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TABLE OF CONTENTS

Journal of Critical Incidents Editorial Board	5
Acknowledgements	6

ABSTRACTS

Agrikraft: Across the Cultural Divide.....	7
Aire-Varié Corporation: Land Sales Revenue Recognition Issues.....	8
Alabama's "Fat Tax"	9
Apple, Inc., and Greenpeace in 2008.....	10
Bayer Cropscience: The Public's Right to Know	11
Cash Control in a Non-Profit Organization: Is it Critical?	12
Igneous Skis, an Upstart in a Mature Industry: Is this an Opportunity Simply a Hobby?.....	13
In the Interest of Women	14
Is Dr. Steinberg's Trait Selection a Viable Business?	15
Measuring and Managing Employee Turnover at Tastee Max Restaurants	16
Mountain View Assisted Living	17
NYC Subway Line and the Metropolitan Transportation Authority	18
Peer Review Pressure.....	19
Quest Research Explores the Hog Production Industry.....	20
Skydive Carolina – Welcome to My World	21
The Fate of MediaFuse: An Entrepreneur Wrestles with the Future Direction Of His Internet Marketing Firm.....	22
The Implosion of Learning Team17	23
The Program Director and Crisis Management	24
What is the Board's Responsibility?.....	25

CRITICAL INCIDENTS

Agrikraft: Across the Cultural Divide.....	26
Aire-Varié Corporation: Land Sales Revenue Recognition Issues.....	32
Alabama's "Fat Tax"	38
Apple, Inc., and Greenpeace in 2008.....	42
Bayer Cropscience: The Public's Right to Know	50
Cash Control in a Non-Profit Organization: Is it Critical?	55
Igneous Skis, an Upstart in a Mature Industry: Is this an Opportunity Simply a Hobby?.....	60
In the Interest of Women	65

Is Dr. Steinberg's Trait Selection a Viable Business?	69
Measuring and Managing Employee Turnover at Tastee Max Restaurants	75
Mountain View Assisted Living	83
NYC Subway Line and the Metropolitan Transportation Authority	89
Peer Review Pressure.....	97
Quest Research Explores the Hog Production Industry.....	101
Skydive Carolina – Welcome to My World	110
The Fate of MediaFuse: An Entrepreneur Wrestles with the Future Direction Of His Internet Marketing Firm.....	117
The Implosion of Learning Team17	122
The Program Director and Crisis Management	128
What is the Board's Responsibility?.....	135

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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

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October 20, 2010

WELCOME to Volume 3 of the *Journal of Critical Incidents*! This issue contains 19 critical incidents (CIs). The CIs showcase scholarship across affinity groups, agribusiness, auditing, brand equity, diversity, e-commerce, crisis management, entrepreneurship, finance, food service management, health administration, internal auditing, international HR, land sales, non-profit organizations, public relations, revenue recognition, sustainability, strategic management, and team effectiveness.

The *Journal of Critical Incidents* is a peer reviewed journal which is listed in Cabells. 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.

I want to thank Sally Dresdow, Associate Editor for all of her professional contributions. Sally is well versed in APA and spent considerable time making sure that all of the critical incidents were consistent with SCR's publication guidelines and the society's APA requirements. In addition, I want to thank all 44 reviewers. Most of the work is done over the summer which meant that many of the reviewers had to take time out of their vacations to provide quality feedback to the authors.

All good things must come to an end. I have enjoyed being the editor for the first three volumes of JCI, but have decided to step down from this position. Launching the journal was a rewarding process. I hope that it will be for the new Editor, Tim Brotherton and the new Associate Editor, Timothy Redmer. The journal will have a new look which will continue SCR's leadership in the area of providing short, well written incidents that foster student thinking.

So, my final thank you goes to all of the authors who submitted critical incidents to the first three volumes. They are the heart and soul of the journal – I wish them continued publication success.

Joy Benson
Editor

AGRIKRAFT: ACROSS THE CULTURAL DIVIDE

Robert P. Picard, Idaho State University
Priscilla R. Reis, Idaho State University
Dennis Krumwiede, Idaho State University

SYNOPSIS

LeeAnn Harstead is the Human Resource Director of a rural American company that had been acquired five years earlier by a German parent in the same industry. She just received initial feedback from a consulting group that confirmed her fears that communication between managers from the two countries, although improved, were stalled at a stage that did not support the high-performing outcomes that she believed were possible. As she reads through the quotations from various managers from both countries, and from the firm's German president, she recalls the steps that have been attempted so far to increase the intercultural communication among the managers, and speculates about what the next step should be.

The case allows students to examine and apply models of differences in practices and values among international cultures in addition to models focused on developing intercultural communication and acclimatization.

LEARNING OBJECTIVES

Students should be able to:

1. Demonstrate differences in communication styles between two different national cultures when discussing issues that are difficult or potentially open to conflict.
2. Using one of the models of differences in international culture (Hofstede, the GLOBE Study, or Trompenaars), identify and explain differences in cultural practices and values that may contribute to the disparity between communication styles, especially when the managers are discussing difficult issues.
3. Demonstrate how LeeAnn's typology of the stages of cultural acclimatization compare and contrast with accepted models.
4. Recommend strategies for the continued development of cultural understanding.

APPLICATION

This case is suitable for use in an International Management course at the undergraduate or graduate level or any management course that has an international cultures or communications component such as Human resource management or Organizational Behavior

KEY WORDS

International cultures, intercultural communication, international human resource management, international organizational behavior

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**AIR VARIÉ CORPORATION: LAND SALES
REVENUE RECOGNITION ISSUES**

Franklin J. Plewa, Idaho State University
Robert R. Picard, Idaho State University
Mark Bezik, Concordia University Wisconsin

SYNOPSIS

This is a decision making incident from the perspective of the CFO and the external auditors. Students are asked to consider the proper treatment of a land sale in light of a disagreement between management and the company's external auditors. The transaction in question was for the sale of land, normally held by AV for future development. Due to a down market however, the company was reconsidering this position for a particular transaction. In this instance the company would agree to sell the land outright, but also retain the future right to build for the buyer. AV's auditor wanted the company to blend the profit margins of the contract's two activities (sale of land and development of the land) and recognize revenue on a percentage-of-completion basis.

LEARNING OBJECTIVES

The objectives of this case are:

1. To utilize the FASB codification by researching revenue recognition issues described in this incident
2. Demonstrate a comprehension of specific facts by interpreting key elements in a contract that will help define the parameters of a codification search and support a conclusion (Questions 2 and 3; Bloom's Taxonomy learning outcome level 2).
3. Complete an analysis of a decision situation.
4. Recall knowledge of specific auditing facts to enumerate options available to resolve a difference of opinion between management and auditors, considering the responsibilities of the two parties.

APPLICATION

The incident may be used in a second (or third) intermediate accounting class or undergraduate or graduate accounting theory or financial statement analysis courses where research utilizing the FASB codification is expected. It is applicable to the discussion of revenue recognition issues, specifically when there is the possibility of continuing involvement between the parties. This critical incident is also appropriate for an auditing course when discussing the roles of management and auditors and how to resolve differences of opinion between these parties.

KEY WORDS

Revenue recognition, FASB codification, land sale, accounting

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ALABAMA’S “FAT TAX”:

Asbjorn Osland, San José State University
Pamela Wells, San José State University
William Jiang, San José State University

SYNOPSIS

Cassidy Talmadge, the Marketing Manager for the Alabama State Employees’ Insurance Board (ALSEIB), was to manage the public relations aspects of ALSEIB’s wellness program. She was taken aback that some of the media reports had been so critical in sensationalizing it as a “fat tax” when her employer thought that it was trying to help employees through a wellness program. How can she take the offensive and draw positive attention to the program? Employees received a \$25 discount toward their health insurance premium if they participated in wellness screenings to check four risk factors: blood pressure, cholesterol, glucose, and body mass index and if found to be at risk for one or more of the four risk factors, they agreed to address their risk. Employees were also eligible for a \$30/month discount if they didn’t use tobacco products. Coupled with the \$25 discount for the wellness screenings and follow up, if required, the employees could have reduced their health premium to \$15 monthly for a single employee after discounts. The decision revolves around how Cassidy should handle future PR for the wellness program.

LEARNING OBJECTIVES

The objectives of this case are:

1. List techniques to avert PR fiascos when rolling out or discussing controversial personnel programs
2. Lay out a plan and manage stakeholder dialogue

APPLICATION

This case could be used in Introduction to Marketing, Fundamentals of Advertising and Promotion or a Public Relations class. It’s a decision case.

KEY WORDS

Public relations, wellness

CONTACT

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APPLE, INC., AND GREENPEACE IN 2008

Patrick L. Schultz, University of North Dakota
Duane Helleloid, University of North Dakota

SYNOPSIS

In early 2008, Apple was riding high, based on the successful launch of a number of products, and a stock price that was at a record high. While applauded for the innovativeness and ease-of-use of its products, Apple faced criticism from Greenpeace over its environmental policies. Not only did Apple rate near the bottom in Greenpeace's "Guide to Greener Electronics," Greenpeace had also targeted Apple for campaigns that sought to bring attention to the problem of electronic waste. Apple had typically not directly responded to Greenpeace's challenges, but instead, on its own schedule, touted its environmental successes and practices without directly addressing the issues highlighted by Greenpeace. This critical incident asks students to use stakeholder analysis to evaluate this approach, as well as consider alternatives, for addressing environmental concerns.

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. Determine what stakeholder management approaches a firm should consider when dealing with activist groups.
2. Describe the advantages and disadvantages of engaging with activist groups, avoiding such groups, and trying to change the terms of the debate.
3. Recognize how the approach an organization takes to managing a stakeholder may impact subsequent decisions by that stakeholder.
4. Explore how one stakeholder might try to influence other stakeholders, and use this influence to achieve goals they cannot achieve alone.
5. Understand why activist groups may target some firms rather than others in order to gain publicity, and that these groups' near term decisions may be more driven by a desire for publicity than by a desire to achieve a particular outcome.

APPLICATION

The critical incident is ideally suited for courses in strategic management, general management, marketing, or business ethics at the undergraduate or graduate level. In these courses, the critical incident could be positioned in topic areas on top management decision making, ethics and corporate social responsibility, or stakeholder management.

KEY WORDS

Environment, sustainability, social responsibility, stakeholders, marketing

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BAYER CROPSCIENCE: THE PUBLIC'S RIGHT TO KNOW?

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

SYNOPSIS

An explosion at the Bayer CropScience (a component of Bayer Group) plant in Institute, West Virginia on August 28th, 2008 could be felt for miles. The explosion occurred around 10:35pm when an industrial tank of methomyl, a highly toxic chemical used in pesticides, ignited into a fireball that left a visible cloud hovering around nearby residential areas. With a history of incidences, the plant moved quickly to minimize the damage.

Bayer cooperated with the U.S. Chemical Safety Board (CSB), the federal organization to investigate chemical hazards, by providing numerous documents regarding the incident.

When CSB announced that it wished to publicize all the information received from Bayer, the corporate legal team evoked disclosure protection of federal laws created to ensure homeland security, including the Maritime Transportation Security Act (MTSA).

The case considers whether the public's rights to access information regarding a health hazard would supersede the public's need to be protected from the threat of terrorism.

LEARNING OBJECTIVES

The objectives of this case are:

1. The student will be able to identify relevant facts and background information pertaining to an ethical decision.
2. The student will be able to evaluate decision options using Nash's 12 questions.
3. The student will be able to develop arguments for a proposed course of action based on various stakeholder interests, including those of an individual organization and those of a public at large.

APPLICATION

This incident is designed to facilitate discussion in graduate and undergraduate business and communications courses when topics in business ethics and/or social responsibility are considered.

KEY WORDS

Ethics, social responsibility, information control

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CASH CONTROL IN A NON-PROFIT ORGANIZATION: IS IT CRITICAL?

**Gabriele Lingenfelter, Christopher Newport University, Newport News
John D. Veal, Jr., Webster University, Fort Sill**

SYNOPSIS

The critical incident describes the collection of membership fees for the James Middle School Student Support Organization (JMS SSO). As is typical in many small non-profits, internal controls over the collection of membership money and donations are not clearly established. The potential for intentional and unintentional misstatement exists.

The students are asked to find other examples where a lack of appropriate internal controls resulted in embezzlement of money from non-profit organizations. The critical incident then requires the students to identify internal control weaknesses in the JMS SSO. After discussing the weaknesses and reviewing the Committee of Sponsoring Organization (COSO) framework, the students are asked to suggest appropriate internal controls.

LEARNING OBJECTIVES

The objectives of this case are:

1. The student will understand the importance of internal controls in volunteer organizations.
2. The student will be able to develop a flowchart of the cash collection process and use the flowchart to analyze the strengths and weaknesses of the cash collection process.
3. The student will identify internal control weaknesses involving the cash transactions or collections at a local SSO.
4. The student will suggest appropriate internal controls to improve the cash collection process at volunteer organizations.

APPLICATION

The case should be assigned during the discussion of internal controls and is appropriate for an undergraduate or graduate auditing class. The case can be used for an in-class discussion, or an out-of-class writing assignment. If the case is used for an in-class discussion, students should read the material prior to class.

KEY WORDS

Accounting, auditing, non- profits, internal controls

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**IGNEOUS SKIS, AN UPSTART IN A MATURE INDUSTRY:
IS THIS AN OPPORTUNITY OR SIMPLY A HOBBY?**

**Kimbrough Sherman, Loyola University Maryland
Harsha Desai, Loyola University Maryland**

SYNOPSIS

Adam Sherman, CEO of Igneous Skis and 37 years old, couldn't imagine a better life than the combination of skiing by day and designing and building skis by night. His passion was a composite of skiing the next turn and making the fastest, most agile, most durable, and most beautiful pair of skis. Faced with the termination of family support, Adam must choose to acquire funds for a new go at Igneous as a ski making enterprise, seek employment as a designer/developer with a larger ski company, sell the Igneous brand to a major brand as might a micro-brewery, to shrink to hobby status, or to quit altogether.

LEARNING OBJECTIVES

1. Students are able to analyze whether the principals can create a competitive product.
2. Students are able to recognize the conflict between the necessary passion that an entrepreneur must have for the enterprise and the market, organizational, and financial realities.
3. Students are able to evaluate an organization's strengths, weaknesses, opportunities and threats to make a decision in a complex situation.

APPLICATION

The case can be used in undergraduate or graduate Entrepreneurship courses describing analysis and identification of opportunities available to an entrepreneur. This decision case presents the students with the conflict between the necessary passion for the enterprise and the realities of business.

KEY WORDS

Entrepreneurship, Start-up,

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IN THE INTEREST OF WOMEN?

Claire McCarty Kilian, University of Wisconsin – River Falls

Brian J. Huffman, University of Wisconsin – River Falls

SYNOPSIS

As a management professor, Vicki Olson was invited to join a Women's Interest Network established at her university. The email announcements and invitations were sent to all female faculty and staff. She wondered about the appropriateness of this group. How should interest groups (often called affinity groups) be managed? What were her specific concerns and should she give voice to them?

Students become actively involved in an analysis of a well intentioned, but perhaps poorly managed, organizational initiative. It requires them to think about anti-discrimination and diversity practices, possible pitfalls, and systematically outline some guidelines for using employee interest groups.

LEARNING OBJECTIVES

This critical incident requires students to:

1. Identify the positive and negative aspects of having an employee interest group.
2. Determine if the use of this interest group violated legal and fairness standards.
3. Construct a set of guidelines that would be appropriate for managing such groups.

APPLICATION

This incident is appropriate for use in Workplace Diversity and Human Resource Management courses. Students should first be familiar with EEO laws.

KEY WORDS

Affinity groups, Employee Interest Groups, Discrimination, Diversity

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IS DR. STEINBERG'S TRAIT SELECTION A VIABLE BUSINESS?**Chunlei Wang, San José State University****Asbjorn Osland, San José State University****Nanette Clinch, San José State University****William Jiang, San José State University****Vivek Kumar, University of Texas, Southwestern Medical Center****SYNOPSIS:**

This critical incident focuses on decision making. In February 2009, Dr. Jeff Steinberg announced that his clinic, The Fertility Institutes, would use preimplantation genetic diagnosis (PGD) to help prospective parents to pick their babies' hair or eye color. Immediately after the media coverage of the initiative, some doctors expressed doubts regarding its technical feasibility, and some religious groups and bioethicists questioned its ethics. Amidst ethical controversies and technological uncertainty, Dr. Steinberg and his colleagues are facing challenges to legitimate the trait selection business. When a new technology, PGD in this case, lays a foundation to a potential new line of business (e.g., the trait selection business), strategic entrepreneurs need to learn about how to deal with issues peculiar to the embryonic stage of an industry. Furthermore, a technology is not always value neutral, but can involve ethical controversies. Entrepreneurs should assess the ethical implications of the technology and formulate strategies to shape the institutional environment to their advantage.

LEARNING OBJECTIVES:

The objectives of this case are:

1. use the *industry life cycle* model (Hofer, 1975) to explain difficulties encountered in commercializing non-medical trait selection with the PGD technology. (Question 1)
2. use the *embeddedness theory* in economic sociology (Granovetter, 1985; Zelizer, 1978) to explain the influence of cultural context on economic activities and the role of ethics as a social force in legitimating a business. (Question 1 and Question 2)
3. propose a sensible strategic plan that would help legitimate the trait selection business, from the standpoint of Dr. Steinberg. This exercise will help students to make better sense of the theory of *institutional entrepreneurship*

APPLICATION:

Entrepreneurship, marketing, strategic management, ethics and medical ethics, and health administration

KEY WORDS:

Preimplantation genetic diagnosis, trait selection, industry life cycle, embeddedness, institutional entrepreneurship

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MEASURING AND MANAGING EMPLOYEE TURNOVER AT TASTEE MAX RESTAURANTS

Bonalyn J. Nelsen
Patricia M. Walker

SYNOPSIS

This case offers students the opportunity to measure the direct and indirect costs of and make a business case for addressing and managing employee turnover in a quick service restaurant chain. Ronda Garvey, assistant manager of a Tastee Max restaurant located in the food court of one of upstate New York's busiest malls, is concerned about excessive employee turnover in her restaurant. The average annual turnover rate for Ronda's restaurant was approximately double the turnover rate of other Tastee Burger stores. Ronda had several ideas about how the turnover problem could be addressed, but knew that obtaining support for her ideas would not be easy. Noting that the chain's employee turnover was about half the industry average for quick service restaurants, Tastee Max's corporate managers had been relatively unconcerned about the problem. Key to the success of any initiative taken to curb turnover was gaining the support of corporate management. Ronda wondered (1) what type of retention strategy she should suggest and (1) how to make a business case to gain credibility and support for her ideas.

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. To identify and describe the causes of employee turnover in a quick service restaurant.
2. To identify and recommend retention strategies for managing employee turnover.
3. To measure the direct and indirect costs of employee turnover.
4. To identify and describe the strategic impact of employee turnover in a quick service restaurant chain.
5. To use data on the direct and indirect costs of employee turnover to plan and describe a business case for remedial action within a firm.
6. To identify and recommend additional methods of measuring and analyzing employee turnover.

APPLICATION

This critical incident is suitable for use in advanced undergraduate and graduate courses in human resource management, human resource metrics, performance management, strategic human resource management, and food service management.

KEY WORDS

Employee turnover, performance management, human resource management, strategic human resource management, food service management, small business management.

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MOUNTAIN VIEW ASSISTED LIVING

Ann M. Hackert, Idaho State University
Jeff Brookman, Idaho State University
Sandra Speck, Idaho State Univeristy

SYNOPSIS

James and Karen Wilson have a vision to build and operate an assisted living facility that would make Medicaid residents feel at home. The competition provided facilities that could make Medicaid residents feel like second-class citizens. A facility to provide service at a lower cost would need to be built differently so buying an existing facility is not an option. James did research and estimated revenues and costs for the project. Now James must analyze the numbers and understand the market to determine whether he should build and run the facility.

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. Evaluate the local market for assisted living facilities through the use of a SWOT analysis.
2. Determine the target market for this venture, as well as the key elements of the marketing mix which must be addressed to meet the needs of this market.
3. Construct pro forma income statements to evaluate the financial viability of a business opportunity using the results to evaluate the financial issues associated with a business targeted to Medicaid recipients.
4. Identify and evaluate the qualitative issues and risks affecting a business opportunity.

APPLICATION

This incident can be used in finance, marketing and entrepreneurship classes. The critical incident can also be used in spreadsheet modeling classes. For introductory finance class, faculty may want to provide students with some of the information from the Tables in this teaching note. For division finance classes, faculty can require students to read the incident and develop the data as they appear in the tables. This critical incident is also appropriate to use in an introductory marketing class. Faculty in marketing can provide the data in the Tables or require students to make selected calculations. This critical incident provides faculty in either finance or marketing the tools needed to help students integrate concepts and understand interrelationships in a cross disciplinary framework.

KEY WORDS

Finance, Marketing, Pro-Forma Financial Statements

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NYC SUBWAY LINE AND THE METROPOLITAN TRANSPORTATION AUTHORITY

Karen A. Berger, Pace University
Colleen P. Kirk, Pace University

SYNOPSIS

NYC Subway Line was the name of a business owned by Lynne Lambert as well as the brand name of her subway-themed product line. As the first apparel licensee of New York's Metropolitan Transportation Authority (MTA), Lynne had spent the last thirteen years of her life, as well as a good portion of her life savings, using the brightly colored graphics and maps of the New York City subway line to create high quality, urban chic apparel and accessories. Her products reflected the trendy, fashion forward NYC lifestyle and encompassed a broad range of apparel, such as t-shirts, hoodies, and caps, and accessories, from tote bags to backpacks.

By 2005, Lynne came to the realization that to achieve her dream of establishing NYC Subway Line as a substantial fashion brand on its own, she would need the security of an exclusive license. The MTA agreed to award Lynne an exclusive apparel license, but meeting the MTA's volume requirements was a challenge, and despite exclusivity, she found her business vulnerable to the constant threat of knock-off competitors. In 2009, the MTA informed Lynne that they might not renew the exclusivity clause of her apparel and accessories license. She wondered what she should do next. Should she go ahead and sign the agreement if they deleted the exclusivity clause? Would her business survive without an exclusive license?

LEARNING OBJECTIVES

The objectives of this case are:

1. To identify and explain the key criteria that can be used to evaluate a brand.
2. To identify some of the strategic issues associated with an entrepreneur trying to build a brand, especially one whose trademark is owned by an organization like the MTA.
3. To analyze the risks and benefits of an exclusive licensing arrangement.
4. To use the concept of exclusivity in the evaluation of a business strategy.

APPLICATION

An entrepreneurship or marketing course in which current marketing issues are covered, including principles of marketing and basic marketing management.

KEY WORDS

licensing, branding, brand name

CONTACT

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PEER REVIEW PRESSURE

Reed McKnight, University of New Mexico
William E. Stratton, Idaho State University

SYNOPSIS

This is a decision making incident regarding outside pressure from a strong supporter of an organization to make changes that present the organization with a challenging, essentially political, decision situation. Specifically, a private firm suggested that an academic program significantly increase peer performance review training in its already crowded curriculum.

A number of possible responses to the request are presented. Students reading the case face the problems of deciding how to analyze the situation from the standpoint of a number of different stakeholders involved, deciding who to involve in the decision process, and deciding how to proceed to a sound decision. The incident is a good example of how a seemingly simple decision situation can become quite complex as it develops to potentially involve an increasing number of constituencies and issues. This incident is designed to encourage students to critically think through the implications of a decision and of the decision process itself. The specific issue involved, peer review of performance, is one that students can relate to personally, making the stakeholder analysis particularly real for them. A challenging aspect of this case is that there is really no right or wrong decision—any course taken will please some stakeholders and disappoint others.

LEARNING OBJECTIVES

As a result of analyzing this case students will be able to:

1. Create a stakeholder analysis to evaluate who should be included in the decision process and how they should be involved and analyze how they might be expected to react to alternative decision outcomes.
2. Identify alternative decision options and decision processes.
3. Evaluate the possible consequences of different decision options, including the decision to take no action at all in response to the situation.

APPLICATION

This incident is suitable for use in organizational behavior or human resource management courses at the undergraduate or graduate level dealing with issues in decision making or human resource strategy involving the analysis of tradeoffs among multiple constituencies.

KEY WORDS

Organization Behavior, Decision Making, Human Resources Strategy

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QUEST RESEARCH EXPLORES THE HOG PRODUCTION INDUSTRY

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Clyde Vollmers, Russian American Institute
Ozcan Kilic, University of Wisconsin, River Falls

SYNOPSIS

Quest Research was a garage-based, start-up company conducting basic research involving electrolyzed water. Quest had identified hog farmers as a potential target market. The critical incident starts the day after two Quest team members had presented information to two swine industry experts. These experts had agreed that the theory was scientifically sound, and one had offered to present a business plan to a potential angel investor. The question facing Quest was whether or not the market potential was large enough to justify the necessary investment.

The critical incident concludes with an appendix describing the pork production industry that provides adequate information for students to determine potential industry size, potential pricing and contribution margins, and determine the potential for proceeding.

This is a “numbers” critical incident, providing instructors with the opportunity to enhance students’ analytical skills. The focus of the critical incident is the quantitative evaluation of market potential.

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. To evaluate the attractiveness of an industrial market and determine the Key Factors of Success (enhancing the students analytical skills).
2. To evaluate the financial feasibility for launching a new product (enhancing the students problem solving skills).

APPLICATION

This critical incident (CI) is appropriate for upper level undergraduate or introductory MBA level courses in agribusiness, marketing, strategy, small business, and entrepreneurship.

KEY WORDS

Agribusiness, Marketing, Strategy, Entrepreneurship.

CONTACT

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SKYDIVE CAROLINA – WELCOME TO MY WORLD

Timothy E. Burson, Queens University of Charlotte
Bradley W. Brooks, Queens University of Charlotte
Leanne S. Pupchek, Queens University of Charlotte

SYNOPSIS

James La Barrie, general manager of Skydive Carolina faced a serious crisis on January 31, 2009, when skydiving instructor Chip Steele suffered a heart attack and died in mid-air on a tandem jump with student Daniel Pharr. Pharr guided the parachute down safely and emerged unhurt, but the media quickly picked up on the story and began giving it extensive coverage.

La Barrie, general manager of Skydive Carolina, desired to manage the flow of information to ensure reports were accurate while also being sensitive to the needs of a variety of stakeholders: Steele, Steele's family, Pharr, and Skydive Carolina.

After a few days of hectic communication, La Barrie received a call from a representative of ABC's Good Morning Show requesting he appear along with Pharr and Pharr's family. La Barrie was forced to decide whether to appear on the show. He was also forced to make a quick decision how to manage Skydive Carolina's market image after this horrific tragedy.

LEARNING OBJECTIVES

The objectives of this incident are:

1. The student will be able to identify the key issues involved in a crisis that impacts multiple external parties.
2. The student will be able to evaluate the potential impact of the publicity that follows a negative incident on a company's branding and positioning efforts.
3. The student will be able to identify and to analyze the communications strategy implemented by the firm following a crisis.

APPLICATION

This incident facilitates rich discussion in graduate or undergraduate courses in Corporate Communication, Corporate and Social Responsibility, Crisis Communication, and Consumer Behavior.

KEY WORDS

Social responsibility, crisis communication, brand equity

CONTACT

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THE FATE OF MEDIAFUSE: AN ENTREPRENEUR WRESTLES WITH THE FUTURE DIRECTION OF HIS INTERNET MARKETING FIRM

John C. Riddick, Jr., Hanover College

SYNOPSIS

Ian Davis, a former freelance creative design and marketing consultant turned entrepreneur, creates a full-service marketing firm called MediaFuse. MediaFuse serves clients in the Midwestern United States and ends 2008 with approximately \$550,000 in revenue. MediaFuse's service lines include a broad spectrum of Web-related marketing services. Services had been developed over the years based on a combination of customer demand and Ian's interests and hobbies. At the start of 2008, Ian tells his employees that he wanted MediaFuse to reach a \$1 million in total revenue by the end of the 2010 calendar year. After a year of wrestling with client demands, new service lines, new hires, and operational issues, however, Ian feels stretched thin. He is intimately involved with every MediaFuse project and staying on top of them is a challenge.

OBJECTIVES

After analyzing this critical incident, students should be able to:

1. Discuss the management capacity challenges an entrepreneur faces when growing a small services business in a highly fluid industry.
2. Recommend new management practices for an entrepreneurial firm by using the early stages of Greiner's organizational development model.
3. Use the stages of small business growth and corporate development to enhance the managerial effectiveness of an entrepreneur.

APPLICATION

This critical incident is suitable for undergraduate courses in entrepreneurship and small business management.

KEY WORDS

Interactive marketing, entrepreneurship, small business management, eCommerce management

CONTACT

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THE IMPLOSION OF LEARNING TEAM 17

Anthony J. Mento, Loyola University Maryland
John T. Everett, Loyola University Maryland

SYNOPSIS

Learning team 17 is about a team of students experiencing major team problems during their first year in an Executive MBA program. After getting off to a shaky start in September, the team experienced the recurring problem of a strong willed team member changing final team deliverables without consulting the team. While the team was receiving good grades on team deliverables, the majority of the team felt that they were not learning important team skills. By February, after a few unsuccessful attempts to resolve the issue, three of the five team members were threatening to quit the team and the program. The team coach and the team must now decide what actions if any to take to improve the situation.

LEARNING OBJECTIVES

The objectives of this case are:

1. Assess or critique a team's development using a group development model.
2. Evaluate the effectiveness of a team by assessing the role team members play.
3. Evaluate the effectiveness of a team using at least two different models or approaches.
4. Recommend ways that a team may improve its effectiveness and/or deal more effectively with conflict.

APPLICATION

This disguised incident can be presented open-ended without any specific questions or with several recommended questions. The incident is best used with an instructor led approach. This incident can be used at the upper level undergraduate or graduate level in organizational behavior, human resource management, or specialized elective courses focusing on team effectiveness, management or leadership.

