of their price range (or beyond) believed they would make money through appreciation in the value of their homes. Instead, they found themselves owing more than the resale value of their homes would bring on the open market, when factoring in net profit after commissions, sales expenses, and fees. Real estate prices fluctuate in local markets from time to time, as well, and are often contra to national trends. Hence, selling a house at any particular time can be problematical.

A prudent investor may look at home ownership as a profitable investment if the present value of the future rent saved, net of reasonable maintenance expense and tax deductible interest expense, exceeds (or approximates) the initial investment in the house. If, at the time of sale, the property has increased in value, the transaction can be a pleasant experience. Imprudent homeowners, however, who purchase more house than they can afford, and who are without the means to survive near-term financial reverses, and who do not grasp the effects of not being able to pay their obligations, such as Fred and Megan, may well lose their homes.

And then there are the random perils that lurk in future alleyways, waiting for travelers who make a wrong turn. Pay cuts, job loss, unexpected medical expenses, archaic foreclosure laws—any of these can bring about financial ruin, especially in the event of poor fiscal planning. Plus, for the Schmidts, it meant the loss of their home.

Finally, Fred and Megan's financial troubles in this case study likely will not end with the foreclosure. Loss of the property to foreclosure will have a serious negative effect on the couple's credit rating and ability to obtain future mortgages or to borrow. Worse for them, when the first lien securing their original purchase money mortgage is finally foreclosed, if the foreclosure sales price is not enough to satisfy the amount of the debt, Fred and Megan will still owe the difference. Some lenders may sue to collect this debt from them. Others, recognizing that Fred and Megan likely cannot pay the debt, may forgive the remaining balance. As a final insult, economic income to the Schmidts from such forgiveness of debt may be taxable income to them.

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Texas Property Code Sec. 51.002. SALE OF REAL PROPERTY UNDER CONTRACT LIEN

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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.

INSTRUCTORS' NOTE

CASE OVERVIEW

As the case opened Eric Colin learned his employer, a regional chemical manufacturer and distributor, had been sold and he will 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*.

DISCUSSION 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?

A business plan is a detailed blueprint for a company, presented in a format that is logical and well-documented. It is a means of communicating the company's strategic vision to all stakeholders involved in its operations.

A business plan is useful for both a startup company and an established business. While the information will be different for each, the general format will be the same. There are many possible formats that can be used to prepare a plan. Leach, Chris J., and Ronald W. Melicher (2012),) suggest a business plan include the following:

> "A typical business plan contains, in its *Introduction*, a cover page, confidentiality statement, and table of contents, and executive summary. The *Business Description* section presents some of the considerations related to the venture opportunity-screening phase on industry/market factors. The *Marketing Plan and Strategy* section addresses the target market and customers, competition and market share, pricing strategy, and promotion and distribution. The *Operations and Support* section discusses

> how production methods or services will be delivered. The *Management Team* section presents the experience and expertise characteristics of the management team. In the *Financial Plans and Projections,* the business plan typically includes financial projections in the form of income statements, balance sheets, and statements of cash flows. These projections provide the basis for how the venture is expected to startup and operate over the next several years. The business plan should include a discussion of possible *Problems or Risks*.
>
> The *Appendix* should contain the detailed assumptions underlying the projected financial statements in the *Financial Plans and Projections* section. It should also include a timeline and milestones indicating the amount and size of expected financing needs."

The importance of assumptions, both their reasonableness and their completeness, cannot be over-emphasized. Accurate assumptions do not guarantee a venture's success but will increase the probability of success.

A good business plan contributes to company performance in numerous ways. A plan 1) serves as a track for management to follow in the future, 2) defines the resources (fixed assets and capital requirements) required to support expected sales activity, 3) provides a benchmark for tracking performance, 4) serves as a basis for decision making, and 5) can be used to attract necessary financing. From Colin's perspective, the plan will quantify assets requirements and provide a better financing estimate. The company benefits not only from the use of a well-prepared plan as a guide for management, but the preparation of the plan will clarify existing issues and frequently raises new issues that need to be considered. A business plan forces management to move beyond the present. Their time horizon must extend at least three years into the future.

For a new business, the entrepreneur must lead the planning process if all the benefits of the business plan are to be gained. Planning cannot be delegated to a counselor or accountant. The entrepreneur possesses the best knowledge about the enterprise, its nature and specific characteristics. Preparing the plan is only the beginning. For the plan to serve as a guide for future company performance, the entrepreneur must fully understand the plan and be committed to its vision.

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?

A. Sole Proprietorship

Advantages: ease of formation and discontinuance, low cost of organization, flexibility of operations, no double taxation, no sharing of profits or control, minimum legal restrictions

Disadvantages: unlimited owner liability, limited availability of capital, limited management resources, limited/unstable life, complex ownership transfer, difficulty in attracting and keeping quality employees, personal affairs easily mixed with business

B. Partnership

General Partnership

Advantages: increased availability of capital (more partners equal more capital), increased management resources, relative ease of formation and dissolution, moderate cost of organization, no double taxation, minimal government non-tax reporting

Disadvantages: unlimited liability, sharing of earnings and control, more complex decision making, additional formation expenses compared to sole proprietorships, continuity of life, potential payment problems to withdrawing partners

i. Limited Partnership

Advantages: same advantages of general partnership plus liability of limited partners is limited to the extent of their funds invested in the partnership, shields limited partners from lawsuits involving the partnership

Disadvantages: same disadvantages of general partnership plus at least one partner must be designated as a general partner; limited partners have no right to participate in the management or operation of the partnership

C. Corporation

i. "C" Corporation

Advantages: unlimited numbers of investors, limited liability for stockholders (liability limited to their investment), continuity of operations, ease of ownership transfer, professional management, acquisition of capital (more investors equal more capital)

Disadvantages: potential double taxation of earnings (taxes are paid by the corporation and again by the shareholder if earnings are distributed to the them, i.e. dividends), most expensive to start and maintain, legal restrictions, limited flexibility of operations, potential agency conflict

ii. Subchapter "S" Corporation

Advantages: same advantages of the "C" corporation but the "S" corporation avoids the potential of double taxation, shareholders can use corporate losses to offset other income

Disadvantages: the corporation must be domestic, the corporation must not be a member of an affiliated group of corporations, shareholders can be only individuals, estates, or certain trusts, the corporations must have one hundred or fewer shareholders, the corporation must have only one class of stock, no shareholder of the corporation may be a non-resident alien

D. Limited Liability Company (LLC)

Advantages: limited liability to members, acquisition of capital, potential for single taxation, not limited to one class member: corporations, partnerships, and foreign investors can be LLC members, no limit on the number of members of the LLC, creates flexibility of operations

Disadvantages: state operating requirements are not uniform

There is not a single correct answer to the question "What organization form would be best for Colin's new venture?". The selection of a business organization form has a number of ramifications and depends on many factors including: number of expected owners, tax implications, expected life of the business, amount of capital required and liability issues. Students need to approach selection of an organization form in a systematic manner. If Colin's father invests, the sole proprietorship option is eliminated. Probably the best options would be either a sub-chapter S corporation or a LLC. Either option would 1) provide unlimited life, 2) allow multiple investors, 3) increase the capital that can be raised because of multiple investors 4) provide limited liability protection and 5) avoid the double taxation associated with a regular C corporation. Initially Colin will most likely be required to provide a personal guarantee on bank debt-financing. Banks reduce their risk in case of default by making the major shareholder or shareholders personally responsible for the loan obligations and they do this by requiring a personal guarantee. Limited liability would most likely be a feature desired by Colin's father, to protect his personal wealth.

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?

The case provides a review of potential seed and startup capital sources available to Colin.

A. As indicated in the case Colin family's personal assets will be the major source of equity capital. Using personal assets to finance the startup has the advantage of not diluting his control of the company but brings with it high risk. He and his spouse are betting the ranch. The majority of funds provided (if not all) will be classified as equity. The case indicates Colin and his wife have no additional resources to add reserve financing.
B. Family and friends provide another source of startup capital. Colin's father's contribution is an example of this type of financing. A portion of his father's contribution would likely be classified as equity (a combination of preferred and common stock if the venture is organized as a corporation) with the remainder taking the form of an interest bearing loan or maybe a loan that is convertible to equity at a later date. If a partnership is the business organization of choice, his father would most likely prefer to limit his liability by becoming a limited partner. His father appears to have the resources to provide additional capital but he is already contributing fifty percent of the capital and if he did provide more, his contribution to the new venture would exceed Colin's. Other friends and relatives are also potential sources of startup funds.
C. Former business associates at Superior could be approached as investors. They could provide capital as well as chemical distribution business experience. A partnership could be formed but a partnership would require Colin to share management control.
D. Credit cards are relatively easy to obtain, but using credit cards is a high cost and high risk alternative. Credit card financing is short-term financing with very high interest rates. Credit cards are usually considered only when no other capital is available.
E. Business angels are wealthy individuals who provide startup capital (debt and/or equity) to new businesses. Angels also provide business expertise but, angels usually want and require an active role in management of the company.
F. 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. Venture capital may be an option once the company is operating and requires new capital for expansion, but is a less likely source of startup capital. Like business angels, venture capital firms require input into company decision-making.
G. 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. The case states 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.

H. Vendors provide trade credit once a firm begins operations and purchases inventory and other stock. The company receives short-term financing (reflected as accounts payable on the firm's balance sheet) from its vendors.
I. Customer may also be a source of credit if the firm can negotiate cash deposits, prior to delivery of the product or completion of the service.
J. Once the firm is operating and earning a profit, retained earnings become a source of internally generated equity.

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?

Students need to have a systematic approach to answering. A good place to start is to examine a set of financial statements from an existing chemical distributor or other wholesaler. RMA provides a basis for examining the relationship between various expense categories and revenue and the relationship between revenues and assets required to support sales. Major expense categories that need to be considered include operating, selling and general administrative. Operating expenses include plant labor, utilities, supplies and repairs and maintenance. Selling expenses include advertising, promotion, labor, commissions, utilities, travel and entertainment and supplies. General administrative expenses include office labor, utilities, supplies, postage, and travel and entertainment. Depreciation expense needs to be included in all appropriate categories. Other expenses that should be considered are all categories of taxes, payroll, sale, property, etc. Delivery expense is another area that needs to be estimated.

It should be emphasized to students that most expense estimates are directly related to sales activity, thus a sales forecast is the starting point for estimating expenses. This is also an opportunity to introduce the concept of fixed and variable costs.

Completion of projected financial statements will aid the process of identifying assets necessary to begin and operate the business. Once asset requirements are determined financing needs can be quantified.

5) Describe the function of Small Business Development Centers.

The objective the SBDC program is to aid the development of small businesses by: 1) providing realistic individual counseling, 2) developing and conducting educational programs 3) coordinating and conducting small business research, 4) conducting conferences and workshops on topics of interest to the small business owner or manager and 5) providing special assistance to technology oriented firms and those considering exporting.

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.*

INSTRUCTORS' NOTES

This versatile case is designed for use in Accounting and Finance courses. It is designed to introduce students to the profound ethical dilemma of whether it is right to profit from someone else's hardship.

Soundness Of The Rental Scheme.

Jack Dawes' strategy in purchasing deeds at HOA foreclosure sales is financially sound. Assume that Dawes regularly attends foreclosure auctions and has bought 300 houses at an average of $1,500 each. He will have $450,000 invested. Factor in filing costs, gas, rent, secretary help, etc., which could raise the amount invested to $500,000. Depending on the size and marketability of the houses, estimate that he rents 200 of the houses for an average of $1,500 per month, and that he does this for an average of 10 months before the first mortgages get foreclosed. That produces about $3.0 million in annual revenue, on an investment of only $500,000. If he can rent 250 houses instead of just 200, his income would increase by $75,000 per month. If he can rent all 300, he reaps an extra $150,000 a month. If Jack can squeeze out more time with his delaying tactics of tying up legal challenges in court, each extra month is worth another $450,000 in rent income. Overall, Dawes' business model could produce income between $3.0 and $5.0 million per year, with initial expenses and invested capital of about one half a million dollars.

Ethical Issues.

Dawes's scheme is legal. To some students in the ethics classroom, this legality makes the behavior acceptable. After all, students regularly argue that a fundamental right, if not a duty of management, is for business corporations to work to maximize profits in the service of increasing shareholders' value. They cite a myriad of sources contending that egoism (the pursuit of self-interest) is the motivating power that makes the economy run, and which ultimately provides wealth and success to all (Friedman, 1970; Ryan, 1964; Smith, 1904).

What, then, of the rights of others? Rotary International, a business service club, has an ethical guide for its members to use in their business and personal relationships (The Four-Way Test, 2013). The guide, in the form a four simple questions, encompasses the ideas that every transaction one enters into should be fair to all parties to the deal—even beneficial to all parties. This idea of commutative justice is confirmed and reiterated by the notion, taught by some business school educators, that successful business deals are those that are good for both sides—that the interests of various corporate stakeholders has importance alongside the traditional model of maximizing stockholder gain (Orts, 2013). Catholic social teaching demands respect for the equal human dignity of all in economic contracts and transactions (Economic justice for all, 1986). Every business, small or large, depends on managers, owners or shareholders, suppliers, customers, creditors, its workers, and both the local community, and the wider society, for their success. John Steinbeck (1952), in the epic *East of Eden*, used the idea of man's ethical duty, in business, to society, and fellow man, as one of the vehicles for his exploration of the conflicted relationship between a stern father, who wanted to perfect refrigerated rail transportation because of the good it would do, and his (in his view) ne'er-do-well son. The son, Cal, saw only the opportunity to make profits from the shortages and price increases brought about by the war raging in Europe. Legal, yes, but moral and ethical, no.

In contemporary society, there is a seemingly endless list of behaviors that are (or once were) legal, but would be considered immoral by many. Abortion, slave labor, manufacture of hand guns, manufacture and sale of cigarettes, production of vehicles of questionable design, and so on, are examples of activities or businesses that either profit directly from the imposition of unfair or immoral acts on others, or the sale of products which, when used as intended by the manufacturers, result in destruction or loss of life.

The ethics question for the students, then, is whether they wish to live a life predicated on profit from the misfortune of others. The Golden Rule (from the scripture of many religions), Greek ideas of fairness and justice, Kant's categorical imperative, deontology, and on and on, all call for the ethical to abhor behavior that profits directly from the damage done to others. Could not Dawes earn a living teaching financial literacy, or advising clients on methods to avoid foreclosures? Even the enlightened egoists among us can see the folly of a society that encourages the predatory behavior of the wolf.

Economics, Accounting and Finance students come to the conversation with a notion firmly fixed in their psyches that the objective of business is to maximize profits. They rely on maxims, such as, "There are few ways in which a man can be more innocently employed than in getting money" (Johnson, 1775), and Milton Friedman's essay, the title of which sums it all up: The social responsibility of business is to increase its profits (Friedman, 1970). From the simplified models of economic behavior, to the maxims of capital budgeting, business educators teach a philosophy of business cause and effect decision making that ignores the holistic nature of business problems and solutions. Accounting and Finance courses instruct that, given some appropriate discount rate and term, if the present value of the future net cash flows of a proposed investment exceed its cost, then by all means make the investment. In the haste to cover the material and move on to the next concept, many are the instructors who fail to pause to remind students that business decisions are rarely so easy. Often ignored or avoided are discussions of the needs of customers, the demands of the government, contracts with suppliers and workers, and responsibilities to local communities and to global ecologies.

This case is about Dawes, and the ethics of his behavior. It points, however, to another case that is focused on the problems of the Schmidts. What should they do next? What should they have done when served with the lawsuit? What should they have done to avoid the foreclosure in the first place? Classes in financial literacy may make good use of this case.

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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.*

INSTRUCTOR NOTES

CASE ANALYSIS OVERVIEW

This case is an ideal description of a change agent utilizing the eight steps mentioned in "Bob Knowling's Change Manual". The analysis differentiates between the change agent in the CymSTAR case versus the change agent mentioned in the "Change Manual". The "Change Manual" introduces a change agent as an individual that makes change possible for a company, but in the CymSTAR case it is a group of individuals that encompass what Knowling identifies as the change agent (Tichy). Brad Baker is the individual that had the unique perspective of the problem the enabled him to be the initial instigator of change. He jump starts the change process and is the initial change agent, but once he enlists the help of the other middle managers they become a change agent team pushing the change from the middle of the company eventually throughout the entire company.

Equally as important as the change agent team, the analysis of this case allows students to obtain a better understanding of the power of the middle manager in the change process. Brad Baker was in a middle position at CymSTAR when he recognized the need for change and took it upon himself to instigate the change process. Baker worked together with other middle managers to help make his case for the needed change stronger. Together a team of middle managers successfully formulated a solution for a problem, obtained buy-in from upper management, created an implementation plan, and implemented the solution. Much of the success of "the middle's" push for change at CymSTAR was the result of a strong, employee empowered culture.

Another unique aspect of this case is the emphasis and use of a pilot program to introduce change. The team implemented the change program by using a pilot program, and the company was able to determine the ups and downs of the change, as well as determine any changes to better customize the change for further use. This allowed the change to be tested in one department rather than multiple departments at once. If the change program proved to be successful it could spread across the company, but if it failed then it would only be a hindrance to the one program.

CASE ANALYSIS

Analyze the Need for Change

Brad Baker was appointed Program Manager for CymSTAR's KC-135 IOSR program in January of 2012. Baker is what Bob Knowling would consider a change agent (Tichy, 428-429). He realized the need for change at CymSTAR and understood that there needed to be a better structure and better utilization of the resources already available at CymSTAR. He also realized that the needed change would require the company to move away from the way it had always done business to position the company for growth.

Although Baker's perspective provided the best view of the problem, he was not in a position of power that would fully allow him to easily make the needed change on his own, but rather he was in a middle position at CymSTAR. Because of this he had to work harder to help others at CymSTAR understand the need for change, as well as obtain the necessary support and buy-in to make the change possible.

According to Todd D. Jick, a change is comprised of change strategists, change implementers, and change recipients (Jick, 211). Brad Baker was in the role of change strategists. From his unique middle position, he recognized the need for change, and created a vision of the desired outcome of the change. He played the change agent in these steps on his own, but after that point he realized that he would not only need support for the change, but also assistance in coming up with a feasible solution for the change.

Change Driven by the "Middle"

To help come up with solutions, Baker sought the help of another middle manager, Curtis Choice. Baker and Choice were able to work together to determine what type of change would be feasible for CymSTAR, and what options would not be beneficial. At this point, Choice has taken on a role of change agent in addition to change strategist. The two worked together in a way that was casual and informal and were able to come up with a potential solution; add Field Service Technicians (FSTs) into the installation process. Baker had to use effective communication to get all players to understand his unique perspective at CymSTAR.

Once Baker and Choice were able to come up with a plan they sought extra help from the Senior Electrical Engineer, Chris Carpenter. The goal of the three at this point was to determine the characteristics that would make up an ideal candidate for the FST position. The dynamics of their relationships consisted of trust and respect, but their meetings were not what might be considered formal or professional. Working together as a change agent team, Baker, Choice and Carpenter were able to determine the requirements for the first FST that would be hired.

Understanding what the FST's role would look like, the proposal would need buy-in from upper management. The team worked together to determine the appropriate approach for the new program proposal. CymSTAR had been successful with their current way of doing things, and the group realized there would be some resistance to the new idea. They knew they had to approach those in charge with the perfect proposal in order to successfully get them on board. How the plan was communicated would be vital to the process.

CymSTAR had a culture that allowed the employees a high level of autonomy and decision making, and the group was able to put together an effective approach to get the leaders on board to at least try out the new program. The other way the three addressed the resistance was to provide as much information as possible and to answer any questions that were asked. The management team became comfortable with the change once they had more information about it and were able to realize that Baker and his team were thoroughly prepared. The go ahead was given for a pilot program utilizing one FST.

Implementation

Once the pilot program was implemented the group allowed the program itself to address the resistance. The management team and engineers were able to observe for themselves the benefits that the program could offer. They knew it was not perfect, but the benefits that were present were helpful in pushing the fear and hesitation aside. Change was made possible through a team effort and not one particular change agent. Baker, Choice, Carpenter and the pilot program itself played the role of change agent as all aspects worked together to accomplish the goal.

The organizational structure at CymSTAR did not change with the addition of a FST, and the new FST fell into the same category as the engineers that were previously doing the job. The group determined that the FSTs would report to Choice since their primary focus would be on the electrical side of things, and Choice was the Electrical Engineering Manager. The group also decided to deviate from the normal salary incentive program for the FSTs and line them up on an hourly program offering overtime. The group believed this would be less expensive for CymSTAR.

CymSTAR did not have an official training program put together for the new Field Service Technicians, so they implemented a mentor training program. Chris Carpenter, the IOSR Project Engineer, became responsible for the mentor training program, so they placed new FSTs with experienced engineers to help train them. Chris Williams, CymSTAR’s first FST, began following Carpenter to soak up the knowledge Carpenter had to share. Baker, Carpenter, Choice and Williams took on the role of change implementers at this point in the change process. Williams implemented the program by doing the actual work as the other three worked together to make it possible to get Williams into the program and get it started.

Results

The new pilot program was implemented and proved to be a success. The company recognized many benefits from the change, and also realized many opportunities to better the change. Introducing the FST into CymSTAR freed up the engineers and allowed them to travel less which meant they could focus on their design work. It also benefitted the company when two FSTs were hired that had knowledge about a new program CymSTAR was to work in an area where CymSTAR lacked knowledge.

By implementing the FSTs into the organization, CymSTAR was able to increase the organization's capabilities. With this change they were able to learn different ways of doing things; as well as gain knowledge about a program they were not knowledgeable about (Christensen, 68). This strategy is introduced in the article "Meeting the Challenges of Disruptive Change." This article suggests that a company is stronger when the capabilities of the organization are understood rather than just the capabilities of the people within the organization (Christensen, 61).

Implementing the pilot program at CymSTAR allowed the organization to see the benefits as well as downfalls of the new program. This saved the company the potential issue of introducing a change company-wide and it possibly being a failure. Baker and the other managers knew the change program may be ineffective, and they could decrease the risk of the change program to implement in one department rather than company-wide. This also allowed the management team time to come up with ideas to better the change and make any necessary changes before implementing into other departments.

There were, however, some issues that presented learning opportunities for the program. When new contracts came in to CymSTAR the FSTs lacked the knowledge to successfully install the new modifications. The documentation process from the engineers and the understanding of how the work was to be done is something that CymSTAR had to work on and improve in order for the FSTs to be successful. Also the handoff from the engineers to the FSTs was a little rocky and needed some improvement. These are all opportunities that were visible after the program was implemented and that were analyzed in order to potentially improve the pilot program.

Todd D. Jick's article "Implementing Change" lists seven implementation problems that come about with a large percentage of change programs. Baker and his group faced a couple of these during the implementation process. There were instances where the capabilities of the employees that were hired to do the job were not sufficient enough to actually do the job. Also there was not sufficient training for the new FSTs which led to the FSTs lacking in certain capabilities. However with these problems they faced they were able to have the support of the necessary upper management, as well as having a structured outline as to the goal of the change.

CymSTAR did not utilize one specific change model for their new program. It is evident that Baker and the change team used a variety of strategies from a variety of change models. They in a sense developed their own change model and designed it to fit their own specific needs. This is an excellent learning opportunity as it gives an example of being creative in a change process. Every company is different and as mentioned in "Why Change Programs Don't Produce Change", every company would require a unique approach to change (Beer, 268). This gives insight to the capabilities of the middle man and what can be accomplished if goals are outlined and communication is exercised effectively.

DISCUSSION POINTS/STUDENT LEARNING OPPORTUNITIES

To begin the change process, someone had to identify the need for change. According to "Bob Knowling's Change Manual" someone who is not necessarily in a position of power, much like Brad Baker, still has the opportunity to make a difference and make a change (Tichy, 428). Baker followed the eight steps that are mentioned in the "Change Manual" to be classified as a change agent. To begin, Baker saw a problem and realized that things were not working and something needed to change. This was the start of the change program at CymSTAR.

It was critical that Baker understood his boundaries in his position at CymSTAR, and used what authority he had to his benefit. Baker then began to work with the things he had control over. He knew he had to pick his battles and once he got things in his jurisdiction under control he did not try to stretch his authority, but rather enlisted the help of others that could help broaden the range of things that could be influenced by the change (Tichy, 428). Baker was the only change agent up to this point, but once the other middle managers got involved they too became change agents and a change team was born.

A major factor that played into the identification and analysis of the needed change was the team's understanding of resistance. They knew from the beginning that they would face resistance, and they immediately began to come up with a strategy to address this resistance. It was fortunate for the team that CymSTAR had a culture of middle power, and allowed autonomy among its employees. The team was also fortunate that they had strong relationships and worked efficiently and effectively to accomplish the goal they had set. All of these factors and the dedication that was shown by the change agents gave CymSTAR an opportunity for future growth.

After the problem was identified and analyzed, the change program at CymSTAR was initiated from the middle and flowed outward. It was not a top-down approach. The group realized that they were not in positions of strong power that would typically introduce a change, but they realized their boundaries. Baker understood this need at the company, and he realized it was his problem to fix and took the necessary action. This is an important characteristic of a change agent, where others may brush it off as the company's problem. Baker involved the other middle managers and all three had to work above their level to involve upper management, and below their level to involve employees (Oshry, 449). This concept is introduced in "Converting Middle Powerlessness to Middle Power: A Systems Approach."

The change initiated from the middle also used the last five steps of Knowling's model. Step four in the "Change Manual" is that a change agent must have a "model of change" (Tichy, 429). As mentioned above, Baker and his team had a model developed for their unique change. There were few political issues for the team to face based on the culture at CymSTAR. The culture allowed the team to be free with their discussion about the change that was needed. A big thing about change is the discomfort that is felt by everyone involved. Stepping outside of the comfort zone is the only way that a change has a chance to be successful. Baker and his team did that by pushing people to do things that were outside of the normal way of doing things at CymSTAR.

In addition, not only did Baker and his team talk about the change and push other people to be behind it, but they also embodied the change they wanted to see. They were not hypocritical in their desire for change, but instead they did what they said they would do and walked the talk (Tichy, 429). This is something that is critical for a change agent to be taken seriously. It is difficult to believe that something is going to be beneficial if the person or people attempting to introduce it don't appear to truly believe in the change. The final step mentioned by Knowling and the final sign that the change was successful was when Baker and his team no longer saw the program as a change, but as a way of doing things around the organization (Tichy, 429). The pilot program eventually spread to other programs, and this is something Baker and his team had worked hard to accomplish.

CHALLENGES/ISSUES

The use of FSTs at CymSTAR did not come without challenges. There were issues that developed trying to figure out the payment method for the new Technicians. The management team decided they would stray from the normal salary and bonus structure and implement an hourly structure with overtime added, but no bonus potential. The number of hours the technicians would be working could cause the pay to be significantly more for the technicians than originally thought. This could result in the change being more expensive than the initial situation with using only engineers.

With the FSTs being on an hourly salary they were encouraged to work more hours because they would be getting paid time and a half for any time over 40 hours. This could mean that the job may not get done in as timely a manner as desired resulting in less customer satisfaction, as well as less in the flexible bonus pool for the engineers. With the salaried positions the employees are motivated to work faster and get the job done faster because they get the same pay working 40 hours as they would working 50 hours, and the salaried, flexible bonus pool reflects costs savings of finishing the job under-budget. In the same aspect it is de-motivating for the FSTs to work harder and faster because they will not be receiving a bonus based on their quality of work and will receive less pay because their overtime is reduced.

The original challenge that was presented that resulted in the change was the lack of available engineers. The company was stretching the engineers that were on the team so thin, and causing resentment from the engineers. This was resolved by putting in FSTs, however with the pay structure being changed this could result in even more resentment from the engineers and other staff at CymSTAR. If the new, less qualified, technicians were making more money just because they were hourly rather than salary, this could cause conflict among the different departments. There is definitely an emerging goal difference between the engineers and FSTs.

Another challenge that was faced was the lack of an official training program at CymSTAR. The team had worked together to come up with the requirements to select an FST, but they did not appear to be prepared whenever they actually hired one. The mentoring training program proved to be beneficial enough to be a success, however, when new contracts were brought in the FSTs lacked the capabilities to successfully install the new modifications. The team was looking toward the future with the implementation program, but they missed the aspect of obtaining and installing new contracts and clients. This also proved to be less effective as more FSTs were hired.

The handoff from engineer to FST was something that was not very efficient. There was a lack of documentation in regards to how the jobs were done. The engineers were the ones who had designed the program and the process to install was in their heads. They had to figure out a way to document what was in their heads in a way that made sense to the FSTs.

The resistance among the upper managers was something that had to be dealt with by the team. They had to convince the upper management that the technicians would be able to successfully do the same job that much more qualified engineers were currently doing. They also had to convince the upper management to approve the program and the incentive program desired. This new program was going to cause CymSTAR to stray away from what they were currently doing, and what was currently successful for them. They were going to have to step out of their comfort zone for this change to be implemented. This caused hesitation from the upper managers.

There was also resistance from the engineers. They had fears that the new FSTs may not be able to do the job that engineers had been doing for years. They were looking forward to the decrease in travel, but they were skeptical about the new FSTs being able to complete a job successfully. The engineers had concerns that the FSTs may lack the knowledge that was necessary in the simulation industry. The overall resistance to the change came from the fact that it was all unknown. They were unable to determine what would happen before the change was implemented and that was uncomfortable for the members of the organization to accept. It did not appear that Baker and his group addressed the resistance in an obvious manner, but they used communication and the actions of the program to reduce the hesitation and resistance.

RECOMMENDATIONS

For future changes, members of the entire organization should be involved. Baker and his group included their leaders, but once the change was successful and spread throughout the rest of the organization it should have been discussed with leaders of every department. This is critical, because even within an organization there are unique aspects to different departments. The change could potentially need to be changed or altered to fit another department.

