

---

# Journal of Critical Incidents

Timothy Brotherton, Editor  
Timothy Redmer, Associate Editor

Fall 2013  
Volume # 6



The Society For Case Research  
**SCR**

---

# Journal of Critical Incidents

Fall 2013  
Volume #6

Published by

**SCR**  
**THE SOCIETY FOR  
CASE RESEARCH**

ISSN 1943-1872

Editor

Timothy Brotherton  
Ferris State University

Associate Editor

Timothy Redmer  
Regent University

## TABLE OF CONTENTS

<i>Journal of Critical Incidents Editorial Board.....</i>	<i>5</i>
<i>Acknowledgements.....</i>	<i>6</i>
<i>Publication Information.....</i>	<i>7</i>

## ABSTRACTS

### **Ethics, Fraud, and Other Sensitive Issues**

<i>Target: The Challenge of Data Mining .....</i>	<i>8</i>
<i>Interviewing Ethics: What Would You Do? .....</i>	<i>9</i>
<i>Inky Situation: A Safe Is Not As Safe As One Might Think.....</i>	<i>10</i>
<i>Asking For Trouble Or Legally/Ethically Deductible?.....</i>	<i>11</i>
<i>Securities Fraud.....</i>	<i>12</i>
<i>International Adoption Or Rent-A-Womb In India? .....</i>	<i>13</i>
<i>Should A&amp;A Disclose FCPA Violations? .....</i>	<i>14</i>

### **Financial Decisions**

<i>Flat World Knowledge: Paying Authors To Write Free Textbooks.....</i>	<i>15</i>
<i>My Life In Numbers: An Insurance Decision.....</i>	<i>16</i>
<i>The UMED Group: Expansion Crossroads.....</i>	<i>17</i>

### **Management and Human Resources**

<i>Burning Bridges At The Restaurant: Should I Be Honest In My Exit Interview?.....</i>	<i>18</i>
<i>Strike Or No Strike? Negotiating A Labor Contract During Tough Economic Times .....</i>	<i>19</i>
<i>A Big Change At Get-You-There Air .....</i>	<i>20</i>
<i>The Fiasco On Friday.....</i>	<i>21</i>
<i>Club Advising 101.....</i>	<i>22</i>
<i>Now That He Knew, What Should He Do? .....</i>	<i>23</i>
<i>How Do I Stick It Out In What Is Still A Hostile Environment?.....</i>	<i>24</i>
<i>GEO Group, Inc. North Lake Correctional Facility's Pivotal Operations/Staffing Decision.....</i>	<i>25</i>
<i>When A Raise Is A Slap In The Face: Do I Stay Or Do I Leave?.....</i>	<i>26</i>
<i>If You're Out Of Schlitz, You're Out Of Beer!.....</i>	<i>27</i>
<i>Shared Leadership At Bay Gray, Inc. ....</i>	<i>28</i>
<i>Police Discipline At Eastern State University .....</i>	<i>29</i>

### **Marketing and Customers**

<i>Gerber And Food Safety: Arsenic And (Old) Rice.....</i>	<i>30</i>
<i>Frontier Communications: A Study In Missed Customer Service Opportunities .....</i>	<i>31</i>
<i>How Can BPI Restore Consumer Confidence In Pink Slime?.....</i>	<i>32</i>
<i>Stakeholder Dialogue: Alley Cat Allies &amp; US Fish And Wildlife Service .....</i>	<i>33</i>
<i>Chick-Fil-A: A Social Media Crisis.....</i>	<i>34</i>

### **Non-Profits**

<i>Susan G. Komen Tries To Reconstruct Damaged Brand.....</i>	<i>35</i>
<i>Why Did The Proposed Conversion Fail? .....</i>	<i>36</i>
<i>Should We Pay Triple The Rent? .....</i>	<i>37</i>
<i>Susan G. Komen – For The Cure.....</i>	<i>38</i>
<i>Is This An Appropriate Issue For The Board Of Directors At A Credit Union To Consider?.....</i>	<i>39</i>

### **Data Analysis**

<i>Transforming A Declining Shoe Retailer.....</i>	<i>40</i>
<i>Predicting Service Delivery Times At The Britt Hunt Company.....</i>	<i>41</i>

## CRITICAL INCIDENTS

### **Ethics, Fraud, and Other Sensitive Issues**

<i>Target: The Challenge of Data Mining</i> .....	42
Steven M. Cox and Melinda Harper	
<i>Interviewing Ethics: What Would You Do?</i> .....	46
Charles Frasier and Andrew Borchers	
<i>Inky Situation: A Safe Is Not As Safe As One Might Think</i> .....	49
Amber Kauffman and Gabriele Lingenfelter	
<i>Asking For Trouble Or Legally/Ethically Deductible?</i> .....	52
Reed McKnight, Leigh Cellucci, and Lou Fowler	
<i>Securities Fraud</i> .....	55
Barry Minkow, Joseph Kastantin, and Sergey Komissarov	
<i>International Adoption Or Rent-A-Womb In India?</i> .....	59
Asbjorn Osland and Nanette Clinch	
<i>Should A&amp;A Disclose FCPA Violations?</i> .....	63
Asbjorn Osland and Nanette Clinch	

### **Financial Decisions**

<i>Flat World Knowledge: Paying Authors To Write Free Textbooks</i> .....	67
Brent Beal and Jim Tarter	
<i>My Life In Numbers: An Insurance Decision</i> .....	71
Ann Hackert and Jeff Brookman	
<i>The UMED Group: Expansion Crossroads</i> .....	75
Kingshuk Mukherjee	

### **Management and Human Resources**

<i>Burning Bridges At The Restaurant: Should I Be Honest In My Exit Interview?</i> .....	78
David Baker, Eric Nelson, Matthew VanSchenkhof, and Sarah Rogers	
<i>Strike Or No Strike? Negotiating A Labor Contract During Tough Economic Times</i> .....	81
Timothy Brotherton and Carol Rewers	
<i>A Big Change At Get-You-There Air</i> .....	85
Philip M. Jolly, Joseph Reed, and Bogdan Hoanca	
<i>The Fiasco On Friday</i> .....	88
Sambhavi Lakshminarayanan and Savita Hanspal	
<i>Club Advising 101</i> .....	92
Gabriele Lingenfelter and Jessica Sterling	
<i>Now That He Knew, What Should He Do?</i> .....	96
Reed McKnight, Leigh Cellucci, Roy Cook, and Phil Vardiman	
<i>How Do I Stick It Out In What Is Still A Hostile Environment?</i> .....	100
Asbjorn Osland, Nanette Clinch, and Pamela Wells	
<i>GEO Group, Inc. North Lake Correctional Facility's Pivotal Operations/Staffing Decision</i> .....	103
Carol Rewers	
<i>When A Raise Is A Slap In The Face: Do I Stay Or Do I Leave?</i> .....	107
Neil Tocher and James Jolly	

**Management and Human Resources cont.**

<i>If You're Out Of Schlitz, You're Out Of Beer!</i> .....	110
John J. Vitton and Seong-Hyun Nam	
<i>Shared Leadership At Bay Gray, Inc.</i> .....	114
George L. Whaley	
<i>Police Discipline At Eastern State University</i> .....	118
Shirley A. Wilson and Lieutenant Charles P. Wilson	

**Marketing and Customers**

<i>Gerber And Food Safety: Arsenic And (Old) Rice</i> .....	122
Karen A. Berger and Laura J. Blake	
<i>Frontier Communications: A Study In Missed Customer Service Opportunities</i> .....	126
Robert G. Edmunds	
<i>How Can BPI Restore Consumer Confidence In Pink Slime?</i> .....	129
Asbjorn Osland	
<i>Stakeholder Dialogue: Alley Cat Allies &amp; US Fish And Wildlife Service</i> .....	133
Asbjorn Osland and Nanette Clinch	
<i>Chick-Fil-A: A Social Media Crisis</i> .....	137
Cara Peters, Jane Thomas, Jamie Benjumea, Nick Garner, and Katie Turner	

**Non-Profits**

<i>Susan G. Komen Tries To Reconstruct Damaged Brand</i> .....	141
Asbjorn Osland and Nanette Clinch	
<i>Why Did The Proposed Conversion Fail?</i> .....	145
Marco Pagani, Asbjorn Osland and Chunlei Wang	
<i>Should We Pay Triple The Rent?</i> .....	149
Tim Redmer and Michael Gray	
<i>Susan G. Komen – For The Cure</i> .....	152
Joe G. Thomas and Cheryl Ward	
<i>Is This An Appropriate Issue For The Board Of Directors At A Credit Union To Consider?</i> .....	156
Robert Tokle and Joanne Tokle	

**Data Analysis**

<i>Transforming A Declining Shoe Retailer</i> .....	160
Andrew Borchers and Bill Fredenberger	
<i>Predicting Service Delivery Times At The Britt Hunt Company</i> .....	163
Andrew Borchers, Doug Sanford, and Bill Fredenberger	

## 2013 Journal of Critical Incidents Editorial Review Board

Baker, David	Lee, Cheolwoo
Barclay, Lizabeth	Levas, Michael
Bassell, Myles	Lingenfelter, Gabriele
Beal, Brent	Manakote, Priyoo
Bell, Sharon	McKnight, Reed
Berger, Karen	Mento, Anthony
Bishop, Patrick	Mukherjee, Kingshuk
Borchers, Andrew	Nelson, Eric
Brookman, Jeff	Osland, Asbjorn
Brooks, Brad	Peters, Cara
Burson, Timothy	Portugal, Edwin
Cellucci, Leigh	Rabe, Craig
Clinch, Nanette	Redmer, Tim
Collins, Marianne	Reid, Joseph
Cook, Roy	Rewers, Carol
Cox, Steven	Riddick, John
Davis, Craig	Smith, Donna
Debrecht, Dennis	Stellern, Michael
Dedeaux, Clay	Suhy, Andy
Desai, Harsha	Tarter, Jim
Edwards, Robert	Thomas, Jane
Foust, Karen	Thomas, Joe
Fraiser, Charles	Tocher, Neil
Fredenberger, Bill	Tokle, Joanne
Hackert, Ann	Trybus, Chet
Hirakubo, Nakato	Veal, John
Inabinett, Jean	Vitton, John
Jackson, Paul	Ward, Cheryll
Jolly, James	Weed, Amanda
Jones, Elizabeth	Wells, Pamela
Jones, Susan	Whaley, George
Kastantin, Joseph	Wilson, Charles
Kauffman, Amber	Wilson, Shirley
Lakshminarayanan, Sambhavi	

### 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
- Journal of Case Studies
- Journal of Critical Incidents

If you are interested in joining SCR, publishing in one of the journals or contacting the Officers of the Society, go to [www.sfcr.org](http://www.sfcr.org). To purchase copies of the Critical Incidents or Teaching Notes contact Roy Cook at [cook\\_r@fortlewis.edu](mailto:cook_r@fortlewis.edu)



WELCOME to Volume 6 of the *Journal of Critical Incidents*! We have made it to our third year as editor. With 34 critical incidents this year, Volume 6 is the largest *JCI* ever. WooHoo!!! We hope that you find that we have continued to maintain the high standards that you have come to expect from the *Society of Case Research* publications.

I would like to personally thank the authors for their contribution of some high quality critical incidents. The success or failure of any journal is ultimately due to the efforts of its authors and we had some good ones this year. There was a mix of new and experienced authors in this volume and we hope that each of them found value in the critical incident creation process. In addition, I can't thank the reviewers enough for their willingness to volunteer their valuable time during their busy summers in order to give constructive feedback to the authors at every stage of the process.

I especially want to thank our Associate Editor, Tim Redmer. He worked very hard again this year assisting authors and reviewers all summer. He excels at writing, reviewing, AND editing case studies. I have really enjoyed working with him and he is an important asset to *JCI*.

Finally, I wish to thank my intern, Kellyn Vos. A PR student at Ferris State University, she has helped with the final editing of all of the CIs and did much of the formatting for this volume. She has worked very hard to make this volume as perfect as humanly possible.

We strive to improve *JCI* every year. For instance, for the first time ever, this year we introduced critical incidents that require external data to analyze (available from the authors). It is an experiment, so we will see how it goes. We hope that will continue to support our efforts. Next year we will challenge authors to improve storytelling aspect of their critical incidents.

Finally, please read each of the critical incidents and consider adopting them for use in your courses. Members of the Society of Case Research should be our own best customers.

Thank you again for everyone's time and efforts this year. We look forward to working with each of you in the years ahead.

Sincerely,

A handwritten signature in black ink that reads 'Tim Brotherton'. The signature is written in a cursive, flowing style.

Tim Brotherton  
2013 *JCI* Editor

### **Publication Information:**

The goals of the Society of Case Research ([www.sfcr.org](http://www.sfcr.org)) are to help authors develop and publish worthy business case studies. The Society of Case Research publishes three journals: *Business Case Journal*, *Journal of Case Studies*, and *Journal of Critical Incidents*.

While the first two case journals have no page limits, the *JCI* does not publish long cases. *JCI*'s focus is on brief incidents that tell about a real situation in a real organization (similar to end-of-chapter cases in textbooks). The critical incident tells a story about an event, an experience, a blunder, or a success. Unlike a long case, the incident provides only limited historical detail or how the situation developed. Rather, it focuses on a real time snapshot that stimulates student use of their knowledge to arrive at a course of action or analysis.

Critical incidents can be based on either field work or library research. The maximum length of the critical incidents is three single-spaced pages. A teaching note must be submitted with the critical incident. The quality of the teaching note is a central factor in the review and acceptance process. Submissions are double-blind, peer reviewed. Formatted copies of acceptable critical incidents and teaching notes are available to assist author(s) in meeting the *JCI* submission requirements. The *Journal of Critical Incidents* is listed in [Cabell's Directories of Publishing Opportunities](#) and is published annually in the Fall.

### **JCI Publication Process:**

<b>11/08/13</b>	<b>Submit draft of Critical Incident to the Case Research Track at the Annual MBAA International meeting in Chicago (March 28-30, 2014).</b>
<b>3/26-28/ 2014</b>	<b>Present Critical Incident. Receive constructive feedback from Critical Incident session discussants.</b>
<b>4/25/14</b>	<b>Submit Critical Incident &amp; Teaching Note to the <i>JCI</i> editor (<a href="mailto:jci@ferris.edu">jci@ferris.edu</a>). Include a memo indicating how the author addressed recommendations from the conference</b>
<b>5/12/14</b>	<b>Critical Incidents sent to reviewers (Round 1)</b>
<b>6/06/14</b>	<b>Reviewers return with comments</b>
<b>6/16/14</b>	<b>Reviewer comments sent to authors.</b>
<b>7/07/14</b>	<b>Revised Critical Incidents due</b>
<b>7/21/14</b>	<b>Critical Incidents returned to reviewers (Round 2)</b>
<b>8/08/14</b>	<b>Reviewers return with comments</b>
<b>8/25/14</b>	<b>Notify Authors whether Accepted, Conditionally Accepted, or Rejected</b>
<b>9/26/14</b>	<b>Final submissions due (CI, Teaching Note, Cover, Release, and Summary).</b>
<b>10/31/14</b>	<b>Publication of <i>JCI</i>, Volume 7.</b>

**Authors of Critical Incidents will be expected to review other submissions. Additionally, *JCI* will gladly accept volunteers from all disciplines to serve as reviewers. To volunteer, e-mail the editor at [jci@ferris.edu](mailto:jci@ferris.edu).**



**TARGET: THE CHALLENGE OF DATA MINING**

**Steven Cox, Queens University of Charlotte**  
**Melinda Harper, Queens University of Charlotte**

**ABSTRACT**

The ethics of data mining has been a hotly debated topic for years. The problem was brought to a head when an irate father walked into a Target in Minneapolis and asked why his 16 year old daughter was being targeted for maternity products since she was not pregnant. Target had been using customer data to determine potential needs for many years. They had been especially interested in determining pregnancy as early as possible so that targeted promotions could be sent before pregnant women had purchased infant needs. The question raised in the case was a customer's right to privacy versus a company's need to promote its products.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Be able to explain how habitual behavioral can explain the value of data mining and illustrate why data mining can be an effective marketing tool.
2. Be able to analyze the ethical issues associated with data mining and the right to privacy.
3. Describe which steps Target should take in the future concerning data mining and its use?

**APPLICATION**

The case is appropriate for undergraduate courses in marketing, data analytics, marketing research, consumer behavior, and business ethics.

**KEY WORDS**

Marketing, data mining, business ethics

**CONTACT**

Steven Cox, Queens University of Charlotte, 1900 Selwyn Ave, Charlotte, NC 28274, (704) 688-2702, coxs@queens.edu.

## INTERVIEWING ETHICS: WHAT WOULD YOU DO?

**Charles Frasier, Lipscomb University**  
**Andrew Borchers, Lipscomb University**

### ABSTRACT

This critical incident addresses a personal and professional dilemma faced by many people when making important decisions - “What if I make a decision and later have regrets?” How important is “keeping your word?” The focus of this critical incident involves the very important decision of selecting a firm for one’s first professional experience. Some accounting majors may have several offers of employment and for them making the “right” choice becomes a very stressful decision. On the other hand, as in this critical incident, the student received only one offer in the fall semester. The offer was accepted and they immediately signed a contract. Two months later, when the student received a second offer from a larger firm, he had significant misgiving about the earlier decision. In this critical incident, we ask students to place themselves in a similar situation and respond to the dilemma.

### LEARNING OBJECTIVES

The objectives of this critical incident are:

1. Understand the hiring process as practiced in the accounting profession.
2. Analyze an ethical dilemma and evaluate the appropriateness of alternative resolutions.
3. Synthesize a response on the part of the protagonist consistent with his employment preferences.

### APPLICATION

Instructors can use this incident primarily as a basis for discussing communications and ethical behavior, but it also raises related issues concerning responsibility and personal integrity. It is appropriate for use in introductory or advanced courses in accounting, business ethics, business law, human resource management or management communication. Students in undergraduate and graduate programs can benefit from this case.

### KEY WORDS

Ethics, Accounting, Communications, Employment

### CONTACT

Charles Frasier, Lipscomb University [Charles.Frasier@lipscomb.edu](mailto:Charles.Frasier@lipscomb.edu), 615-966-5738 voice, 615-966-1818 fax

## **INKY SITUATION: A SAFE IS NOT AS SAFE AS ONE MIGHT THINK**

**Amber Kauffman, Christopher Newport University**  
**Gabriele Lingenfelter, Christopher Newport University**

### **ABSTRACT**

The critical incident describes the internal audit of the school activity fund of one school in the Seaview Public School System. An intern performed the audit and found a weakness in internal controls related to safeguarding of assets and segregation of duties. The students are asked to identify the weakness and its impact on the audit and audit report. This is a decision incident.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify the internal control issues in the incident described and determine how these issues affect the audit.
2. Evaluate if the internal control issue should be reported in the official audit report of the Office of Internal Audit.
3. Identify the elements of internal control based on their importance to the schools and apply one element of a control framework.
4. Differentiate the objectives for an internal audit versus an external audit.

### **APPLICATION**

This incident can be used for an in-class discussion or a short out-of-class assignment. The incident should be assigned during the discussion of internal controls in an undergraduate auditing class. The incident could also be used during discussion of the auditor's role in an introductory business course.

### **KEY WORDS**

Audit, Internal Control

### **CONTACT**

Gabriele J. Lingenfelter, Christopher Newport University, Luter School of Business, 1 University Place, Newport News, VA, 23606. 757-594-7142. [gabriele@cnu.edu](mailto:gabriele@cnu.edu).

## **ASKING FOR TROUBLE OR LEGALLY/ETHICALLY DEDUCTIBLE?**

**Reed McKnight, University of New Mexico  
Leigh W. Cellucci, East Carolina University  
Lou Fowler, Missouri Western State University**

### **ABSTRACT**

In early December, Bill and Wava Jean snail mailed a charitable contribution check. The check had still not been cashed by the time they were preparing their tax return the following spring, and their April filing deadline was drawing near. Bill and Wava wanted to pay their fair share of taxes. However, they did not want to pay more tax than they legally owed. Was the contribution deductible on their current year income tax return? Because the check had not been cashed, would taking a deduction for it be ethical/legal? What would be the consequences of taking it as a deduction if their tax return were audited and if the Internal Revenue Service (IRS) disallowed the deduction? This is a decision making critical incident.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Evaluate whether or not Bill and Wava's check qualified as a current or future year charitable contribution within the IRS Code.
2. Evaluate the ethical issues surrounding the taking of a charitable contribution as a deduction when Bill and Wava were not certain that it was a legally allowable deduction.
3. Assess whether or not Bill and Wava would have been tax cheats if they took the uncashed check as a current year charitable contribution deduction on their tax return.

### **APPLICATION**

This critical incident covers topics in taxation and ethics and is suitable for Individual Income Tax and Ethics classes, Business Law classes and other courses having ethics modules.

### **KEY WORDS**

Ethics, Legal Deduction, Tax Cheat.

### **CONTACT**

Reed McKnight, University of New Mexico, Anderson School of Management, Department of Accounting, 1924 Las Lomas NE, Albuquerque, NM 87131, (970)-247-8935, remcknig@unm.edu .

## SECURITIES FRAUD

**Barry J. Minkow, Federal Medical Center, Lexington**  
**Joseph T. Kastantin, University of Wisconsin La Crosse**  
**Sergey Komissarov, University of Wisconsin La Crosse**

### ABSTRACT

Adam Wellstone is faced with a business opportunity that could solve some of his personal financial concerns. The business opportunity is not without risks that could change his life more or less permanently. Students will find in this critical incident an outline of the business opportunity, a summary of Wellstone's life to the decision point in the incident, and a brief commentary on certain risks, any one of which could seriously damage his reputation and/or cause him to be sent back to federal prison.

### LEARNING OBJECTIVES

The objectives of the critical incident are:

1. Differentiate insider trading that is legal versus that which is illegal.
2. Describe a short securities sale transaction.
3. Evaluate the risks that a forensic accountant faces when undertaking a fraud investigation

### APPLICATION

The critical incident is intended for use in an upper division Accounting or Finance class where students might be interested in forensic accounting.

### KEY WORDS

Forensic Accounting, Investigative Ethics

### CONTACT

Joseph T. Kastantin, University of Wisconsin La Crosse, Department of Accountancy 339A  
Wimberly Hall, 1725 State Street, La Crosse, WI 54601, Phone: 608.787.8983, E-mail  
jkastantin@uwlax.edu

## **INTERNATIONAL ADOPTION OR RENT-A-WOMB IN INDIA?**

**Asbjorn Osland, San Jose State University**

**Nanette Clinch, San Jose State University**

### **ABSTRACT**

International commercial gestational surrogacy (ICGS), the particular type of medical tourism of interest arising out of new technologies, offers an alternative to adoption where women contract to be surrogates. One is accustomed to outsourcing but outsourced surrogacy is complicated. Medical services once seen as lacking legitimacy are now widely accepted since so many Americans require the use of fertility clinics and in vitro fertilization (IVF). The attitudinal differences towards commercial gestational surrogacy between cultures and jurisdictions are reflected in legislation and may be grounded in ethics. In some countries or regions or US states, commercial surrogacy is prohibited by law. A woman who wants a child but owing to health reasons, cannot be a birth mother, has options, two of which are international adoption or surrogacy in India. Which of these two options might be preferable? This is a decision case.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Evaluate the legitimacy of ICGS as a new technology.
2. Evaluate the two alternatives (i.e., international adoption or ICGS) and decide which you would prefer if faced with the decision.

### **APPLICATION**

It is suitable for Business Ethics or International Entrepreneurship courses.

### **KEY WORDS**

Ethics, Entrepreneurship, Legitimacy, New Technologies, Medical Tourism

### **CONTACT**

Asbjorn Osland, San Jose State University San José, CA 95192-0070, Telephone: 408-924-3574,  
E-mail: asbjorn.osland@sjsu.edu

## **SHOULD A&A DISCLOSE FCPA VIOLATIONS?**

**Asbjorn Osland, San Jose State University**

**Nanette Clinch, San Jose State University**

### **ABSTRACT**

The parent company, A&A, found its subsidiaries had likely violated the Foreign Corrupt Practices Act (FCPA). From 1998 until 2008 (depending on the country), employees of the subsidiaries and agents employed by the subsidiaries had paid bribes to government doctors in Greece, Poland, Romania and Iraq who chose its products. Its internal control systems caught the corruption and it concluded that they were in violation of the FCPA. Such actions violated several sections of the FCPA that forbid illicit payments to government officials to obtain business and A&A may also have been remiss in its internal controls. Fines for comparable offenses had totaled as much as \$70 million. If criminal prosecutions had arisen the fines could have been far greater in a jury trial. Should it have disclosed out of a concern for ethics and corporate social responsibility or corrected the problems and moved on? This is a decision case.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Discuss/summarize the purpose and intent of the FCPA.
2. Create a plan to address violations of the FCPA in reporting to the SEC that will avoid prosecution under the FCPA.
3. Explain how understanding FCPA and implementing internal controls can better address or avoid violations.
4. Describe aspects of the FCPA that make it difficult to enforce and explain how these ambiguities may affect the ultimate outcome in A&A's case.
5. Explain the relationship between Sarbanes-Oxley and the FCPA.
6. Use A&A's situation to illustrate the enforcement/use of the FCPA.

### **APPLICATION**

It is suitable for ethics, accounting courses, auditing courses, international business and business law where the FCPA is discussed.

### **KEY WORDS**

Ethics, Foreign Corrupt Practices Act, Corporate Social Responsibility, Internal Controls

### **CONTACT**

Asbjorn Osland, College of Business, San Jose State University San José, CA 95192-0070,  
Telephone: 408-924-3574, E-mail: [asbjorn.osland@sjsu.edu](mailto:asbjorn.osland@sjsu.edu)

**FLAT WORLD KNOWLEDGE: PAYING AUTHORS  
TO WRITE FREE TEXTBOOKS**

**Brent D. Beal, The University of Texas at Tyler**  
**Jim Tarter, The University of Texas at Tyler**

**ABSTRACT**

Jeff Shelstad, together with Eric Frank, founded Flat World Knowledge (FWK) in 2007 with the intention of disrupting and reinventing the college textbook market. FWK's business model was designed to deliver quality college textbooks for free and then charge for alternative methods of access. Jeff had argued that one of the most revolutionary aspects of FWK's business model was the potential to make the process of writing textbooks cumulative. He envisioned a situation in which the company would produce one textbook for a particular subject or class that would be modified in different ways by the faculty who adopted it. Derivative versions of the text would then become part of FWK's catalog and could be adopted by future faculty. The critical incident focuses on Jeff's decision to provide incentives to faculty to modify existing FWK textbooks and make those modifications available to other faculty.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Describe FWK's business model.
2. Explain what it means to make the process of textbook writing "cumulative."
3. Analyze different possible approaches to providing incentives for faculty to create a modified version of FWK's textbooks.
4. Evaluate the likelihood that implementing an incentive system for modifying (or adapting) existing FWK textbooks will give the company a competitive advantage in the college textbook market.
5. Evaluate the relationship between Open Stories Foundation's mission, vision and strategy, and comment constructively on how these elements should be aligned.

**APPLICATION**

This critical incident is written for courses in Strategic Management. It is also appropriate for Entrepreneurship courses.

**KEY WORDS**

College Textbooks, Open Textbooks, Disruptive Change, Business Models, Competitive Advantage

**CONTACT**

Brent D. Beal, Ph.D., College of Business and Technology, The University of Texas at Tyler,  
3900 University Blvd., Tyler, TX 75799, bbeal@uttyler.edu



## **MY LIFE IN NUMBERS: AN INSURANCE DECISION**

**Jeff Brookman, Idaho State University**  
**Ann M. Hackert, Idaho State University**

### **ABSTRACT**

A major topic in personal finance is life insurance. It is a decision made several times over a lifetime based on financial circumstances and life stages. The first time most people buy life insurance is when they realize someone else depends on their income to live, for example, marriage or the birth of a child. A heart attack scare that turned out to be a false alarm motivated Mark Smith to research and make life insurance decisions. Now it's time to take the next step and focus his financial planning on his insurance needs. With a wife and 14-year-old son, Mark needed to estimate his life insurance needs. Mark also knew the quality of his wife's retirement could depend on a workable plan to pay for it even if he was not around.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Describe issues and uncertainties that could affect life insurance decisions.
2. Analyze an individual's insurance needs in a later life stage when college and retirement are in the near future.
3. Evaluate various types of insurance policies and their applicability to meet the needs of an individual and his family.

### **APPLICATION**

This critical incident can be used in an undergraduate personal finance class to help students understand the importance of life insurance as a component of their overall financial plan. Although the individual in the CI is at a different life stage than the typical student, it provides a realistic example of someone who should have planned long ago but now realizes it's time. Another important issue involves life stages.

### **KEY WORDS**

Finance, Personal Finance, Insurance

### **CONTACT**

Ann M. Hackert, 921 S. 8<sup>th</sup> Stop 8020, Pocatello, Idaho 83209. Phone: 208-282-2506 and Email: [hackeann@isu.edu](mailto:hackeann@isu.edu).

## THE UMED GROUP: EXPANSION CROSSROADS

Kingshuk Mukherjee, College of St. Benedict | St. John's University

### ABSTRACT

Faced with the challenge of changing demands, expansion plans, and pressure from important customers, the Umed Group, a well-established fabric weaving company in India, was forced to decide if a multimillion dollar investment would be effective and beneficial for the strategic growth of the company. This critical incident discusses the decision making and issues behind the purchase of seven brand new fabric weaving looms and the construction of a production facility to house the new units. The Indian manufacturing company faced limitation issues as their paramount customer, a U.S. based fabric supply company named Genesis Inc, began developing quickly while inevitably increasing the demand, quality, and range of products for the Umed Group. This study could be leveraged for use in an operations management course, business strategies course, or an international business/finance course.

### LEARNING OBJECTIVES

The objectives for this critical incident are:

1. Determine and discuss the advantages and disadvantages of a technology investment.
2. Demonstrate strategic thinking by analyzing main internal and external factors driving decision making.
3. Determine the implications of the different choices associated with the strategic inflection points within a company or industry. A *Strategic Inflection Point* being the occurrence when a company's competitive position goes through a transition.

### APPLICATION

This incident could be used in an Operations Management course, Business Strategies course, or an International Business/Finance course.

### KEY WORDS

Production, Supply Chain Management, Communication, Operations, Strategy

### CONTACT

Kingshuk Mukherjee, 37 South College Avenue St. Joseph, Minnesota 56374 USA, (320)363-5419, kmukherjee@csbsju.edu

## **BURNING BRIDGES AT THE RESTAURANT: SHOULD I BE HONEST IN MY EXIT INTERVIEW?**

**David Baker, University of Central Missouri**

**Eric Nelson, University of Central Missouri**

**Matthew VanSchenkof, University of Central Missouri**

**Sarah Rogers, University of Central Missouri**

### **ABSTRACT**

This decision-based critical incident puts students in the shoes of an intern working at the Boulevard Grill at the Four Points by Sheraton hotel. Sarah Rogers' summer hospitality management internship is coming to a close and the for-credit internship has been frustrating. As a Hospitality Management Major, Sarah was expecting a certain amount of chaos in the restaurant, but she was surprised at how quickly she was expected to learn, the on the job nature of this learning, and the lack of a formal training process. Early on, she struggled with the point of sale system, with one of her co-workers, and with the fact that she knew next to nothing about beer and alcohol. Sarah is wondering what if anything she should say to her manager and the head of human resources about these early experiences with training in the restaurant.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Develop a server training program for a restaurant wait staff.
2. Demonstrate how conducting training impacts leadership skill.
3. Develop a detailed plan for an exit interview.

### **APPLICATION**

This critical incident is most appropriate for undergraduate courses focused on hospitality management, general management, and leadership.

### **KEY WORDS**

Leadership, Hospitality Management, Restaurant Management, Emotional Intelligence

### **CONTACT**

David Mc.A Baker, University of Central Missouri, Dockery 401D Warrensburg, MO 64093  
660-543-8149, dmbaker@ucmo.edu

## **STRIKE OR NO STRIKE? NEGOTIATING A LABOR CONTRACT DURING TOUGH ECONOMIC TIMES**

**Timothy Brotherton, Ferris State University**  
**Carol Rewers, Ferris State University**

### **ABSTRACT**

This critical incident identifies a decision point that must be reached by a bargaining committee for a unionized faculty association. Both sides were presented, but the administration and faculty association remained far from agreement. Since the labor contract expired on June 30<sup>th</sup>, the faculty had a tough decision to make – whether or not to support a strike vote. This critical decision was to be made the day before fall classes were to begin. This critical incident could also be used as a role playing device.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Analyze the current situation facing a union labor bargaining committee.
2. Assess the bargaining committee's approach to bargaining.
3. Assess the potential alternatives of strike/no strike decision.
4. Propose a plan of action following a strike/no strike decision.

### **APPLICATION**

The appropriate classes for this critical incident include: undergraduate Human Resources class, or any class discussing labor-management issues.

### **KEY WORDS**

Labor Strike, Labor Negotiations, Human Resources

### **CONTACT**

Timothy Brotherton, Ferris State University, 119 South Street, BUS 354, Big Rapids, MI 49307, [brothet@ferris.edu](mailto:brothet@ferris.edu). (231) 591-2471

## **A BIG CHANGE AT GET-YOU-THERE AIR**

**Phillip M. Jolly, University of Houston**  
**Joseph Reid, University of Alaska Anchorage**  
**Bogdan Hoanca, University of Alaska Anchorage**

### **ABSTRACT**

This critical incident follows the manager of information services at a small regional airline as she attempts to introduce a new flight tracking software system. Insufficient planning for the change process has resulted in the failure of front-line users to adopt the new system, and a technological quirk has allowed them to continue to use the legacy system. While an effort was made to select the best system and to train upper management on its use, there was no training offered to the front-line users on the new system, and very little communication was directed toward the front-line users to inform them of the benefits that the new system offered to the company and to the employees. Now, the manager of information services must decide what she can do to save the new system and ensure that it is fully implemented.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify and evaluate the most important factors within a difficult business situation and infer possible causes of the difficulties encountered.
2. Apply various approaches to the management of change to a specific situation, leading to a better understanding of the change management process.
3. Analyze the problems apparent in a situation and propose solutions based on both theoretical knowledge and practical experience.
4. Predict possible outcomes of proposed solutions.
5. Evaluate their own solutions to a problem situation, as well as the suggested solutions of others.

### **APPLICATION**

This incident can be used to explore common problems in technology management. More generally, it can be employed to explore change management, communication, and the importance of training with regard to major organizational changes. This incident could be used in both introductory and advanced courses in Technology Management, Organizational Behavior, and Change Management. This incident should stimulate discussion about the problems inherent in major organizational change and the introduction of new technologies, and it should encourage students to develop solutions to these organizational issues.

### **KEY WORDS**

Organizational Behavior, Change Management, Computer/MIS, Technology, Training

### **CONTACT**

Phillip Jolly, 310L Melcher Hall, C.T. Bauer College of Business, University of Houston, Houston, TX 77204, 713-743-4682 (voice), pmjolly@bauer.uh.edu (email).

## **THE FIASCO ON FRIDAY**

**Sambhavi Lakshminarayanan, Medgar Evers College, City University of New York  
Savita Hanspal, College of St. Rose**

### **ABSTRACT**

The failure of a critical piece of operational software caused a minor crisis at a technology company. The crisis was resolved quickly due to the efforts of several people working together across departments, and everyone appeared satisfied. However, the Chief Technology Officer was very unhappy that the situation had occurred at all and blamed a programmer for it. The programmer, an important asset to the company, felt that was unfair and threatened to quit. The programmer's boss, who reported to the CTO, was caught in the middle. He had to decide how to deal with these two people. At the same time, he realized that organizational factors had played a role in precipitating the failure – and wondered what changes needed to be made.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Explain diverse employee perceptions and responses to the same workplace occurrence.
2. Analyze underlying reasons and antecedents that might cause an employee to respond and behave in specific ways in a specific organizational context.
3. Develop a process, utilizing tools such as the fishbone diagram, to identify reasons for occurrence of an organizational problem.
4. Investigate the challenges of acting in a speedy and decisive way during a crisis.
5. Construct responses that a middle-level manager, who is blamed for the occurrence of a problem, could use to address immediate as well as long-term causes of the problem.
6. Assess the role corporate culture plays in effective organizational functioning.
7. Outline ways in which a firm's response to a problem could be used as a springboard for improvement.

### **APPLICATION**

This incident is ideal for use in courses dealing with topics of organizational behavior and organizational design at both undergraduate and MBA levels, including courses in Management, Organizational Behavior, Leadership and Strategy. Students who have worked in the technology sector would have a deeper appreciation of the technical challenges described in the situation.

### **KEY WORDS**

Conflict, Problem, Culture, Response, Crisis.

### **CONTACT**

Sambhavi Lakshminarayanan, School of Business, Medgar Evers College, CUNY 1637 Bedford Avenue, Brooklyn, NY 11225, Tel: 718-270-5122, sLakshminarayanan@mec.cuny.edu

## **CLUB ADVISING 101**

**Gabriele Lingenfelter, Christopher Newport University**  
**Jessica Sterling, Jacksonville University**

### **ABSTRACT**

The critical incident describes leadership issues of the Accounting Club, a professional student organization. A lack of succession planning and leadership development and a lack of understanding the role of the faculty advisor led to unorganized Accounting Club meetings. This decision critical incident asks students to evaluate the role of the faculty advisor for student organizations and the importance of leadership development within the Club.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Allow the student to construct an effective leadership structure of a student organization by appropriately including the faculty advisor in the leadership of the organization.
2. Allow the student to assess the importance of leadership development in a student organization.

### **APPLICATION**

This critical incident can be used as a training tool when working with student organizations. It can also be used in a leadership or management class when discussing leadership development and succession planning. However, the development of the critical incident for use in a traditional college class (leadership/ management) was not the focus.

### **KEY WORDS**

Student Organizations, Faculty Advisors, Leadership Development.

### **CONTACT**

Gabriel J. Lingenfelter, Christopher Newport University, Luter School of Business, 1 University Place, Newport News, VA, 23606. 757-594-7142. [gabriele@cnu.edu](mailto:gabriele@cnu.edu)

## **NOW THAT HE KNEW, WHAT SHOULD HE DO?**

**Reed McKnight, University of New Mexico**  
**Leigh W. Cellucci, East Carolina University**  
**Roy Cook, Fort Lewis College**  
**Phil Vardiman, Abilene Christian University**

### **ABSTRACT**

Harrison, a Canadian immigrant, was severely disappointed when his top boss, Lane, offered him only a puny raise. He immediately gave notice that he would be quitting his job. Shortly afterwards, his immediate supervisor, Vick, introduced him to Karl, who had an equivalent job opening with the same provincial government in a different city. They hit it off and began corresponding regularly, but that correspondence ended abruptly. Weeks after the promised job offer did not materialize, Harrison asked Vick to find out from Karl what had happened. What he learned about his employer's interference in his job search process was unsettling. Now that he knew, what should he do? This is a decision making critical incident.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Critique verbal and documented employment agreements.
2. Evaluate the ethical appropriateness of employment offers.
3. Evaluate actions taken by the principals in this incident in the context of ethical decision making models.

### **APPLICATION**

This critical incident can be used in a variety of undergraduate and graduate business classes. In Introduction to Business, it would work well when discussing the job search process. It can also be used in classes that cover topics in Ethics, Human Resource Management, and Business Law as related to employment issues.

### **KEY WORDS**

Job Search, Ethics, Human Resource Management, Business Law.