KEY WORDS

Norms, roles, group development, team effectiveness, conflict

CONTACT

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THE PROGRAM DIRECTOR AND CRISIS MANAGEMENT

Leigh W. Cellucci, Idaho State University
Linda Hatzenbuehler, Idaho State University
Brian Crawford, Idaho State University
Carla Wiggins, University of Wisconsin—Milwaukee
Tracy Farnsworth, Idaho State University

SYNOPSIS

Enrique Mendez, program director of Western University's Optometry Program (WUOP) was reviewing the irregular salaries line of the budget/expense report he had received from Kelly Kennedy, an optician in his department. Kennedy had noticed discrepancies regarding irregular salaries, which allocated over-time expense for optical clinic staff. In the irregular salaries line, Kennedy noted that the expenses were incurred for over-time work had increased. As a result, about 80 percent of the budget allocated for irregular salaries had been expensed. Mendez could not think of a reason for such an increase. However, he had not spent much time reviewing budget data in the past. He had an excellent administrative assistant, Jewel Rasconski, whom he had relied upon to take care of paperwork. Rasconski had taken it upon herself to file time cards that would reflect over-time work. For Mendez, Jewel was indeed a jewel. What information should Mendez gather to determine if there is a problem? And, if there is a problem, what should he do? Further, if there is a problem, how should he communicate it to the WUOP's stakeholders?

LEARNING OBJECTIVES

The objectives of this critical incident are:

1. To identify potential questionable/unethical/illegal behavior via budget review.
2. To review and follow HR stated policy regarding employee conduct.
3. To analyze the supervisor's role when dealing with a potential crisis.
4. To analyze appropriate and inappropriate delegation by a manager.
5. To create a crisis communication plan to address potential harm to the reputation of the institution.

APPLICATION

This CI is intended for undergraduate management, marketing, organization behavior, and health care administration courses that explore supervisory responsibilities and crisis management. Also, even though this CI contains the budget sheet, it was not written to be intended for an Accounting class.

KEY WORDS

Crisis management, embezzlement, human resources

CONTACT

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WHAT IS THE BOARD'S RESPONSIBILITY

Kay A. Hodge, University of Nebraska at Kearney
Janet Trewin, University of Nebraska at Kearney

SYNOPSIS

Scandal rocked Center City in the summer of 2008, when the Executive Director of the Center City Public Schools Foundation was accused of embezzling more than \$577,000 from the foundation. A series of newspaper articles revealed that the extent of the fraud amounted to over \$850,000, but since the state's statute of limitations had expired, the Executive Director could be charged with stealing only \$577,000. Questions abounded in the community. When was the last audit? How did she get away with so much money? Where did the money go? Can we trust the foundation's board to care for any future contributions we might make?

LEARNING OBJECTIVES

After reading and studying this case, students will be able to:

1. Explain the board's duty of loyalty to the stakeholders of the Foundation.
2. Explain the board's duty of care to the stakeholders of the Foundation.
3. Describe what an annual audit of the Foundation's books would have shown.
4. List the types of controls that need to be put in place at the Foundation.

APPLICATION

This case is best used in a business law course or a principles of management course when discussing the fiduciary duties of a Board of Directors and internal controls.

KEY WORDS

Fraud, fiduciary duties, internal controls, business law

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AGRIKRAFT: ACROSS THE CULTURAL DIVIDE

Robert Picard, Idaho State University**Priscilla R. Reis, Idaho State University****Dennis Krumwiede, Idaho State University**

This case was prepared by Robert R. Picard, Priscilla R. Reis and Dennis Krumwiede of Idaho State University 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. Authors' views are based on their own professional judgments. The names of the organization, individuals and location have been disguised to preserve the organization's request for anonymity.

"I guess I should have been careful what I asked for," LeaAnn Harstead thought as she sat in her company's small conference room and listened to what her consulting team was reporting. The consultants had just completed interviews of the combined U.S. and German management team and were sharing their initial results with LeaAnn, AgriKraft's Human Resources Director. What LeaAnn had asked was for the consultants to provide some indication of how well the combined companies had overcome national cultural hurdles when it came to communication and decision making.

Background

AgriKraft, based in a rural farming community, had been manufacturing and selling agricultural harvesting equipment in North America for nearly 50 years prior to its purchase by the German company five years ago. In January 2006, within a year of the combination, the organization hired Henry Schuster to conduct a workshop focusing on national cultural differences. Henry was an American who grew up in the Midwestern United States and then moved to Germany as a professor. He often travelled between countries and was quite comfortable in both cultures and now worked as a cross-cultural trainer and consultant. Henry facilitated a two-day workshop at the AgriKraft U.S. facility and the four top German managers flew from Germany to attend the event. Other Germans in attendance included mid-level managers who were on temporary assignment in the U.S. Henry used the time to highlight the frustrations experienced by both

In July 2006, AgriKraft hired a human resources consulting company to facilitate a river rafting trip focused on team building. This trip hadn't been specifically designed as a cross-culture training exercise, but since there were a number of Germans working at AgriKraft, cross-cultural issues became a clear theme. The first day of the two-day experience was dedicated to classroom training at the AgriKraft facility. On day two, the entire group was bussed to a popular river destination for a day of whitewater rafting. Everyone seemed relaxed and enjoyed the experience. An unplanned teambuilding exercise occurred when the bus became mired in mud on its approach to the river. Initially the bus driver (an American) would not listen to advice from anyone on the bus and as a result the bus went deeper and deeper into the mud. Finally, he realized he had to accept advice and help from his riders. They unhooked the trailer with some difficulty, and then all of them pushed the bus out of the mud. At dinner that night, the group decided the lesson from the trip was "when in a hole, stop digging".

In July 2007, Henry Schuster facilitated a second "official" cross-cultural event. This event was much the same as the first but there were some new participants and the group seemed to experience more openness from those attending. During a "visioning activity" the group discovered that both U.S. and German participants independently articulated the same vision and values for the organization.

Finally, in January 2008, AgriKraft hosted a customer appreciation open house and dinner to celebrate the company's 50th anniversary with a mix of AgriKraft personnel and customers attending. As an after dinner exercise, LeaAnn distributed some envelopes. Those who received the envelopes were asked to name the top three qualities of each of the five people to their right. In one case, an American had to name three qualities of a German who he didn't like very much. He was able to do so and still express his dislike in a humorous and acceptable manner. One observer said that prior to this incident, you could feel some tension in the room but afterward all of the tension dissipated. Most agreed that this activity helped make the dinner a success.

The Challenge

Now, as she looked back, LeaAnn wondered what really had been accomplished in the last three years. Patricia Rowling, the well-travelled lead consultant, was saying "while it seems that almost all of the more than 30 managers now know what to expect from interacting with managers from the other culture, many are still unable to accept those differences as a matter of course. And very few have become comfortable to the point of feeling 'at home' with the other's cultural approach to communication. We've listened to the recordings of all of our interviews and prepared a list of quotations and observations from your managers illustrating the still existent cultural divide. Why don't you take this copy of our initial report and look through what we found. How about if we come back at about this same time on Thursday to talk about the next steps?" "That will be great. That will give me a few days to think about what I'm seeing here," replied LeaAnn.

The fact that AgriKraft (U.S.) now had its third new German president in seven years highlighted the difficulties the company was having communicating and working with its German counterpart. The previous president had felt that communications and cooperation

between the U.S. and German operations were improving satisfactorily, but LeaAnn had heard comments from both German and American managers that led her to believe that AgriKraft had not made nearly enough progress on this issue. Also the company's performance had not improved significantly, despite the improvements that the intercultural teams were trying to implement. As a result, and with the current president's blessing, she contracted with the consultants to help establish a clearer picture of the progress that had or had not been made in the past few years.

That Saturday, in spite of the sunny fall morning that begged for a hike in the mountains, LeaAnn found herself sitting on her back patio rereading her consultants' report. It seemed as though AgriKraft's management team had moved beyond what she thought of as the "surprise" phase of the culture shock each company's personnel experienced with the initial combination of operations between a U.S. and a German company. But after more than five years, many managers still seemed to be stuck in an "awareness phase" despite significant efforts to move them beyond awareness to an "acceptance phase" and then "cross-cultural comfort zone".

LeaAnn had crafted this taxonomy of cultural acclimation to help her understand and address what she saw as an inevitably difficult process of creating effective communications between two cultures. The "surprise phase" encompassed the initial shock of realizing that cultural differences were present and significant and affected day-to-day communication. The "awareness phase", where LeaAnn felt most of her managers were now, involved managers being aware of the general communication style and attitudinal differences between their respective national cultures, but experiencing frequent discomfort or frustration as a result of the differences. Finally, the "cross-cultural comfort zone", where she hoped to be one day soon, resulted when managers were adept at and comfortable with communicating and working across cultural boundaries. She remembered that the consultants had mentioned a couple of models of cultural development- Bennett's Model (1993) and the Mapping, Bridging, Integration [MBI] model (DiStefano, 2003)- and thought that maybe she should check those out.

As LeaAnn re-read the quotations included in the consultants' report and reflected on the past few years, she realized she was experiencing a variety of emotions. First was the appreciation of the richness of working in a multi-national environment. Having been born, raised and educated in a small rural community, she had never imagined that she would be working at a "multi-national" company. Second was the nervousness that came with the realization that she and the management team would have to devise a strategy and implement a plan to improve communications within the company. Finally, she realized the frustration of not getting far enough fast enough with respect to the communications issue had been wearing on her. Something had to be done to reduce frustration and increase the effectiveness of communication across AgriKraft's cultural divide.

A high pitched chattering jarred LeaAnn from her thoughts. A red squirrel had scampered onto the deck railing next to where she was sitting and chattered as though it was scolding her to get back to work. She laughed and said "I wonder if German squirrels are even more direct than you? And I wonder what the next step should be?"

Selected Quotations from AgriKraft Managers

The American Managers (A)

1. Here I argue about things and the president says “no” and that’s it. But there, no doesn’t mean “No”. It means, “Go back, think about it, and bring me another argument”. To our way of looking at it, it’s an argument. They really go at it. But they separate the business from the person. They’re just attacking the idea, trying to get the best synthesis. Here, we tend to take it as a personal attack.
 2. We didn’t challenge assumptions up until about a month and a half ago; we’d just report our numbers. It seemed like fluff. Now we’re getting down to the meat. If you feel you can take the personal out of it, maybe we can do it better. If you didn’t know the German approach you think they were going to duke it out. The American side is quite a bit softer - we don’t confront each other. We’re not as direct. But the Germans are direct and bold, but in the next breath, they leave as friends.
 3. If somebody felt challenged, the conversation would shut down pretty quickly....There were even a couple of presidents who said, “Don’t come out of your sandbox. Do your job; let everyone else do theirs.” But the cross-cultural training is helping us to get over that. *The Five Dysfunctions of a Team* (Lencioni, 2002) has helped us understand that we need to find the balance. The Germans are quite good at it. The Americans pad it for fear of offending someone. They (the Germans) are much better at holding each other accountable.
 4. The culture when I came here was “don’t play in each others’ sandbox”. But assumptions are challenged more freely now. In my last job, consultants came in to help with a cultural change. The consultants called us “Country nice”. In other words, I’m not going to challenge you directly. After the meeting I’m going to talk bad about you to my buddy at lunch. But I’m not going to make you look stupid in a meeting. They made us understand that you needed productive conflict. When I came here there was a tacit fear of the Germans. When I sat in a meeting with two Germans, I saw them challenge each other, even if they were on different levels. The Germans expect to challenge assumptions openly, and then they leave as friends. But I’m not sure that all longtime American employees have realized that.
 5. The communication style is different. The German culture is more up front and aggressive.
 6. Usually there’s a free exchange of ideas. Things can get heated.The Germans are much more confrontational personalities. They are pretty blunt. It can get pretty heated. But there is no personal malice. But here in the States, people take challenges personally.
 7. The cross-cultural events are warm and feel-good, but nothing much happens after that. There was no follow through. The one benefit I see is that we at least get to see
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each other on a personal level. But it doesn't affect how I do my job. How they would like us to do it isn't always the way that's best for us.

8. We're just getting to the point of beginning to have healthy debate instead of someone saying something and the conversation stopping. If someone felt challenged the conversation would shut down pretty quickly. I think it's out of fear of looking like you're backstabbing your buddies. In the past those challenges might get thrown out there but it was like a bomb going off. But we do have to hold each other accountable. We have to have that productive debate and conflict.
9. The Germans are quite good at it [challenging assumptions]. And it can look quite heated but they walk away and they're friends. It's just that they expect it. Americans tend to be much nicer and pad everything for fear of offending someone. If the Germans think it's bull, they call it bull. Then they talk about it and if they don't agree their feelings aren't hurt. They expect that. They're much better at holding each other accountable and wanting to hear the explanation instead of accepting somebody's assertion and just going along with it.
10. My evaluation is subjective and based on how my boss feels about me and how well folks believe I work with others. Not really meaningful. No pay for performance. It would be nice if there was some individual bonus based on operating results.
11. The first cross-cultural event was initiated by the Germans. That was nice because it showed us all that the Germans were committed to us and they didn't think that we were dumb. That was a feeling we had prior to the event.
12. When a design reaches the production floor and there is a problem, the American workers fix the problem on the floor. The Germans would pull the part back and redesign the whole thing as the Germans want upper management or higher authority to make decisions.

The German Managers (G)

1. It's important that we understand what's going on in all the departments.
 2. We negotiate goals with Germany. Being a North German, these negotiations are not threatening, Germans are more direct at getting the point, developing a solution to a problem.
 3. The challenges are definitely constructive. It's steering the company; they're definitely important. I've never had a fear of losing my job over challenges.
 4. The challenges are very constructive. That's a cross-cultural difference. The same types of meetings in Germany were much tougher.
 5. I trust my employees so I don't need to challenge their assumptions.
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The German president/Chief Executive officer (CEO)

31

1. For several years we thought we were understanding each other but we found that we were working in parallel but not together. ...Daimler Chrysler collapsed because people could not communicate between cultures.
2. The example has to come from the top.

Glossary of US Idioms

Backstabbing: Saying negative things about someone without that person's knowledge.

Buddies: Friends.

Bull: Something that is untrue.

Check it out: Get more information about.

Don't come out of your sandbox/ don't play in each other's sandbox: Tend to one's own matters. Don't interfere with others.

Down to the meat: Clearing out the excess. Removing irrelevant or confusing details and finding out the real facts about something.

Duke it out: Fight or argue aggressively.

Heated: Intense, animated.

"Country nice": A regional tendency to want to be polite and non-confrontational, even if one disagrees.

Like a bomb going off: Explosive. To begin suddenly.

Like fluff: Light, superficial, not meaningful.

More up front: More direct in communication.

Pad it: Add additional information to try to make a statement less direct or offensive..

Really go at it: To be aggressive; fight or argue aggressively.

Shut down: Become quiet. Not communicative.

Talk bad about: To say unkind or unpleasant things about another.

That's it: the issue is settled. No more to be said or done.

Warm and feel-good: To be friendly and say things that will put someone at ease.

AIR VARIÉ CORPORATION: LAND SALES REVENUE RECOGNITION ISSUES

Franklin J. Plewa, Professor, Idaho State University

Robert R. Picard, Professor, Idaho State University

Mark Bezik, Concordia University Wisconsin

This case was prepared by Franklin J. Plewa, Robert R. Picard, and Mark Bezik and is intended to be used as a basis for class discussion. The views presented here are those of the authors based on their professional judgment and do not necessarily reflect the views of the Society for Case Research. The names of individuals, the firm, and its location have been disguised to preserve anonymity.

Introduction

Charles Greg was walking to Artefino, his favorite Cleveland café, to grab an espresso and gather his thoughts. Charles, a former KPMG audit manager, was Air Varié's Chief Financial Officer. He had always prided himself on delivering the straight scoop when it came to financial information and now he was having a disagreement with Air Varié's "Big 4" auditors about how a certain type of business transaction should be portrayed in the company's financial report. Charles' view had always been that if the goal of financial reporting was to reflect the economic substance of a company's business transactions, then that reality should be portrayed in the financial statements. Lately however, it seemed like auditors were getting more and more closed to rolling up their sleeves and looking at the substance of creative transactions necessitated by tight commercial real estate markets. Rather they seemed to want to make quick and easy conservative calls when it came to revenue recognition or asset valuation. Charles realized that this may be in part because of the impact of the Sarbanes-Oxley Act of 2002. The act was a response to a number of corporate accounting frauds in which inadequate internal controls over revenue recognition were discovered and required companies to establish and maintain controls over the recognition and reporting of revenue. However, he felt strongly that adequate controls over the recognition and reporting of revenue were in place and operating effectively at Air Varié.

Background

Charles had significant experience in the commercial real estate industry, first as an auditor with KPMG where several of his audit engagements involved real estate development activities, and then with a large regional commercial real estate development company as its CFO. Five years ago, Charles was approached by Air Varié's Vice President of Operations

and offered a position as Air Varié's Midwest Divisional CFO. This opportunity provided a significantly positive career advancement opportunity and Charles accepted the position almost five years ago to the day.

Air Varié Corporation was a \$3.2 billion national real estate development company that had been in business for over 55 years. The company had provided integrated services including real estate development, architecture & engineering, construction project management, property management, and financial services. Air Varié was a major real estate developer with in-house expertise in office, industrial, retail, multifamily, government, and institutional projects.

The Transaction

Integral to its development activities, the company held land as inventory for future development. Occasionally, Air Varié had been approached by third parties who wished to purchase a parcel or parcels of land. Because Air Varié's land inventory holdings were intended for its own future development activities, the company was unwilling to sell the parcels at a price equal to just the raw land's value. Instead, it would only sell if it could secure approximately the same development and construction profit that would be attained if it were to develop the property. Typically however, a buyer was reluctant to agree to pay a purchase price that included development fees at the time of the land sale so the company had not entered into this type of arrangement in the past. Lately however, the real estate development market had been in a significant downturn and major development projects had been hard to come by. Consequently, when Air Varié had been approached to sell a nearly seven-acre parcel of land in the Cleveland area, the company had shown particular interest in trying to structure a sale that would be attractive to both parties. While the company had still been reluctant to sell any of its land holdings without a development deal attached, it had realized that it might have to temporarily rethink its position and find more creative ways to generate profits and cash flow in difficult times, while at the same time leaving options open that might result in related development opportunities. Therefore, in order to facilitate this deal, Air Varié was considering the following arrangement:

- The company would sell land outright but retain the future right to build for the buyer. The initial price of the land would be the current market value for the land only.
- The right to build would be documented in a cost-plus-market-fees contract that would be signed at closing by both parties. This contract would contain language such that, by a certain date, if the buyer chose *not* to use Air Varié for the construction phase of the project, or merely continued to hold the undeveloped land, the buyer would pay the company an additional amount and Air Varié's right to build would be extinguished.
- This additional amount would be significant but somewhat less than the profit that the company would have earned had it been involved in the construction phase of the project; however, the lesser amount recognized the reduced effort on the company's part.
- This additional amount would not be accrued as revenue upon the initial sale of the land.
- Even though Air Varié would retain the right to build for the buyer, there would be no legal obligation for it to enter into a development contract.

The details of this arrangement were spelled out in the commercial sales contract included at the end of this critical incident.

The Disagreement

During an audit of Air Varié, the issue arose as to whether - under this arrangement – the company could recognize revenue (the land's fair market value contained in the sales agreement) and profit from the initial sale of the land under full accrual accounting. Charles Greg believed that the accounting standards clearly supported the recognition of revenue and profit on the initial land sale on the full accrual basis "because all risks and rewards of ownership have been transferred to the purchaser." Further, Charles contended "the continuing involvement to build under a cost-plus contract would have a contractually-limited liability of loss of zero dollars and only a potential for additional future profit". CoopersHousewater, Air Varié's auditor, disagreed with this interpretation of the literature and believed that a portion of the profit on the land sale should be deferred into future periods. Specifically, Ed Hightower, partner-in-charge of the engagement felt "since there is an agreement to construct facilities on the land, then Air Varié should blend the two activities' margins and recognize revenue on a percentage-of-completion basis unless or until the purchaser buys out Air Varié's right to construct or agrees to begin construction with the company as contractor."

Ed had been the partner in charge of the Air Varié engagement since only last year and seemed clearly more conservative than the previous partner-in-charge. Charles knew that CoopersHousewater had been involved in audit-related litigation recently and that one of Ed's former engagements was central to the suit. Charles could understand Ed's desire to "be more careful" in his interpretation of accounting standards, but he didn't feel that Air Varié should have to pay the price of not recognizing revenue that he believed was reasonably supportable. Charles didn't think he was being unreasonable, and he believed that he had a responsibility to record all revenue and profit that was reasonably justifiable in the current period. Positive operating results were hard to come by in the current market and this sale was being considered because it would help meet the Midwest Divisions revenue and profit targets.

As Charles sat down at Artefino, he was wondering about how Ed would respond if Air Varié elected to report the revenue and profit on the initial land sale in the current financial statements. After all, management had full responsibility for the content of the financial statements. He also knew that multiple avenues existed for resolving differences of opinion between client management and auditors. He was reasonably confident that, no matter how this transaction was reported, Ed would not decide to deviate from an unqualified audit opinion. Or would he?

Commercial Land Sale Contract

1. Purchaser agrees to purchase at a price of \$ 2,500,000 on the terms set forth in this agreement, the following described real estate in Cuyahoga County, Ohio, (legal description omitted for this critical incident) with the approximate lot dimensions of 450 ft. X 620 ft.
 2. Air Varié agrees to sell the land described above at the price and terms set forth in this agreement, and to convey or cause to be conveyed to purchaser or nominee title to it by a recordable deed, with release of dower and homestead rights, if any, and a proper bill of sale, subject only to: (a) covenants, conditions and restrictions of record; (b) private, public and utility easements and roads and highways, (c) party wall rights and agreements, (d), existing leases and tenancies (as listed in Schedule A, if any), (e) special taxes or assessments for improvements not yet completed, (f) installments not due at the date hereof any special tax or assessment for improvements heretofore completed, (g) mortgage or trust deed specified below, if any; (h) general taxes for the year 20XX and subsequent years; (i) additional terms and conditions set forth in Schedule A.
 3. Purchaser has paid \$ 250,000 as earnest money to be applied on the purchase price, and agrees to pay or satisfy the balance of the purchase price, plus or minus proration, at the time of closing as follows:

The payment of \$ 2,250,000 as the base and minimum consideration for the sale at the time of closing plus additional potential future consideration as outlined in Schedule A.
 4. Seller, at seller's own expense, agrees to furnish purchaser a current plat of survey of the above real estate made, and so certified by the surveyor as having been made, in compliance with the Ohio Land Survey Standards.
 5. The time of closing shall be on March 15, 20XX or on the date, if any, to which such time is extended by reason of paragraph 2 of the conditions and stipulations below becoming operative (whichever date is later), unless subsequently mutually agreed otherwise, at the office of McCarthy, Pecor, Cristian & Lee Co.: L.P.A. or of the mortgage lender, if any provided title is shown to be good or is accepted by the purchaser.
 6. The earnest money shall be held by First Banc Corp for the mutual benefit of the parties.
 7. Seller warrants that seller, its beneficiaries or agents of seller or of its beneficiaries have received no notices from any city, village, or other governmental authority of zoning, building, fire or health code violations in respect to the real estate that have not been corrected.
 8. A duplicate original of this contract, duly executed by the seller shall be delivered to the purchaser within 10 days from the date of this contract, otherwise, at the purchaser's option, this contract shall become null and void and the earnest money shall be refunded to the purchaser.
-

This contract is subject to the conditions and stipulations set forth in the next section and in Schedule A, which conditions and stipulations are made a part of this contract.

Dated _____.

_____, Purchaser

_____, Seller

_____, Purchaser

_____, Seller

Conditions and Stipulations

1. Seller shall deliver or cause to be delivered to purchaser or purchaser's agent, not less than five days prior to the time of closing, the plat of survey and a title commitment for an owner's title insurance policy issued by the American Title Insurance Company in the amount of the purchase price, covering title to the real estate on or after the date of this contract, showing title in the intended grantor subject only to (a) the general exceptions contained in the policy, (b) the title exceptions set forth above, and (c) title exceptions pertaining to liens or encumbrances of a definite or ascertainable amount which may be removed by the payment of money at the time of closing and which the seller may so remove at that time by using the funds to be paid upon the delivery of the deed (all of which are referred to in this contract as the permitted exceptions). The title commitment shall be conclusive evidence of good title as in this contract shown as to all matters insured by the policy, subject only to the exceptions as stated in it. Seller also shall furnish purchaser an affidavit of title in customary form covering the date of closing and showing title in seller subject only to the permitted exceptions in foregoing items (b) and (c) and unpermitted exceptions or defects in the title disclosed by the survey, if any, as to which the title insurer commits to extend insurance in the manner specified in paragraph 2 below.
2. If the title commitment of plat of survey discloses either unpermitted exceptions or survey matters that render the title unmarketable, seller shall have 30 days from the date of its delivery to have the exceptions removed from the commitment or to correct such survey defects or to have the title insurer commit to insure against loss or damage that may be occasioned by such exceptions or survey defects, and, in such event, the time of closing shall be 35 days after delivery of the commitment or the time expressly specified in paragraph 5 in the first section of this contract, whichever is later. If seller fails to have the exceptions removed or correct any survey defects, or in the alternative, to obtain the commitment for title insurance specified above as to such exceptions or survey defects within the specified time, purchaser may terminate this contract or may elect, upon notice to seller within 10 days after the expiration of the 30-day period, to take title as it then is with the right to deduct from the purchase price liens or encumbrances of a definite or ascertainable amount. If purchaser does not so elect, this contract shall become null and void without further action of the parties.

3. Rents, premiums under assignable insurance policies, water and other utility charges, fuels, prepaid service contracts, general taxes, accrued interest on mortgage indebtedness, if any, and other similar items shall be adjusted ratable as of the time of closing. If the amount of the current general taxes is not then ascertainable, the adjustment of it shall be on the basis of the amount of the most recent ascertainable taxes. All prorations are final unless otherwise provided in this contract. Existing leases and assignable insurance policies, if any, shall then be assigned to purchaser. Seller shall pay the amount of any stamp tax imposed by law on the transfer of the title, and shall furnish a completed real estate transfer declaration signed by the seller or the seller's agent in the form required pursuant to the Real Estate Transfer Tax Act of the State of Ohio.
4. The provisions of the Uniform Vendor and Purchaser Risk Act of the State of Ohio shall be applicable to this contract.
5. If this contract is terminated without purchaser's fault, the earnest money shall be returned to the purchaser, but if the termination is caused by the purchaser's fault, then at the option of the seller and upon notice to the purchaser, the earnest money shall be forfeited to the seller and applied first to the payment of the seller's expenses and then to payment of a broker's commission; the balance, if any, to be retained by the seller as liquidated damages.
6. Time is of the essence of this contract.
7. All notices required in this contract shall be made in writing and shall be served on the parties at the addresses following their signatures. The mailing of a notice by registered or certified mail, return receipt requested, shall be sufficient notice.

Schedule A

1. As a condition of this sale, Air Varié is granted a right of first refusal to serve as general contractor (right to build) for future development on this property. This right to build will remain in force for a period of 36 months from the time of closing.
2. The right to build will be documented in a cost-plus-market-fees contract that will be signed at closing by both parties and include a 4% developer fee based on the actual cost of the project including the land cost, payable to Air Varié at the completion of the construction phase.
3. If buyer elects *not* to engage Air Varié for the construction phase of the project, or elects to continue to hold the undeveloped land beyond the 36 month period referenced in number 1 above, the buyer will pay Air Varié an additional sum of \$250,000 and Air Varié's right to build will be extinguished.
4. Air Varié's right to build does not obligate the company to enter into a development contract with the buyer. In the event that the buyer elects to build on this land within the stipulated 36 month period and Air Varié elects not to enter into a construction contract with the buyer in accordance with the terms included in the cost-plus-market-fees contract, no additional sum will be due Air Varié from the buyer and this contract will be deemed complete.

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**THE SOCIETY FOR
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ALABAMA’S ‘FAT TAX’

Asbjorn Osland, San José State University

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William Jiang, San José State University

This critical incident was prepared by Asbjorn Osland, Pamela Wells, and William Jiang of San José State University and is intended to be used as a basis for class discussion. The views represented here are those of the authors and do not necessarily reflect the views of the Society for Case Research. The authors’ views are based on their own professional judgments. The name of the marketing manager has been disguised to preserve her request for anonymity but all other names are genuine.

Cassidy Talmadge, the Marketing Manager for the Alabama State Employees’ Insurance Board (ALSEIB), was in charge of the public relations aspects of ALSEIB’s wellness program. She was taken aback that some of the media reports had been so critical when her employer thought that it was trying to help employees. The media had sensationalized the program by referring to it as a “fat tax.” How can she take the offensive and draw positive attention to the program? She would have to wait a few months for success stories to develop but she wondered what she could do to get the word out regarding such testimonials.

Description of the Program

ALSEIB wanted to find ways to reduce health insurance costs so it launched a wellness program. Employees received a \$25 discount toward their health insurance premium if they did the following:

- Participated in wellness screenings to check four risk factors: blood pressure, cholesterol, glucose, and body mass index
- And if found to be at risk for one or more of the four risk factors, they agreed to address their risk in one of four ways: 1) See physician for treatment/instruction on how to address the risk; 2) Participate in the Weight Watchers at Work® program offered through the ALSEIB; 3) Join a YMCA facility that participates in the YMCA

- Network offered through the ALSEIB; and 4) Address the risk with self- administration; under this scenario the employee would need to show progress in order to continue receiving the discount.
- Alternatively, they could have obtained a doctor's excuse if there was a medical reason for non-participation.

Employees were also eligible for a \$30/month discount if they didn't use tobacco products. Coupled with the \$25 discount for the wellness screenings and follow up, if required, the employees could have reduced their health premium to \$15 monthly for a single employee after discounts.

When asked about the program in March 2009, Cassidy believed that although there was some misunderstanding early on, members proved happy with the program when it was properly explained. She stated:

It's just a matter of explaining that as long as they are addressing their health risk, they will not be charged the premium. And we are spending a lot of time explaining that obesity is not the only risk factor being screened. Someone with a perfectly healthy BMI may be deemed at risk for hypertension, making them subject to the premium. We are doing our best to convey that obesity is not the ONLY health risk focus in this program.

Blood pressure, cholesterol, glucose and tobacco use were the other health risks typically covered by wellness programs. Cassidy said that the media had been the biggest problem in the roll out of the program. The wellness program was sensationalized by being called a "fat tax," which was a mistaken interpretation of the discount process. The State Employees' Association, an employees union, had been supportive of the program.