There should also be a more formal training program implemented to avoid further problems with insufficient capabilities. The mentor training program is beneficial and gives the FSTs the opportunity to see the work being done, but that training may be inconsistent. One FST may follow on a day when one problem occurs and another day a different problem may occur. The FSTs following on different days are gaining experience that could be beneficial, but they are not gaining the same experience. Along with the mentor training program there should be a “classroom” type training program that will introduce the FSTs to common issues that may be faced on the regular basis. This could contain scenarios that the FSTs have to work through, etc.

The management team at CymSTAR should obtain and analyze feedback from a variety of people involved with the change including the technicians, the engineers, the customers and the management team. Each department may have had a different experience with the change and obtaining a wide array of feedback will increase the value and the learning opportunities. The learning could be used to make changes to the way FSTs are used on future programs.

The compensation issue is one that could be resolved with a few changes. The FSTs being on an hourly compensation plan rather than a salary compensation plan causes issues as mentioned above. If the FSTs were put on the salary plan they would have more motivation to produce quality work and get the job done faster. This would also decrease the amount of tension between the engineers and the FSTs. The incentive plan could be set up the same as it was for the engineers when they were doing the implementation, but on a level that would be sufficient for the FSTs. Their pay should remain less than that for the engineers, but the salary would be more beneficial and fit with the company structure.

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SEXUAL HARASSMENT: CAUGHT OFF GUARD

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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.

INSTRUCTORS' NOTES

Preparation

Require that students read the case prior to actually addressing the decision points in class. This case should follow lectures and discussions on discipline procedures.

Teams from two to four students can enhance discussion and presentation of the decision points. When students are thinking of their own ideas and interpreting material, many times they need encouragement from another student or two to verbalize their solutions to a case.

Decision point discussions in class will require at least one-half hour. Students should be encouraged to use the Internet and business resources to verify, validate, and explore alternative solutions to the case.

The topic presented in this case can produce emotional responses. Challenge students to be objective and to evaluate Paris' handling of the investigation.

Decision points

1. **Was Paris' experience and education adequate preparation for this position?**

   It is fair to assume that Paris has no work experience and that she has recently graduated from college. On one hand it appears that her hard work has convinced her superiors and others that she is quite capable. On the other hand, her handling of this investigation suggests that she is either not experienced enough to respond appropriately to this difficult situation or that the intense emotional nature of the complaint on her relationship clouded her judgment. A major point that can be made here is that even adequate education and experience will not always prepare you for every situation.

2. **What are the ramifications of husbands and wives working together?**

   This case illustrates one of many examples that you may contrive for this question. A common difficulty arises when there is a sickness or death in the family. A complication is likely when there is marital strife, separation, and divorce.

3. **Is Renita a credible witness? Why or why not?**

   Given her storied history it is easy to discredit her complaint. Discuss the difficulty of assessing the credibility of a witness, especially when the reputation of the witness is dubious. This could be a springboard for safeguarding one's personal integrity.

4. **Was there a better alternative course of action for Paris?**

   The best alternative would have been to contact another HR professional in the company and have them conduct the investigation. Having another company official investigate is also a reasonable approach. At a minimum, Jacob should be afforded an opportunity to respond prior to discipline being prescribed.

5. **Assume that Renita was fabricating the story.**

    How does this impact Paris' ability to do her job?

6. **Examine "Due Process" in any investigation where the potential for discipline exists.**

    Discuss the components of a thorough, complete, and fair investigation.

7. **Assume that Renita's complaint was valid.**

    Does the absence of due process in this case affect the outcome?

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.

INSTRUCTOR'S NOTES

Decision Points

1. **What are some of the differences between the skills needed to run a business and those needed to create art work? Or, are there any differences?**

Stereotyping specific careers and the people who pursue those careers can cause similar characteristics in the artist and those in the business person to be overlooked. Initially, business majors may have little to no experience in working with artists. After all, they are pursuing their degrees in business, and therefore have few opportunities to just work an art class or two into their degree plans.

The artist and the business guru may have similar characteristics yet subconsciously pursue their goals via different paths. One may say that the artist is quiet, subdued, and intensely focused on her work. She becomes oblivious to things going on around her.

In the case presented here, she, Sarah, has had a lifetime of being able to rely on her sister, Jean, to keep everything surrounding her orderly, thus being able to fully concentrate on her art.

When did business become a science? How can the students dissecting the case include discussion about the art of business and the science of business?

This question enables students of all levels to participate in the discussion. And, this question may be the first time students are challenged to think about business as either an art or a science.

In interacting with the cousin, Joann, the reader can observe that both Jean and Sarah learned early in childhood to be wary of their cousin. As they grew older and all three started building the soap company together, Joann made some personal decisions based on what she knew at the time about the small business that Jean started so that she could stay home and raise her son.

Death certainly changes many things in all families and most businesses. When Jean passes, Sarah is the only partner for people to contact about the business. She knows that. She wants things to come to a halt while she attempts to deal with the reality of Jean's death.

Business does not work that way. Although a partner is dead, consumer demand for the soap remains constant and product needs to be shipped.

As the product cruises into the growth stage of the product life cycle, its brand equity distinguishes it from other collegiate products.

Brand equity for the soap grows through the name of the product as it captures the comfortable feeling of home and mom in the distinguished forms of collegiate symbols made in soap. The concept of mother in the title of the product does not rely on Jean specifically to survive.

2. **Are there some specific strategies that Sarah can use to put her past behind her so she can focus more on the task at hand? List these strategies and explain how they can help with her practical business problems.**

Several strategies can be used in answering for the surviving partner, Sarah. She may want to pursue making a list of at least three alternatives she can identify as ways in which the business can grow.

A. *Continue as the sole owner of the business. What does she encounter if she pursues this course of action? Does it re-classify the business as a sole proprietorship? She needs to consult with the accountant for the best course to follow regarding taxes and reporting here. What charts can help her determine how to interpret her course of action? Students can be encouraged to discuss where the product is in the product life cycle, sales of the product, and the growth rate of the product.*

B. *Continue the business and include Joann as partner. Her instincts tell her to avoid Joann, yet her evaluation of Joann's suggestions to grow the business strongly interest Sarah. Students can be encouraged to discuss the various avenues Joann suggests for the business.*
C. *Sell the business to Summers' client. The offer is somewhat interesting to Sarah because it is enough to make her think about the sales of the company, yet not so much that she would totally discount continuing on her own. Encourage students to discuss possibilities of knowing the value of a company based on sales and brand equity.*

3. **Offer a critique of the telephone greeting that Sarah uses for her business.**
Sarah's telephone greeting presented in the case can be descriptive of an individual who is under extreme stress. She is lashing out at anyone who calls. Why?

Students can discuss the obvious answer that she is suddenly without a sister that she has relied on throughout her life. And, then, they can discuss some of the characteristics of the artist and the business guru from question one as they relate to how individuals deal with stress.

A point to make, too, is that Sarah is not so stressed that she totally ignores Joann's ideas for the business.

4. **Offer a critique of the name of the business. Is it a good brand name from a marketing perspective? Why or why not?**

Encourage students to discuss the positive characteristics of the name and the negative characteristics. Include the brand equity discussed in answering the first question.

If they decide on a name change, how can they implement the change and not sacrifice the brand equity. Students should be reminded that all packaging, business cards, displays, bags, and promotional tools will need to be redone if there is a name change.

Changing the name may come about based on some of Sarah's decision making in the second question. Encourage students to discuss the impact of the decisions in Question 2 on a name change.

5. **Offer a critique of the suggested plan to hand out t-shirts with, "I smell good," on them.**

Encourage students to discuss the impact of a free T-shirt on their decision to buy things, i.e., pizza, tickets to a sporting event, or soap. Remind students that the soap is in the form of the symbol for the university, i.e., head of a long horn steer for University of Texas, the block TAMU for Texas A&M University, etc. Students should include the size of the university, i.e., small state university, i.e., Sam Houston State or Stephen F. Austin State. Does this business need to reach out to smaller markets as Joann suggested?

6. **How might the millennials be different from other cohorts such as Baby Boomers or Tweens? What aspects of millennials would make them want or not want this type of soap product?**

Encourage students to initially describe themselves. Faculty may want to have students work in a group for this answer. Have them interview each other and then compare their responses about themselves and products and things they care about, i.e., the environment, to the description of millennials in Appendix A. Are the students similar? If there are differences, how are they different? Do the students believe they accurately reflect the overall descriptions of their generation?

Encourage students to discuss their self-perceptions and the products they purchase. How do their answers impact any of the decisions that Sarah will be making regarding the business?

7. **Explain how companies "expand their product lines". How might Sarah expand the line to appeal to sorority and fraternity members?**

This is an excellent opportunity to explore products, product lines, and product assortments. Straight from the Principles of Marketing texts information about products, lines, and assortments can be applied to the product, Mama Says Wash! Encourage students to discuss packaging, its role in selling and distributing the product.

8. **Are there other distinct groups on campus that Sarah and her company might target with these soaps? What are they?**

Encourage students to review the colleges represented on their specific campus. And, if they are participating in an online class, how do they describe their online culture. Are there ways to market to online as well as on-campus students with the product, Mama Says Wash!?

9. **Based on the students' answers in Questions 5 – 8, would the Advertising Budget in Appendix C change? If so, how?**

Have students review the advertising budget. Do they think it is adequate for the market that the product is attempting to reach? Will it be adequate for each of the decision paths that Sarah could select? Have students be specific with ideas for web page enhancement and stickiness measures, their willingness to include pop-ups on Facebook and Twitter, etc.

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 accept the audit evidence (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.)

INSTRUCTORS' NOTES

RECOMMENDATIONS FOR TEACHING APPROACHES

Overview

The materials presented provide instructors with an opportunity to update undergraduate and graduate auditing and forensic accounting curriculum using case analysis. The case is based on SEC Accounting and Auditing Enforcement Releases (AAERs) that exemplify conditions identified by the Committee of Sponsoring Organizations of the Treadway Commission (2010a, henceforth "COSO 2010") and the Center for Audit Quality (2010, henceforth "CAQ 2010").

While cases have addressed professional skepticism (D'Aquila & Capriotti, 2011) 2011) and the fraud triangle characteristics (Knapp, 2011; Beasley & Buckless & Glover & Prawitt, 2012), the case is unique in that it also recognizes the role of management biases in affecting both the incentive for fraud and the rationalization process of the perpetrator. Consistent with COSO 2010 which finds that most fraudulent reporting involves the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO), the primary perpetrator in the case is the CEO. The case provides a starting point for discussions as to how auditors can identify when management's representations reflect bias.

The case incorporates the Slippery Slope to Fraud ("slippery slope"), a recurring scenario identified in 2009 and 2010 Center for Audit Quality discussions on fraud deterrence and detection. This case highlights the importance of identifying the conditions and characteristics of the slippery slope.

Academic research suggests that executive overconfidence, strong beliefs in the success of the company, can cause the executive to set performance goals that are unattainable, committing the executive to a course of action that, consistent with the slippery slope, leads to financial reporting fraud (Schrand & Zechman, 2012). Other researchers support the finding of Schrand & Zechman (2012) that CEO overconfidence results in restatements (Presley & Abbott 2013).

The importance of the CEO in corporate governance is also addressed in the case. His role as the instigator of the fraud and the CFO's involvement gives an example that is consistent with the Committee on Committee of Sponsoring Organizations of the Treadway Commission (henceforth "COSO (2010)") finding that over 89% of financial reporting fraud involves the CEO or CFO.

In this case, based on actual fraud incidence, the CEO exhibits many of the symptoms of overconfidence, the tendency to over-estimate positive outcomes and to have an increased confidence in the likelihood of outcomes (Malmendier & Tate, 2008); and an over-estimation of the precision of self-knowledge (Gervais & Heaton & Odean, 2003). The case provides material for analysis of the affect the CEO's possible overconfidence has on his rationalization process and in the incentive to commit fraud.

Auditing standards require that the auditor approach the audit with professional skepticism. The reliability of the evidence the auditor collects is related to the auditor's assessment of believability or trustworthiness. AU Section 320 addresses due professional care and requires the auditor exercise professional skepticism throughout the audit process (AU 320.08). Professional skepticism, as defined within the auditing standards, includes the presence of a questioning mind and a critical assessment of the evidence provided (AU 320.07). The auditor should neither assume honesty nor dishonesty. The auditor should not permit less persuasive evidence due to the auditor's assessment of honesty (AU 320.09).

The Center for Audit Quality (2010) suggests professional skepticism is a deterrent to financial reporting fraud. When auditors lack proper professional skepticism, this defers an auditor's ability to recognize components of the fraud triangle (Center for Audit Quality 2010). Specifically, professional skepticism can reduce both "perception of opportunity" and "the ability to rationalize fraudulent behavior" (CAQ 2010). As noted by Carpenter & Durtschi & Gaynor 2011, education which incorporates professional skepticism heightens the student's ability to recognize fraud risk factors.

Included in the discussion of professional skepticism in CAQ 2010 are the six characteristics of professional skepticism proposed by Hurrtt (2010). This case uses these characteristics to assess the professional skepticism of the audit team, who had considerably less accounting and auditing experience than the CEO, a former audit manager. The case puts accounting students in a setting similar to what entry level auditors might face.

Case Learning Objectives

The case, based on actual SEC Accounting and Auditing Enforcement Releases (AAERs) for a publicly traded company demonstrates how the CEO's attitude and belief in the success of the company contributed to financial reporting fraud. The case demonstrates how fraud can permeate through management of a company. The case also is one version of the slippery slope scenario in a factual setting. Given the pervasiveness of the fraudulent acts, one question students should ask is why the audit process did not disclose the fraud. Certainly the financial reporting fraud was material and should have been disclosed in the audit. One possible explanation is that the auditors lacked professional skepticism. The case is then an opportunity for students to consider whether professional skepticism was possible by examining the six characteristics of professional skepticism.

The case provides an opportunity for the instructor to review the fraud triangle components of rationalization, incentive, and opportunity. The instructor can both review the definitions of each of the components and ask for examples based on the case provided.

The primary learning objectives of the case are:

LO1. Increase awareness and understanding of fraud triangle conditions.
LO2. Understanding the slippery slope scenario and identifying the characteristics of the slippery slope in a case presentation.
LO3. Recognize and understand the six characteristics of professional skepticism.
LO4. Understand how professional skepticism affects audit quality.
LO5. Recognize signs of CEO overconfidence and the potential impact of CEO overconfidence on financial reporting.
LO6. Understanding how weakness suggested by the fraud triangle, ineffective corporate governance, and a lack of professional skepticism by the auditors can contribute to audit failure.

Objectives 1-5 are addressed in the Case Questions. In addition to the case questions, however, it is anticipated that the case will result in furthering students understanding of the interactive nature of the audit, which is addressed in Objective 6.

Implementation Guidance

The case is designed for implementation in forensic accounting or auditing classes. In a graduate setting, more emphasis is placed on LO2-LO6. In an undergraduate classroom, the emphasis is on LO1 and LO2.

The case could also be used in a practitioner setting in training, certification, or continuing education programs. The case is based on a scenario that research suggests occurs with some frequency (CAQ 2010).

In undergraduate classes, where students have limited exposure to the fraud risk conditions, the case materials provide for an introduction to the fraud triangle and the slippery slope. In graduate classes, the instructor should assign the class as a homework reading to permit adequate time for the student to read and critically review the case. In addition, the instructor could also assign additional readings to supplement the student's understanding:

1. *Center for Audit Quality. 2010. Deterring and Detecting Financial Reporting Fraud. A Platform for Action. Available at http://www.thecaq.org/Anti-FraudInitiative/CAQAnti-FraudReport.pdf*
2. *Committee of Sponsoring Organizations of the Treadway Commission. 2012. Enhancing Board Oversight Avoiding Judgment Traps and Biases. Available at http://www.coso.org/documents/COSO-EnhancingBoardOversight_r8_Web-ready%20(2).pdf*
3. *Hurtt, R. 2010. Development of a Scale to Measure Professional Skepticism. Auditing: A Journal of Theory and Practice 29(1):149-171*

There is only cursory coverage of corporate governance in the fraud triangle discussion. However, the instructor could also ask students to address what corporate governance weaknesses they find within the Company. This, then leads to a discussion of the importance of tone at the top, the CEOs role in setting tone at the top, the ethical dilemma faced by the employees of the CEO, and the impact on the executives following disclosure of the fraud.

In addition to an in-class discussion, students could also write essays to address the questions. In a graduate setting, it may be more appropriate to assign the background readings, to facilitate the writing. In an undergraduate setting, reading of course textbook materials that address fraud conditions may be adequate.

The case was tested in a seminar class of graduate accounting students. Feedback from the preliminary tests suggested modifications to the case. Following modifications, the case was presented to a different group of students in a graduate seminar class of 43 accounting students. Prior to class, the case and discussion questions were distributed to the students. The students were also asked to read the Hurtt paper on professional skepticism (available through online library access). The students were asked to write a brief response on the fraud triangle questions to be submitted in class.

During class time, the students were divided into teams of approximately 4 students each. A representative of each team was asked to respond to each question on the fraud triangle, slippery slope, and professional skepticism. The discussion lasted approximately an hour and a half in a two hour seminar class.

The graduate students were most interested in the CEO's actions and behaviors. In addition, a lively discussion on whether the CEO was prone to fraud prior to his hiring at Delish Pasta resulted. Some students felt the case suggested the CEO had a pre-disposition to fraud. His attitude of success at all costs and the ambiguity as to why he would leave public accounting seemed to contribute to this belief. Others suggested that there was nothing in the case that suggested the CEO had behaved improperly prior to the founding of the task force.

Graduate students were also interested in the CEO's overconfidence and the impact on the firm. Students pointed out that the CEO's decision to meet goals at all costs, forced employees to direct efforts in achieving short term financial goals, distracting from efficient/effective operations. The behavior of the CEO was not in the best interest of the company. Students expressed concern that employees had few options to assisting in the fraud scheme, other than leaving the company.

Students were also interested in the dimensions of professional skepticism and how those dimensions affect the auditor. In response to the question, "Which of the background materials did you find most informative?" students mentioned the Hurtt paper.

The author conducted post case assessments which addressed the specific learning objectives. The survey results are available upon request. The survey results confirmed the case added to the students' awareness and understanding of the fraud triangle, understanding and ability to identify the slippery slope, ability to understand how professional skepticism affects audit quality, and understanding of CEO overconfidence and the impact this would have on the audit. Students believe the case realistically depicted conditions an auditor might face. Students found the case easy to read and understand. Some students appear to have found the background readings (including the Hurtt paper) to be necessary to understanding of the material, while others did not.

Questions: Understanding the Fraud Triangle-Incentive, Opportunity, and Rationalization

1. What conditions existed within the Company that created an incentive for fraud to occur?

ANSWER: Incentive refers to the benefits that can be obtained from committing fraud. The Center for Audit quality has found three primary factors motivating fraudulent reporting: personal gain, achieving short term financial goals, and hiding bad news from investors (CAQ 2010). At Delish Pasta, the CEOs performance had been stellar. Four years after leaving public accounting, he was in the position of President and CEO. Therefore, if the company failed to meet expectations, given that the "4-5-1 Triple Crown Performance" had been his idea, a failure would have a negative impact on his reputation. The case does not provide enough information to tell us if the CEOs compensation package was tied to financial performance or if the CEO had stock option grants. The CEO did own stock in the company. His personal wealth may have declined if the Company's performance was below expectations.

The initial fraud was to fill a gap in meeting financial goals. The goals were relatively short-term, over a two year period. After the disclosure to analysts, indeed part of the plan for achieving stock valuation was reliant on analysts tracking of stock, the CEO was forced to alter financial results to hide the true results from investors.

2. What conditions existed within the Company that created an opportunity for fraud to occur?

ANSWER: Opportunity generally relates to constraining mechanisms that curtail aggressive financial reporting. In this case, the CEO appears to have considerable power. He was also President and a member of the board of directors. The case information does not tell us if he was also Chairman of the Board, however, we may conjecture that he was. The CEO certainly did not set tone at the top for the company. There is no mention of a code of conduct for executives, indeed the attitude seems to be of goal achievement by any means possible.

We do not know if other executives disagreed with the CEO. There is the possibility that the executives had compensation plans tied to financial performance. Although the audit committee met requirements set by the NYSE, it seems to not have functioned well, given the number of ways in which the fraud was perpetrated.

Auditors may have not been as skeptical of the representations of the CEO because he had been an audit manager. Likewise, another member of the management team (a former CFO) had been an audit partner. Under Sarbanes Oxley, the CEO would have not been permitted to take a position involving financial reporting (the chief financial officer position) for a period of one year. Not enough information is provided to determine if this is also applicable to the former CFO.

3. What facts suggest rationalization? How did the CEO rationalize the decision to commit fraud? What do you think was the rationalization process for others in the organization?

ANSWER: Rationalization is the process by which the perpetrator accepts his or her behavior as acceptable. The CEO may have felt that the inability to meet goals was temporary. He may have recognized the potential impact the failure to meet goals would have had on his company, employees, and investors and adapted behaviors to mitigate these effects. Employees were faced with a dilemma, either accept and contribute to the CEO's financial reporting schemes or leave the company. Some employees may have rationalized the decision to contribute because they felt they were helping the company or because they felt an allegiance to the CEO. Other employees may have rationalized that this was common practice and that leaving the company would not resolve the ethical conflict. Still others may have believed that the behavior was acceptable.

Questions:The Slippery Slope and CEO Overconfidence

1. What aspects of the CEO's behavior suggests overconfidence? Why?

ANSWER: Mr. Mason believed that the company could out-perform competitors. This strong belief in the company's performance was translated into financial results projections. He made statements that suggested he thought the "aggressive" performance goals were attainable. He so strongly believed in the future performance of the Company that he disclosed to analysts the projections. This, then, suggests that the CEO had characteristics consistent with overconfidence.

2. What evidence should the auditors have obtained to support their suspicions that the representations of management were circumspect?

ANSWER: When auditors suspect that the representations of management are not truthful, the auditors can seek confirmatory evidence from outside parties. Verifiable documentation from outside parties is more reliable than from internal sources. In addition, the auditors could have obtained more evidence (sufficiency). There are no indications of the extent of the audit testing.

We do not know from the case materials whether the audit failure was due to the sufficiency or reliability of evidence or due to the auditor's professional judgment. The auditors should have reviewed the Management Discussion and Analysis for the Company. Any projections that seem out of line with industry projections (the senior auditor had industry experience) would alert the auditor to management's bias. Auditors also had access to public disclosures, such as press releases, where the CEO discussed goals or expectations. In addition, the auditor should consider the budgets. The budgets included line items for the GAAP violations. Internal budgets that are always exactly met are indicative of managed earnings.

Students who use the Appendix data will answer the question differently. Their responses may include: the amount of debt versus equity financing compared to similar firms in the industry, in-the-money stock options held by the CEO, founder status, and whether the Company had or was planning acquisitions.

3. How did the CEO's overconfidence affect the firm (the Company)?

ANSWER: The CEO's overconfidence resulted in the Company's consuming directive of meeting performance goals. Time spent in meeting the performance goals, could have been spent in legitimately improving the bottom line of the company. Executives were directed to meet these goals without considering the potential results from disclosures of financial reporting fraud. Tone at the top was lacking. Without tone at the top, internal controls were compromised. The firm continued in existence after the fraud, but was required to pay substantial fines to the SEC. Analysts likely lost confidence in the Company. Employees that contributed to the fraud lost jobs, reputation, were fined, and some were barred from practicing as CPAs for publicly traded companies.

4. What details support the slippery slope scenario?

ANSWER: The fraud appears to be motivated by gaps between expected and actual outcomes. The CEO needed to fill the gaps by improving financial performance. Initially there was not wide-spread fraud but small misstatements. Consistent with the slippery slope scenario, only after the gaps widened, in this case the result of low demand for pasta products, could the fraud be considered major. Initially the fraud was committed using a few accounts or transactions but as financial results continued to not meet expectations many different types of transactions were used. The former CFO and CEO's knowledge of the audit process may have influenced the accounts and methods selected to hide the fraud. What is rather novel about the case is the number of employees involved in the fraud. These employees included the controller, CFO and former CFO as well as the CEO.

5. Do you believe the CEO's decision to violate GAAP to meet task force goals resulted in his first fraudulent act? Discuss the ramifications of your answer.

ANSWER: Some students have found the speed with which the CEO established the task force is suggestive of a history of fraudulent behaviors. Others believe the stress of attempting to meeting the unrealistic goals forced the CEO to abandon ethics (creating an incentive for fraud) that otherwise would not have occurred. If the student believes the CEO committed prior acts, then all the financials of the companies where he was auditor would be circumspect.

Questions: Professional Skepticism

In this case, the CEO had been a former audit firm manager. In addition, another member of the management team was a former audit partner. In terms of each of the six items above, how did the CEO's relationship to the auditor affect professional skepticism?

ANSWER: The CEO had been a former audit manager before accepting an executive position at the Company. From the perspective of the audit firm, he was an "alumni" who had gone on to a successful business career. The former CFO, who was also part of the management team involved in financial decisions, had been a partner with a national public accounting firm. Both men were likely well respected in the accounting community.

In contrast, the audit team was comprised of entry level accountants with at most two years of audit experience and a senior who had less experience than the CEO had when he left public accounting. Members of the audit team may have been reluctance to challenge the representations made by the CEO (self-esteem).

The CEO and former CFO both had considerably more audit experience than any member of the audit team. It is possible that by recognizing the expertise of the CEO, the auditors were less disposed to inquiry (questioning mind), formed opinions quicker (suspension of judgment), and more willingly accepted the representations of management (search for knowledge). The auditors may have accepted the claims of the CEO and been less likely to independently address the evidence (autonomy).

The audit team either did not recognize the role that the CEO's attitude (overconfidence) had in the quality of management representations or did not properly assess the role of the CEO's biases (interpersonal understanding).

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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.

INSTRUCTORS' NOTES

Additional Reading Materials

The case primarily describes an ethical dilemma that a full-service not-for-profit organization faces as it struggled to grow and change its identity. A good case discussion on these issues requires that students have some background in emotional intelligence competencies and their relationship to leadership styles. If students are weak in this area, it is recommended that the students be assigned to read an additional article that offers background in this area:
Goleman, D. (Mar.-Apr. 2000). *Leadership that gets results*, Harvard Business Publications.

Recommendations for Teaching Approaches

The primary teaching objectives of the case are to: 1) delve into how to deal with ethical dilemma in the workplace, 2) understand the role of the board of directors in providing leadership, 3) understand the changing roles and responsibilities of the major players (board of directors, CEO, employees, and support staff) as an organization grows and transforms it culture, 4) explore the emotional intelligence (EI) competencies possessed by successful business leaders, 5) analyze how EI competences are combined with various leadership styles in a variety of business situations, 6) evaluate how leadership style affects the culture of an organization, and 7) access the affects of power, politics and ethics on an individual's ability to lead and how they are intertwined with the success or failure of an organization.

The case can be taught differently based on the emphasis desired by the instructor. The first options is to teach the entire case as presented with the ethical dilemma and the questions serving as the guide for discussion. As a total unit, the case provides a solid overview of leadership issues in a changing environment. This allow the instructor to show the complexities in choosing a company CEO and the consequences that can be encountered if the wrong person is chosen. However, a second approach could be to emphasize specific topics within the case that the instructor wants to cover in detail. The first option would be to concentrate on the major decision point that deals with the ethical dilemma surrounds the fraudulent report and future employment of Moore with the Enterprise. This allows students to look at the options available and the consequences associated with these options. Answers to questions 1 and 2 focus on this content. Another area that provides a more in-depth focus is EI competencies and leadership styles. This alternative focuses on questions 3 and 4. If using this option, the instructor is strongly urged to assign the additional reading of the Goleman (2000) article as suggested under additional reading materials. On the other hand, the instructor could chose to focus on the traditional leadership literature and cover the topics of power, politics and ethics as outlined in questions 5 through 8. A final option would be to focus on the topic of growth and organizational change including the difficulties management faces in dealing with moving from a small entrepreneurial firm to a larger more mature business model. This content is outlined in question 7 and 8.

Questions

1. After finding the fraudulent reports, what action would you take if you were in Jane Moore's position as executive assistant to the CEO? How would the decision she makes about disclosing the fraudulent report affect the Enterprise and her employment at the Enterprise?

Some of her options may include: 1) quit and find another job that is more compatible with her value system; 2) show Adams what she found; 3) forget about the report, follow instructions and don't worry about the direction of the Enterprise; 4) report her concerns to the board of directors or others within the company; 5) get back at her boss by refusing to screen calls and serve as a buffer for her unethical behavior knowing this may cause her to lose her job; 6) anonymously disclose the fraudulent report and hope for the best; or 7) seek advice from Anthony James, the past CEO and her mentor. The students should be encouraged to create other alternatives on their own and look at the advantage and disadvantages of each of the options and come up with a recommended solution or compromise for Moore's situation.

The first option of quitting her job would take Moore out of this stressful situation. She would have to find other employment, but hopefully it would be more compatible with her value system. The second option showing Adams what she found would be stressful. Moore would continually attempt to communicate her concerns which may never be accepted by her boss. The third option may be impossible for Moore. If she is truly concerned about the organization, it will be difficult to dismiss her concerns. Fourth, becoming a whistle blower would put Moore in a difficult position. Relationships in her work environment may be strained to the point of no return resulting in termination. If she chooses this action, she needs to be prepared for the consequences. Many have been labeled whistle blowers and have not been able to get other employment. Fifth, getting back at her boss in a passive aggressive manner may not be understood and create tension resulting in termination. Sixth, anonymous disclosing the fraudulent report seems the safest options, but would be difficult to carry off and may end up with people figuring out her identity. And finally, James' experience may help her develop other options. Students should be encourage to come up with other options James and Moore may have discussed along with their advantages, disadvantages and consequences.

2. What recommendations would you make to the board of directors to handle the complaints from Fred Tyler of Raytech Dynamics and to prevent the possibility of receiving fraudulent reports such as those found in this case?

Recommendations should focus on Adams' actions and the board's responsibilities to clients, employees and the organization. Several questions should emerge surrounding the various situations that surfaced in the case.

