Journal of Critical Incidents

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Society for Case Research

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THE SOCIETY FOR
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Journal of Critical Incidents Editorial Board 2008

SCR Mission and Purpose

The Society for Case Research (SCR) facilitates the exchange of ideas leading to the improvement of case research, writing, and teaching; assists in the publication of written cases or case research and other scholarly work; and provides recognition for excellence in case research, writing and teaching.   The society publishes three scholarly journals:

- Business Case Journal
- Annual Advances in Business Cases
- Journal of Critical Incidents

If you are interested in joining SCR, publishing in one of the journals or contacting the Officers of the Society, go to www.sfcr.org.   To purchase copies of the Critical Incidents or Teaching Notes contact Roy Cook at cook_r@fortlewis.edu.

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Society for Case Research

October 20, 2008

WELCOME to the inaugural issue of the *Journal of Critical Incidents*! This issue contains fourteen critical incidents (CIs). I believe that the CIs reflect a range of 'what it means to be a critical incident.' In addition, the CIs showcase scholarship across international business, ethics, corporate social responsibility, diversity, legal frameworks, small business, veterinary studies, leadership and change, technology, decision making, accounting, inventory management and forecasting, entrepreneurship, healthcare administration, marketing, and foreign investment.

Each published critical incident has a teaching note that is available through the Society for Case Research. The teaching note was double-blind peer reviewed and its quality was an integral part of the acceptance process. Teaching notes are available to adopters of the critical incidents for a fee and are available to the author(s) and their academic performance review committees without cost.

Launching the journal has been an exciting and rewarding process. At the end of the journey, I realize that the result is more than a journal. It is comprised of learning for me. It is comprised of a stronger Society for Case Research through its creativity in taking advantage of a new scholarship stream. And, it is the product of a team, not just myself as the editor. I appreciate the hard work of the authors who submitted their CIs. Without them, there would be no journal! I owe a BIG thank you to the twenty-five SCR members who volunteered their time and talents to review the critical incidents and teaching notes. A special thank you goes to Sally Dresdow for her work with the technology, being a sounding board throughout the process, and for her willingness to help with the final editing of the journal – all to have the title of Associate Editor.

As we look forward to the next volume of the *Journal of Critical Incidents*, I invite you to share your observations about this year's process and your recommendations to enhance both the process and the journal. It is through our conversations that we collective learn and achieve our aspiration of quality critical incident writing and scholarship.

Joy Benson
Editor
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A MANAGER'S DILEMMA: WHO GETS THE PROJECT?

Douglas Polley, St. Cloud State University
Paula S. Weber, St. Cloud State University

SYNOPSIS:

This critical incident (CI) focuses on a single decision regarding the assignment of responsibility for a new project. Two departments (Software Training and Technical Publications) each brought needed expertise which the respective managers claimed warranted the assignment of the new project to their department. The decision was complicated because the two managers allowed their competition for this project to lead to open animosity and the decision maker (Dave Peterson) was not the regular supervisor but a peer filling in for their vacationing boss.

LEARNING OBJECTIVES:

The objectives of this critical incident are:

1. Students will be able to apply concepts from conflict resolution, decision-making, organization structure, power & politics to a real company decision.
2. Students will be able to analyze a complex decision involving technical issues, political ramifications, personalities and symbolic aspects of organizations.
3. Students will be able to synthesize and evaluate alternative solutions to a difficult organizational problem.

APPLICATION:

This CI is intended for use in undergraduate and MBA management courses. The CI is appropriate for courses involving such areas as Organization Theory, Organization Behavior, Leadership, and Decision-making

KEY WORDS:

Organizational culture, conflict management, power, and leadership styles.

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A QUESTION OF INDEPENDENCE

Reed McKnight, University of New Mexico
Roy A. Cook, Fort Lewis College

SYNOPSIS:

This incident involves questions of appropriate behavior in a professional setting related to a variety of gifts ranging from large to small, given by a variety of individuals who have varying relationships with the recipient. An intriguing timeline leading up to a surprise retirement party for an accounting professor sets the stage for an end-of-semester gala. Taken aback by the generosity of the gift givers, the recipient sought counsel from the associate dean, the dean, and the school's ethics professor as to what should be done with the gifts, particularly the gift certificate and the bronze. To his surprise, all three had different opinions as to what he should do. Students, faculty and administrators can easily relate to the setting and issues raised, as they are dealing with a student/faculty relationship.

OBJECTIVES:

The objectives of this critical incident are to:

1. Describe criteria that can be used to identify appropriate gift giving behavior in professional settings.
2. Evaluate the appropriateness of gift giving in a specific setting.
3. Specify appropriate courses of action to address concerns when gift giving creates perceptions of influence.

APPLICATION:

Based on the issue presented in this critical incident, it can be used at both the undergraduate and graduate levels in accounting and business and society classes as well as faculty training seminars. It can be read and discussed in class or training seminars, used for testing purposes, or assigned for research and detailed written analysis.

KEY WORDS:

Accounting, business and society

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ACCUMULATOR OUTSOURCING ISSUES: WHAT? MANAGE SOMEONE ELSE'S INVENTORY

Harash J. Sachdev, Eastern Michigan University

SYNOPSIS:

Brighton Precision Pumps (BPP) purchased accumulators, a component part for one of its pumps, from a single-owner operated manufacturing firm, Rusty Tools, Inc. Rusty, the owner of Rusty Tool also manufactured accumulators for one of BPP's competitors among several other sheet metal component parts for many manufacturers. Predicating a high initial demand for accumulators, and the fact he had to serve two competitive manufacturers, led Rusty to buy more equipment and expand his facility. When yearly sales of accumulators decreased and orders became erratic, he reduced his work force through layoffs and moved others around to complete the orders. He finally wound up with more raw materials and finished goods inventory and ultimately ran out of cash to pay his suppliers. In order to balance things in the short run, he traded off BPP and its competitor's materials to complete the parts. Upon probing, BPP concluded that Rusty ordered more materials than the regular forecast amount to plan his inventory. In the bargain, more accumulators were made in certain months over others and resulted in either under stocked or overstocked inventories. What should BPP do to provide immediate relief to Rusty Tools?

OBJECTIVES:

The objectives of this critical incident are:

1. Students will able to identify a Bullwhip Effect and state reasons for its occurrence.
2. Students will learn to identify the appropriate manufacturing strategy for low-priced, just-in-time needed products.
3. Students will learn to prescribe short-term solutions to supply chain relationship problems caused by poor inventory management practices.

APPLICATION:

This case may be used at the undergraduate BBA supply chain management, logistics, operations, purchasing, and marketing management courses. It may be used for the following topics: Collaborative Forecasting Planning, Bullwhip Effect, Relationship Management, Managing Outsourcing, and Fundamentals of Inventory Management.

KEY WORDS:

Sourcing, Inventory Management, Forecasting, Bull Whip Effect, and Supplier Development

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BLOOD BANANAS (A/B)

Steven M. Cox, Queens University of Charlotte
Bradley W. Brooks, Queens University of Charlotte
S. Catherine Anderson, Queens University of Charlotte

SYNOPSIS:

Chiquita Brands' Colombia subsidiary, Banadex, received an offer from The United Self Defense Forces of Columbia (AUC) for "protection" services against potential violence. In reality, the AUC was a paramilitary organization and the proposal was a form of extortion to "protect" Banadex from attack by the AUC. Case A provides three options: paying the AUC's demands; refusing to pay the demands but maintaining operations; and exiting the country. Case B explains that after Banadex had been making payments to the AUC for years, the US designated the AUC a terrorist organization, thereby rendering *any* business dealings with the AUC illegal.

OBJECTIVES:

The objectives of this critical incident are:

1. To demonstrate difficulties in making significantly risky business decisions that requires prioritizing between ethical, financial, moral, and social welfare objectives.

2. To enhance student skills in supporting a decision based on his or her specific prioritization of mutually exclusive objectives.

APPLICATION:

Within a Business Ethics course (grad or undergrad) this incident illustrates critical prioritizing aspects of decision making. Within an International Business course (grad or undergrad) this incident demonstrates perils of operations within varying political and social environments.

KEY WORDS:

Ethics, Legal, International, Terrorism, Paramilitary

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GOING LIVE

Mary K. Foster, Morgan State University
Augustus Abbey, Morgan State University

SYNOPSIS:

Danni Johnson, Senior Vice President of Technology for Excel Youth Fitness and Sports Training Centers was the fourth person in this position in four years. She has been working on developing a new proprietary training/coaching software system critical to the successful operation of the company's 1,000 sports training and coaching centers. The existing system was old and failing, causing disruptions to center operations. The development process has been complicated by a lack of project management skills among the team members and by the lack of expertise, ability, and motivation among the user community. Despite these challenges, the team has developed and tested a new system that Danni believes is ready to roll out. She thought the other team leaders agreed with her, but when they got into a meeting with the company President, Sarah Jones, to decide on whether or not to roll out, the other team leaders did not support going live.

LEARNING OBJECTIVES:

The objectives of this case are:

1. Illustrate how effective leadership behaviors may be dependent upon the ability and willingness of followers
2. Describe how contingent or situational leadership theories may be applied, using this incident as an example
3. Synthesize knowledge of contingent or situational leadership theories and Danni's situation to recommend a course of action
4. Explain how concepts and tools from change management theory could be used to overcome resistance to change
5. Evaluate alternate approaches to leading change in this situation

APPLICATION:

It is designed for undergraduate or graduate level Management, organizational behavior, or leadership courses. It can be used as a class discussion exercise, as a small group activity, or as an individual assignment.

KEY WORDS:

Leadership, change, software development, contingent or situational leadership

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"GUNNING DOWN" THE WELLNESS PROGRAM

Asbjorn Osland, San Jose State University
Pamela Wells, San Jose State University

SYNOPSIS:

To combat out-of-control, double-digit increases in healthcare costs, Kenneshaw County decided to implement a health initiative consisting of participants voluntarily completing a wellness assessment instrument. Each participant would then receive coaching from a personal life coach to improve and maintain overall health. The idea was to decrease the demand for healthcare services through healthy lifestyles; hence, the healthier the participant, the less utilization of healthcare benefits. Because the program was voluntary, its success could only be achieved through the buy-in and participation of those who received the benefits. A controversy arose when participants were asked if they owned a gun. The county and its health department understood the health risks associated with hand guns (e.g., accidental discharge, attempted suicides, inappropriate use during domestic disputes, and use of excessive force to deter minor crimes). However, some of the participants viewed the question as a violation of their personal freedoms and did not understand its place in the wellness assessment. The incident is decision focused regarding the gun question but descriptive concerning health assessment.

LEARNING OBJECTIVES:

1. Gain an understanding of health wellness programs
2. Follow an organizational change model in instituting a wellness program in an organization
3. Practice dealing with a crisis situation that was unexpected and seemingly came out of the blue

APPLICATION:

The incident could be used in the following courses: Introduction to Human Resource Management course (e.g., in the benefits module) or in a stand-alone Benefits course, Introduction to Management (as a lead-in to a section on business and society), Business and Society (if the instructor chooses to focus on the gun issue), or in an organization behavior course focusing on the issue of managing conflict. In the different courses the controversy over the gun issue can be addressed in terms of conflict management or change management.

KEY WORDS:

Health assessment, gun ownership

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HOSPITAL IN THE NEWS

Carla Wiggins, Idaho State University
Mark H. Bezik, Idaho State University
Leigh Cellucci, Idaho State University
Patrick M. Hermanson, Portneuf Medical Center

SYNOPSIS:

Portneuf Medical Center's CEO woke to find the following headline in the local paper: "PMC's Staff Meets Secretly with County Commissioners to Voice Complaints." Apparently, 25 of PMC's employees had voiced their frustrations directly to the county commissioners in a secret meeting and it was the top headline. The hospital was building a new physical plant, trying to attract and retain excellent employees and to expand its market area. This kind of publicity added fuel to an already hot fire in the community concerning the hospital's future. Now what?

OBJECTIVES:

The Objectives of this case are:

1. Distinguish between a sudden crisis and a smoldering crisis
2. Apply effective communication as a management tool
3. Create a crisis communication plan for short term and long term issues facing PMC.

APPLICATION:

This case is written for use in healthcare administration, undergraduate management, marketing, and organization behavior courses. This case presents the situation of a hospital CEO who is unexpectedly confronted with negative publicity on the front page of the local newspaper. It provides students the opportunity to explore communications and create a crisis communication plan.

KEYWORDS:

Health care administration, communication, crisis communication

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IN DOG WE TRUST: DO THE ENDS JUSTIFY THE MEANS?

Claire McCarty Kilian, University of Wisconsin – River Falls

SYNOPSIS:

In 2003, Duane Chapman (star of the A&E reality series called "Dog the Bounty Hunter") tracked and captured fugitive Andrew Luster in Mexico. "Bounty hunting" is illegal in Mexico and the Chapman team was arrested. They posted bail and left the country. In 2006, at the request of the Mexican government, U.S. Marshals charged them with felony restraint and deprivation of liberty (of Andrew Luster). Much of the public considered Dog a hero. On-line petitions and many politicians took action demanding that the U.S. not allow extradition to Mexico. This incident provides an interesting and emotionally-arousing situation where students can apply ethical decision making formats. The Chapmans caught a despicable criminal that had eluded capture but they broke a law in doing so. This saga has all the makings of a Hollywood movie – a rich playboy villain (Luster), the "born again" hero (Dog is a felon), the average guy embarrassing the authorities, bail skipping, U.S. Marshalls raiding, a huge fan base including government officials, and an interesting (although anti-climactic) ending.

LEARNING OBJECTIVES:

The objectives of this incident are:

1. To allow students the opportunity to *examine* the difficulties in examining whether behavior is ethical or unethical and to *define* a problem.
2. To give students practice in *applying* ethical decision-making frameworks.
3. To *analyze* the facts of the case and apply ethical standards and values.

APPLICATION:

This incident is appropriate for courses in O.B., Business & Society, and Ethics.

DISCUSSION QUESTIONS:

1. Apply the following ethical decision making frameworks -- Utilitarianism, Self-interest, Categorical imperative, Legality, Light of Day.
2. Using Nash's 12 Questions (or some other ethical decision-making format such as Kidder's Checkpoints or The SAD Formula) analyze the facts of this incident.

KEY WORDS:

Ethics, ethical dilemmas, decision making, ethical frameworks/formats.

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RACU: BUILDING A CAMPUS IN MOSCOW

Stacy M. Vollmers, University of Wisconsin, River Falls
Clyde Vollmers, Russian American Christian University

SYNOPSIS:

Russian American Christian University (RACU) is a private liberal arts university located in Moscow, Russia. In May 2001, RACU purchased a land lease to build a classroom building in Moscow. Russian contractors report that it takes 18 months to secure the necessary permits and re-zoning for a building project. But this timetable depends on giving bribes to speed the approval process and create shortcuts. While payments to facilitate the building process were legal, RACU's Board decided, as a faith-based organization, it would pay no bribes.

The school's building project has been plagued by delays and unanticipated costs. Once building permits were acquired by RACU, nationalistic protestors tried to prevent construction of the new building, ultimately taking their case to the unpredictable Russian court system. Adding to RACU's woes, as construction began, the contractor found the soil contaminated with benzol (a toxic chemical found in gasoline) and large amounts of scrap metal. RACU's president faced a serious crisis. The building was four years behind schedule and costs had doubled. The contractor needed a $250,000 check tomorrow, with a second check to follow.

OBJECTIVES:

The objectives of this critical incident are:

1. To explore and understand the added risks of investing in a foreign country.
2. To explore ethical, legal, and economical decisions involving bribes.

APPLICATION:

This critical incident (CI) is appropriate for introductory marketing and management courses as well as business ethics courses. Further, the CI is appropriate for upper level undergraduate or introductory MBA level courses. The primary focus of the CI is factors (ethical, legal, and economic) a company must consider when doing business in a foreign country. The secondary focus is the risk associated with direct investment in a foreign country.

KEY WORDS:

International Business, Foreign Investment, and Bribes.

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SAVING JENNY: MAKING CHOICES ABOUT ANIMAL WELFARE

Eric Nelson, University of Central Missouri

SYNOPSIS:

Jenny, a young, vibrant Labrador Retriever, has a serious health issue: splenic lymphoma, or cancer of the spleen. Treatment for the disease will cost thousands of dollars. The Jones family must decide whether to treat the dog or to euthanize it. Learners are challenged to apply ethical theories to a fairly common household situation: the severe illness of a family pet.

In today's fluidly changing morality, each individual must be asked to develop their own set of ethics to cultivate their virtues. Ethics is an uncomfortable and "messy" topic and does not lend itself well to absolutes, which provides educators with an ideal opportunity to role model virtuous behavior. This critical incident can be used as a starting point to open up a Socratic dialogue (elenchus) on virtue (ethos) between "the teacher" and "the pupil."

LEARNING OBJECTIVES:

The objectives of this critical incident are:

1. Discuss the ethical considerations involved in euthanizing a family pet.
2. Apply ethical theories to debate the extent which humans are responsible for animal welfare.
3. Examine their personal values regarding pet ownership.
4. Evaluate the ethical decision of euthanizing an animal from a veterinarian's point of view.

APPLICATION:

Saving Jenny is intended as an introductory discussion in applied ethics and is applicable to nearly any discipline, but was written with business and veterinary studies in mind.

KEY WORDS:

Ethics, Small Business, Veterinary Studies

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TEMPTEX, INC.