### **CONTACT**

Reed McKnight, University of New Mexico, Anderson School of Management, Department of Accounting, 1924 Las Lomas NE, Albuquerque, NM 87131, (970)-247-8935, remcknig@unm.edu



## **HOW DO I STICK IT OUT IN WHAT IS STILL A HOSTILE ENVIRONMENT?**

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**  
**Pamela Wells, San Jose State University**

### **ABSTRACT**

Lacey Jefferson was a female firefighter who complained of a hostile work environment caused by sexual harassment. The problem began when her 9-year-old son took deviant porn home after finding it in the fire station men's room. She complained but neither the fire department nor the city government responded adequately in her view. As a result, she decided to continue working at least until retirement in six years. To continue to speak out was possible given her civil service status and union membership; however, the cost could be additional marginalization from coworkers. The critical incident is a decision case focused on how to resolve lingering bitterness in an organizational unit. One theoretical approach is the traditional exit, voice or loyalty (Hirschman, 1970) and another is the whistleblower – one denounces one's employer but then may not be able to leave due to pending retirement or other such golden handcuffs.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Analyze how to deal with the aftermath of organizational conflict
2. Apply Hirschman's approach dealing with exit, voice and loyalty

### **APPLICATION**

It is suitable for Management, Organizational Behavior, Human Resources or Ethics courses.

### **KEY WORDS**

Organizational Conflict, Sexual Harassment, Whistleblower, Hostile Work Environment

### **CONTACT**

Asbjorn Osland, San Jose State University San José, CA 95192-0070, 408-924-3574,  
[asbjorn.osland@sjsu.edu](mailto:asbjorn.osland@sjsu.edu)

**GEO GROUP, INC. NORTH LAKE CORRECTIONAL FACILITY'S  
PIVOTAL OPERATING/STAFFING DECISION**

**Carol Rewers, Ferris State University**

**ABSTRACT**

For decades, California prisons had been experiencing severe overcrowding. In November 2010, officials with the California Department of Corrections and Rehabilitation (CDCR) planned to outsource an estimated 2,580 prisoners to GEO's North Lake Correctional Facility, located in Baldwin, Michigan. In preparation, North Lake Correctional Facility underwent a \$60 million dollar renovation. The GEO facility expanded to accommodate an estimated 1,725 California prisoners that were scheduled to arrive in May 2011. Additionally, GEO had hired approximately 165 new prison employees in order to orient and train these new employees in advance of receiving the first group of prisoners. Shortly after completing these arrangements, GEO "heard rumors" that California was in the process of determining whether to terminate its prisoner outsourcing contracts due to their increasing budget deficit. What should GEO do?

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify and analyze the scope, major challenges, and complexity encountered in outsourcing the custodial care of California prisoners to GEO Group Inc. North Lake Correctional Facility's private prison located in Baldwin, Michigan and the potential impact these issues could have on the workforce composition for North Lake Correctional Facility.
2. Develop a workforce staffing plan for GEO Group Inc. North Lake Correctional Facility's private prison – include various staffing scenarios given the recent uncertainty associated with California's budget deficit and potential termination of prisoner outsourcing.
3. Evaluate the potential conflicts of interests that may arise between "employee-employer psychological contract(s)" versus "employment at will" concepts and how these concepts impact various stakeholder groups.
4. Examine GEO's legal obligation to meet the requirements set forth in the Workers' Adjustment Retraining and Notification (WARN) act/law and recommend a course of action.

**APPLICATION**

This critical incident is appropriate for use in undergraduate courses that deal with issues pertaining to Human Resources, Operations, Criminal Justice, and Public Administration.

**KEY WORDS**

Human Resource Management, Public Administration, Prisons, Criminal Justice.

**CONTACT**

Carol Rewers, Ph.D., Ferris State University, College of Business, 119 South St. BUS 358, Big Rapids, MI. 49307. Phone (231) 591-2447, Fax (231) 591-3521, Email [rewersc@ferris.edu](mailto:rewersc@ferris.edu)

## **WHEN A RAISE IS A SLAP IN THE FACE: DO I STAY OR DO I LEAVE?**

**Neil Tocher, Idaho State University**

**James Jolly, Idaho State University**

### **ABSTRACT**

This decision based critical incident reports in her own words the experience of Mary Thompson, a 63 year old psychiatric nurse practitioner who is dealing with an inequitable pay raise. Thompson was given a much lower pay raise (5%) than other comparable employees (between 16% & 25%) in spite of high performance appraisals and working on a difficult unit. The incident entailed several conflicting issues for Thompson as she attempted to figure out (1) why was she given a low raise, (2) should she accept employment elsewhere, and (3) what should she do when the hospital CEO eventually offers her a competitive pay raise?

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Students will analyze and evaluate both internal and external pay equity from the perspective of both employees and employers.
2. Students will identify other theories and Reasoning which may explain Thompson's frustration with the pay raise
3. Students will analyze and evaluate the ethical issues associated with accepting or rejecting the counteroffer proposed by the CEO.
4. Students will identify negotiation strategies which could be used in this situation by the author to gain the pay and working arrangements she desires.
5. Students will compare negotiation strategies which could be used in this situation by the author to gain the pay and working arrangements she desires.

### **APPLICATION**

This incident is appropriate for use in both introductory and advanced courses in Compensation, Organization Behavior, Management, Human Resource Management, Negotiation, and in other courses that focus on Interpersonal Communication and Conflict Resolution.

### **KEY WORDS**

Pay Equity, Negotiation, Interpersonal Communication, Conflict Resolution

### **CONTACT**

Neil Tocher, College of Business, Idaho State University, Pocatello, Idaho 83209-8020, 208-282-3588 (voice), 208-282-4367 (fax), [tochneil@isu.edu](mailto:tochneil@isu.edu) (email).

## **IF YOU'RE OUT OF SCHLITZ, YOU'RE OUT OF BEER!**

**John J. Vitton, University of North Dakota**  
**Seong-Hyun Nam, University of North Dakota**

### **ABSTRACT**

In 1950, the Joseph Schlitz Brewing Company sold 5.1 million barrels of beer and was the number one U.S. brewer. Anheuser-Busch sold 4.9 million barrels of beer and ranked number two. In 1975, Schlitz CEO, Robert Uihlein, ordered all Schlitz Breweries to replace a silica gel containing enzymes used in brewing with a substitute called Chill-garde to prolong shelf life and stabilize the beer. This was a disastrous decision as the Chill-garde reacted with another ingredient, a foam stabilizer called Kelcoloid, which resulted in the coagulation of protein particles, which appeared in the beer as tiny flakes, giving it a milky appearance. While the particles were not dangerous, nor did they alter the taste of the beer, they were not welcomed by beer drinkers. This was a major reason for the demise and loss of market share, gross profit, and net income of Schlitz Brewing Company. It went from number one in gallons of beer sold in 1950 to almost a non-entity today.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. To illustrate how a decline in product quality can result in a dramatic decline in market share and profitability.
2. To emphasize the importance of a pilot run to highlight potential production problems.
3. To stress the importance of ethical conduct as the recall of cloudy beer containing white flakes was concealed by Schlitz top management.

### **APPLICATION**

This critical incident could be introduced in undergraduate Principles of Management, Principles of Marketing, Operations Management, Crisis Management courses or an integrating course in Strategic Management.

### **KEY WORDS**

Quality, Production Management, Crisis Decision Making

### **CONTACT**

John J. Vitton, University of North Dakota, College of Business and Public and Administration,  
Management Department Box 8377, Grand Forks, ND 58202, Phone: (701) 777-3229, E-mail:  
John.vitton@business.und.edu

**SHARED LEADERSHIP AT BAY GRAY, INC.**

**George L. Whaley, San Jose State University**

**ABSTRACT**

Martha Gray, founder of Bay Gray, Inc. (BGI) retired and gifted two of her three children equal ownership shares to manage the family firm. The first daughter was an independent contractor (IC) in the same industry as BGI and left managing the firm to her sister. The second daughter was appointed CEO based on work experience in another industry and MBA degree. The third daughter joined BGI as a part-time employee with a smaller ownership share. Family-business conflicts grew after the first daughter quit her IC job and began to spend more time at BGI. Despite sibling conflicts, they maintained a profitable company. This critical incident focuses on business meetings that deteriorated into family conflict and concludes with the CEO's reflections about lack of shared leadership, growing family-business conflict and her desire to leave BGI with a solid reputation and finances when she transitions out of the firm.

**LEARNING OBJECTIVES**

The objectives for this critical incident are:

1. Analyze external and internal factors that determine success of small firms such as BGI.
2. Evaluate realistic succession options available to family firms like BGI to control ownership and allow leaders to exit with a solid legacy, family relationships and finances intact.
3. Evaluate use of shared leadership as appropriate model for BGI and other small firms.

**APPLICATION**

This decision critical incident was designed for upper division undergraduate and MBA level courses in Family Business, Entrepreneurship and Small Business.

**KEY WORDS**

Family Business, Small Business, Leadership, Entrepreneurship and Conflict Management

**CONTACT**

George L. Whaley, Ph.D., Lucas Graduate School of Business, San Jose State University, One Washington Square, San Jose, CA 95192-0070. (408) 924-3564. [george.whaley@sjsu.edu](mailto:george.whaley@sjsu.edu)

## **POLICE DISCIPLINE AT EASTERN STATE UNIVERSITY**

**Shirley A. Wilson, Bryant University**  
**Lieutenant Charles P. Wilson, Rhode Island College Campus Police**

### **ABSTRACT**

This descriptive critical incident describes events which took place at the graduation ceremony at Eastern State University resulting in the discipline of a campus police officer. This incident is primarily concerned with the actions an officer took in the conduct of his professional duties. The officer, responsible for crowd control, placed his hands on a woman in an effort to keep her from entering a restricted area. Two female faculty members complained about the officer's actions resulting in campus charges being brought against the police officer. Students are asked to decide if any type of disciplinary action is warranted in this case, who should have input in the disciplinary process and what disciplinary action should be administered.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Analyze the importance of perceptions of self and others in individual behavior and job performance.
2. Analyze the cultural forces within an organization that may drive member relationships and resulting actions.
3. Apply organizational behavior and human resource management concepts and theories to law enforcement agencies and departments.
4. Discuss the process and need for establishing disciplinary policies and the proper implementation of organizational rules.
5. Evaluate and define steps campus and departmental leadership might take to ensure acceptance of the campus police as an important part of the campus culture.

### **APPLICATION**

This descriptive critical incident may be applied to classes in Organizational Behavior and Human Resource Management, as well as Criminal Justice classes dealing with police ethics, procedures, and policy development, each of which may have a correlated use in OB/HR discussions.

### **KEY WORDS**

Personnel/OB; Policy/Strategy; Ethics

### **CONTACT**

Shirley A. Wilson, Ph.D. Associate Professor, Management, Bryant University 1150 Douglas Ave. Smithfield, RI 02917, (401) 232-6265, [swilson@bryant.edu](mailto:swilson@bryant.edu)

## **GERBER AND FOOD SAFETY: ARSENIC AND (OLD) RICE**

**Karen A. Berger, Pace University**  
**Laura J. Blake, Assumption College**

### **ABSTRACT**

Following a *Consumer Reports'* published report that warned of high levels of arsenic found in consumer rice products, *Parents'* magazine community blogs showed that women of young children were in an uproar and Gerber had to act before the issue became a full blown crisis. The central issue in this critical incident is to evaluate multiple sides to an issue, particularly when there is a contradiction between authoritative viewpoints.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify the various producers and receivers of public communications and distinguish between those and an organization's stakeholders in a crisis situation.
2. Identify the issues that must be addressed when a safety failure has been identified.
3. Evaluate both sides of the issue when there is a contradiction between two authorities in terms of the stakeholders and outcomes.
4. Evaluate the Gerber response relative to Coombs' response options in a public relations crisis management scenario.
5. Develop and recommend communications, messages and media for stakeholders in a situation when trust and confidence have been compromised.

### **APPLICATION**

This critical incident is designed for use in undergraduate Advertising and Public Relations classes or may be appropriate in a Crisis Management module of a basic Management course.

### **KEY WORDS**

Marketing, Public Relations, Crisis Management

### **CONTACT**

Dr. Karen A. Berger, Pace University, 861 Bedford Rd. Pleasantville, NY 10526;  
914-773-3716; [kberger@pace.edu](mailto:kberger@pace.edu)

**FRONTIER COMMUNICATIONS:  
A STUDY IN MISSED CUSTOMER SERVICE OPPORTUNITIES**

**Robert G. Edmonds, SUNY Maritime College**

**ABSTRACT**

This descriptive critical incident reflects an actual situation encountered by the author a few years ago when he sought to upgrade his older Internet service provided by his local telephone company, Frontier Communications. What at first seemed to be a seamless procedure, make a telephone call to the firm's 800 customer service number to upgrade the service, resulted in three weeks of frustration and turned into a lesson of failed customer service.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify and recognize the importance a firm's customer service function plays in a customer centric strategy.
2. Analyze and demonstrate how quality customer service can assist a firm to differentiate itself from the competition and the impact role of customers as stakeholders in the firm's external environment.
3. Distinguish and differentiate the importance of enhanced customer value that quality customer service management brings to the firm and its product offerings
4. Select, recommend and communicate a course of action that should be taken by Frontier Communications' management to correct the issues found in the CI and prevent future occurrences.

**APPLICATION**

The CI is appropriate for use in undergraduate courses such as, introductory business, fundamentals of marketing, management, organizational management and strategic management.

**KEY WORDS**

Customer service, customer centric strategy, customer value, Frontier Communications and customer service representative (CSR)

**CONTACT**

Dr. Robert G. Edmonds, SUNY Maritime College, 6 Pennyfield Ave. Bronx, New York 10465  
718-409-5568, redmonds@sunymaritime.edu



## HOW CAN BPI RESTORE CONSUMER CONFIDENCE IN PINK SLIME?

Asbjorn Osland, San Jose State University

### ABSTRACT

Beef Products Inc. (BPI) had developed a process of extracting the residual meat from cuttings. Lean finely textured beef (LFTB) resulted that was nutritious in terms of protein content but prone to contamination because it was made from cuttings. To reduce the threat of pathogens BPI treated the LFTB with a puff of ammonium hydroxide. BPI sold the product to food processors to mix with hamburger, sausage and other products. The social media and the news portrayed LFTB as “pink slime.” Demand for BPI’s LFTB fell due to the “yuck” factor of “pink slime.” BPI’s initial response was to solicit expert opinion from the meat processing industry that LFTB was safe and nutritious and also to stimulate political protest and action. Next it sued for defamation. It has both decision making (i.e., what should BPI do?) and descriptive elements (i.e., view of food and use of social media in protest).

### LEARNING OBJECTIVES

The objectives of this critical incident are:

1. Compare and discriminate between meat and industrial utilitarian commodity versus a value orientation of it as a pure nutritional ingredient lovingly served to one’s family.
2. Contrast utilitarianism and consequentialism versus a value orientation where food is to be pure.
3. Contrast BPI’s PR approach of appealing to the food industry and its political supporters versus the aesthetic approach taken by social media, ABC News and Jaime Oliver’s portrayal of the “yuck” factor of pink slime.

### APPLICATION

The critical incident could be used in a Marketing or Ethics course in an undergraduate or graduate business curriculum or in a Public Relations or Advertising Course.

### KEY WORDS

Pink slime, lean finely textured beef, social media, food safety

### CONTACT

Asbjorn Osland, San Jose State University 95192-0070, 408-924-3574, [asbjorn.osland@sjsu.edu](mailto:asbjorn.osland@sjsu.edu)

**STAKEHOLDER DIALOGUE: ALLEY CAT ALLIES & US FISH AND WILDLIFE SERVICE**

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**

**ABSTRACT**

Alley Cat Allies (ACA) could be described as a one-issue focused organization with fervent supporters. These supporters wanted to save feral cats from wholesale extermination where unwanted. It advocated the Trap-Neuter-Return (TNR) approach. The shelter that was to receive cats from U.S. Fish and Wildlife Service (USFWS) planned to release them in its sheltered area aside from the unhealthy or injured cats that may have had to be exterminated. The USFWS was more concerned about biodiversity than the fate of the cats. The USFWS offered public comment, which ACA provided. How can an organization effectively manage when it has to attend to the views of various stakeholders rather than simply impose its will? This case is descriptive in that it is a vehicle for learning stakeholder dialogue; however, during the simulation students are to come up with solutions so it is decision-oriented as well.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Recognize circumstances where stakeholder dialogue would be beneficial, both in the governmental and business arenas.
2. Develop a plan to manage the stakeholder dialogue process

**APPLICATION**

It is suitable for Organizational Behavior, Organizational Management, Public Relations, Marketing.

**KEY WORDS**

Stakeholder Dialogue, Animal Rights

**CONTACT**

Asbjorn Osland, San Jose State University San José, CA 95192-0070, 408-924-3574,  
asbjorn.osland@sjsu.edu

## **CHICK-FIL-A: A SOCIAL MEDIA CRISIS**

**Cara Peters, Winthrop University**  
**Jane Thomas, Winthrop University**  
**Jamie Benjumea, Winthrop University**  
**Nick Garner, Winthrop University**  
**Katie Turner, Winthrop University**

### **ABSTRACT**

In July of 2012, the President and COO of Chick-fil-A Dan Cathy, was interviewed by a Christian radio station. In the interview, Dan Cathy said that he (and thus Chick-fil-A) advocated for the traditional, biblical view of family. His comments sparked a firestorm of controversy and gay rights advocacy groups began to mobilize against Chick-fil-A. The controversy spread quickly through social media web sites and then exploded further, becoming the subject of major news outlets. The controversy remained in the spot light for over a month. As the social media crisis began to die down, the management team for Chick-fil-A, Dan Cathy included, had to figure out a strategy for moving forward. What should they do to prevent this kind of public relations crisis from happening again?

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify the marketing strategy for a business;
2. Describe how social media can spurn a public relations crisis;
3. Evaluate different options for how a business can respond to a consumer-generated social media campaign; and
4. Develop a public relations strategy for dealing with the aftermath of a social media crisis.

### **APPLICATION**

This critical incident is appropriate for undergraduate courses in Marketing, such as Social Media, Advertising, Promotions, Public Relations, Consumer Behavior, and Marketing Strategy.

### **KEY WORDS**

Social media, negative public relations

### **CONTACT**

Dr. Cara Peters, Winthrop University, Department of Management and Marketing, Rock Hill, South Carolina 29733, phone: 803-323-4280, email: [petersc@winthrop.edu](mailto:petersc@winthrop.edu).

**SUSAN G. KOMEN TRIES TO RECONSTRUCT DAMAGED BRAND**

**Asbjorn Osland, San Jose State University**

**Nanette Clinch, San Jose State University**

**ABSTRACT**

The Susan G. Komen for the Cure Foundation (SGK) enjoyed solid support with its popular walks in support of finding a cure for breast cancer, promoted by the ubiquitous pink ribbons. Public approval of SGK was compromised by pro-life supporters that opposed its support of Planned Parenthood, because abortions performed at its facilities. Karen Handel, the Senior Vice President for Policy, represented the views of the pro-life constituency that wanted to distance SGK from Planned Parenthood. Strong public opposition to SGK's approach to Planned Parenthood occurred. Funding through involvement in the walks in some communities declined. A public outcry on social media included a petition on Change.org urging a shake-up in leadership at SGK. It took six months from SGK publicly opposing Planned Parenthood in early 2012 to the August 8, 2012 resignations. What more did SGK need to do to restore brand equity? This is a decision case.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. compare and discriminate between ideas regarding pro-life and pro-choice in the SGK/Planned Parenthood context versus a stakeholder approach focused on finding common ground, as had been true when SGK viewed its mission as cancer prevention and cure
2. assess value of SGK's presentations of justification for excluding Planned Parenthood and then the impact of its subsequent actions to quell the firestorm
3. make choices based on reasoned argument regarding what more SGK should do to regain the trust of Planned Parenthood supporters

**APPLICATION**

It is suitable for public relations or marketing classes.

**KEY WORDS**

Brand equity, public relations

**CONTACT**

Asbjorn Osland, San Jose State University San José, CA 95192-0070, 408-924-3574,  
asbjorn.osland@sjsu.edu

## **WHY DID THE PROPOSED CONVERSION FAIL?**

**Marco Pagani, San José State University**  
**Asbjorn Osland, San José State University**  
**Chunlei Wang, San José State University**

### **ABSTRACT**

The members of a credit union in Northern California voted against the proposal to convert the credit union into a mutual savings bank. Only 25 percent of the members cast their vote, and among those who voted 77 percent rejected the proposed conversion. The management and board of directors believed that the change would enable the credit union to be competitive in terms of growth and product offerings. The proposed conversion spurred a strong opposition from some members who objected that the change would jeopardize the community-oriented mission of the institution, negatively impact the members and only benefit management and insiders. Why didn't the members agree with the management's vision on the potential benefits of the conversion? What caused the failed vote: the regulatory restrictions on communication, distrust of banks, or something else? The critical incident is a descriptive oriented critical incident.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Evaluate how regulatory guidelines can affect communication
2. Describe how public sentiment or context can influence organizational members
3. Evaluate how resistance to change can influence decisions
4. Evaluate how agency theory can influence decisions
5. Evaluate the pros and cons of the proposed conversion

### **APPLICATION**

The critical incident is appropriate for the undergraduate classes In Banking and Financial Institutions.

### **KEY WORDS**

Credit Union, Conversion, Agency Theory, Resistance to Change, Banking

### **CONTACT**

Marco Pagani, Accounting & Finance, San José State University, San José, CA 95192-0066,  
Phone: (408) 924-3477, [marco.pagani@sjsu.edu](mailto:marco.pagani@sjsu.edu)

## **SHOULD WE PAY TRIPLE THE RENT?**

**Tim Redmer, Regent University**  
**Michael Gray, Christian Surfers US**

### **ABSTRACT**

Should We Pay Triple the Rent is a nonprofit decision-oriented critical incident featuring Christian Surfers US (CSUS), an interdenominational not-for-profit 501c(3) tax-exempt missions ministry headquartered in St. Augustine, Florida. CSUS has just lost its lease, is facing a declining membership, and is considering an extensive new membership drive. The organization is at a critical time in its 23-year history. Casey Cruciano, the CFO, needs to make a decision about the lease in the next few days.

### **LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Analyze and evaluate the current financial situation of Christian Surfers US.
2. Identify alternatives that Casey should consider regarding the lease and recommend and defend a proposed course of action.
3. Appraise the overall situation for Christian Surfers US and recommend a corporate strategy.

### **APPLICATION**

The primary focus of the critical incident is on financial analysis and decision making and is therefore most appropriate for courses in Finance, Accounting Not-for-Profit Accounting, and Entrepreneurship. It can also be used in Ethics and Social Responsibility courses.

### **KEY WORDS**

Financial Analysis, Not-For-Profit Accounting, Charitable Giving, Decision Making, Social Responsibility

### **CONTACT**

Tim Redmer, School of Business & Leadership, Regent University, Virginia Beach, VA 23464  
Phone: (757) 352-4360 email: [timored@regent.edu](mailto:timored@regent.edu)

**SUSAN G. KOMEN - FOR THE CURE**

**Joe G. Thomas, Middle Tennessee State University**

**Cheryl Ward, Middle Tennessee State University**

**ABSTRACT**

Jason Anthony was a recent business graduate who had just moved to a new city and was settling into a new job. He had started marathon running as a form of exercise and as a way to meet people. A few of his friends participated in various races to raise funds for and to support various social causes. One of the races helped raise funds for Susan G. Komen Race for the Cure. He had heard of Susan G. Komen Foundation, but realized he knew little beyond seeing pink ribbons in many different locations. He wondered: How had the organization become such a popular cause? Did it really use the funds raised to support a good cause? How was it different than other similar organizations?

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Identify reasons people become involved with charitable organizations.
2. Describe Komen's brand strategy.
3. Discuss whether or not they believe the Komen organization has lost its focus.

**APPLICATION**

The primary focus of the critical incident is on branding and is therefore most appropriate for courses in Branding, Promotion, Not-for-Profit Marketing, and Marketing Management. It can also be used in ethics and social responsibility courses

**KEY WORDS**

Cause Marketing, Charitable Giving, Ethics, Social Responsibility

**CONTACT**

Joe Thomas, Box 75, Middle Tennessee State University, Murfreesboro, TN 37132 Phone: (615) 898-5652 email: joe.thomas@mtsu.edu

**IS THIS AN APPROPRIATE ISSUE FOR THE BOARD OF DIRECTORS AT A  
CREDIT UNION TO CONSIDER?**

**Robert Tokle, Ph.D., Idaho State University**  
**Joanne Tokle, Ph.D., Idaho State University**

**ABSTRACT**

This critical incident describes a situation in which a credit union member asked to address the Board of Directors regarding a grievance. Credit unions are not-for-profit financial institutions that are owned by its members, each of whom have one vote in electing their representative body, the Board of Directors. A question arose as to whether the member should be allowed to approach the board regarding this issue. Was it simply something that should be handled management, or because credit unions are democratic institutions, should the member be allowed to address the board? What is the correct procedure to handle the grievance? This incident raises issues of board governance, particularly with regard to the institution's non-profit status.

**LEARNING OBJECTIVES**

The objectives of this critical incident are:

1. Describe the governing structure of a credit union.
2. Evaluate the board's choice to hear the member's grievance. Weigh the arguments for and against taking the complaint to the board.
3. Propose alternative courses of action for the situation presented.

**APPLICATION**

This critical incident could be used in introductory or advanced courses in Management, including Depository Institution Management.

**KEY WORDS**

Non-Profits, Economics, Other (governance)

**CONTACT**

Robert Tokle, PhD, 921 S. 8<sup>th</sup> Avenue Stop 8053, Idaho State University, Pocatello, ID 83209-8053, (208) 282-3835, [toklrobe@isu.edu](mailto:toklrobe@isu.edu)



## TRANSFORMING A DECLINING SHOE RETAILER

**Andrew Borchers, Lipscomb University**

**Bill Fredenberger, Lipscomb University**

### ABSTRACT

This critical incident highlights a major decision for the owner of a family business, a four-store shoe retailer. Facing increasing competitive pressures from mass merchants and on-line vendors, the owner must make decisions about which store locations, product lines, vendors and store clerks to retain and which to discontinue. The owner has detailed sales data for 138,000 transactions to analyze covering one year of operation. This data is available in .CSV format from the author. The critical incident also includes data for each of the four store locations including labor cost, rent, inventory, area population, square footage and operating cost.

### LEARNING OBJECTIVES

The objectives of the critical incident are:

1. Analyze financial results for a retailer, identifying profitability and contribution margin by store, department, shoe size and/or clerk.
2. Apply spreadsheet software to analyze a large dataset of real transaction data.
3. Evaluate business alternatives and make hard choices on operations to retain and those to close.
4. Apply the economic concept of opportunity cost to a business decision.

### APPLICATION

Instructors can use this incident in multiple ways. First, instructors in Business Spreadsheet and IT Personal Productivity classes can use this data in teaching spreadsheet skills such as pivot tables and graphing. Second, instructors in Marketing Management, Retailing or Managerial Accounting classes can focus on the decision-making aspect of determining what to trim. In either of these situations, this case is very amendable to team oriented problem solving. Pedagogical research emphasizes the importance of such an approach in business education.

### KEY WORDS

Marketing, Small Business, Accounting, Retailing, Spreadsheet,

### CONTACT

Andrew Borchers, Lipscomb University One University Park Dr. Nashville, TN 37204  
[andy.borchers@lipscomb.edu](mailto:andy.borchers@lipscomb.edu), 615-966-5779 voice, 615-966-1818 fax

## **PREDICTING SERVICE DELIVERY TIMES AT THE BRITT HUNT COMPANY**

**Andrew Borchers, Lipscomb University**  
**Doug Sanford, Britt Hunt Company**  
**Bill Fredenberger, Lipscomb University**

### **ABSTRACT**

This critical incident highlights an operations management challenge in predicting service times at the Britt Hunt Company. The firm employs 130 employees and has annual sales over \$75 million. Their basic business is the distribution of pizza products to retail outlets. The key protagonist, Doug Sanford, is seeking to improve the scheduling of deliveries to some 2,600 convenience stores across 15 states. He has 92,000 observations of service times and 19 possible predictor variables. This data is available from the authors in .CSV format for students to analyze. His use of scheduling software has improved operations but variability in service times (currently a mean of 31 minutes and standard deviation of 13 minutes) hinders the accuracy of the software. The company first needs to understand which factors influence service times. Second, Doug needs a model that can predict service times more accurately than simply using the mean.

### **LEARNING OBJECTIVES**

The objectives of the critical incident are:

1. Analyze a large, “real world” set of operational data using three kinds of statistical analysis: descriptive, bivariate correlation and multivariate predictive modeling.
2. Apply statistical methods to determine if data fits a probability distribution.
3. Develop and evaluate a prediction model for service times.
4. Evaluate the usefulness of available data and suggest additional data that Doug should collect.

### **APPLICATION**

Instructors can use this incident in multiple ways. First, instructors can use this data for exploratory analysis work in statistics, business spreadsheet and IT personal productivity classes. At this level, students can use the data to develop spreadsheet skills such as descriptive statistics, pivot tables and graphing. Second, instructors in operations management and advanced statistics classes can use this case to develop statistical modeling skills including regression and goodness of fit. In either of these situations, this case is very amendable to team oriented problem solving. Pedagogical research emphasizes the importance of such an approach in business education.

### **KEY WORDS**

Production/OM, Statistics, Spreadsheet Analysis

### **CONTACT**

Andrew Borchers, Lipscomb University, One University Park Dr. Nashville, TN 37204  
[andy.borchers@lipscomb.edu](mailto:andy.borchers@lipscomb.edu), 615-966-5779 voice, 615-966-1818 fax

## TARGET: THE CHALLENGE OF DATA MINING

**Steven M. Cox, McColl School of Business, Queens University of Charlotte**  
**Melinda Harper, Queens University of Charlotte**

---

This critical incident was prepared by the authors 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 not been disguised. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Andrew Pole began working for Target as a statistician in 2002. His job was to improve the effectiveness of Target's promotions by statistically analyzing information on customer purchasing patterns and demographic characteristics. The technique was often referred to as data mining. One of his tasks was predicting whether a woman was pregnant through her purchasing patterns and demographic profile. Marketing could then target these women with information on products for prenatal care and infant needs. All was going well until an irate father asked to see the manager in a Target store outside of Minneapolis. Waiving a group of coupons for baby clothes and cribs that had been sent to his high school age daughter, the father fumed, "Are you trying to encourage her to get pregnant?" (Hill, 2012). Was Target's utilization of customer data in this way ethical, were mistakes more damaging than the value of successes, and was this an invasion of privacy? These were questions that Target management had to resolve.

### Target

From a single store in Roseville, MN, Target grew to over 1763 Target and Super Target stores by 2011. Target was the second largest discount retailer in the US and saw both sales and net earnings grow between 2006 and 2011. (Target, 2012). Target catered to a similar "money-saving" market as Wal-Mart, but offered a very different value proposition. Target focused on different capabilities and a different product portfolio, including:

- Target's "way to play" emphasized design-forward apparel and home decor for image-conscious consumers. Store layout and advertising focused on an eye for style.
- Its capabilities system supported this way to play with image advertising, "mass prestige" sourcing (with the use of private brand and exclusive offerings), pricing, and the management of urban locations.
- Target satisfied the needs of its younger, image-conscious shoppers by stocking more furniture, clothing and exclusive designer merchandise than Wal-Mart.

Gregg Steinhafel, Target's president, boasted to investors that "heightened focus on items and categories that appeal to specific guest segments such as mom and baby" (Target, 2012) were responsible for these successes. The segment focus relied heavily upon the ability to determine

customer purchasing patterns through prior purchase behaviors and other demographic data. Target was one of the first major retailers to use predictive modeling (sophisticated data mining techniques) to identify customer segments and differentially market to those segments.

### **Consumer Behavior: Why Does Data Mining Work**

It has long been a working assumption in psychology that one of the tendencies of human behavior was habituation (Crossley, 2001). One of the founding fathers of psychology, William James, described habit as “sequences of behaviors, usually simple....that have become virtually automatic” (James, 1890). With automaticity at its core, habituation was ideal in creating repetition of useful behaviors that ultimately required less mental exertion or effort to maintain. In fact, James suggested “the more of the details of our daily life we can hand over to....automatism, the more our mind will be set free...” (p.122). Habits were acquired through the gradual strengthening of a learned association between a situation (cue) and a routine action in a consistent context. In the formation of a habit, the control of the behavior transfer to cues in the environment. This transfer of behavioral control to the environmental cues increase the automaticity with which the behavior was performed when the situation was encountered again (Verplanken, 2006; Wood & Neal, 2007). From the behavioral perspective, habit strength was considered to be a function of repetition only when rewards were received for performing the behavior upon encountering a cue (Hull, 1943; 1951). Identifying the three-part process (cue, routine, reward) of the shopping habits of consumers allowed for retailers to market and exploit the habitual purchasing behavior of its consumers, all seemingly without the consumers’ knowledge. Data mining was ideal for retailers to utilize for identifying not only patterns of predicted behavior (based on data collected from purchasing history), but as the Target example illustrates, data mining was also useful for identifying potential disruptions in habitual behavior that would allow retailers the opportunity to possibly influence future purchasing habits.

### **Target and Data Mining**

Target regularly collected data on every customer who made a purchase at a Target store. Each customer was assigned a unique identification number, or Guest ID number. Target also acquired various demographic and geographic data on each customer. With this information, Target was on the cutting edge of using the data to increase sales (Duhigg, 2012). Target then hired economists and statisticians like Andrew Pole to identify patterns in the data that were predictive of emerging purchasing opportunities. These analysts were part of Target’s Guest Marketing Analytics department. The theory behind Target’s Guest Marketing Analytics, often referred to as predictive modeling, was that humans are creatures of habit (Crossley, 2001). Our behaviors were learned and if satisfying, repeated. Similar to learning theory, Target’s Guest Marketing Analytics was based on the theory that most products purchased were routine rebuys and little or no individual analysis went into the brand choice once the product had satisfied the need. This habitual product purchase behavior often had other product correlates. An analysis of aspirin purchases might reveal that a person who purchased baby aspirin might also be likely to purchase children’s toys. If a Target Guest purchased baby aspirin from Target, but not toys, it might be advantageous to send that person a toy coupon since they may not have thought about purchasing toys at Target. A major problem in thinking about only the product to product correlations was that there were other factors such as purchase location habits that entered into purchase decisions. As a result, a customer might have habitually purchased baby aspirin at Target but purchased toys at Toys R Us even though Target sold toys. The theory of habitual

purchases suggested that if the customer was satisfied with the toy shopping experience at Toys R Us, then Target's task of changing the toy shopping behavior would be very difficult. According to Pole,

"There are, however, some brief periods in a person's life when old routines fall apart and buying habits are suddenly in flux. One of those moments-*the* moment, really-is right around the birth of a child, when parents are exhausted and overwhelmed and their shopping patterns and brand loyalties are up for grabs"(Duhigg, 2012).

Since birth records were public, if Target was to maximize its profit potential then it needed an edge, knowledge of a pregnancy rather than a birth. With this information Target could begin the promotional process before other retailers. This was the task for which Target's Guest Marketing Analytics team was hired. They developed predictive models that would identify pregnant women before other retailers by using data in the Guest ID profiles. With this information, product information could be sent to potential customers before competitors even knew that the individuals were pregnant.

### Target's Decision

The question for Target's management was where should the line be drawn? Did Target have the right to use information collected during shopping visits to uncover personal information about customers? Was the collection, analysis, and use of customer data ethical when trying to increase sales? What are the ethical boundaries of privacy?

### References

- Crossley, N. (2001). *The social body: Habit, identity, and desire*. London, UK: Sage.
- Duhigg, C. (2012, February 16). How companies learn your secrets. *New York Times*, Retrieved October 18, 2012 from <http://www.nytimes.com/2012/02/19/magazine/shopping-habits.html?pagewanted=all&r=0>
- Hill, K. (2012, February 16). How target figured out that a girl was pregnant before her father did. *Forbes*, Retrieved October 18, 2012 from <http://www.forbes.com/sites/kashmirhill/2012/02/16/how-target-figured-out-a-teen-girl-was-pregnant-before-her-father-did/>
- Hull, C. L. (1943). *Principles of behavior: An introduction to behavior theory*. New York: Appleton-Century-Crofts.
- Hull, C. L. (1951). *Essentials of behavior*. Westport, CT: Greenwood Press.
- James, W. (1890). *The principles of psychology, vol 1*. New York: NY: Dover.  
doi: 10.1037/11059-000.
- Target (2012). *10K*. Retrieved October 18, 2012 from <http://www.sec.gov/Archives/edgar/data/27419/000104746911002032/a2201861z10-k.htm>

- Target Sends Coupons to Pregnant Girl and Unawares Dad Explodes (2012). Workplace Ethics Advice. Retrieved July 16, 2013 from <http://www.workplaceethicsadvice.com/2012/02/target-sends-coupons-to-pregnant-girl-and-unawares-dad-explode.html>
- Verplanken, B. (2006). Beyond frequency: Habit as a mental construct. *British Journal of Social Psychology*, 45, 639–656.
- Wood, W., & Neal, D. T. (2007). A new look at habits and the habit-goal interface. *Psychological Review*, 114, 843–863.

# INTERVIEWING ETHICS: WHAT WOULD YOU DO?

**Charles Frasier, Lipscomb University**  
**Andrew Borchers, Lipscomb University**

---

This critical incident was prepared by the authors 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 experiences, and do not necessarily reflect the views of the Society of Case Research. The names of individuals, firms, and dates have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## Introduction

John Hunter enjoyed a cup of coffee as he took a break from studying for his last set of mid-term exams. Accounting was a challenging major for John, but he was confident that he could master the material on these exams as he had for three and a half years of school. John was perplexed, however, as he considered an ethical dilemma he faced. Indeed, at this point he had two accounting jobs, one that he already accepted (and signed a contract for) and another from a firm he preferred that had extended an offer. He had to choose which accounting firm he would go to work for following graduation and which firm he would have to call and say “no.”

John was an outstanding senior accounting major at Hastings University and had a strong interest in pursuing a career in public accounting. Accounting instructors and various guest speakers had spoken very favorably about the variety of work assignments in public accounting, along with the opportunities to receive excellent professional training. Graduates had to consider the relative benefits of the Big Four international accounting firms versus smaller regional and local firms. With the Big Four, John saw greater opportunity for professional and salary growth along with possible relocation to exciting destinations. On the other hand, John knew of accountants that found a greater sense of work/life balance in smaller firms.

In his upper-division accounting studies, John especially enjoyed two challenging courses - Auditing and Taxation. The department chair, Frasier Solomon, and other faculty noted John’s abilities and encouraged him to enter public practice. As he reflected on a particular career path, he became convinced that his best option would be with a Big Four firm, focusing on the field of auditing.

## **The Recruiting Process**

John saw the special advantages accounting majors typically have in connecting to potential employers. Working with Frasier Solomon, many accounting firms came to Hastings and conducted an active on-campus interviewing process. These firms recruited accounting majors on an annual basis following a predictable pattern: First, students attended a university “Meet the Firm Night” which is a type of “Career Fair” for accounting majors. Secondly, after analysis of resumes and “Meet the Firm” conversations, firms arranged an on-campus interview. If a student met the rigid employment requirements for technical, personal, and communication skills, he or she received an invitation for an office visit with the firm. Following this office visit, students received either a letter of acceptance or a letter of rejection (usually stated in terms of “we wish you the very best in your career.”). John had followed this pattern in seeking employment.

At the conclusion of the recruiting process, John was optimistic that he had made a very good impression on several firms and companies, and he looked forward to hearing positive news from two of the Big Four Firms, from a large healthcare company, and from a large regional accounting firm. However, his primary interest was with a large Big Four firm in the city.

About a month later, firms mailed notification letters to all respective candidates and began the final stage of their final employee selections. Firms were now waiting to hear from candidates to determine which students would accept offers of employment.

As students passed the word around about receiving offers and that firms were now waiting to hear from candidates, John realized, to his surprise, that his only offer was from a highly respected regional CPA firm. It was a very bittersweet moment for John. On one hand, he was glad to have a good offer from an excellent firm, but, on the other hand, he was very disappointed in not receiving an offer from a Big Four firm.

Realizing his career choice was set; John conveyed his acceptance to the regional firm in two forms: a verbal commitment to the recruiter and a signed employment contract that specified the annual compensation, the beginning date of employment and the “at will” nature of their employment. With John firmly committed, the regional firm ceased all recruiting efforts for the school year. All of these events occurred around November 20.