1) How was Adams able to hide the actual data from the board of directors for so long?
2) How was Adams able to side step confrontations with clients for so long?
3) Why was so much unearned trust, power and, authority given to Adams by the board?
4) What are the industry standards in terms of fiduciary responsibility of a board of directors?

5) Are their differences in the board of director's responsibilities in the for-profit sector versus not-for-profit sector? Are not-for-profit firms more lax? Why? Should oversight be more tightly enforced? Why & How?

The answers to these questions will develop during class discussion of questions attached to this case. Adams' power came from the board of directors and their failure to provide oversight, monitoring, guidance, and feedback led to the ethical issues that they faced at the end of the case. Both for profit and not-for-profit boards have at times fallen down on their fiduciary responsibilities. Best practices for boards have been established, but any number of issues can get in the way of a board performing its responsibilities including: greed, lack of follow through, poor training of board responsibilities, or loosely structured boards with too many members. To prevent the type of incident that occurred in the case, board members should go through training as to their responsibilities and oversight as board member.

There are several options the board could have provided for clients and employees to help facilitate reporting and discussion of issues within the center. These include: setting up a committee to hear complaints, providing training in ethics and social responsibility, providing formal confidential channels for reporting issues, and developing a code of conduct. Research has shown that people are silent followers especially when unethical behavior is exhibited by upper management such as seen in this case. Based on the facts in the case and the current situation recommendations could include:

1) Adams should be given the right to due process. She should be given the opportunity to respond to Tyler's complaints and the other allegations on the client list.

2) New procedures for reporting should be developed and strictly enforced.

3) If warranted, an outside third part should be hired to provide an unbiased audit of current accounting records and the client situation.

4) Defined benchmarks should be established for any CEO with a full reporting requirement to the board on a regular basis, at least quarterly.

3. In hiring Melissa Adams, the board of directors looked at Daniel Goleman’s (2000) emotional intelligence (EI) competencies that provide a framework for good leadership. How important do you think EI competencies outlined in the case are in hiring a CEO for the Minority Enterprise?

Emotional intelligence (EI) is a concept that has increased in importance in organizational leadership over the past couple of decades. It is defined as "the ability to manage ourselves and our relationships effectively” (Goleman, 2000, pg.4). Popularized by Goleman in his book titled, *Emotional Intelligence,* many authors have addressed the topic before and since (Bar-On & Parker, 2000; Cooper & Sawaf, 1997; Mayer & Salovey, 1997). Although we provide the Goleman references here, other sources such as the Consortium for Research on Emotional Intelligence in Organizations may be used to develop a discussion with students on the importance of EI in the evaluation of executive competencies. The discussion should focus on what skills an individual being considered for a leadership position such as CEO should bring to the position. In Goleman's (2000) Harvard Business Review article, *Leadership That Gets Results,* he discusses four emotional intelligence competencies: self awareness, self-management, social awareness, and social skills that are combined in different ways in various situations to create a combination of leadership styles rather than just one style for one person. He indicates that all four competencies are important for successful leadership. Goleman's message is that a leader needs to use different competencies in different situations. The most successful leaders are able to identify how, when, where, and with whom to use each competency.

Goleman (2000) discusses how an experienced leader with EI competencies can move from a "Do what I say" (coercive style) to a focus on personal development (coaching style) depending on the circumstances and the specific situation. In his article, Goleman (2000) identifies six leadership styles. These are described in the case study and include: the coercive style, the authoritative style, the affiliative style, the democratic style, the pace-setting style, and the coaching style. A successful leader will not use just one style, but a combination of several competencies and switch leadership styles as required as the climate across the organization changes.

The Minority Enterprise started as a small informal mostly government-supported not-for-profit with an informal leadership style and a reputation for quality and excellence in serving clients. Over time the Minority Enterprise grew and the requirements for leadership changed. As part of a growth strategy, a need for more emphasis on sustainability which included the development of permanent funding sources and perhaps serving a broader client base became imperative to the future of the organization. The leader's skill set must include: an internal focus on dealing with employees and clients as well as an external focus on capturing corporate donors to provide long-term sustainability for the organization. As Adams moved into the role of CEO, her social awareness and ability to evaluate situations with employees were the first EI skills tested. Her choices set the direction for her leadership style internally within the organization and the overall atmosphere for the enterprise. As we look at these choices, she gave little attention to internal operations and focused on creating a new upscale face for the Minority Enterprise. These choices seemed to reflect a more coercive style. Externally, she did a lot of courting, but lacked the political skills to turn her smoozing into political capital for the Minority Enterprise. See question four below to see the results of her choices.

4) From Jane Moore's perspective, what were the EI competencies that Anthony James (the past CEO) brought to the job that made him so much more appealing than Melissa Adams (the new CEO)? How were these competencies manifest in the leadership styles of James and Adams in various situations they faced in the case?

EI competencies of Anthony James

Self Awareness: James' strengths seemed to lie in his ability to read and understand the needs of the employees and the clients the Enterprise worked with on a daily basis. In addition, he seemed to know his own abilities and shortcomings. He led the Minority Enterprise through its' years of growth from a small government supported center to an organization with a group of talented, committed professionals, winning numerous awards and accolades for their quality and excellence. He realized the center had grown to a place where there needed to be a change in operations and leadership. His suggestions to the board were very much in line with the future needs of the enterprise if it was to grow and survive.

Self–Management: James seemed to have leadership qualities that exhibited self-control, trustworthiness, conscientiousness and adaptability. He had a strong commitment to achieve standards of excellent and seized opportunities for the betterment of the organization when they were presented. James knew his skill level and made good suggestions for the management skills that would be needed by his successor.

Social Awareness: James was good at sensing other people's emotions and client's needs. However, he lacked the ability to navigate the politics associated with the fundraising side of the business. His strengths focused more on building the center, developing its' reputation and recruiting qualified and dedicated employees. Providing leadership during the upcoming growth phase of the organization was foreign to him. He recognized the need to turn over the reins to someone who better understood growth management, fundraising, and developing a politically savvy organizational structure.

Social Skills: James had the ability to develop others in his field of expertise and was good at team building and collaboration. However, he lacked the ability to provide the visionary leadership the business needed to move into the next stage of development. Because of the economic downturn, the enterprise needed to move to a more sophisticated business model that focused on redefining the critical success factors for the organization and a different sustainability model. This would require social skills that focused on externally developing relationships and building political capital with corporate donors.

Leadership Style of Anthony James: Affiliative

Based on the EI competencies outlined above Anthony James was most closely aligned with the affiliative leadership style. He created harmony and built emotional bonds with employees. People always came first whether employees or clients. He was empathetic, communicated well with others, built solid relationships, and inspired others to do their best. As a leader he provided clarity, commitment, and flexibility. His willingness to give positive feedback and reward good performance created a very positive environment that worked well with a group of highly competent and self-motivated professional individuals. James also showed a unique ability to utilize a softer leadership style such as democratic, pace-setting and coaching. However, he does not adapt well to leadership styles that include more autocratic behavior such as coercive or authoritative styles. As the enterprise expanded and became less hands on, his style of leadership became less effective. This is reflected in James' comments to the board indicating a need for a new CEO that is recruited from outside of the company with experience in management, marketing and fundraising.

EI competencies of Melissa Adams

Self Awareness: Adams had a lot of self-confidence, but she was not necessarily emotionally self aware or accurate in her self assessment of her abilities to accomplish specific fundraising goals and growth strategies defined by the board of directors. Although her background showed significant strength in marketing, she had not been responsible for providing leadership for an entire organization. Her lack of self awareness with regards to her management skills created significant problems between her and the staff.

Self Management: Based on Adams' strong personality and her background in the corporate climate, she was able to convince the board that she had the abilities needed to manage the Minority Enterprise. She focused her efforts on the external image-related components by creating an extensive marketing campaign, but lacked the ability to develop internal relationships with employees or cultivate external relationships with corporations. Her inability to manage relationships internally created serious problems throughout the organization resulting in high turnovers and the loss of valuable human resources. Adams was unable to create social or political capital with her employees or with corporations. This isolated her as a leader and made it impossible to get assistance from any of the donors that would have been eager to assist a more seasoned, politically savvy leader. Unable to reach her goals, pretention became a way of life. Reports were exaggerated and excuses were made to explain short falls in the number of clients, the lack of donations, and the high employee turnover rate. In small organizations the CEO sets the ethical standards for the organization; however, her track record of self-indulgence and insincerity as indicated near the end of the case, resulted in an inability to function effectively as a leader and eventually took a toll leading to her demise as CEO.

Social Awareness: In the internal social environment, she never asked about or seemed to care about employee emotions, goals or perspective. She seemed to make no effort to understand how the business functioned or to assess what was important to employees. She showed little focus on customer needs and evaded phone calls and questions using her assistant to protect her from outside calls from clients. Rather than building networks and navigating the politics of the business environment, she focused on cultivating a pretentious image while pursuing perks for herself. Her lack of leadership ability and emotional intelligence skills eventually caught up with her as corporate funding failed to materialize and clients and employees became more and more frustrated.

Social Skills: Adams’ strength was in her personality and confidence. She was able to convince the board of directors that she had the social skills to lead the Minority Enterprise. However, on the job she was unable to cultivate relationships, provide a compelling argument or communicate a vision to stakeholders, and seemed to possess little influence with either internal employees or external corporations. The board of directors provided the resources she requested for fundraising; however, she was unable to persuade and influence potential donors and at the end of the year ended up in the red. She lacked the ability to build the critical political or social capital needed to create the necessary funding and thus a positive cash flow for the enterprise. Eventually her lack of social skills, influence in the community, and competence in team building became evident to the board, employees and other shareholders.

Leadership style of Melissa Adams: Coercive

Based upon the EI competencies list above, Melissa Adams' leadership was identified as more coercive than authoritative. It may be, because of her lack of experience, she did not have the maturity to implement the type of leadership that she portrayed in her initial interview. She clearly articulated the vision in her interview, but was unable to communicate and implement that vision with her employees and donors. Her implementation, though well-intended at the beginning, evolved into a more coercive leadership style that was fueled by her drive to achieve and get self-serving results. As it turned out, she became more of a top down decision-maker that paid little attention to the highly qualified group of professionals on her staff. Her management style created an environment with low morale where professionals lost their sense of ownership and satisfaction in working hard for a cause. As the employees lost their sense of pride in the organization and the job that they were doing, many left for positions with other companies and those that stayed seemed to lack a sense of direction. Even the opinion of executives that she brought in when she has hired were rejected in favor of her selfish impulses and need to build an exaggerated, ostentatious image. Internally the organization lacked a unified mission and clarity of direction and purpose which created an environment of distrust that undermined employees' sense of ownership, responsibility and accountability. As a leader Adams seems to lack the ability to motivate the staff that provided the innovative services that were the hallmark of the Minority Enterprise. Her lack of competencies in self-awareness, self-management, social awareness and social skills resulted in the use of a more coercive style by default unable to adjust to the other leadership styles. She had little empathy for others including her employees and clients, little self-control when dealing with resource allocation, and lacked the ability to use political power to create the social capital needed to get business leaders in the community to commit to funding to the center.

Leadership Style of the Board of Directors

Additional discussion can include the emotional intelligence competencies and leadership styles found among the board of directors. The board seemed to be following an authoritative style of leadership in which they set the standards but gave Adams the freedom to choose her own means of achieving those goals. Initially the company seemed like the perfect fit for the new CEO. However, the students should discuss the board's fiduciary responsibilities. The board should have placed Adams into business scenarios to evaluate her EI competencies and leadership style during the interviewing process rather than relying totally on her personality and resume. In addition, the board has the responsibility to follow up on Adams' performance. They allowed Adams to manipulate the system in a manner that kept them in the dark for much too long a period of time. The board of directors should have held Adams accountable for deliverables (goals and objectives) which should have been established at the beginning of her tenure as CEO. Specifically, results should have been communicated to the board on a regular basis reporting actual numbers rather than promises of future development prospects.

5. What are the advantages and disadvantages of hiring an outsider with experience in marketing and fundraising as the top executive in an organization? How would Moore's role change as the executive assistant to a CEO with a more external and fundraising focus?

The advantages of hiring an outside CEO include: 1) the person has a fresh, new perspective when looking at operations, systems, policies and procedures; 2) an outside CEO from the corporate side brings to not-for-profit company a profit orientation with more focus on goals, accountability and profitability and; 3) someone from another industry brings experience and talent that is unique and innovative. However, an outsider would be at a disadvantage because: 1) they are unfamiliar with the current company culture; 2) people do not like change and current employees may work to keep the status quo; 3) time will be needed for the new CEO to become oriented and learn about the organization's processes and procedures, and finally 4) people outside the field require more monitoring, coaching, and feedback.

In this case Adams brought a new perspective, fresh ideas, and a strong "can do" personality. Her experience with for-profit fundraising was valuable; however, she lacks an understanding of the not-for-profit service mentality that distinguishes the Minority Enterprise culture legally and ethically. For years the organization provided only one level of service which was to bring the best quality most comprehensive service to each and every client. In addition, she did not put forth much effort to get to know the counselors and staff, but rather focused on what she could do to influence corporate clients. It seemed that she thought that by bringing in funding the internal issues would take care of themselves; however, this proved to be an incorrect assumption and created significant animosity among counselors and staff members within the organization. In her previous position she could focus on marketing, but now she had the responsibility of running the entire enterprise. Her EI competencies and leadership style were as important as her marketing skills and they were significantly lacking in numerous categories.

Moore's role was significantly different with the two CEO because of the differences in their leadership style. James' focused on dealing internally with clients and providing services. With Adams that focus changed to prioritizing external fundraising efforts. The relationship between Moore and the new CEO was not as close or open as she was accustom to with James. Adams' strengths were in marketing and less attention was given to leadership and dealing with employees. Moore felt that Adams focused too much on external fundraising and not enough on internal operation. This resulted in a more strained relationship between Moore and Adams. When Moore worked with James, he had a more hands-on style in dealing with both clients and consultants. There were few if any complaints from clients or employees. However, under Adams a more aggressive environment with an external focus sparked more complaints and these complaints were not addressed with the same urgency as in the past. It was also apparent that Adams was more accustom to controlling her own schedule than James. Adams' use of blackout dates to manage her time made Moore very uncomfortable and created trust issues. Adams stack of unanswered client calls, the fact that Moore had to make excuses when clients called, and the number of complaints registered with the board were all evidence of the differences in Moore's role as an executive assistant.

6. How did Melissa Adams attain and utilize power in the organization? Did she use legimate, reward, coercive, expert, or referent power? Did Adams abuse the legitimate power given to her by the board of directors? Compare this to Jane Moore's power base? What influence would this have on how Moore revealed the fraudulent report she found in the files?

Most references outline five types of power: legimate, reward, coercive, expert and referent (Dubrin 2012, Daft, 2010; Lussier & Achua 2012). Legitimate power is position power. This was given to Adams through the board of directors by hiring her to the position of CEO at the Enterprise. Based on her resume and references, Adams met all of the qualifications and was perceived to possess expert power through her industry knowledge in the for-profit corporate sector. She was expected to transfer that knowledge to the not-for-profit sector as the new CEO. She also had a strong personality that the board felt was a positive asset that would be beneficial in changing the direction of the Minority Enterprise. The hiring decision they gave her the power and authority she needed to make tough choices to bring about the changes needed in the organization. Unfortunately, they did not establish periodic goals to use as benchmarks to evaluate progress. In hindsight, providing some milestones with rewards or incentives would have been a prudent step for the board. This was a fatal flaw in the hiring process that came back to haunt them at the end of the case.

When looking at Adams' leadership style, coercive power that was based on punishment and fear was exhibited in the daily management of the enterprise. Based on the interactions that could be heard through the walls of the organization, Adams tended to explode when faced with opposition. Constant conflict persisted with the CFO over budget issues and these encounters resulted in the entire staff being afraid of opposing her viewpoints to the detriment of the company. Employees were afraid to speak up for fear of losing their positions and, therefore, were complicit in their acceptance of her coercive leadership style. Other employees chose to quietly step aside and accept positions with competing companies in the industry. On the corporate side, Adams was always just a few months away from getting corporations to commit to the funding that was needed to move the enterprise forward. However, her referent power based more on her political and social ability, failed to convince corporations to commit. In looking back, most of her power was legitimate based on her position and was derived from the boards' somewhat blind faith in her ability. Other types of power were more inferred than actually exhibited. For example, expert power was inferred from her resume. She was able to hide behind these credentials playing heavily on the board’s inability to systematically evaluate potential when it came to fund-raising. Adams lost referent power with clients when they began to call board members complaining about the lack of services and problematic reports with inflated numbers. Withholding data and ignoring clients can only be effective in the short-term.

To compare Adams and Moore from Moore's perspective, one first needs to understand Moore's role in the organization. She is a staff person with access to a significant amount of information, but little authority in the company. Having work for the same benevolent boss for the past 8 years has given her little experience working with power, politics, or corporate culture. This places Moore in the role of a follower. Kelly (1988) identifies followers based on two criteria: 1) independence & critical thinking versus dependent & uncritical thinking, and 2) passive versus active. In the time period of the case, Moore moved from an effective follower role in which she actively supported her boss and had an important role to play in the decision-making of the organization to a less effective follower role. In the past, she was proud to be a principled, competent, honest, and committed employee of the company. Now under Adams she must acquiesce to playing different roles depending on the issues confronting the organization resulting from her bosses' decisions. At times she is a passive sheep following directions and doing little thinking about the consequences of her role. Other times she may sink into disgruntled complacency knowing that her actions are not in the best interest of the company, although she had been instructed as to what to do. This has created increased anxiety over time. Calming clients that are not receiving the agreed upon services that were performed effectively in the past is quite disturbing. Seeing other employees choose to leave the company because they disagree with Adams' management style and direction have made Moore think several times about what she should do in the future. But, finding falsified documents that exaggerate the truth about client services created the highest levels of frustration and ethical debate in her mind. However, she had little recourse, based on her power position in the organization. Although she could exert some expert power based on her accounting knowledge and past experience with the report, it would hold very little weight as a staff person when confronted with the power of a CEO.

7. From the time that Jane Moore started as a rooky assistant to the first CEO until she became the executive assistant to Melissa Adams, the culture of the Minority Enterprise changed significantly. Outline the how the culture changed and explain why the cultural changes in the last year were more challenging for Moore as well as many others employees and clients.

The staff under James and his predecessors prided themselves on team spirit and cooperation focusing on open discussion among counselor’s clients and the management staff. As a result the culture reflected openness, trust and loyalty. Adam's style (maybe because of her lack of management experience or her lack of understanding of the not-for-profit business model) was more centralized with a top down structure and communication style, creating a culture of suspicion and mistrust. Under Adams issues were resolved through executive decision. The new concentration on the bottom line and fundraising became the primary focus of the organization and client needs became secondary. Overall, the company's culture became increasingly tense with less cooperation and team building. The achievement orientation, and internal standards of excellence that were once hallmarks of the company no longer existed. Client service became secondary to corporate smoozing and entertaining.

Culture under Anthony James and his predecessors

Under James and his predecessors, the Minority Enterprise enjoyed a highly supportive culture with significant employee engagement. High performance was recognized and celebrated. Issues were discussed and solved through open communication. This created an emotional bond as well as shared values and commitment among employees. Employees felt they were treated with dignity and respect. They had autonomy and freedom to be creative and excel based on their contribution to clients. There was a feeling of mutual respect and interdependency. This created an atmosphere of teamwork, high morale, job satisfaction, employee loyalty and excellent retention rates. This follows William Ouchi's Theory Z principles in which employees are involved in decision-making. In this environment employees are inspired to do their best which results in higher levels of client satisfaction and individual productivity. The questions is, can the enterprise afford to provide this level of individual service? With the level of government funding decreasing and the cost of providing these type of services increasing, what is the appropriate level of service and expertise to bring to clients? Are there other ways of meeting client needs through technology, website options, group training classes, rather than one on one interaction.

Culture under Melissa Adams

As Melissa Adams took over as CEO, changes were taking place throughout the government affecting its ability to fund the Minority Center at past levels. This would require changes in the organizational structure and operating procedures within the organization. Adams' mandate from the board of directors was to increase efficiencies in internal operations and increase funding from external corporate sources. Immediately the organization saw the move toward a more centralized operation from her office in which employees had less input in the policies, procedures and process. Adams became the central figure in the fundraising effort. It became apparent that the Minority Enterprise would operate more like a for-profit business with an emphasis on the bottom line. With this increased monetary focus for individual gain, the easy-going atmosphere became more tense and some employees were afraid to speak up for fear of reprisal. Some decided to leave the organization for a more suitable environment. A cultural shift within an organization is always difficult.

A good class discussion could be built around how organizations are affected as they move from a more entrepreneurial operation (with open communication and significant input by employees) to a growth-oriented organization (with more structure and a focus on productivity). For the Minority Enterprise, the organizational structure became more hierarchical and centralized around the activities and goals of the new CEO. This gave employees less freedom and fewer opportunities for input into how the organization operated. Adams' background was in a for-profit environment where changes are made more quickly and productivity was the focus. As the Enterprise objectives changed, some employees became uncomfortable and left on their own. To be fair to the overall evaluation of the environment at the Minority Enterprise, some weeding is healthy for an organization, especially if the employees are resistant. Turnover among unhappy employees would make room to hire individuals more in tune with the new more aggressive goals of the of the board of directors.

On the other hand, there were many options that Adams did not exercise that could have helped to build more internal cohesion. She could have developed a more open and honest communication style to nurture and sustain the employees in the new culture. Unfortunately, she focused on fundraising with little attention to internal issues associated with organizational structure such as developing a mission statement, vision, or strategies for the enterprise. Resources were reallocated, but mostly to provide her with an entertainment budget and perks she thought necessary to do fundraising. Overall, she seemed to lack essential competencies necessary to provide internal leadership for employees or to produce external funding through corporate support. Internal efficiencies were a low priority or non-existence. Client services were decreasing in quality, at the same time the quantity of reported services were increasing.

8. Fundraising is a crucial part of the survival of an organization and understand the political innuendos can make a significant different in the economic vitality of a company. How did Anthony James and Melissa Adams differ in their approaches to politics?

Politics and power are highly related. Understanding power helps managers to operate in the political perimeters of a company. Adams was successful in convincing the board that she was capable of developing the necessary political alliances internally and externally that the Enterprise needed to increase fund-raising and produce a clientele from across the region. Nonetheless, most of her power came from her position and relationship with the board of directors rather than being gained through her behavior. She spent significant resources creating an illusory image of success through tangible surroundings such as expensive automobiles and office decor. She seemed unaware of the consequences resulting from negligence of other important political components within the organization. Adams did not focus on the internal organizational culture and provided little in the way of mission, goals, or strategic direction. She seldom communicated with employees other than the few she brought in when she was hired. Even with these handpicked hires, she often pulled rank to get her way. (See the case for an example with the new CFO.) She failed to portray herself as an honest, loyal team player in a highly competitive environment. Her reluctance to accept incoming phone calls and provide transparency in response to critical questions began to erode the confidence in her ability to lead the organization. The lack of oversight by the board provided the opportunity for Adams to abuse the power of her position. Oftentimes highly competitive and unsupervised situations increase the instances of unethical behavior.

Students should discuss what a good leader should do to develop political skills and how these skills could be use to strengthen the Minority Enterprise. Political behavior according to Lussier and Achua (2012) requires a manager to develop skills in networking, reciprocity and coalition building. James had built these foundational components among the constituencies what worked with the center, but they need to be scaled as the Enterprise moved at a faster pace into its grow phase. However, when Adams took over, she seemed to lack a basic understand of the components associated with political behavior. She was unable to develop politics capital inside or outside the organization. As a leader she provided little guidance or structure internally and paid little attention to the counselors and staff. Her focus appeared to be external, but even there her inexperience at navigating through the political arena became apparent when she was unable to cultivate corporate relationships through her fundraising efforts.

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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 first went to an NRLB Administrative Law Judge (ALJ) who ruled on each of the union's charges. Neither side was completely happy with the ruling so both sides appealed the case to the NLRB which reversed many of the ALJ's decisions!

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 share 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 various 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 can 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.*

INSTRUCTORS' NOTES

Learning Objectives

The four learning objectives of this case are:

1. *To provide examples of management actions that may constitute unfair employment practices relative to an employer's no solicitation/no distribution policies.*
2. *To illustrate to students how disparate enforcement of employer policies and disparate treatment of certain activities may violate section 8 (a) (1) of the NLRA.*
3. *To demonstrate that not every unilateral change in employee terms and conditions of employment is an unfair labor practice.*
4. *To show that enhanced enforcement of policies when union actively increases in an effort to obtain a collective bargaining agreement might constitute retaliation in violation of Section 8 (a) (1).*
5. *To show that enhanced enforcement of policies when union actively increases in an effort to obtain a collective bargaining agreement might constitute retaliation in violation of Section 8 (a) (1).*

QUESTIONS FOR DISCUSSION

1. *If you were the HR Director for Harris, which of the union's unfair labor practice charges would concern you the most and why?*
2. *Does the No Solicitation/No Distribution Policy violate employee rights under the National Labor Relations Act? Has it been selectively and disparately enforced violating Section 8(a)(1) and Section 7 of the National Labor Relations Act?*
3. *Did refusing to allow nurse Nygen Tau to work her last two scheduled days violate employee rights under the National Labor Relations Act? Did the Director of the Home Health Center engage in illegal interrogation of Nurse Tau?*
4. *Did Harris violate the National Labor Relations Act by refusing to allow union organizers to enter work areas or patient care areas of the hospital and medical center?*
5. *Did Director of Nursing, Beth Witte, and Director of Security Ben Schwartz engage in illegal surveillance of CNA organizers?*
6. *Was the change in the sick time policy a violation of Section 8(5)(a) of the National Labor Relations Act.*
7. *Was the installation of security cameras in work and break areas legal?*

Administrative Law Judge's Ruling

The ALJ ruled that Harris violated Section 8(a)(1) of the National Labor Relations Act by (1) interrogating employees and union and other protected concerted activities, engaging in surveillance of employees' Section 7 activities, and threatening employees that they would not be scheduled to work if they engaged in protected concerted activity (the strike).

The ALJ also ruled that Harris violated Sections 8(a)(1) and Section (3) of the NLRA by refusing to schedule nurse Tau for her shifts on September 1 and 2, 2010 for engaging in protected concerted activity (the strike).

The ALJ ruled that Harris violated Sections 8(a)(1) and (5) of the NLRA by (1) refusing to bargain with CNA about attendance and sick leave policies, (2) refusing to bargain with CNA about installing surveillance cameras, and (3) by bypassing the union and dealing directly with bargaining unit employees about shift scheduling.

The ALJ ruled that Harris did not violate Section 8(a)(1) of the NLRA by prohibiting non-work related solicitation and distribution of union literature in work areas. While employees have a right to solicit on behalf of a labor organization during non-work time on an employer's premises, the NLRB makes a distinction between oral solicitation and distribution of literature or materials, and has limited distribution of literature during work time and in work places. However, it has long been policy that discriminatory enforcement of a no solicitation/no distribution policy is unlawful. In 2007, the NLRB revised its policy to permit solicitation, distribution, use of bulletin boards, email or copy machines by employees for charitable organizations and schools. In the Guard Publishing case, the NLRB distinguishes between job related solicitations and non-job related solicitations, between solicitations of a personal nature and solicitations for the commercial sale of a product. In <u>Guard Publishing</u>, two employees, the union president and a union representative, were disciplined for union activity while on the job. The union president was disciplined for sending union related emails to employees and the union representative for wearing a union arm band. Guard's policy provided, in relevant part, that "communications systems are not to be used to solicit or proselytize for commercial ventures, religious or political causes outside organizations, or other non-job related solicitations." Guard was cognizant that other employees frequently used company email for personal messages, e.g., party invitations and birth announcements. In the NLRB's initial review, it drew a fine line of demarcation between email that clarified versus email that constituted a solicitation, and found that Guard violated section 8(a)(3) and (1). The District of Columbia Circuit Court of Appeals affirmed concluding "…simply put, (Guard's) policy did not cover such an email." The Circuit Court turned to Webster's New College Dictionary to distinguish solicitation from clarification. The Court set aside the Board's decision that disciplining the union president was not an unfair labor practice. The fragility of the NLRB's decision was noted in Guard's allowing other employees use of company email for various purposes, but imposing discipline upon union related emails. The matter was remanded to the NLRB which concluded that Guard's policy was applied discriminatorily and, therefore, contravened sections 8(a)(3) and (1) of the NLRA. Accordingly, an employer would still violate the NLRA if it allowed employees to solicit or distribute for one union but not another, or if it permitted anti-union employees to solicit/distributed but prohibited pro-union employees from doing so.

The ALJ ruled that Harris did not violate Section 8(a)(3) of the NLRA by disciplining nurses Martin and Hill. In order to find a violation of Section 8(a)(3), it must be established that union activity was a motivating factor in the employer's action alleged to be discriminatory. It must be established that the employer was aware of the union activity, and that the employer's anti-union animus motivated the alleged discriminatory action. The Judge decided that there was no evidence of anti-union animus on the part of Harris, and that the no solicitation/no distribution rule was applied in a non-discriminatory manner.

Both Harris management and the CNA appealed the ALJ's decision to the NLRB.

The union alleged Section 8(a)(1) and (3) violations when nursing supervisor Carter told two RNs that they should go to non-work areas during non-work times to discuss the union. The ALJ found no discriminatory enforcement of the no solicitation/no distribution policy. The NLRB noted that Harris does not have a policy barring discussion of non-work subjects in any areas of the hospital and that employees routinely discuss non-work topics in all areas of the hospital. The NLRB reversed the ALJ's decision and found this to be an unfair labor practice.

Harris' no solicitation/no distribution policy prohibits the distribution of literature at any time for any purpose in working areas. Working areas are all areas in the hospital except employee lounges and parking areas. Supervisor Chilton observed one RN give union literature to another RN in a hospital hallway. Supervisor Chilton then instructed the RN that she could not pass out union literature and that she (Chilton) had been told to stop all union activity. The ALJ ruled that enforcement of this policy had not been discriminatory and dismissed the allegation that Harris had violated Section 8(a)(1). The NLRB reversed this decision, noting that Chilton's statement that she had been told to stop all union activities not only exceeded the hospital's policy but constituted an unlawfully broad restriction on protected union activity in the workplace.