Phyllis G. Holland, Valdosta State University
Kenneth L. Stanley, Valdosta State University

SYNOPSIS:

Royal Fabrics approached Terry O'Connell, Operations Vice President for Temptex, Inc., about the possibility of Temptex acquiring Royal Fabrics which had been Temptex's fierce competitor for many years. Terry was excited about the possibility of acquiring the company even though Royal Fabrics had been unprofitable for the last couple of years. Terry had to convince Temptex's President, Sammy Ingeman, that this acquisition could add value to Temptex. To do this, Terry had to first identify appropriate benefits and costs associated with the acquisition. With these costs and benefits identified, Terry's next job was to determine a price that Temptex would be willing to pay for Royal Fabrics.

OBJECTIVES:

1. Students will identify and evaluate strategic alternatives associated with the acquisition of a competitor.
2. Students will apply concepts of marginal benefit and cost analysis as a cash flow or "savings" that can generate value.
3. Students will use marginal benefits and costs to calculate appropriate cash flows for determining the value of a possible acquisition

APPLICATION:

This case can be used in an undergraduate capstone business strategy case to analyze strategic alternatives, analyze marginal costs and benefits, and apply projected benefits to determine an appropriate price (value) for an acquisition candidate. Temptex, Inc. could also be used in a cost accounting class or a basic valuation exercise in an introductory financial management class.

KEY WORDS:

Strategic Management, Cost Accounting, Financial Management

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THE FRANCHISING ENTREPRENEUR

Ann M. Hackert, Idaho State University
Mukunthan Santhanakrishnan, Idaho State University

SYNOPSIS:

Nick Balsmeier wants to start up a business but has limited access to financing and lacks experience. Nick worries that the risks and costs of starting a business from the ground up are prohibitive. He decides that buying a franchise is an alternative he should consider. Initial investment is a major issue because he needs to find a franchise in his price range. Nick also wants to start a franchise that is something new to the community but that is a service or product he thinks he can sell and market. Nick is worried about failing because he is using his dad's retirement to finance his business. Nick has to decide whether or not a Pita Pit is a good opportunity.

LEARNING OBJECTIVES:

The learning objectives of this critical incident are to:

1. Assess the steps a potential franchisee should take to conduct research and due diligence for a franchising prospect.
2. Identify the differences between starting a business from the ground up as compared to buying a franchise.
3. Identify the issues an entrepreneur needs to consider in order to analyze the risks and potential of the franchise.
4. Assess the profitability of a franchise venture.

APPLICATION:

This critical incident can be used in franchising, entrepreneurship and small business management courses. The critical incident offers faculty a unique opportunity to illustrate an alternative route for an entrepreneur who wants to start a business but has limited funds or experience. Students reviewing the references at the end of the case can use the information to develop a research project to select and research a franchising opportunity in their community.

KEY WORDS:

Entrepreneurship, Small Business, Franchising

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THE GIFT WRAPPING PAPER BUSINESS: A DILEMMA FOR LAKE SUPERIOR PRESS

Irvin A. Zaenglein, Northern Michigan University
Bruce C. Sherony, Northern Michigan University
Claudia L. Orr, Northern Michigan University
Brian G. Gnauck, Northern Michigan University

SYNOPSIS:

Mr. Tom Dubow, President of Lake Superior Press, was contemplating the addition of a new product line, gift wrapping, to his business enterprise. The company served Michigan's Upper Peninsula and the northern part of Wisconsin. The gift wrapping would be printed on Lake Superior's press which was limited to a 20 inch by 28 inch piece of paper. The wrapping was designed to highlight the region's unique northern scenes. The case focused students' attention on relevant issues of importance to marketers including the calculation of breakeven output, the determination of price levels, and qualitative factors that need to be considered to expand a firm's product line.

OBJECTIVES:

The objectives of this critical incident are:

1. Establish a wholesale price
2. Calculate a breakeven point
3. Evaluate and weight qualitative factors from the external and internal environment
4. Analyze the impact of the decision on a small business facing a product extension decision

APPLICATION:

This critical incident is best suited for introductory marketing, introductory management, marketing management and entrepreneurship courses. This incident is useful for explaining the importance of calculating break even, fixed costs, variable costs and levels of output to achieve a given rate of return.

KEY WORDS:

Entrepreneurship, break even, product extension

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THE MANY SIDES OF THE IMUS CONTROVERSY

Russell Casey, Penn State University Worthington Scranton
George Whaley, San Jose University
Mark Bacon

SYNOPSIS:

Don Imus had a popular radio program on CBS/MSNBC that relied on controversial discussions with guests and listeners. On his April 4, 2007 broadcast, Imus made a provocative statement about the Rutgers University female basketball team that raised a firestorm of reactions. These reactions ranged from the position that Imus was merely exercising his freedom of speech rights as a "shock jock" commentator to the position that Imus's remarks were racist and he should be fired. The Imus comments and his subsequent suspension and firing by CBS/MSNBC raised important questions regarding the rights and responsibilities of major stakeholders such as employees, employers, advertisers and the public. Additionally, it raised the question of public use of offensive language directed at African-Americans and other groups**.** Other well-know celebrities such as Michael Richards, Duane Chapman, Jesse Jackson and Isaiah Washington continue to make negative statements in public that "grab the headlines" and keep the Imus incident fresh. This case can be used in a sixty to seventy-five minute class format.

LEARNING OBJECTIVES:

The objectives of this case are:

1. Use ethical, legal, and/or group identity theories that apply to the Imus issue.
2. Develop frameworks that would support and reject the Imus behavior.
3. Develop a basis for the differential treatment of Imus and other well-known persons regarding the public use of slurs.
4. Analyze the intricacies of behavioral frameworks such as in-group/out-group theories as related to the Imus controversy.
5. Make and defend the decision concerning how one word, statement, or conversation can end in job loss and damage to Imus's career.

APPLICATION:

This CI is applicable to a wide range courses in business and non-business disciplines such as sociology, journalism, ethnic studies, communications, and popular cultures.

KEY WORDS:

Ethics, Diversity, Group Identities, Discrimination, Legal Frameworks

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SCR

THE SOCIETY FOR
CASE RESEARCH

A Manager's Dilemma: Who Gets The Project?

Douglas Polley, St. Cloud State University
Paula Weber, St. Cloud State University

This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment. The names of the organization, individuals, and location have been disguised to preserve the organization's anonymity.

Introduction

It seemed like a real ego booster when I got to take over my boss's job during his vacation," thought Dave Peterson. "Now I'm not so sure. Both Ben and Jeremy really want to be in charge of this new project; I have to decide between them, and I will still have to work with them as a peer after this is all over."

Background

CMT was a leading innovator in the telecommunications industry. Rapid growth and persistence in the face of early company setbacks had generated a strong culture based on problem solving and meeting customer expectations. The primary guidelines directing action were, "If you see a problem that needs to be fixed, it becomes your problem" and "Do what you have to do to satisfy the customer." This environment led to frequent conflicts and job stress but also provided opportunities for job enrichment and advancement. Table 1 provides additional company characteristics.

TABLE 1 Company Characteristics

Company background	
History	Culture
- 10 years old	- Innovative
- Telecommunications Industry	- Encourages individual initiative
- Rapid growth	- Respect for technical expertise
- $50M revenue	- Conflict accepted as part of company life

Dave was the manager of Customer Software Support. His department provided support to customer and field staff when software problems occurred. (See Figure 1 for organizational structure). Dave had worked as a systems analyst in Customer Software Support prior to his promotion to manager. He and his staff had considerable experience with CMT products and many contacts with CMT's software developers.

Ben was in charge of the Technical Publications Department which provided technical and user manuals and other materials for customers and CMT field staff. These manuals detailed the technical operations of CMT Corporation's equipment and software. Ben and his staff worked closely with designers and had a strong reputation for translating engineering terminology into more user friendly materials understood by those without engineering training.

Jeremy Olson managed the Software Training Department. This department provided courses that explained CMT Corporation's software products and trained customer and company employees on the proper use of the products. The Software Training Department utilized documentation generated by the Technical Publications Department for their training courses. Jeremy and his department were especially good at designing courses that communicated technical information in a way that customers could readily understand. Course design and presentation were particularly important due to the high degree of modularity of CMT software.

The New Project

A new hardware product was underdevelopment with associated software. Due to the low target price for the product and the need for inexpensive training, CMT's Sales department had requested that a CD-Rom self-study course be developed for customers of the new product. At this time, CD-Rom training courses were new and CMT Corporation had not yet begun using this technology for training.

Both Ben and Jeremy lobbied heavily to be allowed to develop the new course. Ben argued that he and his staff had superior technical expertise due to their close working relationship with engineers during the development of technical manuals for the new product. In addition, some of his staff had previously developed CD-Rom presentations.

Jeremy noted that the primary purpose of the course was to train employees and customers in a situation where there were no company consultants or trainers available to answer questions. Thus, he argued, the presentation of the material and the pedagogy used were critical for the success of the CD-Rom. Both managers presented their respective cases to their supervisor, Henry Mathews, the Director of Software Support.

Over the next two months, the lobbying intensified and the level of conflict escalated to the point where both Jeremy and Ben openly declared that the other department simply, "lacked the needed skills to get the job done" and "if the project was not assigned to their respective department it would surely fail." Both managers had approached Dave asking for his support.

The culture at CMT accepted conflict that was based on doing the best job for the customer. In spite of this, Dave felt the conflict between Ben and Jeremy was getting out of hand. If this went on much longer, Dave felt the conflict might spill over into other areas where all three departments needed to cooperate.

The Decision

Henry took a two-week vacation and when he left on Friday, he put Dave temporarily in charge of the entire unit. The following Monday, both Ben and Jeremy informed Dave that a decision on the new project must be made right away. The purchase order for the filming equipment needed to be placed immediately in order for it to arrive in time. They, of course, disagreed on the type of equipment that should be used so a decision needed to be made as to the long-term assignment of the project. Furthermore, the project was now behind schedule given the needed development time based on the projected product release date.

Dave realized that how he handled this decision would reflect on his management skills and possibly influence his opportunity for advancement. “I know if I assign this project to either Ben or Jeremy someone is going to be very upset,” David pondered, “and I don’t know if I can get these two to talk to each other, let alone to agree on a compromise. The only thing I do know is that I have to make a decision on this before Henry returns.”

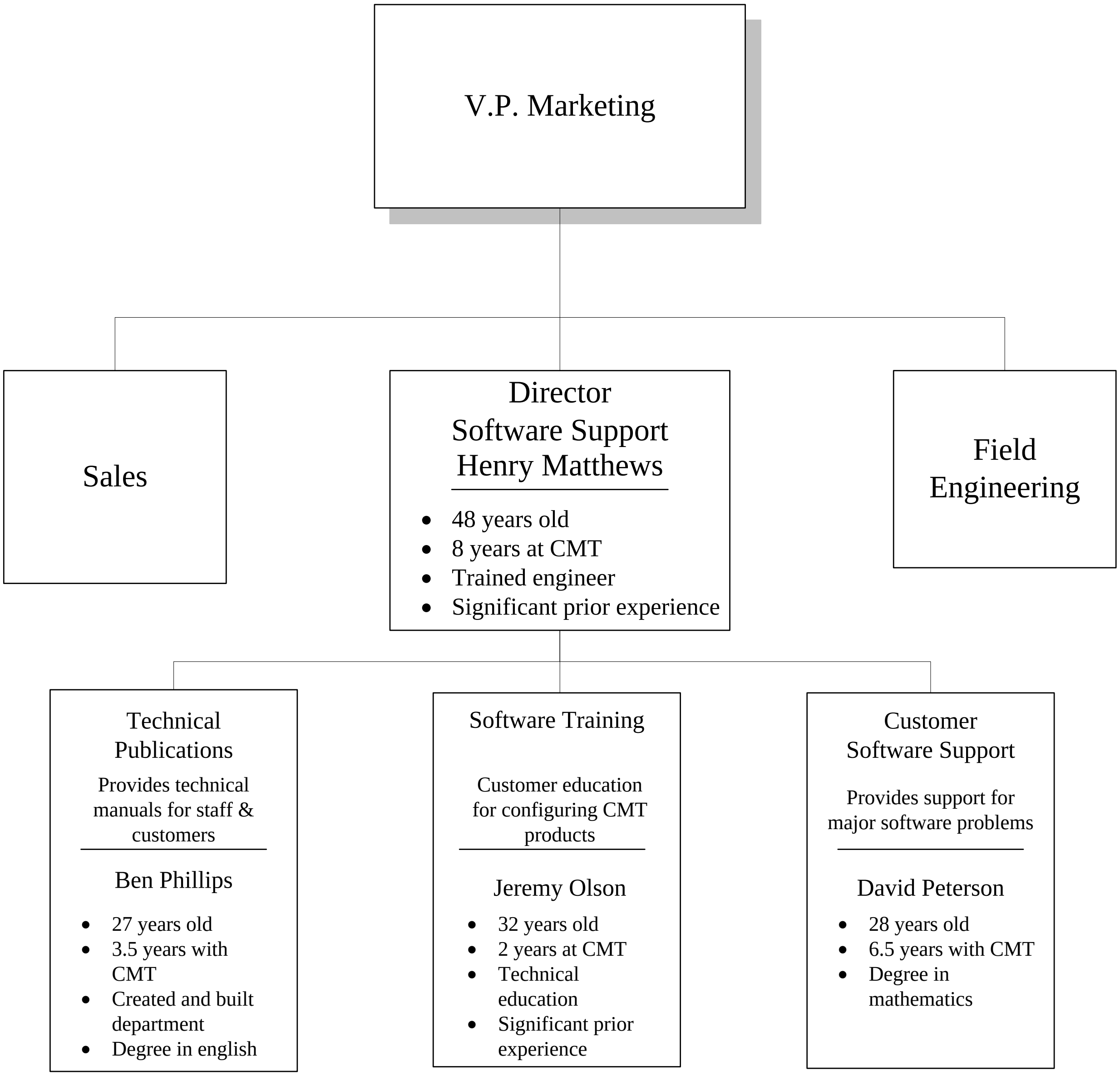

Figure 1 – CMT Organization Chart

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A QUESTION OF INDEPENDENCE

Reed McKnight, University of New Mexico
Roy A. Cook, Fort Lewis College

This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment.

Introduction

Sometimes, things just don't work out as planned. A gift had created a dilemma. In some settings, it would not be considered to be a big deal, but in this case, it could be. He wondered if it violated standards governing the teaching profession or the accounting profession. In reality, it was probably just a nice gesture from an admirer to be accepted and enjoyed. However, in appearance, could it be construed by someone as something more, perhaps meant to influence his judgment, obfuscating his independence? If the latter were true, what action, if any, was required?

With retirement looming, Reed's career as an accounting professor would soon be over. Finally, there would be more time for fishing, one of his favorite pastimes. Before the end of the term, a surprise retirement party was being planned for him by the college's accounting honorary fraternity (Beta Alpha Psi) and by Reed's colleague, Chris Lyon who was sponsor of the fraternity. Not wanting to spill the beans and ruin the surprise, Reed's wife, Joanne, called Chris who decided to pay Reed a visit in his office. Chris told Reed that there was a Beta Alpha Psi get together at her house on the next Thursday after school and that he was invited. Reed thanked her for the invitation, but refused it as he would be out of town that night. Chris tried to convince him to postpone his trip and attend the party, but Reed continued to refuse.

The next day, Keith, another of Reed's colleagues, came by Reed's office and encouraged him to attend the party. Once again, Reed explained he couldn't attend.

Another day passed. When he got out of class, Reed listened to his voice mail; one of his messages was from Chris asking him to stop by her office. When he arrived, Chris explained that he had to be at the party and that a lot of people would be very disappointed if he weren't there. Reed finally understood what was going on and promised to be there.

By the time his afternoon class ended, and he made his way to the party, it was well under way. Chris's home was filled with a swarm of activity as students, professors, and accounting practitioners mingled. By the time he arrived, many of the well wishers had already seen and enjoyed the gifts intended for Reed. Most were of little monetary value, were anonymously given and commemorated humorous examples that had been used in classes. There were two notable exceptions. One was an expensive, bronzed sculpture titled "rainbows rising" that featured two spawning trout. Though given anonymously, it was known to have been funded by practitioners ranging from recent graduates to partners. The second was a gift certificate. It was from a student currently enrolled in his Intermediate II accounting class. She was the ideal student, the student that every professor would want to clone.

It was a generous gift, a gift that would allow Reed and his wife to enjoy a retirement dinner in one of the area's nicest restaurants. But it was different from most other gifts in two respects. First, the donor was not anonymous, and, second, it was for considerably more than most students had spent on gifts.

In Reed's mind, there was never any doubt about what it was; it was simply a "thank you" from a grateful student to one of her "favorite" teachers. And, had she already taken a class in auditing where the importance of independence is explored, he had no doubt that she would not have offered such a generous thank you.

Both she and a number of other partygoers were still his students, and their final exam was next week. He fleetingly thought about using it to take Joanne out for a nice dinner, but he just was not comfortable accepting the gift certificate.

He sought counsel from the associate dean, the dean, and the school's ethics professor as to what should be done with the gift certificate. Surely, he thought, there must be a policy for dealing with gifts; closure seemed a sure thing. To his surprise, all three were unaware of any policies governing gifts, and each had a different opinion as to what should be done. And their opinions covered more than just the gift certificate; they had opinions about the other gifts as well, including the expensive sculpture.

Returning to his office from his meeting with the deans, he pondered what he should do. Should he just accept the gift certificate and use it as intended? Should he return it to her? Should he tear it up and throw it away? Should he give it to his employer and let them deal with it? If he did, would that tarnish her in any way? More than anything else, he did not want that to happen.