Cassidy explained,

If the member is found to be at risk for any of the four risk factors, they are provided a referral to visit a physician along with a co-pay waiver form. So, even if they are at risk, they are able to go to their own personal physician, with no co-pay, and address the issue. In addition, we offer the Weight Watchers at Work ® and YMCA memberships at discounted rates, whether the member is at risk or not.

She added,

... in my opinion, the biggest misunderstanding is that if you are at risk for any of the four risk factors, you will not receive the discount. When, in fact, if the member is at risk and they address this issue w/ their physician or through one of the SEIB approved programs (YMCA or Weight Watchers), they will receive the discount.

On November 18, 2009 she stated that 93% of 38,000 members had been screened. Many that were found to be at risk did not know so. What the program needs is “a few years of claims information to show its savings.”

To date (personal communication, April 19, 2010) Cassidy reported:

The wellness program has gone really well...Everything and everyone has been unbelievably cooperative and understanding. The screenings are going more smoothly than ever and members actually call us now to find out when their next screening is scheduled. It's almost as if it's become a necessary part of their life.

We are also learning so much about what employees are doing to lessen their conditions. There are diet and exercise programs that we have seen employee's success exceed expectations. So, we are now in a learning process of what we should consider offering or supplementing for our employees.

The ALSEIB, in collaboration with the Auburn University Harrison School of Pharmacy Clinical Education Center, has a wellness center that includes a pharmacy and health center that is dedicated to the wellness of its active and retired state employees. The SEIB Wellness Center allows state employees to receive free wellness screenings, monitor their current health risk, and utilize the pharmacy located in the Wellness Center. A nurse practitioner will also be available in the upcoming months to address minor illnesses for ALSEIB members.

ALSEIB's program provided the following services:

- medical and lifestyle histories used to screen individuals at the worksite and provide follow-up
- testing such as blood pressure, glucose and cholesterol evaluations with professional health counseling follow up
- administration of flu shots
- BMI calculation and
- Wellness Center and Pharmacy dedicated specifically to the well-being of ALSEIB members.

William Ashmore in the Media

In an Auburn, Alabama newspaper article (Limerick, September 18, 2008) William Ashmore, the ALSEIB CEO, stated that the wellness program was voluntary.

We're doing this as an incentive to get employees to participate in the screening It's a voluntary program, and the vast majority of employees are appreciative of these programs The objective is to get as many employees as possible to go through the screenings and for people to understand what risks they have The main focus of this program is on making each individual employee healthy.... Healthy employees cost the health plan less. ... We would have never gotten the employee association to endorse this program if it discriminates against employees. ... I fully expect to see more and more

states do similar plans. ... We already have numerous states call in on a daily basis, asking questions about how do we do it (sic), looking at doing something similar to this. ...Any program of this nature has to be focused on improving the health of employees.

In a CNN interview (Sloane, December 9, 2008), Ashmore added,

Over 10 percent of the people we screen are at risk for one of the factors we're screening for, and the vast majority had no earthly idea they were at risk....A healthy employee will cost the program less money. ... What we want to do is, number one, make the employee aware of any risk factors they may have and then knock down the barriers so that they can go get the services they need.

What should Cassidy do to promote the Wellness program?

Cassidy hoped the furor regarding the “fat tax” misrepresentation of the wellness program and premium discount was over. She wondered, “How can we avoid such misunderstanding and the accompanying negative publicity in the future?” If the State of Alabama saved money on health costs the legislators, ALSEIB, state government and the public would be happy; but the first evaluation was more than a few years off. She knew that testimonials could prove encouraging to prospective participants. The quicker changes could be smoking cessation and weight loss for those that dramatically reduced caloric intake and increased their exercise regimen. People can lose three pounds or more per week for months if obese and under medical supervision. She would have to wait a few months but she wondered what she could do to get the word out regarding such success stories.

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**THE SOCIETY FOR
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APPLE, INC., AND GREENPEACE IN 2008

Patrick L. Schultz, University of North Dakota**Duane Helleloid, University of North Dakota**

This case was prepared by Patrick L. Schultz and Duane Helleloid of the University of North Dakota 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. Authors' views are based on their own professional judgments. .

Introduction

In January, 2008, Apple, Inc., was flying high from its continuing series of product launches and innovations in the computer and consumer electronics market. At the recent Macworld 2008 trade show, Steve Jobs, Apple co-founder and CEO, introduced the sleek new MacBook Air ultra-portable laptop along with a host of other new products, services, and updates (Krazit, 2008, January 15). Apple's recently launched iPhone reached 4 million units in sales during its first six months on the market, and the iPod digital music player did well during the holiday sales season. Apple's stock price had also ended 2007 near \$200 a share, a record high for the company. Despite this momentum stemming from technological innovations, a report from Greenpeace harshly criticized Apple for its environmental practices, and ranked Apple far behind some of its fiercest competitors such as Nokia, Dell, and HP (How the companies line up – Nov 07, 2007, December). Greenpeace was one of the most recognized and active environmental activist groups in the world (see Figure 1 for the organization's mission statement). Given Apple's reputation as a cutting edge leader in stylish product design, the potential blow to Apple's brand name challenged Steve Jobs and Apple's management team to consider the best way to respond to Greenpeace without giving the organization even more of the publicity it sought.

Greenpeace's Initial Report and Apple's Response

In August, 2006, Greenpeace released its first "Guide to Greener Electronics" (Greenpeace, August 25, 2006; Donoghue, 2006, August 29). The guide was designed to assess a selection of top electronics and technology companies on their environmental policies and practices, and

rated companies on their use of toxic chemicals in, and recycling of, their products. Apple ranked 11th out of 14 top technology companies with a score of 2.7 out 10, behind competing companies such as Nokia, Dell, Sony, and Hewlett Packard. The speed at which the story circulated was dizzying. La Barrie saw that some of the stories, perhaps with reporters rushing to make deadlines, had sensationalized the events, such as the headline “Novice Survives after Sky-Dive Strapped to a Dead Man,” which appeared on the front page of the Hilton Head (South Carolina) *Island Packet* newspaper (Garfield 2009). Hilton Head Island was well over 200 miles from Chester.

Table 1
Greenpeace's Mission Statement

Greenpeace is an independent campaigning organization that uses peaceful protest and creative communication to expose global environmental problems and promote solutions for the future. With 42 offices located throughout the world, Greenpeace works to protect our oceans and ancient forests, and to end toxic pollution, global warming, nuclear threats, and genetic engineering. Since 1971, Greenpeace has been the leading voice of the environmental movement by taking a stand against powerful political and corporate interests whose policies put the planet at risk. (Greenpeace, Inc., 2008: 1)

Source: Greenpeace, Inc., 2008.

Greenpeace's criteria called for companies to eliminate hazardous substances from products and take back or recycle products once they became obsolete. Greenpeace drew attention to the fact that Apple scored poorly on almost all criteria. In particular, Apple scored badly with regard to the use of polyvinyl chloride (PVC) and brominated flame retardants (BFRs), and was criticized for not establishing a schedule for the elimination of these chemicals in its product lines. Nokia was at the top of the ranking partly because it eliminated the use of PVC in its products, while Dell established a clear commitment to and timeline for the elimination of toxic chemicals in its products.

Greenpeace challenged Apple to put as much effort into the environmental impact of its products as it did into other elements of product design. In response, an Apple representative touted the company's environmental track record and criticized the criteria Greenpeace had chosen:

Apple has a strong environmental track record and has led the industry in restricting and banning toxic substances such as mercury, cadmium and hexavalent chromium, as well as many BFRs. We have also completely eliminated CRT (cathode ray tube) monitors, which contain lead, from our product line. (Donoghue, 2006, August 29; Williams, 2007: 41)

Greenpeace Escalates Its Criticism

In September, 2006, Greenpeace launched a “Green My Apple” campaign to raise awareness of Apple’s environmental shortcomings. The campaign included a web site which mimicked Apple’s own advertising look and included pictures and stories of toxic and discarded electronics being handled by children in India and China (Williams, 2007). In October, Greenpeace was kicked out of an Apple-focused trade show in the UK after show organizers claimed they received complaints about Greenpeace’s efforts to generate awareness about Apple’s environmental practices. The group set up a booth at the trade show and circulated flyers about their environmental initiatives, and also asked attendees to challenge Apple to improve the environmental impact of its products. News organizations reported that Greenpeace volunteers at the show were disruptive to attendees and other exhibitors (Greenpeace forced out of MacExpo [updated], 2006, October 26).

Iza Kruszewska, Greenpeace International campaigner at the expo, reportedly said:

Apple refuses to address our criticisms on their products, both for the recycling and for the use of harmful chemicals...Instead of hiding their head in the sand, Apple should be a world leader in the greening of the electronics industry, not lagging behind. (Greenpeace forced out of MacExpo [updated], 2006, October 26).

Greenpeace Takes On Apple At Home

Greenpeace again challenged Apple in January, 2007, but this time at the Macworld Expo in San Francisco. The Macworld Expo was the major worldwide event for Apple and related product launches and announcements. Rick Hind, legislative director of Greenpeace USA's toxics campaign, described the group’s intent:

Apple is a leader in creative thinking and design, and we are encouraging them to expand that innovative know-how to making all of their products green...our purpose here is to remind them that making products with toxic chemicals in them is not an option. (Taylor, 2007: 25)

During the Macworld Expo, Greenpeace activists projected images over an Apple Store of toxic scrap yards in Asia where the organization claimed much of the electronics waste produced by electronics companies ends up, often handled by children. Interestingly, Apple CEO Steve Jobs did not mention any environmental commitments or strategies at the company during his keynote address (Williams, 2007).

While other companies evaluated in Greenpeace’s guides had similar and worse scores, Greenpeace had not focused attention on those firms in the same way it had at Apple, with a campaign directed specifically at Apple. Apple was the only company singled out in a campaign that tried to draw attention to toxic compounds and waste from discarded products.

Apple's Environmental Challenge

In November 2007—ahead of the 2008 Macworld Expo—Greenpeace released the latest edition of its “Guide to Greener Electronics” report. Apple received a score of 6.0 out of 10, and Greenpeace noted slight improvements in the use of toxic chemicals in products. However, Apple’s rivals Dell, Nokia, and HP were ahead of Apple in their reported environmental efforts, and the company that scored at the bottom of Greenpeace’s first report in 2006—Lenovo—was now well ahead of Apple with a score of 7.3 (How the companies line up - Nov 07, 2007, December). A summary of the rankings and scores from Greenpeace’s Guide to Greener Electronics is presented in Table 1. While the general trend indicated improvement, over time Greenpeace had also made adjustments (or refinements) to its measurement criteria, making it more challenging for firms to achieve a perfect score.

It seemed that while Apple was slowly improving, its competition in the computer and consumer electronics markets was moving even faster. Apple’s recycling policies were weaker than others, like Dell and HP. In fact, Dell’s founder and chairman, Michael Dell, challenged the entire industry to adopt free recycling programs, and not just in locations where they were legally mandated to do so. Apple only did this in Europe and Japan where local laws required them to provide this option. Furthermore, Apple and Greenpeace, which had been talking about environmental issues before the “Green My Apple” campaign, severed communications between each other (Williams, 2007).

Table 1
Summary of Company Rankings and Scores from Greenpeace’s Guide to Greener Electronics

Ranking	1 st Edition, August 2006	3 rd Edition, March 2007	5 th Edition, September 2007	6 th Edition, November 2007
1 st	Dell (7)	Lenovo (8)	Nokia (8)	Sony Ericsson (7.7)
2 nd	Nokia (7)	Nokia (7.3)	Sony Ericsson (7.7)	Samsung (7.7)
3 rd	HP (5.7)	Dell (7)	Lenovo (7.3)	Lenovo (7.3)
4 th	Sony Ericsson (5.3)	Sony Ericsson (7)	Dell (7.3)	Dell (7.3)
5 th	Samsung (5)	Samsung (6.3)	Fujitsu-Siemens (7)	Sony (7.3)
6 th	Sony (4.7)	Motorola (6.3)	Sony (7)	Fujitsu-Siemens (7)
7 th	LG (4.3)	Fujitsu-Siemens (6)	LG (7)	LG (7)
8 th	Panasonic (3.3)	HP (5.6)	Samsung (6.7)	Toshiba (7)
9 th	Fujitsu-Siemens (3)	Acer (5.3)	Motorola (6.7)	Nokia (6.7)
10 th	Toshiba (3)	Toshiba (4.3)	Toshiba (6)	HP (6.7)
11 th	Apple (2.7)	Sony (4)	Acer (5.7)	Apple (6)

Ranking	1 st Edition, August 2006	3 rd Edition, March 2007	5 th Edition, September 2007	6 th Edition, November 2007
12 th	Acer (2.3)	LG (3.6)	HP (5.3)	Acer (5.7)
13 th	Motorola (1.7)	Panasonic (3.6)	Apple (5.3)	Motorola (5)
14 th	Lenovo (1.3)	Apple (2.7)	Panasonic (5)	Panasonic (5)
Average	4.0	5.5	6.6	6.7

(Source: Data retrieved from guides posted on Greenpeace's website; scores are listed in parentheses and are on a 10-point scale; Apple's scores are highlighted for clarity)

Appendix A reports Apple's stock performance and net sales and income entering into 2008. In January, just before Macworld Expo 2008, *BusinessWeek* convened an expert panel about what challenges Apple should tackle in the future. Jesse James Garret summed up his assessment of Apple's strengths this way: "Apple really excels at taking aspects of our daily lives that we find frustrating and overly complicated and proving they don't have to be as complex as we've always assumed." He added that this creates an "enormous amount of goodwill for the brand" (Vella, 2008). Tadeo Toulis, creative director at the industrial design firm Teague advised that Apple should be more proactive in addressing the environmental impact of its products. Sustainability issues should figure more prominently as products are conceived and designed (Vella, 2008).

Apple, Inc., was well recognized for product design and innovation, but the environmental issues and campaign orchestrated by Greenpeace was particularly challenging. Apple typically chose not to comment on either Greenpeace's regular editions of its "guide," nor on the various publicity stunts Greenpeace targeted at Apple. Seemingly on its own schedule, Apple had occasionally released information on the current state of its use of various chemicals/components in products, the company's own energy usage and environmental emissions, the energy usage of its products, and the results of existing recycling programs. However, just as it chose not to describe or pre-announce future products, Apple had refused to commit to any particular timetable or deadlines for future environmental outcomes (one of the criteria used by Greenpeace). The Greenpeace campaign provided particularly stinging criticism given the presence of former Vice President and environmental activist Al Gore on Apple's board of directors. Apple had seemingly made a decision to largely ignore Greenpeace, and perhaps because of this decision, Greenpeace escalated the intensity of its criticism towards Apple in order to get Apple to respond. While Apple could continue this approach and publicly release information about its environmental policies on its own schedule, it had to weigh the merits of this approach with other approaches to managing perceptions of its environmental stance. Greenpeace was only one of many organizations that vied for the attention of Apple's management and Apple's customers, yet Greenpeace's decisions and actions could influence the decisions of other Apple stakeholders.

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Appendix A



Figure 1
Stock Price from 2005 to 2007, Apple, Inc. (Adjusted for Splits and Dividends)
(Source: Data retrieved from Yahoo! Finance)

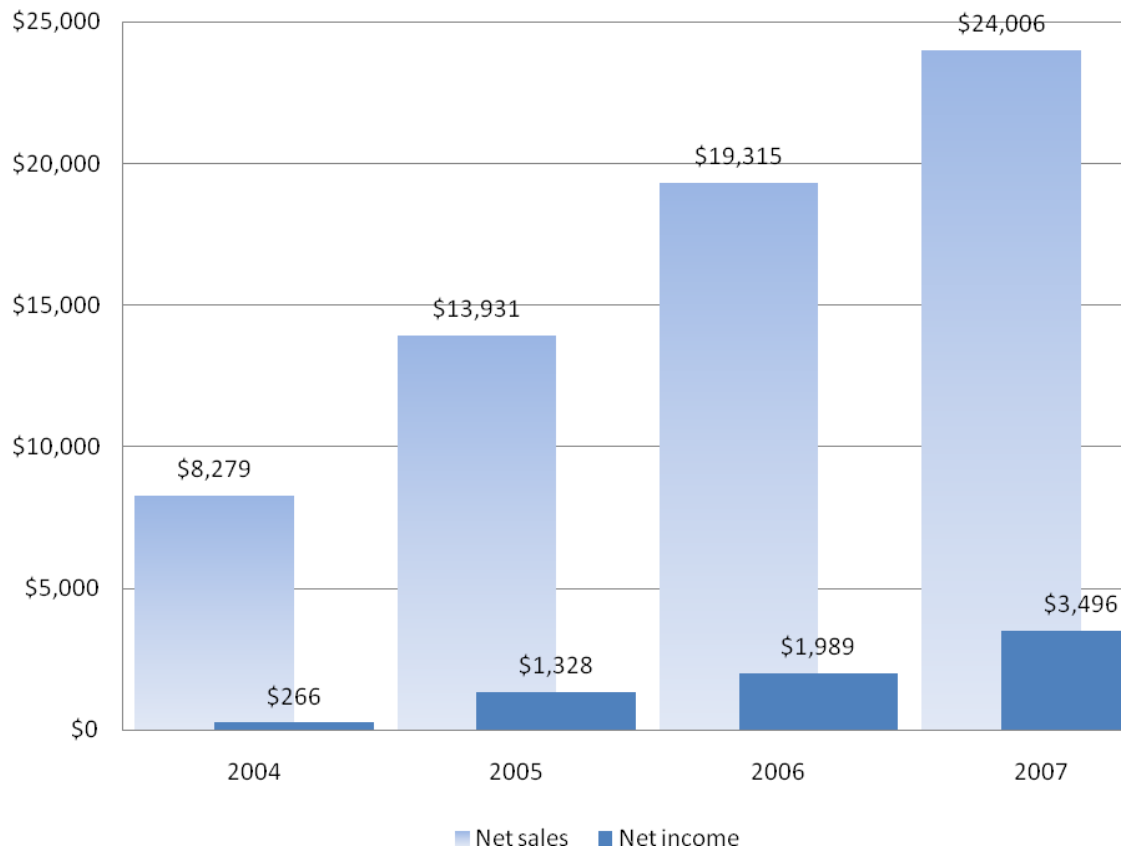


Figure 2
Net Income and Sales from 2004 to 2007, Apple, Inc. (in millions of dollars)
(Source: Data retrieved from Apple, Inc., annual reports)

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**THE SOCIETY FOR
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BAYER CROPSCIENCE: THE PUBLIC'S RIGHT TO KNOW

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This case was prepared by Steven M. Cox and Bradley W. Brooks of Queens University of Charlotte 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. Authors' views are based on their own professional judgments.

William Buckner, president and CEO of Bayer CropScience, felt pressed for time in making an unsettling decision after his company's deadly explosion. The Bayer Group had been producing and storing large quantities of lethal chemicals at its plant in Institute, West Virginia. When an industrial tank of methomyl, a chemical used in pesticides, exploded on August 28th, 2008, it flew 50 feet through a production unit. The blast had destroyed everything in its path and had killed two employees.

Since the incident, Bayer had reluctantly disclosed information about the incident only to the Chemical Safety Board (CSB), a government investigative board. On March 19, 2009, however, the CSB announced it would hold public hearings and disclose its findings. Buckner felt these open hearings could result in negative publicity about the company and/or about the Institute facility. Such publicity could lead to public pressures either to reduce or even to eliminate the production of dangerous chemicals at Institute (Buckner, 2009).

Bayer's lawyers, however, had just presented Buckner a potential legal option. If successful, the option could deter the CSB from releasing Bayer's information to the public or, at the least, it could delay the release. In reviewing the provisions of the Maritime Transportation Security Act (MTSA), Buckner's lawyers had determined that the law could be used to disallow the CSB from discussing sensitive security information (SSI) publicly.

By using the law protecting SSI, Bayer might be able to forestall public disclosure of the hazards that existed within the plant and thereby prevent a public debate from occurring. Was this the right thing to do, did the public have a right to know about the hazards on its door step, or did Buckner have a higher responsibility to Bayer and its shareholders? What should he do?

The Institute, West Virginia Chemical Plant

The Bayer plant is a large chemical complex of more than 400 acres first constructed in the 1940s. Employing more than 500 people, the facility was located along the Kanawaha River, about 10 miles from Charleston, WV.

In the 1980s, Union Carbide owned both the factory in Institute as well as its “sister plant” in Bhopal, India (Huntington News 2009). The Bhopal plant, however, became best known for leaking 30 tons of methyl isocyanate (MIC) in December 1984, a disaster that exposed more than 500,000 people. MIC is considered “immediately dangerous to life and health” (IDLH) at the extremely low concentration of three parts per million in air.

The plant in Institute was not immune to Bhopal- type incidents. In August 1985, around two tons of toxic chemicals, including the highly toxic pesticide, aldicarb, were released in a burning cloud that hovered over the nearby residential area causing over 300 sicknesses. An August 1994 explosion at the Institute plant claimed the lives of two employees. Nearly two years later, a chemical leak and fire in February 1996 forced thousands of local residents to stay indoors (Newsblaze, 2008).

The plant manufactured and stored large quantities of some of the world’s most toxic substances, including phosgene, a gas once used as a chemical warfare agent in World War I, and MIC, the chemical that killed the thousands of civilians in Bhopal (Bresland Testimony, 2009). It had become the only plant in the United States still manufacturing significantly high volumes of MIC (Newsblaze, 2008).

Bayer CropScience

The German based Bayer Group boasted global revenues of approximately \$48 billion in 2008 (Gannon, 2009). Best known for having developed aspirin, the Bayer aspirin brand had built its strong brand equity through high consumer trust.

As a component of the Bayer Group, Bayer CropScience was a leading worldwide agrochemical company, whose primary products were industrial pesticides. In 2008, annual sales from pesticide production were over \$7 billion. Headquartered in Monheim, Germany, Bayer CropScience had about 18,300 employees, located in more than 120 countries. On its website, Bayer CropScience affirms its five values as follows:

1. A will to succeed
 2. A passion for our stakeholders (customers, shareholders, suppliers, communities)
 3. Integrity, openness and honesty
 4. Respect for people and nature
 5. Sustainability of our actions
-

Chemical Safety Board

The CSB began operating in 1998 as an independent agency created under the Clean Air Act Amendments of 1990. The act directed CSB: (1) to investigate and report on the cause or probable cause of any accidental chemical releases from stationary sources resulting in a fatality, serious injury, or substantial property damages; (2) to make recommendations to reduce the likelihood or consequences of accidental chemical releases and propose corrective measures; and (3) to establish regulations for reporting accidental releases. The agency publishes investigative reports and issues safety studies and videos to help prevent future accidents. Congress modeled CSB after the National Transportation Safety Board (NTSB), which has a similar public safety mission. Like NTSB, CSB has no enforcement authority and a limited regulatory role. The current chairman of the CSB, John Bresland, testified before Congress that “the security-related issues that have been raised in the aftermath of the accident can have major ramifications for future investigations by the CSB and for the public’s right-to-know about chemical accidents” (Bresland, 2009).

The Incident

The explosion occurred within the Methomyl/Larvin unit. A residue treater, an eight by ten foot cylinder weighing more than 2 ½ tons when empty, ruptured and was violently propelled toward the northeast, destroying production equipment, twisting steel beams, and breaking pipes and conduits. Two Bayer employees died from the explosion. Blast waves broke windows, cracked walls, and fractured ceilings in homes several miles away.

Immediate assessment of the accident was difficult for those outside the company. Kent Carper, Kanawha County Commission President, was frustrated by what he called “worthless” information from the plant on the night of the accident. Furthermore, rescue teams attempted to obtain information from Bayer personnel for hours but were repeatedly turned away, which they felt compromised their ability to attend to any residents who may have needed emergency assistance. The incident subsequently led the governor of West Virginia to issue an order requiring all serious incidents to be reported to authorities within 15 minutes (Hutington News, 2009).

In attempting to calm fears regarding the explosion, Bayer maintained that its large tanks of MIC were not in the vicinity of the accident. Weeks later, however, it was learned that the explosion actually occurred within 80 feet of 13,000 lbs of methyl isocyanate (MIC). Although the nearby MIC tank escaped serious damage on August 28, there was reason for concern. This blast was potentially a serious near miss, the results of which might have been catastrophic for workers, responders, and the public.

The Aftermath

The U.S. Chemical Safety Board (CSB) investigated the incident. Initially, Bayer questioned whether or not it was required to comply with all of the CSB requests, however, the company determined that it could not deny the CSB access to information about MIC, but that the law

(MTSA see below) could be used to prevent the CSB from discussing SSI information publicly. In complying with a request from the CSB, Bayer provided the agency numerous documents concerning the incident and potential safety issues. CSB demanded and received maps of the plant, including locations of potentially deadly gas tanks, which CSB subsequently made public. The one area in which Bayer was reluctant to give information to CSB was regarding the technical specifications of the blast blanket, a device intended to protect the chemical tank. Like the maps, public disclosure of such information could have posed significant safety concerns.

In January, the CSB notified Bayer it planned a hearing in West Virginia to update the public on its preliminary findings. This meeting was to be held on March 19, 2009.

The Maritime Transportation Security Act

The MTSA was enacted after the terrorist acts of September 11, 2001. Since then the security of every chemical business had been governed either by the CFATS (Chemical Facility Anti-Terrorism Standards) if the plant were landlocked or by the MTSA if the plant bordered water. Because Bayer's plant was located next to a river, MTSA was its governing legislation. MTSA protected the secrecy of information designated as SSI. The MTSA did not prevent the disclosure of information to authorized government entities; however, it did restrict information disclosure to non-government bodies. Bayer had never used the act as a reason to withhold information in the past. In fact, there was no evidence that it had ever been used in a situation like this before.

The MTSA was enacted with the understanding that secrecy of certain information is required to protect US citizens against terrorism. It was not intended to be used, however, to conceal information that should be made public regarding the safety of US citizens.

The Dilemma

Buckner was faced with a dilemma. He felt that using the MTSA could limit negative publicity about the company or the Institute facility, and citing the secrecy rules could allow Bayer to avoid a public discussion about its stockpile of more than 200,000 pounds of chemicals similar to those that caused the deaths in Bhopal. Further, he knew that it was up to the Coast Guard and the Transportation Security Administration—not CropScience—to determine whether certain information was or was not SSI, and whether SSI could or could not be disclosed to persons other than covered persons.

While pursuing SSI coverage could limit public debate, he wondered if using the MTSA in this way the right thing to do? Did the public have a right to know the danger that the chemicals in the Bayer plant posed to those living in the area? If he did nothing, the CSB would make its finding known; if he invoked the MTSA he might successfully forestall any disclosures. What should he do?

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**THE SOCIETY FOR
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CASH CONTROL IN A NON-PROFIT ORGANIZATION: IS IT CRITICAL

Gabriele Lingenfelter, Christopher Newport University
John D. Veal, Jr., Webster University

This case was prepared by Gabriele Lingenfelter, of Christopher Newport University, and John D. Veal, Jr., of Webster University, 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. Authors' views are based on their own professional judgment.

“Portland police have arrested the treasurer of an elementary school PTA on charges of stealing \$13,000 from its account.”ⁱ

“VIRGINIA BEACH – A former PTA president is accused of embezzlement. Police say Amanda Byrd stole \$7,000 from the organization at Lynnhaven Elementary School by cashing seven forged checks before she resigned in December 2008.”ⁱⁱⁱ

After the first membership drive of the school year, officers of the James Middle School Student Support Organization (JMS SSO) realized that their cash collection procedures may be lacking. Parents complained that they had joined but not received membership cards. The officers wondered if the membership cards were lost during distribution or if the organization's internal control over cash collection was weak.” One of the board members decided to seek outside assistance in improving the internal controls of the organization. In contacting a local accountant she was informed that flow charts and a review of the Committee of Sponsoring Organizations' (COSO) control framework were appropriate to design efficient and effective controls for cash receipts.

James Middle School Student Support Organization

James Middle School (JMS) was in the heart of Virginia. The school housed grades 6-8 and enrolled between 900 and 1,000 students. Since 1996 when the school first opened, it had established a reputation for superior student performance on standardized tests and for extraordinary parental involvement.

The school had a very active Student Support Organization (SSO) with membership exceeding 600 members each year. Each year the JMS SSO aimed to increase membership to have the financial resources to fund various school activities. The school's Principal, Dr. Miller, and his two Assistant Principals, fully supported the efforts of the SSO and encouraged the SSO to be represented at school events, such as the annual Open House and Back to School Night.

The SSO board at JMS had a new President, Vice President, Treasurer, Secretary and numerous new committee chairs, including two new co-chairs of the membership committee. Most of the board members and committee chairs knew each other, as their children had attended elementary school together.

Membership at Open House

JMS held its annual Open House in late August. During the Open House students received their class schedules and parents and students toured classrooms and briefly met with teachers. As with other school events, the SSO set up a table with membership information and a list of volunteer opportunities. The Open House in August and the Back to School Night in the middle of September presented the two biggest opportunities to attract parents to join the SSO. The two new co-chairs of the committee, Gina and Rob, and two former membership committee chairs staffed the SSO membership table. The table was stacked with membership forms (Figure # 1), school calendar magnets, pens, last year's membership directory, a bowl of mint candies and sign-in sheets for members interested in volunteering.

While Gina and Rob had not met before their assignment to the membership committee, both had served on PTA boards before. Gina and Rob also were friends with the other board members. They both had been members of various PTA or PTO organizations for a number of years.

"Hi, Gina did you get the cash box from the office?" Rob asked as he continued to neatly stack last year's remaining membership directories on the table.

Gina replied: "Yes, I did. We have \$100 in small bills, mainly one dollar bills and change. We need to return the cash box to the SSO treasurer tomorrow. The volunteers working the concession stand on Friday during the dance will need it. Do you know if the SSO takes checks?"

"Yes, we do," one of the other volunteers answered before Rob could respond. "Do you know if we have a SSO stamp for the checks?"

"I think I saw a stamp in the big membership box. Do we give the parents a receipt as they pay for membership?" Gina wanted to know.

"No, once we have the official membership cards printed with the members' names, we will send the membership cards and the new membership directory home with the students. The pre-

numbered membership card will then serve as proof that the parents have paid their dues. That's the way we have worked membership the last few years," one of the previous membership committee chairs answered.