RNs Martin and Hill were disciplined for violating policy by soliciting for the union, passing out information, and speaking to coworkers during working times and in patient areas of the hospital. The ALJ found no evidence of discrimination with respect to similar solicitation or distribution on behalf of other organizations. The ALJ stated that there was no evidence of antiunion animus on the part of Harris in enforcing its policy and dismissed the charge. The NLRB reversed this decision and found that Section 8(a)(3) and 8(a)(1) of the NLRA were violated. The NLRB noted that the Human Resources Director had temporarily rescinded the warnings while investigating the case, and then permanently rescinded the warnings. Coupled with an admission of previous lax enforcement of the policy, the NLRB found antiunion animus. When the charging party is able to show that (1) the employee was engaged in union activity, (2) the employer had knowledge of that activity, and (3) the employer had antiunion animus toward union activity, then the employer must show that the same action or decision would have taken place even in the absence of the union activity. The NLRB ruled that Harris failed to prove that it would have disciplined these two RNs even without their union activity.

Since 1985, Harris had a policy of prohibiting non-employees from soliciting or distributing literature on company property for any reason and at any time. However, Harris had not always enforced this policy. Union representatives regularly visited nurses in the break rooms, at nurse's stations, and in the cafeteria. In October 2010, enforcement of the policy changed. The Labor Relations Manager issued a statement stressing that union representatives do not have a legal right to enter the employer's premises and go to work areas without prior authorization. Nursing supervisors began asking union representatives to leave the premises when they were seen in break rooms or near nurse's stations in the hospital. The union alleged that the enforcement of the policy began when the union increased efforts to get a collective bargaining agreement. The ALJ ruled that there could be no violation unless the union could prove the policy was enforced in a disparate fashion in similar circumstances. Since the ALJ found no evidence of disparate treatment of the union, the charge was dismissed. The NLRB found that the increased enforcement of the policy was an attempt to retaliate against employees' increased union activities. The NLRB has long held a policy that an otherwise lawful policy is unlawful when it is used to interfere with employees' Section 7 rights. The NLRB ruled that the increased enforcement of the policy violated Section 8(a)(1).

The ALJ found that the change to the attendance policy whereby when nurses call in sick when they are on call, it will be counted as an absence was a violation of Section 8(a)(5) of the NLRA. The judge found this to be a unilateral change to a mandatory bargaining subject and therefore an unfair labor practice, even though Harris did not implement the change and returned to the previous policy where calling in sick on days nurses were on call did not count as an absence. The NLRB noted that not every unilateral change in employee terms and conditions of employment is an unfair labor practice. The change must be "a material, substantial, and significant one." Since no employee was ever affected by the announced but never implemented policy, there was no violation 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 ALJ ruled that Monroe had unlawfully bypassed the union violating Section 8(a)(5) and (1) of the NLRA. The NLRB overturned this decision noting that Monroe never mentioned the union, had no role in collective bargaining, did not attempt to negotiate or make promises to employees, and did not have the authority to make the changes she asked about.

ADDITIONAL QUESTIONS FOR DISCUSSION

1. *Why did the NLRB reverse the ALJ's decision regarding Section (a) (1) (3) of the NLRA regarding Supervisor Carters' command that two employees should go to non-work areas during non-work times to discuss the union or engage in union related activity?*
2. *Was Harris' No Solicitation/No Distribution Policy found to be a violation of Section 8 (a) (1) by the NLRB? Why?*
3. *The ALJ ruled that the attendance policy stating that when nurses call in sick while they are on call, those nurses will be counted as absent was a violation of Section 8 (a) (5) of the NLRA. Why did the NLRB find that there was no violation of the NLRA?*
4. *What are the three elements the charging party had to show to prove antiunion animus? Which element did the NLRB rule that Harris failed to show?*
5. *What did the NLRB mean when it ruled the change in the attendance policy has to be "material, substantial, and significant one?"*
6. *How does the Guard Publishing Case distinction of job related solicitations and non-job solicitations apply to this case study? Compare and Contrast.*

ANSWERS

1. The NLRB ruled that working areas are all areas in the hospital except employee lounges and parking areas. Supervisor Chilton observed an RN give union literature to another RN in a hospital hallway. Chilton instructed the RN that she could not distribute union literature and

that she was previously informed to stop all union activity. The NLRB ruled that the statement to stop all union activity not only exceeded the hospital's policy but constituted an unlawfully broad restriction on protected union activity in the workplace.

2. Yes. Because Supervisor Chilton was instructed to stop all union activity. This statement, the NLRB concluded, exceeded the hospital's policy and constituted an overly broad restriction on protected union activity.

3. The ALJ found this to be a unilateral change to a mandatory bargaining subject, thus an unfair labor practice, although Harris did not implement the change and reverted to its prior policy where calling in sick on days when nurses were on call did not count as an absence. The NLRB found no violation because such charges must be "…material, substantial, and significant…"

4. When the charging party is able to show that the employee was engaged in union activity, the employer had knowledge of that activity, and the employer had antiunion animus toward union activity, then the employer must demonstrate the action or decision would have taken place even in the absence of the union activity. The NLRB ruled that Harris failed to prove that it would have disciplined the RNs even without their union activity.

5. The NLRB ruled that the change had to be of importance or great consequence. The change had to affect a vast number of the employees. Since no employee was ever affected by the announced but never implemented policy, there was no violation of the NLRA.

6. The policy in Guard Publishing provided that "communication systems are not to be used to solicit or proselytize for commercial ventures, religions or political causes, outside organizations, or other non-job related solicitations." Harris maintained a no solicitation/no distribution policy similar to Guards, except employees of Harris were able to solicit or distribute materials during break periods, meal periods, or any other specified periods during the work day when employees are properly not engaged in performing their work tasks. Guards allowed non-union solicitations, but prohibited union solicitations. Harris' employees were allowed to discuss pro union information during break periods, meal periods and during other times when employees are not engaged in performing work tasks. In each case, there was laxity in enforcement. Harris enforced its policy when appeared necessary to quash union activity. On the other hand, Guard allowed non-union solicitations, but discouraged pro-union solicitations.

REFERENCES

Guard Publishing Co. v. NLRB, 571 F.3d 53, 62 (D.C. Cir. 2009).
National Labor Relations Act (NLRA), 29 U.S.C. § 158(a)(1)
National Labor Relations Act (NLRA), 29 U.S.C. § 158(a)(3)
The Fremont-Rideout Health Group d/b/a Fremont Medical Center and Rideout Home Health
and California Nurses Association, AFL-CIO. Cases 20—CA—33521, 20—CA—33649, 20—CA—33801, and 20—CA—34017 (34017 (December 30, 2011).

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.

INSTRUCTORS' NOTES

Case Analysis and Discussion

To begin the case discussion, students can be asked what would they do if they were Tom. Students can formulate individual decisions and then the instructor could form teams in class and ask students to share their decisions. Each team could report some of the decisions that were shared and discussed. At the current decision-point, it seems Tom has at least five viable options:

1. *Stay with ROD under the current situation*
2. *Quit and look for work elsewhere*
3. *Quit and try to start a competing business*
4. *Push harder for major changes in his compensation to reflect his new role*
5. *Attempt to buy the business from Anne*

Given Tom's present unhappiness and the imbalance between the work he's doing and the rewards he's getting, retaining the status quo does not seem to be a reasonable long-term option for him. He feels some sympathy for Anne's position but has no great liking or respect for her, and thus feels aggrieved when he compares his own $55,000 paycheck to her $170-200,000 annual compensation, especially when she is unlikely to contribute anything substantial to the company. This inequity wasn't a problem when Rod ran the business because Tom could appreciate the obvious value of Rod's contributions, and Rod was helping him by giving him an education in the specialty roofing business.

Quitting to work elsewhere or starting a competing business are viable alternatives, but the first requires him to abandon an industry in which he has developed expertise and contacts, while the second requires significant capital (see Exhibit 3). Tom views ROD as an excellent business opportunity with growth potential that he would hate to abandon. Also to a great extent Tom feels that his leaving ROD would probably kill it, since the business depends greatly on the constant attention of a well-trained, devoted manager, and it does not have the financial resources needed to support it while a new manager is hired and trained. As someone who has spent his work life building things, Tom hates the thought of being responsible for destroying a strong business that represents Rod Evans's legacy.

Fighting for increased compensation to remain as ROD's manager is a reasonable alternative which, although it has failed so far, could well be successful later when Anne is thinking more coherently or Tom's persuasiveness improves. However, Anne's total lack of involvement with ROD would appear to be a continual problem for Tom, both operationally and psychologically.

Even if he gets a substantial raise, he will continue to do all the work while Anne receives $120-200,000 of annual compensation for doing nothing except to interfere with his operation whenever she wants. Buying the business from Anne seems to be the most desirable alternative, since it:

- *satisfies his desire to be a continuing part of ROD*
- *satisfies his desire to "call the shots without interference," as he phrases it*
- *gives him eventual rewards commensurate with his efforts and accomplishments*
- *gives her fair compensation for her ownership rights*
- *saves her from worrying about the future of ROD*

ROD Profitability

For advanced groups, the profitability of ROD is obvious, but for beginning students who tend to focus only on the "bottom line," a quick exercise in recasting profit under Tom's ownership is worthwhile. A worksheet such as Exhibit 2 could be developed in class or handed out by the instructor for discussion. As the Exhibit shows, Tom would have the potential to earn about $340,000 in annual salary and/or profit from ROD without making any improvements in the business. Thus he has great motivation to make a deal with Anne, if at all possible. If he owned the business and was content to make about $275,000 per year, he could even hire an assistant to reduce his workload, much as Rod had done.

Negotiation Strategy

The Parameters

While students can readily see that Tom's buying the business from Anne is the best solution to the case from Tom's point of view, a much harder problem is to figure out HOW to get her to sell it to him. Before designing negotiation strategies students should be encouraged to draw a list of critical parameters that will come into play. Our list includes:

1. *Tom's knowledge of ROD and contacts in the business*
2. *Anne's vulnerable situation, lack of knowledge about roofing and lack of motivation*
3. *Tom and Anne's personalities and likely conflict handling styles*
4. *Tome and Anne's experience with each other and existing feelings about each other*
5. *Tom's lack of capital to fund a new venture*
6. *ROD's strong current position, which allows it to earn at least $250,000 per year above what Tom earns as a paid manager*
7. *The unusual current situation, in which Tom's ability and hard work allow Anne to collect a large unearned paycheck*
8. *Curt's potential role as a third party/mediator in the negotiations*

Types Of Negotiation

If Tom attempts to buy the business from Anne, the process could be both difficult and time consuming. The instructor can begin with a general discussion of the two main negotiation strategies, distributive and integrative.

Distributive negotiations are seen as "win-lose" situations in which each party is trying to claim portions of the same fixed pie, and one party must lose in order for the other to win (Walton and McKersie, 1965). Relationships are often sacrificed as the parties focus only on their own self-interests. Distributive negotiations are highly antagonistic, with each party seeking dominance over the other while trying to maximize his or her own self-interests (Walton and McKersie, 1965).

Tom is likely to be drawn to distributive negotiation tactics for a number of reasons: he is an inherently competitive person who sees business as a series of win-lose confrontations, he has spent years in competitive negotiations for jobs in which the result each time was a "win" or a "loss," and he sees Anne as more of an impediment or an adversary than as a de facto partner. He is likely to see his expertise in the industry and knowledge of ROD as providing him with a negotiation advantage over Anne, who lacks experience, motivation, and the desire to "win" a buy-sell negotiation. Given his lack of respect for Anne and his patronizing attitude, he is likely to regard this as an easy negotiation to win. Tom probably envisions that Anne's personality and situation may lead her to make significant concessions – to sell him the business quickly, cheaply, and on favorable payment terms. However, he may have underestimated her emotional attachment to Roofs of Distinction as a memory of Rod, in spite of her seeming lack of interest in it.

At this point, instructors can ask their classes to draw up a list of the pros and cons of using the distributive negotiation strategy in this situation and what is likely to happen if Tom aggressively pursues a competitive negotiation with Anne. Given that Anne has a stubborn resolve forced upon her by widowhood and a strong impression that Tom is merely a hired manager of limited ability who is both arrogant and chauvinistic, it is likely that a distributive negotiation will quickly alienate her to the point where she may withdraw and refuse to make any decision. If Anne does not negotiate, a "lose-lose" situation results. Tom will have to find another job or start his own competing firm, which is very costly (See Exhibit 3), and Anne will have to quickly find an experienced new manager or risk losing the entire business. Although many widows find the inner courage to take over a deceased husband's business, in this case Anne's personality traits and the demands of this industry make it very unlikely that she could manage it successfully herself.

Stakeholder's loyalties also come into play here. Construction firms like ROD succeed mainly because they have built up good working relationships with employees, suppliers, and general contractors. In this case the ties were very strong, but they were strictly ties between Rod Evans and these constituencies, without any involvement on Anne's part. As Rod faded from the business, these loyalties were slowly transferred to Tom, who earned them partly by his knowledge, hard work, fairness, and reliability, and partly because each group saw him as Rod's approved successor. Because of his apprenticeship, at this point Tom would be viewed as a reliable person to work for, sell goods to, or sign a contract with; Anne would have no such credibility with these groups. This "goodwill" factor is unquestionably the most valuable asset of the business; while the goodwill is legally owned by Anne, it is in fact controlled almost exclusively by Tom. Without him the business has physical assets but very little remaining goodwill. Thus if the negotiations are unsuccessful, both parties lose - Tom loses his chance to own a lucrative business, and Anne retains ownership of a business whose earnings power and market value are drastically reduced.

A related topic that the instructor may wish to introduce at this point is individual conflict handling styles/modes. According to research, individuals have preferences on how they deal with conflict. The five main types of personal conflict handling modes (Thomas and Kilmann, 1978) are:

1. *Competing (high on assertiveness, low on cooperativeness)*
2. *Avoiding (low on assertiveness and cooperativeness)*
3. *Compromising (medium on assertiveness and cooperativeness)*
4. *Accommodating (low on assertiveness; high on cooperativeness)*
5. *Collaborating (high on assertiveness and cooperativeness)*

Students could be asked to write down what they think their conflict handling preference(s) are. The instructor could then administer a conflict handling mode self-assessment to see if students correctly identified their preferred conflict styles. Students should be easily able to determine the conflict handling preferences for Tom and Anne in the case. Tom's natural style would most likely be Competing, which is the most similar to the distributive form of negotiation. Anne's preferred conflict handling styles would most likely be Avoiding (trying to avoid the issue at hand and try to keep the status quo) and Accommodating.

The Collaborating conflict handling mode is similar to the second type of negotiation termed integrative. Integrative negotiations are usually not confrontational, as the goal is to develop a "win-win" orientation in which both parties achieve their objectives. Both sides engage in cooperative problem-solving and the identification of solutions that are mutually satisfying, thus expanding the pie (Thompson, 1998).

Many believe that integrative negotiations are the best approach in the majority of situations. Integrative negotiations requires each party to know what is really important to themselves and what is important to their negotiating partners. In this type of negotiation, it is important to separate people from the problem, not letting emotional considerations affect the negotiations, focusing on interests rather than positions, avoiding premature judgments, and using objective standards to evaluate possible agreements (Fisher, Ury and Patton, 2011). At this point, students could be asked to list out the pros and cons of using integrative negotiation in this case.

Given the situation at ROD, integrative negotiation is very desirable. Anne's relatively comfortable financial situation (she received the proceeds of a $1,000,000 insurance policy at Rod's death) allows her to be reasonably accommodating on price and terms of sale, while Tom's perceived opportunity to step into the ownership of a highly-profitable small company should make him very willing to satisfy any of Anne's non-cash concerns. The problem may well be in getting Anne to identify what her key concerns really are – she may want to sell but yet may be uncomfortable in selling to Tom and may not be able to pinpoint exactly what her problems are with the sale. With the distant, somewhat uncomfortable relationship that currently exists, it will be quite difficult for Tom and Anne to have an open, sharing form of negotiation. For Tom, a hard, competitive negotiation format is second nature, while for Anne it is almost unthinkable. For Anne, trust, openness, and sharing of feelings is critical, while for Tom they indicate weakness.

Rod's unfulfilled dying wish that Tom should own the business can be a troublesome factor for students. Legally this promise is meaningless since it did not become part of Rod's will, but it still may have value in the negotiation process if used wisely. Obviously Rod did not intend to GIVE Tom ownership of ROD as a gift, but it does seem clear that he wanted Tom to carry the business into the future as more than just a paid manager. Had he lived longer and been able to wrap up his affairs, Rod may well have negotiated a buyout plan himself that gave ownership to Tom in exchange for a fair purchase price paid to Anne over time. (And indeed, Rod and Tom could probably have carried on a spirited but fair competitive negotiation over price and terms.) The fact that a deal was never finalized and that Rod didn't clearly indicate his desires to Anne has created the main problem that this case addresses.

Relationships are key to successful negotiations as trust is a crucial element (Allred, 2004). Given that the relationship between Tom and Anne is strained at best, Curt Simon may hold the key to developing a sound negotiating strategy for Tom. Curt can be pictured in a number of roles:

- *As a protector of Anne's financial interests*
- *As an interpreter of what Rod would have wanted*
- *As an advisor to Tom in how to approach and satisfy Anne's needs*
- *As an intermediary in the actual negotiations*

Given Anne's distracted mental state and her often difficult relationship with Tom, Curt's intervention may be critical for a successful negotiation. For Anne, he represents a long-time friend who is knowledgeable enough to advise her about ROD and objective enough to fairly balance her interests with Tom's. Without help from a trusted source, she may be unable to carry on a negotiation or possibly even to recognize the necessity for a change in ownership. Curt is willing to help, and it is incumbent on Tom to use him to help Anne come to a decision to sell.

Implementing the Strategy

Our recommendation to Tom is that he begin by getting Curt to have a quiet talk with Anne about the reasonableness of selling ROD and about Rod's expressed wish that she do so. In order for negotiations to proceed, she has to at least accept the idea that a transfer of ownership is in the best interests of both parties, and Curt is in the best position to convince her of this.

If Anne is willing to discuss such a proposition, Tom's next step is to get her formal permission to have an outside CPA evaluate its worth. Ideally, Anne and Tom could jointly choose a CPA and subsequently accept his/her opinion as a fair, objective valuation for ROD. If this is not possible, the outside CPA can be paid by Tom and considered as his advisor in formulating a serious offer to buy the business. During this time frame Tom must be very careful in dealing with employees, suppliers, and customers; if he later chooses to start a competing firm, he does not want to be accused of soliciting the help of these groups while still employed at ROD.

The first face-to-face negotiation with Anne should be very simple and should include Curt. Tom's main goal here is to make a formal statement that after independent review he is interested in buying and that payment will have to be spread over time (essentially payment will have to come from the cash flows of the business). Since Anne does not have a pressing immediate need for cash, Tom can assume that she is primarily interested in an income stream over time and in non-cash considerations. If possible, during this meeting Tom should try to make his "buy or leave" position known, but in a non-threatening way. The goal at this point is not to place Anne in the position of having to choose between two undesirable alternatives (being forced to sell to Tom or replace him), but rather to gradually allow her to become acclimated to the idea that something must happen – the status quo is not a long term option. Tom's goal is to get Anne to say "I will sell you the business if we can work out the price, terms, and conditions," even though such an acceptance may require some time. Tom must temper his natural desire to hurry the negotiation along to an agreement; while it is a business opportunity to him, it is an emotional decision for her to relinquish a very tangible memory of Rod.

When Anne has come to accept the idea of selling, Tom may then propose a price, which should be expressed in total dollars, even though these dollars will have to be paid out in installments over time. If Tom proposes to pay $480,000 spread over four years, for Anne this places a significant value on the business that Rod built. If instead Tom phrases his offer as $10,000 per month for four years, she will naturally compare this periodic payment to the $3,300 weekly paycheck she currently draws and decide that it isn't enough, even though it may be a fair price for the business. Tom's goal is to draw Anne away from these comparisons, which are misleading because it was Rod's efforts that made the weekly paychecks possible, while it will be Tom's efforts that will provide the periodic buyout payments.

Tom's initial offer should be reasonable, but it should allow him room to make one significant upward adjustment. It is quite likely that Curt will be the one to judge the reasonableness of the price, which gives Tom two goals: to make the initial offer high enough that Curt will not feel Anne is being cheated, and to allow enough room to eventually increase the price by 15-20% so that Curt will feel he has gotten Anne a better deal through his mediation efforts. Throughout the negotiations, Tom should treat Curt and Anne as a team and try to avoid negotiating with her directly, since their styles are so opposed. Anne is much more likely to be led to a decision to sell by a trusted advisor like Curt than talked into selling by Tom. Tom should also avoid using distributive tactics such as excessive haggling over price and terms because Anne may interpret this to be a mistreatment of her husband's legacy and abandon the negotiations. The cash flows of the business allow Tom some flexibility in setting purchase price, but Anne's emotional state does NOT allow him the pleasure of the type of competitive negotiation that he's used to.

To make the deal work, Tom needs to find a number of "giveaway" items to make Anne feel that she is receiving more than just money from the deal and to allow her to keep an association with the business for as long as she needs. Examples of these fringe payments include:

- *Keeping Roofs of Distinction (ROD) as the name for at least 4-5 years.*
- *Retaining company-paid benefits (car, health insurance) over the life of the buyout.*
- *Providing summer employment to the Evans children while in school.*
- *Allowing Anne office privileges (copier, fax machine, office space, car phone) for the next few years.*

These benefits may only add 10% to the cost of the buyout, but they may be very important in allowing Anne to gradually "let go" of the business, instead of forcing her to immediately become merely an old owner collecting a monthly check. Throughout the negotiations, Tom should try to probe Anne's mind and feelings to find what she really wants (if indeed she even knows), and then try to fulfill these needs. As strange as it sounds, it may even be appropriate to involve Tom's wife in the negotiations in order to (1) get a woman's intuitive viewpoint on what is really important to Anne, and (2) give Anne someone more empathetic than Tom to talk with. For Tom, this represents a tremendous business opportunity rather than a negotiation that he has to win, and he should use his wife and Curt as tools in getting Anne to agree.

Exhibit 2
Roofs of Distinction
Profit Reformulation under Tom Speyer Ownership

	Exhibit 1	Adjustments	Under Speyer
Sales	$935,868		$935,868
Cost of Sales	(532,828)		(532,828)
Gross Profit	$403,040		$403,040
Overhead Expenses:			
Officer Salary	$199,369	$(199,369)	-0-
Office Salaries	75,484	(55,000)	20,484
Rent & Utilities	21,374		21,374
Office Expenses	27,423		17,423
Other Expenses	31,627	(27,000)	4,627
Pre-tax Profit	$47,763		$339,132

Exhibit 3
Tom Speyer
Estimated Capital Needed To Start A Copper Roofing Business

Start-up Costs:		
Fabrication Equipment (used)		$50,000
Vehicles (2 used)		20,000
Opening Materials Inventory		10,000
Office Equipment/Legal & Accounting Start-up		5,000
Deposits/Prepayments		5,000
Working Capital:		
Payroll (See Below)		30-35,000
Materials (See Below)		20-25,000
Total Capital Needed		$140-150,000
Possible Financing Sources :		
Equipment Notes	$25,000	
Vehicle Notes	10,000	
Trade Credit –Materials	15,000	50,000
Owner Capital Needed		$90-100,000

Note: If Tom started a competing business with one three-person crew it would take approximately 50-70 days from the time they started their first contract until any cash was received, since Billings on such contracts are usually done monthly and paid a month later. Thus Tom would have to fund approximately 60 days of labor and materials costs until customer payments begin to arrive.

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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.

INSTRUCTORS' NOTES

Teaching Strategies

Accounting professionals must adhere to the highest level of ethical conduct and comply with professional ethics rules set by organizations such as the American Institute of Certified Public Accountants (AICPA) and State Boards of Accountancy. During their professional careers, accounting professional may encounter ethical dilemmas in various contexts. Exposure to ethical dilemmas in a class setting and careful consideration of the related issues, such as the interests of stakeholders, within the context of ethics rules may be useful to help students prepare for the accounting profession. Students should recognize that ethical considerations and potential ethical dilemmas may arise not only related to financing reporting, but also in non-traditional reporting situations. This case presents such a situation in the context of sustainability reporting, which represents a continually growing trend in the U.S. and globally. As companies perpetually enhance formal sustainability reporting related to their environmental and social impact, increasing involvement by accounting professionals will become necessary.

This case deals with a fictitious consumer products company that has implemented significant sustainability-related programs and is voluntarily publishing a formal sustainability report. The company's report includes information about its mission, profile, products, and corporate governance; and the impact of its activities on employees, society, and the environment. Elena, a new member of the accounting/sustainability reporting staff with whom students are asked to identify, notices that in the draft of the current year sustainability report, the five-year projections relating to CO_2 emissions and water usage are extremely optimistic and unsupported by engineering findings. Her supervisor, the director of sustainability, is not receptive to changing the inaccurate projections. This creates an ethical dilemma for Elena.

This case can be used to enhance students' awareness of ethical issues that may arise in the context of sustainability reporting; and provides students with an opportunity to review pertinent ethics rules, consider various options to resolve the issues, and research current sustainability reporting guidelines. The case also can be used to spark students' interest in the continually growing trend of formal reporting of the comprehensive impact of organizations' activities on the environment and society, as well as on profit.

Two sets of suggested questions are provided. The first set focuses primarily on the related ethical issues of the case and requires that students consider professional ethics rules. The second set requires additional research and analysis of the related sustainability reporting standards and current efforts by standard setters and regulators to develop industry-specific standards. The majority of the questions are independent, providing instructors with the flexibility to assign selected, or all of the questions. The case can be addressed in a group setting, or assigned as an individual student project. In-class discussion of the case requires about 40 minutes. The time needed for detailed in-class discussion of students' findings varies depending on whether student presentations are required.

SUGGESTED ASSIGNMENTS

Pretend that you hold Elena's position and 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.

Questions Relating to Professional Ethics

1. What ethical issues does Elena face? What factors should she consider?
2. What reporting issues does Elena face?
3. What professional ethics rules and guidelines should Elena consider? Be specific and cite specific ethics rules as support.
4. Consider Alfred's assertions regarding the optimistic projections of the future reductions in CO_2 emissions and water usage. Examine each assertion and consider its validity.
5. Assume that reporting of highly optimistic estimates of future reductions in CO_2 emissions and water usage does not violate specific reporting and professional ethics rules. Does this mean that Elena need not pursue the matter any further?
6. If you were in Elena's position, what would you do?

Questions Requiring Additional Research and Analysis

1. The company is considering utilizing the GRI guidelines as a basis for preparing future sustainability reports. Retrieve and review the G3.1 guidelines available at www.GRI.org, address the following questions, and briefly summarize your findings.
   a. What application levels may be utilized, what issues must be reported across all levels, and what are the primary differences among the different levels?
   b. Determine whether version G3.1 of the GRI reporting guidelines indicate principles or criteria that should be used for estimates or projections. Briefly summarize your findings and indicate whether, in your opinion, the company's projections are consistent with these guidelines.
2. Research the current status of the Sustainability Accounting Standards Board's efforts to develop industry-specific reporting standards (SASB.org) and provide a one-paragraph synopsis of their progress.
3. Research the career choices that are available to accounting professionals interested in sustainability reporting.
4. What benefits and challenges may arise for a company that issues a formal sustainability report?

SUGGESTED ANSWERS TO QUESTIONS

Questions Relating to Professional Ethics

1. **What ethical issues does Elena face? What factors should she consider?**

Elena is a new employee who wants to make an important contribution to her company's sustainability reporting practice. She is fairly inexperienced in dealing with conflict involving a superior and encountering this issue so early during her career creates an ethical dilemma for her. The ethical issues that Elena is facing is whether she should continue to pursue the matter of the highly optimistic estimates of the company's future reductions in CO_2 emissions and water usage, or refrain from doing so.

Prior to deciding on a course of action, Elena should consider the following factors and issues: (a) The accuracy of the engineering report and whether the report contains any information that will help her assess the margin of error in the engineering projection; (b) her supervisor's potential motivation with respect to his optimistic projections; (c) her ethical responsibility, both professionally and personally, and the possibility for violating a professional ethics rules and/or her own personal perception of integrity; (d) whether pursuing this issue can affect the reporting outcome; and (e) the effect on her position within the company.

2. **What reporting issues does Elena face?**

Elena must consider whether the inaccurate projections are significant in relative terms and potentially would mislead the company's stakeholders. The specific reporting issues that Elena faces are objectivity, faithful representation, and conservatism. While these concepts and principles are part of the Financial Accounting Standard Board's (FASB) conceptual framework (FASB, 2010) and specifically apply to financial accounting and reporting, they can also be considered relevant to any official communication with financial statement users and other stakeholders. Similarly, objectivity and lack-of-bias represent essential characteristics of accounting professionals and the information they provide.

3. **What professional ethics rules and guidelines should Elena consider? Be specific and cite specific ethics rules as support.**

Elena is planning to become a licensed CPA and likely will become a member of the American Institute of CPAs (AICPA); thus, she could consider the AICPA's professional conduct requirements. The section that especially applies to the current issues is section No. 102 'Integrity and Objectivity.' Section 102 states that "In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflict of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others" (AICPA, 102, n.d.). In addition, Elena should consider the ethics rules of the state board of accountancy in the state in which she will become licensed as a CPA. Furthermore, Elena could also refer to the Institute of Management Accountants' IMA Statement of Ethical Professional Practice. Part IV, 'Credibility' emphasizes that members of the IMA have a "responsibility to communicate information fairly and objectively" (IMA, n.d.). Furthermore, Elena should also refer to her company's code of conduct and diplomatically refer to it in her discussion with Alfred.