In early January the next year, a rather surprising event occurred. One of the Big Four firms that John had interviewed with realized it had not been successful in hiring enough staff auditors, and needed to fill one more audit position. After evaluating various candidates they had bypassed, the firm contacted John Hunter to fill its final staff opening. The firm called him with the exciting news.

## **The Challenge**

When John received their call, he realized he had the opportunity to fulfill his dream of working for a Big Four firm. He immediately accepted the offer verbally. John then had the unpleasant prospect of having to say “no” to the regional firm. Uncomfortable with the situation, he deferred taking action for two months. The situation bothered his conscience.



During this time, John ruminated over the consequences of his action. Going with the regional firm was consistent with “keeping his word,” a concept John had heard from his parents growing up. Going with the Big Four firm, however, was his dream, and he had said “yes” to it. John wondered how others might view his behavior and his personal integrity. Might the regional firm take legal action against him? Worse yet, he dreaded telling Frasier Solomon, the Accounting Department Chair who maintained relationships with accounting firms for the benefit of all accounting students. What would the regional firm think of him and of Hastings University?

Staring at his textbook, John struggled with what to do next. He knew he had to contact one of the two accounting firms to say he is sorry but that he cannot fulfill his commitment. When he made this contact, what should he say?

# INKY SITUATION: A SAFE IS NOT AS SAFE AS ONE MIGHT THINK

**Amber Kauffman, Christopher Newport University**  
**Gabriele Lingenfelter, Christopher Newport University**

---

This critical incident was prepared by the authors 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 and organizations described in this critical incident have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Anne, a senior accounting major, enjoyed her internship as an internal auditor for the Seaview Public School System. She was learning a lot about auditing and internal controls. As part of her assigned duties, Anne had to inspect the content of the safes located in the schools' offices. One day, she asked the bookkeeper: "Could you please open the safe?" "Of course," replied the bookkeeper. As Anne opened the safe and was able to see the contents, she asked with apprehension: "Who has access to the safe and its contents?" while wondering what she should do.

## **The Seaview Public School System**

The Seaview Public School System included 85 schools. The system enrolled 69,282 students in Kindergarten through 12<sup>th</sup> grade. The system also employed over 15,000 people. The school system's stated mission was to "empower every student to become a life-long learner who is a responsible, productive, and engaged citizen within the global community."

The schools abided by a business manual put into place by the School Board Administration in order to ensure consistency in operations and to ensure internal controls were in place when dealing with any fiscal matters. Several internal controls were specified in the business manual such as documenting everything in writing, ensuring all transactions were recorded correctly, obtaining authorization for all transactions, separating key duties by assigning them to different individuals, ensuring continuous supervision, providing access to resources, and training personnel.

School Activity Funds (SAFs) included money collected from parents and obtained from allocation by the school board for student use.. Each school employed a bookkeeper or office manager who was responsible for accounting for the SAF funds collected from parents, as well as any disbursements made by the school using these funds. The bookkeeper was accountable for

all funds the school received and disbursed. The principal needed to approve all funds before the bookkeeper wrote checks for purchases. Petty cash funds were prohibited by the school system's business manual. Each principal had a signature stamp used for signing off on certificates, but the business manual strictly prohibited the use of the stamp for fiscal matters, including signing checks and other business documents. Instead the manual required the principal's original, handwritten signature on all checks. The manual also stated that only the principal should have access to the signature stamp.

Each school had a safe to protect all cash and cash items. The business manual stated that the principal was to inspect the safe "periodically." The manual also explicitly stated that only the principal and bookkeeper were to have the combination to the safe. Each school used a safe to protect all undeposited cash and cash items. The business manual stated that the principal should inspect the safe periodically. The manual also explicitly stated that only the principal and bookkeeper should have the combination to the safe. According to the manual's instructions, any funds collected were usually deposited on the day received, but if a daily deposit was impractical, the cash was locked in the safe overnight.

Bookkeepers were responsible for maintaining a standard chart of accounts including administrative accounts, club and student activity accounts, athletic accounts, departmental accounts, school system accounts, school board allocation accounts, class scholarship and grant accounts, and control accounts. Certain funds from the school board could not be transferred to other accounts. Also, money collected from students had to be spent on students.

The state government required the school system to audit each individual school every year to ensure the schools were following the business manual, and that the proper internal controls were in place at each school. The system's Office of Internal Audit (IA) was given the responsibility to perform these audits. IA hired four college interns each summer to perform the fieldwork on these audits.

The interns were highly trained before they entered the field. They were hired a month before the SAF auditing process began and were required to undergo a rigorous training program. Each intern was required to read the entire business manual and the director of IA held a weeklong training session describing each step of the audit program to ensure the interns were competent and ready for fieldwork. The interns' job description explained that they would be performing fieldwork and were responsible for reporting every internal control exception to their supervisor. A CPA supervised the interns, and IA's director reviewed all reports written by the interns. The audit interns were to follow a twelve-step audit program.

Step one involved asking the principal and bookkeeper the questions from an internal control questionnaire with questions such as "Are school board employees the only persons collecting funds?" The second and third steps required the auditor to ensure that the trial balance beginning balance was equal to the prior year ending balance, that transfers in and transfers out netted to zero, and that the bank reconciliation for June 30<sup>th</sup> tied out to the balance per books. Steps four and five dealt with cash receipts. Step six tested cash disbursements by checking for prior principal approval before purchases were made, two signatures on checks, and that the transactions were posted to the correct general ledger accounts. Step seven required the auditor to inspect the safe. Steps eight, nine and ten involved looking at deficit balances and obtaining action plans from bookkeepers about how they would be fulfilled, making sure transfers were

reasonable, and asking about any fluctuations greater than \$4,000 from the prior year balances. Step 11 tested open purchase orders to ensure that they were not older than two months old. Finally, step 12 tested any change funds still open after the year-end.

### **An Unexpected Finding**

Anne was excited to start her first day of fieldwork. She entered the school, introduced herself to the principal and bookkeeper, and quickly began her work. She looked over her intern manual for the instructions for inspecting the safe. After completing the audit of cash receipts and disbursements, she decided to ask the bookkeeper to open the safe. Her instructions stated that she needed to have at least one other person present when she viewed the contents of the safe and had to document all contents of the safe on her work papers. Anne ensured that the bookkeeper was present as she inspected the safe and asked: “Who has access to the safe?” The bookkeeper responded, “The principal, myself, and the secretary.” After the bookkeeper opened the safe, Anne inspected it carefully. She found blank checks, an empty moneybag, school system-approved debit cards, and the principal’s signature stamp.

Anne realized she needed to contact her supervisor right away. She had heard that other schools experienced similar issues. Anne had found an internal control weakness and was wondering: “What are the implications for internal controls?”

## ASKING FOR TROUBLE OR LEGALLY/ETHICALLY DEDUCTIBLE?

**Reed McKnight, University of New Mexico**

**Leigh W. Cellucci, East Carolina University**

**Lou Fowler, Missouri Western State University**

---

This critical incident was prepared by the authors and is intended to be used as a basis for class discussion. The views presented here are those of the case authors based on their professional judgments and do not necessarily reflect the views of the Society for Case Research. The names of individuals described in this critical incident have been disguised to preserve anonymity. Copyright © 2014 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The April deadline for filing their personal income tax return was drawing near. Bill and Wava Jean had invested many hours in their tax return and wanted to get it filed so that they could look forward to receiving their tax refund. All year they had diligently collected documents that they thought would affect their tax return and had filed them away for safe keeping. They were delighted to find they had enough qualified deductions to be able to itemize deductions on their tax return, and the amount would be larger than the standard deduction to which they were entitled. However, they were dismayed when they could not find evidence to support a deductible contribution to a local church that had been made in early December; at the time of filing their tax return, the check still had not cleared the bank. Without that evidence, should they take it as a deduction, or not? Bill and Wava Jean mulled over their decision. Would it be ethical to take the deduction in the current year? Would it be legal to do so?

Much of the weekend had been invested in scrambling to minimize their tax obligation by claiming every legitimate deduction to which they were entitled. While they wanted to pay their fair share of taxes, they were not such patriots that they wanted to pay more than they legally owed the government, hence their focus on the charitable contribution check they had written. It seemed like a deductible item to them, after all it was to a church which was a qualifying organization, but the check had not cleared the bank by the end of the current year. Could it be taken as a deduction in the current year, or would deducting it have to wait until after the check cleared the bank in the following year? If they took it as a current year deduction, would they be asking for trouble with the Internal Revenue Service (IRS)? What would be the consequences if they were wrong in deducting it in the current year and the IRS later denied their deduction? If only they had the foresight to purchase proof of mailing or tracking, this dilemma could have easily been avoided. However, they did not do that with other contributions and they hadn't even thought of doing so with this one. After all, the check was not mailed at the "last minute".

The item in question was a \$5,000 check for a charitable donation. It had been written December 04, of the current tax year and put into the U.S. mail at the local post office just before a big snow storm had hit the Ignacio, Colorado area. Although the check was made payable to a church, it was not a church of which Bill and Wava were members; hence it was addressed to the rural home of Paul and Roberta Grace who were part time church missionaries and members of the church to which the check had been made payable. It was the Graces' missionary efforts to which Bill and Wava wanted to contribute.

### **Helping the Disenfranchised**

Paul and Roberta Grace were successful Colorado hay farmers and owners of an irrigation equipment company who believed in giving back to the needy. Partly, they did so both individually and as team members, by providing much needed help to impoverished Ugandans. More than once, Paul and Roberta had paid for the drilling of water wells that benefited small rural communities whose residents did not enjoy centralized water and indoor plumbing that most Americans took for granted. The water provided by these wells was more than just a convenience item. True, the well water did eliminate the need for women to manually haul water from area streams and ponds to their homes. Far more important however, was that the well water significantly reduced disease and saved lives by eliminating deadly bacteria present in surface waters that had been used for drinking and personal hygiene. In addition, the Graces were supporters of Uganda's Muyallen High School and its students, many of whom were orphans.

Like some other parts of Africa, Uganda had been devastated by the HIV virus. The result was that tens of thousands of parents had died premature deaths and left behind many thousands of dispossessed HIV positive children. Often, with no other living relatives to care for them, children as young as twelve years old ended up raising younger siblings. Whether or not these children were fortunate enough to be taken into an orphanage, these HIV positive children were shunned by society as well as the local medical and dental communities. To help address this huge need, a Denver based Colorado dental team annually took both its staff and equipment to Uganda to provide free dental care. As the troubleshooter and mechanic who got things fixed and kept things running efficiently, Paul Grace was an integral part of the volunteer team that serviced orphans who otherwise would receive no dental care. This was the need that Bill and Wava's check was intended to support.

### **Deductible Contribution or Not?**

As the filing deadline approached, the check still had not been cashed, or even located, in spite of multiple phone calls inquiring as to what had happened to the check. Though it was "in the mail," it had not been cashed. Was it deductible on Bill and Wava's current income tax return, or not? Or, because the check had not been cashed by the end of the current calendar year, would taking the deduction be tantamount to cheating on their taxes? From a Business Law class he had taken, Bill was vaguely aware of what is sometimes referred to as the "mailbox rule" that would support the taking of a charitable deduction as soon as the check is placed in the mail.

The tax due on their current income tax return was less than the amounts withheld from the Bill and Wava's paychecks. Bill and Wava requested that \$1,500 of the refund for which they were

eligible be applied towards their following year's income taxes thinking that doing so might mitigate penalties and interest that the IRS might assess if their return were selected for audit and the deduction was disallowed on their current tax return. Should Bill and Wava take the charitable contribution as a deduction on their current tax return? Was taking the deduction the right thing to do? Was it the legal thing to do?

## SECURITIES FRAUD

**Barry J. Minkow, Federal Medical Center, Lexington**  
**Joseph T. Kastantin, University of Wisconsin La Crosse**  
**Sergey Komissarov, University of Wisconsin La Crosse**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. The names of certain individuals have been disguised to preserve anonymity. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

### Introduction

On November 30, 2008, Adam Wellstone, a well-known fraud investigator, met with Fred Goodenough, a venture capitalist, to discuss in very specific terms Goodenough's desire to recover losses he said he had suffered as the result of business dealings with Solid Corporation, a publicly traded company in the housing industry. During two previous meetings in November 2008, Wellstone and Goodenough had become acquainted and discussed in general terms Goodenough's desire to hire Wellstone to assist in recovering Goodenough's losses from Solid. Goodenough appeared to be willing to pay Wellstone more than \$100,000 up front plus more than \$1,000,000 at the conclusion of the engagement for helping Goodenough successfully recover his losses from Solid. At the November 30<sup>th</sup> meeting Goodenough demanded an immediate response from Wellstone to either accept or reject this engagement. Wellstone knew that undertaking this engagement posed risks to him. Wellstone had to assess those risks and then decide to either undertake this potentially unethical or illegal or inappropriate investigative assignment or to reject it.

The November 30<sup>th</sup> meeting was not the first time Goodenough brought up his dispute with Solid Corporation, and Wellstone had had a chance to think through the steps he could take if he accepted the job. If Wellstone undertook this engagement for Goodenough, it would require Wellstone to first confront Solid with Goodenough's demands for restitution of his losses. If Solid refused these demands, Wellstone would immediately prepare and issue a fraud investigative report and engage in a media blitz aimed at driving down Solid's share price. Wellstone was almost certain that Solid's management would agree to a cash settlement with Goodenough to prevent the fraud investigative report from being issued and to prevent or end the media blitz. Wellstone was also keenly aware of several serious risks to him personally in connection with this potential course of action.



### **Wellstone's Background**

Wellstone was a convicted securities fraud felon. In his own words, any fraud related work that he conducted was subject to heightened scrutiny. He considered the risks that this engagement posed for him personally. First, any information that Wellstone included in the investigative report and the related media blitz would have to be accurate. If it was not accurate, Wellstone would face personal legal liability and irreparable damage to his own vulnerable reputation. Second, Wellstone knew that his investigative report and media blitz would drive down Solid's share price. Wellstone would have to be very cautious about entering into a short-sale position on Solid's stock in order to personally benefit from the likely decline in Solid's share price. Such practices could be legal or illegal, depending on the exact circumstances of the short-sale position. Both of those risks had a common element: that Wellstone, as investigator and reporter of the findings of the investigative report, had to avoid any potential conflicts of interest.

After his parole from prison in 1995, Wellstone had sought to redeem himself for his past crimes. He became a respected minister with a large congregation in California. More or less concurrent with conducting his ministry, he had also set up a company that conducted fraud investigations thus utilizing certain errant skills that Wellstone had acquired prior to being sent to prison. Wellstone offered fraud seminars that eventually caught the eye of the Securities Exchange Commission (SEC), Internal Revenue Service (IRS), and the Federal Bureau of Investigation (FBI). This resulted in Wellstone being offered work for these agencies as a fraud investigator. Many of the fraud cases he investigated were investment schemes. It was during that time that Wellstone had learned how to legally engage in short selling some of the companies he was investigating. That practice was apparently not, in and of itself, illegal so long as the fraud investigative reports Wellstone issued proved to be accurate and that he appropriately disclosed his short positions to the authorities as he was required to do.

Wellstone was unhappy with the compensation he earned from his work with the federal government in uncovering fraud cases. Income from his ministry was also very conservative.

### **Legal Primer on Certain Securities Fraud Issues**

Insider trading was usually associated with illegal conduct. The term actually included both legal and illegal conduct. The legal version was when officers, directors, and employees buy and sell stock in their own companies. When corporate insiders traded in their own securities, they must report their trades to the SEC. Illegal insider trading referred generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, nonpublic information about the security. This feature of the law applied, for example, to a person who had access to insider information, but not as an officer, director or employee. Additionally, the person agreed to maintain the insider information in confidence.

Short selling involved the sale of a security that the seller does not own. Short selling was permitted because the practice provided a form of information to the markets that was deemed to enhance market efficiency. If the short seller made timely delivery of the securities sold short, this may not be illegal. Failure to settle a short position was usually illegal.

It was prohibited for a person to originate or circulate in any rumor concerning any security, which the person knew or had reasonable grounds for believing was false or misleading. There

was an exception from the rule for discussions of “unsubstantiated information published by a widely circulated public media” provided that the source of the information and its unsubstantiated nature were disclosed.

### **Wellstone’s Trademark: Top 10 Red Flags for Fraud**

Even while Wellstone was consciously evaluating the risks the Goodenough engagement posed, based on his two prior meetings with Goodenough he had prepared an outline for the investigative report that he would issue if he accepted the engagement. That report would form the basis for the subsequent media blitz. In previous investigative reports that he had prepared for federal agencies he often included a Top 10 list, which identified likely evidence of corporate fraud, misrepresentation or other wrong-doing of the target company. Wellstone also considered whether he would send his investigative report on Solid directly to his contacts with the FBI in hopes that the FBI would share information about any of its own investigations into Solid.

At the time of his initial meeting with Goodenough early in November, Wellstone had already begun to closely examine the housing industry, which was undergoing a severe downturn as a result of the housing market collapse and the sub-prime mortgage disaster. Bernie Madoff’s name and his Ponzi scheme had become widely recognized at about the same time. A Ponzi-scheme usually started with an investment manager that either suffered large losses or the manager embezzled money placed in his/her custody by investors. To cover the losses or missing money, the manager had to issue false investment reports to the investors. The manager then had to use newly invested money from other investors to satisfy demands of those investors wishing to withdraw money. Eventually the money runs out.

A typical investigative report prepared by Wellstone would contain approximately 100 pages including his trademark “10 Flags of Fraud” list. The list below contains some of the possible “Flags” Wellstone would include in the report. Some items would have to be modified in accordance with his investigative findings and others would be added to conform to his trademark of “10 Flags of Fraud:”

- Solid was operated like a Ponzi-scheme similar to what Bernie Madoff had done;
- Failing to accurately account to its business partners;
- Being the bully of the prison yard by knowingly and willfully abusing the legal system to gain an unfair advantage over the less capitalized, smaller entities;
- Committing accounting or securities reporting violations in connection with disclosures relating to Solid's joint ventures;
- Overstating its income and concealing debt to hide its insolvent financial position;
- Inventing an incident wherein an imposter tried to obtain private and confidential financial information from the corporation’s bank.

### **What to Do Next**

Based on the November 30 meeting, Wellstone was to send an engagement letter to Goodenough outlining what he referred to as an all-out blitzkrieg on Solid. He would start with a direct communication to Solid in which he would suggest that Solid would have to decide whether it wanted to settle with Mr. Goodenough in a fair and equitable way or suffer the consequences of an all-out exposé of Solid’s supposedly questionable business practices including his trademark “10 Flags of Fraud.” Wellstone would remind Solid that his company had direct experience in

this very type of exposé that would be carefully sourced and would likely have a devastating impact on Solid's stock price, borrowing power, and ability to secure new joint-venture partners. Wellstone also outlined a strategy to carefully educate well-known writers in the financial media and who were assigned to the building industry with multiple, relevant and easy to comprehend evidence of the Solid's most blatant alleged abuses. Wellstone remained concerned about whether he had sufficient evidence of fraud to pursue the risky engagement. He was also very concerned about how his objectivity would be interpreted if he short-sold Solid's stock just prior to releasing the investigative report and then did not disclose the short position as he knew that he was required to do.

## INTERNATIONAL ADOPTION OR RENT-A-WOMB IN INDIA?

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Prospective parents plagued by infertility, due to the absence of a uterus in the wife, could adopt a child but there was a new medical alternative that might offer a biologically related child and be affordable. Dr. Patel felt comfortable with her service that provided childless couples with children born through international commercial gestational surrogacy (ICGS). It also gave poor Indian women serving as surrogates the chance to make what they view as a substantial amount of money. However, there were numerous critics. They were trying to decide between adoption and surrogacy and wanted privacy and insulation from later claims of other biological parents that might be posed by adoption in the US. Many orphaned or abandoned children were potentially available for international adoption but adoption meant long waits for a child that was unrelated biologically to either parent. Surrogacy, on the other hand, could take less time and the child would be biologically related to both parents. Both options could cost tens of thousands of dollars and could be comparable in terms of cost depending on what country was chosen for the adoption; therefore cost was not the determining factor. Adopted children could suffer from a host of genetic or other diseases including fetal alcohol syndrome. Furthermore adopted children might develop issues surrounding abandonment by their natural parents. There were also corrupt adoption agencies that sometimes solicited bribes or even offered stolen children for adoption. What should one do – apply for an international adoption or travel to India for surrogacy?

### **Dr. Patel**

Dr. Nayna Patel was the medical director who led a team of other medical professionals that provided in vitro fertilization (IVF) and surrogacy services at the Akanksha Infertility Clinic, located in Anand, India. According to Haworth (July 29, 2007) India provided services to outsiders in a relatively new industry referred to as reproductive tourism. IVF was one such service but this was well established and relatively non-controversial, aside from its abuse to promote gender selection favoring males. One controversy surrounded paying Indian women as surrogates for foreigners' babies (i.e., ICGS), where the mother was unrelated biologically to the child. An embryo was implanted into the surrogate in this form of surrogacy. The

surrogacy program began in 2003 when Dr. Nayna Patel assisted a local woman who wanted to serve as a surrogate for her daughter residing in the U.K. The event made headlines and Dr. Patel received numerous requests for surrogacy. The clinic serviced local Indians as well as Indians living abroad and other foreigners. As of March 15, 2013 the Akanksha IVF Centre had delivered 461 babies through surrogates. The total babies delivered including surrogacy and fertility treatment was 616. The patients included 172 foreigners and 153 non-resident Indians (personal communication, Patel, March 15, 2013).

Surrogates often needed to hide their role from their neighbors. In Patel's clinic, the candidates to be surrogates had to have already given birth so that they knew what was involved, and they also had to sign an agreement to relinquish rights to the baby after it was born. One surrogate described how she moved with her family to Anand from her village to hide her surrogacy; "We told our neighbors we were coming here for work, which is not strictly a lie." She planned to invest the income she earned as a surrogate in buying a house, supporting her husband's business and education for her children. She added, "My daughter wants to be a teacher. I'll do anything to give her that opportunity."

Dr. Patel was surprised by the dramatic growth of the business. There was a waiting list of couples and women routinely applied to serve as surrogates. She saw herself as performing a service to respond to what she saw as a real need. She only serviced patients that had an established fertility problem. She refused to work with women for whom pregnancy was simply an inconvenience that limited their work, for example.

Dr. Patel expressed concern that other clinics could exploit poor women since there was little regulation by the Indian Medical Council. She said, "Rules need to be tighter to ensure women are not exploited." She expressed pride in assisting local women realize their dreams of home ownership and providing a future for their children. She stated that local women were voluntarily participating and not doing so due to pressure from family members. She also held the payment for the women if they needed time to purchase a home. Surrogates were recruited via word of mouth. She mentioned that the clinic did not use agents or advertise in any way. The surrogates all had children. They were told to expect the child to be taken away. The children looked like their biological parents, which facilitated the separation.

Regarding regulatory and ethical issues, some countries didn't allow payment for commercial surrogacy but the UK and Australia permitted payment to women for loss of earnings during surrogacy. Therefore the \$7,500 the surrogates received was perceived as modest reimbursement for loss of earnings, given the wages in the UK and Australia. Citizenship questions had arisen in the past (i.e., countries varied in what children they recognized as citizens) with other clinics but these matters were not controlled by the clinic and prospective parents had to deal with them prior to coming to India.

### **Medical Tourism and Surrogacy Issues**

There were a number of services in India and elsewhere that offered surrogacy as one service provided under medical tourism (i.e., patients or those in need of services went abroad where the available services were less expensive). Web sites come and go but a quick Google search for surrogacy in India offered a host of alternatives.

Lots of customers were available because of the prevalence of infertility. A primary selling point was price; Patel's customers typically came from the US, Canada and Europe, where surrogacy can exceed \$90,000. Patel's clinic charged roughly 33% of that.

Many governments viewed ICGS as illegal while observers that accepted the legality of the service were often troubled by possible exploitation of poor women as surrogates. Catholics saw the destruction of embryos in IVF as immoral. In the US context, surrogacy laws varied from state to state but California's courts, for example, had upheld the rights of the intended parents in several cases (Select Surrogate, March 13, 2013). The US State Department interpreted citizenship requirements to extend citizenship to any child born of a non-citizen abroad so long as there was a genetic relationship to one or both US citizen parents (de Alcantara, 2010, p. 423). This assisted US citizens undertaking ICGS. The laws in other countries varied and laws varied within states in the US (Ryznar, 2011).

ICGS seemed to promote a win-win service for all concerned providing the legal requirements were respected: parents got the child they longed for, the surrogate was paid what she perceived as enough, and the agency made a profit. However, humble Indian women were not in a strong negotiating position since others would replace them if they asked for more money.

When children matured, they may have realized that they differed from other children, whose biological mother was also the birth mother. Such children could have attempted to reconcile this difference, perhaps by seeking out the birth mother. This might not have been welcomed by Indian surrogates since they might not have wanted any further contact with the parents or the child, given their interest in pursuing their own lives and also in light of community disapproval of the procedure (Parks, 2010). Similar concerns could have been expressed regarding adopted children because they might have wondered why they were given up or became aware of the ethnic differences between them and their adoptive parents, just to name a few potential issues.

An often mentioned reason to adopt was that so many children had already been born and needed parents, lots of girl babies in particular in China. The US offered a measure of gender equity that these orphan girls would likely not enjoy in their native lands. On the other hand, ICGS offered genetic continuity that some parents valued; they wanted children that looked like they did and had comparable intellectual potential. What should the prospective parents mentioned in the introduction opt for – international adoption or ICGS?

### References

- de Alcantara, M. (2010). Surrogacy in Japan: Legal implications for parentage and citizenship. *Family Court Review*, 48(3), 417-430.
- Parks, J.A. (2010). Care ethics and the global practice of commercial surrogacy. *Bioethics*, 24(7), 333–340.
- Ryznar, M. 2010. International commercial surrogacy and its parties. *John Marshall Law Review*, 43(4), 1009-1039.
- Select Surrogate. (2013, March 13). Retrieved on March 13, 2013 from <http://www.selectsurrogate.com/surrogacy-laws-by-state.html#CA>
- The Telegraph (2013, January 18). India bans gay foreign couples from surrogacy. Retrieved on March 13, 2013 from <http://www.telegraph.co.uk/news/worldnews/asia/india/9811222/India-bans-gay-foreign-couples-from-surrogacy.html>

## SHOULD A&A DISCLOSE FCPA VIOLATIONS?

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the society for case research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the society for case research.

---

Alastor and Alastor (A&A), a multinational company that manufactures health care products, uncovered evidence that its subsidiaries had likely violated the Foreign Corrupt Practices Act (FCPA). From 1998 until 2006, employees of the subsidiaries and agents employed by the subsidiaries bribed government doctors in Greece to use A&A implants. A&A also bribed public officials in Poland, Romania and Iraq. Such actions violated several sections of the FCPA that forbid illicit payments to government officials to obtain business. A&A was remiss in its internal controls. The Securities and Exchange Commission (SEC) bolstered its enforcement arm so it was possible A&A would have been caught. The SEC encouraged companies to disclose FCPA problems to minimize fines and lessen the likelihood of criminal prosecution. However, there was also the chance that A&A could have quietly corrected the problems and kept quiet without detection. Fines for comparable offenses had totaled as much as \$70 million. If criminal prosecutions had arisen, the fines could have been far greater in a jury trial. Should A&A have disclosed out of concern for ethics and corporate social responsibility or corrected the problems and moved on?

### A&A

A&A's had "more than 275 operating companies in more than 60 countries employing nearly 128, 000 people" (company website, July 20, 2013). The A&A corporate strategy centralized some functions and decentralized other functions. The parent company maintained control over capital budgeting decisions and handled all legal issues. It had been able to balance this decentralized (i.e., autonomous divisions with local profit and loss responsibility) and centralized (i.e., capital budgeting and legal) structure through a strong corporate culture bound by a strong ethical code. This credo had helped A&A avert a public relations crisis in 1982 when it found that a criminal had maliciously poisoned a popular over-the-counter drug sold by A&A. The CEO led the effort to inform the public and pull the stocks of the product from store shelves. Its credo is paraphrased below (company website, July 20, 2013):



- The first obligation is to medical practitioners and the users .... Customer service is paramount but distributors also need to earn a profit.
- The dignity and merit of employees, viewed as individuals, are to be respected. Compensation and working conditions must be fair. The company must also understand that some employees have family responsibilities. Management must be competent and ensure that equal opportunity is provided ... and that employee suggestions must be considered.
- A&A also has community responsibilities ...
- Stockholders deserve a fair return from profits generated by innovative practices ....

This corporate credo was supported by A&A's internal controls and an independent auditor supervised by an audit committee. Corporate board members constituted the audit committee. The internal auditors traveled internationally to monitor internal controls. The independent auditor was one of the top registered public accounting firms that routinely gave its report for inclusion in the annual report. The board audit committee supervised the process. It consisted of independent directors with appropriate knowledge and experience; the committee met with the independent auditor, the chief financial officer, the general counsel and the vice president for internal audit. The board's executive committee supervised overall internal controls.

A&A purchased subsidiaries with executives that did not always share its ethical code. When at least one unethical executive (referred to Executive A below) became part of the A&A leadership team in the US problems persisted as shown below in the case of Greece. The previously mentioned internal control structure of A&A proved deficient for years.

### **Greece**

A&A purchased DePuy, Inc. in 1998. One of its executives (Executive A) became a leader within A&A in the US. At that time, DePuy used bribery to sell its devices in Greece. DePuy International (DPI), a wholly owned subsidiary based in the Europe, supervised business in Greece, and knowingly profited from bribery from 1998 to 2006; \$24 million in profits resulted from this bribery scheme. The scheme began before the A&A purchase of DePuy, Inc. with DPI hiring a Greek Agent in 1997 with established relationships to surgeons. DPI agreed to pay a 25% commission on sales in Greece; the commission was banked in the Isle of Man. The illicit arrangement involved inflated prices charged to the Greek Distributor and subsequently paid the "commission" to a private company that did nothing beneficial for the business, existing only to facilitate the bribery scheme.

After the acquisition of DePuy Inc. in 1998 A&A tried to impose internal controls through its Policy on Business Conduct that required adherence to FCPA. However, Executive A (who came from DePuy and assumed a leadership role in A&A) and DPI executives knowingly continued the bribery scheme with the Greek Agent. Payments offshore violated the Policy on Business Conduct and A&A's decision to stop the practice were opposed by Executive A. DPI executives wanted to continue the lucrative relationship with the Greek Agent. Executive A viewed the profits generated by the Greek Agent as so great that A&A should continue working with the agent. Executive A decided to purchase the business of the Greek Agent called the Greek Distributor in spite of warnings that the company's relationship with the agent violated the FCPA. The Greek Agent was to continue as a consultant. The Greek Distributor became known

as DePuy Helles which continued to be used for bribery in Greece. Bribe payments were labeled as professional education and support. In October 2003 the Greek Agent was dismissed after disputes about sales but another agent was hired to continue with the bribery. In January 2005 the EUCOMED Code of Business Practice, a trade association (<http://www.eucomed.org/key-themes/ethics>), was adopted; DPI's reaction was that following the rules would result in a sales collapse. In spite of all the indications that problems abounded in Greece, it took a whistleblower to alert the A&A internal audit committee that "discovered" the improper payments in 2006.

### **Poland**

A&A awarded contracts to publicly owned hospitals in Poland between January 2000 and June 2006 to influence them to select A&A. Since the hospitals were publicly owned, personnel employed there were viewed as government officials by the FCPA. Paying to influence such personnel was deemed corrupt under the FCPA. A&A kicked back percentages of contracts to decision makers within the Polish hospital structure to direct business to A&A. A&A sponsored travel to influence decision makers. Between 2000 and 2007 improper payments to Polish personnel totaled \$775,000.

### **Romania**

From 2005 through 2008 A&A's personnel provided cash and gifts to Romanian hospital personnel to influence them to prescribe pharmaceuticals made by A&A. There was originally only one distributor involved but three additional distributors were included later. The cash payments amounted to between 3%-5% of the sales amount. The transactions follow:

1. Romanian hospital personnel issued prescriptions and gave it to the A&A distributor.
2. Distributor provided the drug and a kickback to the prescribing doctor.
3. The doctor gave the drug to the patient.
4. The distributor got the prescription approved by the state insurance office, and the distributor took the prescription to the pharmacy for payment.

Corrupt payments went beyond cash to also include laptops, electronics, and miscellaneous gifts. But in or around 2007 and through mid-2008, A&A's internal investigations led the distributors to switch to travel subsidies for corrupt officials that agreed to prescribe A&A pharmaceuticals. Total corrupt payments amounted to around \$140,000 paid by A&A to corrupt officials.

### **Iraq**

Iraq faced economic restrictions following the 1990 invasion of Kuwait. To deal with the humanitarian needs of the Iraqi people, the UN managed the Oil for Food Program, where oil proceeds were to pay for food, medicine and critical supplies. Corruption became rampant in the program and by mid-2000 Iraqi ministries had required a 10% kickback on suppliers of humanitarian goods. This ultimately led to an investigation led by Paul Volker that estimated that \$1.7 billion dollars had been diverted due to corruption. Two A&A subsidiaries, Cilag AG International and Janssen Pharmaceutica N.V., sold to Kimadia, part of the Iraqi government, with business conducted by a Lebanese agent. Before the corrupt period began, the agent had been receiving a 12 % commission on sales. With the added 10% for illicit payments the agent's commission rose to 22%. The justification provided was for promotional fees. Following the US invasion of Iraq in March 2003, the additional 10% in kickbacks were no longer required. A&A

had 18 contracts between December 2000 and March 2003, roughly, for the sale of pharmaceuticals to the Iraqi Ministry of Health. A&A had additional kickbacks to Iraqi officials by inflating prices by 10%. The contracts totaled \$9.9 million, with \$6.1 million in profits that resulted in \$857,387 in kickbacks.

**What should A&A do?**

In sum, A&A's internal control system finally, with the aid of a whistleblower, discovered a host of FCPA problems in Greece, Poland, Romania and Iraq. If it informed the SEC it could face stiff financial penalties. If it did not and if the violations were discovered by the SEC it could face severe civil and criminal penalties. What should it do?

# FLAT WORLD KNOWLEDGE: PAYING AUTHORS TO WRITE FREE TEXTBOOKS

**Brent D. Beal, The University of Texas at Tyler**

**Jim Tarter, The University of Texas at Tyler**

---

This critical incident is intended to be used as a basis for class discussion. The views represented here are those of the authors and are based on their professional judgment. Their views do not necessarily reflect the views of the Society for Case Research. Copyright © 2013 by the Society for Case Research and the authors. Except for where fair use permits, no part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Jeff Shelstad, co-founder and CEO of Flat World Knowledge, Inc. (FWK), needed to decide how to pay authors to write free textbooks. The issue had been discussed for several months, both formally and informally. There had been meetings, reports, consultations with the company's advisory committee, presentations, and informal discussions in the hallways, and at company grill-outs and volleyball games. He had hoped that over time a consensus would emerge, but it hadn't, and a decision was overdue. As CEO, it was his job to make it. The question was simple in a way, but surprisingly complex, and it would have long-term ramifications for the company. Although he knew the decision wasn't irreversible, it would be difficult to modify down the road, so it was important to get it right from the outset.

## Background

Jeff Shelstad, together with Eric Frank, had founded FWK in 2007 with the intention of disrupting and reinventing the college textbook market (Weir, 2009). FWK was a publisher of open textbooks—textbooks that could be accessed by anyone on its website for free. Its business model was designed to deliver quality college textbooks for free and then derive revenue from charging for alternative methods of access. Students could view its textbook for free using a standard browser. They could purchase a physical copy of the textbook or purchase the textbook in a downloaded PDF format. Other formats included ePub, .MOBI (Kindle), mp3, and abridged mp3.

Both Jeff and Eric had experience working for other large textbook publishers, including Pearson, McGraw-Hill, and Cengage. They understood the traditional textbook business and the college textbook market. It was characterized by oligopolistic competition by both publishers and distributors. The college textbook market was approximately \$4.5 billion in 2010. The founders designed FWK to function like a traditional publisher in some respects. For example, FWK contracted with authors to write textbooks and paid authors a percentage (or royalty) of the revenues stream associated with the content they produced. FWK typically paid authors a 20

percent royalty on this revenue stream, while traditional publishers generally paid authors between 7.5 and 15% of the list price of their textbooks. FWK recognized the need to provide an attractive educational product, complete with test banks, lecture outlines, and other ancillary materials to university faculty.

Once FWK developed a textbook, however, similarities between FWK and traditional publishers ended. After FWK produced a textbook, they provided free access to it on their web site. Even more revolutionary than this aspect of FWK's business model, however, was their effort to transfer control of the textbook content to the faculty that adopted it. Textbooks were published under a Creative Commons Non-commercial Share-Alike license. In contrast to traditional copyright, this type of license allowed faculty that adopted a textbook to adapt and/or revise it as they saw fit. The faculty member could then "adopt" their own modified version of the text, and students in their classes would receive the revised version.

Jeff argued that one of the most revolutionary aspects of FWK's business model was the potential to make the process of writing textbooks cumulative. He envisioned a situation in which the company would produce one textbook for a particular class, for example, an introductory management course, and then thirty or forty different management faculty would modify the initial text in different ways. Then each of these faculty would make their versions of the original textbook available as part of FWK's catalog. In this way, new faculty would build on and improve existing textbooks over time, and the cumulative nature of this process would be much more efficient and effective than the existing environment in which each new textbook author started from scratch (Shelstad, 2011). Faculty considering adopting an FWK management textbook would then have numerous different versions of the text to choose from. Each version would be designed to meet different learning objectives or would approach the content from a different perspective. Each version would receive its own ISBN number and would be treated as a distinct product. Jeff believed that this "crowd-sourcing" approach to textbook publishing was potentially the most revolutionary aspect of FWK business model (Shelstad, 2011).

### **The Decision**

How should FWK create incentives for faculty to modify existing textbooks and then make their modified versions available to other faculty for adoption in FWK's product catalog? The specific question Jeff was struggling with was how to pay what he referred to as "derivative" authors? Several members of the management team had argued that identifying derivative modifications of existing textbook as separate products might make it difficult for FWK to convince future textbook authors to contract with the company. FWK currently paid a 20% royalty (Chin, 2011), but existing authors were also motivated by the attribution of authorship. Being recognized as the author of a textbook often had significant professional and reputational benefits. Allowing other faculty to adapt original authors' textbooks and then claim a degree of authorial credit could be threatening to potential authors of original texts. On the other hand, if faculty that created modified version of texts weren't given some authorial credit, they would have less incentive to put in the time and effort required to produce quality adaptations of existing texts. Jeff needed to decide how authorship attributions would be handled.

Jeff had to address more than attributions of authorship. There was the related issue of monetary compensation. Should the authors of derivative versions of existing textbooks be paid? Several members of the top management team had made the case that monetary compensation was

essential if FWK were serious about getting faculty to modify existing textbooks in ways that would be beneficial to FWK. Absent compensation, these individuals argued, faculty simply wouldn't have enough incentive to invest the time and effort required to produce modified versions of textbooks worth promoting as separate educational products.

If derivative authors were to be compensated, how should FWK do it? Should compensation be based on the amount of content modified? Because FWK was a self-described "digital-first" publisher, it had developed a flexible enough platform to allow it, with a little effort, to come up with a way of comparing a derivative work to the original text and deriving some sort of numerical measure of how much of the derivative product was new. If a derivative product were determined to be 30% "new" content, then should the derivative author received 30% of the royalties for revenue associated with the modified version of the textbook? In this scenario, how much credit should be given for contributions related to "organization" (or "re-organization") of the original material? If, for example, a text were modified by simply re-arranging existing content, and the modified version were preferred by new faculty, then how much of the royalty payment should be paid to the derivative author? How should authorship be handled in this case? If both the original authors and derivative authors were given credit, it would then be unclear which sections of the book should be attributed to which authors. What if a derivative work included paragraphs (or sections or chapters) that the original author perceived to be of poor quality, or objected to for other reasons? How would original authors react to be informed that they would be splitting royalties with faculty that modified their original work?