As the four finished organizing the table and Gina retrieved the SSO stamp, the first parents started arriving. "Good evening. Are you interested in joining the Student Support Organization? A single membership is \$5, a family membership \$10."

Within a few minutes, the table was crowded with parents wanting to join the SSO. Occasionally, a parent would ask: "What kind of events does the Student Support Organization sponsor?"

"The Student Support Organization sponsors the monthly dances, the 8th Grade celebration, faculty lunches, the SSO Reflections Program, Read Aloud Virginia, the Cultural Arts program and many other events."

As a steady stream of parents entered the school, the SSO table became more and more crowded. It became impossible for the four SSO committee members to keep up with taking the money and the membership forms and checking the forms for completeness and correctness. Eventually, the crowd became so large that the parents simply took a form, completed it, handed it and the money or check to a committee member, who would put the form and money in the membership box.

Two hours later:

"Wow, this was a mad house. Let's count the money," Rob said.

Gina responded: "Ok, you count the money and I'll put the completed membership forms in a pile."

The SSO president, Nicole, arrived. "Hey, how was it?"

"\$1,400," Rob announced. "Seems like everybody walking in joined the SSO. Nicole, would you count the money one more time?"

Nicole silently recounted the money and checks. Finally, she said: "\$1,400, good job. Shall I take the money and give it to Molly, the treasurer? I'll see her later and it will save you a trip."

"Sounds good. I'll take the membership forms and make a list of everybody who joined. I will enter their information in the membership directory. Once I have a list of members. I will forward it to Gina and then Gina can print the individual membership cards," Rob suggested.

"Ok, great plan," Gina replied.

Two weeks after the Open House Gina received the promised Excel spreadsheet from Rob. It contained the names of 202 members who had joined at Open House or prior, their telephone numbers and e-mail addresses. Gina immediately started to enter the names on the individual, pre-numbered membership cards. After she completed printing the 202 membership cards, she called the treasurer to report the number of members. The treasurer now was finally able to allocate the \$1,400 received after the Open House to membership (\$1,010--- 202 members * \$5) and the remainder to donations (\$390).

Membership Forms Received Throughout the Year

To encourage parents who did not join the SSO during Open House or Back to School Night to become SSO members, the SSO membership form was enclosed in all school mailings and school newsletters. The forms were also available at the Principal's Office and at the permanent SSO table outside the Guidance Office. Parents completed and returned the form and membership fee in a number of ways. Some sent the money and form with their child to the teacher who then put the information and money in the SSO mail box, which was located in the school's copying room accessible by both teachers and members of the SSO.

Other forms were given to SSO board members who then forwarded the money and membership form to one of the co-chairs of the membership committee, usually at the next board meeting. Some new members sent the paperwork and payment directly to one of the committee chairs and another group put the information in the SSO mailbox located in the school's copying room. Usually, one of the board members emptied the SSO mailbox and distributed any mail at the next board meeting.

Distribution of Membership Cards

In late November, Gina and Nicole sorted the 640 membership cards by homeroom teacher and through the homeroom teachers issued each member the membership card, a school calendar magnet and a membership directory. The SSO then announced in the electronic and paper newsletter that all members should have received their membership card, magnet and directory. The membership committee received 9 complaints from parents who said they had joined either at Open House or later and were not included in the directory nor issued a membership card. Assuming their original application had been lost, Gina added these nine parents to the SSO membership list and distributed membership cards to them. Gina then called the treasurer to let her know that \$ 45 had to be reallocated from donations to membership.

As Gina hung up the phone, she remembered an article in a newspaper about a SSO member who had embezzled a large sum of money from the SSO. In her mind Gina revisited the membership table during the Open House and how she and the treasurer had determined the breakdown of the \$1,400 to membership versus donations. Suddenly, Gina was concerned that the internal controls the SSO had in place were insufficient to prevent the unintentional or intentional loss of money. She wondered what internal control procedures over cash receipts a volunteer organization should implement. Gina decided to contact a local accountant for help.

Membership Form

SSO members had to complete the following membership form. However, occasionally the committee received a check designated “membership” and a short, handwritten note with the new member’s information. Members were supposed to indicate any donations on the form; however, members frequently neglected to do so.

Figure # 1

James Middle School: *Where Parents and Teachers Come Together!*

SSO Enrollment		
Member's Name _____		
Member's Name _____		
If you would like to be listed in the school directory, please <u>sign</u> below and <u>check</u> the information you want listed. We need this information for SSO enrollment but will <u>not</u> list <u>unless signed and checked</u>.		
Sign here _____		
<input type="checkbox"/>	Address: _____	City: _____ Zip: _____
<input type="checkbox"/>	Phone: Home: _____	Work: _____ Cell: _____
<input type="checkbox"/>	E-mail Address: _____	
List only children enrolled at JMS – List child's last name if different from parents' listed above:		
	GRADE	HOMEROOM TEACHER
Child 1 _____	_____	_____
Child 2 _____	_____	_____
Child 3 _____	_____	_____

Amount Enclosed (payable to JMS SSO)

(Includes National, State & Local SSO dues)

\$5 x _____ members \$ _____

Donation \$ _____

Total Enclosed \$ _____

ⁱ Jackman, T. (2008, June 23.) PTA treasurer accused of embezzlement. *Portland Tribune*. Retrieved September 30, 2008, from <http://portlandtribune.com>

ⁱⁱ Va. Beach woman accused of embezzling from PTA
http://www.wvec.com/news/topstories/stories/wvec_local_031809_vb_pta_arrest_.4a968d7d.html?npc

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IGNEOUS SKIS, AN UPSTART IN A MATURE INDUSTRY: IS THIS AN OPPORTUNITY OR SIMPLY A HOBBY?

Kimbrough Sherman, Loyola University Maryland
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This case was prepared by Kimbrough Sherman and Harsha Desai of Loyola University Maryland. 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. Authors' views are based on their own professional judgments. The names of the organization, individuals and location have been disguised to preserve the organization's request for anonymity.

Adam Sherman, CEO of Igneous Skis and 37 years old, couldn't imagine a better life than the combination of skiing by day and designing and building skis by night. His passion was a composite of skiing the next turn and making the fastest, most agile, most durable, and most beautiful pair of skis. (See the video created by David A. Gonzales for TheSnaz.com (<http://www.thesnaz.com/2007/03/17/igneous>). Igneous Skis and Adam Sherman were at a crossroads. The company had achieved some fame in a highly competitive industry, but had not to date turned a profit. Igneous Skis was facing exhaustion of family funding.

Adam was aging in place and could not see a future in earning money by day to make skis at night. This pressure was added to the anxiety he felt at his parents' announcement that, after pouring more than \$300,000 into Igneous, they would invest no more money in the company. Adam knew that he had to make a decision between revitalizing Igneous Skis as a profit-making enterprise, selling Igneous to a larger ski maker, or finding a design position with another ski maker. He also contemplated quitting Igneous. Other Germans in attendance included mid-level managers who were on temporary assignment in the U.S. Henry used the time to highlight the frustrations experienced by both

Background

Adam Sherman graduated from Penn State with the vision of being a public service lawyer, but he wanted to spend a year as a ski bum in the western U.S. before entering law school. Early in that year, his plans changed as he and all the other college graduates and drop-outs with whom he was skiing experienced frequent failures of the skis they had bought to handle the difficult terrain of Jackson Hole Ski Resort and the surrounding Teton Range. Sherman dropped his plans for law school, and after a year of studying materials science and visiting manufacturers of skis, snowboards, and similar laminated wood and fiberglass products, Sherman, with the financial support of his family formed an S-Corporation and began making skis under the name of Igneous, to invoke the idea of solid rock.

The skis were to be both more durable than commercially available skis and capable of handling the difficult terrain that “extreme” skiers, now labeled as “freeskiers,” (individuals who ski steep powder slopes and jump off cliffs) would choose. Working with family money, Sherman’s first prototypes, made in a garage shop, were clumsy and crude looking, but proved his ability to create the product. He brought interested friends into the enterprise, leased a used 30 ton hydraulic press and purchased other machines and hand tools to create ski parts and tune the final product, and began developing his product.

Operations

The rudimentary plant and its band of aficionados soon discovered that the customers they were constructing skis for had widely diverse skiing styles and would require a variety of ski characteristics to satisfy their performance requirements. They set the plant flow to permit complete customization of their skis by varying the side-cut (shape), flex (front-to back stiffness), and torsion (side to side strength) of each laminated core, the inside of the sandwich that was then finished with a top sheet for good looks, metal edges, and low-friction base material. For durability they added an arimid fiber body armor layer between the core and the base to keep rocks from damaging the core. Matching the fit and finish of major brand skis was at first challenging for both the shop and the laid-back workforce, but they were able, eventually to exceed industry standards by taking time at the end of the process to refine the finished product before shipping to the customers. The skis Igneous produced were well suited to the individual skier and constructed for durability and recognized for their fit and finish.

Whereas major manufacturers sold their skis through ski shops, where value was added by the advice that the sales staff could give, Igneous Skis were sold directly to the customer by phone, on the Web, or in person. Their web site, www.igneousskis.com, allowed customers to design their own skis, by answering questions posed by the web interface about the skier’s style, strength, ability, and terrain skied. This permitted Igneous Skis to adjust the side-cut, length, sweet-spot, and two dimensions of stiffness to match the customer’s individual needs. Adam Sherman felt that the ability to provide high performance, durability, and a good fit and finish were important, but that being able to customize the skis to the individual skier was the most important characteristic of Igneous Skis.

Skis were promised for up to six weeks out and, even then, often delivered later than promised. Prices were at first well below those of similar skis from the popular brands, but prices were later raised to match industry prices, as it became apparent to them that high prices were often viewed as evidence of quality.

Good News

The company's skis, through a combination of good design and great luck, were able to make a considerable splash on the ski market. Adam Sherman first worked to get his skis rated in the major ski magazines¹, obtaining kudos for strength and open terrain performance but criticism for lack of responsiveness in tight places. Dewar's Scotch featured Adam and two of his associates in one of their "Young Entrepreneurs" advertisements published nationally in print media in two successive Decembers. During these high-profile years Adam was asked from time to time to join the design teams of two major manufacturers and a third ski maker admitted to a member of the Igneous team in a bar conversation that one of their models was developed by reverse-engineering an Igneous model.

An additional spur to the hopes of Sherman and his family was the fact that the winner of the Canadian Freeskiing Championships² was on Igneous Skis in the year between the two times they were featured in the Dewar's ads. These ads featured entrepreneurs of note and were used to promote the scotch as a young person's brand of choice. The ad places three of the Igneous Team members on a ski lift (see Figure 1).

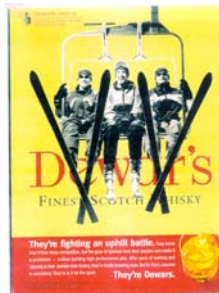


Figure 1: Igneous Ad

Bad News

Despite the critical success and positive publicity they received, the company was not able to generate a profit in any of its formative years. In the face of these losses, the Sherman family decided not to put any more of money into the enterprise. Adam and a few of his team members continued to make skis in the factory, selling to those old customers who might need another pair of skis and new customers who had learned of Igneous through word of mouth.

The annual losses Igneous expected to incur making skis after the family support ceased were to be borne by Adam Sherman's earnings in various day jobs. Table 1 below shows historical earnings and Adam's projections for the next two years if no new investment is found.

Table 1
First Five Years Income Summary and Five-Year Projections

YEAR	SALES REVENUE	COST OF GOODS	GROSS PROFIT	G & A EXP	NET INCOME***	UNITS SOLD	AVG PRICE
1	0	N/A	N/A	35,433	(35,433)	0	N/A
2	5,950	28,138	(22,188)	56,211	(78,399)	17	350*
3	10,500	38,316	(27,816)	77,754	(105,570)	30	350
4	81,900	92,039	49,861	181,709	(131,848)	234	350
5	247,200	112,210	134,990	173,500	(39,490)	412	600
6**	108,000	55,000	53,000	65,000	(12,000)	120	900
7**	88,000	45,000	43,000	55,000	(12,000)	80	1,100

* Average price differs from the “factory price” mentioned elsewhere, as many pairs of skis were sold below nominal price.

** Estimates by Adam Sherman (Igneous surrendered its corporate charter and did not file taxes)

*** Because plant and equipment were mostly leased, income and cash flows are nearly equal.

Source: Company financials (Adjustments were made for expository purposes)

Adam Sherman knew that to succeed Igneous would have to appeal to a broader market than the full-season, extreme skiers they currently served. He was advised by Bernard “Sonny” Davis, former president of Snowsports Industries of America, the major retailers’ association, that his largest additional market would be the wealthy occasional skiers that were, or pictured themselves to be, top ski athletes. Adam Sherman felt that his window of opportunity to enter the market and to take advantage of a general recovery in the economy was small and that the barriers to entry were large, as they had been before. The market for skis worldwide was on the decline (See Table 2 below).

Table 2
Alpine Ski Industry Data – A Mature and Flat Industry

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Snowsports Participant Days	7,392,000	7,660,000	7,402,000	6,772,000	5,903,000	6,900,000	6,394,000
Store Sales of Ski Equipment (\$000)		412,239	404,552	386,712	374,455	353,713	357,505
Internet Sales Ski Equipment (\$000)					N/A	113,233	224,116

Source: Snowsports Industries America, *U.S. Ski and Snowboard Industry Retail Audit Topline Report, March 2008* and *SIA Snow Sports Fact Sheet* online June 2008.

The Top 5 ski manufacturers are: K2, Salomon, Rossignol, Olin, and Elan.

Furthermore, the “buzz” that Igneous Skis’ initial entry into the market had created would wear off soon, and Igneous Skis had had little success anyway in translating that into significant demand. The designs of Igneous Skis were well-accepted among the elite skiers and they were still known to be on the feet of skiers in the photographs in the top ski magazines. Table 3 below was developed by Adam to gain a sense of the size and capitalization needed to transform Igneous Skis into a profitable concern.

Table 3
Igneous Breakeven Analysis

Factory Price (per pair)	\$750	\$750	\$700	\$650
Revenue (Net Sales)*	\$350,000	\$750,000	\$1,400,000	\$1,950,000
Cost of Goods Sold**	150,000	275,000	550,000	600,000
Gross Profit	200,000	475,000	850,000	1,350,000
Marketing	55,000	110,000	165,000	370,000
General and Administrative	157,000	200,000	350,000	460,000
Total Fixed Cost	212,000	310,000	515,000	830,000
NET PROFIT (LOSS)	-12,000	165,000	335,000	520,000

Source: Company financials

Note: Sales estimates were made by Adam Sherman to project profitable operations.

If Adam were to try to take advantage of the larger market identified by Bernard Davis, without sacrificing his position as a custom, high performance ski maker, he would have to make modifications to both his production and marketing. An additional opportunity to exercise his passion and abilities would be to accept a position as a designer with one of the large manufacturers. Adam thought, also, that a large ski maker might want to acquire Igneous just as major brewers have acquired micro-brands. The least acceptable option to Adam Sherman was to leave Igneous behind!

Endnotes

¹ *Ski: Buyers Guide 2000*, September, 1999

² Winter, Tom. "Igneous Skis," *Mountain Gazette*, September-October 2001

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IN THE INTEREST OF WOMEN?

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This critical incident was prepared by Claire McCarty Kilian and Brian J. Huffman, University of Wisconsin – River Falls, and is intended to be used as a basis for class discussion. The views represented here are those of the critical incident authors and do not necessarily reflect the views of the Society for Case Research. The names of the organization, individuals and location have been disguised to preserve anonymity.

Vicki Olson, a management professor teaching at a midwestern university, received the following email in her inbox:

Subject: Women's Interest Network
From: Academic Vice President's Office
Date: 11/01
TO: Women Faculty and Administrative Staff
The Women's Interest Network will meet on Tuesday, Nov.8, 3-4:30pm.

Several emails like this one had shown up in her inbox over the past year. Joyce Ryan, the academic vice president of the university, had decided to start an interest group (sometimes called an “affinity group”) and invited all women faculty and staff to join. The initial invitation and all subsequent announcements were sent via email only to the female employees on campus. Last year, the university president held an evening event at her home for members of this group. There was talk of another gathering of the Women’s Interest Network at her house to be held just after the new year. Up to this point, Vicki had chosen not to participate. As a management professor, Vicki felt uncomfortable with the organization and operation of the network but wasn’t exactly sure why. Something just didn’t “feel” right. What were her specific concerns and should she give voice to them?

Vicki knew that employee interest groups were a common diversity tactic. They started forming in the late 1970s as a way to allow workers to “share their experiences, discuss advancement

techniques, and develop their own networks with co-workers who had a similar ethnicity, gender, or lifestyle” (Medina, 2007, p. 86). Interest groups may help increase employee retention by reducing the social isolation of “being the only one,” or acting as a counterbalance to the “old boys’ network” and thus help increase diversity among managerial ranks (Kerckhove, 2009). Little research actually exists that supports their effectiveness (Kalev, Dobbin, and Kelly, 2006).

In doing some research on the subject, Vicki found that, although employee interest groups can yield many benefits, they can also backfire. Some diversity experts warned that their use could foster divisiveness and generate conflict (Lynch, 2001). Interest groups ideally need a business reason for their existence. Organizations should provide guidelines for establishing networks, and processes for identifying their mission, goals, and leadership structure (Arnold, 2006).

Up to this point, Vicki had kept quiet hoping the group would just cease to be. This latest email made Vicki directly face the issues she had toward this group. She asked some of her male colleagues what they thought about the Women’s Interest Network. They didn’t even know it existed -- they didn’t get the emails and the meetings had never been openly announced. Charlie Smith, a colleague, joked, “Maybe I should start a men-only group.” “Yeah, right,” said another colleague, “That might make national headlines.” After talking to a few of her closest female colleagues, Vicki found that most of them did not attend the function at the president’s house because of their discomfort with it being a “women-only” event; and everyone felt uncomfortable bringing up the issue.

As a 45-year-old professional woman, Vicki had faced sexism in the workplace at times in her career, including a couple of instances of sexual harassment. But she hadn’t experienced any gender-based issues during the several years she’d been teaching at this university. In fact, the top two administrative positions were currently occupied by women: Academic Vice President (Joyce Ryan) and President (Ann Lyman). The dean of Vicki’s college was also a woman.

Several weeks later, another email arrived in Vicki’s inbox:

Subject: Women’s Interest Network
From: Academic Vice President’s Office
Date: 11/29 2:18 PM

The Women’s Interest Network will meet on Friday, December 9 from 12:20-1:15 p.m. in the Presidents Room of the Student Center. We will continue our discussion of the New York Times article and also include the attached article by Matt Miller, “Listen to My Wife.” Patty Dixon has agreed to lead the discussion. Bring your lunch along!

After reading the New York Times (NYT) article entitled “Many Women at Elite Colleges Set Career Path to Motherhood,” Vicki sent the following email to the Women’s Interest Group listserv. She was familiar with the research on this topic and the NYT article was essentially

anecdotal and perpetuating a myth (see < <http://www.cepr.net/index.php/publications/reports/are-women-opting-out-debunking-the-myth/> >).

*Subject: FACTS! Women's Interest Network – some additional information
 & resources*
From: Vicki Olson, Management Professor
Date: 12/06 14:12 PM

For those interested in work/life issues, there exists a lot of research. There is quite a bit of economic data that does not support the idea that an increasing number of highly educated women are opting out of the workforce. Perhaps looking at some academic research on these issues would be useful and revealing?

She got no response (except for one sarcastic remark by a friend – “What? You want to bring *actual research* into these discussions?”). A few days later, Vicki decided to look up the University’s statement on non-discrimination. It read as follows:

The University is committed to principles that enable the education and professional enhancement of all members of the campus community. The present and future course of the University is designed to eliminate all policies and practices that work to the disadvantage of individuals on the basis of race, religion, color, creed, gender, disability, sexual orientation, national origin, age or ancestry. The University will not tolerate conduct that is racist and discriminatory and that involves harassment based upon the race, gender, religion, color, creed, disability, national origin, sexual orientation, ancestry or age of any individual. Such conduct is demeaning, destructive, and isolating to the individuals involved and directly at odds with the University’s core value of inclusiveness.

Vicki continued her research on interest/affinity groups. She found that in an effort to enhance workplace diversity, many organizations have fostered employee networking and affinity groups. However, there are potential legal and practical issues (McGlothlen, 2006). A 2007 district court decision from Illinois (*Sinio vs. McDonald's Corporation*), suggested that the presence of a minority networking group can be evidence of unlawful race discrimination against non-member employees. Employment lawyers have begun asking employers to assess the role of affinity groups and consider the following conditions (for example, see Alston Labor and Employment Advisory, 2007):

- Membership in each group should be open to all employees who support a group's goals, even if the individual does not share the common characteristic that is the basis of the group;
- Membership in the group should be voluntary — employers should not pressure employees into joining a particular affinity group;

- Employers should not allow affinity groups to make any employment related decisions, including promotions, terminations, or hiring;
- Employers should ensure that there are established guidelines for and oversight of the groups, which are applied equally to all groups.

Something else in the current news made Vicki wonder about the appropriateness of the interest group. After being nominated for the Supreme Court, Judge Sonia Sotomayor resigned from Belizean Grove, an invitation-only club for influential women. Although there was technically nothing illegal in her association with the club, there were questions about it possibly being an “invidiously discriminatory” organization that federal judges are ethically barred from joining (Ford, 2009, p. 1).

In her role as a management professor with relevant professional expertise, Vicki wondered whether or not she should raise some of the issues she saw in how this group was being managed.

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**THE SOCIETY FOR
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IS DR. STEINBERG'S TRAIT SELECTION A VIABLE BUSINESS?

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This case was prepared by Chunlei Wang, Asbjorn Osland, Nanette Clinch, and William Jiang of San Jose State University, and Vivek Kumar of University of Texas 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. Authors' views are based on their own professional judgments.

In February and March 2009, major news outlets in the United States reported that Dr. Jeff Steinberg, the founding director of the Fertility Institutes in Los Angeles, would help prospective parents to choose their children's non-medical physical traits, such as hair or eye color (Naik, 2009). Dr. Steinberg was a pioneer in the *in vitro* fertility technology; he was involved with the first test tube baby in 1978. He founded the Fertility Institutes in Los Angeles in 1986. His business included gender selection, comprehensive surrogacy services, and other fertility services. In October 2007, scientists from deCode genetics of Iceland reported in a paper published in Nature Genetics that, with samples from Iceland and the Netherlands, they identified the genes that affected skin, hair, and eye colors (Sulem *et al.*, 2007). Capitalizing on this recent development in genetic diagnosis technology, Dr. Steinberg claimed that with *in vitro* fertilization technology and the pre-implantation genetic diagnosis technology he and his associates were able to select embryos with genetic elements associated with some physical traits. Prospective parents could hypothetically custom design their babies by having one or a few embryos diagnosed with a high probability to bear desired traits implanted into the mother's uterus for development. Dr. Steinberg referred to trait selection as cosmetic medicine (Naik, 2009). According to him, "I live in L.A. and everyone here wants to have a straight nose and high cheekbones and are perfectly happy to pay for cosmetic surgery" (Sherwell, 2009). The massive media coverage stoked a public debate on the technological and ethical controversies of the non-medical trait selection business initiative. Amid the controversies, will Dr. Steinberg's initiative turn into a viable business?

The Technologies: *In Vitro* Fertilization and Pre-implantation Genetic Diagnosis

Commonly used to treat infertility, *In Vitro* fertilization (abbreviated as *IVF*) technology harvests ova from a prospective mother, and fertilizes them in a laboratory with sperm gathered from a prospective father. One to four resultant embryos would be implanted into a mother's uterus for development in one cycle of *IVF*. If these embryos fail to lead to pregnancy, another set of embryos would be implanted in another cycle. To increase the odds of successful pregnancy, fertility practitioners often develop more embryos than necessary, which are either frozen for future use by the prospective parents or simply allowed to disintegrate. Around 30 percent of *IVF* cycles result in pregnancy, around 83 percent of which lead to a live birth (Popovsky, 2007). The estimated expense of a single *IVF* cycle is around \$ 5,800 (the Fertility Institutes 2009).

The pre-implantation genetic diagnosis (abbreviated as *PGD*) is conducted on a three-day-old embryo with around 6 to 8 cells. A medical professional extracts one or two cells from the embryo for genetic analysis. There are two ways to conduct the analysis. One is chromosomal analysis to explore the number and/or structure of chromosomes; the other is DNA analysis to obtain genetic information (Baruch *et al.*, 2006). Genes and genetic mutations increase the risk of various diseases. Physical traits have also been identified with certain genes. A few embryos will be diagnosed, and only those with genes that are likely to lead to the desired traits will be selected and implanted into a prospective mother's uterus. Literally speaking, prospective parents don't custom design an embryo but rather select one or a few that meet their requirements. *PGD* adds around \$ 3,500 to an *IVF* cycle (The FertilityProRegistry Network, 2010).

Misdiagnosis in *PGD* can occur, in part because *PGD* performed on one or two cells can't be repeated. Cases of inaccuracies of embryo diagnosis results have been reported. For example, an embryo believed to be free from a disease turns out to have it when the embryo develops into a fetus inside a mother's uterus or into a baby. A survey on fertility clinics by medical researchers from Johns Hopkins University shows that 21 percent of the clinics have found errors in *PGD* results (Baruch *et al.*, 2006). Another survey on a convenience sample of *PGD* patients shows that the misdiagnosis rate for medical traits is rather high, with three failures out of seven patients (Kalfoglou, 2005).

There are several sources for misdiagnosis. First, the cells of an early embryo may not be genetically identical. Thus, test results from a biopsied cell may not reliably indicate the embryo's genetic status. Second, a biopsied cell may be contaminated in the process of diagnosis. Third, genes relevant to physical traits in a cell may not have developed yet when the cell is diagnosed. Finally, human errors such as mislabeling samples may lead to misdiagnosis (Baruch *et al.*, 2006).

In the science and business community, there are concerns about the effectiveness of the trait selection technology. Kari Stefansson, CEO of deCode, warned that there was no guarantee that the presence of genetic features necessarily led to color traits (Naik 2009). Even Dr. Steinberg

acknowledged that eye and hair colors were not “perfect genetics” (Salamone *et al.*, 2009). Sean Tipton of the American Society of Reproductive Technology asserted that nobody could do color selection as yet due to technological uncertainty (Salamone *et al.*, 2009). Furthermore, some physical traits are not determined by individual genes but by how they interact with other genes and with environmental factors.

When a couple capable of natural conception wants to have a baby with a specific hair or eye color, they need to go through the procedure of *in vitro* fertilization and that of pre-implantation genetic diagnosis. Not all health insurance companies are willing to cover the expense of infertility treatment (The FertilityProRegistry Network, 2010). As a result, the couple may need to pay for the service. Moreover, the IVF procedure tends to cause physical and psychological discomfort, especially to the prospective mother (Broeck *et al.*, 2009). A PGD patient said, “I don’t think you’re going to meet that many people who are going to go through that level of medical involvement and intrusion into their lives to do something ridiculous [like select for blue eyes]” (Kalfoglou, 2005, p. 592).

The gene pool of parents limits the range of possible physical traits available to their children. If they don’t have genes for blue eyes, it is impossible for them to conceive a baby with that trait unless they use others’ sperm or eggs.

In addition, the very fact that one or two cells are extracted from a three-day-old embryo may damage it, the resultant fetus, and the baby. A clinical embryologist said, “[I]t probably is a pretty controversial opinion. I don’t know if a lot of people would say that publicly, but I have no problem with it. I think that we need to learn from these techniques and our mistakes, and I’m sure that we’re damaging the embryos” (Kalfoglou, 2005, p. 490). It is still not clear how PGD affects the health of resultant babies in their adulthood, for not many of them have grown up yet. As one concerned embryologist stated, “[T]he babies that have resulted aren’t of reproductive age yet, and we don’t know what sort of effects this technique has on the adult human....And I think that I consider it still experimental taking a cell from an embryo” (Kalfoglou, 2005, p. 490).

Ethical Controversies

Ethical opinions on non-medical trait selection such as skin, eye, or hair color vary with people’s religious beliefs and philosophical convictions. The Catholic Church, evangelical Protestants, orthodox and conservative Jews, and ethicists concerned about social justice oppose the idea of using PGD to choose a baby’s non-medical physical traits.

One ethical controversy is about the status of an embryo. The Catholic Church considers an embryo an early stage of life rather than mere biological materials. As stated in *Donum vitae* (“The Gift of Life” in English) published by the Catholic Church in 1987, “[T]he human being is to be respected and treated as a person from the moment of conception; and therefore from that same moment his rights as a person must be recognized, among which in the first place is the

inviolable right of every innocent human being to life” (Congregation for the Doctrine of the Faith, 1987). Accordingly, a deliberate destruction of an embryo is theologically equivalent to an abortion or a killing. As the non-medical trait selection with PGD necessarily develops more embryos than actually can be implanted into a mother’s uterus, how to deal with the embryos assessed without desired traits becomes an issue. According to *Dignitas Personae* (“Personal Dignity” in English) published in 2008 by the Catholic Church, “[P]reimplantation diagnosis – connected as it is with artificial fertilization, which is itself always intrinsically illicit – is directed toward the qualitative selection and consequent destruction of embryos, which constitutes an act of abortion” (Congregation for the Doctrine of the Faith, 2008).

A second ethical concern is an implicit eugenic mentality. In the trait selection practiced by PGD, a healthy embryo may be screened out simply due to the lack of a physical trait desired by prospective parents. Depending on the culture, specific physical traits are likely to be favored and rewarded (e.g., blond hair and blue eyes). Research shows that people with attractive physical appearance tend to earn more (Rhode, 2010). It is likely that parents’ preferences are influenced by the public opinion. Trait selection tends to perpetuate negative stereotypes against some groups of people lacking the culturally favored traits and, thereby, will likely reduce social equality and social harmony.

Third, the love of parents for children is also construed as unconditional. In the tradition of Christianity, children are considered gifts and possessions from God and need to be taken good care of. Trait selection puts a condition on parenthood. If the willingness of begetting a baby is based on its physical traits, this constitutes disrespect for the dignity of its very being. Consequently, a child is welcomed to the world not because of the very fact that he/she is their descendent but because his/her physical traits may please or appeal to parental vanity. The very existence of the child is based on the physical trait that is desired by the parents. Such conditional parenthood may plant a seed for future discord between parents and their children.