4. **Consider Alfred's assertions regarding the optimistic projections of the future reductions in CO_2 emissions and water usage. Examine each assertion and consider its validity.**

Alfred made four assertions to explain why the projected reductions in CO_2 emissions and water use that will be reported in the current year sustainability report need not be revised.

Assertion (1). Alfred justifies the highly optimistic projections by stating that estimates inherently are inaccurate. While the statement generally is true, his assertion is invalid because the projections shown in the draft of the sustainability report are significantly higher than the engineering projections, which are based on current conditions and processes. Elena should carefully examine the engineering report and try to assess its accuracy, if possible. She may want to speak to the personnel who developed the engineering forecasts in order to gain additional insights.

Assertion (2). Alfred's statement that sustainability reporting is voluntary and that financial reporting rules do not govern sustainability reporting is correct. However, companies have a fiduciary responsibility to stakeholders and this includes the responsibility to provide information that is free from intentional misstatements. Users of the company's sustainability reports will tend to expect the same level of diligence in the preparation of sustainability reports as they do related to financial reports and tend to rely on the information presented. Thus, Alfred's assertion is invalid.

Assertion (3). Alfred's assertion that overall the company is very conservative is not pertinent to the issue at hand. In fact, excessively conservative estimates may also result in misstatements and decrease the usefulness of the information. Moreover, conservatism in one area may not be indicative of conservatism in other areas. Hence, Alfred's assertion is invalid.

Assertion (4). Alfred stated that the company has already publicized the expected reductions in CO_2 emissions and water usage consistent with the report draft and any changes would confuse stakeholders. This assertion is invalid. The fact that the company has already publicized the highly optimistic projections does not preclude the company from revising the information and reporting a less biased estimate. Clear statements and explanations likely will not confuse the report users.

5. **Assume that reporting of highly optimistic estimates of future reductions in CO_2 emissions and water usage does not violate specific reporting and professional ethics rules. Does this mean that Elena need not pursue the matter any further?**

Even if no financial reporting rules or specific professional ethics rules are violated, Elena may feel compelled to further pursue the issue. Elena should base her decision of whether to pursue the issue on two primary determining factors (a) whether reporting of the optimistic projections would potentially mislead information users and (b) whether she perceives that her decision and behavior are consistent with her own personal perception of integrity.

6. **If you were in Elena's position, what would you do?**

Prior to deciding on a course of action, Elena should consider the following factors and issues: (a) The accuracy of the engineering report and whether the report contains any information that will help her assess the margin of error in the engineering projection; (b) her supervisor's potential motivation with respect to his optimistic projections; (c) her ethical responsibility, both professionally and personally and the possibility for violating professional ethics rules or her own perception of integrity; and (d) whether pursuing this issue will potentially change the reporting outcome.

The answers to these questions will help her decide what she should do. If she decides to further address the issue, she should be fairly certain of the facts and perhaps consider bringing the information to the attention of the manager of the engineering department. She may also diplomatically mention to Alfred that reputational risk is involved in publishing overly optimistic information that later will be shown to have been inaccurate. She could point out that this could influence the perceived creditability of the other information – both in terms of the sustainability and financial reporting. Furthermore, if she is convinced that the company's top management is intentionally misleading its stakeholders, she may wish to reassess her choice of employment and plan accordingly. Given her inexperience, the factors involved, and her career plans, she should not react without careful analysis and consideration.

Questions Requiring Additional Research and Analysis

1. **The company is considering utilizing the GRI guidelines as a basis for preparing future sustainability reports. Retrieve and review the G3.1 guidelines available at** www.GRI.org**, address the following questions, and briefly summarize your findings.**
   a. **What application levels may be utilized, what issues must be reported across all levels, and what are the primary differences among the different levels?**
   b. **Determine whether version G3.1 of the GRI reporting guidelines indicate principles or criteria that should be used for estimates or projections. Briefly summarize your findings and indicate whether, in your opinion, the company's projections are consistent with these guidelines.**

a. Consistent with the current GRI G3.1 guidelines (GRI, 2011), three reporting application levels are available – A, B, and C. Levels may be self-assessed, verified by GRI, or third-party verified (i.e., audited). All three application levels require disclosure on the following information:

Profiles disclosures: (a) *strategy and analysis*, which consists of statements made by the company's most senior management and includes disclosures of (for example) key events, failures, and strategic priorities; the information in this category is qualitative in nature; (b) *organizational profile*, which includes qualitative information such as primary brands, countries of operation, markets served, legal form of organization and quantitative information about the scale of operation in terms of number of employees, net revenue, and number of operations; (c) *report perimeters*, consisting of qualitative information such as reporting date and cycle, and reporting boundaries.

Corporate governance, commitments and engagements: this includes qualitative information about the organization's governance structure, the basis for identifying stakeholder groups, and materiality; and quantitative information about governance, and personnel by gender, age, and minority group representation.

In addition to disclosures about a reporting entity's strategy and analysis, organizational profile, report parameters, and corporate governance, all three application levels require disclosure of performance indicators pertaining to economic, social and environmental aspects. The application levels differ with respect to the number of performance indicators reported. Level A requires the greatest amount of detail. Specifically, companies that report consistent with level C must provide information about a minimum of 10 performance indicators (at least one addressing each aspect), those that report consistent with level B must provide information about a minimum of 20 performance indicators, and those that report consistent with level A must report information about all 63 core performance indicators (GRI, 2011). In addition, levels A and B require disclosure of companies' actions affecting labor practices, human rights, and product responsibility.

b. Consistent with the G3.1 Sustainability Reporting Guidelines, "balance, comparability, accuracy, timeliness, reliability, and clarity, along with tests that can be used to help achieve the appropriate quality of the reported information" are necessary (GRI, 2011, 4). Furthermore, the guidelines refer to the use of estimates as follows: "Although such estimates are by nature subject to uncertainty, they can provide useful information for decision-making as long as the basis for estimates is clearly disclosed and the limitations of the estimates are clearly acknowledged" (GRI, 2011, 13). With respect to reliability, the guidelines indicate that "Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information" (GRI, 2011, 17). In addition, the information should be sufficiently accurate to allow assessment of an organization's performance (GRI, 2011).

The projections made by Norbert Corporation's sustainability director do not appear to adhere to the GRI G3.1 guidelines with respect to reliability and accuracy.

2. **Research the current status of the Sustainability Accounting Standards Board's efforts to develop industry-specific reporting standards (SASB.org) and provide a one-paragraph synopsis of their progress.**

Students' answers will vary depending on the timing of assigning this case. On July 31, 2013, SASB released industry-specific sustainability reporting standards for the "Health Care" industry, on February 25, 2014, for the "Financials" industry, and on April 2, 2014, for the "Technology & Communications industry" (SASB, 2014). The SASB expects to release several other proposed standards for public comment during 2014 with respect to the following industries: "Non-Renewable Resources," "Transportation," and "Services" (SASB, 2014). A number of additional projects addressing other specific industries are currently on the SASB's agenda. Updated information can be found on the Board's website at: (http://www.sasb.org/standards/status-standards/).

3. **Research the career choices that are available to accounting professionals interested in sustainability reporting.**

Accounting professionals can support organizations' sustainability reporting in various capacities. This includes helping management develop and integrate strategies that add value to the company and its stakeholders, while preserving resources; providing information that helps companies coordinate and streamline internal decisions and processes; providing critical support for sustainability reporting; and providing assurance services to sustainability clients. For example, large public accounting firms and some consulting-oriented organizations (e.g., Boston Consulting Group) provide significant sustainability and sustainability reporting support to their clients.

The American Institute of Certified Public Accountants (AICPA), perceives the role of CPAs with respect to sustainability accounting and reporting as follows: "Members in business, industry and government - can add value within their organizations by serving in an integrative role in the value creation process, linking company strategy to sustainability, evaluating risks and opportunities, and providing measurement, accounting and reporting skills. Members in public accounting practice - can add value to their clients by providing services related to the development of sustainable business strategies, sustainability accounting and reporting, and assurance" (AICPA, n.d.).

4. **What benefits and challenges may arise for a company that issues a formal sustainability report?**

Companies that implement sustainability projects tend to achieve more efficient utilization of resources, help preserve scarce resources, and in the long-run derive benefits through related cost savings; enhanced employee commitment; investor and customer goodwill, and supply-chain opportunities. In addition, some companies are able to service a niche by providing sustainability-related goods or services to clients, thus further benefiting from their investment in sustainability.

Formal reporting of a company's sustainability-related efforts communicates information about these activities and their results to stakeholders such as investors, customers, employees and members of the community in which the company operates. Formal reporting satisfies a growing demand for such information. For example, a survey by Ernst & Young of 272 executives found that the business executives perceived customers as the most important stakeholders and audience for their companies' reports on sustainability-related efforts (Ernst & Young, 2011).

Voluntarily issuing high quality sustainability reports may enhance a company's reputation and thus may create a strategic advantage for the company. If the industry in which a company operates is under scrutiny with respect to specific sustainability-related issues, reporting on sustainability will enhance transparency, which will tend to be perceived positively by stakeholders. If an organization's major competitors are not issuing formal reports, the company that is issuing a high-quality report may be viewed as an industry leader.

Sustainability reporting incurs costs, which may be significant in the short-run. However, over time, the benefits likely will exceed the costs. In addition, companies may want to consider the implications of reporting potentially proprietary information that may be utilized by competitors. These potential challenges can be addressed so that the benefits of reporting exceed the related costs.

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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.

INSTRUCTORS' NOTES

INTRODUCTION

We portray a small business as they engage in the process of expanding its operations. The company is known for engineering and manufacturing superior quality, specialized tubular products for international markets in the oil and gas industry. Under the leadership of its founders-owners, Olympian has successfully competed in a specialized manufacturing niche in the oil and gas industry from its sole location in south Louisiana. This despite challenges resulting from a world-wide economic downturn, hurricanes and the Deepwater horizon oil spill. The owners then find themselves literally out of space. They must identify the optimal means to expand capacity to meet the demand of very powerful customers.

METHODOLOGY

We performed qualitative interviews of the owners of Olympian Machine. Additional information was gathered through secondary research including information gathered from the company's website. Information was also gathered from several presentations one of the owners made to the lead author's classes. Interviews were semi-structured in nature, recorded and transcribed.

TEACHING APPROACH

The case focuses on strategic management concepts--sources of competitive advantage, scope of the target market and product line, and developing and implementing a growth strategy. It is appropriate for use in strategic management courses at the undergraduate level. Strategy textbooks will include multiple chapters on these issues covered in this case making it an effective learning supplement. Before class meets, each student should read the case and prepare written answers to the discussion questions attached to these Instructors' Notes. During the class meeting, the instructor should first provide a brief overview of the case and lead a general discussion of the facts of the situation. The instructor should incorporate concepts discussed in the textbook and other course materials to the appropriate section of the case. The instructor might consider use role plays for generating discussions or alternate views. Suggestions for roles would be owners, customers, employees, and the owner of the acquisition target.

LEARNING OBJECTIVES

Through analysis of this case, students are expected to:

1) *Assess the business-level strategy of a small business and its fit with the external environment.*
2) *Identify the relevant industry issues that impact the decision of choosing a target market for offering one's products and/or services.*
3) *Assess the options for growing or diversifying a business.*
4) *Discuss the differences between a sole proprietorship and a partnership as a means of implementing an appropriate ownership structure as was considered by the owners in the creation of Olympian back in 2007.*

DISCUSSION QUESTIONS

1. What business-level strategy best describes that of Olympian Machine and how does that strategy create value for the firm? Justify you answer with specific reasoning.

In terms of Olympian's source of competitive advantage, students should recognize that the firm seeks to differentiate itself from competitors. In terms of the scope of its operations, some students might suggest that relative to the size and scope of firms in the oil and gas industry, Olympian targets a relatively narrow, but dispersed segment of customers, with relatively few products. Other students might suggest that while their product line might be relatively small, the firm does compete in international markets which suggest a broad geographical scope. However, just because a firm competes internationally does not necessarily mean that its geographical scope is broad. Firms can specifically target niches in international markets.

Olympian obviously seeks to differentiate itself from other manufacturers of similar products. As stated in the case, the owners mutually decided to engineer and machine high, quality specialized castings, tubing and casings. Specific sources of differentiation for Olympian include high quality products due to high quality inputs, their production capabilities, specialized equipment and a highly skilled and motivated work force. Kent also stated that their service was second to none and that, “We felt that our decision to concentrate on those customers willing to pay higher prices for higher quality products would provide Olympian Machine with an advantage over potential competitors…”

Despite Olympian’s recent acquisition and the addition of complementary capabilities, Olympian Machine remains focused on a specific niche with a relatively narrow product line. This type of specialization results in products and services that are developed to meet (or exceed) the needs of the target market, thus translating into significant value creation for the customer. As such, most students should recognize Olympian’s business-level strategy as one of *focused differentiation*.

Successful differentiation is achieved when a firm can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. A successful differentiation strategy has the ability to minimize profit destruction as outlined in Porter’s 5 Forces model at a greater rate than those who are less successful at achieving differentiation. Firms are able to build customer loyalty due to the unique value the differentiated firm provides. This loyalty can offset the threat of new entrants by requiring new entrants to make more substantial investments in innovation, marketing, and other resources in order to be successful. Customer loyalty can also help the firm offset the potentially profit destroying forces of powerful buyers and suppliers. Buyers are less likely to demand lower prices because of the unique value they receive and are often willing to pay higher prices, so increases in input costs can be passed through to the customer at a greater rate than that of a less differentiated firm. The successful differentiator is also more insulated from the threat of substitutes due to customer loyalty. Finally, because of the unique value created for customers, the firm is less likely to compete directly with others, thus decreasing the potential negative impacts of intense rivalry.

2. Assess Olympian Machine’s choice of their target market. Defend your answer.

Identifying a firm’s target market is a critical step in determining its financial success. As such, it is imperative for managers to analyze the profit potential in multiple markets and industries. Competitive dynamics do vary from market to market (e.g., oil and gas services in the Gulf of Mexico versus oil and gas services in other parts of the world) and thus will differentially impact firm performance. The main force driving this difference lies in the concept of value creation. *Value* is created when the price a customer is willing to pay for a product/service exceeds the costs incurred by the firm. It is important to note that value creation does not directly translate into raw profits for a company. As a result of competitive forces, the excess of value over cost (i.e., the surplus) becomes distributed between customers and the firms providing the products/services.

Students should recognize this issue as it relates to Olympian. Theoretically, the stronger the <u>competition</u> is among industry/market participants, the more of the surplus is received by the consumer in the form of *consumer surplus* (the difference between the price they actually pay and the maximum price they would have been willing to pay). When a market reaches the maturity stage of the life-cycle the number of company’s competing will be at its highest and, in fact, the industry/market will typically be plagued with chronic oversupply. As such, it will become increasingly more difficult to justify entering into such a market or to stay a provider in this market and expect to maximize shareholder value. Growth will be limited and the ability to extract a premium price in the market becomes increasingly difficult. Kent and Whitney saw that this was the case for oil and gas manufacturing companies supplying to producers in the Gulf of Mexico region and instead decided to focus on serving international markets, both existing and emerging. The chronic oversupply and considerable amount of manufacturing firms for the Gulf of Mexico market allowed major oil and gas companies like Chevron, Exxon, Halliburton, and Shell to create an environment where competition based on price among tool manufacturing companies (like Olympian) was common. As noted by Kent, "the Gulf market was saturated with competitors and we wanted to avoid the price wars we were seeing." This strategy will allow Olympian to accrue more of the surplus.

In addition to mentioning the role of competition on selecting a target market, students might also reference the impact of powerful customers, as well as the value of the product/service provided to the customer. An industry containing powerful customers will translate into the surplus not entirely being captured in profits by the firm. Students should recognize in this case that the powerful customers include the large oil and gas production and service companies mentioned above, who are constantly increasing in size and buying in greater bulk from smaller oil and gas machining companies. As a result, prices charged to these large production and services companies are under significant pressure due to their disproportionately- large buying power. This buying power will further increase depending on the value of the product/service provided to the customer. In other words, a firm providing highly differentiated products translates into greater loyalty by the customers and thus makes them less price- sensitive. As such, the ability to extract a premium price and an even larger proportion of the surplus is more easily accomplished by the differentiated firm.

The students should identify these two aforementioned issues as particularly relevant and properly addressed in Olympian's strategy for choosing a target market. Specifically, the students can reference Olympian's choice to engineer and machine high quality tubular products-a choice different from many of the more mainstream machine shops who either did not seek to target the high-end segment of the market (instead seeking to win contracts based on them being the lowest bidder for any particular job), or were not able to deliver quality products on a consistent basis. As mentioned by one of the owners, "We felt that our decision to concentrate on those customers willing to pay higher prices for higher quality products would provide Olympian Machine with an advantage over potential competitors, if we could deliver" and "We identified specific areas around the world that we knew we could serve especially well with the highest quality materials, highest quality production capabilities and service that was second to none." Essentially, Olympian's choice to provide highly differentiated products and services allowed them to specifically address the powerful customers in this industry and thus translates into value creation as it relates to choosing a target market.

3. In assessing Olympian Machine's decision to pursue a growth strategy, what are some of the options for implementing a growth strategy and the associated advantages and disadvantages of each?

One of the primary tasks of top-level executives as it pertains to a firm's overall corporate strategy is addressing the issue of growth. The decision to grow might involve expanding the size of firm, its product line, target market, industries in which it competes, etc. While growth is often associated with diversification, this is not always the case. Not all firms need to engage in diversification initiatives if there is still a sizeable amount of growth and profit potential in the industry in which the firm currently operates. This would be the true for Olympian. The primary goal of their growth strategy was not to diversify their product line but to increase capacity and decrease the risk of production interruption. The owners stated, “Besides, if we didn’t grow, our customers would find another supplier who would.” and “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.”

Option 1: Acquisitions. Acquisitions have historically been a very attractive means for growing a business. However, they do bring certain risks and expenses for the acquiring firm The first major area involves the costs associated with acquiring an existing business. Often acquiring firms have to pay a premium for the business in order to convince shareholders and executives that selling the business is a worthwhile endeavor. Besides the premium paid for purchasing a firm, costs associated with due diligence (the costs incurred with reviewing all financial records and any other issues deemed relevant to the sale of the business), negotiating the sale of the business, and integrating the acquired business into the firm’s portfolio can become quite considerable. The second major issue for consideration relates to the challenges associated with integrating the acquired firm. It is not uncommon for the two firms to have significant differences as it relates to inventory systems, managerial styles, corporate cultures, financial and accounting procedures, production processes, and human resource practices. As such, successful integration is critical to delivering long-term value.

Much of the risk associated with acquisitions can be reduced thereby making it relatively quick, less expensive and a very attractive means of growing. Firms should spend the necessary time and other resources assessing and negotiating with acquisition targets. However, the costs associated with the purchase price can be reduced significantly. Instead of paying premium for a high performing firm, the acquiring firm might instead target one that is underperforming. These firms can often be had at a discount. Top management should not be overly concerned that a firm is underperforming, but more focused on *why* it is not performing well. If the problems can be remedied at little or no additional costs, that firm may be more attractive target than one performing exceptionally well. For example, Olympian’s acquisition prospect, Wadko Precision, had been hit hard by the recession and was struggling to stay afloat. This despite it being a company with seemingly strong technical skills. This suggests that Wadko may not have had the necessary managerial expertise, reputation, and/or customer base, all of which Olympian possessed and could be easily transferred to the new facility. Identifying opportunities to take advantage of such economies of scope and synergies are an important ingredient in any successful acquisition.

Students might also identify the ability to immediately increase market power, economies of scale, expand the product line, and acquire new capabilities as reasons for implanting a growth strategy through an acquisition. Although these issues are not a primary focus of the case, or part of Olympian’s primary focus, these advantages could certainly accrue to the firm as a result of the acquisition.

Disadvantages of this implementation strategy might include top management becoming overly focused on acquisitions, the inability to achieve economies and synergies, and the loss of key personnel. (Instructors should note: Only 18 months after the acquisition, Olympian Machine has retained only about 50% of the personnel from Wadko Precision. This was attributed mainly to culture differences. Some of the employees simply could not embrace new policies and procedures. All of this despite these employees knowing what they had been doing previously was no longer working and that Olympian Machine had been extremely successful operating under the exact same policies and procedures.)

Option 2: Collaborative relationships. A cooperative strategy is when two or more firms work together to achieve a shared objective. Expansion, innovation, globalization, and many other large scale strategic endeavors can be very costly in terms of time, money and the expenditure of other resources. Also a firm may discover that it lacks the internal capabilities and core competencies to effectively compete against its rivals and thus may seek out partners to share costs and develop cooperative advantages by working together.

The two most common types of cooperative relationships are joint ventures and strategic alliances. A *joint venture* is a cooperative relationship in which two or more firms join together to create a new business entity that is legally separate and distinct from its parents. A *strategic alliance* is a relationship where firms cooperate for mutual benefit by going beyond normal business-to-business dealings but fall short of the creation of a new company. The partners in a strategic alliance may agree to pool R&D activities, marketing expertise, managerial talent, etc. The benefits of cooperative relationships include:

- Ease of market entry – Firms wishing to enter new markets often faces major obstacles, such as entrenched competition or hostile government regulations. Partnering with a local firm often can help the entering firm overcome such entry barriers.
- Shared risk – Today's major industries are so competitive that no firm has a guarantee of success when it enters a new market or develops a new product. Cooperative relationships can be used to either reduce or control an individual firm's risk – typically financial risks.
- The sharing of knowledge and expertise – A firm might enter into a cooperative relationship to gain knowledge and expertise that it lacks. The firm may want to learn about how to more efficiently produce, how to acquire certain resources, how to deal with local regulations, or how to manage in a different environment – information that a partner often possesses.

Ultimately, the decision to form a strategic alliance should develop from a firm's strategic planning process. Management must address several significant issues, which set the stage for how the alliance will be managed. One of the most crucial issues in the implementation of a cooperative relationship is the selection of partners. It is believed that successful relationships are built on *trust* between partners. Other issues to consider when selecting partners are as follows:

- Complementary skills and resources – Cooperative relationships are more likely to be successful if the skills and resources of the partners are complementary. Each must bring to the relationship some organizational strength that the other lacks.
- Complementary products – Most experts believe that a firm should ally itself with a partner whose products or services are complementary to, but not directly competitive with, its own.
- The viability of the partner – Given the potential costs of failed agreements, managers should gather as much information as possible about a potential partner before entering into a cooperative relationship. For example, the manager should: assess the success or failure of previous relationships formed by the potential partner; analyze the prospective deal from the other firm's side - What does the partner hope to gain from the arrangement? What are the partner's strengths and weaknesses? How will the partner contribute to the relationship?

Lastly, it is important to be aware of the pitfalls of cooperative relationships. Regardless of the care and deliberation a firm puts into constructing a strategic alliance, it must also effectively manage potential limitations that might arise. These include:

- Incompatibility of partners - Incompatibility is a primary cause of the failure of such arrangements. At times incompatibility can lead to outright conflict, although typically it merely leads to poor performance.
- Limited access to information – For collaboration to work effectively, partners may have to provide each other with information it would prefer to keep secret, such as supplier sources, production technologies, and management techniques.
- Conflicts over distributing earnings – Because partners share costs and risks, they also share profits. The split between profits should be worked out ahead of time and stated in the original agreement. Another important issue is how much of the earnings should be reinvested back into the partnership for expenses like marketing and expansion versus returned to the parent firms for use on projects/expenses not associated with the cooperative relationship.
- Loss of autonomy – Just as firms share risks and profits, they also share control, thereby limiting what each can do. There is now a responsibility to on issues such as management techniques and philosophies to be implemented.
- Changing circumstances – The economic, market, geopolitical, and competitive conditions that motivated the cooperative agreement may no longer exist, or technological advances may have rendered the agreement obsolete.

Option 3: Organic growth. This is often a complex and potentially costly process, but it has the advantage of affording the firm the maximum control and, therefore potential to provide above-average returns. This ‘do it yourself’ option to expansion typically is contrasted to the expansion option via acquisition. Achieving expansion via the organic option is typically seen as being more consistent in adding to shareholder returns versus acquisitions. Research suggests that only about 36% of acquisitions realize enough cost savings to cover the premium paid (i.e., the addition to goodwill on the balance sheet). In the other approximately 64%, annual total shareholder returns, are on average, negative 2% (Favaro, Meer & Sharma, 2012).

Organic growth usually produces a growth rate slower than that of acquisitions. This may result in late entry, missed opportunities, and lost customers who are not willing to wait for the organic growth to be executed. Despite these issues, organic growth is less likely to change the culture of the organization and does not cause the company to potentially move in multiple directions at once. In other words, the assets or value added via organic growth will more likely contain only that which is targeted versus potentially unwanted items such as additional product lines, locations, and PP&E that may result from an acquisition.

4. Assess Kent and Whitney’s decision to form a 50/50 partnership when Olympian Machine was founded in 2007. Defend you answer.

A pre-requisite for success resides in matching the appropriate legal ownership structure with the needs of the business. As such, a definitive distinction needs to be made between a sole proprietorship and a partnership as a means of structuring the business. A *sole proprietorship* is where legal ownership and operations of business resides with one person. The benefit of this structure is that is extremely simple to understand and implement, in addition to being the least expensive business structure to form. It is not uncommon for organizations in their infancy to establish a sole proprietorship as its ownership structure until the time its business needs change and full incorporation becomes a more viable and feasible option. A sole proprietorship's advantages in many ways also become its greatest disadvantages in that all the profits and benefits (e.g., control and decision making) accrue to the sole owner, which also means so do all the financial losses and risks of making unvetted decisions. Additionally, the ultimate success of a sole proprietorship is contingent on one person's strategic abilities as it relates to gathering, interpreting, and acting upon the knowledge of the industry, its competitive dynamics, and prevailing business practices.

A *partnership* differs from a sole proprietorship in that a partnership is a legal business arrangement in which two or more individuals agree to share ownership and management of a business. Based on this arrangement it becomes apparent that the profits and benefits mentioned above will now accrue to multiple individuals. The same also applies to the financial losses andnegative consequences of the decisions made. One of the key drivers for success in any partnership lies early on in partnership formation, namely the selection of a partner. Since no one individual is a flawless decision maker and possesses all the relevant industry and competitive knowledge, it becomes imperative for partners to possess knowledge, skills, abilities, and expertise that are complementary to one another. This will result in a significant increase in the probability for partnership success. Additionally, it is important for partner selection to incorporate mutual trust, as well as compatibility of work styles, business practices, financial situations, and philosophies of how value is created for the partnership. A partnership not created on these key building blocks stands a very low chance of achieving its objectives as a result of the many conflicts and disagreements that will surely arise.

Students should recognize the different but complimentary skills and experiences the owners of Olympian possess and the impact this had on their success. Kent had spent years working in a variety of roles in the industry. Some of those mentioned specifically in the case include data entry, cost accounting, inventory control, sales, quality manager, facility manager and operations manager. According to Kent, "I gained valuable experience and I became well rounded. I chose to take different positions so that I could build my resume."

Whitney had a different, but equally important skill set. He had years of experience in machining, from manual machines to the numerical controlled machines more commonly seen in today's manufacturing facilities. This experience and expertise was critical to Olympian's ability to develop capabilities in engineering and producing some of the highest quality and tightest tolerances in the industry. His supervisory skills also played a key role in building, training, and maintaining a strong work force. As mentioned in the case, that he was a perfect candidate to handle the technical side of the business. Kent addresses this partnership when he stated, "We felt that these diverse but complementary skills would serve the company well."

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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 four 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 one class hour and is expected to require three 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.

INSTRUCTOR'S NOTES

RECOMMENDATIONS FOR TEACHING APPROACHES

The case allows students to apply their knowledge of the principles of corporate finance to address the twin problems of growth and conflict of interest among the owners. This case is to be analyzed as an outside of class assignment as a group work where each student is required to discuss his/her assessment of the various aspects of the case in a class setting. This case can be administered to both business senior under- and post-graduate levels.

Students should be able to use their knowledge of the various finance topics covered in class such as the valuation of financial assets, cost of capital and long term capital expenditures and apply them to assess valuation and underwriting issues for an initial public offering. In doing so, they will be able to learn why and when privately held companies are compelled to go public and how they can use the markets to solve some of their intractable financial and operational problems. They will also come to appreciate the intertwined nature of the cost of financing, on one hand, and the ability of the firm to generate free cash flows from its productive assets, on the other.

Once students understand what the case all is about, they should be able to address the various questions using the valuation models they learned in class. While the teaching notes give an overall guiding post about the solutions to these questions they are by no means exhaustive. As long as students are able to address and analyze each question from a rationale point of view based on the knowledge they have acquired from the course, they may suggest alternative solutions or come up with different recommendations within the confines of the narrative of the case. This should actually elicit a spirited debate in class discussions when students present their papers to the benefit of all the students.

This is a hypothetical case which highlights the initiative taken by family and friends to set up a research and manufacturing entity to produce pharmaceutical drugs in the area of their expertise. Their educational background, experience and skill set catapulted them to run a successful operation from the get go.

This case, however, underscores the dilemma the managing partners are currently faced with pertaining to the twin problems of the torrid pace of the company's growth trajectory which, they all realize, cannot be sustained and the conflict of interest among the owners about the makeup of the existing ownership and compensation structure. In order to resolve their problems, and after much deliberation, the owners were left with no other choice except to take their company public. They, however, need expert advice on how they should go about issuing initial public offerings and the price at which they should sell their stocks. This is where senior level and graduate business students can step in and provide assistance in managerial decision making.

The case provides the necessary descriptive performance reports for the past ten years, income statement for the last two years of operations and additional data that students can use to do their analysis. Given the data and the narrative of the case, students should be able to address and suggest solutions to the relevant questions.

DISCUSSION QUESTIONS

Senior or graduate finance students are required to fill in the shoes of the chief financial officer, Mr. Harold, and address the following questions and recommend solutions.

