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MCDOLLARS MOVES TO MOTHER ROOSHKA

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CASE DESCRIPTION

The purpose of this case is to provide an international negotiation exercise, derived from a specific setting adapted from a real situation, that tests the ability of students to overcome narrow thinking and cultural obstacles and structure an integrative and mutually beneficial agreement. The case is appropriate for junior or senior undergraduate students or first year graduate students, depending upon the depth with which the instructor wishes to explore the case and the instructor's comfort level with the issues included in the case. The negotiation exercise is designed to take about two hours (including the debrief), although more time may be spent on it. The case requires that students devote approximately one hour to preparation of the case, but this time can be spent outside class if necessary.

CASE SYNOPSIS

This case is based in a very general way on the circumstances surrounding McDonalds efforts to begin operations in the former Soviet Union.

This negotiation exercise is set in the fictitious nation of Rooshka. Rooshka certainly resembles Russia, but the use of the country's name directly in the case is avoided to reduce student tendencies to stereotyping real people and to avoid potential errors introduced by students who have knowledge of Russian culture. Thus, Rooshkan culture is intended bear some similarity to Russian culture (and in fact may be portrayed, for purposes of this exercise, as what some may regard as stereotypical Russian culture - fairly or not - on steroids!), but Rooshkan culture can only be truly explained by the materials in this exercise.

The negotiation helps students learn to negotiate in a more integrative fashion. Because the exercise is not scored quantitatively based on outcomes, the situation can lead to the use of creative collaboration in an unexpected venue. The Cohen quote above illustrates a common perception of Cold War relations with Russia before the fall of the Soviet Union. The marriage of McDollars, which is the literal embodiment of capitalism, to a struggling post-communist state seems counter-intuitive by its very nature. The odd-couple dynamic in this negotiation exercise, however, actually creates possibilities that can be beneficial to both parties. In the case of McDonalds, these possibilities were benefitical to both parties. Thus, this negotiation puts students in an adversarial mind set, which they must work beyond to reap the collective benefits of an agreement. We hope that the students will be drawn toward this understanding through analyses of their own best alternative to a negotiated agreement (BATNA) because both sides lose if the parties fail to reach an agreement.

In addition to testing students' understanding of BATNAs, the McDollars negotiation challenges students to decide between two drastic extremes. On the one hand, they will be tempted by profit motives and corporate advancement. On the other, they have the chance to promote social

welfare among an impoverished people. The universal tension between public good and private gain is played out at both the individual level and the broader societal level in this negotiation exercise, given the situational conflict between communism and capitalism, collectivism and individualism, and every other difference between Soviet and U.S. culture. This case is built on a bargaining position template developed by Barkacs and Barkacs (2004).

ROLE FOR FRENCHY FRYE, FOUNDER AND SENIOR CHAIRPERSON OF MCDOLLARS ROOSHKA

This case takes place in fictional foreign nation of Rooshka, which for purposes of this case will be regarded as a former Soviet republic. One may properly infer that the fictitious Rooshka strongly resembles Russia, but Russia specifically is not used in order to avoid stereotyping real people and to avoid potential mistakes regarding Russian culture. Thus, while Rooshkan culture is intended bear some similarilty to Russian culture (and in fact may be portrayed, for purposes of this exercise, as what some may regard - fairly or not - as stereotypical Russian culture), Rooshkan culture nevertheless exists exclusively within the confines of this exercise.

In terms of setting the stage for this exercise, the Cold War is history and political and economic change is underway in the former communist regimes of Eastern Europe. Currently in Rooshka, capitalism is emerging - providing a more enticing landscape for foreign direct investment. With the Rooshkan economy still struggling and in transition, and with some of citizens starving and freezing, Rooshka has gradually begun to westernize. The concepts of *glasnost* and *perestroika* (meaning "openness" and "economic restructuring," respectively) are prominent features of the political and economic reform in Rooshka. To the Rooshkans, who were behind the Iron Curtain for almost a century, such concepts are quite understandably extraordinary and revolutionary.

Soviet propaganda and enculturation, however, have created a lasting negative image of Capitalists, specifically Americans, as greedy, power hungry beasts. A major problem for American investors is trying to overcome this perception. With a culture dominated by Socialist sentiment, which promises food and heat for all its citizens, the Rooshkan general public is wary of western business infiltration, and its emphasis on personal gain and wealth.

The Rushkan government has begrudgingly agreed to allow some Western firms to do business in the Motherland. While such a shift in policy offers potentially lucrative business ventures for Western firms, the political and economic risks are substantial, creating tension and conflict between prospective foreign business investors and the Rushkan government.

One particular investment possibility involves McDollars, a world renowned fast food establishment based in the United States. McDollars ascended to the top tier of fast food chains when the owners streamlined the hamburger serving process, and redefined the restaurant industry forever. Since then the company has been wildly successful in its ventures, with tens of thousands of locations on six continents. The corporation employs over three million people, netted revenues in the billions last year, and has become an American branding icon with the likes of Coca-Cola and Nike. Their classic symbol, the green dollar sign ($) is universally recognized as an eating establishment of the highest quality and a beacon of profit for franchisees everywhere.

A meeting is scheduled between Frye and Yukan Kissov, the current Rushkan Minister of Commerce. With no current fast-food competition in Rushka, Frye is interested in the expansion of McDollars into the Russian market, believing that he/she will enter into it unopposed, allowing him/her to reap an incredible profit. On the other hand, Kissov is entering the negotiation with the best interests of his/her country and those he/she represents in mind. While each side has apprehensions about the other, and in light of the substantial cultural differences, Frye and Kissov nevertheless hope to meet civilly and productively.