Still others members of the management team have argued that a flat percentage of revenue should be paid to derivative authors and that this payment should be independent of the 20% royalty paid to original authors. In other words, the company would bear this cost as an additional expense. If FWK decided to pay a flat royalty to derivative authors, then should it establish some sort of modification threshold? If any amount of customization would qualify a faculty member that modified a textbook for the flat payment, then what would stop someone that adopted a book from simply moving a couple chapters around in order to collect the payment based on sales, at minimum, to their own students?

Jeff knew that FKW needed a relatively simple way to provide enough incentive to get faculty to create quality modifications of its existing textbooks. Ultimately it was his decision. He had given himself an informal deadline of 5:00 p.m. today to announce a policy. What was it going to be?

## References

- Chin, Y. (2011, June 21). Flat World Knowledge's disruptive business Model: Q&A with co-founder Eric Frank, Part 1. *Digital Book Wire*. Retrieved from <http://www.digitalbookworld.com/2011/flat-world-knowledges-disruptive-business-model-qa-with-co-founder-eric-frank-part-1/>
- Ricketts, C. (2009). *Flat World Knowledge lands \$8M for online college textbooks*. VentureBeat. Retrieved from <http://venturebeat.com/2009/03/24/flat-world-knowledge-lands-8m-for-online-college-textbooks/>
- Shelstad, J. (2011). *Flat World Knowledge* [Video]. Goldman Sachs & Stanford University Global Education Conference. Available from <http://www.youtube.com/watch?v=ASwwL5NTLuU>
- Weir, D. (2009, August 20). Flat World Knowledge: A disruptive business model. *CBS Market Watch*. Retrieved from [http://www.cbsnews.com/8301-505123\\_162-33243790/flat-world-knowledge-a-disruptive-business-model/](http://www.cbsnews.com/8301-505123_162-33243790/flat-world-knowledge-a-disruptive-business-model/)

# MY LIFE IN NUMBERS: AN INSURANCE DECISION

**Ann M. Hackert, Idaho State University**  
**Jeff Brookman, Idaho State University**

---

This case was prepared by Ann M. Hackert and Jeff Brookman, 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

A heart attack, really? At 49 years old, Mark Smith was having chest pains. Coronary problems were common in his family and he thought for sure he was having a heart attack. Luckily, it turned out that Mark didn't have a heart attack, but it was a wakeup call, and among other things, Mark thought it was time he considered life insurance. He thought he had done everything right with his financial plan, but life insurance, one key part, was missing and that could be critical to his family's future. Where to start?

## Background

Married with one 14-year-old child, Mark Smith wondered if he had enough life insurance to take care of his family and support their life if anything happened to him. Would his 49-year-old wife have the means to support herself and their 14-year-old son? What did they spend now and what would they need in the future if Mark was not around providing a paycheck, health insurance and other benefits? Mark realized that the decision to buy insurance was just the beginning. How much insurance, what kind, and what price? Now, and in the future, his family depended on him to get the answers right. Maybe the easiest way was to begin with what his family might need if he was gone by working through the numbers of the income and expense his family might face if he died.

## Paying for a Life

Sometimes life was about the numbers. How much did we have? How much did we need? What might be the unexpected events that affect our plans and finances? Death was a big one and just thinking about it was tough. Mark found an article by Lankford (2010) covering the basics about how to handle different life events that affect insurance. For instance, the article stated that upon marriage one should review life and other insurance coverage. Mark had not done this and luckily nothing bad had happened, one bullet dodged. Life stages and changes like



divorce, the birth of a child or a change in jobs affected personal finance and were supposed to trigger a review of the big picture. Sometimes life just got away from you, but now it was time to do what he should have done with the birth of his son 14 years ago or at his last job change. No more putting it off; it was time to plan for the unthinkable.

Mark decided to start by coming up with specific numbers to help him decide how much money his family would need if he were gone. This meant he needed to think about everything; the retirement dollars he already had, savings and investments and benefits from his job. Mark figured his wife would be eligible to begin withdrawing from his retirement account at about 60 years of age. She too was 49, so that was 11 years away. As of today he had \$700,000 in retirement. Mark made investment decisions in the past and felt comfortable he understood his choices, risk tolerance and how to allocate his assets among investment categories. He would not consider himself an expert investor, but the choices he made gave him the confidence to continue his strategy.

He expected the retirement account would grow at five percent per year. His salary was about \$100,000 per year. The remaining mortgage on his house was \$40,000 and his house would be paid off in four years. Mark and his wife were financially conservative and there was no other debt, only the house payment. His 14-year-old son had four years before he would be old enough to start college and Mark estimated it would cost \$60,000 a year. They had already saved \$20,000 for that goal.

Mark's wife worked part-time and brought in an additional \$10,000 per year. Mark expected a funeral to cost about \$10,000. His life insurance policy at work would pay out one year in salary if anything happened to him so there was \$100,000 in life insurance already. Was that enough to cover expenses and take care of his family? He and his wife were savers and with the house paid off, he expected she could live on \$50,000 per year or less but maybe that number could change if his son went to graduate school or if any number of unexpected circumstances changed his family's annual expenses. Expecting the unexpected and planning for it was hard work.

### **Types of Insurance**

Mark had to determine the right kind of life insurance and reading Lankford (2012) and Scism (2011) helped provide perspective on the choices. The three most common types were term- and whole-life, universal and variable life insurance, and group insurance.

Term policy: With a term policy, the beneficiary received the benefit upon the insured's death. This type of insurance was usually the simplest and cheapest and if one was only looking for a benefit upon death, it was the most cost effective. Term coverage was usually quoted at \$250,000, \$500,000 and \$1,000,000 policies and had typical terms of 1, 5, 10, 15, 20, 25 and 30 years.

Whole-life policy: A whole life policy combined a term policy with an investment portion. Part of the premium funded the insurance and part went into a savings or investment account that built value. Whole life was more expensive than term insurance. Because part of the premium went into an investment account, it helped people that weren't good savers to save money. One downside was that such a policy usually didn't pay an acceptable cash value until its 12<sup>th</sup> or 15<sup>th</sup> year. If the policy holder "surrendered" the policy in the first five years, he or she usually did not receive anything because the investment portion had not had time to build. In the end, the

policy holder walked away from the plan without receiving anything for the premiums and commissions paid to the agent and company. Many insurance experts recommended that individuals take the difference between the premium for whole-life and term insurance and invest it.

Universal and variable life: Universal life was like whole life but the return wasn't guaranteed. Part of the premium paid for life insurance and a part went toward investments that usually involved choices. Buyers needed to treat the investment portion of the insurance like an investment and change the investments as they aged, similar to decisions about any investment portfolio. Variable life had even more investment choices.

Life insurance was part of an overall financial plan so the choice of insurance was related to an individual's circumstances. Parents with disabled children could select from policies that would help finance their children's lifetime needs instead of just college or graduate school. Universal life and variable life were choices for such special needs; but costs were higher and returns were not guaranteed.

Group life insurance: Group life insurance was another option. Mark's research indicated group life insurance was a way to increase work coverage by becoming part of the "work" group. While he would not need a medical exam, this insurance was more expensive. For younger workers, group insurance was a way to quickly get insurance. A disadvantage was that many group policies set their premium in five-year bands so Mark would have to revisit this insurance at 54.

Mark's research showed different options for different life stages. One article (Gellman, 2013) suggested buying life insurance as soon as you had dependents, but Mark had missed taking that step years ago when his son was born. Expected costs to raise a child were \$220,000 without considering college costs. A 35 year old could pick up a 30 year term life insurance plan that paid out \$500,000 upon death for about \$450 per year. Mark hadn't done this and luckily nothing bad had happened to him, but he felt he no longer had the luxury of waiting.

Mark was at a different life stage than typical for the first-time life insurance purchase. At the middle of his life, he needed enough insurance to pay off the house, make sure his wife and son could continue to live their lives without worrying about money and make sure his wife had income for her retirement.

Armed with this information Mark had to figure out scenarios to help him decide how much insurance coverage to buy. Then he had to determine the amount and type of coverage he should obtain. The last step was to visit the Internet and get prices and check the financial health of insurance companies. It was important to buy a policy from a company that would be around to make a payout in the future if needed. What if he died tomorrow? At age 55? At age 59 or closer to retirement? What then?

### References

- Gellman, L. (2013, June 23). Too Young for Other Insurance? *The Wall Street Journal*. Retrieved from <http://online.wsj.com/article/SB10001424127887323893504578555432389116010.html>
- Lankford, K. (2010). How Much Life Insurance Do You Need? *Kiplinger's Personal Finance*, 64(8), p55-56.
- Lankford, K. (2012, May 11). Group Versus Individual Life Insurance Policies. *Kiplinger*. Retrieved from <http://www.kiplinger.com/article/insurance/T034-C001-S001-group-versus-individual-life-insurance-policies.html>
- Scism, L. (2011, May 28). Honestly, What's the Best Policy. *The Wall Street Journal*. Retrieved from <http://online.wsj.com/article/SB10001424052702303654804576341310992666504.html>

## THE UMED GROUP: EXPANSION CROSSROADS

Kingshuk Mukherjee – College of St. Benedict | St. John's University

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The myth that cheap labor is the driving force behind textile manufacturing was now obsolete. The supply chains were developed, the management was sophisticated, and the factories that survive in the most competitive industry in the world were the factories that had the most versatile services, highest standards of quality, and quickest turnover times. The Malu Brothers, a trio of humble textile mill owners in the heart of rural India were faced with the overwhelming and ever changing demands of the textile industry as their family business, the Umed Group, was suffering from their lack of competitiveness in quality and production time. In 2012, the Umed Group was presented with the opportunity to expand its production capabilities by investing millions of dollars into eight new state of the art fabric weaving looms. This technological upgrade would transition the Umed Group from heavy reliance on outdated machinery to a competitive textile manufacturing company. Although, the Malu Brothers were open to upgrading their facilities with high performance weaving looms, the risks of sinking into uncontrollable debt would be very real.

The original weaving technology used by the Malu Brothers of the Umed Group produced a very standard product in the world of textiles. Notable for their production of Indian “*dhoti* cloth”, a traditional men’s garment wrapped around the waist, the Umed Group was experiencing lower demands and diminishing capital returns from their *dhoti* production. In 2005, the Malu brothers were able to establish a relationship with a group of highly motivated entrepreneurs and founders of US based fabric supply company, Genesis Inc. This relationship transformed the Umed Group from a *dhoti* producing domestic weaving mill, to an industrial fabric global export company. This development and transition into the textile export business earned the Malu Brother recognition from the Maharashtra Government as a “Star Export House” in 2008 ([www.umedgroup.co.in](http://www.umedgroup.co.in)). The next step to become a fully competent global textile company was to integrate the weaving technology and create the infrastructure to house the new weaving units.

The Umed Group feared that Genesis Inc would contract other Indian factories for the manufacturing of the cotton fabrics if the upgrade in weaving technology was not implemented. A *Memorandum of Understanding* encapsulated the Malu’s relationship with Genesis Inc. imported 6-7 full container loads of orders on a monthly basis. Additional container loads were

exported directly from the Umed Group's facilities to various companies associated with Genesis Inc throughout the world. The success of Genesis Inc was generated through business to business sales, mainly supplying customers with the industrial fabric produced by the Umed Group. Customers of Genesis Inc would typically transform the fabric into the final product for the end user. As customers began to demand higher quality and more technical fabrics, Genesis Inc was forced to outsource these requirements to larger companies in India which had advanced technology, superior capabilities, and higher quality in comparison to the Umed Group. The Umed Group was losing out on profits and customer demand while Genesis Inc was becoming reliant on more sophisticated suppliers (G. Malu, personal interview, Oct. 19, 2012).

Umed Group and Genesis Inc had also been involved in several recent incidents in which large sums of money remained suspended due to rejected fabrics by the customers of Genesis Inc. For example, nearly 40,000 meters of fabric was considered unacceptable after customer inspection due to a distorted weave caused by aging machines unable to handle special requirements and a workforce incapable of recognizing such problems. Production issues, such as the inability to produce large volumes with consistent quality and the limited production range of the current looms were without a doubt preventing the Umed Group, and likewise Genesis Inc, from reaching its full potential with the increasingly diverse customer base. Prolonged production turnover times which could often be significantly longer than expected, prevented their customers from continuing business after a single order.

Although, the traditional shuttle looms had been sufficient for the success of the Umed Group in the Indian domestic market for *dhotis*, the textile industry had begun to slowly phase out the old machinery. The Umed Group had their sights set on two different top of the line weaving models. Both imported from overseas, the *Dornier Rapier* manufactured in Germany and the *Tsudokama Airjet* from Japan were considered the high end for textile weaving equipment technology. The Dornier Rapier and Tsudokama Airjet were both custom built for weaving heavy duty industrial fabrics of different qualities including cotton and polyester. These machines could be used to weave a variety of constructions and widths. Most importantly, the quality consistency of the weaving was superior to the traditional shuttle looms. The Umed Group could greatly expand its export market by weaving wider, heavier fabrics, as well as single piece rolls up to 2000 linear meters. The *Dornier Rapier* and *Tsudokama Airjet* were widely used in European, Australian, and USA weaving mills. The new technology would use network connections to diagnose issues and control the quality. Overall, the technological advancements would result in nearly complete vertical integration of the factory meaning that the Malu brothers would have complete control over the supply chain and quality by keeping all production "in house."

The investment required in order for the Umed Group totaled nearly four million US dollars for the new machines alone. This investment included a total of eight weaving looms. Umed Group was confident they could borrow 70% of the required capital at an annual interest rate of 13.75%. The remaining 30% would need to be self-financed (G. Malu, personal interview, Oct, 19, 2012). In order to feed these looms, the Umed Group would have to focus their marketing efforts on new, high volume customers, or be faced with recurring debt payments that could force the company to abandon the new looms, potentially putting the company out of business.

The financial aspects were no obstacle compared to the amount of effort it would take to fully transition from the existing equipment to the newly implemented weaving technology.

Additional requirements included an array of projects and coordination necessary to complete the technology upgrade. The Malu brothers would have to oversee the contracted construction of the new building facility to house the equipment while maintaining production of their current projects in their existing facilities. In addition, the Malu brothers would have to collaborate with a TATA Group subsidiary, Voltas Limited, to install and implement new machinery while being trained to eventually run the new equipment without assistance from Voltas. The Malu's would be confronted with a dilemma regarding utilization of their human resources as unskilled laborers were the backbone of their manufacturing operation. The new weaving equipment was certainly more automated, but the Malu's needed to decide whether to train their unskilled workforce to maintain the new equipment or hire semi-skilled and skilled workers for a smoother transition. While skilled work was definitely available, the Malu Brothers had to initially evaluate if this workforce was entirely necessary.

The eight new looms in addition to the existing 217 looms also meant a significant increase in the total production capacity. Although Umed anticipated increased demand from the customer base of Genesis Inc, the Malu brothers needed to be certain that their machines would not sit idle. The Umed Group planned to expand production of fabric for use of digital inkjet canvas and other highly technical fabrics to increase the related diversification while ultimately increasing the market share. Digital inkjet canvas and technical textile production would require the high quality technology of the *Dornier Rapier* and/or *Tsudokama Airjet*. The Umed Group determined that the eight new looms would double the production output and 10-20% of their production would be targeted towards new customers (G. Malu, personal interview, Oct 19, 2012). Would the Umed Group be able to sustain the increase levels of productivity with the advancement in technology? Is this advance in technology the key to sustainable growth?

### References

Malu, Ganesh. "Umed Group Expansion Interview." Personal interview. 19 Oct. 2012.

*Umed Group*. N.p., n.d. Web. 16 Oct. 2012. <http://www.umedgroup.co.in/>

## **BURNING BRIDGES AT THE RESTAURANT: SHOULD I BE HONEST IN MY EXIT INTERVIEW?**

**David Baker, University of Central Missouri**

**Eric Nelson, University of Central Missouri**

**Matthew VanSchenkof, University of Central Missouri**

**Sarah Rogers, University of Central Missouri**

---

This case was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Sarah Rogers was to meet with her manager and the Sheraton's human resource director in two days to discuss her summer for-credit internship experience. New to the restaurant industry, Sarah had found it very difficult to start working without any formal training and to be left standing in the corner without assistance on her first day. What should she share about her experience? Should she be honest about the problems she encountered? Would being honest hurt her chances for a good recommendation or future employment within the Sheraton chain?

### **The Internship Experience**

The Four Points by Sheraton Hotel was part of the Starwood franchise system and was conveniently located minutes from the Kansas City International Airport. The hotel provided free 24-hour airport transportation, as well as transportation within a five mile radius. It had a three star rating with 200 guest rooms, a casual restaurant, bar, meeting rooms and was 100% smoke-free. Sarah was assigned as a dinner waitress in the Boulevard Grill, serving about 50 people per night. As an intern being evaluated for a grade, Sarah was apprehensive about her first hospitality position.

“I was extremely nervous going into this internship. I am a hotel and restaurant management major, but I have never worked in either venue. I read some narratives about waitressing and restaurants prior to my internship. These led me to believe that restaurants are scary, insane places with a dog-eat-dog mentality.”

As nervous as she was, she finished her spring semester on a Friday in early May, was moved into an apartment near the hotel by Sunday and started the for-credit internship on Tuesday. Tuesday morning was filled with human resources paperwork and Sheraton policy and procedure training. Tuesday afternoon included an introduction to the Boulevard Grill manager and a short

education about the restaurant, the menu, and some specialty draft beers. Sarah was introduced to her supervisor, Grace, who spent the next hour showing Sarah around the restaurant and kitchen, pointing out the salad dressing cooler, hand washing sinks, drink station, bar pick-up area, dry storage, and the point-of-sales (POS) stations. Grace conveyed that there would be little one-on-one training and that most training would be on the job. The only dinner waitress on staff was Lindsey, an 18 year old high school student with two years of food service experience. Grace instructed Sarah to follow Lindsey around for the rest of the evening. Sarah fetched salad dressing containers, carried out the desserts for tables, and learned how to roll silverware by watching Lindsey, who apparently didn't seem to care one way or another if Sarah was helping.

The first customers arrived while the two were rolling silverware. Lindsey greeted them, showed them to their seats, and presented them with menus. Sarah was left rolling silverware and uncertain of what role she was supposed to play. Was she supposed to follow Lindsey and observe? Upon Lindsey's return she asked what she could do. Sarah was sent to get the beverages which Lindsey promptly delivered to the table. Sarah watched her take the order and input it into the POS system without providing any explanation about what she was doing. This process repeated itself until Sarah asked Lindsey if she should follow her out to the next table. Lindsey responded, "Whatever," and walked off.

Sarah watched Lindsey and learned how she approached the guests and presented the menus but was not close enough to hear. For example, the sandwiches and wraps came with one side item, so when a guest ordered a sandwich, wait-staff always had to ask if they would like French fries, coleslaw, cottage cheese, or fresh fruit. If a customer ordered a burger, wait-staff had to ask how they liked it cooked and what they would like for a side. Sarah was lost. She felt Lindsey wasn't trying to teach her anything. For the shift she was only permitted to fetch Lindsey's drink orders and cleaned up the tables once the guests had left. Lindsey took all the tables in the restaurant, handled all the to-go and take-out orders, and carried out all the room service orders by herself. It seemed a little awkward at times for the waitress to leave the restaurant to run a room service order up to one of the hotel floors, leaving tables unattended, but that was how this operation functioned. Sarah could tell that Lindsey didn't care for her much, but figured after a few days she wouldn't be so lost and wouldn't have to ask so many questions.

The point-of-sale system (POS) was unlike anything Sarah had ever used before. There were 200+ buttons, sometimes in odd places. For example, the "chicken tenders" button was located under sandwiches and wraps, even though it was not a sandwich. No one showed Sarah where anything on the computer was located or how to close out tickets. She constantly had to ask Lindsey or Grace where an item was located or how to add substitutions. Grace was always helpful, when she was around. Lindsey would rarely help, often running off to use the other POS because Sarah was taking too long.

Working with Lindsey turned into an ongoing struggle. Sarah thought that after two weeks, Lindsey would get accustomed to her and she could win Lindsey over. Sarah tried to be courteous and helpful, but Lindsey never warmed up to her. Lindsey hated helping with anything, and if Sarah approached her she would answer, if she answered, with a condescending tone. Sarah finally asked her if she had done something to offend her. Lindsey responded with, "Just don't talk to me." At the end of May, Lindsey graduated high school, immediately and without notice quit her job, and moved out of state.



The Boulevard Grill was named after the local Boulevard Brewery and beer was an important selling point. Many guests wanted alcohol with their meal, but Sarah was under 21 years old, came from a "dry" family and knew very little about alcohol. The Grill had no drink menu and didn't list standard beverages on their menus. Boulevard Brewery products were regional specialties, yet nowhere were those beers or prices listed. Sarah made note cards of the featured beers and background about each one, referring to her card when customers asked questions. If someone wanted a specific alcoholic beverage and Sarah wasn't sure if it was carried she would check the POS and get back to the customer. Sarah never learned how to make any of the mixed drinks, but could tell if all the ingredients were stocked since she had memorized the liquor list. The Boulevard Grill had no happy-hour specials and was very slow from 3:00 to 5:00 PM.

After only a month on the job, Sarah found herself as the only dinner waitress, although Grace stepped in and took tables when Sarah got busy and was always willing to help. Early in June, The Grill hired two new servers and Sarah was given the task of training them. Sarah remembered her own training, her struggles to learn on her own, and the many mistakes she made. She worked hard to make sure Jen and Darlene were better prepared. She gave each of them menus, pointing out popular items, choices for sides, and what items needed extra information. Next, Sarah taught them the POS and showed them some ordering scenarios, including sides, substitutions, or cooking doneness for steaks. She taught them the buttons that had given her problems. She coached Jen and Darlene about Boulevard beers, alcohol POS buttons, and had them write down beers on tap. She pointed out popular domestic bottles and drink substitutions. Jen and Darlene were shown pre-service tasks setting up the restaurant for dinner. Once the guests arrived Sarah had both servers follow her to observe how she interacted with guests and key phrases she used. Sarah showed them where to get the beverages and slowly showed them how to type the orders into the computer. Eventually, Jen and Darlene seated guests and took orders. Sarah stood behind them the entire time answering alcohol questions and reminding the new servers to ask about sides or doneness. The servers put their own orders into the computer under Sarah's number. During the night, when room service was delivered, Sarah stressed the importance of asking to be permitted into a guest's room and the pre-delivery phone call. At the end of the night Sarah showed them how the restaurant was cleaned, checks were closed, and paper work filed.

Three weeks later, Sarah was asked by Grace to train two more new servers; but, these new hires had previous restaurant experience, were given computer numbers and were taking their own tables halfway through their first night. Both of them told Grace that Sarah was an excellent trainer and had answered all their questions effectively.

### **Now What?**

Now at the end of summer, Sarah was thinking about her upcoming meeting with Grace and the human resources director. She was focusing on what she found important based on her summer experiences. She thought: "How much of my thinking do I share in this meeting? Will I upset my manager if I tell them that I felt elements were lacking in my training? How do I prepare for this meeting so that I don't burn any bridges at the Four Points Hotel by Sheraton, yet still get my point across?"

# **STRIKE OR NO STRIKE? NEGOTIATING A LABOR CONTRACT DURING TOUGH ECONOMIC TIMES**

**Timothy Brotherton, Ferris State University**  
**Carol Rewers, Ferris State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The Central Michigan University Faculty Association (CMUFA) bargaining committee had a big decision to make. The CMU faculty had not had a contract in place since June 30<sup>th</sup>. After months of contract negotiations with the CMU administration, they were making no progress. Weeks before, the CMU faculty union members had voted nearly unanimously (97%) to support whatever decision the bargaining committee would make. Classes started Monday, so was it the right time to go on a strike? How many faculty members would walk? What about those that didn't? How long might a strike last? Would the other CMU unions cross the picket lines? A meeting was scheduled for tomorrow with the CMUFA general members. What should the committee recommend, strike or no strike?

## **Overview of the situation**

Central Michigan University (CMU) was a state-sponsored university located in Mount Pleasant, Michigan (pop. 26,016). CMU was one of the major employers in the area. The number of students enrolled in CMU was over 21,000 students, with more than 600 tenure track faculty, an estimated 400 fixed-term faculty, and almost 600 graduate assistants teaching on CMU's campus (Hicks 2011). Each of the three teacher groups was represented by different unions with national affiliations, so a strike by one might not influence another. Tenure track faculty (CMUFA) were affiliated with the National Education Association (NEA). The fixed-term faculty (Union of Teaching Faculty) were affiliated with the American Federation of Labor and Congress of Industrial Organizations (AFL/CIO). The graduate assistants (Graduate Student Union) were affiliated with the American Federation of Teachers (AFT).

The state of Michigan had been suffering a severe economic downturn for a number of years and the governor and legislature had cut the state support for higher education by 15%. According to Steve Smith, CMU spokesman, "CMU took a \$12 million cut from the state of Michigan this year. It puts us back to a funding level equal to what we received in 1996 and '97. Economic

times remain uncertain and it makes it important that the University continues its fiscally conservative approach” (CMU and faculty... 2011).

The CMUFA President Laura Frey, countered, “Central Michigan University is financially flourishing, at least \$228 million in unrestricted surplus assets, a fund equity balance that continues to increase, and total assets have continued to increase. It is extremely frustrating to me that the administration has the money to pay all employee groups a fair, comparable salaries[sic], give them increases and has chosen not to do that” (CMU and faculty... 2011).

### **Present Labor Negotiations**

The negotiation situation had been tense. As expressed by Laura Frey after the last breakdown in negotiations, “The take it or leave it attitude is what we have had to face all along. We filed unfair labor practice charges against the university, citing their refusal to bargain in good faith.” The union said despite its offer to accept a wage freeze if tuition stayed the same, the university still imposed a tuition hike this fall of more than three-percent (Hicks 2011). And although vehemently denied by the administration, there was a rumor that the CMU president George Ross would receive a \$50,000 bonus if the CMUFA settled for a zero-percent salary increase for 2011-2012 (Berlin 2011).

The university claimed that a strike could cause irreparable damage; to the students if they missed a semester, to athletes who could lose their season, and to international students who might have to leave the country. Plus, CMU could lose millions of dollars in federal aid, leading to employee layoffs. Finally, CMU insisted that any work stoppage would violate state law (Clift 2011). Public unions (firemen, police, etc.) were not allowed to strike in the state of Michigan. And because of recent changes to that law, absent a contract the university could not increase wages above the limits imposed by the previous contract. People who had received promotions and salary increases for the fall semester would not receive them, including Laura Frey (Berlin 2011).

### **The Decision**

The faculty voted Monday, August 12<sup>th</sup> to authorize its bargaining committee to take any action it deemed necessary, up to and including a strike. According to Tim Connors, immediate past president of the CMUFA, “We gave them the authority tonight to call a job action. Not to call for a vote for a job action, not to say ‘is this what you want to do?’ We authorized them to say ‘it’s time to take a job action, and here is the job action that we are going to take’” (Horace 2011).

The members of the bargaining committee had to decide the question, “what are we going to do?” The CMU faculty had never gone on strike before, yet both sides were still far apart on the issues of tenure decisions as well as, salary and benefits levels (see Table 1). On Sunday, August 28<sup>th</sup> the bargaining committee had to report to the faculty members of the CMUFA what their recommendations would be, strike or no strike?

**Table 1: Summary of competing positions CMU FA vs. CMU Administration**

CMU FA				
Tenure		Reduce number of applications for tenure (not years ) And reduce number of required annual conferences with dean before tenure		
Salary Adjustments for Promotions				
	Promotion To:	2011-12	2012-13	2013-14
	Professor	\$7,000	\$7,250	\$7,250
	Associate Professor	\$6,000	\$6,250	\$6,250
	Assistant Professor	\$2,500	\$2,500	\$2,500
Salary				
	Fall Semester	Spring Semester	Ave annual change to base	
11-12	0.00%	1.00% + \$1,000	2.2%	
12-13	1.00% + \$500	1.50% + \$500	3.7%	
13-14	1.25% + \$500	1.50% + \$500	3.9%	
Health Insurance/Prescription Drug Monthly (Dental Monthly) needed to cover union-provided insurance				
	2011-12	2012-13	2013-14	
1 Person	\$522.99(\$26.28)	\$547.18(\$26.28)	\$566.99(\$26.28)	
2 Person	\$1,174.86(\$55.22)	\$1,229.32(\$55.22)	\$1,273.84(\$55.22)	
Family	\$1,305.23(\$65.32)	\$1,365.74(\$65.32)	\$1,415.20(\$65.32)	
No Coverage	\$100.00(\$25.00)	\$100.00 (\$25.00)	\$100.00 (\$25.00)	
Retirement		University contributes 10% of Salary to retirement fund		
New Hires		\$600 signing bonus for 12-month faculty		
CMU Administration				
Tenure		Maintain annual meetings with Dean (current contract) Extend from 4 to 5 years before Professor-level salary adjustment (currently 4 years)		
Salary Adjustments for Promotions				
	Promotion To:	2011-12	2012-13	2013-14
	Professor	\$6,000	\$6,500	\$7,250
	Associate Professor	\$5,000	\$5,500	\$6,250
	Assistant Professor	\$2,500	\$2,500	\$2,500
Salary				
	Year	Ave annual change to base		
11-12	0%	0%		
12-13	1.25% + \$830	2.25%		
13-14	1.50% + \$835	2.50%		
Health Insurance/Prescription Drug (Monthly) same level as other employees				
	2011-12	2012-13	2013-14	
1 Person	\$443.10(\$23.92)	\$445.70(\$23.66)	\$459.58(\$23.39)	
2 Person	\$919.36(\$50.26)	\$924.92(\$49.70)	\$954.14(\$49.15)	
Family	\$1112.15(\$59.45)	\$1,118.20(\$58.79)	\$1,151.83(\$58.14)	
No Coverage	\$80.00(\$10.00)	\$80.00(\$10.00)	\$80.00(\$10.00)	
Retirement		University contributes 10% of <u>Base</u> Salary to retirement fund		
New Hires		No signing bonus		

Goldberg, Barry (2011) CMU FA and CMU Fact finding report (October 31).

### References

- Berlin, Ryan (2011). *CMU FA to consider strike?* The Morning Sun
- Clift, Theresea (2011). *Decision Coming Friday on FA, CMU dispute.* Central Michigan Life
- CMU and faculty negotiate for the third time this week. (2011). CMU Public Radio Newswires.
- Goldman, Barry (2011) *MERC CASE L11-D8002 Central Michigan University Faculty Association and Central Michigan University Fact Finder's Report*, State of Michigan Employment Relations Commission.
- Hicks, Mark (2011). *CMU faculty union members set to strike today.* The Detroit News.
- Horace, Mike (2011). *CMU faculty authorizes potential job action; remains on job.* CMU Public Radio News.

## A BIG CHANGE AT GET-YOU-THERE AIR

**Phillip M. Jolly, University of Houston**

**Joseph Reid, University of Alaska Anchorage**

**Bogdan Hoanca, University of Alaska Anchorage**

---

This critical incident was prepared by the authors 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 and locations of individuals have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

As she thought about how the information system changeover had gone so far, and what she had done to make sure it succeeded, Heather couldn't help but wonder, "Have I just blown my first big assignment?"

### Introduction

Fresh out of business school, Heather Rodriguez accepted the position of manager of information services for Get-You-There Air (GYT), a small regional airline based in the northwest United States. GYT serves nearly 40 destinations throughout the northwest that are primarily small communities in rural locations that were not accessible by rail or public roads. To service these communities, GYT utilized a fleet of 40 aircraft and employed approximately 500 people throughout its network. Last year, GYT brought in revenues of approximately \$75 million. In order to better serve customers and expand business, GYT had recently entered into a code-sharing agreement with Mega Mondo Airways, a major airline which serviced much of North America. This code sharing agreement allowed customers to purchase tickets from any location served by Mega Mondo or GYT and fly to any other location served by either of the airlines on a single ticket.

### PlaneTrack

One of Heather's first tasks at GYT was to implement a major overhaul of the information system used to schedule and track aircraft and flight crews. This information was among the most important that an airline can gather, as it allowed the company to better utilize resources and maximize profitability. In an industry where margins were extremely thin and volatile, operating the wrong size aircraft or a delay in locating a fresh crew can make the difference between profitability and bankruptcy.

Until last year, GYT scheduled its flights and crews using a command line based legacy system with no graphical user interface, and with spreadsheet programs populated with data collected via email and phone calls. These data were typed into the system and processed into printed reports by a team of two data entry employees. The resulting information was used by

management to analyze trends and to forecast demand in order to maximize fleet utilization. While this current system met GYT's internal needs, it was inadequate for supplying the increased information demands created by the code-sharing agreement with Mega Mondo.

Heather's first step was to research the options available for operational management software specific to the airline industry. After comparing several options she decided on PlaneTrack, produced by a leading aviation software provider. Her decision was based on PlaneTrack's advanced and convenient features: a graphical user interface, automated and real-time tracking of flight information, and extremely simple to use reporting capabilities. An added benefit of PlaneTrack was the fact that it was an upgrade of the existing system, as opposed to an entirely new system. Heather hoped this would reduce the cost of the implementation program.

After submitting her PlaneTrack proposal to upper management, Heather was granted approval and given a budget of \$175,000 to make the initial purchase of the system. As part of the purchase agreement Heather also negotiated for a one-time orientation session for upper management, to be conducted on-site at GYT's corporate headquarters by a PlaneTrack representative. She was excited about the potential positive impact PlaneTrack could have on GYT's operations and financial performance, and she knew that the training session would eliminate any doubts upper management had regarding her choice of systems. She believed significant improvements in efficiency and the bottom line were sure to come as soon as PlaneTrack went fully on-line.

### **Implementation**

On the day of the orientation session, Heather anxiously awaited the arrival of the PlaneTrack representative. Assembled inside the corporate headquarters building were all of GYT's top management and select representatives of middle management. The PlaneTrack representative spent four hours guiding the group through the nuances of the system, demonstrated its use, and gave managers an opportunity to use the system. He displayed the ease with which information could be gathered and quickly processed into useful forms that could immediately be used internally, or be shared with Mega Mondo to resolve scheduling conflicts. Those in attendance left the meeting excited about the benefits that PlaneTrack would bring to GYT.

The next major hurdle that Heather faced was the introduction of PlaneTrack to the front-line users, who would make up the majority of GYT employees using the new system. These individuals consisted of gate agents, operations agents, customer service agents, and statisticians. The day-to-day use of the system would be these employees' responsibility, to include: entering flight load data, flight times, flight crew duty times, and aircraft utilization information. The front-line users were distributed at every location in the network of GYT's route system, and could not be easily brought together for formalized training. Instead, the training would have to go to them. However, with the majority of her implementation budget spent on the purchase and installation of the system, Heather faced limited options for front-line user training.

Heather brought her concerns to the attention of top management, but she was unable to obtain additional funding to conduct on-site training at all 40 locations or to bring key employees to headquarters for training. Management suggested simply reproducing the hard copy user's manual that was given to managers at the PlaneTrack training session and distributing it to the front-line employees. The employees would be responsible for studying the manual and would

have the option of calling headquarters with any questions that they had regarding the use of the new system. Although not her preferred option, Heather felt she had no choice but to follow the suggestions of top management. She sent out hard copies of PlaneTrack's user's manuals to each of the 40 stations, along with a letter she had written explaining that all GYT employees were expected to become proficient in the operation of PlaneTrack within two months. However, this letter did not contain any information about why the changeover was being implemented or what benefits the new system might bring for the company or for employees; it only stated that employees needed to teach themselves the new system.

Heather was concerned that the lack of an adequate training program for front-line users could be problematic, but despite her reservations she still believed in the potential for success. She felt that, though from a user's standpoint the new system required a major change from the existing way of doing things, PlaneTrack was so simple to use and offered so much more functionality that the front-line users would be motivated to learn the new system. Heather soon found that she had overestimated the willingness of front-line users to accept a change to the status quo.

### **Warning Bells**

PlaneTrack was an upgrade to the original legacy system employed by GYT, and therefore the legacy system remained available for use by the front-line users. Heather began to notice that this quirk was being exploited by the front-line employees, and that they had refused to adopt PlaneTrack. Instead of using the new system, employees chose to bypass the upgrade and continued to operate as if the upgrade had not been made, rendering useless all of the benefits that PlaneTrack offered in terms of data aggregation. When data were not entered into PlaneTrack at the front-line level, the program was unable to track flights, schedule crews, and monitor load information. Phone calls and emails remained the preferred choice for transmitting flight data to the statistics department at headquarters. Coincidentally, the data entry team had just grown in size from two to four employees. This personnel increase allowed the reports to reach management quicker than in the past, leading upper management to attribute the faster response time to PlaneTrack.

Having recognized the failure of front-line users to adopt PlaneTrack, Heather began to look for other ways of securing buy-in from employees at the remote station locations. Among possible solutions, she considered attempting to have those employees who refused to use the new system replaced with individuals who would be more receptive to the new technology. However, given the very small, remote markets served by GYT, she encountered a unique problem with this plan. The labor pools in the small towns served by the airline were very small, and in most cases it would be highly unlikely, if not impossible, to find a qualified replacement for any employee who might be let go. Her remaining training budget still did not allow her to conduct training on-site at the remote locations, nor to bring the remote employees into headquarters for training. As she thought about how the system changeover had gone so far, Heather couldn't help but wonder "Have I just blown my first big assignment?" What else could she do to bring about the successful adoption of PlaneTrack?



## THE FIASCO ON FRIDAY

**Sambhavi Lakshminarayanan, Medgar Evers College, City University of New York**  
**Savita Hanspal, College of St. Rose**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Chen sat back exhausted in his seat on Monday afternoon, wishing he could call it a day. He had just spent an hour placating Xavier, an irate employee who had threatened to quit. Xavier was a programmer who reported to Chen. He was a very valuable asset to the company. Unfortunately, his behavior the previous week, related to the failure of a critical software program, had driven Chen's boss, Jim, into a rage. There had been an explosive and extremely contentious meeting on Monday morning between the three of them. Jim and Xavier were both strong personalities and seemed set on a collision course. Chen had to find a way to avoid being crushed in the middle.

### **The Buildup**

Chen was head of the operations group in the IT (Information Technology) department at BReal, a small firm that produced and distributed highly specialized financial information related to bond markets. Chen reported to Jim, the Chief Technology Officer. Jim had been a co-founder of the firm twenty years back and a top executive until it was sold to a conglomerate eight years ago. His IT department was responsible for a range of software products delivered to internal customers. Programmers, such as Xavier, were a critical part of IT. The firm had been facing a challenge in terms of acquiring and retaining skilled programmers. That was not unusual in the profession since expert programmers were in great demand. Due to the specialized nature of software work at BReal, it took a long time to train and develop a programmer to reach a level of competence at the firm. Chen and Xavier both had been with the firm for ten years.

The finance unit was the biggest internal customer for Jim's department. The head of finance, Peter, reported to Alison. He was responsible for website content of the firm as well. Alison was head of the (bond) pricing department which included finance. Within the organization, Alison was at a higher level than Jim, although she did not have a direct line of authority over him.

A critical piece of work done at the end of each working day was the calculation of bond prices. These calculations were performed by a software program called “Pricer” using data from that day’s trading. The Pricer program was synced with another software program called MrktClose that listed all holidays in the year. Thus, Pricer would automatically shut down on days registered as holidays in the MrktClose file since bond prices were not calculated on holidays.

The MrktClose file was created at the beginning of every year. The dates listed on it were usually not altered. This file was an important piece of software since calculation of cash flow and other financial data was based on the number of working days as listed in it. However, at any point in time, several copies of the MrktClose file were in use. Although these copies originated from the same file, they later became independent programs; during the course of the year changes could be made in one copy of the file and not the other.

Good Friday had always been a holiday for Bond markets. Thus, it had traditionally been a holiday for BReal too and systems were usually shut down on that day. However, this year the industry trade group that determined bond market functioning decided very late that Friday would not be a complete holiday and that bond markets would be open until 12 noon. To comply with this decision, BReal also then had to function on Friday until noon; bond pricing would have to be done based on a half-day of trading. Due to the late change in working day status, several employees opted to work from home that day, since they had previously made other plans. Working offsite was not an unusual practice at BReal; management was flexible provided work got done. On the Thursday prior to Good Friday, everybody at BReal was reminded to make sure that systems would run until 12 noon, instead of the normal three pm, the next day.