1. What are the advantages and disadvantages of issuing initial public offerings in this case?
2. Mention and justify at least three alternative valuation models that the company can use to determine the value of the company. Which of these models is the most plausible?
3. Determine the actual free cash flows generated by the company for 2012 and 2013.
4. Determine the weighted average cost of capital for the firm and discuss the pros and cons of using the industry average.
5. Provide all the relevant assumptions and determine the value of the company.
6. What are the market value of the company's common shares and its outstanding debts?
7. What is the minimum offer price that the firm should accept from the underwriter? Is there a range of price points that the firm should consider?
8. Should the owners accept a guaranteed offer from an underwriting firm or solicit alternative bids? Discuss briefly if this is a good strategic approach?
9. Should the company seek advice and assistance from an underwriting firm in promoting its initial public offering as against receiving a guaranteed offer? What are the inherent risks associated with such strategy?
10. How does the market serve as the final arbiter to resolve the conflict of interest between the partners about the makeup of the ownership and compensation structure of the firm?
11. Assess the company's prospects and its ability to raise a substantial amount of capital to meet its expansion needs. Provide convincing arguments from the case why the market may or may not be receptive to absorb all the shares offered in its IPO.

SOLUTIONS TO THE CASE QUESTIONS

1. What are the advantages and disadvantages of issuing initial public offerings in this case?
   The advantages include, but not limited to, the following:

The market will allow the company to raise a large amount of money to meet its liquidity and expansion needs.
The market provides a fair assessment of the value of the firm.
The market can be used as a vehicle to assess the relative contributions of its owners in creating additional value to the firm and thus mitigate the existing conflict of interest among the owners.
Going public will allow the company to alleviate its manpower constraints by hiring professionals from a wider pool.
The company will have more visibility and stature when it is exchange listed and operates in the public view.

The disadvantages include, but not limited to, the following:

The owners will be subject to double taxation.
The company can no longer operate under a cloud of secrecy and could be exposed to greater public scrutiny.
The company's operations and its financial affairs will be subject to increased government regulations.
The company may face the risk of losing some of its key partners if they opt to cash out when their company goes public.
The owners may lose their controlling ownership interest in firm.

2. Mention and justify at least three alternative valuation models that the company can use to determine the value of the company. Which of these models is the most plausible?

The company can use the economic value added model, peer price multiple ratios such as price to book, price-to-earnings, price-to-sales, price-to-operating cash flow and price-to-free cash flow multiples and the free cash flow model. Although students can use the first two models to test the validity of each model, in this particular case, the free cash flow model is the most appropriate since the data to be used for analysis is readily available.

3. Determine the actual free cash flows generated by the company for 2011 and 2012 (Refer to spread sheet solution in table 2).

FCF_{2012} = Operating cash flow (OCF) – Increase in gross capital expenditure – Increase in net working capital = \$4516 = 6756 – 1500 + 740, where, OCF = EBIT – taxes + depreciation = \$6756 = 7280 -1524 +1000.

FCF_{2013} =Operating cash flow – Increase in gross capital expenditure – Increase in net working capital = \$5057 = 8447 – 2500 – 890, where, OCF = EBIT – taxes + depreciation = \$8447 = 9696 -2249 +1000

Note that change in gross fixed asset = Change in net fixed assets + Depreciation

4. Determine the weighted average cost of capital (WACC) for the firm and discuss the pros and cons of using the industry average (Refer to tables 5 and 6 for spreadsheet solutions).

WACC = D/V (K_d) (1-t) +E/V (K_e) = 0.3(5.43%)(.7) +0.7(15%) = 11.64%, where D/(V=D+E) = 30%, and E/V =70%; Effective annual rate = K_d = 5.43% = $[(1+ i)^{1/2} -1]$, where i is interest and is compounded semiannually; Cost of equity = $K_e=15\%=R_f +\beta i\ (R_m-R_f)$ is the average for the industry.

Since this is a privately held company, it makes perfect sense to use data from its competitors whose shares are publicly listed. Moreover, since all pharmaceutical drugs have to be approved by the FDA before they are distributed for public consumption, it is also appropriate to use comparative metrics from its peers. On the other hand, the industry benchmark may not appropriately assess the riskiness of the firm given the narrative of the case. Because Pharmcorp has outperformed its peers with the efficacy of its breakthrough drugs and in its financial performance, it is possible that the company may considered less risky and should, therefore, be able to raise financing at a much lower cost.

5. Provide all the relevant assumptions and determine the value of the company (Refer to tables 7 and 8)

$$\text{Value of the company} = V_c = \sum_{t=1}^{n} [FCF_t/(1+k)^t], \text{ where } k=WACC$$

If we use an assumed conservative long term growth rate for the free cash flows generated beyond 2017 of 5%, discounted at a weighted average cost of capital of 11.64%, the firm will be valued at \$111.5 million at the lower end (table 7) and could be as high as \$139.4 million using the industry average of 6.5% (table 8). The case also indicates that the company is growing much faster than the industry. It is, therefore, possible that it could be worth much more than the high end suggested value.

6. What are the market value of the company's common shares and its outstanding debts? Refer to table 5 for the weighted average value of the company's outstanding loans and tables 7 and 8 for its stock price points under two different growth assumptions of 5% and 6.5%.

Market value of Bonds = B_0 = Coupon (PVOAIF, n;i)+Principal(PVIF,n;i) = \$33.87 million (table 5). PVOAIF is the present value of ordinary annuity interest factor and PVIF is the present value interest factor.

Market value of the stock = $P_0 = V_c$/number of shares outstanding. We get two price points of \$15.53 and 21.09 assuming long term growth rates of 5% and 6.5%, respectively.

7. What is the minimum offer price offer that the firm should accept from the underwriter? Is there a range of price points that the firm should consider?

The minimum offer price that the firm may accept is \$15.53 and this more or less matches the offer price by the underwriter \$15.50. But students should be aware that this price is arrived at using the most conservative growth assumption of 5%, which is far lower than the industry average. Students should also take into account that Pharmcorp grows at a faster clip than the industry average. This argument should lead them to suggest the company should negotiate for a price that is at least as high as \$21.09.

8. Should the owners accept a guaranteed offer from an underwriting firm or solicit alternative bids? Discuss briefly if this is a good strategic approach?

The results in table 7 and 8 show that the offer by the first underwriter is too low and students may recommend that the firm should bargain for a better offer. Since this underwriter has been tracking the financial performance of this firm and may have full knowledge of the company's future prospects, students may suggest that it may be worthwhile to explore and entertain competing bids from other underwriters.

9. Should the company seek advice and assistance from an underwriting firm in promoting its IPO as against receiving a guaranteed offer? What are the inherent risks associated with such strategy?

   If the financial press provides extensive coverage about this firm and if a number of underwriters express interest in the potential prospects of the firm and bid for a much higher price, the company may possibly explore the possibility of issuing an initial public offering on a commission basis to extract the maximum price possible. The downside to this strategy is that the firm may have to bear all the risk and may not get the best price for its shares and there is some likelihood that all the shares may not be fully subscribed to. Students can recommend that management may have a range of options to examine and should advise the company to carefully weigh all alternatives before it enters into any contractual commitment.

10. How does the market serve as the final arbiter to resolve the conflict of interest between the partners about the makeup of the ownership and compensation structure of the firm?

    According to the narrative of this case, yes, the relative contributions of the partners can be assessed by the markets especially if the cash flow streams generated from the company's products each researcher has developed can be identified.

    Moreover, as the company operates in public view, the managerial labor market may also give due recognition to the individual research scientists which create the most value to the firm. If they are not amply rewarded, its competitors could lure them away from the firm.

    Students may therefore recommend that it is in the best interest of the founding members to recognize what each of them could bring to the table in creating value to the firm and work out an ownership and compensation structure plan that meets everyone's demand. Doing so will allow them to unlock the potential value of the firm and help them realize their collective dreams.

11. Assess the company's prospects in its ability to raise a substantial amount of capital to meet its expansion needs. Provide convincing arguments from the case why the market may or may not be receptive to absorb all the shares offered in its IPO.

    The case states that the company's threat of competition may not be too severe in the immediate future and that the efficacy of its drugs is globally acclaimed. This gives the company an edge over its rivals, which, in turn, should trigger investors' interest to bid up the price of its shares and provide the necessary funding for its expansion needs. Students should, however, realize that some other potent drugs may overshadow the company's success. The company should continue to be vigilant and not minimize the threat of competition at any time.

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
Operating Expenses:	3,550	4,500
Depreciation	1,000	1,000
Operating Income (EBIT)	$ 7,280	$ 9,696
Interest Expense	2,200	2,200
Taxable Income	5,080	7,496
Income Taxes (30%)	1,524	2,249
Net Income	$ 3,556	$ 5,247

Table 2
Free Cash Flows (Actual for 2012 and 2013 and estimates for 2014-2017)

	Actual		Estimates			
	2012	2013	2014	2015	2016	2017
Operating Income (EBIT)	$ 7,280	$ 9,696				
Less:Taxes	1,524	2,249				
Add: Depreciation	1,000	1,000				
Operating Cash Flow	$ 6,756	$ 8,447				
Less: Increase in NFA + Depreciation	1500	2500				
Less: Increase in NWC	740	890				
Free Cash Flow (FCF)	$ 4,516	$ 5,057	$ 6,069	$ 7,282	$8,011	$ 8,812

Net fixed assets in 2011 and 2012 are estimated to be $50 and $150, respectively. Net working capital is estimated to be 2.5% of sales.

Free Cash Flows ('000s) are expected to grow by 20% in 2014 and 2015 and by 10% in 2016 and 2017, and 5% thereafter

Table 3
Market and Book Value of Bonds Outstanding Beginning 2013

	Maturity Date	Book Value	Price	Coupon	YTM
Pharmcorp LLC, 6.00%, 5-yr bond	12/31/17	$10,000,000	$1,089	6.00%	4.04%
Pharmcorp LLC, 8.00%, 10-yr bond	12/31/22	$20,000,000	$1,149	8.00%	6.09%

Table 4
Financial Data

Proposed Shares to be issued (12/31/13)	5,000,000
Average beta for peer group (12/31/13)	1.5
Projected industry growth rate	6.50%
Assumed Pharmcorp growth rate	5.00%
Tax rate	30.00%
Cost of equity for industry-assumed	15.00%
Average Bond Yield (Table 5)	5.43%
Average industry debt balance -12-31-13	30.00%

Table 5
Cost of Debt

LT Debt	Market Value of Bonds (In millions of dollars)*	Proportion of Bonds	Current bond Price*	Years Remaining (n)	YTM	Weighted average YTM(=k_d)
Pharmcorp LLC, 6.00%, 5-yr bond	$10,890	32.15%	$1,089	5	4.04%	1.30%
Pharmcorp LLC, 8.00%, 10-yr bond	$22,980	67.85%	$1,149	10	6.09%	4.13%
Total	$33,870					5.43%

* Market Value of Bonds =B_0=Coupon(PVOAIF, $_{n,i}$)+Principal(PVIF,$_{n,i}$)
where PVOAIF is the present value of an ordinary annuity interest factor and PVIF is the present value interest factor

Table 6
Cost of debt

	Average industry market value %	Pharmcorp before tax cost of debt and equity	Pharmcorp after tax cost of debt and equity	Weighted average
6% coupon debt				
8% coupon debt	30.00%	5.43%	3.80%	1.140000%
Common equity	70.00%	15%	15.00%	10.5000%
Total Market Value	100.00%			
Weighted average cost of capital (WACC)				**11.640%**

Table 7

Free cash flow Valuation Model

	2012	2013	2014	2015	2016	2017	Terminal Value of futur FCFs in 2017
FCF (in millions $)	$4,516	$5,057	$6,069	$7,282	$8,011	$8,812	$139,341
Discounted CF			$4,530	$5,843	$5,757	$5,673	89,702
Value of Company							111,504
Market value of debt							33,870
Market value of equity							77,634
# of Shares Outstanding							5,000,000
Value per Share							$ 15.527

Free cash flow is estimated to grow by 20% for the first two years,
10% the next two years and 5% rate thereafter
and discounted using WACC (11.64%)

Table 8

Free cash flow Valuation Model

	2012	2013	2014	2015	2016	2017	Terminal Value of futur FCFs in 2017
FCF (in millions $)	$4,516	$5,057	$6,069	$7,282	$8,011	$8,812	$182,576
Discounted CF			$4,530	$5,843	$5,757	$5,673	117,534
Value of Company							139,337
Market value of debt							33,870
Market value of equity							105,467
# of Shares Outstanding							5,000,000
Value per Share							$ 21.093

Free cash flow is estimated to grow by 20% for the first two years,
10% the next two years and 6.5% rate thereafter
and discounted using WACC (11.64%)

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 change in role and mission and the subsequent naming and branding process. Secondary issues include management and marketing, services marketing, non-profit marketing, legislative relations, public policy and higher education leadership. The case is designed for first and second year graduate students and doctoral students in business, non-profit management, public administration, and higher education leadership. The case can be taught in a single, two-hour class session. Student preparation, including team meetings and research requires four hours.

CASE SYNOPSIS

An entrepreneurial "comprehensive" university seeks to use marketing 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 200 acre, strikingly designed new campus 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 professional services 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 the setting is a university, an organizational structure which master's and doctoral students have significant experience, students grasp the context and issues quickly and delve deeply into a challenging branding process and 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. Universities may train students to go into "business," but many find themselves working or serving in nonprofits and service agencies or engaged in government relations. This case elucidates some of the complexities.

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 might 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.

INSTRUCTORS NOTE

This case considers a re-branding/name change for a public university. The University of South Carolina Beaufort's change in role and mission, its enrollment, programming and facilities growth and its challenging financial future are depicted. The student joins the discussion at a key decision point: should this university attempt a name change now and what will be the key elements in the change process?

RECOMMENDATIONS FOR TEACHING APPROACHES

Students will want to focus on "what name will we choose" and instructors can pursue this issue, using the additional data and discussion questions suggested below. In fact, one strategy would be to give students the naming data Appendix before class, as part of the case problem. Much more interesting are the issues of the changing environment in higher education and the numerous stakeholders (students, faculty, system leaders, board members, legislators, mayors, community leaders, donors) who must be won over for the change to actually happen and be successful. Making this level of change in a service industry to which people are emotionally tied--without losing key supporter groups and while navigating media pressures--will be the standard against which the proposals for change are measured--not just "time to market" and logo design.

The case extends students' branding experience into a nonprofit setting, where consensus is valued and the perfect business case for change can fail without sensitivity to the political environment. Students may be frustrated by the fuzzy decision process. However, as Gill (2011) argues so well, "where substantial complexity is present in the system being studied, the case method is a valid approach—and possibly the most valid approach available—for exploring and learning about it." (p. 49). Gill would classify the case as a discussion/design case, requiring analysis, synthesis and strategic choice.

Advance Assignments

Giving student teams specific assignments will be necessary to move from the desire to choose the "best name" to designing political support for the branding decision--and the branding process itself. Groups assigned to develop background information on "the changing macro environment," "the changing higher education environment," "financial model of higher education," and "university governance" can bring these perspectives to class to broaden and deepen the discussion.

Alternatively, student teams might be assigned stakeholder group to represent--and to design a communication process for that set of stakeholders. In the ensuing class discussion, each group must remain "in character," representing that stakeholder group throughout the discussion. Additional materials to facilitate these assignments are included in this note.

Critical Aspects that Solutions must Consider

The case describes a conflict in terms--an entrepreneurial university--seeking to grow within a traditional state university system. USCB completely changed its role and mission from a 2 year campus on eight acres to a "full service" university. The combination of rapid growth and declining state appropriations and increasing competition for students demands marketing leadership. Re-naming this new baccalaureate university on a new campus to re-introduce it to both current and new markets may be the most efficient and effective way USCB can communicate its new role and mission.

Students will tend to skip over the funding source information (Figure 6). But these numbers ultimately will build the case for taking the re-naming risk. Also, students may not understand the role of a strategic plan is building support for the re-branding--not a new name for "show," but to accomplish specific strategic marketing and business objectives.

Students will be less sensitive to the challenges of working with a system president, board of trustees, legislators at local and state level--and even the office of the governor. Helping them tease out these issues by discussing the stake holders' motivations and blind spots (Figure 6) can provoke interesting discoveries.

DISCUSSION QUESTIONS

Leading Questions

Why is "Beaufort" the wrong descriptor for this public, regional comprehensive university?
Tease out the implications of Figure 4.

Who are the stakeholders in a university re-naming decision? *Discuss the influencers and how they might exert influence--Figure 6.*

How will being a public comprehensive <u>in a larger state university system</u> affect the process and outcome?
The SC legislature had direct, line item approval of each public university's funding. The system president and the system marketing vice president could veto any initiative occurring just prior to or during the legislative session that might anger a legislative member and thereby endanger the university legislative appropriation --e.g. any discussion that occurred during the fall or spring semesters.

Identify the forces moving USCB to re-brand? What forces were creating resistance to action?
[work together as a class to diagram this]

USCB's institutional mission changed and the "new campus" was progressively becoming the "main campus." Is the name change essential to advance the mission of USCB? To advance this chancellor's vision for USCB?

What is the best time in the life of an institution undergoing rapid change and growth to tackle a re-naming project?

When the change in role and mission to baccalaureate status was approved by the state? *And the only donor base and the strongest political base was in the town of Beaufort? (The name that was used for the new campus in the initial phases only was "New River campus," referring to a small, meandering black water river that ended in the New River Swamp on the far side of the new campus.)*
When the new campus was opening, but the model was not yet proven?
The largest individual donor was a Beaufort resident whose wife was on the USC Board of Trustees.
After the 5 year probation period required for "full" SACS accreditation, but before 10 years of baccalaureate alumni had graduated?
(This is the timing Charlotte chose)
When the institution had reached a stable operating model --perhaps stabilized at 3000 students, 30 majors, Division III athletics with facilities on campus. *In 2010-11, USCB enrolled 1800 students, 12 "majors" and competed in 7 sports in the NAIA Sun conference.*

How is branding in a subsidized, collaborative, nonprofit public agency (higher education or public health care agency) different from other types of marketing? Specifically, at the outset, how would you define and measure "success" in the re-branding situation described by this case?

Does a name make that much difference to a services entity like higher education? Why? Could better logos, a tag line or a compelling message replace the name change?

Charlotte argued that a name that described USCB's coastal location would more quickly achieve national visibility for USCB faculty and student degree programs, research programs and recruiting of both faculty and students. This increased visibility would, in turn, lead to stronger academic programs and additional research funding. USCB's mission is "build on regional strengths and meet regional needs." "USCB students' education is enhanced and shaped by its unique location. USCB must leverage the power of place to grow," Charlotte explained repeatedly in the community.

Teasing Out Key Issues

What was happening in the economic, government and competitive macro-environment in 2009-2011?
National recession. Presidential one-time stimulus funding distributed to USCB.
Dramatic reductions in state funding over the past decade
Chaotic disruption in industry driven by
technology change/online learning and
expansion of for-profit institutions.
Demographic shift—decline in first-time, full-time freshmen and rise of adult learners.

See Moody's report on financial status of the higher education sector in Additional Teaching Resources (below).

Who are USCB's "industry competitors"? *Many students may not be sure of the difference between research I institutions, "public comprehensives," private universities, for-profit universities, junior colleges and technical colleges. A discussion of the various "sectors" of education providers will uncover fundamental market pressures.*

How does faculty shared governance come into play in a branding decision? How will you design distinctive communication/selling processes for students, staff, alumni, media, community members/leaders, legislature/USC system president and his leadership team? *Charlotte was strongly advised not to use the word "branding" but to talk about "identity." A faculty member suggest, "Power is so diffuse in this decision process--and the consensus model of decision-making means one person from any group, if they are loud enough, can stop the entire process. It took USC Upstate more than one try to make this change."*

How will the way USCB is funded effect the re-naming process and outcomes? *Tease out the concepts of relative power in the influence process, using Figure 6.*

Would this re-branding task be easier for a <u>private</u> college or university? For a <u>for-profit</u> college or university? Why or why not?

How long should the new identity/name last? 25/50/100 years? *Beaufort County offers 3 strong community brand names: Beaufort ,Bluffton, and Hilton Head. If students recommend moving toward a single community name, tease out the challenges of using a community name over 25-50 years. The "power center" in Beaufort County shifted from Beaufort (founded in 1711) to Hilton Head (founded 1960) by the 1990's--and Bluffton was emerging as a regional center at the time of the case, 2012. USCB's service area included Beaufort, Jasper, Hampton and Colleton Counties. Ask students how they will leverage the "Beaufort" name and that campus, if they shift to "Hilton Head" as the university name.*

How will the strategic marketing project lead on this project actually measure the outcomes of this re-branding decision? Will gauging the impact of re-naming on these measures convince some stakeholders?

What is the difference between "marketing" and "selling" in a services business? How do marketers develop "client loyalty" and "clients for life" in higher education?*As service marketing researchers have cogently observed, the service providers are part of the sales and marketing project. Faculty and staff are critical in reinforcing how the institution is helping the student fulfill their goals—and maintaining relationships with alumni.*

The case asks the student to assume the role of the change agent. Would it have been wiser for Charlotte Wilson to hire a consultant to start this process? Why--and why not?

What role might the consultant have assumed, given the notion that a consultant is often hired "as a lamppost for the drunk--to provide more support than illumination"?
To be visible in the process: thereby taking the flak away from the administrator?
Change agent: pockets of support and resistance and to motivate the neutrals?
Data collector: To collect, sort and evaluate all naming alternatives.
Design and run the process with behind the scenes guidance from the chancellor and advancement lead.

What is the role of the university chancellor in a name change process?
Remove self from process and let branding lead or consultant test the waters.
Lead process by developing a strong board of community leaders, drive a grassroots level planning process and let the process build support for research on a new name or for a specific name recommendation.

What key element is missing from this entire discussion? *Strategic plan*

Why is it harder to re-position than to position a new product? Is re-positioning more challenging in a services, nonprofit setting?

Conceptual Discussion Questions--For Higher Education Leadership Students.

When we consider students, parents, the community, etc., to be “consumers” and “customers,” does that change our relationship with them? How? Is "client" a better description for students? Is "stakeholder" a better term for alumni, parents and community? Why?

What is gained and what is lost by applying business practices to higher education institutions and other semi-governmental and nonprofit organizations? E.g. what motivates employees and donors to support them?

Is it a good thing for society that USCB faculty may view faculty at "USCB competitor institutions" as their colleagues? How does moving to a competitive model impact the ability of universities to serve students and their communities?

What are the major “branding” decisions in institutions of higher education?

How does one think differently about marketing a product--versus marketing a professional, client-transforming service like higher education?

What are the challenges of using a consensus-driven decision-making model in a highly competitive market setting? What are the strengths of consensus-driven decisions? How do your thoughts on this issue affect the way you would approach the naming process?

ADDITIONAL FIGURES/TEACHING RESOURCES

Appendix I: Proposed Descriptors for USC Beaufort
Appendix II. Rationale for "Sea Islands" as a Descriptor
Appendix III. Critical Tests of a New Identity
Appendix IV. Macro-environmental Shifts in Higher Education

EPILOGUE

Testing Support with Key Constituents

Using historical research and working closely with the region's premier historian, a distinguished professor emeritus of USC, Charlotte identified "Sea Islands" as a term that had been associated with the region since the days of water transport and "Sea Island" cotton, which was first grown in this region. Beaufort had long been promoted as the "queen of the sea islands" and authors of both fiction and non-fiction had repeatedly adopted the term to describe the coastal region, from Charleston to Jacksonville, FL.

Over the summer of 2010, Charlotte approached key leaders in the county. Beaufort-based leaders openly stated they "did not want the name to change, but if you have to change it, please go to 'Sea Islands.'" The five most prominent African-American leaders from across the region were delighted with "Sea Islands," due to its long association with the Gullah culture. "That's us" was their immediate response. Students, individuals (largely northern and midwestern retirees) who had moved to the region during the growth spurt of the previous 10 years in Bluffton and residents of Hilton Head did not have an immediate emotional connection to the “Sea Islands” concept. The legislative delegation (with the exception of one individual who represented Beaufort) understood the financial drivers for re-branding and supported it. A meeting was held with the head of the legislative delegation, the legislator who did not support a name change and the region's premier historian, a well-loved emeritus history professor who was active in regional and state politics. This Beaufort legislator listened to Charlotte's presentation, took notes and left rather abruptly, citing work demands.

The Beaufort mayor, believing that "a rising tide lifts all boats" and wanting to partner with USCB on key downtown development, heard rumblings of the issue being discussed more widely in town. He wrote an op-ed supporting “Sea Islands” in the local paper. The concerned legislator responded with an opposing op-ed in early August.

Student Leadership

Student government officers came back on campus in the fall with the issue in the media. Charlotte asked to present at the first Student Government Association officers’ meeting and shared the same presentation the legislators had seen on the issue. Two of the student leaders, with career goals in journalism and political advocacy, began to organize students against the name change and, with the help of the dissenting legislator, engaged the media.

Slow Down To Build Support Internally

Charlotte quietly began the process she had planned to use all along, a traditional change process in higher education, university and community task forces. The university task force, headed by the faculty senate chair, and including several other powerful faculty, staff and students, framed the issue calmly and conducted an online poll of faculty, staff and students. After a thorough review of the issue, they summarized their findings in a letter to the chancellor recommending that market research on the potential benefits of a name change be conducted. They listed four names to evaluate in the research: *USC Beaufort, USC Beaufort/Hilton Head, USC Sea Islands,* and *USC Palmetto Shores.* This letter was written in January 2011. During the fall of 2011, USCB senior leadership team voted to move forward with research and established three criteria that any new name should meet--those listed in the case.

Build Community Support

During the fall, USCB's primary community "board," the Beaufort-Jasper Higher Education Commission, discussed the issue and voted to move forward with research. Their motion also included the three criteria that any new name must meet.

As soon as the *university* task force made its report, Charlotte accelerated the *community* task force process, which had also begun in the fall of 2010. The first meeting revealed the deep political rifts between communities in the region--but also began the process of coming together in support of the university. By the end of March 2011, this commission had written a letter to the chancellor, recommending that marketing research be conducted on the issue and recommending five names to include in the research: *USC Beaufort, USC Beaufort/Hilton Head, USC Hilton Head, USC Sea Islands or USCB with campus designations: Beaufort College and Hilton Head.*

With USCB and local community support in hand, in the summer of 2011, the name change project and proposed names were reviewed with the immediate past president of the USC Alumni Association and USC Board of Trustees member that summer. He was also the president and owner of a visible public relations agency in the state and described by insiders as the university system president's "go to marketing advisor." Two sitting USC Board of Trustees members also reviewed the project. All concurred that the renaming project needed to move forward. They assured Charlotte they would support this recommendation to the system president and Board of Trustees.

Research Vendor Selection

Charlotte began the process of a research vendor selection, using a combined university and community committee. A higher education firm was selected, made site visits, and designed a research study by October 2011. Two days of meetings with all university and community participants were to begin at 8:30 am on a crisp October morning. The vendor's visit would answer community questions and finalize the research instrument and data collection processes to the satisfaction of faculty and staff.

Project Stopped

The system marketing vice president drove down to Bluffton from Columbia with two staff members the night before the vendor/community meetings and requested a copy of the project report be left at the hotel to review after dinner. At 8:00 am on the first day of the two days of community meetings, the project was stopped. The VP simply said to Charlotte, while the expectant task force members gathered in the room “We are not talking about this anymore."

Moving Forward-- Deepen The Branding Program.

In the spring of 2012, Charlotte solicited support from the university system to conduct branding and competitive research for USCB. She also began convert the vendor contract to work on more basic messaging research. She realized that the messaging would need to be conveyed through new Admissions and institutional website navigation, look and feel and via an expanded communications plan and print and electronic materials. She successfully solicited the leadership team and outside funders for financial support for the project. For the first time, USCB would use research with faculty and students to define existing brand strengths and identify key messaging. The theme "Discover USCB" that extended into "Discover: Powerful Futures" was implemented in the completely redesigned Admissions web and print recruiting materials by September 2013. The institutional website redesign using the new "Discover USCB" messaging, improved navigation and responsive design was expected to be implemented by December 2014.

In the fall of 2012, enrollment growth dropped slightly. It dropped again in the fall of 2013. Growth to 3000 students remained the primary objective, for the reasons given in the case.

In the spring of 2013, the Beaufort Chamber hired an ad agency to recommend branding for the northern end of the county that included the City of Beaufort. They proposed: "Queen of the Sea Islands."

Have students check the USCB website for status of the initiative.

ACKNOWLEDGEMENT

Appreciation is expressed to Katherine Reynolds Chaddock, Professor, Department of Educational Leadership and Policies, College of Education, University of South Carolina and her graduate class EDHE 733: The Ideas of Higher Education, who allowed their discussion of this case in the spring semester 2013 to be recorded, thereby improving the effectiveness of this teaching note.

Appreciation is also expressed to Lee Bussell, chairman and CEO of the media and public relations and marketing communications firm Chernoff Newman, LLC, who as a member of the University of South Carolina Board of Trustees during the time of the USCB branding discussion, offered his expert assessments and reviewed an earlier draft of the case.

APPENDIX I: PROPOSED DESCRIPTORS FOR USC BEAUFORT

What other names were considered? Rejected? Clearly, given the marketing investment in the name "Hilton Head," it offers short run recognition and an "easy win." "Sea Islands" is distinctive and reflective of regional assets that will define USCB's strongest academic programs and will differentiate USCB in the long run.

USC Lowcountry--Community members' immediate response

USC Lowcountry was rejected early-on in the discussions.
Technical College of the Lowcountry has taken this descriptor in the post-secondary education market in our region
"Lowcountry" resonates well with middle class folks in South Carolina, but does not have that same meaning with middle class families outside the state
The "low" in "Lowcountry" is associated with low, swampy places if you do not have a South Carolina frame of reference
"Low" suggest low tech, low quality, and moving to a "low" place (versus "up" in Upstate).
"LOCO U" is an unfortunate application of this name.