You are the founder and Senior Chairperson of McDollars Rooshka. The only problem is that McDollars Rooshka exists merely as a concept, inasmuch as you have yet to open a single fast food

restaurant in Rooshka. Your relationship with the McDollars corporation, however, is no recent development. You first met Jay Brock, the companys mastermind, shortly after you graduated from law school, and two years later you abandoned your career in law to open your first McDollars in Eastern Canada. With remarkable speed you turned McDollars into the largest food service organization in Canada.

Even though you have yet to open a McDollars restaurant anywhere in the former Soviet Union, you have already invested 14 years of blood, sweat and tears into the cause. Years ago you first realized the potential - a region with hundreds of millions of people with a diet very similar to an Americans. Since then you have been traveling to Rooshka five to six times each year to meet with government officials and trying to cut through all of the bureaucratic red tape. This process began during the Cold War, so such excursions were not vacations, but rather arduous business trips half way around the world. Little progress had been made until recently, when you finally received tentative approval to actually build a McDollars Rooshka in the capital city of Howscow.

Since then you have been working out the details of the agreement with government officials. Your plan is to build and operate twenty restaurants within Howscow, but you still need to work out a few matters before you can actually finalize the deal. While you had previously met and worked with primarily with local officials of Howscow, a meeting has been a arranged for you to speak directly with the Minister of Commerce, Yukan Kissov. While you have made much progress over the years, you realize that Kissov may make various demands and insist on numerous concessions before being willing to give final approval of the project. Because he/she is the Minister of Commerce, you realize that he/she can walk away at any time if dissatisfied and, accordingly, leave you empty handed and with nothing to show for 14 years of effort and all the associated costs. You have always enjoyed the full confidence and support of Jay Brock, but you also know that he is obsessed with penetrating the Rooshkin market at any a cost. Losing this contract would deal a powerful blow to your self esteem and would cripple your heretofore excellent relationship with Jay Brock. You have heard rumors from corporate that failing to finalize a deal would, at the very least, result in a demotion and, at worst, lead to your forced early retirement.

Given that your corporate career hangs in the balance, you should take considerable time to thoroughly review the issues. Whether the twenty prospective restaurants within Howscow become a reality depends on your reaching agreement on following issues:

1. The Menu: The McDollars menu is central to its identity, and has always stayed true to its basic fare of burgers, fries and McNuggets. No new restaurant has ever deviated from the same staple menu, and to do so would be seen within the corporation as blasphemous to McDollars name. The menu has come under the scrutiny of the Rooshkans, and you anticipate that Kissov will want to change it somehow to make it more Rooshkan. Changes to the menu would be against everything that is McDollars, and would certainly arouse the ire the corporate headquarters. Do you really want your brand name to be associated with cabbage soup?

2. Source Locally? As is often the case with foreign direct investment ventures, one of the main decisions to be made is whether to source locally, or to import needed ingredients and supplies. While sourcing locally is normally the low-cost answer within developing countries, Rooshka is in a class of its own. Sourcing locally would almost certainly be beneficial for the company over the long run, but you are concerned that up front costs may seem steep to corporate, even though Jay Brock has never said any such thing.

The supply chain - to the extent you can call it that - in most of Rooshka is antiquated, fragmented, and in many cases, non-existent. Farming is very low-tech and inefficient, and roads desperately need repair. Moreover, there is nowhere to process the local products in order to maintain the consistency required by corporate McDollars back home.

In order to even consider sourcing locally, a number of improvements would have to be made. For example, McDollars would have to bring in agricultural specialists from all over the world to educate the Rooshkan farmers on how to grow the products they needed (most Rooshkans do not even know of the existence of the larger Idaho potato). Somehow these specialists would have to transform old-world farms into efficient modern day agri-businesses. Given the nightmare logistical constraints in Rooshka, McDollars would also have to invest in infrastructure, such as roads to transport local goods. Finally, McDollars would have to build the behemoth McComplex, a 100,000 square foot processing plant, in a nearby suburb of Howscow in order to maintain food consistency. This complex would be a way to ensure quality control, and would include a self-contained bakery, dairy, and meat-cutting operation facility, while employing over 400 people.

All of these projects would cost in the neighborhood of $50 million up front, making the projects significant initial investments. While these costs would easily be recouped over the years if McDollars Rooshka is a success, they might be very difficult to explain to corporate back home. After 14 years of your failure to deliver in Rooshka, however, Jay Brocks patience is wearing thin, and you know he wants a deal made sooner rather than later. You could ask Kissov to help finance these investments in infrastructure, but with Rooshka current economic situation, you doubt Kissov will be of much help.

The alternative, importing the inputs from existing European suppliers, would be at slightly higher unit costs, but would require no startup investments. The problem with this approach, however, is that it would do nothing to build up the necessary internal infrastructure in Rooshka, which both you and Jay Brock regard as crucial to the long term success of McDollars in Rooshka.