And, what about his professional responsibilities as a professor? As a CPA? Did his employer or the American Association of University Professors have written codes of conduct that covered gifts? He was still a member of the American Institute of Certified Public Accountants even though he no longer practiced public accounting. Was he still bound by the profession's code of professional conduct to be independent in both fact and appearance? The accounting profession had a code of professional ethics, but he certainly couldn't quote it line and verse. He wondered if it were even applicable in a teaching context.

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ACCUMULATOR OUTSOURCING ISSUES: WHAT? MANAGE SOMEONE ELSE'S INVENTORY

Harash J. Sachdev

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Introduction

Daniel Hopkins, the Assistant Procurement Manager of Brighton Precision Pumps (BPP), a large pump manufacturer, was contemplating his recent phone conversation with his supplier Rusty Franklin, owner of Rusty Tools, Inc. Rusty supplied accumulators, a centrifugal pump component part, to BPP. Rusty's bank had refused to provide further loans to Rusty Tools in order to pay its next tier suppliers for the purchase of steel coils and copper wire. These processed raw materials were needed to manufacturer the accumulators (Appendix A-Figure 1). Moreover, the already produced accumulators had piled up on Rusty's shop floor, and Rusty had no place to store the inventory. Furthermore, unless these accumulators were assembled inside the hermetically sealed pump unit by BPP within the next week, they would gather rust in this humid summer weather. These items would then be deemed unfit for further use and would have to be recycled, adding to the unnecessary cost.

Brighton Precision Pumps (BPP) located in Brighton, MI, manufactured hermetically sealed centrifugal pumps (along with other categories of pumps) for the most severe, toxic, or hazardous applications and in situations where absolutely no leakage could be accepted. Increasing demands for environmental protection and severe anti-pollution regulations led to an extended market for hermetically sealed pumps (also called canned-motor pumps).

Rusty Tool Inc. was a small versatile tool manufacturer that provided sheet metal component parts. Its owner, Rusty, was deft in his manufacturing practice and there was no tool or small component that he could not manufacturer as long as the drawings given to him were accurate. One of the components he manufactured was a small hydraulic accumulator (9 inches by 9 inches by 9 inches) for two manufacturers, BPP and its competitor. The accumulator's hydraulic system enabled manufacturers to reduce the size of the fluid pump for the same pump capacity by supplementing the pump flow.

Demand Management

BPP used judgmental forecasts for their pumps since the demand had been erratic for the past few years (Table 1). Accumulators were one of the critical components for BPP's hermetically sealed centrifugal pumps. These accumulators were either made-to-stock or made-to-order by BPP's supplier, Rusty Tools (please see Appendix B for glossary terms). However, these accumulators rusted easily unless they were immediately assembled into the complete hermetically sealed product, and, therefore, needed a made-to-order approach (goods produced after receiving customer order). BPP ordered accumulators on an as-needed basis via faxes and e-mails. BPP's forecasting system was far from accurate, and they also had the implicit authority to make last moment changes to the quantity ordered, which Rusty, as a supplier, always obliged.

Supplier Issues

BPP selected Rusty Tools because Rusty produced high quality accumulators, was located close to BPP's facilities, was a small-sized firm, and was willing to listen to BPP. In addition, Rusty's prices were always below competitor's prices. The two companies had also built long-term relationships with each other. Besides being a supplier to BPP, Rusty and the Chief Executive Officer of BPP had been friends since high school.

Business operations were smooth in the initial stages but became problematic because Rusty lacked a business sense. Seeing the initial demand for accumulators, and the fact that he needed to produce accumulators for two competitive manufacturers, led Rusty to buy more equipment and expand his facility. When business slowed down and orders became erratic, he reduced his labor work force through layoffs and moved the others around to complete orders. Rusty also lacked the financial expertise of managing his cash flows and balancing his accounts payable and receivable. He finally wound up with more raw materials and finished goods inventory than he could handle and ultimately could not pay his suppliers for the raw materials purchased. In order to balance things in the short run, he traded off BPP and its competitor's materials to complete the parts.

BPP's shipping department identified the problem when they noticed that their last shipment was far from complete. Upon probing, Daniel Hopkins, the Assistant Procurement Manager of BPP, found these other problems faced by Rusty. After the phone conversation with Rusty, Daniel remarked: "We have heard of vendor managed inventories but never heard of a customer managed inventory."

As an immediate solution, Daniel started purchasing the raw material, sheet steel coils, for the accumulators and stored them in Rusty's compound. Daniel tracked the inventory by determining the number of accumulator shells (information not revealed) that could be made from each sheet steel coil. Based on this information he ordered a truckload of four sheet coils at a time to get the best transportation rate. Once the sheet coil package was opened, it was tracked as number of coils for the work-in-process inventory, adding to the already existing storage problems.

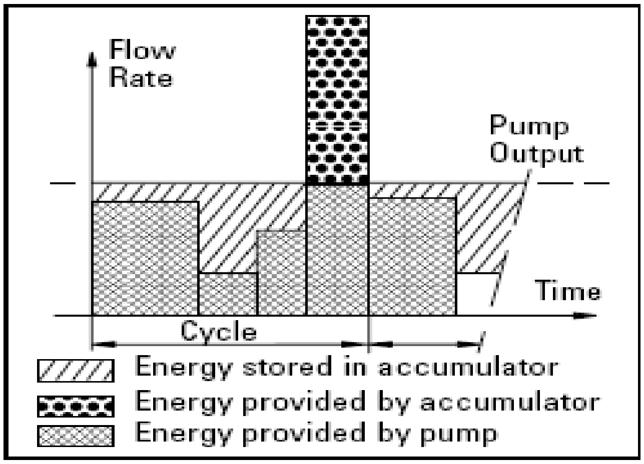
The inventory was classified as raw material (warehouse), in-stock (plant floor), and work-in-process (production line). For accounting purposes, this inventory was valued as first in first out (FIFO). Inventory turn was never calculated. Obsolete or spoiled parts were run through the oven to rectify the damage (e.g., rust, etc.). If the problem could not be rectified then the item was sold as scrap. The inventory in the warehouse had a fixed storage location because of its size (package of four coils); however, once the package was opened and the coils exposed and cut into sheet lengths, the items were all over the shop floor. Furthermore, there was no material requirement planning in place. The inventory systems also failed because of mismanagement of the order process. Rusty used BPP's actual monthly sales figures to plan his inventory. Rusty generally ordered more materials than needed for the forecast demand by its buyers as he did not want to displease them. In the bargain, more accumulators were made in certain months over others and resulted in under stocked or overstocked inventories. Daniel Hopkins, an inventory management specialist, immediately knew that Rusty Tools had fallen into a classic example of the Bullwhip Effect. Although he had some short term measures in place, he had to plan better ways of handling Rusty's inventory. What should Daniel do to rectify the inventory problem and keep this relationship in tact?

Table 1
BPP Units Sold (in hundreds) for Past Three Years

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	80	30	2	3	80	120	150	90	5	20	0	120
2005	40	50	10	10	100	200	150	50	20	400	100	60
2004	10	100	5	5	200	300	100	20	100	300	50	10

Appendix A
Figure 1
What's An Accumulator?

Source: Eaton Corporaion



An accumulator is a device in which potential energy is stored under pressure in the form of a compressed gas or spring or a raised weight. This stored energy may later be used to exert force against a relatively incompressible fluid and make it flow. In the process, these accumulators also smooth out the pulsation (dampening or absorbing it) of the flowing fluid. Accumulators reduce the size of the fluid pump by supplementing the pump energy. The energy from the pump is stored during low demand periods and released during high demand periods. They will also cushion hammer, reducing shocks caused by rapid operation or sudden starting and stopping of power cylinders in a hydraulic circuit. Accumulators may be used to stabilize pressure changes in hydraulic systems when a fluid is subjected to rising or falling temperatures. They may also be used to dispense fluids under pressure, such as lubricating greases and oils. The most common accumulators used today are hydro-pneumatic types. They use gas as a spring cushion in conjunction with a hydraulic fluid (the gas being separated by a piston or a thin diaphragm or bladder). There are many types and sizes of accumulators. For extended literature please visit, http://en.wikipedia.org/wiki/Accumulator

Source**:** http://www.tobul.com/bkgd/whats.html

Appendix B
Glossary

Safety Stock
Number of units held in inventory to offset demand fluctuations (variability).

Demand Variability
Firms maintain records of their daily or weekly or monthly demand for their products to understand the fluctuations in demand over time. Next, the mean and standard deviation of this historical data may be calculated to understand the variability in demand. As in any statistical measure, the more data points a firm has for the activity, the more stable the mean and standard deviation will be for that data set.

Lead Time
Duration from the time an order is placed for a product/component/raw material to the time the item is delivered. This lead time may also fluctuate for a firm depending on the shipping and transportation delays. Therefore, just like the forecast demand of a firm's product, the lead time may also fluctuate around some mean and standard deviation.

Made-to-Stock (MTS)
Some firms manufacturer products using the mass manufacturing approach. These firms use the advantage of economies of scale for mass producing a standard part and ensuring that their shifts are running to full capacity. Since such standard products are mass produced and stored and sold when needed, manufacturers need the services of a warehouse to have products available for immediate delivery.

Make-to-Order
Production is started once the order is received and thus there is a delay between the time a customer places an order and when the order is delivered.

CPFR
An example of continuous planning, forecasting, and replenishment (CPFR) concept is where the retailer and its main supplier (e.g., Wal-Mart and Proctor & Gamble) begin sharing information about their supply chain activities such as forecasting and order processing so that a better overall forecast accuracy may be obtained at every touch point in the supply chain. This practice results in lowering the cost of maintaining inventory and reduces forecasting errors. It, however, requires the involvement and joint planning of all parties linked in the supply chain on a continuous basis. The main manufacturer of the finished goods and its suppliers and distributors need to share forecast, inventory, bottleneck, and other supply chain issues with each other on a consistent basis to better manage their supply chain forecast and inventory management practices at all levels of the supply chain.

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BLOOD BANANAS (A)

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Introduction

Every company hates to be blackmailed, but that was exactly what was happening to one of America's largest fruit growing and processing companies, Chiquita Brands. Carlos Castaño, leader of the United Self Defense Forces of Columbia (AUC), a Colombian paramilitary organization, had just proposed that it would be in the best interests of Chiquita Brands and its subsidiary in Colombia, Banadex, to pay the AUC a few thousand dollars per month for "security" services.

The security services were little more than protection from the AUC itself. Unfortunately, the local law enforcement agencies as well as the US government were in no position to offer legitimate protection from paramilitary groups like the AUC. Chiquita was forced to decide whether to pay the AUC for protection or risk the lives of Chiquita employees in Colombia.

Background

Chiquita Brands International, Inc., headquartered in Cincinnati, OH, was a leading international marketer and distributor of high-quality fresh produce that was sold under the Chiquita® premium brand and related trademarks. The company was one of the largest banana producers in the world and a major supplier of bananas in Europe and North America (Investors Overview, 2007). The company had revenues of approximately $4.5 billion and employed about 25,000 people in 70 countries in 2006 (Howard, 2007).

Chiquita Brands, formerly United Brands and United Fruit, had been operating fruit plantations in Colombia for nearly 100 years. Chiquita's Banadex was responsible for 4,400 direct and an additional 8,000 indirect jobs in Colombia, jobs that were almost entirely performed by local (Colombian) workers. The company "contributed almost $70 million annually to the Colombian economy in the form of capital expenditures, payroll, taxes, social security, pensions, and local purchases of goods and services." (Aguirre, 2007) Banadex, was responsible for managing Chiquita's extensive plantation holding and was Chiquita's most profitable international operation (US Department of Justice, 2007).

By the 1990s, Colombia had become a very violent country. Kidnappings and murders of wealthy Colombians and foreigners had become commonplace. The US State Department had issued several advisories warning US citizens about the dangers of travel to the country. In 1997, Carlos Castaño, leader of the AUC, met with senior officials of Banadex and offered to provide security services to the Banadex workers and property in Colombia. The AUC, often described as a "death squad," (3) was one of the violent, paramilitary organizations that existed in Colombia. Estimated by the US State Department to number between 8,000 and 11,000 members, their activities included: assassinations, guerrilla warfare, and drug trafficking (US Department of State, 2007). So far the AUC had not been designated a Foreign Terrorist Organization by the US State Department, however, so it was not illegal to do business with the AUC.

The implication of the offer for Banadex employees was obvious. Extortion or not, the implication of non-participation by Banadex would put employees at serious risk.

Options for Banadex

The options for Chiquita were straightforward, agree to pay, refuse to pay, or exit the country. The ramifications of any of the actions, however, were not pleasant.

Agree To Pay

If Chiquita agreed to pay for 'protection' they might forestall killings and kidnappings, however, they would be financing a group of terrorists. The money it paid would be used to further the activities of AUC.

Refuse To Pay

If Chiquita chose to reject the offer of 'protection' from Castaño, then there was the real likelihood that Banadex employees would be kidnapped and/or executed. There was ample evidence of the brutality of the AUC and similar organizations currently operating in Colombia. While a legitimate security company might be found to protect the plantations and employees, the cost to hire sufficient men to withstand a force of 8,000-11,000 paramilitary fighters would be inordinately expensive. Only governments had the strength to mount such a protective service and neither the US nor Colombian governments were willing to support such an effort. Furthermore, it was unlikely that the Colombian government would welcome a mercenary force hired by Chiquita into the country.

Exit the Country

If the decision was made to abandon the plantations in Colombia what would happen to the 12,000 individuals whose livelihoods depended upon the work or workers on the plantation? Contributing $70 million annually to the economy, a rapid exit would represent a significant loss to the Colombian people. Further, Banadex exports represented a significant portion of the bananas sold by Chiquita brands. The loss of this supply would not only affect Chiquita Brands profitability and stockholder value but also the profitability of numerous Chiquita distributors around the world.

What should Chiquita do?

BLOOD BANANAS (B)

Chiquita decided to pay the AUC for its security services. Over the next four year Banadex paid the AUC over $800,000. While no apparent services were ever rendered, there were also no reports of Banadex employees being harmed. In 2001, however, the situation changed. On September 10, 2001, the US State Department declared the AUC a Foreign Terrorist Organization (FTO) and on October 31, 2001 a Specially-Designated Global Terrorist (SDGT) . The designations were well publicized in the American public media as well as in the public media in Colombia. These designations for the AUC meant that it was now illegal for any US company to have business dealings with the AUC.

Chiquita Brands now had another decision to make: continue the payments in violation of US law, or stop the payments and risk the safety of its employees. The past 4 years the arrangement had apparently been working well and if the payments stopped, the risk of reprisal from the AUC was likely.

In addition, since the US Government was unaware that Chiquita had paid the AUC more than $800,000 in the past 4 years, did they have an obligation to disclose their payments?

What should Chiquita do now?

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GOING LIVE

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Introduction

Danni Johnson, Senior Vice President of Technology for Excel Youth Fitness and Sports Training Centers (Excel Centers), was stunned; she felt numb. She knew she had to stand up and walk out of the room and regroup, but she felt frozen in her chair. Just 20 minutes ago she had been happy and excited; she'd felt really positive about the upcoming meeting to decide whether or not to launch the new coaching system. Now the meeting was over and they had not agreed to launch the system. She was stunned.

She thought the go/no-go decision to be made at this meeting was a formality. All the key players had agreed they were ready to launch. She believed it was "time to turn this baby loose." Yet, when the President of the company, Sarah Jones, had asked the team leaders for their recommendations, the Project Manager, Nancy Jackson, and the Functional Leader, Linda Lewis, had balked. They said they didn't think the system was ready to roll out. The Technical Project Leader, Justin Lake, her direct report, had been silent. Sarah had turned to Danni and said, "Danni, its obvious Nancy and Linda aren't comfortable moving forward. You're going to have to figure out what to do. Let me know when you are ready to talk."

As Danni sat in numb silence she thought about the last ten months of hard work, the 45 people working intensely on the system, the $2 million dollars that had been spent, and the 1,000 centers across the country whose daily operations were crippled by the unstable operating system. She had to figure out what to do and pronto; if she could just breathe.

Background

Excel Youth Fitness and Sports Training Centers had been in business for thirty years, training and coaching youth, helping them achieve their fitness and athletic goals. Excel had 1,000 centers in the United States with 80 percent franchised and 20 percent owned and operated by the company. Excel Centers had a track record of growing profitably. They used TV and online advertising and marketing to generate awareness of and interest in their services. Interested consumers were invited to visit a center and have their child assessed. The assessment results and proprietary software were then used to generate a personalized training or coaching plan for the child. If a consumer purchased training or coaching services, they paid hourly fees.

Excel Centers (franchised and company owned and operated) paid fees and royalties to the company in exchange for access to proprietary training and coaching software. The software had not been kept up to date (it was a 20 year old DOS[i] based system) and consequently many centers were unhappy with its performance. The person in charge of developing and monitoring the system had left the company three years ago. Since then, three people had been hired to lead the technology group; two left the company within a year of being hired. Danni Johnson, the third person hired to be the Senior Vice President of Technology for the company, was the fourth leader of the technology group in four years. She was by far the most experienced person to fill this role. She was a competent, confident, extroverted leader with more than 20 years experience in increasingly responsible and challenging technology management, technology development, and organizational development roles.

Danni's Perspective[ii]

When Danni joined Excel Youth Fitness and Sports Training Centers, she faced many challenges. She was the fourth leader of the technology group in four years. And Excel had not adequately invested in the development and maintenance of its software for years. Danni said, "When I joined the company in November, my first priority was to understand and discover the status of the systems for which my group was responsible. I quickly learned that nothing was stable. And there was not enough money, time, or talent to fix everything that needed to be fixed. The help desk had minimum waits[iii] of at least an hour. The systems were crashing daily in the centers. I felt like I was the top chef, who had just arrived in the kitchen, and we had no money in the bank, nothing in the pantry, 20 hungry children at the table, and a kitchen staff that wasn't very good at cooking."