### **A Snag**

All processes appeared to be running smoothly Friday morning. Xavier was the main programmer, and was working in the office that half-day. The backup programmer Abu was working from home; he would be available all day except for a half-hour time slot between 12:30 and 1:00 pm. The following sequence of events unfolded over a two hour period on Friday.

12:00: Xavier confirmed with a financial analyst that Pricer was up and running.

12:15: Xavier left the office. He would be on a train for the next 45 minutes.

12:30: Alison, the chief of pricing, came in to look over the numbers. She noticed that Pricer had not completed its run and that a number of bonds, about 700 of them, had not been priced. This was an urgent matter since it was imperative that all bonds be priced every day. Alison immediately sent an email notification to Jim and the operations group, which included Chen and programmers, about the problem. Chen was working from a remote location. He had planned and paid for a trip several weeks earlier, when Good Friday was still listed as a holiday. Jim had agreed that he did not need to cancel the trip. Chen was monitoring the situation remotely.

12:40: After ten minutes Alison received a response from Chen. This was later than expected since the protocol was to respond within a few minutes. Chen explained that after getting her email he had tried to contact Abu, but Abu had been unavailable. Chen was then able to contact Xavier (on the train) via phone and Xavier confirmed that he would respond as soon as he could.

12:45: Jim contacted Chen to make sure that a programmer had got on the job right away.

1:00: Xavier sent Chen an email saying that he had started work on resolving the issue. Xavier contacted Alison to troubleshoot the Pricer failure. They quickly reached the conclusion that it was most likely due to the web finance copy of the MrktClose file it accessed. This copy had not been changed at the specific directive of Peter. However, now that it had been known to cause a problem, Alison contacted Peter and had him agree to let Xavier alter it temporarily.

1:45: All bond prices were calculated for the day after software fixes were completed. Chen complimented Xavier on his quick response. Alison thanked all involved for pulling together to solve the problem. Everyone quit for the day satisfied with their troubleshooting efforts.

### **An Unpleasant Surprise**

Jim's email on Saturday hit Chen like a bombshell. Jim was livid and demanded an explanation for what had happened on Friday, which he viewed as a failure: "Why had it happened? Why had bonds not been priced in the first run? Why had nobody been available to respond immediately at 12:30?" He set up a meeting with Chen and Xavier to thrash out this matter.

The meeting took place first thing on Monday morning. Although feeling blind-sided by Jim's stance, which seemed diametrically opposite to Alison's, Chen gave a detailed explanation. The web finance copy had not been changed since Peter had said that it should not be. Xavier said he had sent an email to Peter on Friday morning warning that the copy might create a problem.

Jim said that Xavier had been irresponsible to leave it at simply sending an email alert to Jim. He said Xavier should have gone further and had a one-on-one conversation with Peter. Chen noted that on Friday Peter had been working from home and was not available in the office. Xavier said he had indeed gone to the floor upstairs to talk to others in the finance area but they had declined to make a decision regarding that program. Jim demanded to know why Xavier had not simply picked up the phone then to talk to Peter. Xavier said he was not comfortable doing so since he had the impression that Peter did not like him and avoided talking to him. Jim said that the onus had been on Xavier to establish communication. Xavier responded that, on the contrary, it was Peter's responsibility since he was at a higher organizational level. Jim refused to budge and continued berating Xavier.

Chen sat in the meeting feeling frustrated. He had risen to the challenge on Friday and helped to resolve the issue successfully. Alison, and even Peter, had been satisfied with the quick resolution. Only Jim seemed to consider this incident to be a big problem. Chen's view was that the fundamental reason behind why this had happened at all was the too-rapid growth of the company. As with many companies expanding quickly, there were few extra resources available to normalize new processes and reengineer older ones. Nobody had any spare time to set up processes to reconcile and link copies of the same program.

Xavier stormed out of the office after the meeting with Jim and was nowhere to be found on the floor after that. Chen finally tracked him down to a coffee shop in the neighborhood. Xavier was fuming, and threatened to quit that very day. Chen most definitely did not want Xavier to leave since he was a talented and experienced employee. They had already lost one programmer the previous week and would not be able to replace Xavier any time soon. Chen calmed Xavier down and asked him to take the rest of the day off.

Now Chen sat gazing out of the internal window in his office that overlooked cubicles where programmers worked. He wondered what he could do immediately to mend fences. He also mused about what the company could do in order to avoid another Friday fiasco.

## CLUB ADVISING 101

**Gabriele Lingenfelter, Christopher Newport University**  
**Jessica Sterling, Jacksonville University**

---

This critical incident was prepared by the authors 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 and organizations described in this critical incident have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

As the date of the third Accounting Club meeting of the spring semester drew closer, the anticipation for PriceWaterhouse Cooper's (PwC) visit heightened. The meeting was scheduled to begin at 7 p.m. Students eagerly entered the room, some bringing resumes. Four accounting faculty members, including the faculty advisor to the Accounting Club, also joined the meeting. Everyone was seated and ready for the meeting, including the two guest speakers, who were auditors from PwC, as the Club President approached the front of the room to begin the meeting. He nervously looked around the room and began to speak, "Good evening and welcome to" and then froze mid-sentence, not a word coming from his lips. All eyes were on the Club President. The audience was waiting for him to finish the introduction when finally the Secretary of the Accounting Club completed introducing the guest speakers. As the Secretary returned to her seat, her eyes crossed the faculty advisor's irritated eyes: "How could he be so unprepared for such an important meeting?"

### Background

Florence University's Baxter School of Business and Leadership had three academic departments and five majors. The Department of Accounting, Economics and Finance sponsored various student clubs including the Accounting Club, Investment Club, Economics and Finance Club and the Student Academic Advisory Board (SAAB). Although all of the clubs were open to students of all majors, the Accounting Club focused on students who were planning a major and a career in Accounting.

The mission of the Baxter Accounting Club was to expand accounting majors' experience at Florence by introducing students to faculty, other accounting majors and professionals in the accounting field. The officers, including a President, Vice President, Secretary and Treasurer, worked together with guidance from the club faculty advisor, Professor Madison Watkins, to bring in speakers from public, private and governmental accounting organizations. Over the years the meetings had proven to be an excellent way to network and to find internships and full-time employment.

### **Selection of the Spring Officers**

At the end of the fall semester, all of the current Accounting Club officers were either graduating or not running for office for the spring semester. With every officer's position being vacated, the Accounting Club secretary sent an e-mail to all current Accounting Club members and Accounting majors asking for nominations. Within a few days, four students showed interest in becoming an Accounting Club officer. Bianca Smith, a junior who was fairly shy, but very successful in all of her classes, responded to the email. She was also a member of the business fraternity, a co-ed organization that focused on leadership and preparing students to enter the work force. Cameron Johnson, a senior, said he was interested in becoming more active in the Accounting Club. Samantha O'Brian, a junior transfer student, was eager to get involved in the Accounting Club. Josh Anderson, an outspoken junior, was active in many organizations in the Business School and the university, including the same co-ed business fraternity to which Bianca belonged.

When the current President, Brandon Davis, reviewed the emails from the four interested candidates, he only recognized Josh and Bianca, two of his business fraternity brothers. Brandon realized that somewhere in the old Accounting Club files was an Accounting Club Constitution and Bylaws, which potentially outlined officer succession. Since there were only four interested students, however, Brandon chose not to consult the bylaws. Instead he decided they would all become officers without a formal process. Brandon emailed his decision to the four candidates. During the last Accounting Club meeting of the semester, Brandon met with the four students to determine who would fill which position. With no one requesting a certain position, he asked the candidates for their preference. Three candidates reassured Brandon they would be fine with any position they were assigned. Josh, however, insisted that he wanted to be President. The other three candidates did not object. Brandon, the outgoing President, appointed Josh as the new President of the Accounting Club, Cameron as Vice President, Samantha as Secretary and Bianca as Treasurer.

### **The Spring Semester**

At the beginning of the spring semester, the officers held their first Accounting Club officers' meeting. It quickly became clear that Josh had no agenda, as topics and the resulting discussions were unorganized. There were quite a few topics on which the officers disagreed, such as club dues, meeting topics and incentives for students to join the club.

### **First Accounting Club Meeting**

During this first Accounting Club meeting, members of a faculty panel were scheduled to share their professional careers. The meeting was to begin at 7 p.m. A few minutes before 7p.m., Josh approached Samantha and asked her what he should mention before the panel began its discussion. To Samantha, Josh seemed nervous and less confident than usual. Samantha quickly told Josh that he needed to welcome everyone and introduce the faculty members on the panel. While Samantha was concerned, she believed the President would regain his usual self confidence once he started the meeting. At 7:10, with four faculty members ready to start their presentations and a room full of students, Samantha looked at Josh and motioned to the clock. Josh stood in front of the audience and slowly began to speak. He welcomed everyone, froze, eventually made reference to a future meeting, but had the wrong date. Samantha interrupted and

quickly corrected him. To the other officers Josh sounded extremely unsure of himself, struggling to make complete sentences without stumbling. When the meeting concluded, the other officers briefly talked to each other. They were concerned about how unprofessionally the meeting had been conducted. Josh had not started the meeting on time, he had no agenda and was unprepared to discuss any of the issues that they previously had agreed upon and he announced a wrong date.

### **Faculty Advisor Involvement**

While Professor Watkins attended most Accounting Club meetings and helped secure guest speakers, she was not involved in the selection of officers. She did not get involved with setting the dates for meetings or planning the logistics of the meetings. She saw her role as primarily providing continuity to the club and offering her extensive professional network as a reference for the club. Professor Watkins did not know Josh before he became the Accounting Club president. Her first impression of him was positive. He was dressed professionally and seemed very enthusiastic. After seeing how poorly Josh had prepared for the first meeting, Professor Watkins called him into her office to get to know him a little better. They talked about his career goals and the role of the Accounting Club for networking purposes. Finally, she suggested that he come up with an agenda and use note cards, if needed, for the next Accounting Club meeting. She also asked if Josh thought he had enough time in his busy academic schedule for running the Accounting Club. Josh appeared confident that he could successfully lead the Accounting Club the rest of the semester, promising to prepare agendas to be approved before each meeting. Professor Watkins liked Josh's enthusiasm and was willing to give him a second chance.

### **The Second Meeting**

Josh set the date and booked the room for the second meeting. An e-mail, announcing the second meeting, was sent to the Accounting Club members and the Accounting faculty. In the e-mail, the name of the company the second presenter worked for was misspelled. Professor Watkins sent an e-mail to Josh pointing out the misspelled name, hoping that this carelessness was not a preview of how he would handle the next meeting.

This time Josh started the meeting on time. However, he forgot the speaker's name, guessed a few times and finally asked the speaker to introduce himself. The meeting again appeared unorganized and unprofessional. The speaker gave an excellent presentation about the importance of becoming a CPA before entering the corporate world. The faculty advisor had another meeting with Josh trying to emphasize the importance of being prepared for the club meetings to give a favorable impression to potential employers. Josh responded that he wanted Samantha to start introducing the speakers during the remaining meetings. Professor Watkins liked the idea as she hoped that sharing the responsibility of running the meetings with another officer would put Josh more at ease.

### **The Next Officers' Meeting**

During the next officers' meeting, Josh changed his mind about having another officer introduce the guest speakers and reassured his fellow officers that he would be more prepared at the next meeting, when the club would host PwC. During the meeting Josh again struggled with the introduction of the guest speakers. Samantha, who had prepared an introduction just in case, interrupted and saved Josh and the Accounting Club from further humiliation. As she finished her introduction, Samantha wondered in frustration, "What role should our faculty advisor play in our club?"



## NOW THAT HE KNEW, WHAT SHOULD HE DO?

**Reed McKnight, University of New Mexico**  
**Leigh W. Cellucci, East Carolina University**  
**Roy Cook, Fort Lewis College**  
**Phil Vardiman, Abilene Christian University**

---

This critical incident was prepared by the authors and is intended to be used as a basis for class discussion. The views presented here are those of the case authors based on their professional judgments and do not necessarily reflect the views of the Society for Case Research. The names of individuals described in this critical incident have been disguised to preserve anonymity. Copyright © 2014 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

### Introduction

Was it something he had done, or something he had said? For weeks, Harrison had replayed it in his mind, time and again. He just could not figure out what had gone wrong with what he was confident would turn into an even better job. However, things were different now. Thanks to a friend, the mystery was solved. He had been wronged by his boss. Now that he knew; what should he do? Should he confront his boss? Should he consider bringing legal action against his boss and/or employer? Or, should he just chalk it up as a bad experience and get on with life?

### Background

The incident had begun the day of his annual review. Since graduating, this was his first real job. Lane Samuel had hired him sight unseen based on his references and a phone conversation. He had been on the job in Canada for two years. This was his second review and his first with Lane. Up to this point, Harrison's supervision and feedback had come from his immediate boss, Vick Jackson.

Harrison had been a bit nervous at the start of the review; he rarely saw Lane, and really knew almost nothing about him. Since being hired, Harrison and Lane had probably not exchanged fifty words. Unquestionably, Lane was skilled at what he did, and he immediately put Harrison at ease. He offered Harrison a beverage and some snacks and followed that with agreeable enough small talk for ten minutes. Then, Lane got down to business.

The review itself had been quite cordial. The first few minutes were spent reviewing Harrison's previous review and comments included in his personnel file. Lane noted that he had done everything expected of someone in his rank and then some. Lane admitted that Harrison's review was good, among the best, something of which Harrison could be proud. Lane complimented him for voluntarily carrying a substantial portion of a troubled employee's workload for four months without extra remuneration. He also complimented him for ramping up in a demanding technical area and doing a good job for one of the organization's most significant clients.

Lane went on to remind him that his was a temporary position. Harrison knew that the organization regularly hired temporary employees, foreigners like himself, to fill vacant positions while the search continued for permanent employees among Canada's own citizens. Understandably, the federal government mandated that equally qualified citizens had preference over foreigners in the hiring process. Unlike several other foreigners who had been with them for two years or less who either were quitting or being released, his department wanted Harrison to continue. Lane went so far as to say that if Harrison's future performance continued to be as good as his first two years had been, he would consider making an exception, and try to convert Harrison's job to a permanent position. However, that was a discussion for the future. Today's task was to reach agreement regarding next year.

### **The Offer**

The scuttlebutt in the lunch room had been that this was a year of catch-up. This year would make up for many preceding lean years of funding by the provincial government. Raises were rumored to be as high as six percent among the overachievers and, apparently, even the "hangers on" were getting two percent. So, when Lane offered Harrison a one percent raise, it hit him hard, and he did not hesitate in his reaction. He quickly stated that he had been hoping for something more, a lot more, more like four or five percent.

Lane was just as quick in responding and said that he really wanted to give Harrison a better raise, but what could he do? Harrison's government position was a lock-step job. Given Harrison's rank and time in service, Lane could not offer him anymore. He went on to explain that because of the dire need when Harrison had been hired, and because of his education and references, Harrison had been hired close to the top of his rank's pay scale. His hands were tied; the one percent raise maxed out what Lane could offer. More than that would require not only a promotion, but also a conversion of the position from temporary to permanent. As much as he wanted to, he, Lane, just couldn't offer Harrison more.

Maybe it was pride, perhaps something else, but Harrison made a quick decision. His parting words to Lane were "please advertise my position; I won't accept that offer."

A week later, he was in the lunchroom when Vick asked how things had gone in his meeting with Lane. Harrison reiterated his disappointment with Lane's offer and said that he had given notice that he'd be quitting at the end of the fiscal year, just three months away.

Asked what he would do next to make a living, Harrison told him the truth – he had no idea. He had no immediate plans to send out his resume. He was not worried about finding a job; the market was strong, and jobs were abundant. Summer was fast approaching, and Harrison would do what he had dreamed of doing – canoeing, camping, and fishing through some of Canada's majestic far north. There would be plenty of time for finding a job after he had had his fill of that adventure.

### **The Offer That Wasn't**

Asked by Vick if he would consider staying in the area, Harrison said yes. It was an outdoors enthusiast's dream, and Harrison had fallen in love with the country and the people. He and his wife had fit easily into local society. When Vick asked if he might consider doing similar work for a personal friend in a close by community, again Harrison responded in the affirmative. So, weeks later, it came as no surprise when Harrison got a call from Karl Heston inquiring about his possible availability. He said he had visited with Vick at some length about him and wanted to confirm that Harrison was quitting his job.

Karl's job opportunity was the equivalent of Lane's, and he worked for the same provincial government. He apparently knew Harrison's rank and what he was being paid. Subject to approval, he wanted to know if Harrison would do the same work for him at the next higher rank and for 15% more money. So, as requested, Harrison sent Karl his resume, and the hiring process began.

As Harrison was a foreigner and it was a government job, it would take some time for Karl to get approval to hire. The position had to be advertised, and it had to be shown that there were no qualified citizens who had applied for the job. In the meantime, Karl checked additional references and assured Harrison that he was the person he wanted to hire. "Please bear with me," he'd asked. He would do everything within his power to expedite the process. Harrison was not anxious about the new job; his bills were paid and he had money in the bank. Besides, the job's start date was not scheduled to begin until after his big adventure – months of quality time in the far north. As the weeks rolled by, Harrison became pretty impressed with Karl. Every week he phoned to update Harrison on the progress that had been made and assured him that everything was in order. Next week, he promised, Karl would call again with the final offer, and if it were acceptable to Harrison, a formal written offer would be made by the end of the week.

And then, as quickly as it had begun, it all came to a screeching halt. The next week came and went with no call from Karl and no written contract. Had Harrison misunderstood Karl? It was late the following week that Harrison finally called and got Karl's personal assistant on the line who stated, "No, Karl was not available. He had a bunch of commitments; would you care to leave a message?" He asked that Karl call him when it was convenient. Several weeks passed; no return call ever came. Harrison wrote off the job prospect as being dead, but the sudden dead silence nagged on him. Had he done something or said something wrong? Harrison decided to ask Vick for help in finding out if he had done something wrong.

As always, Vick seemed genuinely pleased to see him. Harrison asked Vick if he knew whether or not Karl was going to hire him. Vick said that after providing Karl with a strong reference for Harrison and providing Karl with names of other people who might be willing to be contacted on behalf of Harrison, he had not heard another word. Vick thought it was a done deal and that Harrison was probably under contract to work for Karl. Harrison assured Vick that was not the case and that he just could not figure out what he had done wrong. Vick confided in Harrison that he and Karl were scheduled to have dinner together at a conference the following week. Harrison told Vick that at this point, even if one were made, he would not accept an offer from Karl. However, so that he could learn from the experience and not commit a similar mistake with another employer, would Vick find out what Harrison had done wrong?

Ten days later, and not long before his current job ended, Harrison and Vick met again. Yes, Vick had had dinner with Karl, and yes, he had made the promised inquiry. The reason communication between Karl and Harrison had stopped was quite simple. As a courtesy, and as a final step before formally offering Harrison a job, Karl had called Lane to tell him of his intentions of offering Harrison a job. According to Karl, Lane's exact words were, "Hands off – he's ours." So, without a word to Harrison, Karl had backed away. Now that he knew, what should Harrison do?

## HOW DO I STICK IT OUT IN WHAT IS STILL A HOSTILE ENVIRONMENT?

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**  
**Pamela Wells, San Jose State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The City of San Jacinto, California, had an established policy regarding sexual harassment, first put into effect in 1976 and revised in 2009. Its definition of a hostile work environment included the prohibition of the display of pornography. Lacey Jefferson, a female firefighter in San Jacinto, complained about what she perceived as extremely graphic and deviant porn that her nine-year-old son took home from the fire station where she served. He had taken the magazine from the fire station men's room. Her first action was to contact her supervisor who stated that he contacted Employee Relations for the city and was acting according to their guidance. She then contacted Employee Relations directly; she thought that they too were unresponsive. At that time she believed that retaliatory harassment began, which caused her to suffer stress resulting in physical symptoms. In her view, fellow firefighters reportedly withheld vital information from her and taunted her. She settled the lawsuit but was left wondering what to do in the aftermath. She thought a transfer to another station would be better, which she did. People too often don't forgive and forget and the legacy of bitterness she felt, as well as the obstacles of dealing with the barriers of the old boys' network, including shunning, made her work life difficult for her. She had to remain as a firefighter for six more years to complete the requisite 25 years. As a firefighter, she had time for a side job which she had just developed (i.e., a paralegal service). She wasn't the kind of person that would just be quiet when she encountered problems in the fire department; she would continue to speak up for women firefighters, even if it meant ongoing alienation from her superiors. But the general problem remained, how could she maintain her psychological health working six more years with colleagues that were still somewhat hostile?

### **Press Accounts of Lawsuit**

Since firefighters sometimes worked long shifts where they could be absent from their families for as many as four days and nights, their families sometimes visited fire stations and shared meals with them. During a visit to the fire station where Lacey worked, her 9-year-old son allegedly found hard core pornography in the men's room. It's conceivable that visitors, such as

school children, could also stumble upon the pornography during a visit so the risk wasn't just isolated to visiting families.

In a follow-up article published in the local newspaper, the media reported that Jefferson felt that while the investigation was being conducted, she was "shunned and taunted." Porn was left in the common area of her station seven months after the investigation had started. This phase of the unfortunate incident was concluded on October 20, 2009 when the City Council approved the settlement with the Lacey for \$200,000. In the settlement there was no winner or loser. As a result of the settlement neither side spoke openly about the case again. But the aftermath presented Lacey with an awkward work environment where she faced what she perceived as resentful colleagues and superiors.

### **Aftermath**

She now faced the decision of how to deal with the aftermath. Jefferson perceived that before the incident people liked her and her work, but that afterward people were wary of her, especially people who only had known her after the lawsuit. In her view, she had four friends that had remained loyal to her throughout the ordeal. Lacey believed people should be fair and speak the truth; but after the incident, she found that she was less forthcoming with information sharing. But she would denounce people again if faced with comparable circumstances. And as a woman in a job dominated by men, she was used to having to go the extra mile to work well and to follow her principles.

On a personal note, she was going through a divorce, so she needed a well-paying job to provide for her and her two children. Quitting and taking a job elsewhere was not possible at the time; therefore she had to decide how to deal with the firefighters and administrators that had, she believed, made her life miserable. Lacey believed that if those in power (i.e., supervisors, HR, management) did not respond properly or mishandled a situation, they needed to be held accountable and incur consequences. Policies also needed to be written so that they were fair and were responded to in a reasonable amount of time. Policies should provide adequate protection and minimize injuries for all employees. She added:

Although we had harassment policies within the city and fire department, the two policies were different. The city changed its harassment policy during my ordeal and removed the time component that they had to respond to complaints thereby making the policy more lax than it was before my lawsuit. Also, the head of the Office of Employee Relations who I believe completely mishandled my case was promoted.

The union needed to make sure they provided fair representation and was unbiased, since the parties on both sides of the case were union members. In my case the union was not supportive at all. In fact one union board member took it upon himself to advise me that what I perceived as porn was not pornographic. The union appeared, in my view, more worried about having the rights to look at magazines while on duty than offending firefighters that didn't approve of porn in the fire station. The union wanted to establish a committee that would help to define what magazines would be acceptable in the workplace, but after repeated contact it was never formed and I gave up. The mayor said porn shouldn't be present but the union fought it.

Recently we had another case of unjust treatment of women where they were denied promotions. This cost the city \$395,000 in a settlement. After all these years of having women firefighters the city still has trouble integrating them and treating them fairly in my view.

I don't think that promotion is necessary to make a difference within the department. I have made a conscious decision not to be promoted because I have no desire to act in a supervisory role in my department. I actually feel like I can be more effective since I am not a supervisor. I will continue to protect myself and fight for other causes within the department that I feel are worthy, especially when it involves female firefighters.

For the time being, Lacey had decided to stay and to transfer to another station since the isolation problem she felt working with people who resented her was compounded by the risks firefighters encountered; everyone had to work as a team to protect one another from injury or even death in perilous situations.

She could reach out to those she had fought with and try to forgive them. But they had not apologized and, in fact, had snubbed her, in her view. Perhaps with time she could renew contact with some that had been colleagues before becoming adversaries.

She was starting a business as a side job. Her base pay in 2011 was \$103,565.50 with \$127,054.84 in total cash compensation but due to the fiscal crisis in the city her base pay had been cut 10%, according to the fire department. She had a BA from the University of California Santa Barbara and recently completed her paralegal certification, which allowed her to open her own business as a Legal Document Assistant, specializing in paperwork associated with the dissolution of marriages.

Although she was upset that she had to go through the unnecessary experience that resulted in the settlement she thought it had taught her many valuable lessons:

1. Do not reveal too much personal information about myself or my family. This is difficult to do in this particular occupation because we spend so much time together. It is important for me to now keep my job as a firefighter separate.
2. Continue to work on the art of listening. I try harder to be present and listen to people without feeling the need to comment on everything.
3. If you give people enough rope they will usually hang themselves. That being said, I cannot count on the supervisors/managers within my department or within the city to do the right thing once they have the information in front of them. In fact, I am pessimistic in this regard.
4. Ever since I was a young child I have fought for the "underdog." Although I will continue to do this, I can't fight everyone else's battle. If I believe in something strongly I will step in and fight or help. Part two of this concept is that in general most people are not willing to do the same. I have seen people on this department look me in the face and lie. I guess this might be part of human nature! When I do meet someone that is honorable and goes out of their way to help me, I acknowledge them personally. I think this trait is rare. I will never forget my co-workers that went above and beyond just for me.
5. Never trust the management within the City of San Jacinto.

# **GEO GROUP, INC. NORTH LAKE CORRECTIONAL FACILITY'S PIVOTAL OPERATING/STAFFING DECISION**

**Carol Rewers, Ferris State University**

---

This critical incident was prepared by the author and is intended to be used as a basis for a class discussion. The views presented here are those of the author based on their professional judgment and do not necessarily reflect the views of the Society for Case Research. Copyright © 2012 by the Society for Case Research and the author. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## **Introduction**

In November 2010, officials with the California Department of Corrections and Rehabilitation (CDCR) signed an agreement with the GEO Group, Inc. that established provisions for the outsourcing of an estimated 2,580 prisoners to Geo's North Lake Correctional Facility, located in Baldwin, Michigan. In preparation for this arrangement, North Lake Correctional Facility underwent a \$60 million dollar renovation and hired approximately 165 (of the estimated 500 new employees that would be needed when the facility reached its full capacity in 2014) in order to orient and train the new staff in advance of actually receiving the first wave of California prisoners scheduled to arrive in May 2011.

However, just prior to the scheduled orientation and training of the new hires, GEO heard rumors that California's growing budget deficit (estimated to be nearly \$15.4 billion dollars) was causing the new Governor of California, Jerry Brown, to reconsider the state's agreement with GEO. As the Human Resource Manager for GEO's Baldwin facility, your team must decide how to proceed with staffing the new facility. Do you continue the current hiring and orientation process; should you advise the new hires of the potential threat of a layoff pending California's final decision, do you freeze posted positions; and/or should you begin the preliminary process of deciding who should be pink slipped according to the WARN act?

## **California Prison Background:**

For decades, California Prisons had been experiencing severe overcrowding. The prison population had skyrocketed, increasing some 500% over the past 25 years and expanding the number of penitentiaries from 12 to 33 (Warren, 2006). With no relief in sight, and no additional funding set aside, CDCR officials were forced to use prison areas not originally designed for living space, including gymnasiums, hallways, T.V. rooms, etc. to house an estimated 16,500 prisoners, some of these inmates even being triple bunked (CDCR, 2006). According to reports, prison overcrowding had become so severe, that it "overwhelmed water, sewer and electrical



systems at some prisons and fueled hundreds of riots, melees and smaller disturbances” (Warren, 2006).

On October 4, 2006, Governor Schwarzenegger issued an emergency proclamation that stated California’s prison overcrowding had become so severe that such conditions posed a “health and safety threat” in 29 of the 33 state’s prisons (CDCR, 2006). By 2006, inmate overcrowding exceeded 200% of the state’s planned capacity. California’s prison overcrowding situation had evolved into a crisis – the 33 state prisons, designed to hold 79,858, were housing 173,000 inmates in make shift, often hazardous, quarters (Kernan, 2007).

During Governor Schwarzenegger 2006 emergency proclamation, he responded, “Our prisons are now beyond maximum capacity, and we must act immediately and aggressively to resolve this issue...I’ve ordered the Department of Corrections and Rehabilitation to begin contracting with facilities in other states to transfer inmates to available beds outside of California. These actions are necessary to protect the safety and well being of the officers, inmates, and the public” (CDCR, 2006).

Shortly thereafter, Scott Kernan, CDCR Undersecretary for Operations, began the process of outsourcing California prisoners to facilities in other states. By 2009, California had transferred approximately 8,000 inmates to prisons located in Arizona, Indiana, Mississippi, and Oklahoma (CDCR, 2009). CDCR was interested in signing contracts with additional prisons to further decompress California’s inmate overcrowding crisis. As Kernan observed, “Reducing overcrowding in our prisons is a priority. Our ability to place offenders out of state offers us much needed flexibility, which ultimately creates a safer environment for inmates, our staff and the public” (Kostyrko, 2010).

On November 4, 2010, officials with the California Department of Corrections and Rehabilitation (CDCR) signed a four year agreement with the GEO Group, Inc. that would outsource the custodial and rehabilitative care of an estimated 2,580 California Level 2 and 3 prisoners to Geo’s North Lake Correctional Facility which was located in Baldwin, Michigan (Correctional News, 2010). The North Lake Correctional Facility, which the GEO Group owned and had previously operated as a youth facility until its closure in 2005 (due to lack of funding from the State of Michigan) underwent a \$60 million dollar renovation. This renovation allowed the GEO facility to expand and accommodate the first phase of an estimated 1,725 California prisoners scheduled to arrive in May 2011.

### **GEO Group History:**

The GEO Group was “a world leader in the delivery of private correctional and detention management, community residential re-entry services, as well as behavioral and mental health services to federal, state and local government agencies.” Established in 1984, the GEO Group, Inc. owned and privately operated approximately 116 facilities (or an estimated 80,000 prison beds) in several countries, including: the United States, South Africa, Australia, and the United Kingdom.

GEO claims the company “...adhere to the highest standards of quality and hire only those who strive to be their best” by providing employees with competitive wages and a career they can feel good about” (GEO, Group, Inc 2011). GEO’s North Lake Correctional Facility expected to hire a

total of 500 employees with annual payroll and labor cost estimated at \$26 million and an average starting officer salary of \$42,000/year.

The Baldwin, Michigan community wholeheartedly supported GEO's prison facility expansion and efforts to win the California prison contract. GEO is the largest employer in the Baldwin area. According to Baldwin local's, the previous youth facility's closure in 2005 resulted in a major devastation to the local community:

The impact of losing GEO has meant major financial burdens for the Baldwin School and for some former employees it has translated into years of unemployment during a time of economic hardship. "There's several people that haven't been able to find other employment," says Judy Eversole, former employee. "Hopefully they'll be able to come back into this facility and find a job again. That would be a blessing"...It was devastating for our school and the community," says Randy Howes, superintendent of Baldwin Schools. "It was our largest employer and we had a lot of people who directly or indirectly were hurt." (Melnick, 2008)

After receiving notification that they had won the California prison contract, GEO expended a good faith effort to hire approximately 165 new prison employees to meet their contractual obligations. However, just prior to the scheduled orientation and training of the new hires, GEO heard rumors that as a result of California's growing budget deficit California's new Governor, Jerry Brown, was seriously reconsidering the state's agreement with GEO.

As the Human Resource Manager for GEO's Baldwin facility, your team must decide how to proceed with staffing the new facility. Do you continue with the hiring and orientation process - but advise new hires of the potential threat of a layoff pending California's final decision; do you freeze posted positions, and/or do you begin the preliminary process of deciding who should be pink slipped according to the WARN act?

### References:

CDCR (2006). Governor Uses Executive Authority to Relieve Prison Overcrowding, Proclaims Emergency to Allow Inmate Transfer. Accessed from [http://cdcr.ca.gov/News/Press\\_Release\\_Archive/2006\\_Press\\_Release/press/20061004.html](http://cdcr.ca.gov/News/Press_Release_Archive/2006_Press_Release/press/20061004.html)

CDCR, (Nov. 2009). CDCR Amends Contract to House More Inmates Outside of California. Accessed [http://cdcr.ca.gov/News/Press\\_Release\\_Archive/2009\\_Press\\_Releases/Nov\\_02.html](http://cdcr.ca.gov/News/Press_Release_Archive/2009_Press_Releases/Nov_02.html)

CDCR, (2012). The Future of California Corrections: A Blueprint to Save Billions of Dollars, End Federal Court Oversight, and Improve the Prison System. Accessed from <http://www.cdcr.ca.gov/2012plan/docs/plan/complete.pdf>

Correctional News (2010). GEO Group, CCA Net Out-of-State Contracts for California Inmates Accessed <http://www.correctionalnews.com/articles/2010/11/5/geo-group-cca-net-out-state-contracts-california-inmates>

Correctional News (12/20/2010). Michigan Village Hopes for Prison Reopening. Accessed from <http://www.correctionalnews.com/articles/2010/12/20/michigan-village-hopes-prison-reopening>.

GEO Group, Inc. (2011). GEO Group History. Accessed from <http://www.geogroup.com/about.asp>

Kernan, S.(2005). CDCR Accessed from [http://cdcr.ca.gov/News/Press\\_Release\\_Archive/2005\\_Press\\_Releases/Nov\\_02.html](http://cdcr.ca.gov/News/Press_Release_Archive/2005_Press_Releases/Nov_02.html)

Kostyrko, G. (2010). CDCR Enters Contract with GEO Group Inc., Contract Discussions Could Net 5,000 Additional Out-of-State Beds. CDCR Today. November 4, 2010. Available at <http://cdcrtoday.blogspot.com/2010/11/cdcr-enters-contract-with-geo-group-inc.html>

Melnick, Rachel. (2008). Community reacts to GEO prison plans. Accessed from <http://www.upnorthlive.com/news/story.aspx?id=129228>

Warren, J. (2006). A federal cap would ease the violence and health issues linked to crowding lawyers say. The Los Angeles Times. Accessed from [http://oocities.org/three\\_strikes\\_legal/cdc\\_population\\_articles\\_old2006.html](http://oocities.org/three_strikes_legal/cdc_population_articles_old2006.html)

# WHEN A RAISE IS A SLAP IN THE FACE: DO I STAY OR DO I LEAVE?

Neil Tocher, Idaho State University

James Jolly, Idaho State University

---

This critical incident was prepared by the authors 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 have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## Introduction

Scanning my emails on the morning of Monday July 23, one from the hospital CEO Jake Goodwin entitled “Equity Pay Adjustment” caught my eye. It stated that I would receive a 5% pay raise from \$40 base pay to \$42 base pay. While I was happy for the pay increase, I was also taken aback that the raise was not a bit more. After 4 years of pay freezes and several conversations with Jake about market pay rates for psychiatric nurse practitioners over the past six months, I guess I expected the raise to be in the neighborhood of 10-15%. I did, however, realize that times are tough and perhaps the hospital was simply doing the best it could under difficult times. Somewhat puzzled, I attempted to put the pay raise out of my mind and go about my daily duties.

## Complications Arise

Through various conversations the next afternoon, I became aware that another psychiatric nurse practitioner received a 16.1% pay increase and went from being paid less than me to being paid significantly more than me. While the other psychiatric nurse practitioner had more years experience than me overall as a nurse practitioner, I had been a psychiatric nurse practitioner at State Mental Hospital for 3 more years than her and I had been at the hospital a total of 7 years. Notably, I was also 63 years of age and had nearly 40 years in the nursing field, spending time as a nurse, nurse manager, nursing educator, managed care specialist, and discharge planner before my time at State Mental Hospital. Interestingly, the other psychiatric nurse practitioners were also less outspoken on work issues such as weekend call duties than I was. I also discovered that the doctors received between 20 and 25% raises. Angry, I spent an hour that afternoon updating my resume and eventually sent it to my home email.

After giving myself the night to cool off, I sent an email on the morning of July 25 to Mr. Goodwin, the hospital CEO, asking him for some clarification on how the recently announced pay raises were determined. The next afternoon I received a very short return e-mail from Mr.

Goodwin stating that the folks within the central state government at the capital made the decisions based on relevant years of experience as a nurse practitioner or doctor. Mr. Goodwin's response bothered me because it was short, lacked details, and shifted all blame to the state government.

Given my confusion and frustration with Mr. Goodwin's response, I called the state human resources management office on July 30<sup>th</sup> to inquire further about pay raises. I was told in so many words that the capital made money available for raises to several critical state agencies, but individual institutions determined the size of raises as long as the raises were done within state laws and guidelines. Such news angered me as it appeared that not only had I been given a low raise, management had also decided to lie to me about why I was given the low raise.

At this point, I felt that it was time to at least consider employment elsewhere. Hence, on the morning of July 31, I sent an updated resume to the local mental health clinic, which was currently advertising a psychiatric nurse practitioner position.

### **New Employment Offer Received**

Over the next couple of weeks, I had several interviews with the local mental health clinic and I eventually received a written offer of employment on August 16. The offer was for \$45 per hour, which was \$3 more per hour than my new salary at State Hospital. The offer also included bonus pay opportunities and student loan pay back. Notably, however, the local mental health clinic's offer was tied to patient productivity in that I would need to generate approximately 25 billable hours per week and perform specific numbers of services such as intakes and prescription renewals. Such an arrangement was different than that at State Mental Health Hospital where I was not paid based on productivity. However, due to the patient overflow at the local mental health clinic, it was almost a 100% probability that I would meet my billing target and it was quite possible that I could bill enough hours to earn a small bonus each quarter (my bonus target was 34 billable hours per week and billings above that target are split 60% to 40% between the revenue provider (myself) and the clinic).

While considering the offer, I thought about visiting Mr. Goodwin and asking him to match it. However, the experience of being given a low raise and then being lied to about the reasoning for such a low raise was still very fresh in my mind. Additionally, I am just not the type of person to pull such tactics. After all, why should I have to get a job offer from another employer to get the raise I deserve? Therefore, on the morning of August 23, I called the local mental health clinic and verbally accepted the new job offer and agreed to start working on Monday, September 17th.

Given the above decision, on the morning of August 24 I provided written letters to both Mr. Goodwin and the hospital HRM director informing them that I had chosen to retire from my current position and that September 13 would be my last day of work. Interestingly, given my age and 7 years of experience, I actually was able to retire from the hospital and collect a small monthly pension check.

During the week of August 27-31, I was out of the office due to family medical leave. While I was away, word got around the hospital of my new job and my decision to leave. Unknown to me, several employees approached the hospital CEO and told him that they needed to keep me

and a counter offer must be made. One employee even offered to give up her raise if it would be given to me. Interestingly, this employee is a nurse and makes significantly less money than me.

During the week of September 3-7 I had a fairly normal week of work, but several colleagues (doctors and psychiatric nurse practitioners) approached me and asked why I was leaving and stated that they did not want to lose me. While the flattery was nice, I couldn't help but wonder if most of the commotion was a result of the fact that I worked on a difficult unit which most of the other doctors and psychiatric nurse practitioners wish to stay away from. Regardless, several of the staff on my unit such as nurses and psychiatric technicians told me throughout the week how they had enjoyed working with me and that the unit would fall apart without me. The feedback from the unit staff seemed genuine and did make me think twice about leaving. However, I had little sympathy for the doctors and psychiatric nurse practitioners who (1) got much larger pay hikes than me, (2) had easier jobs than me, and (3) would likely have to start working harder when I left.

While reading the paper on the morning of September 9, I happened to notice an employment advertisement for a new psychiatric nurse practitioner at the State Mental Health Hospital. Notably, the advertisement was posted on August 27 (3 days after my resignation) and listed a pay range of \$38.32 - \$45.84 per hour, which was (1) more than I was offered after my raise and (2) consistent with literature I had previously given to the CEO and HRM director on market wages for psychiatric nurse practitioners. The implication is that State Mental Hospital will pay a new psychiatric nurse practitioner more than a high performing current employee with 7 years on the job and nearly 40 years experience in the nursing field.