3. Hire Locally? While most typical workers in your restaurants are likely to be Rooshkan, just who will hold management positions is something that still has not been resolved. If you hire local managers, they will not be as in tune with the McDollars corporate culture. This worries you and some at corporate headquarters because McDollars has a strong image that must always be maintained. As the first restaurant in a large new market, the Howscow McDollars must epitomize the McDollars image and values. In fact, in the United States, all managers must pass a rigorous training program at Hamburger University located at corporate headquarters. For you, American managers, at least to open the first restaurant, seem better suited for the task.

If left with no other recourse, you might consider Rooshkan managers, as long as they first attend Hamburger University, although their transportation and housing are additional costs that you would probably be asked to incur by the Rooshkans.

4. Ownership: Attempting to do business in a country with a history of communism can be awkward and cumbersome because in communist countries most business enterprises are owned by the state. All of the countries in which you have done business previously have allowed you to maintain complete ownership of your restaurants, but in Rooshka you anticipate that will not be the case. You doubt that the Rooshkans will allow you to maintain 100% control of the venture, but you are still interested in keeping as much ownership as possible. Allowing the Rooshkan government to control too much of the restaurant could set a dangerous and unheard of precedent, which might also be poorly received by the corporate office.

Conversely, having the government as business partner could have its advantages. The Rooshhan governments political clout could certainly help with - and in fact be of crucial importance to - certain matters, such as accessing utilities, improving infrastructure, and acquiring real estate. Besides, the more the Rooshkan government is involved the greater interest it has in making the McDollars Rooshka a success.

5. Location: Location will be one of the most important points of your discussion with Minister Kissov, as it will greatly affect the performance of your business. You have heard rumors that three

possible sites are being considered for the first McDollars. The first site is a prime real estate, located right smack in Pushpin Square, just one block from Rooshkas Lenin Memorial. This site would gain lots of attention and pedestrian traffic, allowing McDollars to prosper and, for that reason, you regard this specific location as ideal for your inaugural restaurant. Given that it is such valuable space in such a central location, however, you know that Kissov will demand a number of concessions to accommodate your strong preference for this location.

The other two locations are less appealing. One is located in a popular business district...popular before the Bolshevik revolution at least. Now it is mostly abandoned. The other is in a very well trafficked part of town, situated right between the Red Light District and a very historic site, an old Stalinist Gulag.

6. Currency: Currency in the republics of the former Soviet Union is always a big topic of discussion because it seen as more than just colored paper exchanged for goods; currency defines the social class of the carrier as well. The local currency, the Ruble, is nontransferable money widely circulated amongst the commoners of Rooshka. The aristocracy and foreigners, however, use hard currency, such as dollars or euros. It is illegal for common people to hold any form of hard currency, and in fact, many of the nicer shops are hard currency only, and do not permit peasantry entrance.

Beyond the class warfare issue, currency selection is also a big decision for McDollars because of the risks of the Ruble. The Rooshkan economy has been known for periods of hyperinflation, which the trigger super devaluation. Apart from the risk that the Ruble may be severely devalued, the Ruble is also a blocked currency (i.e., nontransferable), so any profit made must be kept within Mother Rooshka.

Hard currency alienates a vast majority of the population so many stores have started having separate lines, one for hard currency and one for Rubles. The Ruble lines are always long and slow-moving while the hard currency lines are typically quick and easy. A dual currency has its merits, as some profits could be counted on and repatriated. Even so, the separate line system is deeply resented by the common Rooshkans, and would almost certainly keep them from viewing McDollars Rooshka as a truly Rooshkan enterprise, which would lead to depressed sales, if not outright boycotts. Conversely, corporate McDollars will not like to hear that your subsidiary will not be sending any profits home, and that investments are being put at economic risk.

YOUR TASK

Represent the McDollars corporation in drafting the final agreement with Minister of Commerce Kissov on each of the listed issues.

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LINES AT LOAF N' LATTE

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CASE DESCRIPTION

This case applies queuing theory in a small business. Students gain an appreciation for the usefulness as well as the difficulties of producing appropriate data and analyses rather than working text problems that contain only summary measures. Specifically, students analyze interarrival and service times collected during a five day period. (Values are included and can be changed to renew and reuse the case.) Junior and senior level undergraduate students in introductory quantitative analysis, operations research, or management science courses can complete the case in 2 – 3 hours time. Analysis can include computation of the current situation at the business as well as explorations of alternative arrangements.

CASE SYNOPSIS

Like many entrepreneurs, Anna Jamison believed she had an idea that would prove to be a viable and sustainable business. She created a coffee shop and vegetarian restaurant in a small college town. She succeeded. The business became a favorite among professors and college students. The alternative menu appealed to this demographic. It offered customers a variety of vegetarian items and baked goods that could not be found in other food establishments near the campus. Additionally, the relaxing atmosphere allowed customers to work and study, so students and professors spent hours in the restaurant drinking coffee and working on projects. Ms. Jamison appreciated these customers despite the limited space. In the past, long lines were never a problem, but recently several complaints surfaced, and some customers even walked out rather than wait in the long lines during lunch periods. Anna wishes to address this problem before Loaf n' Latte develops a reputation for slow service. She would like to evaluate options and remedy the situation.

ECAMPUS.COM: THE TURNAROUND STRATEGY

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CASE DESCRIPTION

This case describes the revival of an e-commerce company after bankruptcy. It discusses how a successful e-business was forced into federal bankruptcy auction, was purchased and restructured by new management and is now trying to survive by going back to basic business principles of strict cost management and efficiency. It is suitable for both graduate and undergraduate strategy classes and has a difficulty level of four though six depending on the depth of analysis the instructor desires. This is an e-commerce case that would be appropriate for management information systems, e-commerce or entrepreneurship classes. The students should be prepared to spend from six to twelve hours outside of class analyzing the case depending on the breadth and depth of the analysis.