Nevertheless, some ethical opinions support trait selection. A right to procreate and a right to avoid reproduction are often used to argue for it (Wolfe, 2008). The right to privacy, a constitutional right, was used to support a woman’s right for abortion. If a woman has a right to terminate a pregnancy and, thereby, abort a fetus inside her uterus, it seems a lesser evil to destroy embryos before implantation. Despite the predominance of ethical opinions against trait selection, the legalization of abortion sets a precedent that may protect trait selection from being banned by federal and state legislation.

Moreover, perpetuation of social inequality by selecting babies with advantageous physical traits may not be a legitimate ground to argue against trait selection. Cosmetic surgery allows people to beautify their appearance to facilitate their upward social mobility, through finding a better mate and getting a better job. Unequal access to parental help with schoolwork also creates social inequality. If cosmetic surgeries and parental help, which give people advantages over others, are legitimate, then one cannot logically accuse trait selection of increasing social inequality.

The Threat of Regulation

Until now, there have been no federal or state laws in the United States proscribing the trait selection business. However, it is plausible that some religious and conservative groups may mobilize resources to lobby for a ban. A politician who seeks support from conservative constituents may raise an issue on trait selection to attract publicity, galvanize support, and build up his/her political capital. The uncertainty about the legal environment of trait selection is rather high.

In addition, the infertility treatment community is divided on the issue of trait selection. In a survey of fertility clinics, around 50 percent don't provide gender selection business, not to mention other non-medical traits (Baruch et al., 2006). The American Medical Association doesn't recommend trait selection and considers it unethical (American Medical Association, 1992). However, it is weak in sanctioning clinical practitioners breaking the rule.

What Should Dr. Steinberg Do To Legitimate His Trait Selection Business?

The release of the news about Dr. Steinberg's proposed service of non-medical trait selection coincided with the opening of his new clinic in New York. The extensive media coverage, be it positive, neutral, or negative, helped publicize him and his Fertility Institutes. Regardless of his intent, a question remains intriguing: amidst the technological uncertainty and ethical controversies surrounding the proposed trait selection business initiative, how may Dr. Steinberg or another fertility expert turn it into a viable business?

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**THE SOCIETY FOR
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MEASURING AND MANAGING EMPLOYEE TURNOVER AT TASTEE MAX RESTAURANTS

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This case was prepared by Bonalyn J. Nelsen and Patricia A. Walker of the Rochester Institute of Technology 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. Authors' views are based on their own professional judgments. The names of the organization and individuals have been disguised to preserve the organization's request for anonymity.

Introduction

Ronda Garvey, assistant manager of a Tastee Max restaurant located in the food court of one of upstate New York's busiest malls, pored over the turnover statistics for her restaurant. In 2008, average employee turnover within the nine-unit quick service restaurant chain was 66.3 percent—well below the industry average of 120 percent (U.S. Bureau of Labor Statistics, 2009). However, the average annual turnover rate for Ronda's restaurant was 122.7 percent, approximately double the turnover rate of other Tastee Max stores. Ronda chafed at the knowledge that her restaurant was known as the chain's "bad store" due to frequent employee problems and high turnover, and she was determined to improve her unit's performance. Ronda had several ideas about how the turnover problem could be addressed, but knew that obtaining support for her ideas would not be easy. Noting that the chain's employee turnover was about half the industry average for quick service restaurants, Tastee Max's corporate managers had been relatively unconcerned about the problem. Key to the success of any initiative taken to curb turnover was gaining the support of corporate management. Ronda wondered, "What actions should I suggest for lowering employee turnover, and how can I make a business case for my ideas?"

Company History

Tastee Max was a family restaurant chain established in upstate New York in 1955. The original store was a small refreshment stand featuring ice cream and hand-made root beer; over time the menu expanded to include hamburgers, hot dogs, hot sandwiches, and French fries (see Appendix: Table 1, page six). The restaurant was known for its uncompromising standards for excellent product and service quality. For example, choice cuts of beef were ground daily in every store for hamburgers; only all-meat hot dogs with natural casings were used; and the restaurant's handcrafted root beer was made on site. Tastee Max won a devoted following among customers, who were known to drive long distances to purchase a Tastee burger or frosty mug of root beer. Over the next five decades, Tastee Max opened a total of nine restaurants (called units or stores by company insiders) across upstate New York. Six units were stand-alone restaurants, while the remaining three—including Ronda's unit—were located in the food courts of area malls. All restaurants featured a menu consisting of hamburgers, hot dogs, hot sandwiches, cold salads, French fries, ice cream, and soft drinks.

In 1985, a group of local businesspeople purchased the chain, but continued to operate the company using the original name, menu, and business concept. Tastee Max's company culture continued to be based on nine core values handed down by the restaurant's founder:

- The Golden Rule: Always treat customers and co-workers as you would like to be treated.
- Customer Focus: Our success is directly tied to how customer focused and attentive we are. Always remember that the customer is the reason we are here.
- Professionalism: We honor co-workers and ourselves by prohibiting the use of profanity in the workplace.
- Work Performance: Promotion and pay raises are based on work performance, teamwork, and customer service skills rather than seniority.
- Investment: Investing money in our facilities is important; investing in employee training is ten times as important.
- Diversity: We create a work environment in which everyone can do their best regardless of race, religion, or sexual orientation.
- Caring: We exhibit care and concern for our fellow workers.
- Cost Control vs. Product Quality: Controlling costs is important to our business success. However, we will never compromise product quality for the sake of saving money.
- Simplicity: Our systems and procedures must be simple to permit consistent, flawless execution.

Employment Practices At Tastee Max

Tastee Max restaurants were open for service from 10:30 am-9:30 pm (9:00 pm in stand-alone stores) Monday through Saturday, and from 11:00 am-6:00 pm on Sundays. Mall stores were required to keep longer hours during the busy holiday shopping season, staying open until 10:00 pm on Mondays through Saturdays and 8:00 pm on Sundays. To staff these hours every restaurant had 25-30 employees, with 5-9 employees comprising a shift crew. With the exception of supervisory employees, most workers were under the age of 20 years and worked 26 hours or less per week. Supervisory employees (shift supervisors, assistant managers, and head store managers) worked between 30-50 hours during a five-day work week. Average wages for supervisory and non-supervisory restaurant workers were consistent with those in the quick service restaurant industry (see Appendix, Table 2, page seven). New workers at Tastee Max earned approximately \$ 7.25 per hour, the minimum wage in New York State. Workers typically received a wage increase of \$.25 per hour at the end of their probationary period with the company, provided that their performance was satisfactory. The average wage earned by Tastee Max crew members was \$ 7.75 per hour.

Upon hire, all employees were supposed to attend a four-hour group orientation session designed to acclimate them to the company. During the orientation—which was offered most Saturdays--new employees were introduced to the rules and policies in the employee handbook, the company's mission and culture, the restaurant's menu, and procedures for taking customer orders and handling cash; employees were also given the opportunity to complete paperwork needed for their employment. New employees were then assigned to a restaurant for two or three weeks of on-the-job training. Although all new employees were required to attend the orientation and complete on-the-job training, many did not. Ronda knew that the orientation and training was largely done at the discretion of store managers. While some store managers dutifully oriented and trained their employees, others favored a "sink or swim" approach of immediately putting new employees on the job, perhaps with the help of a more experienced employee for a day or two. Moreover, some new employees were unable or unwilling to attend the orientation session on a Saturday. All newly-hired employees served a 90-day probationary period before earning the status of a "permanent" employee.

Tastee Max offered benefits to permanent employees who met two qualifications. Group health insurance was offered to all employees who worked (1) 13 consecutive weeks after completing one full year of employment with the company and, once eligible, (2) worked a minimum of 30 hours per week. To be eligible for the 401(k) Plan employees had to be at least 21 years of age and complete at least 1,000 hours of work in addition to one full year of employment. In addition, employees who worked at least 35 hours per week were eligible for 48 hours of personal time after completing at least 1,000 hours of work in addition to one full year of employment. The personal time benefit was increased on the second, fifth, and tenth year of employment after the benefit was originally received. Managers and Assistant Managers were granted additional time off: in their first year of employment store managers were eligible for 110 hours of paid leave per year, with allowance increases in the second and fifth year of eligibility. Tastee did not offer paid sick leave; all employees were required to use their earned

personal time if they wished to be paid for work missed due to illness or personal needs. Because most employees worked less than 35 hours per week, supervisory employees were usually the only individuals who qualified for these benefits.

Tastee Max employed a progressive employee discipline policy to enforce company rules. The first violation of a rule or policy would result in a verbal warning to the employee; the offender's supervisor would write and sign a brief description of the incident, which was placed in the employee's records. A second violation of the same rule or policy would result in the employee receiving their first written warning. This document described the rule and the incident in which it was violated. After the supervisor and employee read and discussed the document, both parties signed the warning, which was placed in the offender's records. The third violation of the rule or policy resulted in a final written warning, which again described the incident; again, both the supervisor and the employee signed the written warning after having read and discussed the document. A fourth violation of the rule resulted in the employee's termination. In short, Tastee Max employed a sort of "three strikes" rule in which employees could violate a particular rule or policy three times before being involuntarily terminated for cause. All written warnings were kept in employee files for a period of one year. After this time, the company discarded written warnings for rule violations or poor work performance and each employee started with a clean disciplinary slate. Employees who voluntarily or involuntarily terminated their employment with Tastee Max were asked to complete exit interviews prior to departure, although doing so was not compulsory and many departing employees refused or forgot.

Employee Turnover at Ronda's Store

Ronda had worked for Tastee Max for a total of six years. The last 18 months of her tenure was spent working at the Jubilee Mall store. Jubilee Mall was located within a few miles of affluent suburbs, three large companies employing several thousand workers and a university with approximately 15 thousand students. Its favorable location made the Jubilee Mall store one of the chain's busiest and most profitable units; the store consistently ranked third or fourth in sales revenue among all Tastee Max restaurants. But Ronda admitted the restaurant had acquired a reputation for being a "problem store" among Tastee Max's senior management due to the unit's excessive turnover and employee-related problems. Approximately 25 percent of all newly hired employees quit before completing their training and probationary period, and most of the remaining 75 percent would leave before completing their first year of employment. The average tenure for employees at the Jubilee Mall store was nine months. In fact, during the previous fiscal quarter her store had lost nine employees—the equivalent of an entire crew for an eight-hour shift—that had to be replaced. Ronda had identified several reasons for the problem.

Both transportation and commuting contributed to employee turnover. Because most university students and local students from affluent families rejected minimum-wage fast-food jobs, most of the "line" or non-supervisory workers were urban, working class people who did not own or have access to private vehicles. Ronda estimated that 80 percent of the line employees who worked at her store relied on the city's bus system to get to and from work. Because there were

few direct bus routes from the inner city to Jubilee Mall and busses ran infrequently on Saturdays, Sundays and holidays, employee commutes were often long and complicated; it was not unusual for employees to make several connections and ride for several hours to get to work. For example, the bus circuted the route from the city to Jubilee Mall every two hours on Sundays. The last bus to the city left the mall at 6:25 pm on Sunday evening. Employees who commuted on that bus would want to leave before 6:25 pm even if their shift was unfinished or their work remained undone. Those who did so would receive a disciplinary warning or “write up” as a result. If line employees were frequently late or repeatedly walked off the job before their scheduled time, they risked being terminated. Others simply tired of the long, boring commute and quit their jobs.

Absenteeism, poor punctuality, closing a store early, and walking off one’s job were also drivers of turnover. Due to the vagaries of weather and traffic, it was not unusual for bus-riding employees to show up late for their shift, and delays for personal reasons were not infrequent. When employees knew they were going to be late or absent from work, company policy dictated that the employee either find another employee to cover their shift or “call in”--give management at least four hours’ notice so a replacement worker could be found. Ronda noted that tardy employees sometimes failed to call in at all. Those that were finally reached by telephone often claimed to be unaware that they were scheduled to work that day. “I can’t remember a single day that I’ve worked at this store when everyone has showed up or was on time,” Ronda claimed. Each incident of tardiness, absenteeism, or leaving before the scheduled time earned an employee a write up.

Violations of company rules were still other drivers of turnover. The Jubilee Mall store had the most ethnically and racially diverse crew in the Tastee Max restaurant chain. Diverse employees brought behaviors and attitudes to the workplace that sometimes clashed with managerial or company policy. For example, different views on handling customer, operational and managerial issues caused friction between line employees and supervisors, most whom were from middle-class suburbs. Ronda noted, “Our crew is vocal and opinionated. They won’t back down if someone gets in their face. Some supervisors see this as being unruly and insubordinate.” Employees were frequently written up for insubordination, which could lead to voluntary or involuntary separation. Other rule violations included wearing improper dress, not following sanitation and safety procedures, violating labor laws, having disagreements with members of the store’s management team, being rude or “talking back” to customers, pilfering food and beverages, giving friends unauthorized “discounts” on menu items, and not attending mandatory employee meetings held at 9:00 am on Sunday mornings. All of these infractions would earn the offender a write up. Theft of cash and violence toward management were cause for immediate dismissal.

Ronda admitted that a store manager’s leadership style occasionally contributed to employee turnover. Some managers favored certain employees with preferential treatment, particularly when enforcing company rules and policies. For example, a disfavored employee would be written up for lateness while a favored employee guilty of the same offense was not. Managers

could also be arbitrary in enforcing rules due to distractions or disinterest. Other managers alienated line employees by “pulling rank” or acting in an autocratic manner. For example, Ronda described one supervisor who, when displeased, threatened workers with a reduced work schedule or outright termination; when employees disagreed with this person or were slow to follow her orders, the rogue supervisor demanded, “Do you want hours next week or not?” While the supervisor’s imperious manner won grudging compliance in the short term, Ronda believed it created a hostile work environment that spurred employees to seek other employment.

Addressing Employee Turnover At Tastee Max

Ronda knew that employee turnover had a negative impact on product/service quality, operational costs, employee morale and productivity for the company in general, and her store in particular (see Appendix, Table 3, page seven and Table 4, page eight). Lowering employee turnover would improve the chain’s profitability and competitiveness. Ronda had given considerable thought to the problem and identified several possible solutions. But first, she would have to convince the company’s senior leadership that the problem was a serious one. The solutions that Ronda considered would require a substantial financial investment from the company, and company management would be reluctant to invest in costly remediation if the problem was not perceived to be serious. High levels of employee turnover were endemic in quick service restaurants due to the nature of the work and jobs. Consequently, turnover was viewed as normal and unavoidable in quick service restaurants. Moreover, Tastee Max’s overall employee turnover rate was approximately half that of the industry average; management attention was focused on other problems, such as increasing sales and controlling food costs in a sluggish economy marked by rising food prices. To obtain the support needed to curb turnover, Ronda realized that needed to “shake up” company management by demonstrating the financial and strategic impact of turnover on the company. But what sort of remedial plan should she offer, and how should she make a business case to win managerial support for her plan?

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APPENDIX

Table 1:
Selected Menu Items and Prices at Tastee Max Restaurants*

MENU ITEM	MENU PRICE
Cheeseburger	\$ 3.89
Hot Dog	\$ 2.89
Grilled Chicken Sandwich	\$ 4.69
Root Beer, Large Cup	\$ 1.79
French Fries, Side	\$ 2.69

* These prices do not include state sales taxes.

Note: Tastee's food and labor cost percentages were consistent with those of other chains operating in the quick service restaurant industry. Company averages for major expense categories (food and beverage, labor, paper, and fixed costs) were as follows:

- Food and Beverage Cost: 32 % of total price.
- Labor Cost: 30 % of total price.
- Paper Costs: 10 % of total price.
- Fixed Costs (rent, utilities, insurance, other services): 20 % of total price.

Table 2:
Average Wages of Tastee Max Employees

EMPLOYEE TYPE	WAGE PER HOUR
Entry-level crew person (NUHIRE)	\$ 7.25
Experienced crew person (EC)	\$ 7.75
Shift Supervisor (SS)	\$ 9.00
Assistant Manager (AM)	\$10.25
Unit Manager (UM)	\$11.00
Human Resources Professional (HRM)	\$ 35,000/49-week year, 40 hours worked per week
Trainer (TRAIN)	\$ 35,000/49-week year, 40 hours worked per week

* In addition to an hourly wage, assistant managers, unit managers, human resource professionals and trainers earned additional benefits equivalent to 28 percent of wages.

**Table 3:
Average Recruitment and Selection Costs for Entry-level Employees***

TYPE OF COST	NUMBER OF HOURS AND EMPLOYEE LEVEL
Review of applications	.25 hours per applicant, UM
Telephone screening of applicants	.25 hours per applicant, UM
Review notes from telephone screening	.25 hours per applicant, UM
In-store interview of job candidate	1 hour UM + 1 hour EC
Review notes, make hiring decision	.5 hours per candidate, UM
Contact candidate and make job offer	.25 per candidate, UM
New hire Orientation	4 hours NUHIRE + 4 hours TRAIN
In-store training	20 hours per employee, AM + 20 hours per employee, NUHIRE + 20 hours per employee, EC
Completion of paperwork for new hire	.5 hours per new hire, UM + 1 hour per new hire, HRM

* An entry-level employee is defined as an employee who has not successfully completed probation. An experienced crew member is defined as an employee who has successfully completed probation.

Table 4: Average Separation and Vacancy Costs for Entry-level Employees*

TYPE OF COST	NUMBER OF HOURS AND EMPLOYEE LEVEL
Exit interview	.5 hours per separated employee, UM + .5 hours per separated employee, EC + .5 hours per separated employee, NUHIRE
Completion of separation paperwork	.5 hours per separated employee, UM + .75 hours per separated employee, HRM
Overtime pay to cover vacancy created by separated employee	Estimated at 20 hours per separated employee
Additional crew member “borrowed” from another store to cover vacancy created by separated employee	5 hours per separated employee, EC pay + \$ 1.00/hr (compensation for additional transportation costs, inconvenience, etc.)
Estimated cost of reduced crew productivity	Estimated 4 hours NUHIRE pay per each day the position remains vacant**

* An entry-level employee is defined as an employee who has not successfully completed probation. An experienced crew member is defined as an employee who has successfully completed probation.

**On average, two weeks is required to replace a crew member who leaves the company.

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MOUNTAIN VIEW ASSISTED LIVING

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This case was prepared by Ann M. Hackert, Jeff Brookman and Sandra Speck, Idaho State University, Pocatello, Idaho, and is intended to be used as a basis for class discussion. The views presented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The names of the individuals, the firm, and its location have been disguised to preserve anonymity. .

"Is there any money in this?" It all started with that simple question one evening in March 2009 while James Wilson and his wife Karen sat down to a family dinner. Karen's father, Tom Anderson, owned and operated several assisted living facilities in the community and region. "You could buy one of my facilities. It is already built and the cash flows are in place. I have experience in the business and it would be great to sell to you." Tom was enthusiastic about the business and it was something James and Karen had thought about in the past. It might be a great opportunity but James was completing an undergraduate business degree at the local university so it came down to timing and money. Tom, Karen and James quickly sketched out some numbers on a napkin but James knew it would take more than that to figure out whether or not this opportunity was viable.

James never would have thought about assisted living as an opportunity for a business if not for Karen's dad. James thought his father-in-law's facilities were great but it quickly became apparent that the price tag was too high for someone just getting started as an entrepreneur. As James and Karen drove home from dinner they talked about the idea. "I know your dad has a great business, but I want to think about something a little different. The typical assisted living facility is designed mostly for those who can afford to pay for their own care. I know there are a couple of rooms set aside for Medicaid residents but it seems like they are second-class citizens. What if we did something more? What if we designed a facility with Medicaid in mind? We could figure out a way to build and run the facility at a lower cost which would let us target a group of people who are underserved by current facilities. We could still take private pay

residents but lower costs would give us an advantage there too." Karen could tell James was enthusiastic and more than a little nervous about the idea. "Let's try to figure it out, James. Maybe we can find a way to make this work. Maybe we can make it pay."

James thought it might be hard to get the financing he needed. Potential investors and lenders were more wary of new projects now that there was a recession and credit crunch. James knew his idea to target Medicaid clients was unique. He wondered why no one else designed facilities for Medicaid. Why just a couple rooms for this group? Private pay patients brought in more money but James was intrigued with the idea that he could both help others and make money. A 1998 Boston Consulting Group study recognized the poorer demographic could be a viable market but it was underserved.

Understanding the market and the numbers were important. Investors and lenders would want to see if the cash flows from a facility targeted toward Medicaid residents could make money. James knew he needed to find out more information about the market and develop some pro forma financial statements. Getting the numbers and information ready was much the same as a high-stakes term paper. As an entrepreneur, James knew he would need to research his idea, determine if there was an underserved market and then decide whether the financial payoff was worth the effort. James did not want to involve partners or investors who might not share his vision for the facility. He would need to convince himself that this was a good idea then he would need to convince a bank.

James's Background

James and his family and Karen and her family had a long history in the community. At the age of eight James started working in his dad's family landscaping business. By the time he was in college James was installing landscaping, providing repair service for the company and managing the work crews. His dad was a great example of an entrepreneur who built and nurtured a thriving business. Although it didn't always feel like a benefit, family could work and help out. James now knew that his work experience with his dad was the real world complement to his business degree. Where else would he get a chance to take responsibility at such a young age? James had seen first-hand the challenges of running a business and knew the moment had come where he would combine his work experience with his business degree and put together a plan.

Assisted Living Background

Assisted living was an alternative for the elderly who needed help with their day-to-day living and some activities but who were not sick or frail enough to need nursing home care. Assisted living facilities allowed the elderly independence without the hassles of having to cook or clean. Many facilities even offered transportation so those who no longer wanted to drive could still get around. Facilities had open areas for residents to socialize and congregate during the day and

evening hours. There was 24-hour supervision and help if needed but residents could be as independent as possible.

Some facilities were very large and had what James thought of as an institutional feel. A big facility was beyond the reach of James because it cost too much to build. Another issue was zoning. If a facility had sixteen or fewer residents it could be located in a residential area. James thought a smaller facility would be more like home than something bigger and might feel more comfortable and welcoming to people making the transition from their personal residence.

Assisted living was not necessarily a long term prospect for residents. Assisted living units could help with daily life and activities but were not appropriate when elderly residents needed medical care. At that point residents would need to move to a nursing home. Some assisted living facilities took care of residents with Alzheimer's and dementia but James thought the costs associated with this kind of care would be prohibitive. It was also a sad fact that some residents died while living in assisted living units. James was able to find estimates that the average resident was in an assisted living facility around 18 months. That would require his business to put together a waiting list of potential residents. Since there were two distinct groups, private pay and Medicaid, the waiting list would need to be segmented. If James wanted to manage the mix of residents based on their method of payment, it would require planning.

The Assisted Living Market

Everything James read suggested assisted living was a growth industry. Tatge (2005) was one of the first sources James consulted and it helped him realize this industry had growth potential since the group aged 65 and older was going to double by 2030 to 71.5 million.

There were two groups he wanted to target. One was elderly with the resources to pay for their own care. If he could keep costs low, he could offer this group a value-priced alternative. Income was also a major issue for his other target segment, Medicaid. This group had few financial resources but, if they qualified, their care was covered by the government program. Waivers were required for facilities housing Medicaid residents. The government granted waivers realizing assisted living was a less expensive alternative to a nursing home. James wanted to do more than just make money. He wanted to help a group of people who had limited choices. Unlike the competition, James's facility would have the same kind of rooms for all residents. To keep costs low, residents would have to share a bath but James did not think that would be an issue for potential residents.

It seemed odd at first but the low income market was an opportunity. This was a business and it would need to make money, but James found research indicating many elderly could not afford traditional assisted living residences. (Nursing Home Long Term Care Management, 2006) Traditional facilities were not a product built for the low income market. Waivers meant a facility could house residents paid for by Medicaid. There were risks in relying on the government. Policies and practices could change and there was uncertainty that reimbursement

would remain at current levels. James thought there was a good chance the government would continue to support assisted living for seniors because it offered care at a value price.

Several assisted living facilities recently opened in the local area but James's father-in-law thought there was still potential for further growth. Local waiting lists suggested demand for Medicaid rooms but traditional facilities provided, at most, a couple of rooms public pay residents. As facilities opened, it seemed that the advertising and open houses helped families realize there was an alternative to the worry and concern they had when mom, dad or another elderly relative was at home trying to take care of himself or herself.

Visiting friends in assisted living residences also helped generate interest as the elderly saw that facilities could make their life easier. It was still a hard transition but it was also helpful that James would not be building the first facility in the community. Timing was an important issue. Most decisions about assisted living were made when sons, daughters and other relatives came to visit during the Thanksgiving and Christmas holidays. James wanted to have the facility built so relatives could visit and make decisions over the holidays.

Mountain View Assisted Living

James thought the market would find his size facility attractive and the size meant he would be free to build in a residential area. A facility that could locate in areas zoned residential had a major advantage. Residential land was less expensive than commercial land and family neighborhoods had the ambience James wanted for his project. James wanted his facility to be a showpiece.

Mountain View needed to be the kind of place where someone would want to live and a place that impressed relatives when they were deciding upon assisted living facilities. One problem might be finding the right parcel of land. The local community had buildable land but was landlocked by government and tribal lands. Some of the buildable land was on sloping sites that would require significant and expensive landscaping and retaining walls. James knew getting the right property was critical. James decided to start searching for the right property. If property were for sale, he could use that in his cost estimates. If he found the right property but it wasn't for sale he would need to find the owner and figure out if he could make a deal.

Forecasting and Estimating Cash Flows: The Pro Forma Income Statement

James knew he had to estimate forecasts for income and expenses. Potential investors needed to see if the inflows would exceed the outflows. James decided to research what residents paid in the local market. James determined that a resident paying privately in this market typically would be charged \$2,750 per month. James estimated Medicaid reimbursement, based on current government practices, at \$1,500 per month. James decided to focus on the first full year of operation which represented a critical time for potential lenders and investors.

Income depended on James's mix of residents. The more private-pay residents, the more money but James had the additional objective of serving Medicaid residents. To maximize revenues James could have all his residents pay privately, but that would be contrary to his goal of

providing a facility to Medicaid recipients. James wanted to serve an underserved population. He decided that his ideal mix would be 6 private pay and 10 Medicaid residents. He knew he would need to clarify his vision with "what if" analysis of income for a mix of residents. The mix of residents might change over time, depending on his experience running the facility.

James wanted to start with a one-month pro forma and then build his annual income statement. James put together two pro forma income statements for the first month. One incorporated his plan with a mix of residents at 6 private pay and 10 Medicaid. The other income statement assumed all of the residents were on Medicaid. This was a worst-case scenario. If private pay residents did not like the scale of the project or the fact they had to share a bathroom, he wanted to know if he could make money with just Medicaid residents.

Estimating monthly expenses was key to building both the monthly and annual income statements. There were many types of expenses but James thought it would be helpful to group some of them together. Expense categories included fixed and variable operating costs, fixed and variable wages, maintenance, insurance and debt repayment.

James estimated \$2,028 for fixed operating expenses for the first month of operation. Variable operating expenses per resident were approximately \$125.63 a month. Wages represented a major expense. Staff would provide services and supervision to the residents on a 24-hour basis. James thought a good estimate for the fixed component of wages was \$6,025 a month. Some wages would vary depending on occupancy. The monthly estimate for variable wages per resident was \$376.56. The local labor market could probably support these wages. There was a university in the city with students and spouses available for work. Unemployment was unusually high at present but the local area typically had a reliable supply of employees.

Other fixed monthly expenses included maintenance at \$935 and insurance at \$450. James decided to include debt repayment in the pro forma income statement. He planned to include this in his pro forma because he was trying to make cash flow calculations that would reassure lenders or investors he could make payments. He also wanted to reassure Karen there would be a positive cash flow after meeting expenses. James estimated debt repayment of \$5,301 per month. He assumed the entire debt repayment was deductible for tax purposes, to simplify his calculations.

James thought he should have an alternative pro forma income statements for the first year based on less than full occupancy. James decided it was important to create a pro forma income statement illustrating the potential of the project if full occupancy took up to six months. If the building was not ready over the holidays, it might take longer to fill the rooms. James prepared an estimate of the mix of private and public residents he would try to achieve each month in the first year assuming it took six months to fill the building. He then totaled the rows to estimate the pro forma income statement for the first year of operation. His estimates of monthly occupancy by category of payment are in Table 1.

Table1:**Monthly Estimates, Less Than Full Occupancy**

Month	1	2	3	4	5	6	7	8	9	10	11	12
Private occupant	1	2	3	4	5	6	6	6	6	6	6	6
Medicaid occupant	1	2	4	6	8	10	10	10	10	10	10	10
Total Occupants	2	4	7	10	13	16	16	16	16	16	16	16

James also wanted to make a conservative revenue estimate assuming all the residents used only Medicaid. He prepared monthly estimates and then annual pro forma income statements using the same number for total occupancy but assuming all occupants were Medicaid recipients. Now that James had collected the data, he needed to determine if building and operating an assisted living center made sense.

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NYC SUBWAY LINE AND THE METROPOLITAN TRANSPORTATION AUTHORITY

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This critical incident was prepared by Karen A. Berger and Colleen P. Kirk, Pace University, and is intended to be used as a basis for class discussion. The views represented here are those of the critical incident authors and do not necessarily reflect the views of the Society for Case Research.

Lynne Lambert gazed out the window as she hung up the phone. She had known it was a possibility, but it was still difficult to hear. The licensing agent at the New York Metropolitan Transportation Authority (MTA) had just told her that the MTA might not renew the exclusivity clause of her apparel and accessories license with them. Lynne had spent the last thirteen years of her life, as well as a good portion of her life savings, using the brightly colored graphics and maps of the New York City subway line to develop a popular line of t-shirts, apparel and accessories. Lynne had licensed these graphics from the MTA, and a loss of exclusivity in her license would put the future success of her small business at risk. She wondered what she should do. Should she go ahead and sign the agreement if they deleted the exclusivity clause? Would her business survive without an exclusive license?

NYC Subway Line

NYC Subway Line was the name of Lynne's company as well as the brand name of her subway-themed product line. Popular among both tourists and native New Yorkers, the company's products encompassed a broad range of apparel such as t-shirts, hoodies, and caps, and accessories from tote bags to backpacks, all sporting the iconic New York City subway stop graphics and subway maps.