Names proposed as of 3/09

University of South Carolina **Atlantic Coast** USC Atlantic Coast Atlantic Coast Sand Sharks
Concern: Armstrong Atlantic, Florida Atlantic

University of South Carolina **Coastal** USC Coastal Coastal Sand Sharks
Concern: Coastal Carolina, Coastal College of GA and 30+ other "coastal" higher ed institutions

University of South Carolina **Hilton Head** USC Hilton Head Hilton Head Sand Sharks
Concern: Single community descriptor
Perception of HHI is very different from public comprehensive university offering
Divides communities in our service area.
50 years ago there was no "Hilton Head resort image" --what will be the leading community 100 years from now?

University of South Carolina **Islands** USC Islands Island Sand Sharks
Concerns: Islands connotes only "barrier" islands in the minds of most people. Not unique.

University of South Carolina Sea Islands USC Sea Islands Sea Island Sand Sharks
Historic regional descriptor since since the era of the American Revolution
Concerns: too Disney-esque. Sounds like Tahiti or the Caribbean.

University of South Carolina **South Coast** USC South Coast South Coast Sand Sharks
Concerns: Geographic descriptor associated with other regions of the country. Not unique. Repeats the word "South" twice in formal name.

Subsequent suggestions

University of South Carolina **Palmetto Coast**

University of South Carolina **Southern**

University of South Carolina **Atlantic**

University of South Carolina **Savannah/Hilton Head**

University of South Carolina **Surf Side**

University of South Carolina **Ocean Isles**

University of South Carolina **Ocean Shore(s)**

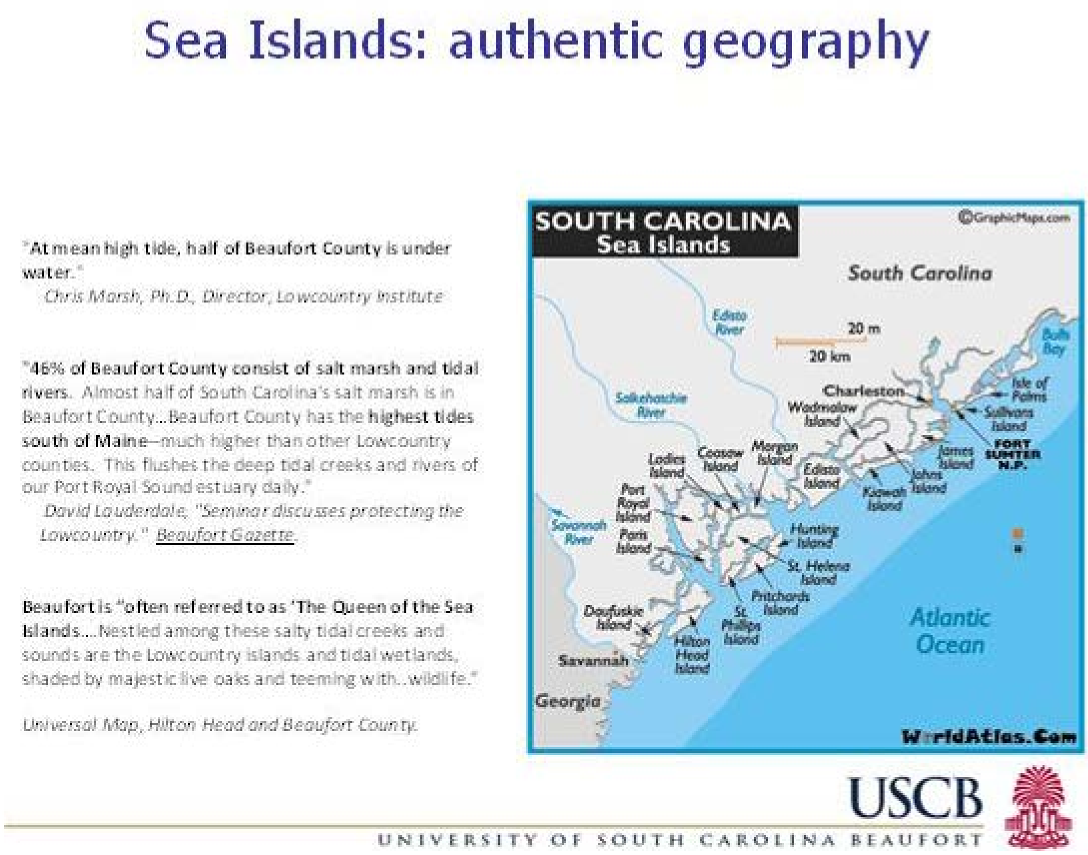
University of South Carolina **South Shore(s)**

University of South Carolina **Ocean Dunes**

University of South Carolina **Gold Coast**

APPENDIX II: RATIONALE FOR "SEA ISLANDS"

"Sea Islands" perceived as an authentic descriptor of the geography, culture and aesthetics that will shape the region's future.



"Sea Islands" offered a platform to convey region's aesthetic:

> I was born and raised on a Carolina sea island and I carried the sunshine of the Lowcountry, inked in dark gold, on my back and shoulders. The island country where I grew up was a fertile, semitropical archipelago that gradually softened up the ocean for the grand surprise of the continent that followed.
>
> At the eastern edge of the county lay six barrier islands shaped by their daily encounters with the Atlantic.
>
> The other sea islands…enscarved by vast expanses of marshland, were the green sanctuaries where brown and white shrimp came to spawn in their given seasons.

Pat Conroy, *The Prince of Tides*

> ...an unearthly mystery of marsh and shining water and sky over far-flung sea islands….
>
> …to stretch sight as far as it would go, over golden marshes and broad waterways, now placid blue, now sea-green and white capped, changing tone ceaselessly in tune with the sky. And there was no monotony in the swing of the tides, brimming up the seawall at flood, draining sway to marsh mud at ebb…an infinite range of light and color…
>
> …her interest and delight in this island world increased with her knowledge of it…its variety of moods, its lavish enchantments.
>
> Francis Griswold, *Sea Island Lady*

"Sea Islands" respects the African-American Gullah culture.

> "Tucked in the heart of the *South Carolina Sea Islands* between glimmering marshes and deep water, nestled beneath the livery moss draped limbs of massive live oaks, you will find the Penn Center--the site of one of the country's first schools for freed slaves …..Located on St. Helena Island, *one of the most beautiful and historically distinct of the South Carolina Sea Islands, Penn Center sits in the heart of Gullah culture….the cultural heritage of the Sea Island and Lowcountry African American Culture*"
>
> www.penncenter.com, 6/22/10

"Sea Islands" offers unique positioning versus other higher education institutions:

- “Coast” and “Coastal” belong to 30+ institutions on both the East and West coasts (Including Coastal Carolina University)
- “Island” is not taken by any university with authentic claim to it in the continental US. (USC Channel Islands is located on the mainland. USC Beaufort Campus is *on an island*)
- <u>No other US university</u> can lay claim to "Sea Islands."

APPENDIX III. CRITICAL TESTS OF A NEW IDENTITY

The identity change would highlight the University's most distinctive strength: academic programs tailored to its unique location. The current university nickname, "USCB"--marketing initials -- does not convey a distinctive identity to prospective students and parents. A shorter, nickname like "Carolina Sea Islands" or "Sea Islands" would be a much more powerful platform--from which to tell the best features of the region--its history, environment and lifestyle benefits--on which many of the academic programs are based.

How does the name sound? How would it work in a logo?

1801

USC Sea Islands

HILTON HEAD • BEAUFORT

1801 USC SEA ISLANDS

1801

Carolina Sea Islands University

UNIVERSITY OF SOUTH CAROLINA SYSTEM

APPENDIX IV. MACRO-ENVIRONMENTAL SHIFTS IN HIGHER EDUCATION

Marketing and branding strategies and investments must be based on a thorough analysis of all aspects of the environment--the macro-environment, the industry environment (customers, firm, competitors) and the ability of the firm to identify segments and fashion a differentiated offer to meet those needs. Students would have a hard time accessing the Moody's reports below, which provide key background--and show a change in the rater's assessments.

Moody's Higher Education Outlook Update—January 2009 and September 2009 – Summary statement

January 2009

U.S. Higher Education Outlook

Outlook is Negative for Higher Education Sector; Pressure likely to be Greater for Private Universities than Publics

Moody's outlook for the U.S. Higher Education sector is negative. This outlook expresses Moody's expectations for the fundamental credit conditions in the industry over the next 12 to 18 months and does not speak to the expected balance of rating changes during this timeframe.

Summary Opinion

The credit and liquidity crisis combined with a deepening recession will drive negative credit trends in the Higher Education sector through at least 2009. Higher Education, compared with many other sectors of the municipal market, has been more insulated from economic impact in prior recessions. However, in 2009, at least four critical risks facing U.S. higher education are likely to be especially intense:

1. increased pressure on tuition and financial aid;
2. the broad impact of investment losses on operations and philanthropy;

Illiquidity of balance sheets, amplified by alternative investments; and

4. volatility in debt markets as well as debt structures.

Sound management skills and governance oversight will be even more significant in determining the credit impact on higher education institutions during this period of financial challenge. Fundamentally, 2009 will be a year of re-evaluation of underlying assumptions for endowment management, tuition pricing strategies, and risk management.

In this report, we focus on the most significant issues driving our outlook for the sector, the core issues that will most directly affect the credit outlook for 2009. We note that other broader, longer-term fundamental issues not discussed in detail in this report will affect colleges and universities--referred to generally as baseline issues. These issues, such as long term demographic trends, have been addressed in depth in our previous research but are unlikely to alter the fundamental direction of our outlook during 2009, especially if the issues described below persist.

September 2009

Outlook Update: Immediate Pressures on U.S. Higher Education Are Easing

But Serious Medium Term Risks Remain as Focus Turns to Enrollment, Affordability & Fundraising

Moody's maintains its negative outlook on the U.S. higher education sector. However, since we assigned the negative outlook in January 2009, the public equity markets have risen dramatically off lows of March 2009, preliminary indications suggest enrollments at many campuses will be stable for the fall 2009 semester, and access to capital markets and liquidity facilities for most universities has improved.

We believe many of the short-term risks we highlighted in our October 2008 and January 2009 reports have eased to some degree, but serious fundamental challenges remain. The full impact of these challenges may not be evident until 2010 or beyond. Management actions, including operating budget restructuring, staff reductions, and slowdowns in planned capital spending, have aided in addressing near-term challenges. However, we believe signs of rising resistance to high tuition levels may appear more gradually, especially with fall 2010 enrollments. Likewise, while stimulus funds have temporarily muted large reductions in state funding for public universities in FY2010, few management teams have clear plans to address shortfalls projected in FY2011 and beyond. Finally, the ability of private donors to support ambitious university fundraising goals for the coming years remains questionable.

Other significant changes were occurring in higher education in the first decade of the 21st century, which could be researched by students using the references:

Chaotic disruption of technology: the rise of online communications and teaching methods--Various online teaching platforms with discussion forums, teaching videos on demand, lecture capture, Video to deliver content, YouTube channels, etc.

Rise of the for-profit educational institutions.

Decline in State funding for higher education

And, in 2012, the beginning of a 5-8 year decline in high school graduates

Increasing student debt loads

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LAND O'LAKES:

TEACHING FARMERS IN BASE OF THE PYRAMID

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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.

INSTRUCTORS' NOTES

LEARNING OBJECTIVES

1. Define and discuss corporate social responsibility (CSR) from both a domestic and global perspective.
2. Identify ways in which LOL translates its core strengths into BoP development.
3. Analyze various metrics that illustrate meaningful impact outcomes of CSR.
4. Evaluate challenges and dangers that accompany global CSR initiatives.
5. Recognize the importance of collective efforts to initiate global impact.

TEACHING OVERVIEW

"Corporate social responsibility is about being a good corporate citizen and a leader in our communities; being a responsible and responsive employer; operating in an environmentally sensitive manner; and maintaining an unwavering commitment to honest and ethical business practices."

– Chris Policinski, President and CEO [i]

- This case uses LOL to illustrate corporate social responsibility in action. It has four main avenues down which the student will travel and are best described as:
- Understand Corporate Social Responsibility.
- Use core strengths as a deployable strategy.
- Identify needs.
- Evaluate challenges.

The main theme of this case is to embed the concept of Corporate Social Responsibility (CSR) in the minds of the student. Definitions and examples of CSR are the focal point of this avenue. The depth and breadth of this definition can be varied. Generally speaking, CSR refers to operating a business in a manner that accounts for the social and environmental impact created by the business. CSR means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices. [ii]

The second avenue demonstrates how LOL uses its core strengths to make significant and meaningful improvements in the lives of BoP Ethiopians, and in particular, those living with HIV. Land O'Lakes, Inc. is one of America's premiere member-owned cooperatives. They offer local cooperatives and agricultural producers across the nation an extensive line of agricultural supplies, as well as state-of-the-art production and business services. They also are a leading marketer of dairy-based food products for consumers, foodservice professionals and food manufacturers. They are the second-largest cooperative in the nation with approximately 9,000 employees, 3,200 direct producer-members and 1,000 member-cooperatives serving more than 300,000 agricultural producers. They handle 12 billion pounds of milk annually, produce a plethora of dairy foods products, are home to the industries' top value-added brands and are a trusted partner to many of the nation's top food companies and manufacturers. They do business in all 50 states and more than 50 countries. [iii]

The third avenue introduces the student to Afghanistan and demonstrates how LOL can help address similar BoP challenges there. Ravaged by decades of seemingly ceaseless conflict, decimated infrastructure, complex topography and limited livelihoods beyond the flourishing drug trade, the people of Afghanistan have long struggled to move beyond poverty, subsistence farming and the informal economy. Frequent regime change in recent history caused several shifts in agricultural policy and approaches that impeded the development of this sector. At the government level, weak organizational structure and poor financial management prevent current leadership from revitalizing Afghanistan's agricultural economy. 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), a four-year project that is helping to build the capacity of the Ministry of Agriculture, Irrigation and Livestock. Currently, the Ministry provides extension services to 80 percent of the population, which is heavily dependent on agriculture for livelihoods and income. Through short-term technical consultants and volunteers, LOL is providing technical expertise in the areas of organizational capacity and change management to the Ministry, including its private sector development units, that will improve its ability to create a more robust agricultural sector. [iv]

The fourth avenue requires the student to consider challenges that might prevent LOL from achieving success. The war ravaged nation of Afghanistan holds has numerous challenges. According to Human Rights Watch, the Afghan government continues to allow well-known warlords, human rights abusers, corrupt politicians, and businesspeople to operate with impunity, further eroding its public support. Pro-government security forces were also responsible for abuses against civilians. While Afghan Local Police abuses included reports of extortion, assault, rape, and murder of civilians. [v]

KEY DISCUSSION QUESTIONS

1. Are people in BoP best viewed as customers? Clients? Partners?
   a. Are they brand conscious?
   b. Is there a payoff for corporate social responsibility to be found here?
2. In Ethiopia, does LOL adequately operationalize their Mission and Vision statements?
3. What are the core strengths of LOL and how do they utilize them to provide benefit to the BoP Ethiopian populace?
4. Who are the "partners" that facilitate global initiatives and why are these partners important and necessary?
5. What benefits, real or potential, does LOL receive as a return on its investment in international agricultural development?
6. What metrics should LOL use to determine whether or not their efforts are having a meaningful impact on the people of Ethiopia?
7. Are lessons learned in Ethiopia easily translated and practiced in Afghanistan?
8. What are the most significant challenges for LOL in Afghanistan?

CHALLENGES

1. Charity begins at home.

Launched in 2012, The Civic 50 is a national initiative to survey and rank S&P 500 corporations on how they engage with the communities they serve and institutionalize these practices in their corporate culture. Specifically, The Civic 50 recognizes companies seeking to best use their time, talent, and resources to improve the quality of life in the communities where they do business.

LOL is not on the Civic 50 list. Could the notoriety afforded companies for domestic CSR efforts influence or impact the global CSR efforts of companies like LOL? Are there domestic opportunities that are overlooked by LOL? Why is the global CSR strategy more appropriate for LOL?

For more information visit http://ncoc.net/civic50 [vi]

2. Teach a man to fish.

General Mills championed hunger relief efforts from Minnesota to Malawi in fiscal 2011. The company contributed nearly $30 million in product donations to food banks and increased its hunger and nutrition wellness grants by more than 25 percent. Extending its global reach,

General Mills launched Partners in Food Solutions, a hunger-fighting nonprofit organization that links the technical expertise of General Mills employees with small- and medium-sized food processors in Africa.

While alleviating immediate hunger is a noble endeavor, LOL invests in BoP initiatives designed to increase the ability of the people to be self-sufficient. Explain how and why both General Mills and LOL have appropriate CSR initiatives.

For more information visit http://www.csrwire.com/press_releases/33974-General-Mills-Releases-2012-Global-Responsibility-Report [vii]

3. Toot your own horn.

The Global Reporting Initiative (GRI) is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

A sustainable global economy should combine long term profitability with ethical behavior, social justice, and environmental care.

This means that when companies and organizations consider sustainability – and integrate it into how they operate – they must consider four key areas of their performance and impacts: economic, environmental, social and governance.

GRI's Sustainability Reporting Framework is a reporting system that enables all companies and organizations to measure, understand and communicate this information. GRI's mission is to make sustainability reporting standard practice; one which helps to promote and manage change towards a sustainable global economy.

Organizational Stakeholders (OS) are companies and organizations that actively support GRI – its core supporters. OS put their name to GRI's mission and products, provide funding, and broaden participation around sustainability and transparency. OS underpin GRI's legitimacy and demonstrate a common commitment to change.

The Organizational Stakeholder Program is located at the center of the global multi-stakeholder network with which GRI works. Any organization – or even individual – that is committed to measuring and managing their sustainability performance can support GRI as an OS.

Do the CSR programs of LOL fit the sustainability model of GRI? Would Organizational Stakeholder status in GRI be beneficial to LOL?

For more information visit https://www.globalreporting.org/Pages/default.aspx [viii]

TEACHING PLAN

1. Case introduction, group assignment, and challenge assignment.
   a. Define CSR
   b. Identify LOL initiatives in Ethiopia
   c. Establish criteria for group project
   d. Establish timeline and due dates
2. Discuss content relative to learning objectives 1-4.
   a. Does LOL follow its mission?
   b. What are LOL core strengths?
   c. Explore CSR metrics.
   d. Evaluate LOL in Afghanistan.
   e. Discuss and debate the key discussion questions.
3. Group Presentation
   a. Each group could address each challenge
   b. Each group could address one challenge
   c. Each group must address in the context of CSR

CONCLUSION

This is a gateway case where you can start with Land O'Lakes and some of the partners in the BoP ventures described for Ethiopia and Afghanistan. When you read about one of the partners such as ENGINE or VEGA, then you learn something from other groups. We bring them to the edge and show them what's out there.

There is so much more for students to learn about corporate social responsibility through this case:

1. Effective CSR does not necessarily require that an organization attempt it alone. As is pointed out in the case, Land O'Lakes partners with domestic and international entities, i.e., USAID, ENGINE, and VEGA, to accomplish the goals of improving safe and nutritious food sources for people in BoP and enabling them to become small farmers and businesses that are very crucial to the complete value chain.
2. Not every corporate good citizen has the same business model, for example, Land O'Lakes is an agricultural cooperative, one of the four largest in the nation.
3. LOL demonstrates a good thing because they have found their niche, their place where they can make a difference for people who can become their own businesses and people who are ill and benefit from nutritious and safe food.

This is a very philosophical case that we believe helps demonstrate the importance of organizations pursuing programs to improve life in general and their employees opportunities to engage in philanthropic service.

ENDNOTES

i http://www.landolakesinc.com/company/corporateresponsibility/default.aspx
ii http://www.asyousow.org/csr/
iii http://www.landolakesinc.com/company/default.aspx
iv http://www.idd.landolakes.com/PROJECTS/Asia/ECMP2-0164370.aspx
v http://www.hrw.org/world-report/2013/country-chapters/afghanistan
vi http://ncoc.net/civic50
vii http://www.csrwire.com/press_releases/33974-General-Mills-Releases-2012-Global-Responsibility-Report
viii https://www.globalreporting.org/Pages/default.aspx

AN INFORMATION SECURITY BREACH AT FIRST FREEDOM CREDIT UNION: 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 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 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.

INSTRUCTORS NOTES
SUGGESTED TEACHING APPROACH

This case can be used in both undergraduate and graduate classes. The authors believe that it fits into any of the following courses: Introduction to Information Technology, Principles of Management, Organizational Behavior, and Organizational Theory. The case should be used in an open forum discussion with the entire class or individual group discussions.

TIME

This case is designed for a minimum of 3 hours 15 minutes—2 hours of student preparatory time and 75 minutes of class discussion. The students should be asked to look up recent information security incidents and be prepared to discuss them in class.

DISCUSSION QUESTIONS

1. What are some recent information system security incidents?

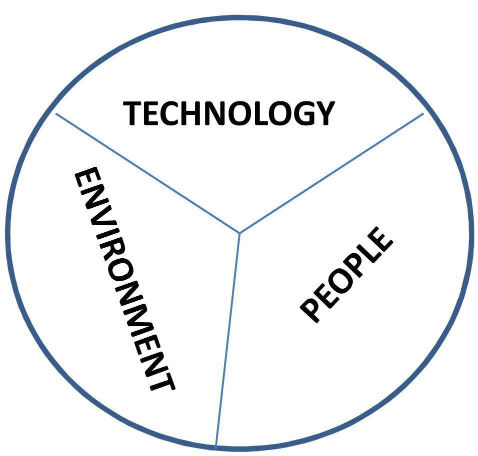
Although companies spend a lot of resources in order to prevent security incidents they are still happening. The instructor should ask the students to name some of the security incidents they found. And complete the table on the board.

Date	Incident	Internal/External	Damage
December 2013	Target Stores hacked	External	40 million Credit Cards

2. What is the difference between technology security and information systems security? Do you see them as two separate things?

Technology security involves securing all hardware, software, and information within the computer-based information systems.

The instructor can draw the following pie chart on the board for illustration:



An ***information system*** is more than just the technology. It also includes the environment in which the organization operates and the people who use and maintain the system. Information system security involves all information within an organization, whether it is within the computer-based information systems or not.

3. What are some examples of "information" not within an information system?

Possible answers include:

Printed reports, backup tapes, sent emails, diskettes, CD's, and any hand-written information (such as a loan application completed by a customer).

4. At FFCU who is responsible for technology security?

Jamie (CIO) and/or the IT department is typically the answer.

5. Who is responsible for information systems security at FFCU?

Typically the students will answer "everyone" which is correct. But then the instructor could ask the question… "If everyone was responsible for making sure all the trash cans were emptied, how often would they get emptied?" People tend to assume that someone else will do it. So it is important that specific duties are clarified to ensure that information security awareness is maintained.

Initially, it was thought that the security breach originated from external sources. After Jamie's investigation he found that the breach originated from internal sources.

At this point the instructor can ask the students:

6. What are some different types of information system security threats?

Loch et al. (1992) identified threats to information systems as either internal or external. In both cases, the threats could be human or non-human. Internal human threats include actions by employees and poor administrative procedures. External human threats consist of competitors or hackers attempting to access organizational information. Internal non-human threats involve mechanical and electrical problems as well as problems with the proper functioning of computer programs. Examples of external non-human threats are natural disasters and computer viruses. Whatever the source, threats can lead to the disclosure, modification, destruction, and denial of use of organizational information (Loch et al., 1992).

Student responses can be used to complete the following matrix on the board.

	Perpetrators	
Source	**Human**	**Non-Human**
Internal Threats	Unauthorized system access Internal hackers Employee theft Exposure of information Data entry error	Computer failure Fire
External Threats	Unauthorized system access External hackers Viruses Theft of information assets Car hits building and knocks out power	Natural Disasters Loss of Power

7. In the case of FFCU, WHO was at fault for the security breach? Defend your choice.

The responses will vary.

- Jamie: Because he is the CIO and responsible for "security." Initially, the executives automatically looked to Jamie as the responsible party, thinking that the credit card information was stolen by outsiders who penetrated the computer-based countermeasures.
- Mary White: She is the Vice President of Lending and the breach came from her department. She should have known about the change to the shred company's pick up schedule.
- Sandra Marcellones: She put the boxes in the hallway without knowing when the shredding company would collect them for shredding.
- Cleaning crew member: He was the person who actually put the boxes in the dumpster. (You may want to discuss WHY the cleaning crew member wasn't responsible. It wasn't his job to go through the trash or know what was to be kept and what was to be discarded.)

8. What can be done to prevent future security incidents at FFCU?

Answers will vary. Discussions should address security awareness training, employee monitoring, and policies and procedures. The instructor may have to explain the difference between policies and procedures.

9. What are some policies and/or procedures that can help FFCU prevent security incidents?

Use the board to record the responses.

Policies	Procedures
Shredding Policy Internet Usage Remove sensitive info from desk Keep desks locked	Shredding Procedure Back-up procedure

10. Should managers at FFCU be required to check all employees' trash bins and shred bins daily?

There will be multiple viewpoints. For example, it's not reasonable to dig through employees' trash cans containing half-eaten lunches. Others may say that you have to rely on the employees to follow the policies that are in place. Some may say it's the only way to be totally sure.

11. Can FFCU, or any organization, have too much information system security?

Many students will answer NO; you can never have too much security. However an organization can have too much information system security. If the security countermeasures interfere too drastically with the daily operations then performance is sacrificed. Management must make the decision regarding how much information system security is necessary. This becomes an issue of risk and how much risk the organization is willing to accept.

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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 give 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.

INSTRUCTORS NOTES

DISCUSSION QUESTIONS

Q1. Perform a SWOT analysis for Fine Dining.

Q2. What are the main issues facing the restaurant?

Q3. What are Stacy's options?

Q4. What would you do if you were Stacy?

Q1. PERFORM A SWOT ANALYSIS FOR FINE DINING

Strengths

1. Perhaps the greatest strength is Stacy herself. She is an experienced manager with a clear vision and is actively involved in all aspects of the operation. Her reputation as a successful restaurateur also undoubtedly benefits Fine Dining.
2. The restaurant is in an attractive location and exudes the atmosphere one would expect of a fine dining establishment.
3. The restaurant seems to be managed well and is well received by its target patrons. It received a positive review by a regional publication.
4. Stacy was able to negotiate a "below market" lease arrangement, resulting in relatively low fixed costs.

Weaknesses

1. High employee turnover. Inexperienced employees present a myriad of potential problems. The loss of the head chef was probably the result of an inexperienced wait staff.

Opportunities

1. Fine Dining is well positioned relative to the local competition. The restaurant fills an unfilled niche in the local market.
2. The local university provides a ready market for employees. Of course, this is a double edged sword (see weakness above)

Threats

1. The demographics of the local market may not support a fine dining establishment.
2. There is a large contingent of substitutes in the form of fast food casual dining restaurants.
3. The economy is in a recession, which is particularly hard on high end restaurants.

Q2. WHAT ARE THE MAIN ISSUES FACING THE RESTAURANT?

Stacy has done an excellent job of positioning and managing her restaurant, but is facing three formidable external threats: demographics, substitutes, and a poor economy. Of these three, demographics appears to be the most threatening. Jackson is a small community to begin with and approximately one third of the town consists of college students. Much of the remainder of the town is employed in low paying blue collar jobs. As might be expected, younger and low income individuals do not fit the pattern of customers who frequent fine dining establishments. Covington is a larger town and slightly more wealthy, but still has a relatively small percentage of higher income households.

One way to test the demographic viability of Fine Dining is to translate the projected revenues into the number of meals served, and compare that to the size of the target market. In order to do this we will assume that the target market for the restaurant is households with incomes above $50,000. In order to translate households into potential customers we will assume 3 persons per household. One further assumption will be that the average meal price per person at Fine Dining is between $40 and $50.

Using these assumptions we come up with a market of 14,850 potential customers in Jackson (4950 households X 3) and 36,900 in the combined market of Jackson and Covington (12,300 households X 3). Both markets combined result in 36,900 potential customers.

Annual revenue projections are approximately $1,500,000 per year. Assuming an average meal price of $40, the restaurant would need to serve 37,500 meals per year to achieve the revenue projection. For an average price of $50 per meal, 30,000 meals would need to be served. This would require over 100% market penetration for the $40 assumption and over 80% penetration for the $50 assumption. Of course, this doesn't take into account repeat business. However, even if we assume that the average customer will repeat as much as four times per year, the market penetration would have to be in the 20%($50) to 25% ($40) ranges.

Although these calculations are rough, they point out a major problem for this restaurant. Fine Dining is a high end niche restaurant in a small market that is relatively young and not very wealthy. Stacy clearly needs a larger, more prosperous market, given her revenue needs. This problem is exacerbated by the state of the economy and the plethora of lower end substitutes.

Q3. WHAT ARE STACY'S OPTIONS?

Fine Dining is facing a fundamental mismatch between strategy and the realities of their market. Such a problem calls for a major shift in strategy. There are relatively few options and none of them will be easy. Three possibilities are to downsize, reposition, or liquidate.

Downsize

Two things stand out when comparing the actual to projected income statements for the first six months of operation. Sales are coming in much lower than projected and the only expense item that is far out of line (relative to sales) is payroll. If demographics are truly the problem Stacy is unlikely to be able to do much to increase sales. However, if she limited her hours of operation to only the busiest times (mostly weekends) and focused on the catering side of the business during the other times, she could possibly lower payroll costs enough to make the restaurant viable. Sales would inevitable fall, but because fixed costs are relatively low this could still result in a profit. In essence, Stacy would be scaling down the size of her business to fit the market.

The trick to making this work would be lowering payroll enough to make a profit, while maintaining a relatively stable sales volume. On the positive side, payroll expenses would only need to be reduced by about 25% to achieve profitability, assuming all else remains the same. The restaurant has already achieved a loyal following, so there is reason to be optimistic about this possibility. On the negative side, it is hard to estimate the impact of reduced hours on customer perceptions. Reduced hours may confuse customers or create a negative image that scares them away.