Despite facing many challenges, Danni quickly realized that one of the biggest challenges she faced was the update/remake of a critical operating system – the proprietary software which was used in the centers to produce personalized training and coaching plans. Danni noted, "One of my biggest challenges was development of the new training/coaching system. The Technical Project Leader, Justin Lake, was hired in October. He inherited the training/coaching system project. He walked into a real mess. The project had been underway for a year, a million dollars had been spent, the vendor had just delivered the software, and Justin could not get the program to run in a live environment at scale. Any time more than one youth's information was run, the system crashed. Also, the functionality, even for a single youth, did not seem to work properly. And the vendor was refusing to release the source code[iv]. I asked Justin to identify our options and come back to me with a recommendation. Three weeks later, we reviewed our options: 1) fix the code; 2) keep some parts and fix them - throw away other parts and start over; and 3) throw out all the code, the whole system, and start over. During this time frame, I also discovered that 50 percent of the centers' training/coaching systems crashed once a week. I was getting a lot of angry phone calls from franchisees and center directors."

"I met with Justin, and the other leaders of the project team (Nancy Jackson, Project Manager, and Linda Lewis, Functional Leader). We reviewed the three options and discussed the positives, negatives, timing, and cost of each option. We decided to get the source code from the vendor and proceed with option two, salvage as much as we could, throw out the worst parts and rewrite them. We wanted to be able to roll out the new system the following fall, before the next peak business season. We had a plan; we thought we could do it. We would need another $1.3 million dollars. So, we got the funding and went to work."

As Danni started working closely with the project team leaders she realized that they had some skill deficits that could jeopardize the success of the project. Justin had been hired as the Director of Application Development; he had successfully developed software systems before, but he had weak project management skills. He had never led a project of this scope. In contrast to Danni, he was a soft-spoken introvert. He disliked conflict. Nancy had previously been the Director of Call Center Operations; she was a pleasant, reserved, organized individual. She had been in leadership roles before – successfully leading large operating groups; but she had never led development of a software project. She was a self-taught project manager, who had no formal training in project management techniques. She was also conflict averse. Linda was the Director of Coaching and Training Programs; she was a vivacious, well-liked, expert on coaching and training. She knew the current system "inside and out" and was widely considered an expert on developing individualized coaching and training plans. She knew nothing about systems development and had never been part of such a project. She most enjoyed teaching others how to coach and train youth; she avoided conflict and disharmony.

Danni explained, "As we started working on the plan, I realized that we didn't have adequate project management skills on the team to get this done. So, I brought in a professional project-management consulting firm. Basically, I hired them to train the team leaders on project management skills and to support them until they got up to speed (setting up appropriate project management processes and tools). It was expensive, but I didn't see an alternative."

Based upon her experience and expertise Danni, like many other technology professionals, believed that system development projects can be successful, only if the system users can clearly specify what they need and then effectively communicate that to the system developers. Essentially, she knew "you get what you ask for." So, the better the direction from the users; the more likely the product would meet their needs. Also, with such a big project and so many differences in understanding about the technical aspects of the system, excellent project management and communication was essential between users and developers. Otherwise, it would be easy to get off track or for there to be costly misunderstandings and mistakes.

Danni noted that many system users at Excel were unsophisticated. They just wanted a perfect new system to show up; they didn't want to have to articulate their needs or review work in progress. They wanted someone to read their minds and deliver perfection with no effort on their part. Danni realized this would be a very difficult culture to work within, "I realized that the users and functional project leader did not know how to define their needs, much less create a functional specification. Often the training and coaching experts and the operating experts couldn't agree among themselves on what the functionality should be or how it should work. And some couldn't be bothered; they didn't think it was their job to define their needs. Their basic attitude was, 'just let me know when you have something that works'. So, I coached my team on how to be very good at asking explicitly for what they needed. Essentially, we ended up facilitating many discussions about needs and showing people the options, so they could understand the implications of their decisions. It was a very time intensive process. Because we were so intimately involved in the specification process, and because we had such unsophisticated and techno phobic users, we designed and implemented a very rigorous testing and approval methodology. I also didn't want to repeat the past year's experience of being a million dollars into development and not knowing that the system didn't work…how did that happen?!"

To ensure that the system would work and meet users expectations, Danni implemented a rigorous testing and quality control process. She said, "At first the testing went really well, then the more we got into it, the more we started having problems. Eventually we realized we had poor test cases. So we got some real expert users in (people from the centers who were recognized as experts on the current system and in coaching and training) and developed much more rigorous, realistic test cases. Then testing started to be more productive. Things were going well for a while. Then, we started seeing a lot of requests, coming out of testing, for new functions. As people were using the new system, testing it, they were coming up with new ideas for functionality, which they would pass on as test feedback, that is things that needed to be fixed, even though they were really new ideas. So we started a very rigorous process of identifying new ideas/specifications and prioritizing them. We wanted to avoid the classic trap in system development, where you keep revising the specifications to improve the system, so it gets closer and closer to perfection, but it never gets done."

As the project deadline approached, Danni reflected on their progress, "During the last few months, I've felt like things have really come together. We've tested the system very thoroughly; we've fixed all top priority issues and added all top priority new requests for functionality (that surfaced during the testing process). I know Nancy and Linda are pleased and nervous. They are pleased because they know the system works, they know how much better it is than the current system. They know we have addressed all the high priority issues and we will address the lower priority issues with a version 2.0 to be delivered within the next year. But I also know they are nervous because they haven't been in this kind of position of responsibility before, where they have to put their reputation on the line, and make a recommendation about a significant business decision. I think the culture here is very fear based; people point fingers and back stab sometimes instead of working together. Often there is a real lack of accountability."

"But, we've had over a hundred franchisees look at the system and be satisfied with it. Yes, there are still some naysayers, one very vocal franchisee is saying she doesn't think the system should be rolled out until it is perfect, until all the issues and new requests for functionality are completed. Normally, in developing business systems I follow the 80:20 rule[v]. Invest the time and money to get to 80 percent of desired functionality, but don't wait for the last 20 percent to be done, to roll out. It can take up to four times as much money to get the last 10 percent of desired functionality, as it took to get the first 80 percent of desired functionality. So, you have to balance the costs and benefits. Another factor to consider, the project team is dog tired. They have been working brutal schedules for months. I don't think they can keep this level of effort up for much longer."

"I felt really positive about the meeting to decide whether or not to launch the new training/coaching system. I thought the go/no-go decision to be made at this meeting was a formality. Just yesterday, I met with Justin, Nancy, and Linda and we all agreed we were ready to roll out the system. Yet today, when Sarah, asked for their recommendations, Nancy and Linda balked. They said they didn't think the system was ready to roll out. Justin was silent. I was surprised, stunned. I just sat there frozen. I couldn't believe what was happening. Then when Sarah turned to me and said, 'Danni when you figure out our next steps and are ready to talk, let me know.' I couldn't even say anything; I just sat there."

As Danni reflected on the last ten months of hard work, the 45 people working full-time on the system, the $2 million dollars that had been spent on her "watch", and the 1,000 centers across the country whose daily operations were crippled by the unstable system currently in use, she felt a strong sense of urgency. She had to figure out what to do and pronto.

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[i] DOS is the acronym for disk operating system, it was the standard operating system for IBM compatible personal computers, before the Windows 16 bit and 32 bit operating systems were introduced.
[ii] The critical incident is based on a personal interview with Danni Johnson on August 31, 2007.
[iii] Waiting or hold time for callers
[iv] The original programming language of a computer program
[v] Pareto's principle, sometimes called the 80:20 rule, is based on the observation that where a large number of factors or agents contribute to a result, the majority (about 80 percent) of the result is due to the contributions of a minority (about 20 percent) of factors or agents. For example, 80 percent of the sales of a firm are generated by 20 percent of its customers, 80 percent of problems are caused by 20 percent of reasons. It is however, a heuristics principle and has not been proved as a scientific law.

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"GUNNING DOWN" THE WELLNESS PROGRAM

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This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment. The names of the organization, individuals, location, and personal information have been disguised to preserve the organization's anonymity.

Introduction

Sandra Kelley, Director of Human Resources for Kenneshaw County, had been diligently working with a committee representing the multiple bargaining units (i.e., unions) on ways to control healthcare costs. These groups served as a guiding coalition to assist her in determining how best to proceed. The approach decided upon was to adopt a health wellness program based on health assessments involving employees responding to a questionnaire, followed up with individualized coaching. As the program unfolded, when answering the questionnaire, employees expected to see questions regarding diet and exercise. However, some were taken aback and reacted very strongly to a question regarding gun ownership posed with other safety related questions. Health authorities believe that gun injuries and deaths are serious problems that can result from misuse of guns. However, many gun owners regard gun ownership as a right protected by the Second Amendment to the Constitution and a personal matter of no concern to their employer. As the controversy surrounding the program escalated, which took Sandra completely by surprise, she wondered how to address it. She wanted to resolve the issues by avoiding unnecessary conflict with employees and the bargaining units that represented them and not risk losing the health assessment program.

The Wellness Model

For Sandra the vision was wellness and not simply cutting costs. The purpose of a wellness model is two-fold: 1) to reduce cost of healthcare by keeping people well, 2) to promote a healthier work-force, which presumably will be more productive. To that end, questions on a health risk assessment questionnaire are designed to measure lifestyle choices and behaviors that may impede wellness. For example, in determining risk factors for disease and illnesses associated with obesity (e.g., cancers, diabetes, high blood pressure, heart disease, and many others), health risk assessment questionnaires may ask for a calculation of the body mass index but the questionnaires typically don't take into account the sex of the individual, lean body mass (muscle in relation to fat) or unique body types (genetically predisposed size). In addition, a health risk assessment questionnaire may ask questions regarding tobacco use to assess the widely publicized health risk factors associated with smoking. Other illnesses, such as asthma, diabetes, and cardiovascular disease, are all suspected to be associated with some common origins such as decreased physical activity, diet, and obesity. The surveys also sometimes include questions about guns and motor vehicle safety as part of the injury prevention section because these are among the leading causes of death and serious injury in the United States.

Commercially available questionnaires are available that attempt to rank health risks. Such questionnaires are generally based on scientific data that show a correlation between certain lifestyle choices and habits and resulting illness and disease. One such company providing commercially available questionnaires for organizations is Wellsource (See http://www.wellsource.com to see examples of the types of assessments available to organizations). Health assessment tools can be effective in changing unhealthy lifestyle choices and habits when combined with additional health promotion support from the organization.

Once the assessment data are processed, a risk ranking is assigned (e.g., high, medium, low). Organizations then ask that the employees use the results and the ranking to try to lessen the risks they face.

Typically people are given a token incentive to take the test and then another reward should they achieve their targets (e.g., weight loss); however, organizations may structure their incentive programs in many different ways. (See http://aspe.hhs.gov/health/prevention/prevention.pdf for further case studies on how organizations set up and reward their wellness promotion and disease prevention programs).

Insurance utilization causes the cost of health insurance to rise in terms of premiums paid, insured co-payments, and deductibles. Because of increased utilization, many organizations have been facing rapid, double digit increases in the cost to purchase insurance for their employees. Organizations that cannot afford (or are not willing) to continue to pay such large premiums, may decide to pass the increased costs on to their employees. However, passing costs on to the employee makes employment with the organization less desirable, and may affect the organization's ability to recruit and retain quality people.

When determining utilization rates, risk becomes a factor. Even though risk is pooled in health plans, individual behavior has consequences. The idea here is that pooled risk will be lowered when each individual risk is lowered. Health assessment is a way to get people to assume personal responsibility for their part in mitigating the rise of insurance costs by reducing their own personal risk.

By taking advantage of the wellness promotion and disease prevention programs that typically accompany an organization's health assessment instrument, an individual can reduce obesity, quit smoking and the like, and thereby reduce their risks of disease and lead healthier, more productive lives. Of added benefit, they also will reduce their out-of-pocket expenses for healthcare.

Wellness in Kenneshaw County

In 2004, Kenneshaw County did an analysis and discovered that 20% of the members of the Kenneshaw County healthcare plan were responsible for over 85% of the total healthcare cost. The analysis also showed that high body mass index, high blood pressure, high cholesterol and low levels of physical activity were prevalent in the employee and family member population. Kenneshaw County reasoned that if employees and family members could reduce the level of these conditions through behavior changes (e.g., better nutrition, more exercise, and stress management techniques) then the utilization of healthcare and prescription benefits would decrease, thereby reducing the rate of increase in the cost of the benefits to the county and the co-pay expenses of employees. Armed with this information, Kenneshaw County decided to implement a health initiative that would address the unhealthy lifestyle choices and behaviors of those who utilized their healthcare benefits and reinforce the healthy lifestyles of others.

In order to lower health care costs long term, the county decided to empower employees and family members to become healthier by offering a voluntary, confidential health wellness program to all employees and adult family members covered by the county's health plan. Members who took a health risk assessment and who completed an individual action plan to maintain or build positive health behaviors would experience lower out-of-pocket expenses for their health care. The health risk assessment was focused entirely on behaviors that directly affect health (e.g., avoidance of high risk behaviors, nutrition and physical exercise, and safety). An outside vendor administered the program for the county. The county did not receive any information about individual member risks or individual action plans. The only information the county received from the vendor was a list of members who completed both the health risk assessment and an individual action plan.

Sandra worked very hard that year with the committee formed to get the county employees' buy-in to the health initiative. She informed the unions that Kenneshaw County was facing out-of-control increases in healthcare costs, with an expected rise of 52% from 2005 to 2009! The crisis had escalated to the point where the increase in costs would have to be shifted onto employees (something the bargaining units found to be unacceptable), or residents of the county would have to pay for the cost increases in the form of a combination of cuts in county programs and services, and/or increases in taxes (something the local politicians and county officials found to be unacceptable), unless costs could be contained by some other means.

She started with a series of presentations to all employees to introduce the employees to the problem they shared of how skyrocketing health care costs negatively impacted the county's ability to maintain wages and jobs and to educate employees on how their health and healthcare choices affected overall costs. The following is a brief summary of Kenneshaw County's program (paraphrased from the County's website):

> Health assessment is a health survey administered by Harris HealthTrends and HealthMedia to assess your health and lifestyle habits. The survey is administered annually. You and your spouse/domestic partner do not pay for the survey. The survey takes approximately half an hour to fill out. It's generally done online but you can also do it on paper. After taking it, you receive a report that summarizes your health risks and informs you of things to do to be healthy. Harris HealthTrends and Health Media are not affiliated with the County's health care providers; the Health Insurance Portability and Accountability Act precludes sharing information without permission. We inquire about guns and motor vehicle safety because these are the leading causes of death from injury in the U.S. and Kenneshaw County.

Each participant received coaching with a personal life coach to improve and maintain overall health. The idea was to decrease the demand of healthcare through healthy lifestyles; the healthier the participant, the less utilization of healthcare benefits. The program was voluntary but employees who didn't participate would not be eligible for the fairly token financial rewards. The real reward was health improvement. Sandra was able to spark enough enthusiasm for participants to enroll in the initiative. But soon that enthusiasm waned when some participants reacted very negatively to a question about whether or not they owned a gun.

The Gun Ownership Controversy

Sandra explained:

> The only question on the wellness assessment that has caused concern was one that included a reference to gun ownership (along with some other "high risk" activities). Only the gun ownership part of the question caused a reaction. Many employees engaged in law enforcement, and others as well, vociferously regarded this question as a Second Amendment Rights issue. Other employees, in Public Health, were also vociferously concerned that there was only one question about gun ownership/safety. We have not changed the question; however, we did develop a series of frequently asked questions (FAQ) to explain why the question was included and to reassure members that the county would not get information about individuals who acknowledge gun ownership.

When asked if the 26 June 2008 Supreme Court of the United States ruling that found the prohibition of hand gun ownership in Washington D. C. unconstitutional (Supreme Court, 2008) would have any impact, Sandra responded:

> No, the Supreme Court ruling will not affect our handgun question in the wellness assessment. We are not asking if the person is engaging in illegal behavior. The question merely asks, as one item among a list of safety-related items, if the person has firearms in the home. If the person answers "yes" (and it's yes to the list, not the handgun question specifically), the wellness assessment provides some general safety information.

The controversy continues in American society. According to the National Center of Health Statistics, 28% of suicides, homicides, and accidental injuries involve a firearm (NCHS, 2007). In addition, in a 2000 study examining admissions data from seven different hospitals, O'Brien**,** Pitoniak-Morse, and Jacobs found that there were 2,498 hospital admissions on record that were related to handgun injuries among infants and teenagers. The resultant cumulative cost incurred was $12.8 million.

Michael Craig Miller, M.D. (2008), editor in chief of the Harvard Mental Health Letter, wrote about his concerns about gun ownership from a public health perspective:

> About one in six adults owns a handgun. In many states, there are few if any requirements for the training and licensing of gun owners. More than half of suicides and homicides in the United States are carried out with firearms. When a gun is in the home, the risk of someone in that household committing suicide or becoming a victim of homicide rises two to five fold. …
>
> … any individual is capable of becoming impulsive in response to intense emotion or stress. Tragically, action taken with a gun is impossible to take back.
>
> Each year approximately 30,000 Americans die by firearms. The rate is more than 10 per 100,000 people per year, which is the highest in the developed world. It is at least 10 times the firearm death rate in Britain, where gun access is strictly controlled. …
>
> But, unlike police officers or military personnel, many of those looking to protect themselves with a handgun do not have the training or experience to make good judgments in a crisis.