Founding the company in 1995, Lynne envisioned leveraging the urban chic associations of New York City to create high quality apparel and accessories that reflected the trendy, fashion forward NYC lifestyle. Recognizing the potential in the colorful New York City subway imagery, she approached the Metropolitan Transportation Authority with the idea of licensing their New York City subway graphics. At the time, the MTA was open to the idea and had recently signed an agent to assist them in establishing licensing agreements. As a new entrepreneur with no track record, it took some time for Lynne to persuade the MTA to take her seriously. But eventually, with persistence and some guidance from friends in the apparel business, Lynne worked out a non-exclusive licensing arrangement to use the MTA subway stop and map graphics on apparel and accessories for a \$2,500 up-front fee against royalties. NYC Subway Line was born in 1995 as the MTA's first apparel licensee.

Launching her company was an enormous challenge since Lynne was an actress with little business expertise. However, with passion and persistence, Lynne established a distribution network of upscale tourist, gift, and independent apparel shops, supplemented with an occasional order from a large apparel or department store chain.

Products, Trademarks, and Building a Brand

Lynne designed all the products herself, recruiting friends and neighbors when needed. Her designs used the subway map, subway letters and colors of the various subway lines, interpreting them in a way that made the finished apparel trendy and appealing to the young and famous. She was careful to choose manufacturers that would produce high quality materials and styles. The NYC Subway Line logo was placed on the label of her clothing (Figure 1) and later, she created the URL 'nycsubwayline.com' using the name of her company on her web site. In 2001, Lynne applied for and received a trademark for the graphic design for "NYC Subway Line" (Figure 2) in the U.S. and Japan, followed by Europe in 2002.



Figure 1: NYC Subway Line classic logo tee-shirt



Figure 2: NYC Subway Line's trademarked label

A somewhat surprising development in the early 2000's was the unexpected success of NYC Subway Line products in Japan. "The Japanese consider New York City an exciting place and U.S. designers the most fashion-forward," Lynne explained. A Japanese firm expressed interest in sublicensing her designs, but doing so would have required the MTA's approval. Despite her efforts, Lynne was unable to obtain the interest of the MTA in such an arrangement, and she was unable to pursue the opportunity further.

NYC Subway Line products were ideal for the gift and tourist market in New York City and sales in this area were reliable and consistent. However, Lynne felt she could leverage the popularity and urban image of New York City to broaden her product's lifestyle fashion appeal on a national and even international basis. She thought New York City was "the hippest, coolest, most exciting place to be" and her products would have appeal in a more upscale apparel market. By building on her fashion acumen, Lynne wanted to create an apparel brand that would capture the attractiveness of the urban chic market. Her desire to build her business as a brand took her marketing efforts in this direction.

Promotion and Publicity

NYC Subway Line participated in trade shows in both the gift markets and apparel markets. Lynne partnered with another MTA licensee to participate in the New York International Gift Fair, considered the premier gift show in the industry and Lynne ultimately organized other MTA licensees to purchase booth space together. Among other shows, NYC Subway Line participated for many years in the MAGIC apparel trade show in Las Vegas, considered by apparel industry insiders as the place to be, as part of Lynne's effort to establish NYC Subway Line as an urban fashion brand.

Leveraging her acting background, Lynne's publicity efforts ensured her shirts were worn by actors nationwide in both TV programs and films, and were seen sported by such celebrities as Jesse Bradford, star of "Bring It On," rapper Fabolous, actress Uma Thurman, and even former President Bill Clinton. Even though NYCSL rarely issued press releases, the company was nonetheless able to garner enviable numbers of articles, mentions and photos in newspapers and magazines, including New York Magazine as one of their "Best Bets," GQ, Women's Wear Daily, Crain's New York Business, and SmartMoney.Com.

Table 1:
NYC Subway Line Sales

APPAREL					
	2004	2005	2006	2007	2008
Sales	\$26,878.75	\$17,860.50	\$166,072.72	\$417,253.45	\$135,606.52
# of Resellers	5	6	41	56	38
Average					
Sales/Retailer	\$5,375.75	\$2,976.75	\$4,050.55	\$7,450.95	\$3,568.59
Median					
Sales/Retailer	\$1,650.25	\$1,706.25	\$778.93	\$1,237.06	\$752.89

GIFT					
Year	2004	2005	2006	2007	2008
Sales	\$70,684.64	\$86,304.81	\$486,491.31	\$600,204.42	\$624,889.06
# of Resellers	26	20	80	101	96
Average					
Sales/Retailer	\$2,718.64	\$4,315.24	\$6,081.14	\$5,942.62	\$6,509.26
Median					
Sales/Retailer	\$1,372.50	\$1,640.50	\$2,150.20	\$1,852.44	\$1,943.84
OTHER					
Year	2004	2005	2006	2007	2008
Sales	\$85,993.24	\$63,509.32	\$73,061.54	\$157,287.45	\$122,194.05
# of Resellers	36	23	22	25	13
Average					
Sales/Retailer	\$2,388.70	\$2,761.27	\$3,320.98	\$6,291.50	\$9,399.54
Median					
Sales/Retailer	\$1,446.23	\$924.00	\$1,128.78	\$1,532.76	\$1,400.58
Internet Sales	\$9,240.43	10,981.99	\$9,730.00	\$21,401.00	\$19,109.00
TOTAL ALL SALES					
Year	2004	2005	2006	2007	2008
Sales	\$183,556.63	\$167,674.63	\$725,625.57	\$1,174,745.32	\$882,689.63
# of Resellers	67	49	143	182	147
Average					
Sales/Retailer	\$2,739.65	\$3,421.93	\$5,074.30	\$6,454.64	\$6,004.69
Median					
Sales/Retailer	\$1,476.00	\$1,463.00	\$1,718.90	\$1,631.12	\$1,615.65

In addition to New York City-themed competitors in the gift market, NYCSL competition in the apparel market included major urban fashion brands such as Affliction, Ed Hardy, Miami Ink, Zoo York, DKNY and Phat Farm.

Distribution and Sales

By 2008, the NYC Subway Line product line included over 90 different apparel and accessories products for men, women, and children. Lynne was distributing her product through more than 100 retailers in the tourist-gift market and 50 specialty apparel retailers (see table 1). Her products were carried by highly selective retailers such as the Museum of Modern Art, FAO Schwarz, the Terrence Conran Store and even Takashimaya, the taste-making Japanese department store. Her company had been growing, but experienced softness in 2008 as the financial markets and economy suffered a deep recession. Lynne's customers also included the occasional larger hip-hop retailer and lifestyle-oriented stores such as the Virgin Megastore in Times Square which, to Lynne's chagrin, declared bankruptcy in 2008. NYC Subway Line had

an active web site; sales promotions were announced through regular emails, resulting in small but steady Internet sales.

Exclusive licensing

Through the years, Lynne had broached the possibility of obtaining exclusivity in her license with the MTA. However, the MTA asked for a guarantee on \$1 million in sales in exchange for exclusivity – an enormous commitment for Lynne’s small business. During this time, despite the lack of exclusivity, the MTA had not generally licensed additional apparel and accessories competitors.

By 2005, however, Lynne came to the realization that to achieve her dream of establishing NYC Subway Line as a substantial brand on its own beyond simply the gift and tourist market, she would need the security of an exclusive license. She needed to be able to invest in promotion, advertising, and distribution without a constant threat of competition from other MTA licensees. Further, she believed that a lack of exclusivity limited the ability of her company to obtain financing and attract strategic partners. Later that year she reached an agreement with the MTA for a three-year exclusive licensing arrangement for both apparel and accessories.

Her joy was short-lived, however, because she found herself frequently battling counterfeiters. Although it is the licensor’s responsibility to protect its trademarks (Siegal & Drucker, 2006), Lynne found herself devoting time and energy to work with the MTA, her lawyers, and even a New York Times journalist in order to eliminate the infringing products and protect her license. Even though she had received exclusivity, the onslaught of counterfeit products still plagued her business, and the MTA did not appear to have a strong enforcement program.

The Metropolitan Transportation Authority

New York City was the largest city in the United States, with a population in 2006 of over 8 million people and over 20 million in the New York City Metropolitan Area (U.S. Census Bureau, 2000). As a major international tourist destination New York City was also visited by 46 million people in 2007, including 37 million domestic and 9 million international visitors spending close to \$29 billion in the City (City of New York, 2009).

The New York City area’s enormous population and its visitors were served by North America’s largest transportation network, run by the Metropolitan Transportation Authority (MTA). Created by the State of New York to serve the public interest, the MTA was a non-profit corporation (Metropolitan Transportation Authority, 2008). The New York City subway system encompassed weekday ridership of 5.2 million people on 6,494 subway cars and 660 miles of track, with 468 stations on 27 different subway routes (Metropolitan Transportation Authority, 2009). During the fiscal year ending 2008, the MTA earned operating revenue of \$6 billion. After \$4 billion of tax subsidies from New York City and New York State, the MTA experienced a fiscal 2008 loss of approximately \$3.4 billion (Metropolitan Transportation Authority, 2008).

In 1991, MTA granted its first license for retired New York City subway tokens to Ward Wallau, the owner of “Tokens and Coins,” who used them to produce cufflinks and keychains. He had begun trying to get a license agreement with the MTA as early as 1980, but at that time, he said “they were caught up in the graffiti problem and other operational issues” (Stevens, 1998). During the 1990’s, the MTA proceeded to add additional licensees for their graphics, logos, and tokens for such products as apparel, accessories, and jewelry. The MTA’s copyrighted property included subway, bus, and rail maps and their registered trademarks included the New York City subway symbols (Metropolitan Transportation Authority, 2010a). All proceeds from MTA licenses went to support the New York City Transit Museums in Manhattan and Brooklyn.

By 1998, with the advent of the Metrocard, the MTA found itself with 68 million retired tokens which they proceeded to sell to scrap dealers and other interested parties. Noted Henry Rissmeyer, the chief of marketing and advertising for the MTA, “We listen to anyone who comes along” (Stevens, 1998). In 1998, the MTA signed a license with a start-up company, Straphanger Designs, to purchase up to 2 million tokens and design them into denim shirts, long-sleeve cotton henleys and sweatshirts, as well as New York City subway magnets and T-shirts (Anonymous, 1998).

In 2004, the MTA expanded its licensing efforts by signing an agreement for a new licensing program with United Media (United Media Licensing, 2004). United Media was one of the world’s largest licensing and syndication companies (Anonymous, 2009), with global representation for such brands as Peanuts™ and Dilbert™. They expected to broaden the MTA’s licensing in not only apparel and accessories, but also toys and games, home video, music, publishing, stationery, gifts and collectibles, and promotions. According to United Media, the MTA licensing program would target teens and adults, tourists and New Yorkers, and national urban and suburban dwellers. The focus would be on “bringing the look and feel of classic New York, as well as the urban chic and edginess of the transportation system through its popular and historical symbols, to consumers” (United Media Licensing, 2004).

By the end of 2005, the MTA Brand Licensing Program had grown to encompass nearly 40 licensees producing over 125 unique items across several product categories (Metropolitan Transportation Authority, 2006). The MTA felt their “intellectual properties reflect the city’s vitality, its vast and varied audiences, and [the MTA’s] status as a New York icon” (Metropolitan Transportation Authority, 2006). According to Mark Heavey, Chief of Marketing and Advertising for the MTA, the MTA decided to hire a licensing agent as they are specialists in finding and evaluating licensees. He said, “It doesn’t make sense for employees of the MTA, a corporation focused on providing public transportation services, to spend inordinate amounts of time pursuing licensees.” By 2005, the MTA had discontinued their relationship with United Media, and they ultimately contracted with licensing company Moxie & Company. Moxie was substantially smaller than United Media and, noted Mark Heavey, “being a large client of a smaller company means we get more attention from them.”

Potential licensing revenue was important when considering whether to grant Lynne Lambert's company exclusivity. Mark Heavey noted "apparel is the lion's share of business in all licensing." The MTA recognized that in order for a licensee to be able to invest in and grow their business, exclusivity was important. However as a licensor, explained Mark, "in granting exclusivity, you are forfeiting an opportunity to get revenue from other licensees who specialize in other apparel areas. To compensate, exclusive licensees have to pay higher guarantees." He noted, "Lynne Lambert is a loyal and long-time licensee, and she had been asking for exclusivity for quite some time. We wanted to give her a chance." Unfortunately, he explained, by 2009 "the benchmark achievements we needed from her to retain exclusivity just weren't met."

Many of the MTA's licensed products were available through the gift shops at the New York Transit Museum in Brooklyn and in Grand Central Terminal as well as through the Transit Museum catalog and web site. The proceeds from the sale of MTA licensed merchandise provided significant funding for the Transit museum (Metropolitan Transportation Authority, 2010b).

NYC Subway Line Reconsiders

Looking at her 2008 sales figures, Lynne was quite distraught. She had invested years of her life and savings in developing her fledgling business, resulting in respectable sales with a diverse product line, reliable supply sources, and popular products. Lynne felt that her brand embodied the urban vibe of New York City, and it encompassed both quality materials and stylish design. She felt that she had established NYC Subway Line as an urban chic fashion line, noting, "The MTA's brand is about running busses and trains. It didn't have anything to do with fashion until I came along. I've created a fashion brand that uses their raw material."

However, the use in her products of licensed imagery associated with the New York City subway system was both a blessing and a problem. On the one hand, Lynne's license with the MTA provided business continuity, including access to MTA imagery that had been instrumental in making her business a success. On the other hand, she was reliant on the vagaries of the MTA's licensing decisions.

Loss of exclusivity in her contract with the MTA could be devastating. Lynne was afraid that in the long term, the benefits from her own promotional and brand-building efforts would be reaped by someone else. The MTA seemed to have no interest in building a fashion brand with cachet. Their concern was gaining additional revenue from license royalty fees and they appeared to be volume-driven.

What should she do now? Could her brand and her business survive without exclusivity in her agreement with the MTA?

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**THE SOCIETY FOR
CASE RESEARCH**

PEER REVIEW PRESSURE

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This critical incident was prepared by Reed McKnight of the University of New Mexico and William E. Stratton of Idaho State University 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. Authors' views are based on their own professional judgments. The names of the organizations, individuals, and location have been disguised to preserve the organizations' requests for anonymity.

Last night, at one of the area's nicest restaurants, Jim Jensen and his firm had hosted a dinner for Carla Fielding, the accounting department chair at the local state university, and many of her faculty members. Jim was the managing partner of Flanigan & Smith, one of the city's largest accounting firms. The firm had long been a strong supporter and advocate of the accounting department. In his after-dinner presentation, after expressing some heartfelt praise for the department and its graduates, Jim went on to air an issue that had been troubling him.

He expressed concern that the firm's senior accountants seemed incapable, or at least unwilling, to critique in a meaningful way the team members they supervised in the firm. These senior accountants just would not say anything critical of their staff; it seemed to him that peer pressure not to judge others was impairing the firm's peer review process. This lack of critical review had become a growing problem for the firm over the past few years as fairly recent hires moved into senior positions. As the discussion unfolded, Jim left little doubt that, in his opinion, there was a need for the university to improve the peer review and evaluation skills of its graduates as part of its curriculum.

The next day, Carla and some of her faculty members discussed the issue Jim had raised. Though brief, the lively discussion ranged widely. One end of the range included a possible value-added perspective. If higher quality peer review training could be added to the curriculum, it might be an opportunity to differentiate the department's graduates from its competitors. At the other end

of the range was the opinion that perhaps such training was not directly part of an accounting education and really wasn't the department's responsibility. Although large corporations often possessed the critical mass necessary to provide in-house training programs to grow employees' skill sets, most accounting firms did not--they were just too small.

The issue was a sticky one; did the problem really demand the department's attention or was it something that could just be ignored? And what might be the consequences of either course of action?

Wading into the Issue

Carla continued to think about Jim's request. What, if anything, needed to be done in response? It wasn't as if the criticism were provided by an insignificant supporter. This was one of the largest firms in the area, which supported the department both by hiring its graduates and by sponsoring a faculty lectureship. She knew that the partner's concern was real and that there was little danger of losing his support. But she also knew the firm recruited elsewhere and the importance of securing external financial support was growing as the state's budgetary problems continued to reduce funding for higher education. Carla wanted the department to be proactive and sensitive to the needs of those who hired its graduates, but where did the department's responsibility end and that of employers begin?

The accounting major already had a demanding curriculum with more credit hours than any other business major. Course offerings were impacted through topic coverage needed to pass the professional CPA Exam. In addition, new accounting, auditing, and legal (tax laws) standards were routinely being promulgated, applying increasing pressure to squeeze even more content into a relatively fixed number of course offerings. Given this situation, was the imposition of increased coverage of a "non-content" item like peer review training into the department curriculum even reasonable to consider?

What role should the department assume with respect to peer review skill development? Did the department's responsibility extend beyond helping its graduates obtain entry level professional positions, or was increased training in peer review something for which the profession itself should assume the major responsibility?

Was peer review skill an important enough issue that it had to be addressed? It wasn't as if it were being totally ignored. It was already an integral part of group assignments in some accounting classes and in other business classes as well. So the issue wasn't whether or not to include peer review in a student's learning experience but rather whether or not it was so important that it needed to be taken to a new level. At one point the issue was briefly discussed in a departmental meeting. However, other issues deemed more critical forced the peer review training issue to a "back burner."

Although Carla valued the opinion of Jim and his firm, it was, after all, just one opinion. Did she need to seek the opinions of other accounting firms and organizations regarding graduates' peer review skills and whether those skills were salient in their hiring decisions?

Jim Jensen had left no doubt that peer review skills were important to his firm. Without the meaningful critique provided by reviews, it was difficult for management to know how to target individual staff member weaknesses; how to customize training; and how to most effectively grow each team member into a more productive contributor to the firm. In a service industry characterized by intense competition, constructive criticism was an important ingredient for success. While Jim had not come right out and said it, the implication was clear--recent graduates had a deficiency in their set of soft skills. The ability and willingness to engage in reviewing their peers was both necessary and important for the continuous improvement program of the firm.

As Carla thought more about the issue of peer review training, she wondered how to respond. The question was, were good peer review skills a responsibility of the department in order to better prepare its graduates, or something for which the employer or the profession should be responsible? After all, senior accountants in firms who needed the skills weren't brand new graduates but rather those who had a couple years of experience on the job.

Carla didn't see how more resources could be devoted to peer review training without cannibalizing other parts of the program. If it were to be a department responsibility, was it so important that it had to be delivered internally, or could it be outsourced to another department somewhere else in the curriculum where it might be taught more effectively? Could the training take place outside the university by working with firms to develop their own internal courses or by providing continuing professional education courses that could be made available to all CPAs through their professional society?

If handled internally, would improve peer review skills lead to even better opportunities for graduates and to possibly greater funding for scholarships and internships? Would enhanced peer review skills represent an important value-added opportunity for product differentiation that could grow the department's enrollment and possibly help combat the increasing competition from on-line providers of accounting education?

Under ordinary circumstances, the dean's office might be a good place to explore these issues and their related possible costs, but Carla chose not to do that. An acting dean had been temporarily appointed whose background was not in business, let alone accounting. While the acting dean was doing a remarkable job under difficult circumstances, with a less than totally cohesive faculty, she was nearing the end of her appointment in that position and transitioning to another as the search for her replacement was drawing to a close.

Decision Time

Carla realized this simple request to add peer review to the curriculum raised more issues than she had first thought. Was this an issue that would just fade away if it were ignored? Or, would it be interpreted as a snub by an important advocate that eventually could lead to a deterioration of its support? Or, if it were not to be ignored, what individuals or groups should be involved in the decision process and in what ways should they be involved? What to do?

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**THE SOCIETY FOR
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QUEST RESEARCH EXPLORES THE HOG PRODUCTION INDUSTRY

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This case was prepared by Stacy Vollmers and Ozcan Kilic of University of Wisconsin -River Falls and Clyde Vollmers of the Russian American Institute 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. Authors' views are based on their own professional judgments. The names of the organization, individuals and location have been disguised to preserve the organization's request for anonymity.

Johnsrud squelched the celebration as he said, "That was the easy part! Now the real work begins." The management team for Quest Research was meeting in the garage of Jack Hartman, the company's president. For the last three years, the garage had housed computers and scientific equipment rather than automobiles.

Johnsrud, the VP of marketing had just reported on a meeting the day before with two outside swine industry experts, Dr. Joe Jones and Dr. Kermit Lana. The company's technology and theory had been presented by its inventor to the two swine experts. After the presentation Dr. Lana turned to Dr. Jones saying, "This makes sense; this could work." Dr. Jones replied, "Yes, I think it will too. And I think I know someone who will fund the research." He then turned to Johnsrud saying, "Give me a business plan and I will present it to my contact."

The Quest management team realized how fortunate they had been. Most startup businesses never have the opportunity to present their business plan to investors. But they also knew the potential angel investor would ask if the swine production industry was a viable potential market for their technology. They had to be ready with the answer.

The Company

In 2001, Quest Research, Denver, Colorado, started as a scientific research company conducting basic research. This small corporation focused on one technology, electrolyzed water, and had

several patents. The offices were in the basement and the lab was in the garage of the company's president. Like many startup companies, each member of the management team worked full time jobs during the day, while nights and weekends were devoted to Quest (see Table 1).

Table 1
The Key Players

Job Title & Affiliation	Name	Day Job
Quest Research		
President	Jack Hartman	Selling ceramic applications
Director of R& D	Dave Dockter	Operations director
Director of Marketing	Dr. Lloyd Johnsrud	Non-profit volunteer
Inventor	Steve Smith	Technology Guru
Outside Industry Experts		
International Swine Veterinarian	Dr. Joe Jones	
Leading Swine Nutritional Consultant	Dr. Kermit Lana	
Potential Angel Investor	Bill Watkins	

Quest's president, Jack Hartman, held a B.S. in Ceramic Engineering. He had worked as an international project manager in the ceramics industry and had designed and built large ceramic manufacturing factories in France, South Africa, and North America.

Dave Dockter, director of Quest's research and development, held a MS degree in Metallurgical and Materials Engineering. He had extensive research experience involving complex metal and chemical reactions that included ceramic applications.

Steve Smith was the technology guru who had initially asked Hartman to build the ceramic vessel. This project led to the creation of Quest. While he was not involved in the daily operations of Quest, his ideas were the technological foundations of everything Quest pursued.

Dr. Lloyd Johnsrud was the director of Quest's marketing efforts. He was a retired university marketing professor who had also owned a consulting company that specialized in marketing and strategic planning. Several of his consulting clients were in the pork production or processing industry, and he had led strategic planning projects for both Jones and Lana. At the time of the critical incident, Johnsrud was a volunteer leading the strategic planning efforts of a nonprofit organization.

Not affiliated with Quest, Dr. Joe Jones and Dr. Kermit Lana were swine experts. Dr. Jones was an internationally known swine veterinarian whose veterinary consulting practices served hog producers in North America, Asia, and Europe. Dr. Lana was a leading swine nutritional consultant, whose specialty was ration development.

The Angel Investor

The potential angel investor was Bill Watkins, an entrepreneur that had successfully started and sold several agribusinesses. After earning a business degree from a Midwestern university, Watkins had assumed leadership of the family livestock feed business that targeted primarily hog

farmers. Since then, he had started, and later sold, two very successful food-processing businesses. He also had a leading swine nutrition expert on his staff.

The GENS

After many hours of talking with Smith and reading many articles he had recommended, Johnsrud became convinced that electrolyzed water could enhance pig production. Therefore, Hartman and Dockter designed and built a ceramic water processing unit called the GENS (Growth Enhanced Nutrition System). It was designed to convert drinking water into a complex nutritional conveyance for pigs.

Many Americans have purchased and drunk bottled electrolyzed water. At an elementary level, the GENS system produced similar water. However the GENS unit produced a much more complex solution. First, the system used an electrochemically-activated process that took traditional water and converted it to a functional fluid that had a higher pH and was impregnated with minerals and vitamins. Secondly, GENS used process intensification that superimposed multiple energy gradients to affect the final drinking water solution. The system could also deliver medications, vaccinations, and any other liquid or solid that could be suspended in water. To protect the technology, Quest had already started the patent application process.

For hog producers, the Quest team believed the GENS offered several advantages. First, with a high pH drinking water, hog urine and feces emitted fewer odors. Neighbors living near hog farms frequently complained about odors, which made zoning permits to operate a hog farm more difficult to acquire. Thus, using water treated by the GENS would help reduce this major problem for commercial hog operations.

Second, both the higher pH water and the suspended nutrition made the nutrition more digestible. As a result, feed efficiency increased and pigs grew faster and used less feed. Further, sows (mother pigs) produced more milk, enabling the baby pigs to grow faster and stronger during their first few days after birth. Lastly, sows gave birth to more baby pigs. All of these contributed to increased profitability for hog farmers. Based on proprietary secondary research data he had access to, Johnsrud estimated hog farmers could save over \$8 per pig marketed, and over \$15 for each sow per litter. See Appendix A for more information on the hog industry.

Since the GENS enhanced existing technology rather than requiring new technology, many manufacturing aspects could be determined. The cost of factory overhead, labor and materials for the GENS was \$7,800. It could be built using electronic parts available from numerous suppliers. Further, ceramic materials were also readily available. Reactors that produced electrolyzed water were used in many industries. Based on these applications, Quest management projected that the GENS would last five to six years and to prevent product failures, it should be replaced on a five-year cycle. Generally, one GENS unit would serve one pig barn.

The Three-Phase Project

The management team developed a three-phase research plan to evaluate the technology and market potential as outlined in Figure 1.

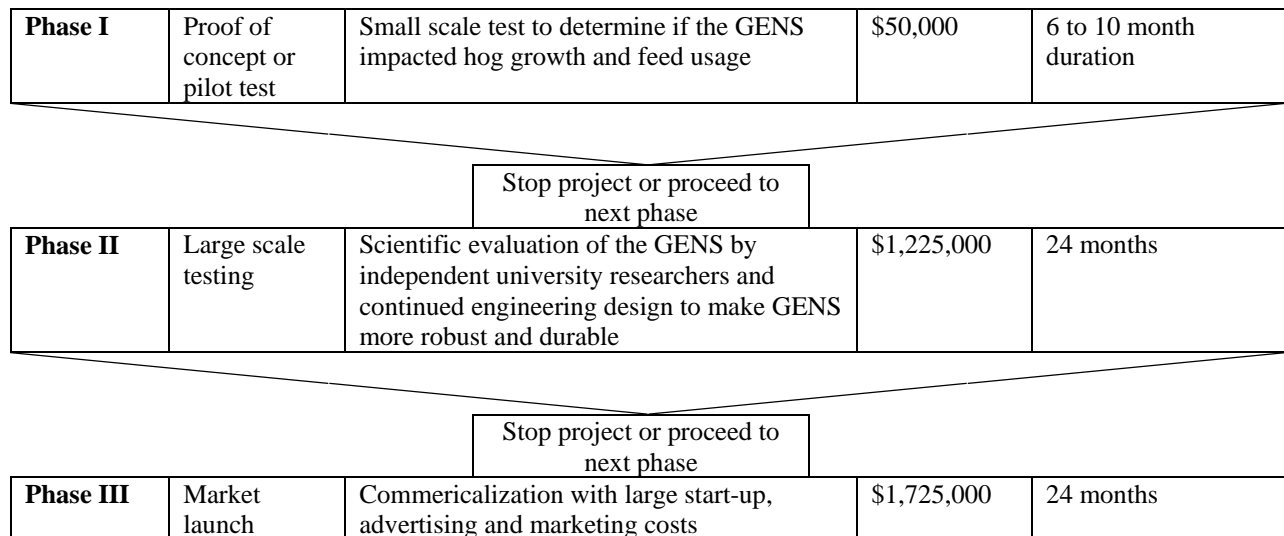


Figure 1. Three phase product development and testing project proposed by Quest Research.

Thus, Quest needed an estimated total of \$3,000,000 in capital from the angel investor to fund product testing and the subsequent commercial launch if the test results were positive. Lloyd knew that the swine nutrition expert working for the angel investor would make the initial decision regarding the technology's potential. However, the decision of the angel investor to invest in Quest depended on the market potential. Therefore, Lloyd asked himself "How attractive is this industry and does the profit potential justify the potential expenses?"

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Appendix A: Hog Production Industry Note

Quest's customers for the GENS were U.S. hog farmers. The research conducted by Quest showed the following industry characteristics. During the last 30 years, technology and the continuing quest for efficiencies had revolutionized hog production in the U.S. As a result, by 2008, over 100 million pigs were marketed by about 80,000 farmers and each American ate over 63 pounds of fresh and processed pork products, and pork had become a major U.S. export.

Industry Size and Growth

Between 1992 and 2007, there the USDA reported an upward trend in hog production (see Table A1). Further, the number of pigs produced was cyclical, creating financial pressures during periods of high production. To illustrate, in 1994, a record pig crop resulted in record low prices that caused a cutback in production and some operations suffered bankruptcy.

Table A1
U.S. Annual Pig Crop (000)

Year	U.S. Annual Pig Crop	Year	U.S. Annual Pig Crop
2007	112,874	1999	102,352
2006	105,633	1998	105,005
2005	103,975	1997	99,584
2004	102,787	1996	94,459
2003	101,481	1995	98,816
2002	101,678	1994	101,478
2001	100,617	1993	97,326
2000	100,743	1992	99,142

The hog production industry's growth was driven by stable per capita domestic pork consumption and substantial expansion of export markets. U.S. pork producers used two tools to maintain per capita consumption of pork. First, "The Other White Meat" advertising campaign promoted pork. Second, technological innovations included substantial improvements in genetics, production practices, and swine nutrition that combined to put a more desirable product on the consumers' plates. In 2006, U.S. Department of Agriculture analysis found that pork tenderloin contains 2.98 grams of fat per 3-ounce serving, compared to 3.03 grams of fat in a 3-ounce serving of skinless chicken breast. Thus, pork tenderloin met government guidelines for "extra lean" status. Table A2 shows per capita pork consumption in the U.S.