### **Counter Offer Received**

While working in my office on the afternoon of September 11, Mr. Goodwin and the HRM director visited me and made a counter offer. The counter offer was for \$45.30 per hour (a small amount more than the hourly rate of the new position I had verbally accepted). However, I couldn't help but notice that the offer was below the top salary range listed in the advertisement I saw in the Sunday paper.

### **What to Do?**

I am now conflicted on whether to stay and accept the counter offer or leave as planned. The counter offer allows me to stay in my current position and work the three or so more years until I retire. I do not have to learn a new job, understand a new organization, bill hours, or give up such things as sick leave hours and the opportunity to grow my pension. However, if I accept the counter offer, I have to go back on my verbal commitment to the new organization. I'm afraid that would make me look selfish, foolish, and quite possibly unethical. To make matters more complicated, I did sign an offer letter with the new organization. However, the offer letter was not a contract and I am pretty sure it is not legally binding. While accepting the counter offer has its advantages, I also wonder what State Hospital staff's reaction will be if I actually accept it. I can already imagine the rumors that will surface about how I complained and got my way. They might even think I threatened an age discrimination suit. At the same time, there are the unit staff members who essentially begged me to stay and I do care about them as well as the mission of State Hospital. Either way, I have to make a fast decision. I told the CEO I would think about it over night and let him know. If I do decide to stay, I will have to inform the local mental health clinic that I will not be reporting for work there in six days.

# IF YOU'RE OUT OF SCHLITZ, YOU'RE OUT OF BEER!

**John J. Vitton, University of North Dakota**  
**Seong-Hyun Nam, University of North Dakota**

---

This critical incident was prepared by the authors 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 (C.C. and Emily) have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be presented or used in any form or by any means without the written permission of the Society for Case Research.

---

## Introduction

In 2013, Constant Companion (C.C.) and his wife Emily were dining at their favorite steak house, a nation-wide chain. They were approached by a young waitress, who took their food order and asked: "Would you like a beverage?" Emily responded, "I would like to have iced tea please." C.C. said, "I'll have a Schlitz!" The young waitress was confounded by the request and with a puzzled look on her face said "What is that?" C.C. responded, "Ask the bartender if he carries Schlitz." She returned with a jovial bartender who announced that the restaurant had not carried Schlitz beer for quite some time. C.C.'s response was "If you're out of Schlitz, you're out of beer!" which was a well-known slogan printed on Schlitz beer cans along with "The beer that made Milwaukee famous." C.C. added that, "In 1950, Schlitz outsold Budweiser." The waitress, being an outstanding student at a local university, decided to research the problem. She found that in 1975, after scanning the external environment, Schlitz CEO, Robert Uihlein became convinced that the Food and Drug Administration (FDA) was signaling the requirement for brewers to list ingredients on their containers, which was supported by Anheuser-Busch. On January 1, 1976, CEO Robert Uihlein ordered Schlitz Breweries to replace a silica gel containing enzymes used in brewing with a substitute called Chill-garde. "Supposedly Chill-garde did the same job as silica gel which was to prolong shelf life and stabilize the beer...Chill- garde would be removed before the beer was containerized and therefore would not have appeared as an ingredient on labels should these be required. Unfortunately, Chill-garde reacted with another ingredient Schlitz utilized, a foam stabilizer called Kelcoloid, which resulted in the coagulation of protein particles. These appeared in the beer as tiny flakes, giving it a milky appearance. They did not alter the taste and were not dangerous, but would hardly be welcomed by drinkers... A Milwaukee plant manager noted the change and reported it to headquarters, but corrective action was not taken. Then, in late February 1976, angry complaints were received from wholesalers who were plagued by returns from their retailers. This prompted a major recall effort involving more than 10 million cans and bottles of beer that Schlitz tried unsuccessfully to conceal. The total cost was over \$1.4 million, but more important than the financial loss was the loss of

reputation and morale. Wholesaler discontent mounted, and relations with Schlitz headquarters deteriorated badly” (Sobel, 1999). Schlitz fell from first in the beer industry to near last today. Can the once leading company regain its market share and brand awareness?

### Background of Schlitz’s Brewing Company

In Milwaukee, Joseph Schlitz was hired as a bookkeeper in a tavern brewery owned by August Krug. In 1856, Krug died and Schlitz took over management of the brewery. In 1858, he married Krug’s widow and the brewery was renamed the Joseph Schlitz Brewing company. Control of the brewery was assumed by the Uihlein brothers, nephews of the founder August Krug, after Schlitz’s death in a shipwreck. The Uihlein family had emigrated from Germany in 1864. Schlitz prospered after the Great Chicago Fire of 1871, which destroyed most of Chicago’s breweries.

Robert Sobel (1999) claimed that “there are few major industries in which one ethnic group predominated as is the case with brewing. German-American families, who founded breweries in the mid-19<sup>th</sup> century rose to be dominating forces, when German lager beer became popular. ...Breweries remained family affairs until the end of World War II...As late as 1961, of the 13 members of the Schlitz board, eight were Uihleins and the other five were sons of mothers, whose maiden name was Uihlein.”

Local brewers dominated, but challengers using pasteurization, refrigeration, and efficient bottling processes transported beer out of local regions, but customers complained that the taste was not the same as in its local market. Beer is a high-bulk low-price product made up of more than 90% water (each gallon of water weighs approximately eight pounds) making shipment economically challenging.

Erwin Uihlein, who headed Schlitz before WWI was “one of the most distinguished and learned American brewers, Erwin studied economics at Cornell, brewing at the Whal-Henius Institute in Chicago, and then took additional courses at Copenhagen’s famed Carlsberg Laboratories after which he returned to Cornell to obtain a law degree...Schlitz’s top management was devoted directly to the goal of making its breweries the most modern and economical in the industry, while Anheuser-Busch was concerned with maintaining the integrity of its beer.” (Sobel, 1999)

Late in the 1940s Schlitz became the best-selling beer in the United States. In 1953 Schlitz was the most popular non-California beer in that state (Sobel, 1999, p. 131). “While Anheuser Busch experienced major growth in the late-1950s and early 1960s, Schlitz stagnated.”

**Table 1. Largest American Brewers, 1950, 1974, 1977 and 1978 (Millions of barrel shipments)**

Brewer	1950	Rank	Brewer	1974	Rank	Brewer	1977	Rank	Brewer	1978	Rank
Schlitz	5.1	(1)	A-B	34.1	(1)	A-B	36.6	(1)	A-B	41.6	(1)
A-B	4.9	(2)	Schlitz	22.7	(2)	Miller	22.2	(2)	Miller	31.3	(2)
Ballantine	4.4	(3)	Pabst	14.3	(3)	Schlitz	22.1	(3)	Schlitz	19.6	(3)
Pabst	3.1	(4)	Coors	12.3	(4)	Pabst	16.0	(4)	Pabst	15.4	(4)
Liebmann	2.7	(5)	Miller	9.1	(5)	Coors	12.8	(5)	Coors	12.6	(5)

**Source:** Competition in the US Brewing Industry: Reported by C.J. Walker, 1979 as cited in Sobel 1999. Anheuser-Busch (A-B).

Schlitz experienced an important management change in 1961 when 44-year-old Robert Uihlein took over from his uncle Erwin. A Harvard graduate, he attended the University of Wisconsin to



obtain his law degree, and advanced at Schlitz through sales. Erwin was great at producing quality beer, but lacked a marketing background. Robert was just the opposite.

Schlitz introduced the flip-top lid in 1963. In the early 1960, Schlitz discontinued batch brewing and moved into the Automated, Continuous Brewing process which drastically reduced staffing. Only a single individual staffed the control panel under the automated system. In the early 1970s, “Schlitz had introduced a new brewing process at its Milwaukee facility known as Accelerated Batch Fermentation, which cut the process from 12 days to less than four, and promised additional economies” (Sobel, 1999, p. 140). The change was prompted by the need to meet large increases in volume demanded while simultaneously cutting production costs.

Schlitz did not age its beer as long as Anheuser-Busch did with Budweiser and Michelob. Busch insisted on using beech-wood chips and foreign-produced high grade hops, whereas Schlitz used a less expensive domestic variety. Aging is a process to provide beer with a longer shelf life by storing it in dark cellar (or vat) at a constant temperature (50 to 60 degrees Fahrenheit). Light caused hops to break down and the taste deteriorated overtime.

The deleterious effect of Robert Uihlein’s decision to add Chill-garde on January 1, 1976 is shown in Table 2. Beer sales, gross revenue, and net income declined significantly after the Chill-garde decision. A pilot test was not conducted. Pilot tests provided a formal and structured process in a controlled environment for evaluating market demand, product design, and delivery methods. It allowed an organization to evaluate product performance without the extensive financial investment required for a full product launch.

**Table 2: Joseph Schlitz’s Barrels Shipped, Gross Revenue, and Net Income from 1973 to 1981**

Year	Beer Sales (millions of barrels shipped)	Gross Revs. (\$ Mil)	Net Income (\$ 000)
1973	21.343	703.0	55,210
1974	22.700	814.5	48,982
1975	23.300	923.0	30,396
1976	24.100	1,000.0	49,947
1977	22.130	937.4	19,765
1978	19.600	910.8	11,961
1979	16.804	894.2	-50,645
1980	14.954	896.7	26,986
1981	14.305	881.7	-20,600

**Source:** Moody’s Handbook of Common Stocks, 1974-1982 quarterly editions  
New York: NY, Moody’s Investors Service, Inc. (a company of the Dun & Bradstreet Corporation)

A management shakeup at Schlitz headquarters followed in the late 1970s and four top executives resigned. In October 1976, Robert Uihlein learned that he had leukemia, and a few weeks later he died leaving no designated nor prepared successor. The company fell to third place in the industry with less than a 14% market share. In 1977, the board passed over David Uihlein (brewing experience) for CEO and turned to McKeithan, a geologist by education, who married a Uihlein daughter. The Milwaukee brewery, which was inefficient and underutilized was shuttered. “The beer that made Milwaukee famous” was no longer brewed there.

### **The Revival of the Brand**

In 1981, Schlitz found itself pursued by its old rival, Pabst, whose offer of \$588 million for the company was rejected. R.J. Reynolds, the large cigarette company, Norton Simon, and Coca-Cola also expressed interest in acquiring Schlitz. By 1981, Schlitz's market share had fallen to under 8%. A merger with "Heileman was stymied by [US] justice department opposition, but Stroh brewery persisted and in 1982 acquired the company that once had tried to acquire it." Both Stroh and Schlitz were acquired in 1999 by Pabst Brewing Company, which continued to produce Schlitz beer, Old Milwaukee, and four Schlitz malt liquors. Can Schlitz be restored to its previous market share and brand supremacy?

### **References**

- Moody's Handbook of Common Stocks, 1974-1982 quarterly editions. New York: NY, Moody's Investors Service.
- Sobel, R. D. (1999). When giants stumble. Paramus, NJ: Prentice Hall.

## SHARED LEADERSHIP AT BAY GRAY, INC.

George L. Whaley, San Jose State University

---

This Critical Incident was prepared by George L. Whaley 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. Copyright © 2012 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Rebecca Gray, CEO of Bay Gray Inc. (BGI), experienced the most challenging year of her sixteen years at the family business (Court Reporting Services). Rebecca joined BGI as an equal partner with her sister Jamie, and attempted to share leadership with her. Jamie and other employees preferred a passive decision-making role with the exception of issues related to pay and work schedules. BGI had steady operating profits (EBITDA) under Rebecca's watch but the 2008 U.S. recession started and BGI profits decreased the next year. She held meetings twice a year that covered business metrics, financial reports and payouts such as bonuses and profit sharing. These meetings became less productive and issues spilled over to family conflict. Rebecca grew weary of the conflicts and in 2010 she wondered whether it was time for new leadership. She stated to her husband:

The economy is not improving and BGI's income has decreased. Tensions have increased and no one is able to separate business and family issues. I tried to secure the financial future by asking about sale of BGI. I tried to share leadership of the firm, reorganize roles to patch up family disputes and balance our own personal and work life. I just need to let go.

Rebecca wanted to stop the deterioration of relationships and this led her to reflect on her mother's hard work to start BGI (see Table 1). She was convinced a final decision was needed in this October 2010 meeting. Rebecca had invested sixteen years in shared leadership and was unsure whether this style was best for leading stakeholders to decide the future control, management and leadership of BGI.

### Court Reporting Industry

The industry was regulated at the federal, state and local levels and was rather stable with future growth expected through changes in the general economy, demographic trends and technology. Court systems usually employed their own reporters and firms in the industry provided services to law firms and those who needed pretrial statements or depositions taken from witnesses, experts and others involved in legal actions. BGI found reports indicating industry employment was expected to grow 14 percent from 2010 to 2020. The growth was influenced by U.S. laws

requiring increased captioning for the Internet and other technologies and growth in the elderly population that provided Communications Access Real-time Translation (CART) services. Equipment sellers had little clout because many options existed for laptop computers, stenotype machines and other hardware reporters used. Court systems, legal firms and other clients maintained power over small servicing firms because they had the option to use competitors and few barriers existed for new firms to enter. Digital Audio Recording Technology (DART) had replaced some court reporters; yet, they were still needed to verify, check and supervise production of transcripts after they had been digitally recorded. Rebecca noted small firms that stayed up with technology, kept the firm's costs in line and provided excellent service were attractive, competitive and usually profitable.

### **Company Background and Challenges**

Martha founded BGI, developed a solid business reputation and asked her two oldest daughters to take over as equal partners when she retired. Rebecca expected to share leadership with sister Jamie; instead, she adopted the leading CFO/CEO role with the consent of all due to her business experience and MBA. BGI maintained a network of independent court reporters that performed the services BGI clients purchased from the firm. Although Jamie had only average reporter skills, she continued to work in the role for twenty-one years. She resisted taking leadership roles prior to 2005 when she quit work as an independent reporter and joined the BGI office staff on a part-time basis. On paper all four employees including Jamie who ran the office on a day-to-day basis, reported to Rebecca. The daily interactions set off more conflict and stakeholder job status, roles, rewards and styles were not aligned (see Table 2).

A thirty-two hour/four day full-time work week and flexible schedules aided employees to juggle work-life responsibilities. Shared leadership meant more to Rebecca than cross-training and involvement in lower-level and self-oriented items such as pay and working hours. She explained shared leadership to others at BGI to include strategic planning, work on mutual financial goals and empowerment to manage emotions and conflicts. Occasionally, Martha was asked to mediate conflicts that involved BGI and family decisions. Despite growing family conflict, a positive face to customers was retained and 2008 was BGI's best financial year in history (\$1.8M revenue, 28% EBITDA). The recession lowered revenue but BGI records revealed the firm struggled to maintain even operating profitability (EBITDA). Year 2009 financials reflected Revenue = \$1.5M, 21% EBITDA and projected 2010 Revenue = \$1.2M, 24% EBITDA. Table 3 showed dialog between employees in key meetings.

### **Focus Summary**

The external environment, finances and family relationships had changed since 2008 and Rebecca knew she needed to decide now whether to continue trying to use shared leadership. She considered a wide range of business options to either transition control to insiders or sell to outsiders. However, her main focus in October 2010 was whether she could use shared leadership to keep relationships intact while BGI stakeholders explored these business options? What leadership approach would you recommend?

Table 1. Major Company Events and Milestones

1972	Martha Gray (MG) founded a family firm (BGI) after completing court reporting school.
1994	Martha retired from BGI and asked her daughters Jamie (JG, oldest) and Rebecca (RG, middle) to be equal managing partners in the LLC.
1996	A family friend and former court reporter Kayla Smith (KS) joins BGI as part-time office manager.
1997	The youngest daughter, Samantha Gray (SG) joins the full-time BGI office staff.
1998	Martha gifted stock to her two oldest daughters in equal shares. Rebecca was officially named CEO of the firm due to her MBA and business experience. Kayla becomes full-time and takes on temporary leadership roles when Rebecca requests.
2002	Rebecca starts study for certification as Organizational Development (OD) trainer outside BGI.
2003	Gail Jones (GJ) joins firm as part-time office assistant. Rebecca (RG) became an OD certified trainer and volunteered in several community organizations in this area. Rebecca's OD training supported her on-going commitment to shared leadership at BGI.
2004	Rebecca worked part-time as OD trainer while working full-time as CEO of BGI. Jamie did not show commitment to shared leadership.
2005	BGI acquired two small court reporting firms that wanted to go out of business. KS was awarded BGI stock as reward for service and as incentive to assume a leadership role in BGI. SG was awarded stock for long service. JG decides to stop work as independent court reporter after 21 years and work part-time in BGI office. Office space was increased to accommodate growth in office staff and business.
2006	In/outside BGI conflicts grew between sisters. RG hired a consultant to develop a transition strategy for her and a BGI succession plan.
2007	The BGI owners decided not to accept the consultant's recommendation to reorganize firm for role efficiency and financial success.
2008	Rebecca drops training as potential career path and makes decision to move BGI to larger office owned by her. JG decides to leave BGI.
2009	BGI income decreased with steady EBITDA. Smaller employee bonuses were expected. RG suggests BGI look for merger candidates.
2010	Conflicts escalate in/outside BGI. RG outlined several external and internal options for BGI to pursue but merger talks stalled.

Source: Adapted from Interview with CEO

Table 2. BGI Year 2010 Stakeholder Status

Name	MG	JG	RG	SG	KS	GJ
Joined BGI	1972	1994	1994	1997	1996	2003
Family Relationship	Mother	Oldest Daughter	Middle Daughter	Youngest Daughter	Family Friend	Family Friend
BGI Ownership	1%	35%	35%	22%	7%	None
BGI Officer	Yes	Yes	Yes	No	No	No
Current Mgt. Interest	No	No	High	No	Low	No
Current BGI Employment	Retired	No	Full-Time	Full-Time	Full-Time	Part-Time
Related BGI Experience	22	26	16	13	14	7
Leadership Style	Task	Passive	Shared	Passive	Participative	Passive
Conflict Style	Compromise	Compete	Collaborate	Avoid	Compromise	Accommodate

Source: Company Documents and Interviews

Table 3. Employee Dialog in Key Year 2008-2010 Bi-Annual Meetings

Year	2008	2009	2010
Purpose	Company meetings were held twice a year, usually April and October to review pro-forma P&L and discuss bonus and profit sharing pay outs. A good bonus was granted because it was best profit year in BGI history.	BGI meetings held to go over P&L. Reality of recession was reflected in BGI P&L numbers but it was not doom and gloom. A small bonus was still anticipated.	In March RG interviewed a competitor for M&A potential. Talks bogged down due to other CEO's busy schedule. RG tells BGI staff and BOD later in 2010 the M&A talks were not going anywhere and a broader M&A search was needed.
Location	Office	Office	Office
Attendees	KS, SG and RG.	KS, SG and RG	KS, SG, JG and RG
Start Meeting	RG states, "here is the pro-forma P&L for 2008 and it looks like a banner year."	RG, "I hope more space pays off and a larger number of BGI employees are committed to making things work here."	RG, "2010 looks like another down year and we need to look at other options for BGI."
Jamie (JG)	JG not present because she left the firm.	JG not present because she left the firm.	JG returned to attend meeting. JG said, "One way to reduce expenses is to get rid of the large office space you own and rent to BGI and let's sell the firm."
Rebecca (RG)	"I forecast \$30,000 pool available for profit sharing and bonus this year. I have created three scenarios that will pay us a combination of bonus and profit sharing. I like the scenario with more profit sharing, which one is best for the company?"	RG, "Since 2009 was a down year, we need to explore other options such as lower expenses and selling BGI."	RG, "This has not been shared leadership. I explored M&A on my own. Let's go outside and get professional help."
Samantha (SG)	"I will go along with some amount of profit sharing for tax purposes but you guys know that I want everything as bonus because we may never live to get our money through profit sharing."	SG, "Does this mean all will get bonuses for sure?"	SG, "It is OK to explore all options as long as our jobs are secure."
Kayla (KS)	"More profit sharing is cool but I will go along with the best compromise for everyone. Let's not forget Jamie and provide a bonus for her"	KS, "Can't we all get along?"	KS, "We should consider anything reasonable."
Martha (MG)	MG is not present, she is retired from firm.	MG is not present.	MG is not present
Gail (GJ)	GJ is not a BGI owner and omitted from bi-annual meetings.	Not Present	Not Present
End Meeting	RG, "I will set up an arrangement where there is an equal amount of profit sharing and bonus this year. Bonuses will be paid in December including a bonus for Jamie equal to mine."	RG, "It looks like we all agree BGI should explore other options."	RG, "Let's look at all options such as selling or you guys taking over BGI."
Key Issues	Little conflict over numbers existed because only RG understood the P&L. One underlying issue was whether JG should receive a bonus but this is not a big conflict.	A concern over income but big conflict over paying all small bonuses.	Conflict escalated and internally no one wanted to step up and lead. If BGI is sold to outsiders, job security and control would be lost.

Source: Company Documents and Interviews

# **POLICE DISCIPLINE AT EASTERN STATE UNIVERSITY**

**Shirley A. Wilson, Bryant University**

**Lieutenant Charles P. Wilson, Rhode Island College Campus Police**

---

This critical incident was prepared by the authors 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 institution, and its location have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## **Introduction**

As the head of the Human Resources department stated that he was ready to issue his ruling, John Franks wondered about his fate. As a career police officer with over 35 years of law enforcement experience, John never imagined that he would be brought up on departmental charges for unprofessional conduct. He had always performed his job in an ethical manner with a high degree of professionalism. In fact, during his fifteen years as a member of the Eastern State University Police Department (ESUPD), he had received very few complaints and had never been brought up on charges of any kind. Yet, here he sat at the conclusion of a disciplinary hearing waiting to learn his fate.

John joined ESUPD after serving 20 years with the Capital City Metropolitan Police. Now in his fifteenth year with Eastern State, he was currently a senior patrol officer assigned to the day shift.

## **Department Background**

The Eastern State University Police Department served a four-year public institution of higher education with close to 12,000 faculty, staff and students and was located not far from the state capitol. It had been cited as being one of the safest college campuses in the area.

The police department, with its 21 members, was responsible for providing round-the-clock public safety services, including crime prevention, suppression, and investigation to the campus community. Because of their statutory authority as outlined in the General Laws of the State, ESUPD was considered a full service law enforcement agency, with officers having police authority on all college property, and were the primary first responders. Typical types of activities were responding to burglar and panic alarms, suspicious persons and vehicles, thefts, vandalism and disorderly conduct, conducted criminal investigations and handled traffic

violations of all types. However, because of the language in state law, which granted them their law enforcement authority, and current refusals by the university to consider this method of professional enhancement, ESUPD officers were prohibited from carrying firearms while on duty.

Due to the University's method of hiring police officers, all ESUPD police were required to have been previously employed by a municipal police department. As a result, all ESUPD officers had a broad range of experience in law enforcement with several having previously served as police supervisors, detectives, or administrators.

The ESUPD, like most other law enforcement agencies, used a paramilitary structure with a clear chain of command. The department, comprised of 21 officers, was headed by a chief of police who also served as the university's director of safety and security. The chief was assisted by a deputy chief/assistant director. Both positions were considered as management-level positions and were appointed by the president of the college. All other positions within the department, from patrol officer through captain, were represented by an employee union that also represented non-police employees at the university.

However, unlike other police agencies, ESUPD did not have a formalized set of rules and regulations which defined the policies and procedures that officers were expected to operate under, thus department administrators expected officers to perform based on its expectations of officer knowledge and experience from their former positions with various municipal police agencies from the surrounding area. Therefore, disciplinary actions taken against members of the department were meted out by the college's Human Resources Department. This process did not appear to take into consideration the tasks, skills, and circumstances which were unique to their role as police officers and had caused great concern among the members of ESUPD. Police discipline at ESU relied upon the constraints of the labor agreement covering all state employees. This contract provided for a tiered progression of discipline beginning with a verbal warning, then written warning, then suspension, and finally termination.

### **Officer Morale**

Officer morale has for several years been on a steep downturn. Causes for this have included but are not limited to the lack of structured rules and regulations detailing how officers are expected or allowed to react and respond to various issues, lack of training, lack of detailed definition of the disciplinary process, strong perceptions of disrespect from members of the campus administration, lack of faith in the employee union, and lack of confidence in departmental leadership.

The issues related to the perceived lack of respect from the administration and faculty had recently taken on a more drastic parameter as faculty members, particularly female faculty, appeared to continuously find fault with an officer's actions and demeanor when responding to calls. They constantly referred to them as "security guards" despite their law enforcement mandates, authority, and many years of experience. These faculty attitudes appeared to be strongly supported by campus administrators as they projected the perception that faculty members were always correct. Members of the police department felt that they had always acted professionally and courteously towards all members of the campus community, particularly the



faculty. Further, the current department leadership was felt to engage in a micromanagement style that created friction between the management and officers.

### **The Incident**

John, along with other members of ESUPD, was assigned to work during the university's graduation ceremonies. The graduation event was scheduled to be the largest ever with several thousand in attendance. John's principal assignment was to insure that observers did not interfere with or approach the main processional of graduates and faculty as they entered the graduation facilities.

Shortly after the processional began, John observed a woman move quickly through the crowd, cross under the taped-off control barrier that had been set up to keep people out of the area, and approached the line of the processional with an unidentified object in her hands. John approached this woman from behind and placed both hands lightly on her shoulders in an effort to draw her away from the area. Further, he verbally advised her that she could not remain in the area. The woman was resistant to John's efforts to move to an approved area. The woman, as well as two female faculty members, began to confront John for his actions and a brief verbal altercation occurred between the four of them with the two faculty members indicating that they intended to speak to the college president regarding the issue. John finally advised them to speak to his supervisor and then continued to work his assigned area for the next several hours until the end of the graduation ceremonies.

Several days later John was advised that he was going to be suspended without pay for a period of three days because of the incident at graduation, alleging unprofessional conduct. He was given notice of a date to appear in the university's Human Resources office for a formal disciplinary hearing. In the notice he was informed of the specific dates that he would be suspended. This seemed to be a direct violation of John's due process rights.

### **The Disciplinary Hearing**

The day finally arrived for the disciplinary hearing. John attended with his union representative and both men were concerned that suspension was a foregone conclusion and he would not receive an objective hearing. Also present at the hearing were John's supervisors and the head of the university's Human Resources department.

John was shown several written statements from several full-time female professors, all from the same academic department, who stated that they felt his actions were unprofessional and out-of-line with university policy, violating the integrity of the university. They also stated that they felt that John should, in fact, be fired for his actions. There was also a statement from a male adjunct professor who indicated that he had observed the incident and felt that John's actions were appropriate. The two female professors stated that they had given the woman permission to cross the control barrier without notifying anyone from the police department.

John tried to explain that he felt his actions were appropriate and fully in line with the standards that had been established by various court rulings for police use-of-force. He explained that since the police department did not have an established use-of-force policy, he relied on his past training and experience with his former agency. He also explained what he believed to be the specific parameters of the assignment he was given on that day. Additionally, he explained that he did not feel the professors knew enough about what his duties were or how he was required to perform those duties to enable them to make an informed judgment of whether his actions were proper or not. Since the professors appeared to obviously have no knowledge of the way police officers were required to conduct themselves, he felt their statements were not significantly relevant. John also questioned why the professors felt they were authorized to give permission to cross the control barrier without first notifying the police department or anyone else in charge.

As the head of the Human Resources department stated that he was ready to issue his ruling, John now wondered about his fate.

## GERBER AND FOOD SAFETY: ARSENIC AND (OLD) RICE

**Karen A. Berger, Pace University**  
**Laura J. Blake, Assumption College**

---

This critical incident was prepared by Karen A. Berger and Laura J. Blake 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

*Posted 09/19/2012 "Watching the news as I type this! How scary!! It shows the Gerber rice cereal that I have in my pantry right now!! They did say Gerber did check and they only get their rice from areas with low levels of arsenic. Not good enough for me!! It's going in the garbage."*

*"I just saw that and my Gerber rice cereal is going in the garbage. Oatmeal for us now."*

*"So has ANYONE in this group been using Gerber Rice Cereal every day, several times a day, or am I the only terrible mother? I am beyond terrified right now."*

Following a *Consumer Reports'* published report that warned of high levels of arsenic found in consumer rice products, *Parents'* magazine community blogs showed women of young children were in an uproar and Gerber had to act before the issue became a full blown crisis. The report's accusations extended to a broad range of popular rice products, not just Gerber's, but the conversation on parenting blogs focused on rice cereals targeted to babies and children. Findings had indicated more than sixty rice product brands tested positive for levels of inorganic arsenic in them. Gerber's full line of rice cereals numbered more than 50 types and blends including the brown rice baby cereals.

Inorganic arsenic was a heavy metal, toxic by-product of industrial processes absorbed into ground water. This inorganic and highly toxic type, the report reminded, caused cancer in humans. This was in contrast with organic arsenic, the type that occurred naturally in plants, sea and soil, which was not considered harmful. Adding to the debate, the media reported that the white rice grown in Arkansas, Louisiana, Missouri and Texas or 76 percent of the total U.S. production had higher levels of inorganic arsenic when compared to rice from other countries, such as Thailand and India (Baertlein, 2012). Doctors and researchers had long known that inorganic arsenic was not a safe substance. But at issue was the question of what was deemed a safe level.

*Consumer Reports* (“CR”), published by the parent, Consumers Union, an organization known for its protective watchdog stance, recommended the U.S. government test and establish safety levels for the inorganic arsenic contaminant. CR’s report warned that, in the absence of governmental regulation, consumers should take measures to limit infants to less than one serving a day of rice cereal, a staple in the American baby diet. For children under five, rice milk should be excluded from the daily diet; furthermore, adults should also severely curtail consumption of rice in any form to less than two servings per week (Baertlein and Humer, 2012). Nutritionist, Julie Jones, a spokesperson for the food industry-funded International Food Information Council Foundation claimed that the recommendations and concerns of Consumer Reports were “misplaced” and unduly magnified an issue she believed was far less threatening than healthy diet and healthy eating. In contrast, Dr. Michael Harbut from the Barbara Ann Karmanos Cancer Institute’s Environmental Cancer Program at Wayne State University was adamant in his declaration that “there is no such thing as a safe level of arsenic” (Baertlein, 2012). Even the American Academy of Pediatrics weighed in on the side of caution hinting at less rice consumption when they issued a statement on their website, “Serving a greater variety of foods will reduce possible risks from arsenic in rice until more data are available” (The American Academy of Pediatrics, 2012).

### **FDA’s Response to the Report**

Urvashi Rangan, Ph.D, Director of Safety and Sustainability at Consumer Reports and author of the report said her goal was to appeal to the Federal Government for support of federal action against arsenic in the American food supply. “Given what we now know about arsenic’s increasing role in contributing to multiple cancers...the government needs to regulate arsenic in food” (Consumers Union, 2012). The FDA responded, “there is an absence of the necessary scientific data that shows a causal relationship between those who consume higher levels of rice and rice products and the type of illnesses usually associated with arsenic” (Flynn, 2012). Public outcry would not stop with parents. Consumer concern had swelled beyond the baby food market as tainted rice products would impact any consumer with dietary restrictions (i.e., wheat or gluten allergies) which prompted more wrangling among all concerned parties.

### **Gerber**

Gerber, a subsidiary of the multi-national corporation, Nestle was acquired from Novartis in 2007. Nestle added Gerber to its nutrition division along with Jenny Craig diet foods and Neslac infant formula. With the addition of Gerber, the nutrition division generated 10 percent of all revenue for Nestle (Miller and von Schaper, 2007). The Gerber Company made a wide variety of baby products. Gerber iron-fortified infant cereals were core brands and widely popular as a first solid baby food designed to deliver good infant nutrition. Among their product line of twenty-one cereals, Gerber’s variety of six Rice and SmartNourish brown rice cereals were among their biggest sellers.

This was not the first time that Gerber found itself on the hot seat on the food safety issue. Gerber baby apple juices had been publicly noted for the organic arsenic contained in them in 2011. At that time, Donald Zink, Ph.D. senior science advisor at FDA's Center for Food Safety and Applied Nutrition countered, "there was no public health risk from drinking baby apple juices". Zink elaborated that arsenic was a naturally occurring substance, often a result of contamination of the water, air, food supply or soil (U.S. Food and Drug Administration, 2011). He was adamant on his position that organic arsenic was commonly found in "seaweed and seafood products" and was relatively nontoxic. But Gerber could not claim organic arsenic as defense this time since the highly credible CR report confirmed the arsenic in rice had been the inorganic, toxic and likely carcinogenic type.

### **The Gerber Response**

Gerber moved to address the news stories through public relations issuing a press release titled, "Gerber Reassures Parents of Rice Cereal Safety" that quoted a U.S. Food and Drug Administration report, called the Total Diet Study, which indicated that "the FDA has consistently advised that families should not make dietary changes based on presence of the low levels of arsenic in rice and rice based products". They also reminded consumers they were sourcing their rice from California and encouraged consumers to contact them "if they have questions or concerns at 1-800-462-5046 or Gerber.com, any time, day or night." From a public relations perspective, was the issuance of a press release and website communiqué sufficient? Critique Gerber's management of this crisis and offer suggestions on how they may communicate their intentions in the future?

### **References**

- American Academy of Pediatrics (2012). *AAP News*. Retrieved from:  
<http://aapnews.aappublications.org/content/early/2012/09/19/aapnews.20120919-2>
- Baertlein, L. (2012, September 19). Consumer Reports: U.S. needs arsenic limits in rice. *Reuters*. Retrieved from <http://www.dispatch.com/content/stories/nationalworld/2012/09/19/us-needs-arsenic-limits-in-rice>
- Baertlein, L. and Humer, C. (2012, September 19). U.S. needs arsenic limits in rice: Consumer Reports, Retrieved from <http://in.reuters.com/article/2012/09/19/usa-rice-arsenic-idINL1E8KJ79J20120919>
- Consumers Union. (2012). Consumer Reports investigation: varying levels of arsenic found in rice and rice products show need for federal action. Retrieved from [http://www.consumersunion.org/pub/core\\_food\\_safety/018472.html](http://www.consumersunion.org/pub/core_food_safety/018472.html)
- Food & Drug Administration. (2011, September). FDA: Apple juice is safe to drink. Retrieved from <http://www.foodsafetynews.com/2011/09/fda-apple-juice-is-safe-to-drink/>
- Food & Drug Administration. (2011, September 9). Letter from FDA to the Dr. Oz show regarding Apple juice and arsenic. Retrieved from [www.fda.gov/Food/ResourcesForYou/Consumers/ucm271630.htm](http://www.fda.gov/Food/ResourcesForYou/Consumers/ucm271630.htm).

- Flynn, D. (2012, September 20). Dust-up over arsenic levels in rice settles nothing. *Food Safety News*. Retrieved from <http://www.foodsafetynews.com/2012/09/dust-up-over-arsenic-levels-in-rice-settles-nothing>
- Gerber. (2012). Gerber Reassures Parents of Rice Cereal Safety. Retrieved from <http://news.gerber.com/pr/gerber/gerber-safety-statement-238803.aspx>
- Lebowitz Rossi, H. (2012). Arsenic Found in Rices, Including Baby Rice Cereal, in Consumer Reports Review. *Parents Magazine*. Retrieved from <http://www.parents.com/blogs/parents-news-now/2012/09/19/safety/arsenic-found-in-rices-including-baby-rice-cereal-in-consumer-reports-review/#fb-comments>.
- Miller, Hugo and von Schaper, Eva (2007). Nestle buys Gerber for \$5.5 Billion – sale lets Novartis focus on medicine. *The Washington Post Bloomberg News* Retrieved from [http://www.washingtonpost.com/wp-dyn/content/article/2007/04/12/AR2007041200372\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2007/04/12/AR2007041200372_pf.html)
- Parents' magazine* community blog, September 19, 2012, retrieved from <http://community.babycenter.com/post/a36534526/All>

## FRONTIER COMMUNICATIONS: A STUDY IN MISSED CUSTOMER SERVICE OPPORTUNITIES

**Robert G. Edmonds, SUNY Maritime College**

---

This critical incident was prepared by Dr. Robert G. Edmonds and is intended to be used as a basis for class discussion. The issues presented here are those of the author based upon professional judgment and do not necessarily reflect the views of the Society for case research. The names of the individuals have been disguised to preserve anonymity. Copyright 2013 by the Society for Case Research and Dr. Robert G. Edmonds. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Jon White sat at his office desk and pondered his growing sense of frustration and anger over Frontier Communication's poor customer service. It all seemed so very simple. He had finally decided to enter into the 21<sup>st</sup> century by purchasing a new desktop computer to replace his aging eight year old Dell computer. After reviewing several desktop and laptop computers he decided to purchase a new Dell XPS 410 with all the "bells and whistles" including a 20" flat screen monitor and quad core processor. The purchase of this new computer set into motion his need to upgrade the current Internet connection that was now far too slow and dated. From a number of promotional ads received from his local telephone company, Frontier Communications, he was led to believe that a simple telephone call to the firm's customer service department would solve his needs and enable him to install a newer high-speed Internet connection. What transpired over the next three weeks became an object lesson in customer service that no consumer should have to experience and no firm should provide to its customers.

Jon was a sales and marketing professional for over 25 years and was now a college professor of business subjects including management and marketing. He had always recognized and taught the importance of quality customer service as part of an organization's differentiation and service strategies. Indeed, superior customer service, putting the customer first, could not only help a firm to differentiate itself from its competitors in the customer's mind, but also enable it to build strong brand value that led to increased sales and profits. Indeed, a top-flight customer service strategy can help a firm increase its market share by as much as six-percent and a return on sales of some 12 percent according to the Strategic Planning Institute. So what transpired over the course of the next three weeks after his initial telephone call caught Jon by total surprise.

The toll free number provided by Frontier Communications for its customer service brought Jon to a service center which he found out was located in Minnesota. The Customer Service Representative (CSR), Larry, was pleasant and competent enough, but was unsure whether the new service was available in Jon's home area of Middletown, New York even though Frontier readily advertised the availability of this service in mailers throughout the Middletown market

area. As he was ill equipped to respond to Jon's request, Jon was transferred back to another service center in New York to a junior level CSR named Tara. That is when his problems really began with Frontier's customer service.

For starters, Tara could not locate Jon's account even though he had supplied her with the billing information. Then too, she was unsure of whether or not the upgraded service was available in his home geographical area. Jon was put on hold for over 15 minutes while Tara tried to locate his account and confirm the availability of the service. Upon her return to the line she indicated that he would have to wait for some 24 hours for customer service to investigate, but that he would receive a return telephone call by 5:00 p.m. the next day. Fortunately, during their conversation Jon was able to obtain needed information on the cost of the new service. A new promotion was in place allowing for updated installations to be billed at the current connection rate of \$19.99 a month for the first 12 months and at \$29.99 thereafter, plus a \$3.99 per month charge for the modem rental. The cost of the new service was cost effective and more than acceptable to him.

In the space of 40 minutes Jon had already spoken to two Frontier customer service reps and still had no idea if he would be able to obtain the new, speedier Internet service that he now required. His frustration and expectations were further compounded the following day when the promised return telephone call by 5:00 p.m. never materialized. Subsequent telephone calls to Frontier call centers proved equally frustrating. Jon was informed that service was not available in his market, and he would be better served by switching his service to his local cable provider. There seemed little recourse and few options remained. Frontier Communications did not provide the upgraded service in Jon's area and he would have to change over to the local cable provider, Time Warner Cable. The change would impact his current e-mail address of several years that was often used to communicate with his students and friends. Jon's trust in Frontier's ability to deliver on its upgrade advertising was severely compromised.

Just prior to Jon's placing a call to the cable provider a family friend, Ann, intervened. She lived locally and had upgraded to Frontier's new Internet service. She knew a tech rep, Bob, who worked for Frontier and who had installed her speedier, upgraded service; Ann offered to assist Jon by contacting him. Finally someone in Frontier could be helpful and actually knew that the upgraded service was available locally. The tech rep made contact with the appropriate service center and placed a work order for the installation. Little did Jon know that the work order was just the beginning of a second phase of misinformation, missed opportunities and growing frustration with Frontier's customer service function.