The opposing view is supported by many prominent groups. The Cato Institute (www.cato.org) makes the case that gun ownership in the U.S. discourages burglars--Americans tend to suffer a lower percentage of burglaries in occupied homes, compared to other countries (e.g., England and the Netherlands) where gun ownership is more limited. The National Rifle Association (NRA - http://www.nra.org/) also asserts the freedom to own guns under the Second Amendment to the United States Constitution. The NRA has tremendous power politically because it has an extensive membership focused on this issue. Political candidates and elected politicians regularly address the NRA. One of its recent lobbying efforts has been focused on the "Castle Doctrine" law that"… removes the requirement that citizens first must seek a safe retreat from an intruder before using deadly force" (USA Today, 2007).

The general conclusion is that Americans want to be free to own guns but believe stricter laws could be useful, as expressed in Table 1:

Table 1: Pew Research Center Survey on Handguns*

Pew Research Center for the People & the Press survey conducted by Abt SRBI. April 23-27, 2008. N=1,502 adults nationwide. MoE ± 3. April 2007 & earlier conducted by Princeton Survey Research Associates International.

"Would you favor or oppose a law that banned the sale of handguns?"

Favor %	Oppose %	Unsure %
36	59	5

"What do you think is more important – to protect the right of Americans to own guns, or to control gun ownership?"

Right To Own Guns %	Control Ownership %	Unsure %
37	58	5

*"… Data are from nationwide surveys of Americans 18 & older." The table is an excerpt from a more extensive table found at http://www.pollingreport.com/guns.htm .

Sandra thought it was reasonable to ask the question about gun ownership from a health perspective, but she found that some pushback developed because of the sensitivity of the Second Amendment issue. She wondered how to proceed. She desperately wanted to show the employees that enhanced wellness was achievable and health care costs could be controlled in part through the wellness effort and to sensitively address the concerns of those that objected to the gun ownership question.

What to Do?

Sandra had felt optimistic that, in working through the committee, a win-win solution had been reached, and that the county was well on the road to controlling healthcare costs. Now, however, the program was threatened by the conflict over the gun ownership question appearing on the health assessment questionnaire. She wanted to maintain an open mind and to avoid taking sides on the controversial issue so that she could really listen to both sides. She knew she had to decide how to proceed and to act soon.

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HOSPITAL IN THE NEWS

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Introduction

On the third Saturday of May in 2007, Pat Hermanson, Administrator and CEO of the county owned Portneuf Medical Center (PMC) in Pocatello, Idaho, woke to find the following headline in his local paper: "PMC's Staff Meets Secretly with County Commissioners to Voice Complaints." Apparently, 25 of PMC's employees had bypassed their immediate supervisors, the hospital's upper administration, and the hospital's governing board to voice their growing frustrations directly to the county commissioners and it was the top headline in the day's local newspaper.

Birth of PMC Hospital

PMC Hospital, a 190 bed, acute care, county owned hospital in Southeastern Idaho had undergone a number of radical changes over the past six years. Six years ago, the city of Pocatello, rural in nature and home to approximately 50,000 residents, had two acute-care hospitals - one which was county owned, Bannock Regional Medical Center (BRMC) and one which was privately owned, Pocatello Regional Medical Center (PRMC). In 2001, the county owned BRMC purchased the privately owned PRMC and renamed the new entity "Portneuf Medical Center (PMC) primarily to allow everyone to move to a "new" organization and build a new culture. Although it was technically an acquisition, the terms consolidation or merger were used to calm some of the tension between the two employee groups. This merging of the two hospitals was a matter of controversy in Pocatello. Employees from both hospitals had felt fierce loyalty to their respective facilities and had many concerns regarding the business practices, motivations, and the quality of care that would be provided at the "new" PMC. Citizens of Pocatello also had concerns about the newly merged hospital; many did not understand the reasons for merging the two facilities or the economics behind the merger. Six years later there was still a somewhat vocal contingent, both inside and outside of PMC, who believed that the merger was a mistake.

Before the Merger

Before the merger, both hospitals were essentially full-service providers and neither was thriving. They provided services for most of Bannock County, which had an area of about 1,150 square miles and a population of approximately 76,000. Bannock Regional Medical Center (BRMC) was a full-service, not-for-profit, acute and long-term care facility that was owned by the citizens of Bannock County. Locally organized and operated, BRMC had served the healthcare needs of southeast Idaho since 1907. Bannock operated under the direction of its administrator and its Governing Board, which was appointed by the Bannock County Commissioners. Pocatello Regional Medical Center was a 501(c)(3), not-for-profit acute care hospital offering 24-hour emergency care, specialized heart services, a dialysis center, a full service rehabilitation unit including transitional care, and the Women's Center for Health which included obstetrics. PRMC was part of the Intermountain Health Care System (IHC), a nonprofit health system, with over 26,000 employees whose home was in nearby Salt Lake City, across the state line, about 150 miles from Pocatello.

After the Merger

As a county owned hospital, the new PMC governing board was appointed by the County Commissioners. The commissioners formed the new board by appointing members from both the previous county-owned BRMC and the privately owned PRMC boards. Pat Hermanson, former CEO of BRMC, remained CEO of PMC and reported directly to the newly chosen board of governors.

One of the first matters for PMC's new board was to decide what to do about the two hospital campuses. The county hospital's physical plant was outdated and landlocked, and the private hospital's physical plant was too small for the newly formed entity. After an extensive study of four options – the county hospital campus, the private hospital's campus, both campuses together, or an entirely new "green site"- and the population and health trends in the county, the Board decided that neither of the old buildings would meet the needs of the citizens of the county in the upcoming decades. PMC would therefore build a new $250 million hospital to be completed by 2012. To be able to afford this new facility, PMC would have to embark on a number of monumental changes and new business practices. For example, PMC would need a number of carefully timed and progressive bond sales, a capital campaign, and the implementation of numerous (and somewhat painful) efficiency-creating policies. Such policies would include flexible scheduling for nurses, which would allow PMC to send nurses home if bed occupancy rates were low, and the combining and/or re arranging of departments to create administrative efficiencies.

Pat Hermanson

Pat Hermanson had been CEO of the county owned BRMC for only a few months when initial discussions addressing what the two hospitals could do together began. These discussions soon evolved into a discussion about having only one hospital. These discussions took a little more than a year; from September 2001 to October 2002. The previous administrator had been BRMC's CEO for approximately eleven years and had initiated few changes during the last 5 years prior to his retirement when his health began to fail. Under his leadership, department heads had set up small fiefdoms of power and loyalty, finances had steadily slipped, physicians had become increasingly disruptive and vocal, and employee Full-Time Equivalencies (FTEs) had grown to unacceptably high levels above state and national standards & norms. Hermanson, who had well over a decade of prior hospital administrative experience, knew he had a tough job ahead of him, but he welcomed the challenge and began a series of changes designed to get the hospital back on track.

Hermanson believed that change needed to be led by someone who was visible, was approachable, and was available. The prior CEO was rarely seen, but Hermanson was intentionally visible and available, walking the hospital floors and talking with employees, nurses, and patients. When the two hospitals merged, he recognized that everyone - physicians, nurses, patients, and the community alike - were struggling with changing loyalties and the very real challenges of working for new bosses in a new environment, learning new policies and procedures, using new information technology, and working with new colleagues. Armed with the new mission, vision and values, he instituted a number of new, on-going, and very popular communication channels throughout the hospital, such as "Breakfast with Pat," the "Ask Pat" question and answer forum, quarterly open employee forums, an internal hospital newsletter, regular meetings with departments, a weekly email blast to all users of the email system, and an open-door policy maintained by all his top managers for all hospital employees. A cornerstone to this communication and culture shift was the commitment to the "Studer Model" of service excellence that builds on five pillars of excellence: service, quality, people, finance, and growth. Although Hermanson realized that there were still those who longed for the old days and old ways, he believed that PMC could become a united and focused entity, with all parts moving toward the goal of consolidation of the two old campuses into the one new campus being built and slated for completion in 2012.

Chaos and Controversy for PMC

While county owned hospitals in Idaho had always been able to access the bond market through the use of revenue bonds (secured by the collateral of future revenues) and had their bonds approved by the Idaho Health Facilities Authority Bond Council, an unexpected 2006 decision by the Idaho Supreme Court had made it necessary for county hospitals to access the bond market via general obligation bonds (secured by the collateral of county monies) which need to be approved by a 2/3 majority vote of the county residents. This meant that PMC's next bond purchase, slated for early 2008, could not simply be approved by the Bond Council as had been done previously, but instead would have to be approved by a vote of the citizens of the county. This type of bond measure typically required months, and sometimes years, of voter education and persuasion and still offered no guarantee of bond approval by the voters. This new requirement had the potential to, at best, put PMC's construction behind by nearly one year, and at worst, without voter approval, put an end to the construction already in-progress.

In March 2005, PMC had issued about $65 Million in bonds. About $10 Million was to pay off the IHC note for the purchase of PRMC, about $33 Million was to re-finance existing debt, and about $22 Million was new money for construction. At the time of the Supreme Court decision in 2006, PMC was close to having spent the balance of the new money for construction and was poised to begin the process of issuing the next in a strategically planned series of carefully timed bonds. The original plan had been to issue more bonds in March 2008.

One alternative to having to put each of its staged and strategically timed bond issues to a 2/3 vote of the citizens each time, and the option PMC's board recommended to the county commissioners, was that PMC change its status from a county owned, not-for-profit hospital, to a 501(c)(3) not-for-profit organization. As a free standing, non-county affiliated 501(c)(3) corporation, PMC could go to the bond market at anytime without the need for voter approval.

The three county commissioners had appointed the members of the PMC Board from members of the community and regularly attended the hospital's monthly Board meetings. No one expected the Commission to simply accept the PMC Board's recommendation of changing its status to 501(c)(3). However, the county commissioners believed it was their duty not only to consider the recommendation of PMC's Board, but to explore a wide variety of additional ownership options.

One highly publicized option actively considered by the commission was to sell or lease PMC's assets to another entity altogether. As a profitable small hospital, PMC had often been approached by a number of regional and national hospital corporations who wanted to purchase PMC or engage in a long-term lease. These hospital corporations regularly guaranteed the completion of PMC's construction within the planned timeframe of 2012.

The county commissioners had embarked on a very visible process of information and opinion gathering regarding the future of the hospital and they had assembled committees and expert panels to explore the various options. There had been a number of impassioned letters to the editor and op-ed pieces in the local paper speaking to all sides of the issue. The ownership status of the hospital was quickly becoming the hot-button controversy in the community.

The Morning Edition Headline

The Saturday morning paper reported that the previous day, 25 members of PMC's staff had met with the county commissioners, under the false guise of "Pocatello Beautification" to voice their "frustration about the work environment at PMC." After the meeting, several of the hospital staff members who attended said they gave the commissioner's secretary a false purpose for the meeting based on fears of retribution by PMC's administrators. One of the three commissioners was quoted:

> It is my opinion, had the PMC administration known, they would have been at the meeting too, and these people would not have felt free to state their minds. They are mighty unhappy with the administration. They don't feel like they are being listened to, and their desires are not being heard. I have a relative that works up there, and he's been talking about that for years.

However, the Chair of the Commission admitted it was poor judgment to allow the meeting to take place as it happened. The 25 employees who met with the commissioners represented less than 4% of PMC's staff.

Conclusion

Healthcare can be highly emotional and hospitals are often political and controversial. But now, more than ever, PMC needed the public's good opinion. Hermanson asked himself "Now what should I do? How should I handle this one?"

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IN DOG WE TRUST: DO THE ENDS JUSTIFY THE MEANS?

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This case was prepared by the author and is intended to be used as a basis for class discussion. The views represented here are those of the case author and do not necessarily reflect the views of the Society for Case Research. The author's views are based on her professional judgment.

Introduction

In the early dawn of Sept 14th, 2006, more than half a dozen U.S. Marshals stormed the Honolulu home of Duane "Dog" Chapman. They handcuffed Dog and took him into custody on behalf of the Mexican government.[1] Members of Dog's team -- his son Leland Chapman, and Tim Chapman (no relation) -- were also tracked down and arrested. Appearing the next day in a packed Honolulu courtroom with his ankles shackled, the leather-wearing, chest bared, tattooed 54 year-old Dog Chapman, with his signature blond mullet, was ordered to wear an electronic monitoring device and released on bail after posting $300,000.

In 2003, the Chapmans – all bounty hunters -- had been arrested in Mexico for "felony restraint" and "deprivation of liberty" involving their capture of fugitive serial rapist Andrew Luster. Although capturing bail jumpers is what Dog and his team did best, bounty hunting is illegal in Mexico and the Mexican authorities appeared intent on "getting *their* man."

Playboy Villain

Anyone who knew Andrew Luster in the late 90s would have found him around the Santa Barbara club scene or catching the perfect wave on the beach.[2] An heir of the Max Factor cosmetics fortune, Luster lived a life of leisure. His carefree lifestyle was challenged in 2000 when a woman he met at a local bar and later took home reported to the police that she had been raped. While being recorded by the police, she phoned Luster and asked, "Dude, what did you put in my drink?" "Liquid X," was his candid reply.[3] Liquid X is a street name for GHB (gamma hydroxybutyratea) – a "date rape" drug that in large doses puts the user into a coma-like state. When searching his home, police found a stash of videotapes showing Luster raping comatose victims. Luster claimed to being persecuted because of his family name. "I'm the trophy that the police want on their wall," he complained.[4] In the middle of his trial, Luster took his car and dog, jumped bail and disappeared. He was convicted *in absentia* on 86 counts including multiple rape charges connected to assaults in 1996, 1997, and 2000 and sentenced to

124 years.[5] California police and the FBI started a national search for Luster and placed him on their Most Wanted list.

The Dog Hunt

Joining the hunt for Luster was Duane "Dog" Chapman. Dog, a Honolulu-based bounty hunter, claimed to have had over 6,000 captures of court “no-shows” and bail jumpers. Born Duane Lee Chapman in 1953 in Colorado, he had many run-ins with the law in his younger years while part of a motorcycle gang, including 18 arrests for armed robber, leading to a conviction for accessory to murder. Dog served 5 years and was paroled in 1979. Reformed and rehabilitated, he spent more than two decades building a family bounty hunting firm, marrying five times, and fathering twelve children. He’s known for only carrying bear mace (of course, as a convicted felon he is not legally allowed to use a gun). Chapman (who wears cowboy boots that raise him to 5’ 10”) smokes cigarettes and usually offers one to the fugitive he has captured on the way to the Honolulu police station. Dog’s compassionate side is often seen on his A&E television show as he looks for ways to coach his “catches” on how to turn their lives around.

Dog, who sent mug shots of Luster as far as Bali, insisted he was not in the search for the media attention and was not hunting Luster to get rich. "I'm a bounty hunter, this is the number one fugitive in America, and I'm on his ass," Chapman said. "This one has become personal. If one of the victims comes up to me and says, 'Dog, thank you,' that's it, I'm paid."[6]

Take-down at the Taco Stand

After five months on the case, Dog Chapman got a tip from an American couple who had seen Luster in Puerto Vallarta, Mexico. He beat the FBI to the scene by just a few hours. Chapman brought his son, Leland, his associate Tim, and a two-man camera crew. Included in this group was a man Chapman claims to have thought was a Mexican police officer. This man allegedly showed Chapman a badge and gun as proof of his “official” status but was actually a cab driver who once was a tourism security guard.[7] Using mace and handcuffs, the bounty hunters seized Luster near a taco stand. Chapman's spokesperson (and later wife), Beth Smith, told Court TV she was on the phone with the bounty hunter as he snatched Luster. "[Luster] freaked out a little when he saw Dog," said Smith. "Dog never carries a weapon of any kind, only mace," and it didn't seem like anyone got hurt.[8]

The crew, with Luster, headed for the airport. After police were alerted about a possible kidnapping, they set up roadblocks. That’s when things started going wrong. In Mexico, kidnapping, whether a fugitive or not, is against the law. All of the American team were detained by local police and charged with “deprivation of liberty” involving the kidnapping of Luster. The Mexican authorities turned Luster over to U.S. authorities and released the bounty hunting team on $300,000 bail. Instead of staying for a scheduled court hearing, the Chapmans left Mexico, purportedly on the advice of their attorneys.

Annoyed Authorities

While Dog may have been responsible for Luster's eventual return to the U.S., authorities appeared unimpressed with their efforts. Law enforcement officials bristled at the mention of Chapman in a press conference, chastising him for going too far, and signaling that they would not help the bounty hunter dodge potential kidnapping charges. "I think his actions are just beyond the bounds that I can condone," said Ralph Boelter, the assistant special agent in charge of the FBI's Ventura office. "He's out there acting on his own ... Certainly it is not something the FBI would condone. We will not be acting on his behalf."[9]

A Puerto Vallarta newspaper reporter, Angela Corelis, said that fugitive take-downs are commonplace in Mexican resort towns. "Once a week they pick someone up down here," said Corelis. "They get drunk and cry about [what they did] in bars." As recently as May 4th, 2007, a group of five Americans were detained for allegedly trying to capture two Mexican citizens whom they believed had stolen a car. They may be charged with the crime of unlawful deprivation of freedom. “I don’t know if that kind of activity is legal in the United States,” the chief of the Sonora state police said, “but here in Mexico, if you think that someone stole your car, you go to the authorities and ask them to arrest the criminals and get the car back.”[10]

In the Doghouse

After his arrest by U.S. Marshals in September 2006, Dog spent a night in a federal detention center, posted bail and began fighting extradition to Mexico. In February 2007, a Mexican federal court ruled that there was no reason not to try Chapman with the charge of deprivation of liberty in Mexico. It was speculated that Mexican officials might still be angry over an earlier Supreme Court ruling that said that an earlier extradition treaty between the U.S. and Mexico didn’t explicitly forbid forcible abductions of people from the territory of the other nation, or cover the consequences under the treaty if such an abduction occurs.[11] However, President George H.W. Bush gave his assurances to Mexican President Carlos Salinas that his administration would not condone trans-border abductions in the future. Secretary of State James Baker and Mexican Foreign Secretary Fernando Solana exchanged letters agreeing that trans-border abductions by “bounty hunters” and other private individuals would be considered extraditable offenses by both nations (see Note for the history behind these actions).[12]

Mexico is not the only country that takes issue with bounty hunting. Twice in recent history, Canada has requested extradition of bounty hunters who entered Canada and dragged their captured across the border. The extradition requests were granted. The bounty hunters did jail time.