CASE SYNOPSIS

Ecampus.com is a fully-transactional Internet electronic retailer of college textbooks that went online in 1999. Investors wanted to cash in on the hot e-commerce IPO (Initial Public Offering) market of the late 1990s. The plan was to start with a big marketing campaign to get fast market recognition, then hit the IPO market.

Investors put up $49 million to kickoff Ecampus. $20Twenty million dollars was spent on cable television advertising during its first eight months. The ads were highly effective in generating name recognition (84%) in its target market. The ads garnered a great deal of press exposure and awards forthere quality and creativity, but only generated $2 million in sales. Initially, Ecampus had an alliance partner that handled the warehouse and order fulfillment operations. Three months after the initial startup, Ecampus purchased the distribution center from its alliance partner.

When the IPO market soured in 2000, a decision was made to delay the IPO. Meanwhile, Ecampus continued it its marketing campaigns even through sales remained flat. By 2001, the huge personal debts of the principle investor, Wallace Wilkinson, began to worry suppliers and creditors. Ecampus needed more capital to continue its advertising campaign and operations, but investors and creditors were reluctant to put more into Ecampus. In April 2001, Ecampus laid off most its executive management, office staff and programmers. In June, Wilkinson was forced into personal bankruptcy. Within days, Ecampus was forced into bankruptcy too. The federal bankruptcy court allowed Ecampus to continue operating until it was sold at auction.

Ecampus was purchased at bankruptcy auction by a newly created company headed by its Director of Information Technology and two major creditors. The new owners drastically slashed costs and improved efficiency in advertising, operations, information systems. Now, all company offices and operations are located in distribution center building. Ecampus' primary advantages are its state-of-the-art brick-and-mortar distribution systems and strong name recognition. The company faces a highly competitive industry with a few highly capitalized competitors and a growing number of small companies selling low-cost imports.

INSTALLING ERP SOFTWARE AT VALVOLINE

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CASE DESCRIPTION

The primary subject matter of this case concerns Enterprise Resource Planning (ERP). Secondary issues examined in this case include: supply chain management, organization design, project implementation, and organization culture. The case has a difficulty level appropriate for seniors and first year graduate students. The case is designed to be taught in one hour and is expected to require three hours of preparation.

CASE SYNOPSIS

The case addresses critical issues associated with installing an Enterprise Resource Management system. Valvoline realized their old information systems were inadequate to compete in today's business environment. They spent years and a tremendous amount of money and man-hours attempting to improve the efficiency and effectiveness of their operation management information system and supply management system. They chose SAP software and supplemented it with the Fygir (Infor) Advanced Planning System. The new systems had major advantages over their old systems. However, even with all of their careful preparations, they still had difficulty and issues when installing the new system.

INTRODUCTION

Valvoline was well aware of the increasing competition among supply chains in the global market. There was no question about the need for an advanced information technology system. The major issue was how to upgrade its organization at both micro and macro levels. Steve Banker, director of supply chain solutions for ARC Advisory Group stated that the supply chain is more about philosophy than technology.

Through research and benchmarking, Valvoline has learned that an Enterprise Resource Planning (ERP) tool cannot be installed overnight. Early in the 1990s, Valvoline started implementing new approaches in its operations such as Just-In-Time inventory, Total Quality Management, teamwork, activity-based costing, and benchmarking that provided a solid organizational foundation for more advanced installations in the future. For example, activity-based costing system was adopted in 1992. The "RAPID" internal benchmarking study was conducted in 1999. The latest integration at Valvoline involved the installation of SAP Advanced Planning System software.

SOFTWARE SYSTEMS

Valvoline's senior management realized the present status of its internally developed legacy information systems had only a short life span until massive reconfiguration would be required to meet long-term competitive needs. Rather than continue maintaining and developing systems

internally, the decision was made to purchase a license with the leading Enterprise Resource Planning (ERP) system in the market-- SAP R/3.

The decision to make the purchase was not an easy one. Sixty full-time Ashland Oil and Valvoline employees working with external consultants needed over 15 months to fully configure the system for Valvoline's business processes. The ERP system would manage all of Valvoline's business transactions ranging from taking customer orders, completing manufacturing production, and printing invoices. Each business process was carefully scrutinized in terms of how SAP would handle the transaction. This offered opportunities to improve many business processes that over the years had been followed for the simple reason of "that's the way we have always done it." The changes also caused a great deal of anxiety, as many people had to learn new ways of doing their jobs.

The implementation teams were organized along SAP functionality modules: Sales and Distribution, Materials Management/Production Planning, Financial, Cash/Credit, Business Warehouse, and Operating System. Each team concentrated primarily on the issues within its module. The teams quickly found that with a fully integrated ERP system each module had an impact on other modules. At times, conflicts would arise, as one module's configuration would not work in another module. The Materials Management/Production Planning module had the greatest impact on the manufacturing division.

This module replaced the Valvoline Inventory and Production System, which had been in use for approximately eight years. The old legacy system was developed internally, specifically for Valvoline operations. Consequently, there was a great deal of functionality that would be very difficult for an "off-the-shelf" system to match. For Valvoline's manufacturing division to be prepared for the transition, an entire new glossary of terms was provided. The terms were more in line with mainstream business rather than Valvoline's own terminology. For example, a product is now a material; a fill number is now a process order; a shipment is now a delivery.