It was a Monday evening, a few days after Bob's work order was placed, at 8:30 p.m. when Jon received a telephone call from a CSR located in Florida. Anna had received the work order to install the new connection and wanted to confirm some information. As it turned out the installation was scheduled for the following day and a service time frame between 8:00 a.m. and 12:00 noon was confirmed. Jon was elated over the quick response resulting from Bob's intervention; the service would be installed in three days after his work order was placed. By 3:20 p.m. on the day of installation the tech representative had not arrived; Jon received neither a telephone call from Frontier's technical service function regarding the delay, nor any communication from Anna. He again telephoned Anna only to find out that the service call was not made because of a notation on the work order, CWA, i.e., "the customer will advise." Jon was dumbfounded; Anna and he had talked the night before and set a specific time frame for the installation. Very apologetic, Anna rescheduled



the installation for Friday of that week between 1:00 p.m. and 5:00 p.m. Finally, Jon was assured that the new service would be installed, and he could then set up his new Dell desktop computer.

The second installation appointment proved no different than the first; no tech representative arrived to install the service in the appointed time frame. Once again, with increased frustration Jon telephoned the Florida service center for an answer. The call only served to reinforce his perception of poor customer service and his disappointed expectations. Anna was not available, but another CSR, Marta, sadly informed him that service could not be installed because of some needed “grooming” in the area; the “grooming” would take several days. Sensing Jon’s increased anger and frustration, Marta offered to provide a \$25.00 credit for his inconvenience which temporarily helped to defuse his anger. Yet a third appointment was set up for the following week, a Thursday between 1:00 p.m. and 5:00 p.m. At this point, Jon had become so frustrated that he emphatically stated to Marta that failure to install the Internet service during the appointed time would leave him no alternative but to cancel the installation including Frontier’s Internet service, and switch his two Frontier land telephone lines to the local cable company.

Jon began to seriously question Frontier’s lack of supervision and training of CSRs. He asked himself why it appeared that those CSRs he encountered seemed to lack self motivation and the discipline needed to really take care of the customer, to place the customer first, to resolve issues, follow up and problem solve. Appointments were made only to be broken. Promised telephone calls were not returned. This was certainly not part of any customer centric strategy he had encountered in the business world nor taught about in his courses.

It is often said the “the third time proved the charm.” The Frontier tech rep showed up early in the time frame and within 30 minutes completed the installation of his eagerly awaited service. Jon was now connected to the Internet with newer 21<sup>st</sup> century technology. Yet getting there was another matter altogether and a lesson in what constitutes quality customer service, or rather the lack of quality customer service.

How many other Frontier customers received misinformation when they called the firm’s customer service centers, and were scheduled for repairs and new services only to find tech reps did not show up because customer service failed to handle paper work properly? How many customers would be as patient as Jon was during the three weeks it took to have his old Internet service upgraded to a new service; how many sought out a competitor such as Time Warner Cable or Verizon and merely dropped Frontier?

Frontier Communications, like many utility companies holds a quasi monopoly for service in its market area. Jon could only surmise a guess as to the number of lost customers and sales that were due to the firm’s poor customer service. If his experience was not atypical what could he do, what could be done to make a difference in Frontier’s customer service function? Jon sat down to his new computer’s keyboard and began his e-mail communication to Frontier’s president.

## HOW CAN BPI RESTORE CONSUMER CONFIDENCE IN PINK SLIME?

Asbjorn Osland, San Jose State University

---

This critical incident was prepared by the author 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. Copyright © 2013 by the Society for Case Research and the author. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The public perception of lean finely textured beef (LFTB) as pink slime resulted in Beef Products Inc. (BPI, based in Dakota Dunes, South Dakota) closing its three processing plants in Texas, Kansas and Iowa as of May 25, 2012. LFTB consisted of meat particles that remained after the fat had been mechanically spun out of cuttings. BPI blamed the closures on what it perceived as a smear campaign. Executives stated that the future employment of the 700 people laid off depended on the company's recovery from what it perceived as a PR problem, not a genuine food safety concern. BPI's initial response was to solicit expert opinion from the meat processing industry asserting that LFTB was safe and nutritious, which it posted to its website, and also to stimulate political protest and action. BPI reportedly lost 80 percent of its business within 28 days after ABC broadcasted its "pink slime" series. BPI sued ABC News, Inc. and others for defamation (Schulte & Eaton, 2012). What could the company do to reassure customers?

### Food Processing and LFTB

Processed foods often included many unusual items that weren't appetizing (Ecoist, 2012; Izismile, 28 July 2011). One such processed food product was LFTB. It had been added to 70% of America's ground beef until the 2011-2012 media furor. USDA microbiologist Gerald Zirnstein referred to LFTB as pink slime in a 2002 e-mail message (Moss, 2009). The negative perspective was subsequently popularized by Jamie Oliver's "Food Revolution" TV program aired April 12, 2011. He described pink slime as composed of leftover cow parts or trimmings that had to be treated with ammonium hydroxide to kill dangerous microbes such as e.coli and salmonella. ABC News gave the pink slime story national coverage in 2012.

The commercial view of LFTB was that it optimized meat production by making effective and efficient use of beef trimmings (Cargill, June 29, 2013). In 1994 BPI developed its pH Enhancement System to reduce pathogens such as E.coli O157:H7. In 2001 the US Food and Drugs Administration (FDA) and the US Department of Agriculture (USDA) approved the pH Enhancement System. This gave BPI the go ahead to produce pH enhanced lean beef. In 2007

the International Association for Food Protection awarded the company the Black Pearl Award, its highest honor, in recognition of BPI's commitment to food safety. Its web site listed other awards as well.

Cargill, a large agribusiness, explained that LFTB or what it called finely textured beef was useful because it permitted companies to vary the fat content in hamburger to the specific level desired by consumers; as a staple food for many families, the price of ground beef had to remain low to keep it accessible; and finally, companies saved 26 pounds of beef from every animal.

### **Is the LFTB Process Safe?**

Ammonium hydroxide, an antimicrobial agent, had been in use in the meat industry for over 40 years and in 1974 an FDA committee concluded that it was safe for use in meat processing. It did not need to be listed as an ingredient since it was used in processing, not as an additive (Entis, 2012). Cargill used citric acid instead of ammonium hydroxide. However, Moss (2009) listed numerous instances where BPI's LFTB products were found unsafe due to pathogenic contamination. However, the World Health Organization and the Food and Agriculture Organization of the United Nations approved the process (Kislenko, March 24, 2012). Mechanically separated meat, used in the process of making LFTB, had been banned in Europe (Adams, March 28, 2012). Adding ammonia was not permitted in Canada.

### **Change.org Petition**

Consumers have become increasingly concerned about food safety (Scott-Thomas, May 3, 2011) and within nine days of posting the petition, drafted and proposed by Bettina Siegel on March 6, 2012, over 200,000 people had signed, with the number growing to 258,874. The petition urged the USDA to allow school districts to opt out of using LFTB, which the USDA agreed to as of fall 2012. Schools used commodity dollars to purchase hamburger through the USDA but they also used private vendors that didn't have to label the presence of LFTB.

Bettina Siegel, the author of the petition, started The Lunch Tray (TLT) blog in early 2010, which became a popular and recognized blog focused on improving school hot lunch programs. When asked why her campaign had been successful, she stated (9 June 2013):

First of all, I started out on a slightly higher footing than the average Change.org petitioner because of my blog, The Lunch Tray. I already had a built-in readership which, while pretty small by Internet standards, consists of a self-selecting group of parents who are deeply concerned about food issues. And through blogging I'd also formed a social media network with other bloggers with overlapping areas of interest. Through Facebook and Twitter it was easy to reach those other bloggers and, by extension, their respective readerships as they, too, spread the word. Those things certainly didn't get the petition anywhere near 250K signatures, of course, but they got the ball rolling initially.

Second, even though my petition spoke only of LFTB in school food, outside media reports stoked interest in the topic generally. ABC News, in particular, ran numerous reports on LFTB. Hearing those news stories, people were quite surprised to learn that this product was in 70% of the nation's ground beef supply, up to 15% of the mix,

without labels and with few people outside the beef industry even aware of it. I think people felt duped and angry and my petition may have been a way for them to express their displeasure -- even if they didn't particularly care about kids and school food.

Finally -- and this is pure speculation on my part -- LFTB is only in ground beef, and therefore it impacts the iconic, all-American hamburger. That's a food that's particularly beloved by huge swaths of our society, regardless of class or race, and so maybe that's another reason why the issue had such broad appeal.

Gainor (2012), writing for Fox News, criticized ABC News and Jim Avila in particular for focusing on BPI in ten stories that resulted in major grocery chains dropping LFTB. ABC reportedly used the term “pink slime” 52 times. The title “pink slime” appeared to be a smear to those that valued the industrial approach to optimizing the use of the animal carcass. Some of those that thought of hamburger as ground meat from a cut of the animal appeared disgusted by pink slime. BPI sued but what more could it do to restore consumer confidence? Were there other uses for LFTB?

### References

- Adams, G. March 28, 2012. Nutrition: America awakens to the sour taste of 'pink slime' - The meat product that's in all kinds of US food is causing a very unsavoury row. The Independent.
- Adilawar. June 13, 2012. Governors Who Continue to Serve Students 'Pink Slime' Received Thousands in Campaign Contributions from Its Producer.
- Cargill. June 29, 2013. Retrieved from <http://www.cargill.com/news/company-statements/cargill-finely-textured-beef/index.jsp> on June 29, 2013.
- Choi, C. 6/5/2012. Most school districts reject 'pink slime' for lunch programs. Associated Press.
- Ecoist. 2012. 10 Weird and Gross Ingredients in Processed Food. Retrieved on June 12, 2012 from <http://webecoist.momtastic.com/2009/05/08/10-weird-and-gross-ingredients-in-processed-food/>.
- Entis, P. March 8, 2012. What's Wrong With Pink Slime? Retrieved on June 12, 2012 from <http://www.foodsafetynews.com/2012/03/whats-wrong-with-pink-slime/>
- Gainor, D. March 23, 2012. How ABC News smeared a stellar company with 'pink slime'. FoxNews.com.
- Izismile, 28 July 2011. Disgusting Food Ingredients. Retrieved on June 12, 2012 from [http://izismile.com/2011/07/28/disgusting\\_food\\_ingredients\\_10\\_pics.html](http://izismile.com/2011/07/28/disgusting_food_ingredients_10_pics.html)
- Kislenko, D. March 24, 2012. 'Pink slime' stops at the 49th parallel. TheSpec.com

Moss, M. December 31, 2009. Safety of Beef Processing Method Is Questioned. The New York Times.

Schulte, G. & Eaton, K. September, 13, 2012. BPI sues ABC News for 'pink slime' defamation.

Scott-Thomas, C. May 3, 2011. Consumer survey finds growing food safety concerns. Foodnavigator-usa.com.

The Lunch Tray. Retrieved on June 21, 2013 from <http://www.thelunchtray.com/>

## STAKEHOLDER DIALOGUE: ALLEY CAT ALLIES & US FISH AND WILDLIFE SERVICE

Asbjorn Osland, San Jose State University  
Nanette Clinch, San Jose State University

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Alley Cat Allies (ACA) could be described as a one-issue focused organization. Its supporters wanted to save feral cats from wholesale extermination where unwanted through the Trap-Neuter-Return (TNR) approach rather than the euthanizing of unwanted feral cats. Feral cats result from poor control by owners over domestic cats. If neutered or spayed feral cats continued their predatory habits; TNR did nothing to curb the threat to native species, in the view of the US Fish and Wildlife Service (USFWS). In contrast to the ACA view that removal meant death, the USFWS's objective was not to euthanize the feral cats but rather to turn them over to the county animal control program, which had been a no-kill organization (aside from cats that were ill or injured). The USFWS faced intense pressure from influence groups made up of fervent supporters. How can it effectively deal with the opposition of extremely vocal fervent people in a participative open process where the organization had to attend to the views of various stakeholders rather than simply impose its will?

### Cats and the Florida Keys

The USFWS asked for public comment on the proposal to reduce feral cat and other invasive species in the Florida Keys National Wildlife Refuge Complex. The report provided ample scientific evidence of how cats left free to roam, both domestic (i.e., cats with a home) and feral, were harmful to native ecosystems. Cats constituted one the largest human-influenced threats to small native wildlife. Free-roaming cats contributed to the extinction of 33 native species worldwide, on islands in particular. In research specific to the Florida Keys National Wildlife Refuge Complex free-roaming cats preyed on the Lower Keys marsh rabbit, Key Largo Woodrat, Key Largo cotton mouse and probably the silver rice rat.

The remedy suggested by the USFWS, which was the result of extensive stakeholder input and review was to trap free-roaming cats and transfer them to the local county's animal shelter to be returned to their owners or adopted.

### **Alley Cat Allies**

Alley Cat Allies (<http://www.alleycat.org>) is a 501(c)3 agency (i.e., IRS recognized charity) that advocated for humane treatment of feral cats through TNR programs. It claimed that the main problem in wildlife management was people, not feral cats. Humans encroached on wildlife habitat thereby harming ecosystems that nurtured animals, including songbirds and endangered and threatened species. It advocated for its members to oppose the USFWS plan for the Florida Keys National Wildlife Refuge Complex. When asked about the USFWS plan, Rita Melvin, of Alley Cat Allies, responded (email, November 6, 2012):

Alley Cat Allies works tirelessly against the FWS, advocating against their policies regarding feral cats and TNR. Their simplistic and fallacious cat vs. bird argument to set policy comes at a cost of millions of animals lives. In the past 20 years, Alley Cat Allies has led America in taking on FWS proposed wildlife management plans and attempted legal actions, which continually suggest that feral cats be "removed" from areas (really catch and kill). These plans lack scientific evidence to back up their claims against cats, while also ignoring evidence of how catch and kill plans don't work. We work every day to ensure that broader audiences are informed about the effectiveness of Trap-Neuter-Return as well as the irrational propaganda of those who work against it. We will not stop until we have solid legal protection in place for feral cats and the practice of TNR to help them."

### **Cats and Predation of Birds**

Cats killed birds (Revkin, 2009; Barcott, 2007, Mott, 2004). Even well fed domestic cats hunted. Feral cats remained problematic for birds, which scientific journal articles supported. This was especially true on islands, including the Big Island in Hawaii, where feral cats were decimating Hawaiian petrels. Fern Duvall, a scientist with the Hawaii Department of Land and Natural Resources, contrasted the fledging rates of seabirds and found that the island with cats had a rate of only 13 percent of the chicks surviving whereas 83 percent of the chicks on the cat-free island survived. When the State considered a feeding ban of feral cats on public lands, cat advocates protested.

### **Fervent Supporters**

Feral cat caretakers were often highly committed to their avocation – caring for unwanted cats that have turned feral. They routinely spent many hours weekly caring for cats and spending significant amounts of money, even thousands of dollars annually, to care for their colonies. Caretakers had a network of support including substitute caretakers, veterinarians and humane societies that advocated for TNR as the humane method for addressing the problems created by abandoned cats that turn feral.

Although there was no typical story the providers tended to spend a great deal of their free time caring for cats. They also spent a lot of their own money; \$500-\$600 monthly was not uncommon for caretakers of larger colonies. They often attempted to feed the colonies discreetly so as to not draw attention to their activities. They often had multiple cats at home as well. Caretaking activities obviously intruded on personal time. People living around feral cat colonies sometimes would have preferred that the cats were moved or eradicated but sometimes they were

also very supportive of the caretaker. People often protested because feral cats preyed on all kinds of animals including songbirds. However, tall buildings, wind mills, habitat destruction and so forth were all problems created for birds by humans; caretakers saw the feral cat predation as secondary to these human problems. Caretakers sometimes found sympathetic vets but they also often spent their own money when cats were injured or ill.

The authors contacted ACA for the names of feral cat caretakers in the Bay Area to get a better understanding of their avocation. Researchers customarily found respondents reluctant to fill out surveys but in this instance the caretakers provided 10-20 page responses to questions. When the researchers attended a meeting of approximately 40 caretakers at the San Jose Humane Society, they were taken by the degree of commitment expressed.

### **How Can the USFWS Manage the Stakeholder Dialogue Process?**

In their article entitled *Poverty and the Multiple Stakeholder Challenge for Global Leaders*, Reade, Todd, Osland, and Osland (2008) discussed stakeholder dialogue process in the following manner (p. 827):

1. Communicate and listen mindfully. Leaders listen to other parties carefully and attentively, watching for verbal and nonverbal signs indicating lack of understanding. Respectful communication practices help to foster positive attitudes toward all stakeholders and build trusting relationships that create the foundation for collaboration.
2. Seek common ground and shared goals. Focus on common goals that supersede individual stakeholder interests and explore options for proceeding even in the midst of differences. Be open to constant interpretation and reinterpretation of issues. Minimize stereotypes.
3. Scrutinize your own assumptions. Never assume that there is nothing to learn from the local context or that the knowledge one brings to the local context is “new.” Move beyond historical–present day comparisons. Accept that conditions have changed, requiring new attitudes and behaviors to make progress. Don’t be afraid to change your opinion and acknowledge past mistakes. Be willing to accept influence from others.
4. Allow self-determination. Allow solutions to develop indigenously, from dialogue among local and global leaders. Seek and facilitate community buy-in. If community residents have an opportunity to voice their concerns, conflict may be averted. Complex problems involving multiple stakeholders are seldom permanently resolved. Expressing frustration over delays can prolong the situation. Expect ongoing dialogue and the need to balance competing tensions.

The USFWS posted a document on its website and then asked for public comment, which ACA provided. The USFWS process identified the comments received (both supportive and contrary to the proposed action) and weighted those in the formation of the decision. The process was intended to hear all perspectives and base the agency’s decision on the body of input received. On the website and in public documents there appeared to be little discussion but rather scientists stated what they regarded as facts and the ACA responded with its interpretation directed at avoiding wholesale slaughter of feral cats. ACA appeared to adopt a position that TNR was the solution, which the USFWS did not accept. Common ground appeared not to result from the ACA’s interaction with the USFWS. How could the process have been managed to find common ground between stakeholders including the local shelters, ACA, USFWS and other interested parties?



## References

- Barcott, B. (2007, December 2) Kill the cat that kills the bird? *New York Times*. Retrieved from <http://www.nytimes.com/2007/12/02/magazine/02cats-v--birds-t.html?pagewanted=all&r=0>
- Mott, M.(for National Geographic News). (2004, September 7) Growing Feral Cat Problem. Retrieved from <http://news.nationalgeographic.com/news/pf/10021388.html>
- Reade, C. ,Todd, A. M., Osland, A. & Osland, J. (2008). Poverty and the multiple stakeholder challenge for global leaders. *Journal of Management Education*, 32 (6), 820-840.
- Revkin, A. C. (2009, June 2). The truth about cats and birds? Retrieved from <http://dotearth.blogs.nytimes.com/2009/06/02/the-truth-about-cats-and-birds/>
- U.S. Fish and Wildlife Service. January 2011. Draft Environmental Assessment. Florida Keys National Wildlife Refuges Complex. Integrated Predator Management Plan. Report includes extensive scientific references.

## CHICK-FIL-A: A SOCIAL MEDIA CRISIS

**Cara Peters, Winthrop University**  
**Jane Thomas, Winthrop University**  
**Jamie Benjumea, Winthrop University**  
**Nick Garner, Winthrop University**  
**Katie Turner, Winthrop University**

---

This critical incident was prepared by the authors and is intended to be used as a basis for class discussion. The views represented here are those of the authors based on their professional judgments and do not necessarily reflect the views of the Society for Case Research. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form by any means without the written permission of the Society for Case Research.

---

Dan Cathy never realized his comments to a Christian radio station would explode on the Internet and social media, sparking a firestorm of controversy and mobilizing gay rights advocacy groups. Dan Cathy, President and COO of Chick-fil-A, had participated in many interviews over his lifetime. At first glance, this interview appeared to be no different than the others. On July 16, 2012, Dan was being interviewed by a Christian radio station and was asked his opinion about marriage. Cathy upheld his traditional Christian values and stated, "We are very much supportive of family--the biblical definition of the family unit. We are a family-owned business, a family-led business, and we are married to our first wives. We give God thanks for that..." (Bhasin, 2012). Little did Cathy know that his comments would set off a firestorm of controversy for Chick-fil-A. Within a matter of days, the company was facing a social media crisis. More than a month later, the controversy was still going. Cathy and the management team for Chick-fil-A had to figure out a strategy to move forward.

### Company Background

Chick-fil-A was started in 1946 when Truett Cathy (Dan's father) and his brother opened their own restaurant, Dwarf House, in a small town near Atlanta, Georgia. After twenty years of developing the famous Chick-fil-A sandwich, Cathy decided to open a restaurant that featured only chicken. The first Chick-fil-A was opened in 1967 in a mall. Chick-fil-A then expanded to over one thousand six hundred restaurants in thirty-eight U. S. states. The bulk of these restaurants were franchise operations located in the southeastern United States. The franchises, while carrying the Chick-fil-A name, were independently owned and operated. Recently, however, Chick-fil-A was expanding toward the west as well as internationally. To date, the net worth of the privately held company was estimated to be \$1 billion dollars.

Chick-fil-A was not a typical fast food outlet. The company strove toward continuous improvement in product quality and customer service. They had an innovative advertising campaign that featured black and white cows, asking consumers to “Eat Mor Chikin,” and charged more for a higher quality product. The company expressed a corporate culture and brand identity consistent with the Cathy family’s Christian values. The original owner, Truett Cathy, believed that his company’s purpose was to glorify God. Chick-fil-A proudly displayed these beliefs by closing stores nationwide on Sundays, at the expense of lost sales.

### **The Viral Spread**

In addition to Dan Cathy’s July 16<sup>th</sup> comments on marriage and family, the COO also explained in the interview that while Chick-fil-A does not claim to be a Christian business, it does operate under Christian principles. When Dan Cathy made these statements, he had no idea that he was offending various gay rights communities across the United States. Groups representing gay rights activists began to investigate Dan Cathy’s comments in other interviews, as well as the charitable organizations Chick-fil-A funded. Gay & Lesbian Alliance Against Defamation (GLAAD) devoted an entire web page to making the public aware of Chick-fil-A’s charitable contributions and Dan Cathy’s stance on marriage and family.

Within twenty-four hours, media figures began to publicly debate Dan Cathy’s, and by default Chick-fil-A’s, stance on their blogs and social media sites. Many celebrities promoted the controversy that surrounded Cathy’s statements via blogs, tweets and other social media sites. For example, on July 19, Ed Helms tweeted, “Chick-fil-A doesn’t like gay people? So lame. Hate to think what they do to the gay chickens! Lost a loyal fan” (Swift, 2012). Other celebrities, such as Andy Richter, Lance Bass, and Perez Hilton also tweeted anti-Chick-fil-A comments.

By July 18, the major news outlets had caught wind of the story, as it expanded beyond just celebrity tweets and blogs. Major news media such as CNN, FOX News, CBS, LA Times, Chicago Tribune, and ABC News reported the story after it spread on social media. As the storyline unfolded in the mass media, gay rights activists began to mobilize further against Chick-fil-A. One organization created a Facebook event (to be held on July 19, 2012), dubbed “National Same Sex Kiss Day,” that encouraged same sex couples to kiss at Chick-fil-A restaurants.

On July 19, Chick-fil-A responded on Facebook by posting, “The Chick-fil-A culture and service tradition in our restaurants is to treat every person with honor, dignity and respect--regardless of belief, creed, sexual orientation or gender. We will continue this tradition in the over 1,600 restaurants run by independent owner/operators. Going forward, our intent is to leave the policy debate over same-sex marriage to the government and political arena.” Chick-fil-A’s response was shared on Facebook more than 11,000 times within two weeks (Gonzalez, 2012).

Companies in support of gay rights activists took a public stance on the issue. For example, the Jim Henson Company, which previously partnered with Chick-fil-A to provide Muppets merchandise, decided to withdraw its support to Chick-fil-A. On July 20, the company posted on their Facebook page they would no longer be partnering with Chick-fil-A and would be donating payments received from Chick-fil-A to GLAAD.

Chick-fil-A thought the viral spread of the controversy had begun to dwindle when on July 24, a Chicago City Alderman (i.e., akin to a city council member), Joe Moreno, stated to the Chicago Tribune that, “I will be now denying Chick-fil-A’s permit to open a restaurant in the first Ward” (Dardick, 2012). His opposition to a Chick-fil-A store opening in his ward drew the Mayor, Rahm Emanuel, into the public debate. The next day, Emanuel gave a speech with reporters present in which he stated, “Chick-fil-A’s values are not Chicago’s values. They are not respectful of our residents, our neighbors and our family members” (Spielman, 2012). Furthermore, Emanuel’s actions seemed to inspire the Mayor of Boston, Thomas Menino, to similarly rebuke Chick-fil-A. Thomas Menino wrote Dan Cathy an official letter in which he urged Cathy “to back out of your plans to locate in Boston” (Gonzales, 2012). A fuzzy copy of this letter was posted online and also went viral among social media sites. However, on July 26, these politicians began to reel from their statements as news outlets published opinions from legal experts who stated that it would be unconstitutional for a city to deny business permits because of the company president’s views on marriage.

On July 31, Arkansas’ former governor, Mike Huckabee, came out in support of Chick-fil-A, garnering additional media coverage for the other side of the debate. Huckabee posted an event on Facebook called “Chick-fil-A Appreciation Day” that invited those in support of the company to visit their local store and eat a Chick-fil-A sandwich on August 1, 2012. The public quickly rallied in support of Chick-fil-A. On this day, lines wrapped the buildings, and the company enjoyed record sales.

After Chick-fil-A Appreciation Day passed, the viral spread of the story appeared to slow. However, Dan Cathy and the executives at Chick-fil-A were still being asked by the news media to participate in interviews and discuss the company’s position on such controversial issues. Cathy and the company’s executive team were at a point where they had to decide how they planned to address these types of issues going forward. So many questions loomed. Is it even possible for the company to avoid this kind of public relations disaster down the road? Should Chick-fil-A restrict what its executives can say to the press? Should the company reassess its charitable contributions? What kind of statements should the company be releasing to the press and via social media as it wants to put this controversy behind it and look forward to the future?

## References

- Bhasin, K. (2012, July 18). Chick-fil-A admits that it's against gay marriage, which is inviting God's judgment on our nation. Business Insider. Retrieved on October 6, 2012, from: [http:// www.businessinsider.com/chick-fil-a-admits-its-against-gay-marriage](http://www.businessinsider.com/chick-fil-a-admits-its-against-gay-marriage)
- Dardick, H. (2012, July 25). Chicago alderman wants to block Chick-fil-A from opening in his ward. Chicago Tribune. Retrieved on October 6, 2012, from: [http://articles.chicagotribune.com/2012-07-25/news/ct-met-chicago-chick-fil-a-20120725\\_1\\_1st-ward-gay-marriage-ward-alderman](http://articles.chicagotribune.com/2012-07-25/news/ct-met-chicago-chick-fil-a-20120725_1_1st-ward-gay-marriage-ward-alderman)
- Gonzalez, A. (2012, August 02). How the Chick-fil-A story went viral. HLNTV. Retrieved on October 6, 2012, from: <http://www.hlntv.com/article/2012/07/30/chick-fil-social>
- Spielman, F. (2012, July 25). Emanuel goes after Chick-fil-A for boss' anti-gay views. Sun Times. Retrieved on October 6, 2012, from: <http://www.suntimes.com/news/cityhall/13988905-418/ald-moreno-trying-to-block-new-chick-fil-a-over-boss-stance-on-gay-marriage.html>
- Swift, A. (2012, July 19). Celebrities speak out against Chick-fil-A's anti-gay stance. Retrieved on October 6, 2012, from: <http://omg.yahoo.com/news/celebrities-speak-against-chick-fil-anti-gay-stance-175817402.html>

## **SUSAN G. KOMEN TRIES TO RECONSTRUCT DAMAGED BRAND**

**Asbjorn Osland, San Jose State University**  
**Nanette Clinch, San Jose State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

The leadership of Susan G. Komen for the Cure (SGK) took a pro-life stance on abortion and tried to exclude Planned Parenthood (PP) from future grants. The resulting opposition from PP's supporters proved powerful. SGK's contributions fell to \$393,773,030 as of March 31, 2012 from \$419,955,188 the prior year (SGK, July 19, 2013). Furthermore, SGK announced that it was cancelling 50% of its races in 2013 due to the economic downturn and the PP fiasco (Myers & Reynolds, June 10, 2013) so revenues were likely to fall further. To rectify its error, SGK had used a number of high level resignations to show that it had listened to its critics and had continued to support PP. The boldest moves to date occurred on August 8, 2012 (SGK, August 8, 2012) when the Nancy G. Brinker, founder and CEO, and Liz Thompson, the president, and two board members (Brenda Lauderback and Linda Law) announced their resignations. Brinker was to assume a strategic role but would not be the CEO while the others were leaving SGK. Brand equity had suffered. Were the resignations and reinstatement of PP support enough to change the public's perceptions and rebuild the SGK brand?

### **PR Fiasco**

On February 1, 2012 SGK tried to explain its decision to exclude PP. It explained that "we made the decision to implement stronger performance criteria for our grantees to minimize duplication and free up dollars for direct services to help vulnerable women." The press release continued: "We regret that these new policies have impacted some longstanding grantees, such as Planned Parenthood, but want to be absolutely clear that our grant-making decisions are not about politics." Following quite a media firestorm and viral Internet protests, SGK on February 3, 2012 backtracked asserting that the proposed exclusion of PP was not political and promised to include PP's eligibility for future grants (Planned Parenthood, 2012).

SGK had exercised its right to free speech. Based in Texas, where the state later decided to dramatically restrict access to abortion clinics and abortion after 20 weeks of pregnancy (Fernandez, July 18, 2013), SGK's initial decision to exclude PP was understandable given the local context. Mr. Raffaelli of the Komen board said it was difficult to satisfy both the pro-life and pro-choice groups (Belluck, Preston & Harris, February 3, 2012).

Gallup (May 10, 2013) concluded: "...the majority of Americans fall in the broad middle, saying abortion should be legal, but only under certain circumstances," which meant that taking a stand on abortion was inherently divisive. SGK had failed to practice effective stakeholder management, where leaders in organizations dealing with sensitive topics had to attend to diverse partners and participants and seek common ground. SGK could not satisfy both sides if abortion was the figural topic. However, its focus on women's health had previously permitted it to find common ground between diverse stakeholders.

As mentioned above, resignations appeared to be part of the campaign to restore SGK's credibility:

- On February 7, 2012 Karen Handel, the Senior Vice President for Policy for less than a year beginning in April 2011, resigned.
- Katrina McGhee, the executive vice president and chief marketing officer of SGK also planned to resign in May 2012.
- Dr. Dara P. Richardson-Heron, the chief executive of Komen's Greater New York City affiliate, decided to resign effective April 27. The affiliate had been supportive of PP (Singer, March 21, 2012).
- Leslie Aun, VP of Communications, resigned effective May 11, 2012 (Singer, April 27, 2012).
- Nancy Macgregor, VP for global networks, scheduled to leave in June 2012.
- Joanne Newcomb, director for affiliate strategy and planning, left at the end of February 2012 (Sun & Kliff, March 21, 2012).
- August 8, 2012. The aforementioned resignations of the two leaders and two board members.
- June 17, 2013: Dr. Judith Salerno named as President and Chief Executive Officer SGK, July 19, 2013).

One puzzling matter was Brinker's raise: she was paid \$684,717 in 2012 as the CEO, up from \$417,712 in 2011 (IRS 990, 2011 & 2012).

### **SGK Suffers Second-Highest Drop In Study History In Brand**

SGK had developed a solid brand based on the compelling story told by Brinker of her promise to her sister to support the fight against breast cancer. Her sister, Susan G. Komen, had died of breast cancer. Since breast cancer touched many peoples' lives, SGK developed a strong grassroots organization that enabled it to raise funds (Fritz, March 8, 2010). But SGK's "brand health" suffered the second largest drop in history according to the EquiTrend study released by Harris Interactive, a market research firm focused on brand health research. The 2012 Harris Poll® EquiTrend® study reported that SGK's "brand equity score of 55.1 represents a 21% drop in brand equity over the prior year — a historic drop in the study's 23-year history, surpassed only by Fannie Mae in 2009." Negative feelings about SGK had risen from 4% in 2011 to 18%. Also

worthy of mention was the low rank of PP, which ranked 76<sup>th</sup> of the 79 non-profit organizations in EquiTrend; perhaps the reaction against SGK was indicative of strong views on abortion rather than support of PP (PR Newswire 2012).

### **What Can SGK Do To Regain Women's Trust And Rebuild The Brand?**

Convincing consumers that the Toyota Prius was safe, repositioning Cadillac, getting hip people to use Eagle evaporated milk in their gourmet coffee, and so forth were different than restoring trust. People may not trust BP after the Gulf disaster or Exxon after Valdez but people always need petroleum products so they will still buy what they need. Breaking a deeply-held bond like fidelity or compromising integrity was probably more like what some women experienced after the SGK fiasco where for many their views on abortion were challenged. They felt deeply about both pro-choice and fighting the scourge of breast cancer in SGK. What more can SGK do to restore the trust they've squandered? Was it necessary to go beyond the high-level resignations?

### **References**

- Belluck, P., Preston, J. & Harris, G. (2012, February 3). Cancer group backs down on cutting off Planned Parenthood. *New York Times*. Retrieved from <http://www.nytimes.com/2012/02/04/health/policy/komen-breast-cancer-group-reverses-decision-that-cut-off-planned-parenthood.html?pagewanted=all>
- Fernandez, M. (2013, July 18). Abortion restrictions become law in Texas, but opponents Will press fight. *New York Times*. Retrieved from <http://www.nytimes.com/2013/07/19/us/perry-signs-texas-abortion-restrictions-into-law.html>
- Fritz, J. (2010, March 8). Susan G. Komen for the Cure most valued charity: 4 reasons why. About.com.
- Gallup. (2013, May 10). Americans' abortion views steady amid Gosnell trial. Retrieved on July 19, 2013 from <http://www.gallup.com/poll/162374/americans-abortion-views-steady-amid-gosnell-trial.aspx>.
- IRS Form 990. (2011 & -2012). Retrieved July 19, 2013 from <http://www5.komen.org>.
- Myers, L. and Reynolds, T. June 10, 2013. Susan Komen CEO's salary draws fire as donations drop. Retrieved on July 19, 2013 from <http://www.cnn.com/id/100803324>.
- Planned Parenthood. (2012, February 3). Komen Foundation restores funding for breast cancer screenings at Planned Parenthood Health Centers. Retrieved on May 6, 2012 from <http://www.plannedparenthood.org>.
- PRNewswire. (2012, March 27). Scandal rocks America's support for Susan G. Komen for the Cure®, According to 23rd Annual Harris Poll® EquiTrend® Study (Retrieved on April 29, 2012 from <http://www.prnewswire.com>).



- Singer, N. (2012 ,March 21). Calls grow for leader of Komen to step down. *New York Times*. Retrieved from <http://www.nytimes.com/2012/03/22/us/calls-grow-for-leader-of-susan-g-komen-for-the-cure-to-resign.html>
- Singer, N. (2012, April 27). With support off as events begin, Komen works to revive its image. *New York Times*. Retrieved from <http://www.nytimes.com/2012/04/28/us/with-komen-image-hurt-support-for-affiliates-lags.html?pagewanted=all>
- Sun, L. H. and Kliff, S. (2012, March 21). Komen foundation continues to see fallout from Planned Parenthood controversy. *The Washington Post*. Retrieved from [http://articles.washingtonpost.com/2012-03-21/national/35447719\\_1\\_karen-handel-robin-prothro-susan-g-komen](http://articles.washingtonpost.com/2012-03-21/national/35447719_1_karen-handel-robin-prothro-susan-g-komen)
- Schwartz, M. (2012 August 8). Breast cancer group changes leaders. *New York Times*. Retrieved on August 9, 2012 from <http://www.nytimes.com/2012/08/09/us/susan-g-komen-for-the-cure-changes-leadership.html>.
- Susan G. Komen for the Cure Foundation. (2012, August 8). Susan G. Komen for the Cure announces leadership mMoves to set stage for future of global mission. Retrieved on August 9, 2012 from <http://ww5.komen.org/KomenNewsArticle.aspx?id=19327354686>.
- SGK. (2013, July 19). Retrieved on July 19, 2013 from [http://ww5.komen.org/uploadedFiles/Content/AboutUs/Financial/1207-1375237%20Financial%20Statements%20as%20of%2010.31.12\\_eissue.pdf](http://ww5.komen.org/uploadedFiles/Content/AboutUs/Financial/1207-1375237%20Financial%20Statements%20as%20of%2010.31.12_eissue.pdf) .

## WHY DID THE PROPOSED CONVERSION FAIL?

Marco Pagani, San José State University  
Asbjorn Osland, San José State University  
Chunlei Wang, San José State University

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

On September 12<sup>th</sup>, 2012, the members of a credit union in Northern California voted against the proposal to convert the credit union into a mutual savings bank. Only 25 percent of the members cast their vote, and among those who voted 77 percent rejected the proposed conversion. The management and board of directors believed that the change would enable the credit union to achieve the needed growth to remain competitive, to expand its product and service offerings such as business banking and commercial lending programs, and to add additional branch locations. The CEO said the low turnout and the result of the vote were possibly due to the inability of the credit union to communicate its position effectively. In fact the National Credit Union Administration (NCUA, 2013) highly regulated the flow of information and had to approve all communication material regarding the charter change. The proposed conversion spurred opposition from some members who objected that the change would negatively impact the members and only benefit management and insiders.

### **Management's Argument in Favor of the Conversion**

Credit unions operated under restrictive regulations that may limit growth, negatively impact profitability and curtail the ability to satisfy the financial and business needs of many members. First, credit unions cannot recruit members beyond their fields of membership, which were based on their common bonds (geographical region or place of work). Second, credit unions were subject to what is called the *Member Business Lending* (MBL) cap, a federal cap limiting business lending to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets. Management for the credit union said it would reach its cap within a year (Credit union personnel, personal communication, August 29, 2013). Management also argued that the MBL cap limited credit unions in their ability to diversify and grow their loan portfolio across multiple lending products, which would mitigate risk for the financial institution. In addition, commercial lending was often more profitable than auto and consumer lending, the typical services offered by credit unions. Hence, by converting to a mutual savings bank, the profitability and strength of the institution could be improved. Third, credit unions had

higher required capital ratios than mutual savings banks. Hence, for a given level of retained earnings, a mutual savings bank could hold more assets and generate more lending. Fourth, credit unions could not raise external capital, and their directors served on a volunteer basis. In contrast, mutual savings banks were allowed to compensate directors and therefore could attract Board Members from a larger pool of qualified professional candidates.

### **Management Restrictions on Communications**

Complying with NCUA regulations, the credit union notified its members three times prior to the vote and the NCUA vetted all communications. The NCUA removed information that management wanted to convey to the members, thereby preventing management from presenting the benefits of the conversion. Statements warned members that the conversion could contribute to lower saving rates, higher loan rates, or additional fees (Heinrich & Kashian, 2008).

### **Possible Reasons Why the Conversion Vote Failed**

Gallup analysis reported that trust in banks fell to an all-time low in 2010 (Wood & Berg, 2011). Gallup saw an opportunity in serving small business, yet banks were not doing so (Sunshine, April 2013). The analysis concluded that rebuilding trust was paramount. The foreclosure crisis exacerbated the lack of confidence in banks. The explosive support of the Bank Transfer Day (Osland, Wang, Pagani & Clinch, 2012), where depositors were encouraged to transfer accounts from banks to credit unions, also gave some insight into how people felt about banks. The Harris Poll conducted in October 2011 reported that credit unions provided customers with a better overall experience than banks (Harris Interactive, 2011). Furthermore, members at credit unions felt three times more valued as customers and experienced higher levels of trust in their institution compared to customers of Bank of America. Mutual savings banks were not included.