The extradition problems surrounding Dog were played out on his highly rated TV reality show, *Dog the Bounty Hunter*. Chapman was seen by many Americans as a true hero who brought to justice a despicable criminal. He got support from fans via Internet petitions (tens of thousands of signatures were collected, see Table 1), and a “Dog Defense Fund.” Politicians also came to his aid. Twenty-nine Republican congressmen sent a letter to Secretary of State Condoleezza

Rice asking her to stop the extradition. In March 2007, Hawaiian lawmakers honored Dog Chapman and his wife, Beth, for "getting crooks off the streets."[13] "I hate to say this, but for felons and ex-cons, I'm their president. What I do, they shall follow. I'm the poster child for rehabilitation in America," said Chapman.[14] In addition, legislators in the Hawaii State House passed a resolution asking Mexico to drop the extradition proceedings. In May 2007, Utah's Attorney General publicly stated that he was using his contacts in Mexico's government to have extradition proceedings against the reality TV star dropped.[15] "These guys know where to run. Where can we go so the Dog can't catch us?" said Chapman. "I'm too old to be traumatized, but it's right next to that. It's just incredible."[16] When asked if he would do it all over again, he emphatically stated, "You're damn right."

Should Dog be extradited to Mexico to stand trial for breaking Mexican law? Do the ends justify the means in this incident? The Chapmans caught a despicable criminal that had eluded capture but they broke Mexican law in doing so.

TABLE 1
On-line Petitions to the U.S. and Mexican Governments

To: USA and Mexican Governments

We, the friends and fans of Duane "Dog, the Bounty Hunter" Chapman, son Leland Chapman and associate Tim Chapman, call for the US and Mexican Governments to drop all warrants and charges against this man who does so much to improve our society and rid the streets of criminals.
Dog Chapman and family captured a very dangerous escaped Rapist that was on the run, something that neither the US nor Mexican Officials could do.

Dog Chapman, Leland Chapman and Tim Chapman, are the good guys who help our society everyday. We request and demand their freedom

Sincerely, The Undersigned

http://www.PetitionOnline.com/dwayne/petition.html

To the United States and Mexico

In 2003, Duane Chapman, aka Dog the Bounty Hunter, along with his son Leland Chapman and their associate Tim Chapman, succeeded in locating notorious serial rapist Andrew Luster. Luster, who had jumped bail while he was in trial in Santa Barbara, California, and had successfully fled to Mexico. The Chapman team, after many months of research and meetings with some of Luster's victims, was intent on finding this dangerous man who had drugged, raped and videotaped his terrible assaults on women. The team located Luster in Mexico but was immediately arrested while attempting to turn Luster over to Mexican authorities. The Chapmans were charged with depriving Luster, a known fugitive, of his liberty. However, the facts clearly show that the Chapmans did not commit any crime. By contrast, Luster's crimes were clear and he was convicted of 86 counts of rape by the California Court system and sentenced to 126 years in prison.

There were no victims to the alleged crimes that the Chapmans have been charged with in Mexico. None at all! There was no intent by the Chapmans to break any known Mexican or U.S. laws. In service to the public of both countries, these men helped remove Andrew Luster from society and certainly saved many women from the trauma of rape. Where are the accolades? Where is the appreciation? Instead of prosecuting the Chapmans, Mexico and the U.S. should work to find a quick and proper solution to this situation **-** a solution that promotes their common interests and honors these men for the great service they have provided both nations.

In the interest of strengthening relations between two great neighbors, rather than increasing the visibility of what has become an international public relations controversy, we the undersign request that both governments call for a special investigation into this case in the interest of a quick and fair resolution.

Sincerely, Undersigned
SIGN OUR PETITION Total Signatures to Date = 10636

Source: Originally found at *http://www.xkastclients.com/dog2/petition/* but no longer available.

NOTES

1. See http://www.pgr.gob.mx/cmsocial/bol06/sep/b117806.htm for the original Mexican extradition request (in Spanish).
2. "Andrew Luster: Caught." Accessed 5/29/07 at www.cbsnews.com/stories/2003/02/18/48hours/printable 541069.shtml
3. Ibid.
4. "Bounty hunter Duane Dog Chapman arrested." Associated Press, 9/14/06. Accessed at http://msnbc.msn.com/id/14839076/, 5/29/07.
5. Bean, Matt. "The trial must go on: Conviction in absentia." Court TV News. (http://courttv.com/news/feature/absentia_ctv.html), Updated June 18, 2003.
6. Ibid.
7. Catterall, Lee. "Popularity, precedent could keep Dog free," Honolulu Star Bulletin, Vol., 12, Issue 84, 3/25/07.
8. Bean, Matt. "Inside the take-down of Andrew Luster," Court TV News. (http://www.courttv.com/news/2003/0618/lustermoredetails_ctv.html), Updated 6/19/03.
9. Jablon, Robert. "Bounty Hunters Assail Duane Dog Chapman," Associated Press, 6/20/03. Accessed 6/2/07.
10. Clark, Jonathan. "Americans accused of bounty hunting," Nogales International.com, 5/4/07.
11. Catterall, Lee. "Popularity, precedent could keep Dog free," Honolulu Star Bulletin, Vol., 12, Issue 84, 3/25/07.
12. In 1985, U.S. Drug Enforcement Agent Enrique "Kiki" Camarena Salazar was tortured and slain in Mexico. In 1990, Mexicans hired by the DEA captured Mexican physician Humberto Alvarez-Machain in Guadalajara, Mexico. Alvarez was brought back to the United States to stand trial for his alleged involvement in Salazar's killing. In 1992, U.S. Supreme Court ruled the Alvarez abduction was legal, not in violation of the extradition treaty. Secretary of State James Baker promised no further such abductions by the government or bounty hunters, but the agreement was not incorporated into the treaty.
13. "Dog praised for crime fighting." CourtTV.com, updated March 21, 2007.
14. Ibid.
15. Winslow, Ben. "Utah Attorney General Lobbying Mexico to Pardon Reality TV's 'Dog.'" Desert News, May 12, 2007. Accessed at http://desertnews.com/dn/view/0,1249,660220003.html, 6/4/07.
16. "Mexico case against bounty hunter Duane Dog Chapman halted, at least for now." Updated Oct. 23, 2006. Accessed at http://www.courttv.com/people/2006/1023/dog_ap.html, 6/4/07.

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RACU: BUILDING A CAMPUS IN MOSCOW

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Clyde Vollmers, Russian American Christian University

Introduction

Dr. John Bernbaum, President of the Russian American Christian University (RACU), stared at the financial statements and court decision lying on his desk. Then he slowly lowered his head into his hands as he wondered what he would tell his Board of Directors tomorrow during the May 2007 Board meeting.

RACU is a private liberal arts university located in Moscow, Russia. In the middle of a building project plagued by delays and unanticipated cost, the school now faces a serious crisis.

The Building Project

RACU critically needs its own campus for two reasons. First, it is essential in the Russian academic accreditation process. Second, leases are meaningless in Moscow; few facilities are available and landlords are difficult. During its 15-year history, RACU had occupied five facilities. One move occurred because a request for a rent receipt got RACU's lease terminated. Therefore, in May 2001, RACU purchased a land lease to build a classroom building in Moscow.

Dr. Bernbaum has limited experience in building in Moscow. In the mid-1990s, RACU, together with four other organizations, built a two-story facility in Moscow. Although the project incurred constructions delays and cost over-runs, the building was completed successfully.

Paying No Bribes

Russian contractors report it takes 18 months to get the necessary permits for a building project if bribes speed the approval process. Generally, bribes add 25% to building costs. As a legally-organized nonprofit in the United States, RACU operates under both American and Russian law. The American Foreign Corrupt Practices Act (FCPA) of 1977 makes it unlawful to make a payment to a foreign official for the purpose of obtaining or retaining business, or securing an improper advantage (La Croix, 2007). However, the FCPA excludes "facilitating payments" to carry out routine non-discretionary actions, such as speeding up a process ("Is This a Bribe?" 2007).

While payments to facilitate the building process were legal, RACU's Board decided, as a faith-based organization, it would follow the spirit of United States law and pay no bribes. Thus, it took RACU 54 months to get permits and re-zoning. It is important to note that other organizations choose not to pay bribes; it is not just an issue of faith. For example, IKEA, the Swedish furniture manufacturer, chose not to pay bribes and has faced numerous problems and delays building in Russia. According to the Russian Newspaper Kommersant:

> "The origin of IKEA's problems is in its fidelity to principles," said Oleg Pronin, president at Hyperestate. "To bribe an official, to construct municipal projects for one's own account are common practices for developers. Most of the companies settle the issue with no brawl, while IKEA is balking." ("This Bulking Ikea," 2005)

Political Lighting Rod

Once building permits were acquired by RACU, nationalistic protestors tried to prevent construction of the new building. Starting in January 2005, they used the following techniques that slowed construction by an additional 18 months.

Protestors Contacted Elected Officials

A citizens group sent a petition with 1,500 signatures to the Mayor of Moscow and City Council. It asked them to stop construction because RACU "is nothing more than a Protestant Western missionary center committed to the destruction of traditional Russian values, such as patriotism." After a hearing found their complaints without substance, the protestors contacted the Vice Mayor, forcing local officials to investigate the allegations, which were found to be false. Protests also extended to the Federal level, persuading the Federal Duma Deputy (equivalent to an American Congressman) Nikolai V. Kurianovich to order a full investigation of RACU. He accused RACU of forcing students to "celebrate Western holidays and ignore Russian holidays." An investigation proved his allegations false.

Protestors Used the Media

Local newspapers and television reported on charges made by City Council members as well as the Orthodox “Peoples’ Council.” While none of the charges were true, the media reported them without verifying. The charges included:

- “The problem is not that RACU is ‘Baptist,’ but that RACU was building in a city park, with the support of local government officials who were in collusion with RACU.”
- “RACU is undermining traditional Russian values and is a Baptist missionary program in disguise.”
- The school is a “breeding ground for American propaganda and values.”
- RACU is a “Western Baptist organization” which is trying to ferment revolutions like in Georgia and Ukraine.

Protestors Used Political Parties

During 2005, leading up to the December city election, five different political parties held demonstrations on RACU’s building site. They ranged from the Communists on the political left to the Rodina (Motherland Party) on the political right and included religious emphasis with members of an extremist Russian Orthodox group participating. The Motherland Party, an extreme right wing ultra-nationalistic party, wrote a letter to the school before their demonstration. It stated that they were planning an “imminent full-scale protest demonstration against your institution’s subversive educational activities,”…“It’s just the beginning”…and…“We won’t allow the propaganda of an ideology that is alien to our nation onsite adjacent to our homes. We won’t allow a foreign spiritual intervention.”

Protestors Disrupted a Private Working Meeting

Protestors showed up at a private meeting for environmental permits and forced the City to call a hearing. As the hearing concluded, one protestor told RACU’s Vice-President “they would never stop harassing RACU.” Later, as RACU was to meet with the Federal Ecological Department, local citizens blocked access.

Construction Problems

On May 15, 2006, the one-year construction phase started. Before work on the building started, RACU had to build public service projects (Russia’s way of funding infrastructure). They built a road passing, but not serving, the site, installed neighborhood streetlights, added landscaping to the adjacent apartment building, and contributed to a local statue. Once these projects were done, the school was told on July 6 that the "pre-construction phase" was over and that "active construction" could begin. As construction began, the contractor found the soil contaminated with benzol (a toxic chemical found in gasoline) and large amounts of scrap metal. Before construction could progress these contaminants needed to be removed, delaying construction and increasing costs. Building started with pouring metal encased concrete pilings that comprised the foundation. Again, trouble emerged, as the pilings did not support their designated weight. Extensive investigation finally revealed the problem; there were three underground rivers and supersaturated soil under the less than one-acre site. Only a unique soil test, never used in Moscow because it was never needed, revealed the problem. The solution to address this issue, using much more concrete in the pilings, further delayed construction and inflated costs.

The Lawsuit

The Russian legal system contains contradictory, complicated, and constantly changing laws, decrees, and regulations (U.S. Department of State, 2006). In addition, judges sometimes see themselves as government officials protecting state interests, not as impartial arbiters (Bureau of European and Eurasian Affairs, 2008). The result is an unpredictable legal business environment.

On March 30, 2006, local government officials told RACU that building-site neighbors had filed a lawsuit against the Northeast Administrative District (NEAD) (part of Moscow city government) for "violations of the land tender procedures" in granting RACU's lease. The plaintiffs proposed to take the land from RACU.

NEAD officials asked RACU to help defend the case, so the school hired a top (and expensive) Moscow law firm. A week later, the judge dismissed the lawsuit. The opposition then hired an attorney who was able to secure a court hearing in spite of the dismissal. One high government official (unnamed for his or her protection) said, "Someone is behind this because the plaintiffs have no money for lawyers". After the judge again dismissed the case, the plaintiffs appealed to the higher court, but presented no new evidence. The Appeals Court overturned the ruling of the lower court declaring the lease invalid and ordered construction to stop. While there was one more level of appeals, the Cassation Court, construction had already been delayed another two months. If the City of Moscow had indeed "violated" the "land tender procedures," they are obligated by law to repay RACU for all expenditures. However, it is extremely unlikely the City would ever pay.

Resulting Building Costs

Because of the delays, the original building cost of $13 million had risen to $21.75 million. Examining the increased expenses, approximately $2 million was unavoidable, such as site remediation.   However, the delay also caused approximately $6 million of avoidable expenses, while rent during the delay cost $750,000. In addition:

- Devaluation of the dollar (from 31 to 24 rubles per dollar) increased costs over 15%.
- At the start of the project, an 18% Value Added Tax did not apply to nonprofits but the laws changed and now the tax applies to nonprofits on all construction expenses.
- The contracts the contractor and sub-contractors' signed in 2004 had to be renegotiated in 2006 and 2007 because of the delayed construction.
- Moscow's inflation rate was 10% in 2005, 9% in 2006, and it was forecast at 8% in 2007.

The Decision

Dr. Bernbaum stared at the financials related to the building project. The building was four years behind schedule and 50% over budget. The contractor needed a $250,000 check the next day and a second $250,000 check a few weeks later. John feared that RACU's existing donors had all already given all they were capable of giving. Yet, he would have to raise an additional $6 million--and the latest court decision had just taken RACU's land away. As he reached for an aspirin, he pondered what he should do.

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Appendix 1: International Business Ethics

Business ethics is topical because of many worldwide corporate ethical failures. American (Enron, WorldCom, Tyco), German (Volkswagen, Infineon, and Commerzbank), Italian (Parmalat), Dutch (Ahold), and Chinese (Sanjiu Pharmaceutical Co., and Macat Optics and Electronics Co. Ltd.) businesses are examples of companies that have experienced legal and ethics scandals. And Russia was no exception, as corruption and unethical behavior were rampant in both business and government, with bribes, extortion and even business related contract killings being the norm (Chivers, 2004; Kranz & Bush, 2004).

Ethics are the moral principles and values guiding individual or group decisions and actions. They create acceptable standards of conduct within a society, and guide people's judgment as to what is right and what is wrong. However, ethical standards differ across cultures and actions deemed unethical in one culture, such as bribery, may be standard practice in another.

To understand business ethics in Russia, we must first understand the history of the Russian culture. Under Communism, business managers dealt with meaningless and often contradictory laws, and were required to meet arbitrary production quotas. They found obeying rules and laws unrealistic and undesirable. As the nation transitioned to a market economy, the ethical mindset that business success required unethical behavior continued. In fact, a study conducted in the late 1990's reported most Russian managers believe that connections and dishonesty are the two most important ingredients for business success (Taylor, Kazakov, & Thompson, 1997). Russian ethics are further complicated by a dual ethical standard governing business and personal relationships (Puffer, Levintan, Walck, & Waterman, 1994). It is considered unethical to deceive a friend or a trusted colleague, but not unethical to use deceptive business practices.

Appendix 2: Approximate Event Timeline

DATE	**EVENT**
May 2001	RACU purchased a land lease to build a classroom building in Moscow.
November 2002	*Approximately when all permits would have been granted & construction could have begun if bribes were paid.*
January 2004	*Approximately with bribes, when building could have been completed (even with the unavoidable delays).*
January – December 2005	Nationalistic protestors tried to prevent construction of the new building. Five different political parties held demonstrations on RACU's building site leading up to December political elections.
March 2006	RACU learns of lawsuit against the Northeast Administrative District (NEAD) for "violations of the land tender procedures" in granting RACU's lease.
May 2006	Construction allowed to begin - **Pre-construction phase** of service projects such as building a road passing, but not serving, RACU's site, installing neighborhood streetlights, and adding landscaping to the adjacent apartment building.
July 2006	**Active construction phase** begins.
July 2006	Discover contaminated soil & and construction difficulties.
March 2007	The Appeals Court overturned the ruling of the lower court declaring the lease invalid and ordered construction to stop.
May 2007	Upcoming Board meeting.