One of the immediate benefits was a new material numbering scheme that matched the marketing number of the product rather than some randomly chosen number. This change made the recognition of materials much easier than had ever been possible. Another benefit was a vast material database that had a broad range of characterizations. Even though Valvoline had an extensive product master previously, it had become encumbered with obsolete products and inconsistent information. These changes were data changes, but the biggest impact on the manufacturing division would be the fully integrated, real-time information.

Valvoline used the Numetrix Linx software application to perform supply chain network design analysis. Information available in Valvoline legacy systems had to be: (1) downloaded from the legacy system; (2) reformatted for the Linx data structure; and (3) then imported into the Linx system. This process required a great deal of manual intervention to build the supply chain model. This difficulty in integrating the information caused the supply chain models to be used for one-time studies rather than ongoing business decisions. The Linx system failed to make inroads at Valvoline due to its lack of integration. Valvoline realized the potential of having the supply chain modeling capabilities, but integration was the key to its usefulness in continuing business applications.

Valvoline's legacy systems were all stand-alone systems that did not communicate well together. The primary weakness was the inability to see details within each system, such as inventory. The inability of viewing inventory at the time an order was placed gave the customer no assurance as to when the order would actually be received. With the SAP ERP, real-time inventory levels can be viewed by anyone anywhere. Now a customer knows whether inventory is available, and, if it is not, when the inventory will be available. For the manufacturing division, the major change was a loss of control when an order is scheduled for shipment. With SAP, the decision is made at the time the order is placed, whereas, in the legacy system, the plant made the decision after it had confirmed that it physically had the inventory.

In the legacy systems, one individual was responsible for batch processing transactions at the end of the day. This meant that any production sheets and receipts of material could be gathered and entered before the end of the day and inventory records would be intact. In the new SAP environment, a shipment cannot be processed or raw materials used without the transaction being entered into the system. This was a major change in job functions for many plants. Under the legacy system this type of transaction was batch processed by the central office. Under the SAP system, it was to be done in real time from the shop floor. The legacy system was designed for the production personnel to enter information, but the batch processing was kept in the office "to ensure accuracy."

Another benefit of the SAP system is its material requirements planning (MRP) functionality. If inventory is not available in the production system, the system will automatically plan the production and order the materials. In the past, this situation would result in a stock out. Unfortunately for SAP, the MRP system is primarily a function of the transaction system, and new production is based on fixed reorder point quantities stored in the system. The production quantities are based on current sales orders in the system with no indication of long-term customer demand and production constraints.

Valvoline's operations management team believed these limitations of the SAP ERP system would not provide enough information to optimize the system. As Valvoline's business has gotten more complicated with broader product lines, ever increasing skus, and decreasing customer lead times, making a more advanced planning system imperative. Inventory levels needed to be minimized for the lower volume products. Better utilization of production lines was also considered because of plant consolidation issues. Believing inventory investment could be decreased by 20%, Valvoline opted to implement a more advanced planning system (APS).

The advanced planning system (APS) that Valvoline chose to implement is supplied by (Infor) SCT (Systems, Computers, and Technologies) and is called Fygir. The suite of products consists of three components: Fygir Demand Planning (FDP) for forecasting, Fygir Advanced Planning (FAP) for long- to mid-term planning, and Fygir Advanced Scheduling (FAS) for finite scheduling. Each of these tools provides constraint-based analysis for fully optimizing the manufacturing system and eventually the entire supply chain. Even though these systems are used for completely different purposes they share information to allow the manufacturing process to operate efficiently. The APS system would be very difficult to maintain if it were not able to use the information that resides in the SAP system.

An overview of the SAP data requirements for the APS systems is essential to understand the interdependencies. The material master items include the description and the unit of measurement conversions (i.e., pounds, units, pallets.) Plant-specific material master items are the production rates, minimum production quantities, lot sizes, and lead-times. Plant resource information for production lines and production resources, such as tanks, are also critical. Relationships or routings of plant resources to the products that use the resources are necessary for connecting products to manufacturing equipment. The hub-and-spoke relationships of products that are manufactured and transferred to other Valvoline locations are needed for complete replenishment. Lead times are also accounted for to ensure production is planned in ample time.

INSTALLATION ISSUES

Throughout training to use the APS system, everyone from the trainers to the users was cautious about the impact of the new system. The change was dramatic when the system was finally turned on to live processing. The graphic view of production was difficult to interpret for many of the personnel that were only accustomed to looking at numbers. Even though the graphics represent warning signals that problems were imminent, trust in the information is not accepted without double-checking "the numbers".

The daily interfaces were difficult to schedule, because everyone was getting up to speed with using SAP. Processing these transactions was an adjustment, but timely processing was an even bigger adjustment. With the real-time nature of SAP, the old method of batch processing transactions was no longer applicable. However, at the beginning, batch processing was being done which misreported book inventory levels, hindered production, and stymied shipping. With SAP inventories incorrect, the interfaces were useless with the APS systems completely dependent on SAP's transactional balances. After the first couple of days, the processing of records became timelier and the interfaces began having a truer meaning.