Table A2
U.S. Per Capita Pork Consumption (pounds)

Year	Per Capita Consumption	Year	Per Capita Consumption
2007	63.6 (forecast)	2001	68.6
2006	63.8 (preliminary)	2000	68.2
2005	64.5	1999	70.0
2004	66.2	1998	68.2
2003	66.9	1997	63.1
2002	66.4	1996	63.8

Source: Foreign Agricultural Service, USDA, Livestock and Poultry Trends 1-07 April 2007

Until 1995, the U.S. was a net pork importer (see Table A3). This reversed in 1995, when the U.S. became a net exporter. Exports had grown rapidly since 1995, and exceeded three billion pounds in 2007. Many factors drove the increased exports:

- 1) The dollar's weakness during this period made American exports relatively cheaper.
- 2) Disease-related closures including avian influenza for poultry and bovine spongiform encephalopathy (BSE) for beef in Asian markets provided export strength for pork (Foreign Agricultural Service [FAS] U.S. Department of Agriculture [USDA], 2005).
- 3) Increasingly stringent pig production regulation increased the cost of production in the traditional pork exporting countries of the European Union, which lost market share to U.S. producers.
- 4) Pork producers had funded promotion efforts and improved the quality of pork. Therefore, it became more competitive with other types of meat (Grimes & Plain, 2008).
- 5) The U.S. government had successfully sought to liberalize trade. One effort, NAFTA, increased sales to Mexico and Canada (Grimes & Plain, 2008).
- 6) Per capita incomes in many countries, such as China, had improved during this period, leading to increased meat consumption (Grimes & Plain, 2008).

Table A3:

<i>U.S. Pork Imports and Exports (Million Pounds)</i>			
Year	Pork Imports	Pork Exports	Net Pork Exports
1986	1,122	86	- 1,036
1990	898	243	- 655
1994	744	549	- 195
1995	664	787	123
1999	827	1,277	451
2003	1,185	1,717	532
2007	969	3,138	2,169

Source: Grimes & Plain (2008)

Production Characteristics

During the past 25 years, the ownership of pork production had become highly concentrated as the number of pig farms plunged by more than 80 percent from about 430,000 to about 80,000.

The remaining pig farmers varied substantially in size. In 2006, one firm, Smithfield Foods, had nearly a million sows in the U.S., about 17 percent of the U.S. total. In addition, another 19 farms totaled about 2 million sows, or about 34 percent of the U.S. total. Thus, just 20 firms accounted for about half of the total pork production (see Figure A1).

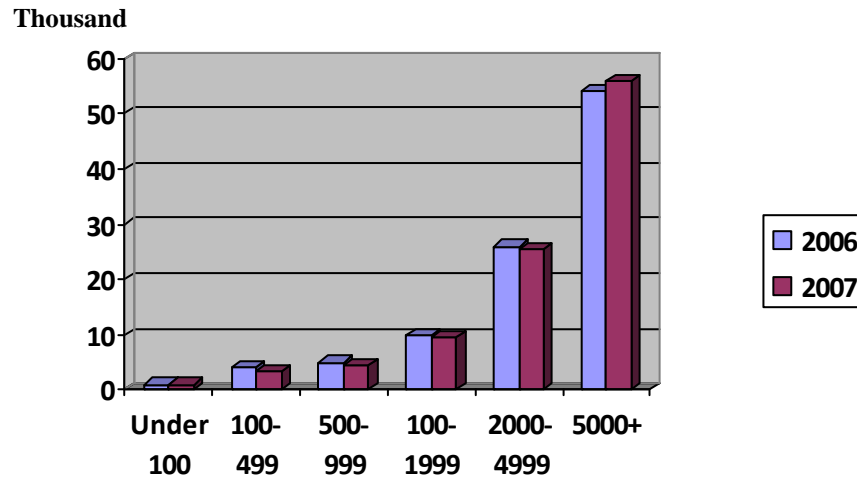


Figure A1. U.S. Hog Inventory Percent by Farm Size Group, 2006-2007
Source: USDA-NASS (2009)

Further, pig production in the U.S. was highly concentrated geographically. Three states accounted for over 50 percent of the pig inventory, and seven states accounted for 74 percent (see Table A4). Geographic production was concentrated within the “corn-belt” region that provided low-cost access to both corn and soybean for feed.

Table A4

Total Hogs and Pigs Inventory for Major Pork States (December 1, 2008)

Rank	State	Total Hogs & Pigs	Percent of U.S. Total
1	Iowa	19.8 million head	29.7
2	North Carolina	9.6 million head	14.4
3	Minnesota	7.5 million head	11.2
4	Illinois	4.35 million head	6.0
5	Indiana	3.5 million head	5.2
6	Missouri	3.3 million head	4.9
7	Nebraska	3.1 million head	4.6
	U.S. Total	66.77 million head	

Source: USDA

Pig Farm Operating Characteristics

Modern hog farms were extremely complex businesses that operated on razor-thin margins (Key & McBride, 2007). Farmers combined various sophisticated technologies such as nutrition, genetics, and health with little room for error. The slightest mistake turned the planned profit into an operating loss.

Profitable and successful hog farmers used well-trained employees and a variety of technical consultants to manage operations. They purchased the expensive, but much more productive genetic seed stock. They used feed rations that varied almost weekly throughout the growth process, and were constantly on guard against disease. If everything worked as planned, they might average ½ more baby pig per litter and a week sooner to market. These small differences determined profitability.

While hog farmers used several different production practices, the trend was towards “three-site” production, which used three physically separated sets of barns. Site I was a farrowing barn where breeding and farrowing (giving birth) occurs. One farrowing barn generally had between 1,200 and 3,000 sows with an average of about 2,000. Each sow had approximately 2 litters of piglets each year. There were an estimated six million sows in the United States with almost all housed in farrowing barns.

Site II was a weaning barn for piglets between about 14 days old and 100 to 110 days old. A barn might hold 1,000 to 4,000 pigs, and there might be four-to-eight barns at the site. Site III was a finishing barn where pigs were moved at about 100 days. Here they were fed 60 to 70 days to a market weight of about 260 to 270 pounds. While site III barns differed in capacity, an average barn held 1,000 to 2,000 pigs, and again, there might be four-to-eight barns at a site.

Both site II and site III barns served multiple batches of pigs each year. On average, each barn was used for two turns or batches, and housed about 2000 pigs at a time. Again, almost all of the 100 million hogs marketed each year were produced in these types of facilities.

Larger hog producers would have many sets of hog barns spread over a large geographic area, and many had farms in multiple states. The purpose of running multiple sites rather than one massive site was to provide pigs with greater isolation for disease control. In addition, economies of scale did not justify going beyond these sizes. Lastly, waste disposal and environmental regulations generally prevented larger facilities.

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SKYDIVE CAROLINA – “WELCOME TO MY WORLD”

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This case was prepared by Timothy Burson, Bradley Brooks and Leanne Pupchek of Queens University of Charlotte 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. Authors' views are based on their own professional judgments.

“This is incredible. It’s so quiet up here.” Daniel Pharr marveled immediately after jumping from an airplane for the first time on Saturday afternoon, January 31, 2009. “Welcome to my world,” replied George “Chip” Steele, a veteran skydiver and instructor at Skydive Carolina. Sadly, those were the last words spoken by Steele, as he suffered an apparent heart attack seconds later and died instantly.

Steele was Pharr’s partner in a tandem jump, where a veteran instructor was strapped to the back of a novice. The instructor would deploy the parachute and guide the directional ropes to bring the pair to a safe landing. Steele had deployed the parachute before his apparent heart attack. Pharr, the first time jumper, now had to land them both.

Pharr, a private in the U.S. Army, reached behind Steele to grab one of the steering toggles and execute a safe landing. Upon landing Pharr immediately tried to revive Steele using CPR, but to no avail. Pharr, himself, was unhurt, refusing to go to a nearby hospital or receive treatment from a physician who happened to be another jumper on Pharr’s plane.

Hours later, James La Barrie, general manager of Skydive Carolina, returned from the landing site to his office in Chester, SC, where Skydive Carolina was located. Chester is a small town located about 25 miles south of Charlotte, NC. Local media was prompt in arriving on the scene, and the story was already popping up on local news websites. La Barrie’s phone began ringing nonstop with requests for interviews from wire services, newspapers, and radio and television stations throughout the country, even some international media outlets.

The speed at which the story circulated was dizzying. La Barrie saw that some of the stories, perhaps with reporters rushing to make deadlines, had sensationalized the events, such as the headline “Novice Survives after Sky-Dive Strapped to a Dead Man,” which appeared on the front page of the Hilton Head (South Carolina) *Island Packet* newspaper (Garfield 2009). Hilton Head Island was well over 200 miles from Chester.

“A man has died, here,” La Barrie thought. “Is this the best way to portray a tragedy? Where’s the consideration for Steele or his family?” La Barrie had to manage the flow of information to ensure the reports were accurate, to protect the privacy and reputations of the parties involved, and to keep Skydive Carolina from becoming known as “that place where the instructor died during a jump.” He knew, however, reporters would also be contacting Pharr, Steele’s family, or anyone else who could provide an angle to the story. “How can I manage the flow of information with so many other parties being interviewed?” he wondered.

Time was not on his side. A strategy had to be devised and implemented quickly.

Background

James La Barrie was born in London, and raised in Antigua, West Indies. His parents operated a hotel and restaurant on the island, and La Barrie was acutely aware at an early age of the importance of customer service. La Barrie came to the United States at age 14, and completed high school in Hilton Head Island, SC while living with an uncle. He attended Queens College (now Queens University of Charlotte), where he played on the golf team. He graduated in 1999 with a double major in Business and French.

After graduation, La Barrie became an assistant golf professional at Regent Park Golf Club in Fort Mill, SC. He gained Class “A” professional status with the Professional Golfers Association (PGA) of America after completing the Golf Professional Training Program. It was during this training La Barrie met Skydive Carolina’s Danny Smith, also a golf enthusiast. La Barrie credited Smith with igniting his passion for jumping out of airplanes. La Barrie recalled, “I started giving Danny golf lessons, we hit it off, and soon he was giving me skydiving lessons.”

In late 2003, La Barrie joined Skydive Carolina as Director of Business Development. He was promoted to General Manager in 2006 with responsibilities for daily operations and marketing for the company.

Moving from the golf industry into the world of skydiving might have seemed like a radical career change, but La Barrie saw a number of similarities between the occupations. “People call a golf course, make a tee time and come play,” noted La Barrie while, “clients call Skydive, make an appointment, take their training and make a dive. In both cases, once the customer arrives, it’s up to the staff to see that the customer has the best experience possible.”

Despite subsequent opportunities, La Barrie chose not to return to the golf industry. Enjoying high job satisfaction at Skydive Carolina, La Barrie had seen that golf can be a very frustrating activity, making the customer more likely to leave unsatisfied. With skydiving, however, La Barrie found that the customer, particularly a novice, came in excited after a jump, having completed one of the two or three most exciting things he or she will ever do.

La Barrie enjoyed the activity and the great clientele, and was better able to utilize his passion for marketing. He focused on ensuring that customers left as “raving fans.” Then he utilized the customer's newfound passion for the experience by having encouraging them to share their experience with friends.

Skydive Carolina

Skydive Carolina opened in July 1986 near the Chester County Airport. Founder and owner, Danny Smith, had been a vice-president at First Union National Bank in Charlotte before leaving the corporate life to pursue his passion for skydiving. Smith started the operation with a tiny Cessna 182 aircraft and a few student rigs, and upgraded to a 22 passenger Twin Otter aircraft in the late 1990s as the business grew.

Skydive Carolina had hosted many major skydiving events through the years, including 2008's SkyFest (an annual skydiving event held at varying locales). The 2008 SkyFest was one of the largest skydiving events in the US that year. Skydive Carolina had become a favorite of skydivers because of a massive 700+ acre landing area, clean facilities, full service rigging loft and gear store. The company's commitment to quality was indicated in its mission statement: “The goal of Skydive Carolina is to provide the very best adventure experience combining the highest level of safety, education and customer service to all who visit our drop zone. The purpose of the business is to provide an atmosphere not just for the skydiver, but for the entire family and be involved with the community.” Skydive Carolina was the only skydiving facility within a 75 mile radius.

After La Barrie joined Skydive, the business experienced considerable growth, with the number of total jumps almost doubling from 14,527 in 2004 to 27,589 in 2008. Skydive Carolina's most popular offering was its tandem jumps. Before making a tandem jump, the novice skydiver undertook a forty-five minute safety course, including classroom time and instructional videos.

With the expert instructor fastened to his/her back, the new skydiver would jump from an altitude over 13,000 feet. The pair would freefall at speeds that often eclipsed 120 miles per hour for up to sixty seconds. After deploying the parachute, the instructor maintained control of its steering toggles, which allowed the novice the complete thrill of the jump.

In adhering to legal requirements, Skydive Carolina only employed tandem diving instructors who had earned licensure through the United States Parachute Association. Consistent with

standard industry practice, Skydive also required each instructor to provide written evidence of regular medical check-ups.

Since 2004, Skydive Carolina had facilitated more than 100,000 jumps with a low incidence of injury. There had been a handful of minor injuries, mostly sprained ankles with one broken leg, all of which had resulted because the novices forgot to raise their legs when landing. Skydive Carolina prided itself on its safety record.

Pharr's Jump

Daniel Pharr's trip to Skydive Carolina was a Christmas gift from his girlfriend who also made her first jump that day. The couple was among nine novices who boarded Skydive's Twin Otter aircraft with their instructors for tandem jumps, the last scheduled dives that Saturday afternoon. Pharr was randomly paired with Chip Steele, one of Skydive's most popular and experienced instructors.

Steele had previously been a licensed instructor with Skydive Carolina before pursuing other parachuting interests. He had recently helped Strong Enterprises in Orlando, Florida, build and test parachute equipment. While serving both private and military clients, one of Steele's more intriguing tests had been to drive a US military Jeep out of a ramp from an airplane while in flight. He landed both himself and the vehicle safely. Skydive Carolina was happy to welcome Steele back in 2008, as La Barrie said, "With his diverse background spanning thousands of jumps, Steele's experience was extraordinary."

Steele and Pharr were the last divers to leave the plane. After they jumped, they spent a few moments freefalling before Steele deployed the chute.

After Pharr heard Steele say, "Welcome to my world," he asked Steele, "What's the longest amount of time you've ever glided?"

He received no answer. They continued to fall.

Pharr spoke again. No response.

Pharr looked back at his instructor. Steele's head was slumped downward.

"That's when my military training kicked in," Pharr was quoted later as saying. Pharr reached for the steering toggles. Since they were designed to give the instructor control, Pharr was unable to reach both the left and the right steering cords at the same time. As the two were quickly approaching the ground, Pharr pulled on the right steering cord to avoid several trees. Turning only right, he successfully steered himself and Steele into an open area as they touched down. He removed his harness and tried to revive Steele.

The Aftermath

While still investigating Steele's death, the local coroner's office was besieged with requests for information from various media outlets. Initially, La Barrie did not identify the names of the instructor or the student.

After the *Island Packet's* story ran with its sensationalized headline that same day, La Barrie placed a media alert on his cell phone to notify him of stories covering the event. The alerts sounded every few minutes as the story spread quickly. La Barrie was stunned that the story was being reported as far away as a newspaper in Perth, Australia.

La Barrie consulted with Smith within hours of the tragedy. They decided any information requests that came to Skydive Carolina would be referred to La Barrie, who would serve as the voice of the company. Further, they thought it best for La Barrie to speak for everyone involved in the incident, as this would provide the most accurate flow of information. They quickly apprised all Skydive Carolina personnel of those decisions.

The next morning, La Barrie then consulted Daniel Pharr. Pharr said he was not speaking to the media on orders from his commanding officer (CO). Because Pharr was involved in Army intelligence, his CO did not want him involved with the media. La Barrie expressed his appreciation to Pharr for this decision.

La Barrie's day wasn't over, however. When he met with Steele's grieving family members, he discovered that Steele's elderly parents had already been interviewed by a small local newspaper, and his mother had revealed that Chip Steele had an existing heart condition.

"I wish someone had told me Steele had an existing heart condition," La Barrie thought. Although Steele had recently passed the industry's requirements for a physical, La Barrie knew the examinations given to the instructors could sometimes be rather cursory. La Barrie had heard that some medical facilities were not fulfilling their obligations for proper examinations. They provided an "examination" that consisted of little more than checking the patient's blood pressure and other vital signs. "Could that be what happened with Steele?" he wondered.

La Barrie sighed. "If that gets picked up by bigger media outlets, it could be bad. I don't want Steele depicted as a selfish individual who put the lives of his students in danger for his enjoyment of skydiving," he thought. "And I also don't want Skydive Carolina to be portrayed as a company that does not properly check the backgrounds of its employees." Steele's sister admitted to La Barrie that she and her parents were overwhelmed. They quickly agreed to allow La Barrie to speak for the Steele family henceforth. A detailed account of the events of the first twenty-four hours is provided in Table 1.

Table 1
Timeline of Events

Saturday January 31 st , 2009	
12:00 am	• Rock Hill Herald makes first media call to Skydive Carolina
8:00 am	• Deputy and Head Coroner arrive on scene
9:00 am	• Multiple media sources from Charlotte, NC and Columbia, SC begin calling La Barrie
10:00 am	• Family is notified of Chip Steele's passing
11:30 am	• Deputy Coroner releases Chip Steele's name to Rock Hill Herald
3:00 pm	• Media begins calling Steele residence in Sumter, SC
Sunday February 1 st , 2009	
12:00 am	• Skydive Carolina Preparing Press Release for media
8:00 am	• Press Release sent to all requesting media outlets
9:00 am	• Media Trucks begin to arrive / filming front sign
10:00 am	• La Barrie's first conversation with Daniel Pharr. Pharr agrees not to release info
11:30 am	• Steele Family arrives
3:00 pm	• Speak with coroner's office regarding displeasure of name release

Two days later La Barrie received a call from Daniel Pharr. Pharr had seen a story about the incident that included several quotes from La Barrie. Pharr was interested in the name of the reporter and where he worked. La Barrie told him it was a reporter with the *Charlotte Observer*, the area's largest daily newspaper, but reiterated it would be best if La Barrie spoke for all parties involved. A few hours later, the newspaper's website posted a follow-up story on the incident, including the first public comments from Daniel Pharr. In the interview, Pharr complimented the training provided by Skydive Carolina, and also noted that his Army training was most helpful in giving him the ability to think clearly in a crisis. "I guess his C.O.'s orders changed," La Barrie thought.

Within days, La Barrie was contacted by a representative of ABC's *Good Morning America*. The morning show wanted to air a feature story on an upcoming program. ABC wanted to fly Pharr, his girlfriend, his father, Steele's parents and La Barrie to New York to appear live and be interviewed by co-host Robin Roberts. La Barrie soon learned the Pharr contingent had already agreed to appear. Steele's parents had some misgivings, but were considering the trip, as they thought the interview might give them the opportunity to share some positive memories of their son on national television.

La Barrie had to respond quickly because ABC, with commitments from Pharr and his family, would proceed with the story with or without the participation of La Barrie or the Steeles.

Managing one of the hottest stories in the media had become a bigger challenge than he had imagined. La Barrie also knew his immediate decision regarding to appear in New York needed to be considered within the framework of managing his company's brand image.

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**THE SOCIETY FOR
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THE FATE OF MEDIAFUSE: AN ENTREPRENEUR WRESTLES WITH THE FUTURE DIRECTION OF HIS INTERNET MARKETING FIRM

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This critical incident was prepared by John C. Riddick, Jr. of Hanover College and is intended to be used as a basis for class discussion. The views presented here are those of the author based on his professional judgment and do not necessarily reflect the views of the Society for Case Research. The names of individuals, the firm, and its location have been disguised to preserve anonymity.

As Ian Davis strolled out of the coffee shop near the MediaFuse offices in late December of 2008, he reflected on his situation. MediaFuse was at a crossroads he thought, as he braced against the cold. Ian loved the creative side of the business but he felt a strong obligation to shore up the company's internal operations in the areas of project estimating and employee utilization. Ian had made a name for himself working directly with customers to develop interactive marketing campaigns. How could he give the company the attention that it desperately needed without harming the strong ties he had established with customers?

Ian needed to align MediaFuse's service offerings with an ever-changing marketplace. The company had an emerging reputation as a thought-leader in the social media space, but revenue beyond a one or two-day consulting engagement was hard to come by. If only he could find more time to hone this service offering, perhaps larger consulting engagements would follow. This was the "fun stuff" he thought to himself. The firm's core business of website design and development was healthy but there was continued downward pressure on profit margins. Ian was seeing more and more "mom and pop" and boutique firms jumping into this business.

At the same time, Ian had made the decision to make a strategic investment in productivity software to help manage billable hours and time sheets, but he had not given the project the

energy it deserved. If he could somehow get his employees to take more initiative in creating business opportunities, and the billable hours that follow, perhaps he could find more balance between running day-to-day operations and providing personal attention to customers.

Some of MediaFuse's biggest customers were starting to complain. A voice mail left for Ian earlier in the day from one of MediaFuse's top customers had expressed concern over missed deadlines and lack of personal attention. "Ian, this is William Daniels over at Thomson Healthcare" his speaker phone rang. "Our media strategy project is a month behind and we haven't seen you for two weeks. We need to talk."

Background

Ian Davis graduated from college in the early nineties determined to make a name for himself as a marketing and advertising professional. He had always had a knack for being creative and after a successful internship with a large public relations and marketing communications firm he was offered a job as an account executive. Ian quickly worked his way through the ranks and in a few short years was promoted to Director of Marketing. Ian's career path coincided with the rise of the Internet. In addition to the traditional consulting that Ian offered around branding, print ads, direct mail, and public relations, clients were frequently asking for assistance on how to promote their products and services on the Web. This changing media landscape allowed Ian to develop a reputation as an expert in Web-related marketing.

In 2001, Ian struck out on his own as a freelance creative design and marketing consultant offering his services to a variety of clients ranging from small start-ups to Fortune 500 corporations. Shortly thereafter, Ian formed MediaFuse LLC, positioning the company as a full service marketing firm serving clients in the Midwestern United States. For several years, MediaFuse was simply a one-man show, allowing Ian to carve out a niche as a charismatic, tech-savvy marketing consultant. By 2007, revenues were strong enough to allow MediaFuse to hire its first employee. That same year, as the business began to grow rapidly, Ian noticed that a large percentage of MediaFuse's revenues were coming from Web-related projects. In addition, the majority of new clients signing up for MediaFuse's services were interested almost exclusively in Web-related marketing.

By the start of 2008, MediaFuse had five employees, all reporting directly to Ian, the sole owner. Two employees focused exclusively on designing and programming clients' Web sites. One employee was a visual communications expert who collaborated with Ian and MediaFuse's clients on Web-related projects. Ian had also hired a video producer to work with clients on developing and integrating video into their Websites and an account manager to help grow the business and manage clients on a day-to-day basis. There were no formal systems in place for hiring and the employees that had been hired to date were friends and/or acquaintances that Ian had come in contact with at business networking events around the area.

Most of MediaFuse’s proposals for new business used a time-and-materials model. Prospective clients were given a detailed estimate of the number of hours needed to complete a project along with an hourly rate. In some cases, customers demanded a fixed price for a project. This required MediaFuse to develop detailed, highly precise estimates. Ian hoped that the newly purchased productivity software would help with the estimating process. Historically, MediaFuse had done a good job of delivering its projects on time and within budget. With the growth the company was experiencing however, some projects were starting to slip.

MediaFuse generated revenue by billing time back to the customer based on these detailed estimates. With the exception of the account manager, new employees were expected to maintain a utilization rate of 75% or about 1,600 billable hours per year. During 2008, Ian had mixed results in getting his employees to maintain the utilization targets and this was a source of frustration. Ian didn’t know the root cause of the utilization problem. Perhaps his employees just weren’t savvy enough to drum up their own billable hours with MediaFuse’s clients, he thought. Regardless, there was too much reliance on him to bring his employees the billable hours they needed to hit their utilization targets.

Service Lines

By mid-2008, MediaFuse’s service lines were expanded to include a broad spectrum of web-related marketing services. Services had been developed over the years based on a combination of customer demand and Ian’s interests and hobbies. For example, Ian had a strong interest in film making, and he was able to parlay that interest into an online video production service. Many of the services were developed as “add-ons” to the company’s core business of website design & development. Table 1 provides an overview of the services that MediaFuse actively marketed to clients.

Table 1
MediaFuse Service Lines - 2008

Service	Description	Demand & Significance	% of 2008 Revenues
Website Design & Development	Design and development of websites for small and medium-size companies.	Competition was fierce, and there was constant pressure on margins. Ian was motivated by a recent analyst report indicating companies would spend \$1 billion by 2014 for Web Analytics software (Lovett, 2009).	49%
Web Analytics	Evaluations of client Web-related marketing initiatives as part of an ROI analysis.	Projects beyond short-term consulting had not materialized.	4%
Social Media	Consulting on the use of social media in online marketing.	US forecasts indicated a 23% increase in spending on social media over 2008 levels (Myers, 2009).	11%

Service	Description	Demand & Significance	% of 2008 Revenues
Online Video	Consulting and video production for online marketing campaigns.	Consistent revenue had remained elusive. Analysts were indicating that “in-video” advertising was set to be a \$1 billion industry by 2010 (Elliott, 2009).	9%
Search Engine Optimization (SEO)	Consulting and reengineering of websites to achieve better ranks on “organic” search results.	SEO was not a strong service line for MediaFuse. Many marketing firms offered SEO as part of their core service.	8%
Search Engine Marketing	Development of marketing campaigns using models such as pay-per-click advertising.	As with SEO, revenue streams from Search Engine Marketing were limited and unpredictable.	7%
Blog Design & Management	Designing and managing Blogs to help clients promote products/services in the blogosphere.	During 2008 revenues were small and embedded with the Website Design & Development service.	4%
Mobile Marketing	Development of highly targeted text message campaigns for mobile devices.	In early 2008, Forrester and Juniper Research were predicting the rapid growth of mobile-enabled commerce opportunities.	8%

Time for Decisions

As Ian finished up the daily commute, his mind drifted back to an upbeat team meeting at the start of 2008 – Ian had told his employees that he wanted MediaFuse to reach \$1 million in total revenue by the end of the 2010 calendar year. After a year of wrestling with client demands, new service lines, new hires, and operational issues Ian felt stretched thin. He was intimately involved with every MediaFuse project and staying on top of ten concurrent projects was a challenge. For 2008, revenues had approximated \$550,000, up 37% from the previous year. Overall, he felt proud of his accomplishments, but he also understood that 37% growth in 2009 and 2010 was not possible without significant change. MediaFuse’s service offerings were fragmented so the decision on where to focus MediaFuse’s services could not be taken lightly. Earlier in the day Ian had received Forrester Research’s *US Interactive Marketing Forecast, 2009 to 2014*. While overwhelmingly positive in terms of growth projections, the data seemed to only add to his frustration (see Table 2).

Table 2
Interactive Marketing Spend (VanBoskirk, 2008)

	2009	2010	2011	2012	2013	2014	CAGR
Mobile Marketing	\$391	\$561	\$748	\$950	\$1,131	\$1,274	27%
Social Media	\$716	\$935	\$1,217	\$1,649	\$2,254	\$3,113	34%
Email Marketing	\$1,248	1,355	1,504	1,676	1,867	2,081	11%
Display Advertising	\$7,829	\$8,395	\$9,846	\$11,732	\$14,339	\$16,900	17%
Search Marketing	\$15,393	\$17,765	\$20,763	\$24,299	\$27,786	\$31,588	15%
Total	\$25,577	\$29,012	\$34,077	\$40,306	\$47,378	\$54,956	17%
% of all Ad Spend	12%	13%	15%	17%	19%	21%	

Would consulting services focused on social media produce the types of opportunities that would allow MediaFuse to achieve \$1 million in revenue by 2010, or was it just a passing fad? What about video production and mobile marketing, an area where Ian had a strong interest and a desire to move forward. After landing two small contracts with large, Midwest-based film festivals, Ian saw upside. These opportunities allowed MediaFuse to leverage its social media, blogging, mobile marketing, and video production capabilities in order to extend the excitement of the festival into the online world. Could this “soup to nuts” social media model be expanded and actively sold to some of MediaFuse’s more traditional corporate clients?

As Ian pulled in the driveway he felt resigned to carve out more time for reflection on MediaFuse’s fate. Where should he focus his time and which direction should he take the business? Perhaps he could find a free hour between the three client meetings he had the following day to contemplate the future of MediaFuse.

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**THE SOCIETY FOR
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THE IMPLOSION OF LEARNING TEAM 17

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

Laszlo Rossovich had slept on it. He had discussed it with his wife. But driving to his first meeting that morning, he began to boil again. It was either his bad luck or just the cruel humor of the gods that found him in the parking lot next to Larry Oswald's car, just as Larry was climbing out. The time had come to settle this for good. Either Larry had to change his behavior or the team would implode. Laszlo and the others could see no other acceptable solution.

Damn it Larry, I've had enough, Laszlo fumed. We've all had enough. You've changed our work without telling us for the last time. This isn't just about you. I thought we agreed to help each other learn the material and to work as a team on team deliverables. We may be getting "A's", but I resent what you are doing and the effect it is having on our team's growth and development. I've told you this repeatedly. This isn't what we signed up for, this isn't why we're paying tuition and we're not going to put up with it! I am so angry with you and what you are doing to the team, I'm ready to call it quits!

Dr. Tony Green, management department professor and team coach for the thirty Learning Teams in LC University's Executive MBA (EMBA) Program, sat in his office and noted the sleeting rain falling outside his window this February morning. Mulling over planned remarks for his first class, Tony noted two of his former students on Learning Team 17 engaged in an animated conversation in the parking lot. Before he could consider the implications of the scene, the phone rang and he took a call from an agitated Tamika Chiller, Director of LC University's EMBA Program.

Tamika had just finished a call with a beleaguered member of Learning Team 17, an EMBA team finishing its first year. The message was not good. The team was experiencing many problems and members were questioning their ability and desire to continue to function productively as a unit. Total dissolution seemed to be a distinct possibility. Three of the five members were even considering leaving the program. For Tony and Tamika, this outcome would be both personally disappointing and clearly undesirable for the team members and the EMBA program.

As he walked to his car that evening, Tony wondered what went wrong with Team 17 and what actions might be taken to improve the situation. Just before Thanksgiving, he had taught a course on Leadership and Organizational Effectiveness (LOE). The members of Team 17 were students in that course and had shown no obvious signs of looming trouble. As far as he could determine, their performance and team processes seemed normal. No specific or noteworthy incidents came to mind. Yet in three short months, the team was on the verge of imploding.