The credit union found that members felt they had not received sufficient information on why the conversion would be good for the financial institution, what critical issues were facing the credit union industry, or what benefit they as members would receive from the conversion (Credit union personnel, personal communication, August 29, 2013). Two additional theoretical possibilities for opposition included resistance to change and agency theory (Eisenhardt, 1989; Fama, 1980). Resistance to change had been apparent in the banking industry in terms of the slow-diffusion of automatic teller machines and online banking. Consumer resistance to an innovation can be caused by a conflict with consumers' ingrained belief structures (e.g., credit unions are better) or reluctance to accept new routines (Garcia, Bardhi & Friedrich, 2007).

Members opposing the conversion maintained that management's arguments were misleading and the charter change would enrich some insiders at the expense of the members. Hence, the conversion could be consistent with an agency theory framework. Such theory posits that agents (management) may not act in the interest of the principals (owners/members) and decisions made by agents may result in an increase in their wealth at the expense of principals'. Some member activists insisted that the conversion was not needed in order to expand business opportunities. For instance, some members noted that the credit union was well below the business lending limit allowed for a credit union and penetrated less than 7.3% of its potential members in its field of membership. Thus, the credit union still had potential to grow (Bartlett, 2012). Some members also feared that the conversion would negatively affect the pricing of financial products. Heinrich and Kashian (2008) provided some evidence that converted credit unions had less advantageous

lending and borrowing conditions than credit unions. It should be noted, however, that the study included data collected only on a single day, in a small market.

Finally, opposition to the conversion by some members might also have been motivated by the possibility that a conversion may be the precursor to a change from a mutual to a stock institution. Of the thirty-five credit unions that converted into mutual savings banks between 1995 and 2012, only six kept a mutual corporate structure and the other institutions issued stocks to the public (CU Financial Services, 2012). This type of equity offerings may be associated with uneven wealth allocation from non-subscribing members to shareholders. Under current regulations, members of mutual organizations converting to a stock structure were not entitled to the pro-rata share of the retained earnings. Instead of receiving shares of stocks, members were allocated non-transferable rights to buy stocks on a priority basis. Under this approach, the retained earnings were not distributed to members and instead the funding increased the banks' capital (Wilcox, 2006). It should be noted, however that the credit union emphasized in multiple occasions that no stock was being issued in connection with the charter change proposal (Credit union personnel, personal communication, August 29, 2013). In fact, a mutual savings bank can issue stocks only with the previous approval of regulators and the authorization by members through a vote. Management was left wondering what caused the failed vote: the regulatory restrictions on communication, distrust of banks, or was it something else?

### References

- Bartlett, M. (2012, July 23). Member fighting conversion bid seeking to e-mail other members. *Credit Union Journal*.
- Credit union (August 29, 2013). Credit union personnel, personal communication. Note: Information specific to the credit union came from credit union personnel.
- CU Financial Services. (2012). CU-to-bank conversion update. Retrieved on September 28, 2012 from <http://www.cufinancial.com/meetconverted.html>
- Eisenhardt, K. E. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14 (1), 57-74.
- Fama, E.F. (1980). Agency Problems and the Theory of the Firm. *Journal of Political Economy*, 88(2), 288-307
- Garcia, R., Bardhi, F., & Friedrich, C. (2007). Overcoming consumer resistance to innovation. *MIT Sloan Management Review*, 48.
- Harris Interactive (2011, November 3). Big banks at risk on Bank Transfer Day.
- Heinrich, J., & Kashian, R. (2008). "Credit union to mutual conversion: Do rates diverge?" *Contemporary Economic Policy*, 26 (1), 107-117.

NCUA. (2013). Regulations and legal resources. Retrieved on September 4, 2013 from <http://www.ncua.gov/Legal/Pages/default.aspx> .

Osland, A., Wang C., Pagani M., & Clinch N. What can big banks do to attract small retail customers? *Journal of Critical Incidents*, 5, 72-74.

Sunshine, M. (2013, April). Small Business Finance — Why aren't banks lending? *Abffjournal*.

Wood, J., & Berg, P. (2011, August 8). Rebuilding trust in banks. *Gallup Business Journal*.

## SHOULD WE PAY TRIPLE THE RENT?

**Tim Redmer, Regent University**  
**Michael Gray, Christian Surfers US**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the author. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

### Introduction

Casey Cruciano looked out the window of Christian Surfers US's (CSUS) second-story office toward the surf of Florida's St. Augustine beach. "It doesn't get much better than this," he thought as he shut down his computer, grabbed his surf board, and walked the one block to the ocean. A westerly wind and a spring storm off the coast made for excellent conditions to get in a couple of hours of rides but the impending storm also reminded Casey of what he thought was his most urgent problem. The landlord wanted to triple the rent for CSUS, and the organization he worked for had thirty days to agree to the higher rent or move. While the fiscal viability of tripling the rent certainly was the most urgent issue, Casey had a vague feeling that there was at least one much more pervasive issue facing CSUS. What would be the consequences of resolving the landlord's demands only to find that a rent increase was merely a symptom of a far more potentially destructive issue?

### Christian Surfers US

Casey was the CFO and member of the executive staff of Christian Surfers US (CSUS)—a not-for-profit organization devoted to sharing Christian beliefs with surfers. Through local chapters, volunteers offered surfing trips, surfer Bible studies, local surfing contests, surfing lessons, international mission trips, and other surf-related outreaches as a means to build meaningful relationships with surfers. CSUS wanted to be a bridge between the beach and the church with the objective to reach one surfer at a time.

On his way to the beach, Casey reflected on the organization's current situation; membership was down from just over one year ago; CSUS was short on funds with barely enough cash to pay for basic operating activities for the next two months; and now the organization faced tripled rent or to move its office.

Casey had asked the landlord to maintain the \$500 per month charge to the organization to rent the office, which was a 1,200 square foot three-bedroom, one-bath apartment with a fully

furnished kitchen plus living and dining area. He had hoped that the landlord would consider the unique mission of CSUS and treat the low rent as a benevolent gesture. Three days ago, the landlord said he could get three times the rent for this unit and gave CSUS thirty days to agree to the new lease terms or move.

As a ministry to surfers, CSUS ideally needed to be close to the beach. But it would be virtually impossible to find a suitable location at a cost the organization could afford. The office served as a hangout for surfers and provided a great opportunity for witnessing. Furthermore, since all of the staff members were required to personally find donors that would contribute sufficient money to CSUS to cover the staff members' salaries, the office's strategic location near the ocean was a very desirable perk that CSUS could offer its employees. Casey questioned how the organization could be effective without a central location close to its constituency.

### **Challenges of the Organization**

Yesterday, Casey had a meeting with the CSUS officers. The four men had discussed what they needed to do in the coming weeks. If CSUS lost the lease, the immediate need was to find suitable and affordable office space. They could possibly work out of their homes, if needed, but they would lose the synergy from being together to deal with critical issues. They would also lose their gathering place, which—because of its perfect location—helped attract new people to get involved in the organization. Also, where else could you look out your office window, grab your surf board, and in five minutes be riding the waves?

### **Financial Considerations**

When Casey had assumed the CFO position, the previous treasurer, living in California, sent the financial and membership records to him in a shoebox with a note requesting not to contact her for directions or information. Casey also had an income statement from the 2008 board meeting minutes. After months of trying to reconcile the previous financial information with the current records, he estimated the financial status as of January 1, 2009. Now, with 2 years of verifiable financial data, he was able to do some financial analysis.

The organization used a simple cash based system to report revenue and expenses. The CSUS check book was the primary document used to monitor the receipt and payment of cash.

On January 1, 2011, the organization had almost \$100,000 of cash in the bank. However, of these funds, \$80,000 was earmarked for chapter support activities, \$10,000 was pledged to the staff, and \$10,000 was to cover headquarters operations. The staff had been so busy that many had not had time to do effective fund-raising with their donor base and to solicit new donors.

The staff generally returned to their home areas where most of their family, friends, and local churches were established. This group of individuals and organizations generally formed the support base for fundraising. Sometimes it was hard to sell the concept of supporting a U.S. surfing ministry to potential donors when other people raising funds were doing mission work in Africa or primitive and remote locations where the perceived needs were greater.

With the accounting system that was developed for this nonprofit organization, there was not much in the way of a balance sheet. Their only asset was cash, which totaled \$97,983. All other expenditures were charged to expense when incurred. Thus unused supplies did not appear on the balance sheet. CSUS did not have any debt, so the surplus or deficit in the fund balance equaled their cash in the bank.

### What Next

As the four officers reviewed the critical issues, some questioned if it might be good to forgo any new initiatives, scale back operations to a minimum level, and all go out on fund-raising campaigns. It was something of a “chicken or egg” situation; they needed funds to promote membership and cover general operating costs, and, at the same time, they needed members to bring in the funds. And of course there was the pending termination of the lease.

Casey considered the situation facing him. They could stay in their current facilities at triple the monthly rate, or find other suitable space. If they wanted equivalent space at around \$500 per month, the organization would have to relocate miles away from the beach, in a less desirable or secure neighborhood. There was also the possibility of finding a smaller space in an industrial complex or possibly in a strip mall, which would be more than two miles from the beach. Another possibility would be to abandon the rental space and have each officer work out of his personal residence and communicate by e-mail or phone. Casey recalled the vague feeling that there was at least one much more pervasive issue facing CSUS than the fiscal viability of tripling the rent. What could that pervasive issue be?

Table 1  
Christian Surfers US  
Income Statement  
As of December 31, 2008 through 2010

	2010	2009	2008
<b>Revenues</b>			
Contributions	\$506,737	\$370,584	\$404,182
Activities	79,033	32,196	100,958
Membership	<u>16,795</u>	<u>20,730</u>	<u>16,272</u>
Total Revenue	602,565	423,510	521,412
<b>Expenses</b>			
Operating	66,070	16,839	42,139
Activities	134,075	53,907	125,490
Salaries	241,105	216,035	148,738
Merchandise & Supplies	43,764	109,320	60,294
Rent	18,100	1,700	
Utilities	10,312	3,919	3,391
Ministry	<u>57,945</u>	<u>31,425</u>	<u>85,893</u>
Total Expenses	<u>571,371</u>	<u>433,145</u>	<u>465,945</u>
<b>Surplus or Deficit</b>	31,194	-9,635	55,467



## SUSAN G. KOMEN – FOR THE CURE

**Joe G. Thomas, Middle Tennessee State University**  
**Cheryl B. Ward, Middle Tennessee State University**

---

This critical incident was prepared by the authors 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. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

Jason Anthony was a recent business graduate who had just moved to a new city and was settling into a new job. He had started endurance running as a form of exercise and as a way to meet people. A few of his friends participated in various races to raise funds and support various social causes. Three friends had invited him to participate in different races in three different cities, all on the same weekend! One of the races helped raise funds for Susan G. Komen Race for the Cure. Since supporting any of the races involved travel, spending a couple of nights in a motel, and assorted other expenses, he wanted to know more about any organization he was supporting. He had heard of the Susan G. Komen Foundation, but realized he knew little beyond seeing pink ribbons on everything from license plates to firearms. He wondered: How had the organization become such a popular cause? Did it really use the funds raised to support a good cause? How was it different than other similar organizations?

### **Komen History**

Since its inception in 1982, Komen had invested approximately \$2 billion to help fund breast cancer research, education, advocacy, health services and social support programs in the U.S., and through partnerships in more than 50 countries (Schneible, 2010). Currently, Komen had more than 100,000 volunteers working in a network of 124 affiliates worldwide. As of March 2012, Komen was listed on Charity Navigator with the site's highest rating of four stars (Charity Navigator, 2012). Komen was the number one organization to which Americans said they were most likely to donate for the second year in a row (Harris Interactive EquiTrend Study 2010). Similar studies showed Komen as one of the most trusted non-profit brand names in the U.S. (Joslyn, 2010).

In 2007, the name was changed to Susan G. Komen for the Cure and trademarked a new logo in support of its promise "to end breast cancer forever." The new logo became a pink ribbon that resembled a runner in motion and was meant to reflect the importance of Komen's signature Race for the Cure event. The logo symbolically associated the organization with the values of the pink ribbon culture: fear of breast cancer, hope, and the charitable goodness of people and businesses that publicly supported the breast cancer movement (Sulik, 2010).

However, the trademarked “Race for the Cure” came at the expense of other charities. In an effort to protect their brand, the Susan G. Komen organization sent out letters to more than 100 other charities telling them they could no longer use the words “for the cure” in their names. Letters were sent to charitable organizations sponsoring events such as Kites for the Cure, Par for the Cure, Cupcakes for a Cure, Surfing for a Cure.... Not all of the organizations were raising funds for breast cancer cures, but they were prohibited from using the words “for a cure” in their names. Public opinion suggested the move did little to reduce public confusion about the different charitable events. However, the name change made fundraising more difficult for other organizations attempting to support worthy causes (Bassett, 2010).

In the 2009-2010 fiscal year, ending March 31, 2010, Komen reported approximately \$400 million in earnings. Of this, \$365 million (91.3 percent) came from contributions, including donations, sponsorships, race entry fees, and contributed goods and services. Approximately \$35 million (8.8 percent) came from interest and dividends and gains on investments. The same year, Komen reported approximately \$360 million in expenses. \$283.2 million went for program services: \$75.4 million (20.9 percent of total expenditure) went to research, \$140.8 million (39.1 percent) went to public health education, \$46.9 million (13 percent) went to health screening services, and \$20.1 million (5.6 percent) went to treatment services. The other \$76.8 million went to supporting services, including \$36.1 million (10 percent of total expenditure) toward fund-raising costs and \$40.6 million (11.3 percent) toward general and administrative costs (Komen, 2010). Komen founder and CEO Nancy Brinker was paid \$417,712.

### **Corporate Partners**

Sponsors were attracted to supporting breast cancer research for a number of reasons. First, breast cancer was a common form of cancer. Most people had a friend or family member who had fought breast cancer. Breast cancer was also considered a “safe” area of cause marketing as it does not encounter any of the lifestyle problems associated with certain other organizations fighting AIDS, domestic abuse, substance abuse, etc. Finally, Susan G. Komen’s positive public image allowed sponsors to avoid criticisms sometimes tied to other causes such as the support of abortions associated with Planned Parenthood.

Corporate partners were able to use the Susan G. Komen trademarked pink ribbon in their promotional efforts in exchange for donations to the foundation. In 2011, 216 corporate partners contributed over \$55 million. Some critics argued the promotions were sometimes misleading and benefitted the Komen foundation and the corporate sponsor more than it did the consumers or cancer victims.

One of the first corporate sponsors was Yoplait Yogurt. Yoplait began a Save Lids to Save Lives campaign in 1998. In exchange, Yoplait was allowed to apply the Komen endorsement to Yoplait’s products. Customers were led to believe the company made a donation to Susan G. Komen for each yogurt lid returned to Yoplait. However, there was a limit placed on the amount Yoplait would donate, regardless of the number of lids returned. In 2010 the annual maximum commitment was raised to \$1.6 million (General Mills, 2010). In return, Yoplait obtained an exclusive contract; no other yogurt manufacturer had the opportunity to be involved in the races. In 2002, credit card operator American Express launched a “Charge for a Cure” campaign which claimed that “in the search for a cure, every dollar counts.” In exchange for being associated with the Susan G. Komen Foundation, American Express agreed to pay the organization for each

qualifying transaction. The amount donated per transaction, regardless of purchase amount, was one penny.

In May 2009, handgun maker Smith and Wesson announced a donation to the Massachusetts affiliate of Susan G. Komen for the Cure of proceeds collected from the sale of the M&P9 JG, "a full-sized pistol engraved with the 'Awareness Ribbon' on the slide and packaged with two pink grip inserts". The funds donated were to benefit breast cancer research, education, screening and treatment.

In April 2010, Komen paired with fast food restaurant chain KFC to offer "Buckets for the Cure," a promotion in which fried and grilled chicken was sold in pink branded buckets. The collaboration garnered criticism from media outlets including The Colbert Report and other publications about the promotion of unhealthy eating habits and obesity. KFC contributed over \$4.2 million to Komen, the largest single contribution in the organization's history. The partnership with KFC, which had since ended, allowed Komen "to reach many millions of women that they had been unable to reach before," said Brinker.

In April 2011 Komen introduced its own-brand of perfume "Promise Me," complete with promotional appearances by CEO Nancy Brinker on the Home Shopping Network. The perfume encountered opposition due to several chemicals used in it including coumarin, oxybenzone, toluene and galaxolide. Some critics claimed the chemicals were potentially-harmful, possibly causing cancer. Komen stated its intention to have the product reformulated but refused to withdraw existing stocks of the "Promise Me" product from distribution. To critics of cause marketing, the use of a potentially-deadly disease as a marketing vehicle detracted from the original message and focus of the organization. In the words of one member of the IV League, a group of terminal (Stage IV) breast cancer patients interviewed in the Léa Pool documentary *Pink Ribbons, Inc.*, "It's like they're using our disease to profit and that's not OK" (Szklański, 2012).

### **Susan G. Komen Expenditures**

Jason found that since its formation in 1982, Komen had provided funding for basic, clinical, and translational breast cancer research and for innovative projects in the areas of breast health education and breast cancer screening and treatment. The organization had awarded more than 1,000 breast cancer research grants totaling more than \$180 million. In 2011, the foundation spent \$63 million (15 percent) of its donations on research.

One of the largest recipients of funding had been Planned Parenthood Association of America (Planned Parenthood). Komen had provided grants to pay for 170,000 clinical breast exams and 6,400 mammogram referrals with Planned Parenthood. This relationship had garnered criticism from religious groups and pro-life advocates because some Planned Parenthood health centers performed abortions and provided counseling that included information on abortion.

In January, 2012, this partnership became a major headline, eventually resulting in a termination of the partnership with Planned Parenthood. Apparently responding to some critics who believed Susan G. Komen should not be providing grants to an organization that was in any way associated with abortions, the foundation pulled their funding of Planned Parenthood. Planned Parenthood used their name and media access to inform the public that the grant monies were

used for mammograms and pre-cancer screenings for low income individuals, and not for abortions. It took Komen two days to make any response to the Planned Parenthood announcement. The public outcry resulted in much bad publicity and a congressional investigation by Rep. Cliff Stearns. The publicity cost Komen donations and race sponsorships.

Jason asked himself why should he get involved with Susan G. Komen or any other charitable organization? Was Susan G. Komen really any different than any of its competitors? Had it become so concerned with developing its brand and obtaining corporate sponsors that it had lost its focus on supporting cancer research?

### References

- Bassett, Laura (2010-12-07). "Susan G. Komen Foundation Elbows Out Charities Over Use of the Word 'Cure'" ([http://www.huffingtonpost.com/2010/12/07/komen-foundation-charities-cure\\_n\\_793176.html](http://www.huffingtonpost.com/2010/12/07/komen-foundation-charities-cure_n_793176.html).) *The Huffington Post*.
- Charity Navigator (2012). Susan G. Komen for the Cure, Retrieved March 15, 2012.
- General Mills (2010). "Press Release: Yoplait Expands Commitment To Breast Cancer Cause By Raising The Bar For Support To Long-Time Partner Susan G. Komen For The Cure". Perishable News. Phoenix Media Network. Retrieved 2012-03-10.
- Harris Interactive EquiTrend Study (2010). <http://www.harrisinteractive.com/NewsRoom/PressReleases/tabid/446/ctl/ReadCustom%20Default/mid/1506/ArticleId/52/Default.aspx>. Retrieved on 16 Oct. 2012.
- Joslyn, Heather (2010). "Two Health Charities Rank as America's Most Trusted Nonprofit Brands - News - The Chronicle of Philanthropy- Connecting the nonprofit world with news, jobs, and ideas". Philanthropy.com. Retrieved 2012-03-12.
- Schneible, Cindy. (2012) Susan G. Komen Breast Cancer Foundation. - Cause Marketing Forum - Cause Related Marketing Source". Cause Marketing Forum. 2003-06-19. Retrieved 2012-03-12.
- Sulik, G. A. (2010). *Pink Ribbon Blues: How Breast Cancer Culture Undermines Women's Health*. USA: Oxford University Press. pp. 146–150. ISBN 0-19-974045-3. OCLC 535493589.
- Susan G. Komen Breast Cancer Foundation, Inc. (2010). "[Consolidated Statements of Activities](#)". *Consolidated Financial Statements and Supplemental Schedules*. Retrieved 9 March 2012.
- Szklarski, C. (2012). "NFB doc 'Pink Ribbons Inc.' examines the politics of marketing disease". The Canadian Press (Winnipeg Free Press (Postmedia)). Retrieved 2012-03-10.

## **IS THIS AN APPROPRIATE ISSUE FOR THE BOARD OF DIRECTORS AT A CREDIT UNION TO CONSIDER?**

**Robert Tokle, Idaho State University**  
**Joanne Tokle, Idaho State University**

---

This critical incident was prepared by the authors 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 its location have been disguised to preserve anonymity. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

On a recent European cruise, while shopping on shore, Kim was forcefully threatened by thugs to use her debit card to buy goods she did not want for over \$2,000. She fled back to the ship and, when she returned to the US, was surprised to learn that she was responsible for the entire amount.

The chairman of the Board of Directors of the Great Plains Community Credit Union (GPCCU) listened attentively as Kim, a long-time member, described her ordeal. Paula had served on the Board of Directors at GPCCU for 21 years, the last 12 years as chair. Kim contacted Paula with a complaint concerning the use of her credit union VISA debit card while on her European Cruise. Paula had to decide whether this was a complaint that should be looked into by the board of directors, or was it strictly a management issue that the board should not address? Also, if the board were to address it, how should it do so?

### **The Background**

Kim was a recently retired hospital executive who had lived and worked in the community for over 30 years. She had just come back from taking a European cruise. The cruise ship stopped one day for several hours at a port. Kim wandered off by herself, looking in shops for souvenirs. In one small, out-of-the-way store, she was stopped from leaving with threats of force by two men until she paid \$2,305 for bogus goods that she was not actually buying. She feared for her safety, as well as being detained and missing her cruise ship. Under duress, she reluctantly signed a GPCCU debit card charge for the amount of \$2,305. She signed a fake name, hoping that would make the transaction non-binding.

When Kim was able to leave the store, she headed directly back to the cruise ship, since it was set to depart shortly. Hence, she did not contact the local police. Once aboard, she still did not try to contact the local authorities nor did she make a report to the ship's security about the incident. She called the credit union and left a message about the incident since it was nighttime back home. She then called VISA to block the card, but the transaction had already gone through.

### **Great Plains Community Credit Union**

Great Plains Community Credit Union was a federally chartered, medium-sized credit union with assets of about \$100 million and just over 17,000 members. Any resident or family member residing in the county could become a member of this community credit union. GPCCU offered a full range of products to its members, including regular saving accounts, checking accounts with debit cards, money market deposits and certificates of deposits, as well as various types of consumer and real estate loans.

Credit unions were non-profit (cooperative) depository institutions. They competed with for-profit banks as well as other credit unions. According to Wilcox and Dopico (2011), "this structure presumably leads to different practices and performance goals than those of banks" (p. 1). They served members from a field-of-membership, typically a community or an employee group (CUNA 2012). Because of their cooperative structure, the credit union members (customers) were also the owners. In contrast, banks were owned by stockholders, although some smaller banks were owned by either a family or partnership.

Credit union members, with one vote per member, democratically elected a board of directors from the membership. Directors were volunteers and were not compensated for their contributions. Section 1761 of the Federal Credit Union Act stated that "the management of a Federal credit union shall be by a board of directors" (NCUA 2012); section 1761b stated that "the board of directors shall meet at least once a month and shall have the general direction and control of the affairs of the Federal credit union."

In the past, when credit unions were very small, many boards were much more involved in day-to-day operations. But credit unions had become much larger in asset size and more sophisticated in their product offerings. In most credit unions today, the board hired a CEO to run the credit union and give it strategic direction, although the board was still ultimately responsible for overseeing the credit union. The board approved credit union policies and put forth a vision and goals for the credit union. Board members were expected to obtain "basic financial skills" in a timely manner (NCUA 2011); their responsibilities were described in the Federal Credit Union Handbook (NCUA 2006).

### **Kim's Complaint**

A few weeks before the cruise, Kim called the credit union to let them know that she would be traveling abroad so that the credit union would expect debit card transactions from outside the country. When she returned from the trip, she claimed that the credit union employee asked if she wanted a daily transaction limit on her debit card and Kim recalled requesting a \$500/day limit. There was nothing in writing that documented a change in the debit card limit from the standard \$2,500/day.

In addition, Kim learned that VISA would not cover the \$2,350 loss as fraud since she signed for the transaction. Not signing her real name made no difference. So, Kim asked GPCCU to pay her \$1,850 (\$2,350 - \$500) since she reasoned that if the limit had been in place, her loss would be only \$500. The upper management at GPCCU refused her request since there was no written record of it and the employees were not trained to or known to ask about limit changes. It was kind of a “she said, he said” situation. Kim contacted Paula because a mid-level credit union employee told Kim that the board was the next step if she wanted to pursue this complaint.

### **Paula’s Response**

In Paula’s 12 years as board chair, this was first time that a credit union member asked to address the board with a complaint about credit union operations. After hearing Kim’s complaint, Paula told Kim that she did not think that the board would overturn the credit union management’s decision on this issue. But because an employee told Kim that the next level to take this complaint was the board, and since the credit union membership elected the board to oversee the credit union, it seemed to follow democratic credit union principles to allow Kim to address the board. Kim thanked Paula and left. Paula sent an email to the rest of the board and the CEO that contained what Kim had written up on the matter, and arranged for Kim to briefly address the board at the beginning of their next meeting.

### **The Board’s Response**

Seven members served on the GPCCU board. One board member, Karen, responded to Paula’s email that she thought this was not a board issue, but rather strictly a management decision. Steven, another board member, agreed with Karen.

At the start of the board meeting, Karen made clear again that she thought that this was not a board issue and that Kim should not be allowed to address the board. However, Kim was invited in for five minutes to state her case. Afterwards, the board discussed the issue before starting with the monthly board business. The ensuing discourse was conducted in a professional manner, but was a lot more divisive than typical board discussions. The board unanimously agreed that there was not enough in Kim’s case to overturn the management decision, but they were not unanimous in their views as to whether Kim should have been allowed to address the board in the first place.

Although Karen and Steven firmly believed that this was strictly a management issue and not board business, Michael, another long-time board member, stated that he thought it was a board issue since the members were the credit union owners and the board was elected by the members to oversee the credit union and serve its members. Paula stated that she invited Kim to briefly address the board because Kim was told by a credit union employee that the next step in the grievance process was the board, despite the fact that there was not precedent for a member to address the board. In addition, a credit union was a cooperative whose mission was to serve its members, unlike the for-profit banks.

Should the board have listened to Paula’s case, given the cooperative structure of the credit union or was this strictly a management issue?

### References

- Credit Union National Association (CUNA). (2012). What is the Credit Union Difference? [http://www.cuna.org/gov\\_affairs/legislative/cu\\_difference.html](http://www.cuna.org/gov_affairs/legislative/cu_difference.html).
- National Credit Union Administration (NCUA). (2011). NCUA Letter to Federal Credit Unions. Letter No. 11-FCU-02, February 2011. Alexandria, VA.
- National Credit Union Administration. (2006). Federal Credit Union Handbook. Prepared by the Office of Examination and Insurance. NCUA-8055 (Rev 2006) M-4035.
- National Credit Union Administration. (2012). "The National Credit Union Act." Available at: [http://www.ncua.gov/Legal/Documents/fcu\\_act.pdf](http://www.ncua.gov/Legal/Documents/fcu_act.pdf) (Accessed August 1, 2012).
- Wilcox, James A. and Luis G. Dopico. "Credit Union Mergers: Efficiencies and Benefits." *FRBSF Economic Letter*, September 12, 2011.



# TRANSFORMING A DECLINING SHOE RETAILER

**Andrew Borchers, Lipscomb University**

**Bill Fredenberger, Lipscomb University**

---

This critical incident was prepared by the authors 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's name, and its location, have been disguised to preserve anonymity. All sales, cost and store data, however, are genuine. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## Introduction

John Anderson wandered through his Lima, Ohio shoe store early one Tuesday morning in January 2011. As he drank his morning coffee, John reflected on the shoe business that he had inherited from his parents. He realized that in an Internet and mass-market world his four-store retail firm had to change to survive. While still profitable, John felt pressured, as profits had dropped significantly over the last few years. Clearly, John had reached a decision point for the Jolly Cobbler and his employees. John knew he had to streamline his business to remain profitable in the shoe market, but that likely meant a loss of employment for some of his long-term employees. This also meant taking a fresh look at stores, departments, sizes-width combinations, vendors, and sales people. Frankly, some of these had to go, but which of these should he eliminate?

John's parents started the Jolly Cobbler retail shoe store in the center of the business district of Lima, Ohio, a small mid-western town, in 1965. The population of the market area had grown somewhat over the years, but retained a small town feel. While new shoes were the primary offering of the Jolly Cobbler, the stores also added a few related items such as socks and jewelry over the years. These items constituted a minor part of his revenue stream. John's father, David, and mother, Sally, had been very successful over 45 years, expanding operations to four locations throughout western Ohio. However, a few years ago, his mother passed away and the previous year John's father died as well. Grief stricken, John moved from store manager to CEO in a few short months.

John knew the shoe business was extremely competitive. Mass merchants such as DSW, Brown Shoe (owner of Famous Footwear) and Footlocker sold a wide range of shoes with gross margins (that is, selling price minus shoe cost) between 31% and 40% of selling price. The Cobbler sold shoes that were more expensive and operated with margins around 50%. Internet shoe

businesses also presented significant competition to his brick and mortar operation. Firms like Zappos provided strong appeal to Internet informed youthful buyers. Further, large Internet retailers such as Amazon, which purchased Zappos, operated with margins as low as 24%.

John had been in his family's business since he graduated with a Business Administration degree from Englewood State University in 1980. While his parents were alive, John was constrained from making aggressive and progressive changes. With the death of his parents, his firm was very thin in management depth and experience. His current managers had each been with the firm for over 20 years and knew only small town shoe retailing. The Jolly Cobbler had not hired anyone other than a few clerks in several years. The Cobbler's profit margins did not allow for the expense of additional managers.

Table 1 below shows the essential cost details of John's business. He owned two of his four locations, although he figured he could rent these two locations for about market rates. Clerks earned \$10 per hour plus an 8-percent commission. On average, clerks worked 30 hours per week, although some were full-time and others were part-time. Fringe benefits and employment taxes averaged 30-percent of salary, although full-time employees cost much more than part-timers. Advertising costs ran around 8-percent of sales. Managers made, on average, \$65,000 per year including benefits and employment taxes. John felt he could largely ignore depreciation on store fixtures and improvements as almost all of these items had remained unchanged for many years and were fully depreciated. John had few expenses shared among all four stores. Bookkeeping and legal fees ran around \$50,000 per year. He employed a buyer and contracted merchandising services to support the entire enterprise for approximately \$100,000 per year. John had more than 100,000 transaction records for a year's worth of revenue and cost of goods sold data (see "Notes on Data" below). All told, John figured the firm was profitable, but he had a significant investment in inventory of nearly \$3.5 million dollars. If he was not in the shoe business, this investment could surely generate a significant return in an alternative investment.

Table 1

*Jolly Cobbler Store Information*

Source: Store owner (location is disguised) and industry trade sources for "Other costs"

Store	Location	Facility	Pop	# of Sales People	Square Footage	Approximate Rent	Other Cost (Occupancy and credit card) per month	# of Managers	Inventory \$ / Pairs
1	Lima	Owned – mall location	155 k	31 (several part-time)	10,000	\$0 – Owned, but worth \$16 / sq foot per year	\$7,800	3	\$1m 20k
2	Xenia	Owned – street location	26 k	13	5,800	\$0 – Owned but worth \$10 / sq foot per year	\$5,200	2	\$480k 8k
3	Dayton	Rented – mall location	810 k	13	3,600	10% of sales	\$5,000	2	\$360k 6k
4	Cincinnati	Rented – street location	2.1 m	14	22,000	\$8 / sq foot per year	\$9,600	3	\$1.8m 35k

### Challenge

As John sipped on his coffee, he collected his thoughts. In general, he saw a need to trim operations. However, John was not clear on whether to close stores, departments, size-width combinations, specific vendors or to layoff specific sales clerks. Using his business school training, he knew that a “contribution margin” approach to an income statement was his first step. He also knew that techniques such as Excel pivot tables, 80/20 analysis, descriptive statistics and even ANOVA might help him differentiate the performance of stores, department and shoe sizes. Somehow, he needed to work through the data to find a path to a smaller, more profitable Jolly Cobbler.

### Notes on Data

Data to support student analysis of this case is available from the authors.

There are three data tables in the Excel Workbook:

1. Sales Transactions – Approximately 138,000 rows of data for 2010 operations.
  - a. Item number
  - b. Department code (Consistent across stores) – M=men, L=ladies, C=children, P= hand bags, J=jewelry, R=clothing, B=belts, S=sundry, Z=polish, T=socks and hose, E=non-prescription eye glasses, W=wallets, F=perfume, G=gift
  - c. Vendcode – Vendor codes are consistent across stores
  - d. Size = Shoe size as shown below
  - e. Width = Shoe width as shown below
  - f. Solddate = Date of sale
  - g. Quantity = Number of pairs of shoes purchased
  - h. Retprice = Retail price per pair
  - i. Cost = Cost to the Cobbler of the product per pair
  - j. Cost% = Cost as a percent of Retprice (calculated value)
  - k. Gross Profit = (Retprice – Cost) for one pair
  - l. Saleinit = Initials of sales person
2. Ladies Data – Approximately 102,000 rows of data for 2010
  - a. Identical to Sales Tran data, but filtered to only include ladies shoes
3. Men’s Data – Approximately 15,000 rows of data for 2010
  - a. Identical to Sales Tran data, but filtered to only include men’s shoes

Ladies widths are C, D, E, M, N, Q, S, and W.

Men’s widths are A, B, C, D, E, EE, EEE, and EEEE.

Ladies and men’s sizes are 4.0, 4.5, 5.0, 5.5, 6.0, 6.5, 7.0, 7.5, 8.0, 8.5, 9.0, 9.5, 10.0, 10.5, 11.0, 11.5, 12.0, 12.5, 13.0, 13.5, 14.0, 14.5, 15.0.

# **PREDICTING SERVICE DELIVERY TIMES AT THE BRITT HUNT COMPANY**

**Andrew Borchers, Lipscomb University**

**Doug Sanford, Britt Hunt Company**

**Bill Fredenberger, Lipscomb University**

---

This critical incident was prepared by the authors 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 contents of this case are not disguised. Copyright © 2013 by the Society for Case Research and the authors. No part of this work may be reproduced or used in any form or by any means without the written permission of the Society for Case Research.

---

## **Introduction**

It was a crisp fall day in 2012 as Doug Sanford sat perplexed in his office in Nashville, Tennessee. As Director of Distribution for The Britt Hunt Company, he had made significant headway in improving the scheduling of customer deliveries. Creating efficient driver schedules was a long-standing Achilles heel for Doug's firm. Efficiency in scheduling was a critical factor in managing delivery costs; a significant portion (54-percent) of the firm's cost structure. From a competitive perspective, logistics had become a significant competitive weapon among food distributors. While Doug's scheduling work had improved performance, one critical problem remained, namely predicting the time it took a driver to unload and stock pizzas (known as "stop time") at the various stores on his or her route. Sipping a cup of coffee, Doug reviewed the situation. What should he decide to do to estimate driver stop times at Britt Hunt?

In business since 1992, The Britt Hunt Company employed over 130 employees and had annual sales over \$75 million. The firm delivered pizzas products to over 2,600 outlets (convenience stores, gas stations and entertainment venues) across 15 states of the US. Every day company drivers arrived at customer locations, unloaded pizzas products from their trucks, inventoried and stored pizza products, processed paperwork and then drove to the next location. Differences in drivers, store locations, store layout (doors and freezer types) and quantity of product delivered led to variation in the time it took to service a store. This variation led to uneven loading of drivers and the need to "pad" the planned delivery time to avoid overloading drivers.

As Doug worked at his PC, he felt stymied. He had installed new route scheduling software in 2011 to improve the scheduling of drivers. Overall, the software was a major step forward and provided significantly improved schedules. The system comprehended drive time between stores. However, Doug found large variations in the time drivers spent at stores and this compromised the effectiveness of his schedules. No obvious answers for the variation stood out

as there were a bewildering set of possible explanations. Doug needed to identify predictor variables and a prediction model that he could use to estimate stop times. With accurate estimates of stop times, his scheduling software could do an even more accurate job. Without reliable estimates of how long a driver needed to spend at a given store, it was hard for Doug to evaluate drivers and set equitable route schedules.

To address stop times, Doug sought help from a seasoned consultant and professor in Bill Fredenberger. Working together over several months, the two assembled a set of over 92,000 observations of stop times and a set of possible predictor variables. This data covered deliveries over one year and constituted \$58 million of sales. Using this data, they sought a way to predict the length of a driver's stop. The Appendix contains a description of the various columns in the data file available to instructors.

### **The Challenge**

Doug considered a number of analyses that he could pursue. For starters, Doug realized that he could use Excel spreadsheet software for descriptive statistics to see what variables predict stop times. He knew that Excel pivot tables and charts were especially effective in doing this. Next, Doug could perform bivariate statistical methods such as correlation. Clearly, stop time was the dependent variable. He had worked with Bill to identify a set of possible predictors that were available in the data file. From his degree studies, Doug realized that techniques such as correlation, t-tests or ANOVA might be useful in identifying significant predictors.

At a deeper level, Bill suggested that Doug could create a predictive model using regression analysis. Both Bill and Doug realized the challenge of identifying which predictors to include. Recently, Bill had read of data mining software (including SAS Data Miner) that could automate the building of such models. In this analysis, the software typically divided the data into a set of observations to build the model and reserved another set of observations to test the performance of the model.

Ultimately, Doug's challenge boiled down to this. Without a prediction model, all he could enter into the scheduling system for each stop was the average time (approximately 31 minutes). However, stop time had a standard deviation of 13 minutes and a significant range (from 10 to over 60 minutes). With a prediction model, Doug could estimate a time for each stop and include it in his scheduling software. Doing this should bring about schedules that are more accurate and reduce the standard deviation of the residual (that is, actual – predicted time). However, it was not clear how good a prediction model he could create and if the model would be worth the effort to implement.

Sipping on his coffee, Doug stared at the data. What should he decide to do to estimate driver stop times at Britt Hunt?

### **Appendix Stop Time Matrix Data Description**

<b>Column</b>	<b>Description</b>
CUSTNMBR	Individual Customer ID Number
WEEKS	The number of weeks the customer has been a customer
WEEK	The specific week of the year the sale was conducted
WEDATE	The specific week end date (Friday) the sale was conducted

PIZZA	The number of pizza's sold during the sale – minimum of 18
WINGLB	The number pounds of wings sold during the sale (many rows have a 0)
SALES	Total dollar amount of the sale
BUSINESSTYPE	Identifies the business activity of the location 1- Convenience-store with Fuel 96% 2- Convenience-Store without Fuel 4% 3- Special Venue
CHAIN	Identifies if the customer belongs to a group with one owner 1. No 70% 2. Yes 30%
MARKETSERVED	What type of market does the location serve 1. Rural 50% 2. Urban 33% 3. Inner City 16%
PAYTERMS	Identifies the standard form of payment agreed upon 1. Cash 80% 2. Charge 20%
UNBOX	Certain customers require pizzas to be unboxed (2+ Cases) 1. Yes 15% 2. No 85%
ENTRANCE	Identifies the standard delivery point for each location 1. Front 90% 2. Back 10%
FREEZER	Identifies the freezer type at the location 1. Chest Freezer 60% 2. Standup 10% 3. Walk-in 15% 4. Combination 15%
24HR ARVTIME	Identifies delivery time of day within the 'specific' hour of the 24hr clock
STOPTIME	Specifies the amount of time spent at the location during the sale (in minutes)
SLPRSN	Identifies the specific account manager who conducted the sale
TENURE (MONTH)	The number of months the Account Manager (AM) has been on the job
SALSTMGR	This is the region responsible for the AMs and the Customers in the region 1. Region 1 (East) - 52% 2. Region 2 (West) – 48%
SALSTERR	This is the district responsible for the AM and the Customer – No Code provided
TPP	Time Per Pizza (derived from dividing the Pizza + Wings number with the actual stop time minutes)