Accurate information is absolutely necessary for the systems to work correctly. With the inaccurate inventory levels, the first production schedule was light compared to normal levels. Prior production levels being based more on floor space and less on forecasted demand could cause this. With so many other issues being addressed, this was not reviewed any further. The larger problem loomed from inaccurate master data being loaded into SAP. There was not a complete understanding by Valvoline production personnel of how the information would be used because the information had many fallacies. For example, unusually small production sizes caused by minimum production sizes set too low or product sourcing relationships not pointing to the correct transferring location caused a great deal of confusion. Review and maintenance of master data was necessary to "clean-up" the systems.

The FAP modeling also had a problem with balancing production cost and inventory cost. This caused over production of products with little or no demand. Adjustments were made to the program's solver to place a higher penalty on unnecessary production. Given the master data issues and the over production mentioned above, many of the production schedulers carefully scrutinized each planned production order before applying them to the FAS planning board. This drastically slowed down the scheduling process. Adjustments have continued to be made for more accurate production plans. After a month of using the APS system, many of production schedulers have began to understand and accept the process. On-site support from headquarters has been provided to ease fears and provide further training.

DIPPIN' DOTS ICE CREAM

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ABSTRACT

Innovation comes in many forms and in many places. Dippin Dots is an example of innovation where one might least expect it – ice cream. Experts predict ice cream has been around since the 2nd century B.C. This case describes the rise of a company built on space-age ice cream. Dippin Dots is founded on a technology transferred from cryogenics into the manufacture of ice cream. Cryogenics is about super-freezing (-3650F for ice cream), and the case is about how cryogenics enabled a entrepreneurial product differentiation that has thrived amidst an industry of large, high-volume competitors.

Curt Jones, a research and engineering microbiologist by trade, was blessed with the idea to make ice cream utilizing cryogenics to super-encapsulate a unique frozen dairy product. Being pleased with the results of his idea, he founded a company called DippinDots that has grown in 15 years to revenues of over $45 million and employs 160 persons. The product is differentiated in form, process, and market. Its form is that of tiny round balls, i.e. dots, served at 10-200 below zero. Its process is cryogenic manufacture and super-cool storage and distribution. Its market is specialty retail outlets, partnerships with established distributors, and a franchisee network. Customers are those ice cream lovers willing to experience a "new thing" through dealer networks in fair, festival and commercial locations and through a new trial partnership with McDonalds.

This case is a fascinating portrayal of a niche product in a lucrative industry. It demonstrates the power of product and process innovation combined with a focused market penetration. The result is a company that has presence both in 50 states and internationally, and markets both directly and through franchisees to a target market of 8- to 18- year-olds. DippinDots was established in 1988, opened a 32,000 sq ft production facility in 1995, added 20,000 sq ft additional space in 1997, a 2003 20,000 sq ft facility in South Korea, and is a regular designee in Entrepreneur Magazine.

Dippin Dots is a case that would be well-placed in both graduate and undergraduate classes. It describes the entrepreneur, the company's technology and founding events, and specifics about the uniqueness of the product. It offers a comprehensive overview of the ice cream industry, including an assessment of the various industry segments. The authors also share the history of DippinDots' growth stages, and a view of its challenges for future growth. The case is appropriate for classes of Strategic Management, Marketing, and Entrepreneurship.

CRISIS MANAGEMENT AT THE NATIONAL INSTITUTES OF HEALTH

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CASE DESCRIPTION

Scientists at the National Institutes of Health (NIH), while government employees earning around $200,000, were consulting and serving on private firms' scientific advisory boards. Although such practices were rare before the 1980s, they became increasingly common during the 1990s and into the twenty-first century. These practices raised concerns over perceived, and real, conflicts of interest, when the same firms received grants from (and did research with) the NIH. Defenders of the practice, however, suggested that the development of scientific knowledge was enhanced when research scientists had regular contact with private industry. Federal ethics guidelines did not prohibit federal employees from "moonlighting" in their free time, but did place strict guidelines on such practices. The primary issue in the case is to understand the nature of conflicts of interest, conditions under which "knowledge sharing" can be appropriate, and when such actions can be inappropriate and potentially illegal.

A second issue explores "crisis management," when the allegations of impropriety and conflict of interest are leveled at the NIH in December 2003. The director of the NIH has called for a review of all consulting arrangements and the establishment of a Blue Ribbon Panel, but there are concerns that this does not go far enough and that the NIH is trying to avoid seriously dealing with the situation.

The primary audience for this case is a junior/senior course in Business Government and Society, or a Business Ethics course. The case would also be applicable in Public Administration classes, particularly where administrative ethics are discussed. The case might also prove of interest in a class on knowledge management issues in a graduate program. While both of the above identified issues should be addressed in any discussion, the instructor has discretion regarding which one should serve as the primary focus in a class.