* *Italics indicate possible timeline with bribes*

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SAVING JENNY: MAKING CHOICES ABOUT ANIMAL WELFARE

Eric Nelson, Central Missouri State University

This case was prepared by the author and is intended to be used as a basis for class discussion. The views represented here are those of the case author and do not necessarily reflect the views of the Society for Case Research. The author's views are based on his professional judgment. The name of the family has been disguised to preserve their request for anonymity.

Introduction

Jenny was a typical, 5 year old, happy Labrador Retriever: her tail never stopped wagging and she always wanted to be in the middle of things that the Jones family of five had to offer. Softball games, soccer club, long walks in the countryside, Jenny was a part of the middle-class family's life. Lately, Stacey Jones had noticed that Jenny's energy level was down and that she wasn't eating with the enthusiasm she used to exhibit. Stacey decided it was time to take Jenny to see her veterinarian, Dr. J. Greg Houtsma of Warrensburg Animal Hospital.

Dr. Houtsma examined Jenny and found that she had lost some weight since her last annual visit. Jenny also had a little tenderness when feeling her abdomen. The rest of the physical exam was normal. Dr. Houtsma recommended x-rays to assess the abdomen; blood work to check the red and white blood cells, kidney and liver function; and a urinalysis. The total for this diagnostic plan was $228.00. Stacey agreed to the $80.00 for x-rays, but the blood and urine analysis seemed a bit excessive, after all Jenny was young and had never had any problems before.

The X-rays were fairly normal with the spleen looking a little bit enlarged, but Dr. Houtsma said that this situation can sometimes be normal in dogs. Dr. Houtsma had a feeling that Jenny had more than just a queasy stomach bothering her and reiterated the need for the blood work and urinalysis, but the owners declined. A week later, Stacy was back in with Jenny, who had started throwing up and was not able to keep food down. When re-weighed, Jenny had lost more weight. Jenny's condition and attitude had deteriorated from the last exam and Stacey, being more concerned now, gave permission to run the previously recommended tests. The urinalysis was normal, but the blood work showed anemia and a high white blood cell count with some of the white blood cells looking cancerous.

Dr. Houtsma consulted with Stacey to explain all the options for Jenny. The tentative diagnosis was splenic lymphoma (a type of cancer) and the best treatment option was surgery to remove the spleen and then histopathology to determine if this type of cancer was one that could spread to the rest of Jenny's body. If the cancer was one that could spread, then the best recommendation would be to follow up with chemotherapy. The second option was to euthanize Jenny when she became weak and could not sustain a good quality of life.

The cost for the surgery and histopathology would be $1250.00 and the potential cost for any follow-up chemotherapy would be approximately $1500.00, so the total costs could be as much as $2750. Dr. Houtsma explained that the risks of anesthesia associated with this type of surgery, as with any surgery, was a small chance of Jenny dying during the operation. He also explained that even if the surgery and chemotherapy were successful to get the cancer into remission, there was a still a chance that it could come back.

Stacy Jones was most concerned about Jenny's long-term health. She just didn't want to watch Jenny waste away, that would hurt the three children too much, she thought. She had seen her first dog Sam die slowly of cancer when she was growing up on her family farm. She wanted to spare her children this prolonged agony. She was also concerned about the repeated trips to the clinic; Dr. Houtsma had mentioned that if Jenny needed chemotherapy the family would need to come in for regular weekly treatments.

Overall, right now was not a good time financially, the kids had just joined three new sports teams and the family had bought a new car. Bob was also very unhappy at work and was looking for another job, but the Warrensburg, Missouri area was small and he might have to take on work at lower pay. A bill of the size proposed by Dr. Houtsma would mean seriously rearranging priorities since Warrensburg Animal Hospital generally required payment in full upon service completion. The clinic did not directly extend credit to their clientele, but did offer a third-party 'Care Credit' program which broke up payments for qualified applicants over a three month non-interest payment period. The Jones family as a whole needed to make a decision about the dog in the next few days. What should they do with Jenny?

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TEMPTEX, INC.

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This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment. The names of the organization and individuals and financial information have been disguised to preserve the individuals' request for anonymity.

Introduction

Temptex, Inc., a producer of high temperature cloth (HTC) and related products, operated three plants in the southeastern United States and one in Canada. Royal Fabrics had been a fierce competitor for many years. Terry O'Connell, Operations VP at Temptex, had always felt Royal had been one of those "stupid competitors that did not know its costs." The opportunity to buy the rival brought Terry to the office of Temptex president, Sammy Ingeman.

"I just got off the phone from a very interesting call," Terry reported. "Royal Fabrics wants to sell its HTC operation to us for over $4 million. That operation hasn't made any money in years, but I think we ought to jump on it."

Sammy looked up from his computer screen: "Are you nuts? You know how we work payback on these acquisitions--we want our investment back in five years. How do you get a payback if the company isn't making any money?"

"Just let me run some numbers and show you what I'm thinking," Terry answered as he rushed from Sammy's office to his own and opened a spreadsheet.

High temperature cloth is the name given to fabrics that are non-asbestos and have high resistance to heat and many chemicals. High temperature cloth is used in welding, insulation, aerospace, marine and other industries to protect people and materials from heat and flame. Temptex, Inc. had competed in the HTC segment of the textile industry for many years and had acquired several plants in an effort to reduce transportation costs by locating within a reasonable proximity to customers.

Temptex had grown since its founding by combining excellent customer service, strict quality control, and careful monitoring of costs. While the bulk of the competitors in the textile industry had abandoned domestic operations, companies like Temptex survived by finding and filling niches in the market. Generally, larger competitors produced HTC to complete a product line for industrial markets rather than as their primary business. Because both raw materials and the finished product were fairly bulky, competitors tended to serve customers in a limited geographical area.

The manufacturing process was highly automated, but the equipment was not very sophisticated. None of Temptex's plants were operating at full capacity. Terry was very conscious of the need to increase capacity utilization in all operations especially with raw material costs increasing. While the company sold through distributors, orders were often delivered from the plant directly to the customer. Temptex's sales and profits tended to be directly correlated to growth of the overall economy.

Before Terry had left Sammy's office, Terry was pretty sure that Temptex could not or should not operate Royal's manufacturing facility. Based on his 20 plus years of production and operations experience in the HTC industry, he was skeptical about taking Royal's facility -- which was identical to Temptex's -- and running it any more or less efficiently than it was being run. However, based on his experience with his own plants, Terry was confident on two points. First, at an annual volume of between 750,000 and 850,000 yards, the facility could not be run profitably. Second, he knew from competing with Royal for years that Royal did not know its manufacturing costs. Lack of knowledge about its actual costs had led Royal to price its product below what it actually cost to produce. Furthermore, at various times over the years, Royal's pricing policy had led to some very bitter price wars. Terry was a little smug about learning that Royal was losing money and was anticipating getting out of the business. If possible, Terry wanted to make sure that someone else did not acquire Royal's facility and operate it as badly as Royal had done! Table 1 shows Royal Fabric's financial statements for the last two years.

Table 1 – Royal Fabrics Financial Statements

Balance Sheet as of December 31, (in 000's)

Assets:	**20x1**	**200x0**
Cash	$ 1,005	$ 705
Accounts receivable	1,962	1,214
Inventory	1,729	2,824
Other current assets	92	83
Current assets	$ 4,788	$ 4,826
Net plant and equipment	1,500	1,135
Other assets	32	28
Total assets	$ 6,320	$ 5,989

Liabilities and Equity:	**20x1**	**20x0**
Accounts payable	$ 1,049	$ 727
Accrued expenses	322	$ 485
Current loans payable	28	$ 35
Current liabilities	$ 1,399	$ 1,247
Long-term debt	1,162	646
Total liabilities	$ 2,561	$ 1,893
Common stock	2,645	2,645
Retained earnings	1,114	1,451
Total equity	$ 3,759	$ 4,096
Total liabilities & equity	$ 6,320	$ 5,989

Income Statement for the Years Ended December 31, (in 000's)

	20x1	**20x0**
Total sales	$ 2,037	$ 1,945
Cost of sales:		
Raw materials	816	799
Labor costs	497	415
Plant overhead	777	621
Total cost of sales	$ 2,090	$ 1,835
Gross profit	$ (53)	$ 110
Administrative expenses	255	262
Operating profits (EBITDA)	$ (308)	$ (152)
Depreciation	25	38
Earnings before interest & taxes	$ (333)	$ (190)
Interest expense	22	13
Earnings before taxes	$ (355)	$ (203)
Taxes	(71)	(41)
Net income (loss)	$ (284)	$ (162)

Terry hoped to show Sammy that Temptex could produce Royal's annual production of between 750,000 and 850,000 yards of HTC in Temptex's current plants. By more fully utilizing Temptex's existing four plants and producing this additional volume with no or little increase in fixed costs, the per unit marginal cost would be quite low. Terry first analyzed Royal's customer list and its 20x1 sales and allocated the 850,000 yards to each of Temptex's four plants; since transportation was an important element of the cost, Terry assigned each customer's purchase to the closest Temptex plant. Terry then contacted each of the four plant managers to determine what they would need in terms of additional people or overtime to produce the projected additional product. Terry's spread sheet with fabric allocations is shown in Table 2. In addition, the plant managers at Temptex's Plants #2 and #3 reported the following labor cost increases:

- Plant #2:
  - Additional Shift Supervisor at $10,000 per month with benefits
  - Additional Laborer at $4,000 per month with benefits
  - Twenty hours per month overtime at $3,000 per month
- Plant #3: Additional Maintenance Worker at $7,000 per month with benefits.

Further, Terry anticipated being able to sell these additional 850,000 yards at an average selling price of $4.80 per yard. With full allocation of overhead, Royal Fabric's 850,000 yards could be produced at a per yard cost of approximately $2.97 per yard. With this information, Terry set out to determine how much Temptex would be willing to pay for Royal Fabrics.

Table 2 – Terry's Incremental or Marginal Analysis

Temptex Plant	Current production/ Capacity (in yards)	Royal Fabric Yardage Allocation	Net Sales (Assumes $4.80 per yard)	Variable Costs (Assumes Raw Materials & Overhead of $2.97 per yard)	Additional Fixed Costs Required
Plant #1	650,000/ 900,000	120,000			
Plant #2	750,000/ 1,000,000	250,000			
Plant #3	750,000/ 1,200,000	365,000			
Plant #4	150,000/ 300,000	115,000			
Total	2,300,000/ 3,400,000	850,000			

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THE FRANCHISING ENTREPRENEUR

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This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment.

Introduction

So what do you do with the rest of your life? Nick Balsmeier graduated from college determined to raise his family in his hometown. Now that he was in his mid-twenties, Nick and his wife planned to start a family. Nick grew up in a community where close knit families of several generations stayed together. The problem was figuring out how to do that. Because it was near two colleges, competition for jobs was stiff in Nick's hometown. Lately, Nick had been wondering if there was more to life than an office job and a steady paycheck. Starting a business was appealing but there were so many choices and risks. Then there was the issue of money. Nick knew his access to financing was limited. What kinds of opportunities were available for an entrepreneur on a budget? That's when the answer hit him: Franchising. But what kind of franchise would succeed in his hometown? What would it cost to buy the rights to a franchise and start up? Nick was lucky to have the backing of his family. His dad was willing to hand Nick his retirement money to start a business but that just added to the pressure. It was time to make some decisions.

Background

Nick's hometown was growing and expanding. It was a trade center for resort communities and towns in a hundred mile radius. In recent years a number of big box retailers and restaurants moved into town. Fifty miles down the road in one direction was a university town and twenty miles in the other direction was another university that recently transformed from a two year to a four year college. Nick's hometown attracted students and shoppers from a wide geographic area. Another plus was the growing and thriving professional community. The local area supported a major government research lab, a respected regional hospital and other professional businesses.

Looking around at the kind of businesses he admired, Nick realized franchising was a way to start. It was still risky, but a franchise offered a proven concept and a community of other owners with experience and ideas. Nick needed to figure out the right kind of franchise for his hometown. There was abundant information online on franchising, including information about startup costs. The startup costs for some franchises ran into the millions. Others were names he didn't recognize. Nick thought some franchises had uncertain demand in his hometown for the products or services they sold. Nick figured he could narrow his choices by eliminating franchises that were too expensive. He also dropped franchises from his list if they were already located in his town or offered a product or service he wasn't sure would succeed.

The Franchising Decision

Nick was convinced owning a franchise offered real advantages getting started as an entrepreneur. He could join a community of owners and operators of similar businesses. Most franchises typically had online forums a franchise owner could join to share knowledge and experiences. Franchises also provided rules and restrictions based on past experiences of franchisees. Instead of "reinventing the wheel" Nick could hit the ground running with a proven concept.

The challenge now was to identify the right franchising opportunity. Late one night as Nick was driving down the road he pulled out his cell phone to spend some time visiting with his brother. It was critical that Nick make some decisions and narrow his choices. It all happened very quickly when Nick's brother asked, "What about a Pita Pit?" Nick's brother liked the restaurant. Pita Pit franchises were often in college towns and that is where Nick's brother first saw the restaurant concept.

Nick and his brother both liked Pita Pit's food. Instead of traditional sandwich breads, meats and fillings were wrapped in a pita. It was healthy, filling food that seemed to recognize a growing trend in the dining public. The pita wraps catered to the individual tastes of customers who could create custom creations.

Nick asked his brother, "Why not buy a franchise for something we know and like?" If we like Pita Pit food, it is likely others will feel the same way as well. The concept was new to Nick's hometown and he knew it was on the list of affordable alternatives. Better yet, corporate headquarters was located in the same state as Nick so he thought he might be able to visit and find out more about the company. A review of information on the Internet indicated Pita Pit's startup costs at $219K well within Nick's budget.

Nick liked the idea of opening a Pita Pit and decided to research this opportunity. The more he found out about Pita Pit, the better he liked the idea of buying a franchise. Nick's initial information came from the Internet starting with www.pitapitusa.com, the company's site. After that he talked to the company's corporate headquarters and got the names of other franchise owners he could contact. Nick talked with other Pita Pit franchisees in nearby towns who gave him a general idea about costs and expenses. Based on these conversations and other information gathered, Nick developed the numbers for the spreadsheet in Table 1. Rent and utility expenses were based on actual costs for space in Nick's hometown. All the other costs were based on franchise costs or estimates from the experience of current owners.

One concern was that other stores mostly located in college towns stayed open to feed hungry students after a night out. Nick's hometown didn't have a college but he thought the concept might work anyway with the lunch and dinner crowd. Another key issue would be location. How could he identify the best spot for a restaurant and how much would it cost? Nick had never leased space or bought real estate before so it seemed he might need to get some legal help while he explored these options. Nick also remembered from his college classes the legal forms of business ownership which included the sole proprietorship, partnership and corporation. Maybe an attorney could help him figure out which of these three would work best. Nick also wondered if there were other professionals he needed to talk to. Taxes for businesses could be complex and an accountant with franchise experience could help.

Nick's hometown had a thriving shopping area with a mall and several big box retailers nearby and there was space available from a failed business. One concern was the close proximity of a fast food restaurant and some dine-in chains but none of them offered food similar to Pita Pit.

Nick thought carefully as he developed the information in Table 1. The rent and mortgage were numbers Nick was certain about after he talked to the realtor marketing the property for the Pita Pit. Nick spent considerable time talking to other franchise owners who gave him a range for the expenses. Nick was conservative in estimating expenses. He was also conservative estimating revenues. It was hard to feel confident about the estimates for a new venture but Nick used the information from other owners and selected more conservative numbers. Nick thought there might be some unexpected expenses that he missed so he included a category titled "other expenses" in Table 1. Nick knew he needed to be paid a salary and the $4,000 a month for the manager's salary represented his wages and benefit expenses.

Nick knew what other stores were doing but wasn't sure about his own costs and potential sales. Making a decision now would mean he could likely start operations in September. He wasn't sure if this was a good month to begin a business, but he thought most people in town might be back from vacation, busy with school and sports and might stop by while they were out shopping. Nick wondered about his projections but thought they looked reasonable based on the information he had, including those provided by other owners.

The franchise seemed like a great way to start a business but there were still risks and uncertainties. Buying a franchise was a little like buying a business but without the built in base of customers or clients. Nick wondered if he had missed any expenses or if his estimates were reasonable. He wondered whether or not he'd overlooked anything important as he developed his spreadsheet or planned his start up. Nick also wondered if he fully understood the advantages and disadvantages of franchising as a way to start his business. He knew it was important to consider all the issues and get this critical decision right. It wasn't just his family's livelihood at stake. Since his dad was financing his startup with his retirement savings, Nick thought he had better get things right.

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Table 1: Pita Pit Projections

Input Variables

Fixed Cost		Variable Cost (% of Sales)	
Rent	$3,733	Labor	20.00%
Utilities	$1,500.00	Food costs	35.00%
		Franchise Fee	6.00%
		National MKTG Fund	1.00%

	September	October	November	December	January	February
Gross Income (sales)	16,000.00	75,000.00	60,000.00	60,000.00	60,000.00	60,000.00
Utilities	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
Rent	3,733.00	3,733.00	3,733.00	3,733.00	3,733.00	3,733.00
Mortgage	3,600.79	3,600.79	3,600.79	3,600.79	3,600.79	3,600.79
Management salary	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Other Expenses	1,433.00	1,433.00	1,433.00	1,433.00	1,433.00	1,433.00
Total Fixed Costs	14,266.79	14,266.79	14,266.79	14,266.79	14,266.79	14,266.79
Labor	3,200.00	15,000.00	12,000.00	12,000.00	12,000.00	12,000.00
Food Cost	5,600.00	26,250.00	21,000.00	21,000.00	21,000.00	21,000.00
Franchise Fee	960.00	4,500.00	3,600.00	3,600.00	3,600.00	3,600.00
National MKTG Fund	160.00	750.00	600.00	600.00	600.00	600.00
Total Variable Costs	9,920.00	46,500.00	37,200.00	37,200.00	37,200.00	37,200.00
Total Operating Costs	24,186.79	60,766.79	46,033.79	46,033.79	46,033.79	46,033.79
Net Income (Retained Earnings)	-8,186.79	14,233.21	13,966.21	13,966.21	13,966.21	13,966.21
Operating costs as % of gross	126.17%	73.78%	76.72%	76.72%	76.72%	76.72%
Management cost as % of sales	25.00%	5.33%	6.67%	6.67%	6.67%	6.67%
Fixed cost as % of sales	64.17%	13.69%	17.11%	17.11%	17.11%	17.11%

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THE GIFT WRAPPING PAPER BUSINESS: A DILEMMA FOR LAKE SUPERIOR PRESS

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This case was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors' views are based on their professional judgment. The names of the organization and individuals and financial information have been disguised to preserve the individuals' request for anonymity..