Reposition

Repositioning would consist of moving away from a fine dining strategy to something more suited for the local market. Possibilities would include a specialty approach or casual dining, although a casual dining restaurant would probably be the obvious choice as specialty restaurants tend to require a higher population. Repositioning would allow Stacy to tap into a much broader market segment, but would also result in lower prices. Increased volume would be crucial for achieving profitability.

There are at least two possible approaches for repositioning as a casual dining restaurant. One would involve a major break from the fine dining concept, including a change in décor, menu, and name. This radical approach would be the equivalent of starting completely over and would include all the risks of starting a new restaurant along with the baggage carried over from the old restaurant. It would also mean the surrender of Stacy's original dream of a fine dining establishment. From a strategic standpoint it would also involve moving into a well-populated set of competitors. Jackson is a college town and there are quite a few casual dining establishments, many of which are affiliated with national chains.

Another approach to repositioning would consist of a more subtle straddling move. This would involve maintaining certain aspects of the current restaurant, but scaling back the menu to be less pricey and more family oriented. This approach would have the advantage of tapping into a broader demographic group, while maintaining a highly differentiated image. It would also be much less disruptive than the more radical approach. Of course, it would require walking a fine line to avoid confusion over a mismatch between décor and menu. Certain things such as table cloths, lighting, and waiter dress would probably have to be changed to create a more relaxed atmosphere. Of course, these changes may alienate existing customers, thus creating the same issues associated with the more radical change. It would also require a fair amount of marketing to communicate the changes.

Liquidate

Of course, the last option is for Stacy to simply close down the restaurant. This approach has the advantage of avoiding further losses and would allow Stacy to focus her attention on her other more successful restaurant. Of course, this would mean the abandonment of her dream and losing the possibility of recouping incurred losses. Also, Stacy was not the type of person who admitted defeat easily. She was more inclined to seek out other options before "throwing in the towel."

Q4. WHAT WOULD YOU DO IF YOU WERE STACY?

The options for Stacy are limited and there is no single "best" answer. One thing that should be noted is that Stacy does not have unlimited financial resources. She probably has the wherewithal to go with only one of the first two options, before being forced to liquidate should the chosen solution not work. The following is a summary of some pros and cons for each option.

Downsize

Pros:

1. Less disruptive. In many ways the existing strategy is working. Downsizing allows the restaurant to maintain the existing strategy, resulting in less confusion for customers.
2. Maintains Stacy's dream of providing fine dining in Jackson.
3. Holds the potential for achieving profitability relatively quickly
4. Involves no additional expenditures

Cons:

1. Will only work if the restaurant can maintain revenues with reduced hours.
2. Uncertainty over the impact on customer perceptions.
3. Even if successful, profits will be less than anticipated.

Downsizing is arguably the less risky of the first two options, but it is far from risk free. A negative reaction on the part of customers could worsen the revenue issues.

Reposition

Pros:

1. Repositioning as a casual dining restaurant would tap into a larger market and potentially increase revenues
2. A straddling approach to repositioning would be only mildly disruptive

Cons:

1. A radical repositioning would be very disruptive. The restaurant would need to be shut down and reopened.
2. Either approach would involve a cash outlay for remodeling and marketing. The radical approach would require new signage and more extensive renovation.
3. The restaurant would be moving into a highly competitive segment.
4. A straddling approach may result in a confused image if not handled well.
5. Either of these approaches carries significant risks associated with an image change.

Liquidate

Pros:

1. Avoid further losses

Cons:

1. Abandonment of dream
2. Lost opportunity to recoup losses

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

MWANDEGE BOYS SECONDARY SCHOOL (MBSS); LEARN AND SERVE

Katherine Fulgence, Dar es Salaam University College of Education

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

INSTRUCTORS' NOTES

The case provides some guidelines on how to manage business start-up, how to finance start-up capital and finding committed business partners to work with. The case is suitable for university final year students and entrepreneurs (both aspiring and practicing entrepreneurs).

GUIDELINES ON HOW TO TEACH USING THE CASE

An instructor should provide clear instructions to students about their responsibilities and roles in order to prepare them to discuss the case in classroom. Students are expected to extract information in the case to develop solutions supplemented by their own experiences. Students should be divided into group of 3 to 5 depending on the size of the class to analyze and prepare comments before the class discussion takes place. Instructors should prepare a set of questions ahead of time, and pass these out in order to give students a general sense of the major issues to be discussed. In addition, students should be asked to prepare a brief statement outlining their sense of the central problem and their plans for resolving it.

Instructor should know the directions the discussion might take. Since one of the goals of teaching with a case is to monitor students' ability to apply knowledge and principles to real experiences, it's useful to identify the handful of major concepts that students should be relying on. Tutors should create a collaborative learning environment. A good classroom atmosphere will help generate and sustain students' participation, and this atmosphere can be quickly created by setting some ground rules for participation.

Instructors can emphasize that the analysis will be a group project, and that no one will be criticized for raising naive questions or uncertainties. Without clear sense that they are free to experiment with hypotheses, students will tend to remain silent until they feel that the 'right' answer has been identified. It will be useful to begin class discussion with questions that require students to review and organize information on the first level, the relevant facts and how do they translate into major themes or issues. Once students have agreed on the most significant information in the case, instructor can begin to pose more challenging questions and developing logical conclusions.

Finally, summarizing a class discussion on a case should focus not only on the content of the case, but also on the process of analysis and evaluation. The instructor can take charge at this point and offer an assessment of the case, or ask students themselves to pull together the various strands of the discussion. If some issues weren't resolved fully, or if answers to questions seemed to demand more information, students can be assigned research tasks for the next class session. To get the most out of this kind of class discussion, it will be helpful to give students feedback on how the discussion itself went particularly on how the group interacted and progressed.

KEY LEARNING POINTS

The key learning points have been organized under the following sub-headings; the discussions under each sub-heading are more geared to the business owners. The same discussions can be tailored for undergraduate students who do not own businesses.

Entrepreneurial Organization

Participants are to discuss how to run their organizations entrepreneurially. The discussion need to focus on how to develop an enterprising culture among the staff and among the owner managers.

Planning

Participants need to reflect upon themselves on how they plan for their future specifically, on their businesses, their employees and so forth. How do they implement their plans, if they have got action plans. Relevant examples need to be reflected in the case and see how the same can be reflected and applied for in their business. Similar reflections can be applied for students and how they are planning for their future career.

Financing

Participants will discuss alternative sources of financing. The role of investment in social capital needs also to be reflected as one source of financing. Relevant examples need to be reflected in the case and see how the same can be applied in their daily lives for students and in their businesses for business entrepreneurs.

Management for Growth

The case also gave an experience on how to manage growth. The school started little and slowly it is growing. Though the school is in the early growth stages, there are some relevant aspects such as institutionalization of the practices which has to take place during such an early stage. The practice can be reflected to individual businesses.

Partnership

The case provides for useful experience on how one can get committed business partners and their roles. Participants need however to assess their business forms to see how the experience obtained from the case can assist them based on their business form. For aspiring entrepreneurs, the practical experiences gained can guide them in selecting committed partners.

ANSWERS TO THE CASE QUESTIONS

In responding to the questions, students should be given time for discussion and the facilitator should provide the feedback to the students and to the group as a whole based on the presentation and class inputs / discussion.

Question 1

Discuss the stages through which MBSS has passed in its development so far.

Facilitators need to have discussed the 5 stages of business growth and the key issues and questions raised under each stage. The stages include;

Stage I: Existence

The main concern at this stage is on how to obtain customers and deliver product or service targeted for. Among the key questions for the company are whether the company can get customers, deliver service/product well enough to become a viable business; expand their customer base or pilot production and deliver service to a much broader sales base; and have enough cash to cover the considerable cash demand of this start-up phase?

Stage II: Survival

At this stage, the business has demonstrated its ability as a business entity. It has enough customers, satisfies their demands sufficiently with its products or services and can maintain them. The main issues here include; if the company can generate enough cash flow to stay in business and to finance growth given the industry and market niche. Students need to discuss about the limited number of employees, planning issues and the related required at this stage.

Stage III: Success

At this stage the decision facing owner managers is how to exploit the company's accomplishment and expand or keep the company stable and profitable. The company may choose to expand to other niches, improve on its present facilities or decide to make profit.

Stage IV: Take off

In this stage, the key problems are how to grow rapidly and how to finance the growth. The most key questions are whether the owner manager can delegate the company responsibilities to improve managerial effectiveness of the fast growing company and whether there is enough cash to finance the great demands growth demands.

Stage V: Resource Maturity

The greatest concerns at this stage are to consolidate and control the financial gains brought on by rapid growth and to retain the advantages of small size, including flexibility of response and the entrepreneurial spirit. A company at stage V has the staff and financial resources to engage in detailed operational and strategic planning. The management is decentralized, adequately staffed and experienced.

Students can explain this with a graph and relate this to the MBSS case.

Reflecting on the case; MBSS has already passed stages one and partly stage two. At stage two, the school has already managed to win customers, it needs however to improve on the resource base as it does not have enough funds to meet the expansion. The school can get the loan for the expansion purposes but the school does not have enough man power that will execute the roles resulting from the expansion process.

There can be further discussions to justify why the school is at stage 2 and not in stage 3 or stage 1.

Question 2

If you were the credit officer of a bank; what key aspects of the project would you consider in handling MBSS loan application?

The formalities for securing a loan need to be discussed but they differ depending on contexts, environment, countries, nature of business and even banks. In the Tanzania context, for a company to secure a loan; a business must have been in operation for 3 years; it must provide an audited financial statements of 3 years indicating that it is earning income. Depending on the nature of business, more demands may be required.

For the MBSS, currently the school can secure loan from any bank since it satisfy the lending requirements. The school management need however to make an informed decision of where they will invest the loan, and therefore a need to prepare an investment plan. They can also look for other sources of finances instead of relying on the loan which will demand them to pay an interest.

Facilitators can reflect on the same scenario depending on the nature of the environment on how loan applications are handled and the related bank requirements.

Question 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?

This is situational. But to start with MBSS cannot expand rapidly. The reasons lie on the fact that; their teaching approach is different and therefore it will take time to acquire enough resources particularly teachers with the capacity to manage the large number of students resulting from the expansion. The same capacity is reflected if it expands to girl's schools. The decision to expand depends also on the availability of cash of which currently the school management lacks a concrete investment plan and though it exists, it is not well reflected in the case. The current campus can accommodate more students, but this will be in contrary to the initial plan where a maximum of 480 students was planned for.

Question 4

What types of innovations can you identify in MBSS story?

Innovations are relative and students can come up with their observations. For the Tanzanian context innovations observed in MBSS case include;

- The introduction of the "What is not taught" (WTS) program, such a program focuses on the issues that are not covered in the curriculum at secondary level; entrepreneurship and entrepreneurship skills being part of this. The program also develops the can do attitude among students.

- The self directives discipline where bells are not used to guide student's daily operations. This discipline is practiced in colleges and universities and not at secondary school level.

- The Voice of Change Club (VOC), such clubs are found rarely in the Tanzanian context where students can share their views with different stakeholders in the industry.

Question 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?

The case reveals how it was hard for Mr. Walter to find committed partners to work with. Mr. Walter learnt from his mistakes. He took initiatives to find relevant books, read the books and put into practice the learnt. It can be challenging to find right partners, but with determination and perseverance one can find right business partners. Students can also comment based on the lessons they have learnt from the case.

Question 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 lose track?

The school might take time to continue in its current trajectory if Walter leaves. To allow for smooth transition, the school management need to have clear management and succession plan. The case therefore need to indicate further if there is a succession plan and the measures the MBSS management is taking to ensure for the long survival of the schools. Time is also required to enable for the adjustments and therefore the management need to currently start mentoring someone or a group of people who will manage the school in absence of Walter. With such a plan the school can continue in its direction. The continual support and the dedication of other managing partners in the process also play a significant role for the success of the school.

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.

INTSTRCUTORS' NOTES
RECOMMENDATIONS FOR TEACHING APPROACHES

General Case Information

This case is based on a hallway discussion between accounting professors. The discussion initially dealt with billing issues. A question was then raised: Is it ethical to charge materially different amounts to two clients for essentially the same work?

The case is designed for accounting majors and works well in an auditing class where the code of professional conduct is usually covered. It could be used in other classes as well but does require some familiarity with the American Institute of Certified Public Accountants' (AICPA) code of conduct including the rules of conduct. It would also be appropriate for an accounting ethics class if one is offered. It is suitable for either upper-level undergraduate classes or graduate classes.

This case is designed for a 50-minute class period. I have used it in a 75-minute class period by expanding the discussion and perhaps following a "rabbit trail" down a peripheral issue. Discussion is usually brisk because students can easily understand the issues involved and usually have an opinion about how to solve the dilemma.

Case Objectives

This case should familiarize the students with the well-developed code of conduct of the AICPA including the ethical framework which underlies the entire code of conduct. The case should sensitize students to ethical issues in common business decisions. The development of such ethical sensitivity is critical to the development of each student's personal moral compass. The case itself is without a "clean" resolution. Real-world dilemmas often have ambiguous solutions rather than clear right and wrong solutions and no ethical training is complete without students understanding that some situations do not have perfect resolutions.

The case provides for a chance to discuss the deontological approach to resolving ethical dilemmas. Deontology assumes that dilemmas are resolved by adherence to obligations which in the accounting profession are often encoded in the rules of conduct. Clearly, the system of rules for professional conduct implies a deontological approach which has advantages and disadvantages. One clear disadvantage emerges in this case: what is the CPA to do if there is no rule for the situation?

The case also provides a nice context to discuss the engagement letter and clearly illustrate its importance. Had Sally considered this situation before it actually occurred and had a clearly-stated policy, her dilemma would have been at least minimized, if not eliminated.

Administration of the Case

I have used the following approach to administering this case. The case is distributed in the preceding class period, along with instructions on how to access the AICPA's code of conduct. Typically, I show students how to access the code from the AICPA's website (www.aicpa.org) under information "for the public" tab. Access to this information can also be obtained in any data base which has the professional accounting standards in the ET sections.

If students have not yet been exposed to the AICPA's code of conduct, a short 15-minute lecture should be conducted on it. This short lecture can be done either before or after the student preparation time. The lecture should touch on two issues: the code's applicability and its structure.

While the code is only binding on AICPA members and CPAs do not have to become members of the AICPA, it serves as the foundation for the various boards of accountancy's codes of conduct. The CPA is bound by the code of conduct of the board of accountancy which issued the license to practice as a CPA. So while a CPA who is not a member of the AICPA cannot be disciplined by the AICPA, violation of the AICPA rule of conduct in all likelihood violates a rule of conduct of the board of accountancy who issued the CPA license. The board of accountancy always has the authority to discipline the CPAs which it licenses.

The structure of the AICPA code of conduct is hierarchical. The highest level is the ethical principles which define the ethical ideal and as such, are not enforceable on AICPA members. However, these principles exist to form the framework for the next level in the hierarchy, the rules of conduct, which are enforceable. A member of the AICPA who violates a rule of conduct can be disciplined. As is the case in any situation where rules are enacted, questions about their application arise. The AICPA has issued interpretations to address these questions and these interpretations form the third tier of the code of conduct. The interpretations are not enforceable in and of themselves but anyone who fails to follow the guidance provided must justify the departure or risk being disciplined for violating the related rule of conduct.

I typically require students to answer all four of following questions citing the AICPA code of conduct where necessary. Students typically report that this assignment takes about 2 - 3 hours to complete including time to write out the answers. If students are working in groups that time is reduced by an hour or so.

Suggested Questions

1. Clearly state Sally's dilemma.

2. Is this an ethical issue? Are there any ethical principles or rules which address this situation?

3. Put yourself in Sally's shoes. What amount would you bill Joy for the tax return? Would it be appropriate to adjust John's billing?

4. Would it have been appropriate for Sally to tell Joy that John had the same tax issue?

Because of the short length of the case, another scheme for administering this case would be available for classes who already have familiarity with the AICPA Code of Conduct. In this situation, the case could be read in class with a discussion immediately following.

Proposed Solutions

1. Clearly state Sally's dilemma.

To begin the discussion, I will ask students to provide a one-sentence statement of Sally's dilemma. I am looking for something which incorporates all three players, Sally, John, and Joy, into the statement. An example:

Sally needs to be adequately compensated for her efforts without offending either client through her billing practices.

Once something similar to the above statement has been received from the students (and it sometimes takes a few attempts), the statement is displayed on the white board or overhead for reference. Then, students are asked to determine the elements which contribute to the dilemma.

Several elements contribute to Sally's dilemma but at a minimum, I would like to see the following. First, like most CPA firms just getting started, Sally needs the money to pay for necessary expenses. She really is not in a position to cut her fees or offer refunds. Second, Sally must be aware of the fact that John and Joy see each other frequently and might just talk about their tax situation, even possibly discussing fees. Greatly differing fees are likely to anger the one who paid the higher fee, particularly if it is determined that their returns were quite similar. Third, Sally has already seen John as a potential source of future services and it could be inferred that Joy is so also since their situations seem so similar. Sally could not realistically expect to see future services from an offended client. Fourth, Sally could be in violation of ethical rules if she makes misrepresentations to one of the clients.

2. Is this an ethical issue? Are there any ethical principles or rules which address this situation?

This is probably the key to this case: recognizing ethical issues are involved. To address this issue, students often start with a dictionary definition of ethics. The most applicable definition involves a system of determining the rightness or wrongness of an action. In Sally's situation, it is not clear that one right action exists but certainly several wrong ones do.

The ethical principles of the AICPA code of conduct (AICPA, 1988) have several pertinent statements.

ET § 51.02 states, in part:

"These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues.… The Principles call for an unswerving commitment to **honorable behavior**, even at the sacrifice of personal advantage." (Emphasis added.)

In this paragraph, the CPA's responsibility to clients is clearly stated. Sally has a responsibility towards both John and Joy. This principle calls for honorable behavior to all (notice there is no stated limit on to whom this obligation extends) even if it disadvantages the CPA.

In addition, ET § 53.01 states, in part:

"A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of **clients**,… **The public interest is defined as the collective well-being of the community of people and institutions the profession serves.**" (Emphasis added.)

Once again, the principles identify a responsibility to clients.

ET § 53.02 states:

"In discharging their professional responsibilities, members may encounter conflicting pressures from among each of those groups. In resolving those conflicts, members should act with integrity, **guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served**." (Emphasis added.)

ET § 53.03 states:

"Those who rely on certified public accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, **enter into fee arrangements**, and offer a range of services—**all in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct**." (Emphasis added.)

ET § 53.02 once again notes a responsibility to clients. However, ET § 53.03 explicitly discusses fees as part of the CPA's responsibility. The CPA is required by this principle to demonstrate a level of professionalism consistent with these Principles of the Code of Professional Conduct. This is the most direct statement in the code of conduct to Sally's situation. Some additional general guidance is available in ET § 54.02 which states in part: Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage.

Client fee arrangements are mentioned under three different rules of conduct (AICPA, 1988). None are applicable to Sally's situation. Rule 302 on contingent fees does not apply in this situation because the fee does not vary according to the results of the service. Rule 502 on misleading advertising does not imply in this case because Sally never knowingly misrepresented the fee amount to either client. Rule 503 on commissions and referral fees does not apply because Sally's fee did not involve either.

The code of conduct provides Sally general guidance as to how to handle this situation. She must be aware of her responsibilities to her clients and must not take advantage of the situation for her personal gain (which by implication seems to be both monetary and nonmonetary advantage). However, no specific guidance is provided as the rules of conduct are silent on Sally's dilemma.

This illustrates a potential problem with deontology as a system of applied ethics. How does one follow the rules when the rules are silent about the situation? The framework of the AICPA code of conduct provides general guidance through its principles but specific guidance through rules and interpretations is lacking. An instructor could use this problem as a launching point to discuss other means of resolving ethical dilemmas.

3. Put yourself in Sally's shoes. What amount would you bill Joy for the tax return? Would it be appropriate to adjust John's billing?

Sally seems to have three main options. First, she could charge Joy the amount of billable time she has in the tax return ($1,000). Second, she could charge Joy the amount she charged John ($6,000). Third, she could charge each an average amount ($3,500) and refund a portion of the bill to John ($2.500).

After laying out the three options, I ask the class to justify and discredit each position without discussing the advantages and disadvantages of each. Although the responses might differ some, a matrix like this should emerge:

Option	**Justification for Fee**	**Problem with Fee**
Charge Joy $1,000 and leave John's bill unadjusted.	It represents the actual time spent on tax return.	John has paid for all of the joint research time.
Charge Joy $6,000 and leave John's bill unadjusted.	It represents the true value of the tax return including the normal research time.	Joy is being charged for 20 research hours which were not actually incurred on her tax return.
Charge Joy $ 3,500 and refund John $2,500 to adjust his tax return fee to $3,500.	It appropriately splits the joint research time between the two affected tax returns.	Joy is being charged for 10 research hours which were not actually incurred on her tax return. John may question why he was originally overcharged.

Before considering the advantages and disadvantages of each position, it is important to remind students of what we learned from the principles section of the AICPA code of conduct (AICPA, 1988). The CPA has "an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage." (ET § 51.02) While Sally has an interest in the outcome, her commitment to professionalism should trump personal concerns. That is one of the costs of being a professional.

Charging Joy the actual production cost of her tax return has the advantage of being easily justifiable to Joy. Another advantage is that Sally did not misrepresent herself to either client, despite the differing fees. Its major disadvantage lies in what is charged to John. John is bearing the entire cost of the joint research time which, at least, he would feel is unfair. It could be argued that John was initially willing to bear the cost and until Joy arrived on the scene, accepted as a fair fee. John may never learn of this fee inequity but if he does, he would likely (and rightfully) ask questions about the fee inequity.

Charging Joy the same amount as John's initial amount ($6,000) has the advantage of maximizing cash flow to the firm, obviously a concern for Sally. However, as noted in the passage from the principles of the code of conduct, this advantage should not enter into Sally's thinking. This option also has the potential to cause Sally to violate Rule 102 on objectivity and integrity. If Sally, *explicitly or implicitly,* suggests that she performed an additional 20 hours of research for Joy's tax return, she is misrepresenting a material fact about the engagement to her personal benefit.

Allocating the research costs, after-the-fact, between Joy and John has the advantage of properly sharing the costs between the two clients. However, Joy could still feel that she is being overcharged since Sally only did one hour of research specifically linked to her tax return. While John should be grateful for the sizeable refund on his tax return preparation, the refund might raise some issues in his mind about the competency of Sally or even her honesty if he perceives this refund as Sally's attempt to assuage her guilt over initially over-charging him.

Other than having an already-existing policy about billing joint research time to avoid such a situation, the best solution to Sally's dilemma is not clear. She does not have the option of retroactively establishing a fee policy. The idea of charging Joy the same as initially charged to John seems to be the worst option and can probably be discarded. This solution gives the perception that Sally is taking advantage of the situation for her personal benefit.

What should Sally do? Seeking advice from other professionals would be very wise. Whatever Sally decides, she needs to consider the advice of ET § 54**.03** which states:

"In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: 'Am I doing what a person of integrity would do? Have I retained my integrity?' Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment."

In following this guidance, Sally needs to keep in mind that the key assessment of her integrity is done by her clients. It is they who must be convinced.

4. Would it have been appropriate for Sally to tell Joy that John had the same tax issue?

Rule 301 prohibits a CPA from releasing client information without the client's permission except in certain well-defined circumstances. There is no evidence that John ever gave this permission, so it seems that Sally would violate Rule 301 by providing this information.

Most likely, Sally did not violate Rule 301 when she mentioned that John was her client (AICPA, 1988). ET § 391:013-014 allow for a CPA to release the name of a client provided the member is not involved in a specialty-type of service which would reveal information about the client not otherwise publicly known. By mentioning John's name as a client, Sally is only revealing that John has had work, probably a tax return, done by a CPA. This is not likely to reveal any confidential or sensitive information about John.

Other Issues

Sally's dilemma could have been averted had she and the client signed an engagement letter before she performed any services for the client. The purpose of the engagement is to make sure that there is agreement between the two parties as to the nature of the services to be provided. Any potential area for misunderstanding should be included in the engagement letter. Historically, this has included the fee arrangement.

The case tells us that John tentatively agreed to the billing structure. However, as with all oral agreements, there is a real possibility of misunderstanding and ultimately, of the oral agreement's enforceability. It should be clear to students that if a dispute ever arose over the fees, Sally (and John) would have been better served with a written agreement. In Joy's situation, there is no information about an engagement letter or a discussion of fees. Without some form of agreement in place, the possibility of misunderstandings is huge.

A discussion about the desirability of engagement letters is a nice closure to this case.

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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.

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.

CASE SYNOPSIS

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.

INSTRUCTOR'S NOTES

RECOMMENDATIONS FOR TEACHING APPROACHES

This case has a wide variety of applications for many business disciplines. Accounting students can address both the technical and ethical aspects of the error while other disciplines may analyze the ethical and managerial impact of the error.

Given the brevity of the case it is ideal for an in-class exercise. First, have the students read the case and to briefly answer the decision points. Next, break into small groups to discuss the decision points and to compare answers and reach a consensus response for each point. Lastly, openly discuss each decision point aloud to see how the group decisions differ.

DECISION POINTS

1. **What does Candace do next?**

   There are many paths Candace might choose here, including doing nothing and telling no one. One hopes that Candace will choose to do the right thing, but to fix the error, she must involve others.
   a) Does she tell Pauline? Why or why not?
   b) Does she tell Judi and Jamie? Why or why not?
   c) Does she tell Gerad and Ernie? Why or why not?

2. **What are the consequences of telling?**

   We live in a world that wants to assign blame, wants to limit liability, and wants to sue for damages. Although the truth may set you free, in this case it will likely put some people at risk.
   a) Who is likely to lose their job?
   b) Who is likely to sue?
   c) *Who should bear the costs of setting things right*?

3. **What are the consequences of not telling?**

   This is the ultimate dilemma in this case and it challenges students to consider not only Candace's choice in the matter, but what also might occur if the error is made known to the partners in the accounting firm and to the owners of Great Expectations, and ultimately made known to the employees of Great Expectations.
   a) If no one has caught the error in 17 years, why not just fix it and go forward without saying a word?
   b) Which risk is greater: telling or not telling?

4. **In business, is there such a thing as an honest mistake?**

   An honest mistake is none-the-less still a mistake. Honesty mistakes exist when they are discovered and amended.

5. **Assume Gerad and Ernie are callous businessmen. Does that influence your decision?**

   Conventional wisdom suggests that personality plays a role in one's ability to communicate with others. If Gerad and Ernie are known to be callous business men, then they are more likely to be feared. The tendency here may be to fix the problem develop a plan to remedy the error before including them.

6. **Assume Gerad and Ernie put their employees first. Does that influence your decision?**

   Knowing that the owners put their employees first confers an impression that the owners are kind and caring. This would seem to make them more approachable and more likely to include them early in the revelation of the error.

7. **Given that both Judi and Jamie have missed this mistake, how do you believe they will receive this information?**

   Most people would not relish the idea of telling their bosses about this oversight. Both would most likely want a more detailed accounting of the error, including how long this has been happening and how much money is involved.

8. **How does overtime factor into the error?**

   Overtime beyond 40 hours per week, I assume would be paid at time and a half. This would magnify the underpayment error for those employees working overtime, since their pay rate would rise accordingly for hours above 40. Ex: Martin Brooks overtime rate would be $26.25 instead of his regular rate of $17.50 since he has worked more than 40 hours this week.

9. **What is the impact of PAYROLL TAXES?**

   Not only does Great Expectations owe its employees back pay for ?? years, but IF this mistake is corrected, it affects FICA, Federal Withholding, and Unemployment Taxes owed to the federal government, both for the employees AND the company's portion of payroll taxes.

10. **How do you make this right?**

    Making it right ultimately means making everyone whole for what they lost. How many employees are affected will depend on how far back the error can be traced. Interest may be owed as well.

11. **What about employee turnover? Do you track down employees who left the company years ago?**

    This may be more difficult, and some of these employees may no longer be alive. In the interest of making things right, attempts should be made to reach these former employees.

KTKB 101.9'S RADIO BREAKFAST EXTREME (RBX): THE RADIO SHOW THAT PROVIDES BOTH ENTERTAINMENT AND EDUCATION

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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.

INSTRUCTOR'S NOTES

INTRODUCTION

This case is entitled "KTKB 101.9's Radio Breakfast eXtreme (RBX): The Radio Show that Provides Both Entertainment and Education," and was authored by Josephine D. Evangelista, PMBA and Rowena L. Macaraig, PMBA. The island of Guam has a small market to cater to when it comes to radio program broadcasting and KTKB caters mainly to the Filipino citizens of Guam as it is a Filipino radio station. This particular case was developed to determine what the station's morning radio show, RBX, could do to maintain its position and rank as the most listened to radio show in the morning. The case could be used when discussing different marketing strategies and how to differentiate a product or service.

CASE OVERVIEW

The results of a recent market research survey on Guam media was released and reported that KTKB's RBX was the most listened to radio station from 6:00 AM to 10:00 AM. The purpose of this case is to identify ways this small radio station can continue to maintain its position and keep its listeners satisfied in the content provided on the morning radio show. The case contains information on Guam, radio broadcasting in general, the results of the market research survey, and the activities of the RBX morning show on KTKB.

DISCUSSION QUESTIONS

1. *How do you evaluate KTKB radio morning show positions in the Guam market? Answer: Answers may vary and can be open for interpretation. The authors of the case evaluated the KTKB radio morning show as one that caters to the needs of the Filipino market. They are focused on a small niche in the community.*

2. *What other actions can KTKB and its morning radio show hosts do to maintain stability with its listeners and sponsors? Answer: Aside from improving its efforts in social media, KTKB can conduct surveys with their listeners to start creating data that the radio station can use to continue catering to its listener's needs.*

3. *What are the advantages and disadvantages of being small in Guam's market? Answer: Advantages of being small in Guam's market include that change can be implemented much quicker and that all constituents in the radio station can provide feedback that could be more meaningful as they work closer together. Disadvantages include a smaller customer base and possibly lesser avenues to receive sponsorships and other revenue.*

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