INTRODUCTION

> "Our mission is too important to the public health of the nation to have it undermined by any real or perceived conflicts of interest. … [our] ongoing review of outside activity files shows no evidence that patients were harmed or that decisions were influenced." (Dr. Elias A. Zerhouni, quoted in Willman, 2003b)

> "This is not just a matter of a revolving door, where at NIH people go from the federal agency to the private sector. This is a matter of a swivel chair, where they sit at one desk ad do both jobs. … I have great concern about institute directors having outside sources of income. It's like deputy secretaries of Defense working for Lockheed Martin." (Rep. James C. Greenwood, Chairman of the House Oversight and Investigations Subcommittee, quoted in Willman, 2003b)

December 2003 was a difficult month for Dr. Elias A. Zerhouni, Director of the National Institutes of Health (NIH). On December 7th, The Los Angeles Times published a series of articles

reporting that a number of top NIH scientists, earning $180-$200,000 in government salaries, also had lucrative consulting and advisory relations with firms receiving grants from the NIH. The articles (Willman, 2003a) suggested that these relations created a conflicts of interest, and that, as a consequence, government funds might not be going to the most worthy projects, but to those that could financially benefit NIH officials. Perhaps even more troubling, was the suggestion that some patients' lives had been placed at risk by decisions that allowed unsafe drugs (from companies with financial ties to NIH officials) to be administered. The Los Angeles Times investigation concluded that this was not simply a matter of a few government employees trying to cash in on their knowledge and connections. Rather, the policies and practices at the NIH had created a climate where outside consultation was encouraged, and regular safeguards regarding disclosure of outside consultation had been systematically dismantled.

Initial reactions to the articles were predicable: the story was picked up by wire services, National Public Radio, and numerous other media outlets, Dr. Zerhouni defensively protected his Institutes' reputation, The Los Angeles Times' editors stood behind the story, and politicians called for investigations and looked for a scandal that would put their names in the press. But, behind these opening salvos, a strategy for dealing with the situation had to be developed by the leadership of the NIH. After the initial excitement, perhaps this story would just go away. If this happened, the best move would be simply to lie low and let the media attention and political fury pass on to the next big scandal. On the other hand, proactively dealing with the situation might diffuse the matter, and take some of the "wind out of the sails" of reporters and politicians that might try to make a bigger deal out of this than was warranted. The Congressional holiday recess had provided some breathing room, but the issue could quickly return to the headlines in January. While the NIH leadership could not entirely predict or manage how this issue would play out in the new year, actions taken now could influence whether the next NIH-related stories and Congressional hearings dealt with wonderful new drugs, important research results, and new treatments for serious diseases, or with the "scandalous" financial ties between top scientists and the private sector.

THE NATIONAL INSTITUTES OF HEALTH

The NIH is a part of the U.S. Department of Health and Human Services, and calls itself "The Nation's Medical Research Agency." The agency began in 1887 as a one room 'laboratory of hygiene' within the Marine Hospital Service. An early priority of the laboratory was to prevent the spread of infectious diseases from traveling seamen to the general population of the United States. Over the years, the entity's name and scope of mission changed many times. Currently, the NIH's primary mission is to fund research on all aspects of public health. In 2004, the NIH's budget exceeded $28 billion. Most of the NIH's funds (80%) are spent on competitive grants given to researchers at universities, medical schools, hospitals, research institutes, and private firms located in all 50 states. The NIH has approximately 17,000 employees, including approximately 6,000 research scientists operating in its own laboratories. (Information in this section is summarized from the web site of the NIH (www.nih.gov). Specific facts and data are largely from www.nih.gov/about/NIHoverview.html, www.nih.gov/about/index.html, and history.nih.gov/exhibits/history/index.html.)

NIH directors and senior scientists are highly compensated. Typical salaries are $150-200,000, higher than that of many members of Congress and Supreme Court justices. Many NIH scientists could, however, earn even more working in private industry or practicing medicine. By serving as consultants or members of firms' scientific advisory boards, NIH scientists can supplement their governmental salaries and make their total compensation more competitive with other opportunities. Decisions made by senior NIH scientists regularly involve allocating millions of dollars of governmental funds. The impact of these funding decisions on private firms, however, can be even larger. If NIH-funded work helps identify the root causes of a disease, a pharmaceutical

firm can earn billions of dollars in long term sales by developing an effective treatment. In the end, the nation's public health may be well served by the NIH when diseases are prevented, eliminated, or cured, regardless of who might realize a direct financial profit.

THE U.S. OFFICE OF GOVERNMENT ETHICS

The U.S. Office of Government Ethics (USOGE) was established following the Ethics in Government Act of 1978. The primary role of the USOGE is to coordinate ethics programs for agencies within the executive branch, and interpret legislation and regulations. The USOGE publishes numerous pamphlets and handbooks outlining responsibilities of government employees, and steps that need to be taken to assure that employees comply with federal laws. The USOGE works directly with ethics administrators in government agencies (including the NIH) who monitor ethics programs and ethics compliance within their agencies. (Information in this section is largely taken from the web site of the USOGE - www.usoge.gov).

CONFLICT OF INTEREST GUIDELINES FOR GOVERNMENT EMPLOYEES

Conflicts of interest arise when a government employee's work might also personally benefit the employee, or benefit family, individuals, or organizations with which the employee has a relationship. When a conflict of interest exists, a government employee may be tempted to act out of self-interest, rather than in the best interest of the public. Conflict of interest guidelines are designed to address these circumstances. Employees are required to notify a superior whenever a conflict of interest exists, so that the work can be reviewed or assigned to another employee. Examples of obvious conflicts of interest include employees authorizing purchases from a firm owned by a family member or negotiating with an outside firm as a government official, while simultaneously personally negotiating an offer of employment from the firm. In cases such as these, the employee's objectivity could be questioned, even if decisions actually are made without bias. (Information on conflict of interest guidelines is largely drawn from USOGE, 2002a).