Background

The City of Marquette is located in the central region of Michigan's Upper Peninsula on the northern edge of the peninsula. This location allowed Lake Superior Press to serve a market consisting of the northern part of Wisconsin and the Upper Peninsula (U.P.) of Michigan. There has been a strong commitment by city leaders to help Marquette become known as one of America's most livable communities.

Marquette is the UP's largest community having a population of 20,714. In addition to being a population center, it serves as the regional center for education, health care, recreation, and retailing. The surrounding county of Marquette has a population of approximately 60,000, employing 15,000 persons, with an annual payroll of over $440 million.

Lake Superior Press is a high quality print shop that specializes in commercial printing jobs. With a strong reputation for the integrity of its products and services, Lake Superior Press is known as a full-line printer. Its product lines included commercial printing, book printing, form printing, and bulk mail services. It offered layout, design, artwork, advertising and mailing services in addition to multi-color printing. These offerings, coupled with intangibles such as printing knowledge and savvy accumulated over the years, made LSP a major force in its geographic market.

Two independent sales representatives covered the market for Lake Superior Press; both had a reputation for being honest and knowledgeable about the printing business. In many instances, the sales representatives acted as consultants when advising their customers about the options available to them. Both representatives called only on commercial accounts and had done a good job penetrating the market.

The Proposed Product

Mr. Thomas E. Dubow, President of Lake Superior Press, saw an opportunity to expand his product lines by adding gift wrapping paper. Although the artwork was not yet complete, preliminary drawings had been made for several designs using Upper Peninsula area themes such as local lakes (specifically Lake Superior), winter scenes, skiing, snowboarding, forests, and the natural wildlife of the area.

Mr. Dubow thought that the Upper Peninsula theme would appeal to the local market as well as tourists. The latter market segment (i.e., tourists) comprised a substantial market for the Upper Peninsula. In fact, tourism was running neck and neck with forest-related products as the number two industry in the area. Indian casinos were the biggest industry in Michigan’s Upper Peninsula.

The gift wrapping paper would be high quality and would compete with products from entrenched market leaders such as Hallmark and American Greeting. The proposed product would be packaged in a flat, clear package containing two or three sheets of paper.

It was not possible for Lake Superior Press to print rolls of gift wrapping paper. The size of the sheet was limited by the size of the presses. The largest piece of paper stock that Lake Superior Press was able to handle was a 20 inch by 28 inch sheet. This size was thought adequate for the needs of virtually all the residential customers in the market area. (LSP did not have a continuous feed printing process that was needed to print a roll of gift wrapping.)

Mr. Dubow looked out his window at the vast expanse of Lake Superior. He leaned back in his chair and thought about the following questions: First, what price should he charge for his product? Second, how much would he have to sell in order to breakeven? Third, how much would he have to sell to realize a 20% operating profit on sales?

The Market

The stores in the area that carried gift wrapping paper were all potential customers for the proposed new product line. Some stores, however, only carried one brand and had exclusive marketing rights for that brand in the specified market. An additional consideration was that not all of the remaining stores would want to place an order of minimum size of $50. Mr. Dubow felt that advertising to the consumer market would not pay off, and for that reason, promotion of the product should be limited to the retail market. The personal selling efforts of the sales force would be the primary promotional thrust for the gift wrapping paper.

The demand for gift wrapping paper is a derived demand from special occasions. The user of gift wrapping paper needs the product only when giving a gift. In addition, many gifts are situation-specific. That is, they are given for specific events. Those events include birthdays, anniversaries, weddings, baby showers, graduations, and Christmas. Because so much of gift wrapping paper is for specific situations, it was suspected that a substantial amount of the product should be printed with a design for the specific events. In order to confirm these assumptions, information was obtained by visiting four stores in the city of Marquette and examining the gift wrap products.

Based on these observations, the following conclusions were reached.

1. The majority of gift wrapping paper was printed for specific events; in stores visited, approximately 65% was printed for specific gift giving occasions.

2. Gift wrapping paper was packaged in one of two ways: in a flat package containing one or two sheets of paper or in a roll.

3. The roll appeared to have a better turnover than the flat package. This conclusion was reached by noting the fact that 60% of the gift wrapping paper on retailer's shelves was roll pack items. Thus, LSP would compete in only 40% of the market.

4. Flat package gift wrapping paper was found to vary in sheet size. Stores A and C carried sheets which were 2 feet, 5 inches by 3 feet, 1 inch (1073 square inches). The paper in stores B and D was 2 feet 6 inches by 1 foot 8 inches (600 square inches).

5. The flat packages varied in price from $1.45 for a package containing one sheet to $2.35 for a package with two sheets, both with a small gift card.

Cost of the Product

Because the competition's package included two rather than three sheets in a package and there was no evidence to support the idea that consumers prefer three sheets, Mr. Dubow decided to calculate his costs based on a package containing two sheets of gift wrapping paper. He determined that his overhead expenses would amount to $2,400. These would include artwork, film, printing plates, and sales administration. When the product would be first introduced, Mr. Dubow wanted to send a mail promotion to all stores that were known or seemed likely to carry gift wrapping paper. It was estimated that a one-time special promotion to stores likely to carry gift wrapping would cost about $600. After the initial announcement, the sales force would be the sole means of promotion and delivery.

Other costs that had to be considered were the costs of the paper, packaging, and labeling. The cost of the gift wrapping paper would be 60 cents for two sheets. This was arrived at by estimating that the cost of the paper, direct labor, set up, and ink for 4,000 sheets would be $1,200. In addition, packaging materials would cost 12 cents per package while labels would add another 7 cents.

If the retail selling price should be somewhere between $1.50 and $2.35 and assuming that retailers would use a markup of about one-third, it appeared that Lake Superior Press should sell its product to retailers within a range of $1.00 and $1.57.

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THE MANY SIDES OF THE IMUS CONTROVERSY

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Introduction

On Wednesday, April 4, 2007 in New York, 66-year-old radio "shock jock," Don Imus, his producer Bernard McGuirk and Sid Rosenberg, a sportscaster, set out to entertain millions of drivers commuting to work as they did every weekday on the long running "Imus in the Morning" radio program. Their conversation went as follows:

> *IMUS: So, I watched the basketball game last night between—a little bit of Rutgers and Tennessee, the women's final.*
> *ROSENBERG: Yeah, Tennessee won last night—seventh championship for [Tennessee Coach] Pat Summitt, I-Man. They beat Rutgers by 13 points.*
> *IMUS: That's some rough girls from Rutgers. Man, they got tattoos and –*
> *McGUIRK: Some hard-core hos.*
> *IMUS: That's some nappy-headed hos there. I'm gonna tell you that now, man that's some—woo. And the girls from Tennessee, that all look cute, you know, so, like—Kinda like—I don't know.*
> *McGURIK: A Spike Lee thing.*
> *IMUS: Yea.* (The Moderate Voice, 2007).

The banter continued, with none of those involved aware of the strong reactions their comments would soon unleash.

Imus's Work and Personal Background

Imus was no stranger to controversy. In fact, he was fired twice previously-once in 1966 for using the word "hell" on the airwaves in Stockton, California, and once for missing over 100 days of work in a year and urinating in a phone booth inside the NBC building while fighting an addiction to alcohol and cocaine (From Saying, 2007; Celizie, 2007).

Imus had been clean and sober for 18 years (Don Imus Still Sober, 2006). He had just signed a new contract with CBS/MSNBC for a reputed $40M per year that specifically acknowledged he would say "controversial" and "irreverent" things (Payne, 2007). Imus was beloved by his listeners, and the darling of advertisers on CBS and MSNBC. In 1999, he founded the Imus Ranch, a nonprofit organization dedicated to helping children with cancer and siblings of SIDS (Sudden Infant Death Syndrome) victims (Keele, 2005).

"Controversial" and "irreverent" were the backbone of the Imus's show. Imus routinely called Arabs "ragheads," and made fun of Irish, Jewish, Italians, and others (Fein, 2005). He used routines full of derogatory epithets for homosexuals, including "faggot" and "lesbo" (Nobile, 2004). In October 1998, he described, media critic, Howard Kurtz as "the boner-nosed…beanie-wearing little Jew boy," and referred to publishers Simon& Schuster on his December 15, 2004, show as "thieving Jews." Later in the show, Imus issued a mock apology saying the phrase was "redundant." Imus berated many female newsreaders, including most recently Contessa Brewer, causing her to leave the show (Rendall, 2005), (Racism is to, 2007). He called African-American sports columnist Bill Rhoden a "New York Times quota hire," and referred to PBS anchor Gwen Ifill as a "cleaning lady" (Carr, 2007), (Ifill, 2007). Imus reportedly, told a producer off-camera that producer Bernard McGuirk was hired to perform "nigger jokes" (Herbert, 2007). Imus even wrote a book entitled *God's Other Son*, an irreverent portrayal of the dark side of an errant television evangelist.
Although Don Imus was controversial, he still had a faithful following. On the morning in question, McGuirk had used the word "hos," a derogatory slang term derived from "whore," but when Imus added the term "nappy-headed," this added phrase appeared to incite particular criticism.

Imus's Responses to Public Reaction

> *This phrase that I used, it originated in the black community. That didn't give me the right to use it, but that's where it originated. Who calls who that and why? We need to know that. I need to know that. Don Imus* (Poiniewozik, 2007).

On April 5, Imus downplayed his remarks as, "some idiot comment meant to be amusing (Imus Wants to Apologize, 2007). By April 6, he offered this apology: "It was completely inappropriate, and we can understand why people were offended. Our characterization was thoughtless and stupid, and we are sorry (Imus Wants to Apologize, 2007)." On Monday, April 9, Imus sought to make amends by appearing on Sharpton's radio show and issuing a formal apology. When Sharpton commented that Imus had been "abominable," "racist," and "sexist," Imus replied, "Our agenda is to be funny and sometimes we go too far. And this time we went way too far." Imus contended on the show that he was not racist or a bigot (Goldman, 2007). Earlier that morning on his morning show, Imus said, "Here's what I've learned: That you can't make fun of everybody because some people don't deserve it and because the climate on this program has been what it's been for 30 years doesn't mean that it has to be that way for the next five years or whatever. Because that has to change so -- and I understand that (Don Imus Receives Two Week, 2007)."

Media and Public Response to Imus Remarks

Since Imus uttered his statement about the Rutgers' Basketball Team on April 4th, the media and the public shared their opinion about his comments and the implications of his words. Pat Buchanan said on MSNBC's Scarborough Country of Imus, "He's a good guy…(Who) made a bad mistake and apologized for it. The show should stay on the air" (Scarborough Country for April 10, 2007). Comedian Bill Maher said that if a comedian apologizes for stepping over a line that should suffice (Scarborough Country for April 10, 2007). On The View, Rosie O'Donnell spoke out in support of keeping Imus on the air for reasons of free speech (McCarthy, 2007).

The media, which often defends free speech, began immediately to distance itself from Imus. "He should be axed for one of the most despicable comments ever uttered on air," sports columnist Filip Bondy wrote in the *New York Daily News*. "If [Rush] Limbaugh can be dumped by ESPN for an ill-informed opinion about [Philadelphia Eagles quarterback] Donavan McNabb, if [sports personality, Sid] Rosenberg can be dropped by WFAN for his vile comments about [singer] Kylie Minoque's battle with breast cancer, then Imus deserves the same treatment, despite his status (Jones, 2007)."

Response of African-American Community

The African-American community appeared to support the firing of Don Imus. This struck some as hypocritical since two of the most outspoken supporters of the African-American Community, Al Sharpton and Jesse Jackson, had made derogatory slurs themselves without apparent consequences. On Sunday, noted black activist Al Sharpton indicated that he wanted Imus fired, and would write the FCC. "Somewhere we must draw the line in what is tolerable in mainstream media," Sharpton said. "We cannot keep going through offending us and then apologizing and then acting like it never happened. Somewhere we've got to stop this (Jones, 2007)." Sharpton acknowledged that African-American music rappers and comedians had previously used the same words as Imus, and said they were wrong to do so, but did not explain why he had never expressed outrage previously. He said nothing about comedian Chris Rock's repeating use of the word "nigger" in his routines, or about the many other black performers who did likewise (Special Report: Who, 2007).

Sharpton was no stranger to racial slurs himself, …"he *lead a protest against the Jewish owner of Freddy's Fashion Mart in New York in which picketers, sometimes joined by Sharpton himself, repeatedly screamed epithets about 'bloodsucking Jews' and 'Jew bastards,'*"Marc Zel (2008).

The Courts previously found Sharpton guilty of seven counts of slander against a District Attorney who had decided that a black teen-ager's claim of being gang-raped by white men was false (Winner in Brawley, 1998). During the Crown Heights riots, Sharpton was quoted as saying, "If the Jews want to get it on, tell them to pin their yarmulkes back and come over to my house" and referring to Jews as "diamond merchants" (Lowery, 1991). Sharpton, an ordained Baptist pastor, said about Mitt Romney, "As for the one Mormon running for office, those who really believe in God will defeat him any ways, so don't worry about that; that's a temporary situation (Justin Hart, You Can't, 2007).

Another notable African-American spokesperson condemned Imus, the Rev. Jesse Jackson, and his Rainbow PUSH Coalition. Jackson protested in Chicago outside the offices of NBC and indicated that across the country additional protests will be taking place. "If he has a right to use that platform to insult and degrade, then we have a moral obligation to picket NBC and to protest," Jackson said. "If he can violate us in that platform in the name of free speech, we'll be picketing NBC in the name of free speech (McCarthy, 2007)." Jackson's protest is in contrast to his own behavior when he has used inappropriate language in the past. The Reverend once described Jewish people as "Hymie" (Sabato, 1998).

Advertisers Suspend Ad Dollars from Imus Radio Show

Staples Inc. and Procter & Gamble Co. stopped their advertising on the show "Any venue in which our ads might appear that might be offensive to our consumers is unacceptable to us until

we evaluate further," Jeannie Tharrington, a spokesperson for P & G, said in a telephone interview. Bigelow Tea, the closely held maker of specialty teas, also suspended its advertising. "Future sponsorship is in jeopardy," said Cindi Bigelow, co-president of the company. "Our company does not condone or support in any way the unacceptable comments made by Imus." "We are deeply saddened by Imus's remarks," Bigelow said in an e-mailed statement. Bigelow Tea had advertised on the Imus show for the past nine years (Burke and Gillespie, 2007).
Other advertisers also backed away from Imus's show, including General Motors (Imus's biggest advertiser), GlaxoSmithKline, Sprint Nextel, PetMed Express, and American Express (CBS Fires Don Imus, 2007).

CBS/MSNBC Suspend Don Imus

CBS and MSNBC suspended him for two weeks, and Imus said he would serve the suspension "with dignity" (Burke and Gillespie, 2007). Rutgers team members and their coach expressed dismay at Imus's comments, yet did not call for him to be fired. They said they planned to meet with Imus to hear him apologize in person (Imus Wants to Apologize, 2007). Imus set up an appointment to meet them on Wednesday, April 11 (Rutgers Coach Says, 2007).

MSBC/CBS Cancel Don Imus's Contract

CBS board member and former NAACP president Bruce S. Gordon said that Imus should not be allowed to come back even after the suspension, claiming that his remarks, "crossed the line, a very bright line that divides our country" (MSNBC Pulls 'Imus, 2007). CBS President and Chief Executive Officer, Leslie Moonves, had met with Al Sharpton and Jesse Jackson shortly before the announcement (CBS Fires Don Imus, 2007). Moonves stated, "From the outset, I believe all of us have been deeply upset and repulsed by the statements that were made on our air about the young women who represented Rutgers University in the NCAA Women's Basketball Championship with such class, energy, and talent. There has been much discussion of the effect language like this has on our young people, particularly young women of color trying to make their way in this society. That consideration has weighed most heavily on our minds as we made our decision" (CBS Fires Don Imus, 2007). On Wednesday, April 11, a week after Imus made his remark, MSNBC cancelled Imus's show. CBS followed the next day by cancelling Imus's contract (See Appendix) (MSNBC Pulls 'Imus, 2007).

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APPENDIX

Portion of Don Imus Contract

"Company [CBS Radio] acknowledges its familiarity with the program Conducted by Artist [Imus] on the station [WFAN] prior to company's ownership thereof and it, and its familiarity with the reviews and comments, both favorable and unfavorable concerning Artist and his material by critics, reviewers and writers of the various media both in New York and nationally. Company acknowledges that Artist's services to be rendered hereunder are of a unique, extraordinary, irreverent, intellectual, topical, controversial and personal character and that programs of the same general type and nature containing these components are desired by Company and are consistent with Company rules and policies." (Imus Contract, 2007)