<u>Case Study-1 Industrial Management & Law</u>

Admit it. Sometimes the projects you're working on (school, work, or both) can get pretty boring and monotonous. Wouldn't it be great to have a magic button you could push to get someone else to do that boring, time-consuming stuff? At Pfizer, that "magic button" is a reality for a large number of employees. As a global pharmaceutical company, Pfizer is continually looking for ways to help employees be more efficient and effective. The company's senior director of organizational effectiveness found that the "Harvard MBA staff we hired to develop strategies and innovate were instead Googling and making PowerPoints." Indeed, internal studies conducted to find out just how much time its valuable talent was spending on menial tasks was startling. The average Pfizer employee was spending 20 percent to 40 percent of his or her time on support work (creating documents, typing notes, doing research, manipulating data, scheduling meetings) and only 60 percent to 80 percent on knowledge work (strategy, innovation, networking, collaborating, critical thinking). And the problem wasn't just at lower levels. Even the highest-level employees were affected. Take, for instance, David Cain, an executive director for global engineering. He enjoys his job—assessing environmental real estate risks, managing facilities, and controlling a multimillion-dollar budget. But he didn't so much enjoy having to go through spreadsheets and put together PowerPoints. Now, however, with Pfizer's "magic button," those tasks are passed off to individuals outside the organization. Just what is this "magic button?" Originally called the Office of the Future (OOF), the renamed **PfizerWorks** allows employees to shift tedious and time-consuming tasks with the click of a single button on their computer desktop. They describe what they need on an online form, which is then sent to one of two Indian service outsourcing firms. When a request is received, a team member in India calls the Pfizer employee to clarify what's needed and by when. The team member then e-mails back a cost specification for the requested work. If the Pfizer employee decides to proceed, the costs involved are charged to the employee's department. About this unique arrangement, Cain said that he relishes working with what he prefers to call his "personal consulting organization." The number 66,500 illustrates just how beneficial PfizerWorks has been for the company. That's the number of work hours estimated to have been saved by employees who've used PfizerWorks. What about Joe Cain's experiences? When he gave the Indian team, a complex project researching strategic actions that worked when consolidating company facilities, the team put the report together in a month, something that would have taken him six months to do alone. He says, "Pfizer pays me not to work tactically, but to work strategically."

Discussion Questions

1. Describe and evaluate what Pfizer is doing with its PfizerWorks.

2. What structural implications—good and bad—does this approach have? (Think in terms of the six organizational design elements.)

3. Do you think this arrangement would work for other types of organizations? Why or why not? What types of organizations might it also work for?

4. What role do you think organizational structure plays in an organization's efficiency and effectiveness? Explain.

Case Study-2 Industrial Management & Law

On September 15, 2008, financial services firm Lehman Brothers filed for bankruptcy with the U.S. Bankruptcy Court in the Southern District of New York.95 That action—the largest Chapter 11 filing in financial history—unleashed a “crisis of confidence that threw financial markets worldwide into turmoil, sparking the worst crisis since the Great Depression.” The fall of this Wall Street icon is, unfortunately, not a new one, as we’ve seen in the stories of Enron, WorldCom, and others. In a report released by bankruptcy court-appointed examiner Anton Valukas, Lehman executives and the firm’s auditor, Ernst & Young, were lambasted for actions that led to the firm’s collapse. He said, “Lehman repeatedly exceeded its own internal risk limits and controls, and a wide range of bad calls by its management led to the bank’s failure.” Let’s look behind the scenes at some of the issues. One of the major problems at Lehman was its culture and reward structure. Excessive risk taking by employees was openly lauded and rewarded handsomely. Individuals making questionable deals were hailed and treated as “conquering heroes.” On the other hand, anyone who questioned decisions was often ignored or overruled. For instance, Oliver Budde, who served as an associate general counsel at Lehman for nine years, was responsible for preparing the firm’s public filings on executive compensation. Infuriated by what he felt was the firm’s “intentional under-representation of how much top executives were paid,” Budde argued with his bosses for years about that matter, to no avail. Then, one time he objected to a tax deal that an outside accounting firm had proposed to lower medical insurance costs saying, “My gut feeling was that this was just reshuffling some papers to get an expense off the balance sheet. It was not the right thing, and I told them.” However, Budde’s bosses disagreed and okayed the deal. Another problem at Lehman was the firm's top leadership. Valukas's report was highly critical of Lehman's executives who "should have done more, done better." He pointed out that the executives made the company's problems worse by their conduct, which ranged from "serious but nonculpable errors of business judgment to actionable balance sheet manipulation." Valukas went on to say that "former chief executive Richard Fuld was at least grossly negligent in causing Lehman to file misleading periodic reports." These reports were part of an accounting device called "Repo 105." Lehman used this device to get some $50 billion of undesirable assets off its balance sheet at the end of the first and second quarters of 2008, instead of selling those assets at a loss. The examiner's report "included e-mails from Lehman's global financial controller confirming that the only purpose or motive for Repo 105 transactions was reduction in the balance sheet, adding that there was no substance to the transactions." Lehman's auditor was aware of the use of Repo 105 but did not challenge or question it. Sufficient evidence indicated that Fuld knew about the use of it as well; however, he signed off on quarterly reports that made no mention of it. Fuld's attorney said, "Mr. Fuld did not know what these transactions were—he didn't structure or negotiate them, nor was he aware of their accounting treatment." A spokesperson from Ernst & Young (the auditor) said that, "Lehman's bankruptcy was the result of a series of unprecedented adverse events in the financial markets."

Discussion Questions

1. Describe the situation at Lehman Brothers from an ethics perspective. What's your opinion of what happened here?

2. What was the culture at Lehman Brothers like? How did this culture contribute to the company's downfall?

3. What role did Lehman's executives play in the company's collapse? Were they being responsible and ethical? Discuss.

4. Could anything has been done differently at Lehman Brothers to prevent what happened? Explain.

5. After all the public uproar over Enron and then the passage of the Sarbanes-Oxley Act to protect shareholders, why do you think we still continue to see these types of situations? Is it unreasonable to expect that businesses can and should act ethically?