The EMBA Program at LC University

The EMBA program at LC University has the distinction of being one of the oldest and most progressive in the United States. One of its core themes is teamwork and learning teams have been a hallmark of the program since its inception. To gain entry into the program, a student has to be a highly talented manager with eight to ten years of experience and an acceptable GMAT score. This two-year MBA program begins with an intensive week of orientation and preparation called the Executive Leadership Residency (ELR). The ELR is designed to provide students with the basics necessary for greater success in the program and includes modules on leadership, effective teams, ethics, social responsibility, personal effectiveness and an overview of the clerical and administrative tools available to students.

Each fall a class of about 30 students (20 males and 10 females) are admitted in the program and broken into six teams with five executives each. Students work in these teams throughout the program.

Early History of Learning Team 17

The five members of Learning Team 17 were: Larry Oswald, a task-oriented, information technology manager on the rise in his company and the proud father of three boys in middle school; Laszlo Rossovich, a Harvard-trained physician of internal medicine and a native of Romania, a father of four girls ranging in age from 8 to 23; Alessandra Filomene, a regional bank manager who recently moved to the U.S. from Chile with her husband and two teenage daughters; Janet Johnson, a health care administrator and a mother of young preschool children, a boy and girl, two years apart; and, Burt Cavendish, a talented production manager of a small manufacturing company whose secret passion was coaching his only son's Little League team.

A dysfunctional pattern of team behavior began to develop during the four day ELR, while making decisions required for an online strategy simulation. The team noted that in their deliberations, Larry tended to be a self-appointed leader during the discussions, but was willing to listen and allow each team member to voice opinions. Like a lot of developing teams, initially the team members of Learning Team 17 were on their best behavior and tended to gloss over any signs of conflict and group process problems. However, signs of conflict began to emerge as team decisions on strategy were submitted. The simulation required teams to submit decisions at four different times after receiving feedback on team performance based on prior inputs. Larry had a tendency to carefully check over the data and rethink the team's decision before submitting. He did this without input from his teammates. Even though Larry was double-checking the team's work, the first three decisions they submitted truly reflected the team's deliberations, resulting in a mid-pack ranking among fourteen teams. Before the fourth and final decision was submitted, Larry once again carefully scrutinized the team input. This time, however, he made significant changes at the last minute. The final submission was quite different from what the team had originally agreed upon.

After that submission, Laszlo confronted Larry privately, "You know Larry, I thought we had agreed to submit our decision as a team. Alessandra, Janet, Burt and I are unhappy that you made changes by yourself and submitted them without telling us." In response, Larry said: "I really didn't think anyone would mind. It was getting late, you all had called it a night, and I thought by tweaking our numbers we could improve our performance and beat the other teams."

Ultimately, while they were unhappy with Larry's actions, the team felt that, since it was at the very beginning of the program, and the changes were made to benefit the entire team, they would let the situation pass. Team 17 finished near the top in the on-line strategy competition, but some of the team members considered it a hollow victory. Thus began a pattern of team processes, norms, and inequality in decision-making that eventually became a consistent pattern of behavior within the team.

Team Norms

Towards the end of the orientation, all ELR teams were required to develop a set of team norms - a code of conduct that the team agreed to during their time in the program. The norms developed by Team 17 were to:

- network and have fun;
- learn from each other;
- help each other succeed as a team;
- treat each other with respect at all times; and
- appreciate the need for balance between the program, family life, and their regular job.

In addition to these norms, several members of the team held personal goals as well. As an example, Larry made it clear to his team that one of his personal goals was to earn an "A" on all

team deliverables during the program. On the last day of the orientation, all learning teams an After Action Review (AAR) that focused on team performance. Tony's assessment of Learning Team 17's AAR led him to believe that the team would be able to work together effectively and that they had the necessary tools and skills to work through team problems with his assistance.

Observations During the First Six Months

The team appeared to be performing effectively in courses not focused on quantitative decision making. At one point in the LOE course, which began in September and ended prior to Thanksgiving, each team was required to facilitate and lead a full discussion about a particular case study. The facilitating team was charged with assisting the other teams in understanding the dynamics of the case and the dilemma faced by the case protagonists. Their primary goal, however, was to demonstrate the ability to guide class discussion toward a strong application of key module concepts. For this task, Team 17 was assigned a case to facilitate in mid-October that focused on the leadership approach of Mahatma Gandhi. The team's effort was an overwhelming success. After early jitters and initial difficulty with the classroom technology, the team proved unusually creative. In fact, they did a masterful job of enabling the other teams to integrate previous and current analytical models. The lessons learned that were developed were excellent from the perspective of a general manager. The team seemed to be enjoying itself during the facilitation and everyone appeared to play a key role. Transitions and handoffs between team members appeared to go off without a hitch.

Members of Team 17 played somewhat different roles at their weekly learning team meetings. Larry played the role of task driver, pushing the team to complete team deliverables. In playing this role to the extreme, Larry, more often than not, would shut down Alessandra, the lone member of the team who had a distinctively creative bent to her thinking. She tended to be introverted and a conflict-avoider; and, in team meetings, she was easily cowed and overrun by Larry's take-charge, aggressive manner. Since the team had no clear process facilitator to focus on how the work was being done and how team members treated each other, Larry was not called to task for his behavior. At times, the team listened to Alessandra's ideas but rarely did she get her way. As a result, she became tired of butting heads with Larry, especially since she was getting no support from other team members. Janet also wanted to complete team deliverables in the most efficient and straightforward manner and had little patience for "blue sky" thinking. Just the same, she advocated her position with much less intensity than Larry. Burt, although quite affable, more or less went with the flow of the team; he played no identifiable role and exerted no discernible influence on the team. In his own way, Laszlo was also a practicality pusher but his effectiveness in this role was attenuated by his frequent clashes with Larry. Sometime in December, during a class break, Laszlo, Burt, Alessandra and Janet spoke of the continuing pattern of Larry's preemptive behavior.

Laszlo observed: "Larry is still revising our work without talking to us, even after I spoke to him. You know, we all agreed to work together; but, he just ignored that." Alessandra added: "Yeah, I know, and he does it most often in the modules emphasizing quantitative decision making."

“I’ve already said something to him,” complained Laszlo. “Janet, why don’t you try?” Surprised, Janet shot back: “Why me? I don’t want to confront Larry. I’m uncomfortable doing that. Why not talk to Tony? He’s the team coach.” Burt jumped in:

I don't think we should do that. None of the other teams have. We should be able to work this out ourselves. That’s what they expect of us and I’d be embarrassed to ask for help. Tony is our teacher and might ask why we haven’t used the tools he’s already given us during our program orientation and the LOE course. Remember all the talk during the orientation about identifying and managing team conflict?

Sighing, Laszlo commented: “Well, maybe that stuff has some real use, but with our heavy workload, who has the time to brush up on that ‘touchy feely’ stuff? With the class reconvening, the team let the subject drop.

Over the next few weeks, Laszlo was often observed chatting amiably with Janet and Alessandra and with others in the class. On the other hand, Larry and Burt tended to interact with each other solely, frequently engaging in good-humored banter. In one of their conversations, Janet observed to Alessandra: “Have you noticed that all of the other teams seem to relax and hang out with each other during breaks? They seem comfortable and open with each other.” Alessandra responded: “Yeah, I have. But our team is not there yet. Maybe there’s really something to Tony’s ideas about admitting that you might be wrong, that you can apologize if you make a mistake, and that you need the whole team to succeed.

Evolution of the Problem

Despite their success with the case facilitation, the members of Team 17 began to notice increased tension at team meetings. Initially, they felt that this was due to the press of course deliverables and the lack of attention to the “softer” side of team management. In addition, upon the completion of the LOE course, the team was no longer required to focus on group process or issues of team development as a formal component of their course work. With increasing frequency, disappointment with team meetings and complaints about individual behavior were being voiced outside of meetings. In addition, Alessandra and Janet began to resent the fact that the other team members expected them to play a “mothering” role in order to calm the waters between Larry and Laszlo. After one team meeting, as Janet nodded, Alessandra commented:

You know when I was accepted into this program I fully expected to learn a few things that I could apply to managing teams more effectively. Never in my wildest dreams did I think that I would have to apply some of the things I learned dealing with my squabbling kids to settle disputes between Larry and Laszlo. And, I’m paying for this?

The issue of unauthorized, last-minute changes to team deliverables continued to surface; yet, Team 17 devoted no substantive time to the issue. Still, the problem was a source of friction and conversations without Larry continued. "Maybe we are going about this wrong," Alessandra mused. "The next time Larry re-writes our work, why don't we try to really listen to where he is coming from, instead of ordering him to stop?" "Maybe," Laszlo conceded. "Didn't Tony say something about inquiry and advocacy approaches when giving feedback?" That resonated with Burt: "You might be on to something. Didn't he mention a team handbook that we should reference whenever any team problems arose? But who really has time to do that with the demands of the program and work?" "And family!" Alessandra chimed in. On the rare occasions that the team mentioned their concerns over this issue, Larry would defend his behavior as noble. After all, weren't the team's grades good? And, when he thought about his own actions, he would simply shrug, re-asserting his personal commitment to excellence in all modules and on all projects.

In February, the team had invested many long hours working on an exam, a complex case involving heavy statistical analysis. Laszlo in particular felt that he had put in an extraordinary effort to master the quantitative nuances of the challenging problem set. As he had done before, at the last minute, Larry changed several of the team's responses before submitting the exam. This was the last straw.

Things came to a head, the next day, when Janet placed a call to Tamika, EMBA executive director, while a very ugly scene was taking place in the parking lot between Laszlo and Larry. With the support of Alessandra and Laszlo, Janet sought recourse for Larry's actions through the program's administration. After going into great detail and at times showing her team's frustration, Janet made clear that the team was at a stalemate in dealing with Larry and his purposeful but non-team oriented relentless pursuit of perfection. She also underlined her feeling that the arguments and passive-aggressive behavior going on between Laszlo and Larry were disruptive, distracting and no longer tolerable. Her coup-de-grace was delivered when she expressed her anger at the team's expectation that she and Alessandra mediate between Laszlo and Larry; especially unfair, she noted, since the program offered no training in "mothering." Janet concluded by emphasizing that the situation could no longer be ignored and, for several members of Team 17, current options for resolution included leaving the program. Without question, she felt administrative intervention was required.

As Tony absorbed Tamika's full description of her conversation with Janet, he heard the Executive Director conclude with:

Tony, you are our expert on group dynamics and team problems. Why do some teams run into serious problems every year? Certainly, our most pressing issue is that we need to help this team; but, we also need to understand why this specific problem arose, and why the team was not able to handle or chose not to handle it on their own.

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THE PROGRAM DIRECTOR AND CRISIS MANAGEMENT

Leigh W. Cellucci, Idaho State University
Linda Hatzenbuehler, Idaho State University
Brian Crawford, Idaho State University
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This case was prepared by the Leigh W. Cellucci, Linda Hatzenbuehler, Brian Crawford, and Tracy Farnsworth of Idaho State University and Carla Wiggins of University of Wisconsin--Milwaukee and is intended to be used as a basis for class discussion. The views presented here are those of the authors based on their professional judgment and do not necessarily reflect the views of the Society for Case Research. The names of the individuals, firm and location have been disguised to preserve anonymity

Enrique Mendez, Program Director of Western University's Optometry Program (WUOP) was reviewing the irregular salaries line of the budget/expense report he had received from Kelly Kennedy, an optician in his department. Part of Kennedy's job description was to reconcile the monthly expense account of the program with the established budget for the fiscal year. Kennedy had noticed discrepancies regarding irregular salaries, a term for over-time expense for optical clinic staff. In the irregular salaries line, Kennedy noted that the expenses incurred for over-time work had increased significantly during the last six months. This was odd as the optometry students were on a semester schedule and there had not been any special circumstances that would warrant the over-time work. Rather, there should have been a consistent amount expensed for over-time reported. Nonetheless, Kennedy showed Mendez that approximately 80 percent of the budget allocated for irregular salaries had been expensed, with 75 percent of the budget year expensed. How should Mendez handle this situation?

located about 25 miles south of Charlotte, NC. Local media was prompt in arriving on the scene, and the story was already popping up on local news websites. La Barrie's phone began ringing nonstop with requests for interviews from wire services, newspapers, and radio and television stations throughout the country, even some international media outlets.

Western University Optometry Program

The Western University Optometry Program (WUOP) was a collaborative relationship between the State of Idaho and Lewiston University School of Optometry, Nebraska. Each year, WUOP enrolled eight Idahoan residents for course-work at Western University, which was equivalent to that received by first year students at Lewiston. These eight students then transferred to Lewiston for their remaining three years of optometry school. The State of Idaho provided a scholarship for each student of approximately 50% of Lewiston's tuition each of the four years.

The administration of WUOP was controlled in Idaho and Mendez and Jewel Rasconski (the administrative assistant) were responsible for the academic management for both programs, employee relations, operating expenses and payroll for each program as well as the materials and supplies for the WUOP. Kelly Kennedy, an optician in the department served as a clinician and held additional administrative responsibilities. She was responsible for reconciling the monthly expense account of the program with the established budget for the fiscal year regarding clinical operations.

Rasconski's job duties consisted of gathering program data, reconciling departmental and program accounts, arranging schedules, preparing documents and reports and acting as a liaison with other University departments. She was personable and social. Almost all of the students, faculty members, and practitioners liked Rasconski. She was well respected and she presented as capable, efficient, and knowledgeable. Program data were ready, available, and accurate to pertinent parties. Work schedules reflected optician and student preferences. Other administrative assistants from different departments at the university knew if they called Rasconski, they would get a quick response, good follow through, and they could share a laugh and have a nice conversation with her. "Leave that task to me!" She was known to state. "I can take care of that for you." The program director relied upon Rasconski's excellent work efforts and frequently praised her as a valuable employee to the program.

When Mendez joined the Optometry Department two years ago, his predecessor also noted that Rasconski was an excellent staff member. "You can use her knowledge and experience to keep this department running well. With our unique arrangement with Lewiston, we are lucky to have someone as personable and capable as Rasconski. Rely upon her for success. She is the initial point of contact for our students, and they feel comfortable with her helping them enter into our program."

Mendez followed his predecessor's advice and did indeed rely upon Rasconski. While he was responsible for reviewing documents, signing them and forwarding to higher authority, he usually signed whatever Rasconski gave him to sign. Timecards were always prepared, ready to be signed before they were due in the university payroll office. His responsibilities as the Program Director kept him busy, and he was pleased to know that Rasconski was so efficient. Often she would give him timecards to be signed as he was leaving the office to attend a committee meeting, lecture, or meet with a student. The timecards would note what hours were worked by whom and indicate the number of hours, if any, over-time hours had incurred.

Mendez learned to sign them as he was literally walking out the door and he knew that Rasconski would forward them to University Payroll Department and file a copy for Optometry Department records.

His positive assessment of Rasconski had been supported by most of the opticians, students, faculty, and alumni. She made certain that work/clinic schedules were posted in advance so that staff members and students could arrange their personal schedules to suit program schedules and vice versa. As a result, Mendez often received kudos from other faculty members, staff, and students regarding Rasconski. Two opticians in particular were positive about Rasconski. Mendez frequently saw Rasconski and these two opticians visiting in the office, sharing lunch together, or planning to socialize after work hours together. And these two opticians laughingly commented, “Jewel Rasconski is a jewel.” On a serious note, they commented, “Everything goes the way it should at WUOP. We could not have asked for a better administrative assistant.”

Alumni were also known to keep in touch with WUOP through Rasconski. Donations from alumni were becoming an important part of external funding for the clinic, and Mendez knew that Rasconski’s efforts created good will and helped develop good relationships with alumni. Mendez had noted in Rasconski’s performance evaluation that she consistently exceeded expectations regarding work efforts. He had written, “WUOP is a better place for students, faculty, and staff because of Rasconski.”

However, Mendez had been concerned about the poor relationship between Rasconski and another optician, Kennedy. The women did not get along as they were unkind to one another. While Rasconski was very close to two other opticians, Mendez was beginning to think that this tight friendship between the three could become a bit of a problem for the clinic. When the three were together, Kennedy would be excluded. In fact, Mendez had viewed Rasconski’s excluding Kennedy from social exchanges. Once he witnessed an exchange between Kennedy and Rasconski that made him feel uncomfortable. Kennedy had tried to join the conversation of Rasconski and the two other opticians. Rasconski had laughed when she saw Kennedy’s attempt to join the group and had said, “Oh Hush! Here comes Kennedy. Talk with you two later.”

Mendez also saw evidence that Kennedy did not like Rasconski. Once during a staff meeting Kennedy interrupted Rasconski and exclaimed, “We as staff do not need to hear from the administrative assistant on optical procedures.” Kennedy, in addition to her clinical duties, had the administrative task of reconciling the clinical materials and supplies accounts. Kennedy was known to be a hard worker and capable. She was efficient with her clinical duties as well as her administrative assignment. Nonetheless, she was critical of Rasconski. Kennedy commented, “She is too social and intrusive with the students. She parties quite a bit and I just don’t trust her. I hear she often spends a lot of time at the Native American Gaming Club, located about ten miles from the university campus.” Mendez had dismissed Kennedy’s comments as gossip, but he was concerned about this interpersonal conflict.

Mendez liked both Kennedy and Rasconski; Kennedy was an excellent optician and Rasconski was a superb assistant. Because of his concern, he had arranged for a special in-house four-hour

training to occur next month. He wanted to create a work atmosphere so that everybody could get along with another. A professor from the Department of Counseling had agreed to facilitate this upcoming workshop with all staff members present. The professor had planned to focus on the importance of effective teamwork and the need for all staff to treat one another with dignity and respect. Mendez was hopeful that this training might help Kennedy and Rasconski solve their problems. He was committed to creating a happy work atmosphere; he had mandated that all WUOP staff be present at the four hour training. Mendez thought this plan might just help.

The Irregular Salaries and the Budget Statement

Kennedy had asked Mendez to meet with her that morning. In his office, she showed him the April 2008 monthly budget statement, which indicated that the percent of budget item expensed for irregular salaries exceeded the percentage of budget time expired (see Table 1). She asked him to look more closely at the irregular salaries line of the budget/expense reports she had received from the University's Financial Services. "I know that I am just responsible for reconciling materials and supplies for the clinic with the budget statements, but there seems to be a problem with the statement. I have noticed some discrepancies in the irregular salaries area of the clinic expenses. The irregular salaries section of our budgeting system pays the earned over-time expense staff. All of us need to work over-time at some points during the semester, and since we are non-exempt employees, as long as we have your approval as the program director, this is an appropriate practice. But, I have looked and looked at this and cannot make sense why we would have experienced the need for over-time that exceeds what we budgeted."

Mendez thanked Kennedy and she left the copy of the April 2008 budget report with him and returned to the clinic. Mendez looked out his office window at the beautiful spring sky and sighed. He reached over his desk and pulled the university's faculty/staff handbook off a shelf. He opened the book to University personnel policy section and underlined some of the sentences in the policy document (see Table 2). How should he handle this situation? What information should he gather to determine if there is a problem? And, if there is a problem, what should he do? Then, he grimaced as he thought about the potential ramifications of what Kennedy had shown him. Embezzlement and fraud might have occurred in his department. And, if there was a problem, what should he do, and how should he follow up with communications to the WUOP's stakeholders?

Table 1
Budget Statement

Fiscal Year July 1, 2007 - June 30, 2008						
Date: 4/25/2008						
Account Name: Western University Optometry Program						
Account Administrator: Enrique Mendez						
Account #: 197-005-05						
Funding Source: Appropriated Budget (2008-2009)						
Description	Budget	Current Expenses	Current Expenses % of Budget	Cumulative Expenses	Cumulative Expenses % of Budget	Remaining Budget
Regular Salaries	\$ 215,410	\$ 17,951	8.33%	\$ 161,558	75.00%	\$ 53,853
Irregular Salaries	\$ 80,361	\$ 7,047	8.77%	\$ 63,588	79.13%	\$ 16,774
Fringe	\$ 94,049	\$ 7,837	8.33%	\$ 70,537	75.00%	\$ 23,512
Travel	\$ 2,500	\$ -	0.00%	\$ 2,725	109.00%	\$ (225)
Communications	\$ 4,000	\$ 346	8.64%	\$ 2,574	64.35%	\$ 1,426
Materials & Supplies	\$ 16,900	\$ 1,200	7.10%	\$ 13,555	80.21%	\$ 3,345
WUOP Trustee Payments	\$ 947,200	\$ 78,933	8.33%	\$ 710,400	75.00%	\$ 236,800
Totals	\$ 1,360,420	\$ 113,314	8.33%	\$ 1,024,936	75.34%	\$ 335,484
Percentage of Budget Time Expired 75%						
(Fiscal year end date- date of accounting summary)						
Percent of Budget Expended 75.34%						
Percent of Budget Remaining 24.66%						

Mendez took out a sheet of paper and began to write a list of what he should do to address the situation. He wrote down what he would need to request from payroll, the documents he needed to gather from the department's files and names of people he might have to interview. Mendez put the pen down on the table and looked out his office window again. "Where do I begin?" He asked himself. "And, if there really is a problem with irregular salaries, what do I say to the other staff and our alumni?"

Table 2
University Personnel Policies

Section IV. Performance/Evaluation/Termination

Suspension, Dismissal, Termination, and Demotion of Classified Employees (Updated 5/02)

1. General

Any employee in the State classified service may be dismissed, demoted, suspended, or otherwise disciplined for any of the following causes which occur during the employee's employment:

- a. Failure to perform the duties and carry out the obligations imposed by the State constitution, State statutes, and rules of the employee's department or rules of the Administrator or the Division of Human Resources and Personnel Commission.
 - b. Inefficiency, incompetency, or negligence in performing duties.
 - c. Physical or mental incapability for performing assigned duties, if the employee is incapable of performing the essential functions of the position after reasonable accommodation is made for the disabling condition.
 - d. Refusal to accept a reasonable and proper assignment from an authorized supervisor.
 - e. Insubordination or conduct unbecoming a State employee or conduct detrimental to good order and discipline in the department.
 - f. Intoxication on duty.
 - g. Careless, negligent, or improper use or unlawful conversion of State property, equipment, or funds.
 - h. Use of any influence which violates the principles of the merit system in an attempt to secure a promotion or privileges for individual advantage.
 - i. Conviction of official misconduct in office, or conviction of any felony, or conviction of any other crime involving moral turpitude.
 - j. Acceptance of gifts in exchange for influence or favors given in an official capacity.
 - k. Habitual pattern of failure to report for duty at the assigned time and place.
 - l. Habitual improper use of sick leave.
 - m. Unauthorized disclosure of confidential information from official records.
 - n. Absence without leave.
 - o. Misstatement or deception in the application for employment.
-

Section IV. Performance/Evaluation/Termination

134

- p. Failure to obtain or maintain a current license or certificate lawfully required as a condition in performance of duties.
- q. Prohibited participation in political activities.
- r. Violations of Sections 33-3715 and 33-3716, Idaho Code. (See Part 4., Section IV.E)

2. Suspension

a. Suspension for Investigation

The University may suspend with pay an employee for investigation of disciplinary causes enumerated above. Each suspension for investigation shall be superseded by reinstatement to duty, dismissal or disciplinary suspension within thirty (30) calendar days of the suspension for investigation or within such extension of time approved by the Division of Human Resources Administrator.

b. Disciplinary Suspension

The University may suspend without pay an employee for discipline for the causes enumerated above. Disciplinary suspension of an employee with permanent status shall be subject to appeal by the employee to the Division of Human Resources and Personnel Commission.

c. Suspension on Felony Charges

The University may suspend without pay an employee upon the issuance by a county prosecutor of an information or indictment by a grand jury for felony charges. Such suspensions may remain in effect during the time such charges are pending. Full reinstatement of all benefits and salary that the employee would have otherwise been entitled shall be provided to the employee upon a subsequent finding that charges or information were without grounds or the employee was not found guilty. For the purpose of this rule, a judgment withheld under Rule 33(d) of the Idaho Rules of Criminal Procedure is a conviction.

d. Dismissal and Suspension

Whenever the University considers it necessary to dismiss or suspend an employee, the employee and the State Human Resources Administrator shall be notified concurrently in writing; and shall set forth the specific rule(s) violated and the reasons for dismissal or suspension. Suspensions with pay for investigation may be made without prior notice to the employee; in this case, the appointing authority shall notify the State Human Resources Administrator as soon as practical.

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What's the Board's Responsibility

Kay A. Hodge, University of Nebraska at Kearney**Janet Trewin, University of Nebraska at Kearney**

This critical incident was prepared by the Kay A. Hodge and Janet Trewin of The University of Nebraska at Kearney and is intended to be used as a basis for class discussion. The views represented here are those of the 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 the people involved in the critical incident have been changed.

Scandal rocked Center City in the summer of 2008. The local newspaper reported that the Executive Director of the Center City Public Schools Foundation had been accused of embezzling more than \$577,000 from the foundation. The investigation revealed much to the concerned citizens of this community of 30,000 people. Many were asking: What happened? How did it happen? How could so much money be gone?

The Investigation

The investigation into the alleged embezzlement began at the end of May, 2008, and continued through the summer. Kathy Gardner had been with the foundation for 14 years; she was hired in 1994 (Schmidt, 2008, September 11). Five people were on the staff of the foundation including Gardner, the Executive Director; a secretary; a grant writer; the director of the Performing Arts Center; and a part-time secretary.

In the days following the initial newspaper announcement regarding the alleged embezzlement, it also reported that the superintendent of schools and ex-officio foundation board member said that he was unsure how much money was in the foundation's funds at the time of the news release. He did mention that the last time the foundation was audited was in 2001.

The foundation was well funded through the generosity of the citizens of the community and through applying for and receiving government grants. The foundation's income during 2006 was \$2.85 million which included individual contributions totaling \$2.5 million and government

grants of \$387,649, according to the Internal Revenue Service. The foundation's assets were valued at \$700,013 for the fiscal year that ended August 31, 2006 (Schmidt, 2008, June 17). Information for 2007 was not available from the IRS. The foundation managed about 70 separate funds including scholarships, memorials, designated funds, and grant funds.

On June 18, 2008, the Foundation Board President and board member assured the public that the organization was still trustworthy, despite the embezzlement through a statement to the local newspaper. He added, "The public has our assurance that we're going to take what we've got and become a much stronger and better organization. That's a guarantee" (Schmidt, 2008, June 18). He conceded that the foundation had a "credibility issue" due to the embezzlement.

The President of the foundation's Board of Directors also said that in February 2008, the Center City Public School Board of Education directed the foundation have an audit conducted because it thought that too much time had elapsed since the foundation was last audited. The most recent audit of the foundation had taken place in 2001. However, the requested audit did not occur because the Director did not make arrangements for an audit at that time. Court documents indicate that an audit was performed in May 2008 because some of the foundation's employees approached the foundation's Board President with concerns about checks written to Cash, Discover and Target on the foundation's account. The Board President indicated that the foundation did not have either a Discover or Target credit card (State of Nebraska vs. Regenos).

The missing funds did create a credibility issue for the foundation and its board of directors. Many people in the community could not understand why the foundation had not been audited in seven years. No one from the board stepped up (or has ever stepped up) to explain the reason for the infrequency of the audits. The people who served as board volunteers were seen by the community as good people and respected community citizens. The board included an attorney, a financial advisor, a vice president of a local bank, and the owner of a nationally-franchised business entity, plus three other community members. The President of the Center City School Board did say that the foundation was "its own entity and the school board had no say over what they [sic] did and had no general communication with the foundation's board" (Schmidt, 2008, June 18).

On July 3, 2008, Kathy Gardner was arrested and charged with one count of felony theft in County Court. The County Attorney issued a statement declaring that Gardner was being accused of stealing over \$500,000 from the foundation. Court records indicated that the May audit discovered checks written to Target, to Discover, and for Cash. Many of the checks written for Cash were endorsed by Gardner. Large checks required the signature of another board member; however, the persons whose signatures were on the larger checks did not recall signing any checks for the foundation for the stated amount of cash. Strangely, Gardner placed her personal Discover card and Target card numbers on the memo line of the checks to these entities.

A search warrant was issued for Gardner's home. Over 20 items of jewelry were taken as evidence. Further investigation by the police found that this jewelry had been purchased at a

local jewelry store and had been paid for with cash or with one of three Discover cards owned by Ms. Gardner. Many of the purchases were made on the same day as a check was written on the foundation's account for Cash and endorsed by Kathy Gardner.

The President of the Foundation's Board said, in his sworn statement to the Court, that Gardner was in charge of handling all of the funds into and out of the foundation (State of Nebraska vs. Regenos, 2008). When these items (checks) were presented to the Board, Gardner had said that the checks were written to pay various loans or business-related expenses. The auditors reported that some of the checks appeared to be altered on the "Pay to" line. Audit records also indicated that Gardner had converted substantial amounts of money to her own personal use prior to July, 2005; however, those amounts were beyond the state's statute of limitations, and thus, Gardner could not be prosecuted for those losses (Schmidt, 2008, July 3).

The Outcome

In September, some of the details regarding the missing funds were made public. Although court records indicated that the first inklings of problems were reported by fellow workers, the scope of the fraud became apparent when the foundation applied for a federal grant totaling \$1.14 million to fund before- and after-school programs for Center City elementary students (Konz, 2008, September 12). Employees with the Center City Community Learning Center Program made the superintendent aware that an audit was required for this grant.

In a final statement to the public, the foundation board expressed its distress over Ms. Gardner and her alleged embezzlement. It further stated

We have implemented a number of internal bookkeeping and accounting practices that should ensure that our current assets are secure. The irregularities in procedures have been identified and have been corrected by our board and our staff. We will also receive guidance from our accountants and auditors after they have completed the audit. . . . We will explore all options to recover all missing funds (Kenegy, 2008, July3).

Final calculations indicated that the total amount of money Gardner took from the foundation was \$868,130 when records back to 2001 were taken into consideration (Schmidt, 2008, January 12). Questions still abounded in the community. What could have been done to prevent such a loss? Of course Gardner was guilty of taking the money, but why wasn't she caught sooner before the loss was so great?

Epilogue

In January 2009, Gardner was found guilty of a single charge of felony theft and sentenced to nine to eighteen years in the Correctional Center for Women. She was also ordered to pay restitution to the foundation and to the foundation's insurance company. (Schmidt, 2009, March 4)

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