FINANCIAL DISCLOSURE REQUIREMENTS FOR GOVERNMENT EMPLOYEES

Government employees are not prohibited from also working outside the government, as long as the outside employment does not directly relate to, or interfere with, their governmental duties. An administrative assistant in the Department of Justice can work evenings or weekends at an ice cream shop, for instance, without raising any ethical concerns. Likewise, a scientist can teach a course a local college, a park ranger can work part time as an emergency medical technician, and a lawyer can earn royalties from writing novels. Generally, employees are free do what they want in their free time, including earning additional income, as long as this income is not directly related to their governmental duties (USOGE, 2002b).

ALLEGATIONS OF IMPROPRIETY

On December 7, 2003, in a series of articles written by David Willman, The Los Angeles Times ran a report raising significant concerns about the outside activities of several senior NIH scientists (Willman, 2003a). The following examples are all drawn from that report:

Dr. Stephen Katz was Director of the NIH's National Institute of Arthritis and Musculoskeletal and Skin Diseases. Dr. Katz was paid $200,000 in government salary, and earned approximately another $500-600,000 (total) in company fees in 1993-2002, according disclosures. One firm for which he consulted, Advanced Tissue Sciences, paid him between $142,500 and $212,500 during 1997-2002. During this same period, Advanced Tissue Sciences received

$1.7million in grants from Katz's Institute. Katz had recused himself from all decisions involving Advanced Tissue Sciences, and made certain they were handled by a subordinate. However, NIH policies prevent a scientist not only from being involved in such decisions, but from supervising an individual making the decisions. Katz was also a consultant to Schering AG, for which the NIH was conducting an experimental kidney treatment. In both cases Katz's consulting relations with the private firms had been disclosed to the NIH, and approved by the agency.

Dr. John I. Gallin was Director of the NIH Clinical Center, and received $225,200 in government salary. He earned another $145,000-322,000 between 1997 and 2003 from consulting with private firms. One firm with which he consulted, Abgenix, was owned by Cell Genesys. Cell Genesys collaborated with Gallin's lab in developing gene transfer technology, and articles were published that described the contributions of Cell Genesys to the work of Gallin's lab. Gallin also owned stock in Cell Genesys. Gallin indicated that his consulting relationship with Abgenix did not affect his decisions regarding Cell Genesys, nor did his ownership of stock in Cell Genesys.

Dr. Ronald N. Germain was director of the Laboratory of Immunology, and received a government salary of $179,900. Between 1992 and 2003 he earned over $1.4million in consulting fees, and received stock options worth another $865,000. Between 1992-2002 he received $322,749 from the Genetics Institute. In 2001 the Genetics Institute entered into a contractual agreement with Germain's lab, yet he was advised that it was not necessary for him to discontinue his consulting relationship, even though NIH policy does not allow an employee to receive private fees from a firm that is in a collaborative arrangement with their lab. He also stated that he was initially unaware that his lab had entered into an agreement with the Genetics Institute.

Dr. Jeffrey Schlom was director was director of the National Cancer Institute's Laboratory of Tumor Immunology and Biology. His government salary was $180,400, and he received another $331,500 in consulting fees from 1994-2003. Cytoclonal Pharmaceuticals, a firm working on Taxol production, paid him $127,000. In his work at the NIH, Schlom worked on medications that, when used in conjunction with Taxol, can provide effective cancer treatment for some. Thus, the net result of his research would lead to increased demand for Taxol, and prove good for Cytoclonal Pharmaceuticals.

DEALING WITH THE REALITIES AND THE PERCEPTIONS

In "The Los Angeles Times" report there was no direct evidence that scientists had used their influence at the NIH to get preferential deals for their clients, personally profited from their government work, or had compromised the lives of patients as a result of consulting relationships. Yet, the report pointed out that the arrangements created the appearance of conflicts of interest, as well as incentives and opportunities for actions at odds with the scientists' duties to the public. In addition, scientists and their managers at the NIH had taken steps to circumvent some regulations intended to prevent the possibility of conflicts of interest. Was more being hidden from public view that might make these initial allegations seem trivial?

Dr. Elias Zerhouni and the NIH responded swiftly to the allegations. In a press release (NIH, 2003)on December 10th, 2003 (three days after the report), the agency indicated it was "committed to do everything possible to avoid even the perception of a conflict of interest. … To the best of our knowledge, NIH and its employees have followed all the current government ethics rules. It is clear, however, that we will need to consider changes after a thoughtful analysis of the issue." Dr. Zerhouni called for a review of every consulting relationship entered into by employees in the past five years, and called for the establishment of a Blue Ribbon Panel to "review consulting practices" and "identify systemic solutions for improvement."

The press release indicated that "it is important that our scientists stay involved in the science and health community beyond NIH to share their broad knowledge in their respective fields." The general tone of many who defended the NIH was that these were professionals of the highest

integrity, prominent scientists in their fields, and it would be beneath them to ever let their scientific judgment be affected by private monetary gain. Yet, even if they intended to act without bias, is it reasonable to assume that they could completely disassociate their governmental and private consulting roles? Did private firms feel they needed to have close relations with NIH scientists in order to get a fair shot at NIH grants or contracts?

While NIH management initially defended the integrity of its scientists, they also acknowledged that they might need to do a better job of dealing with perceptions. But, perhaps there were real underlying conflicts of interest that needed to be addressed and avoided in the future. By requiring a review of consulting arrangements, and establishing a Blue Ribbon Panel, there was an acknowledgement that some action was needed. Was this all that was needed, or was more decisive action required to keep "the story" from becoming an even bigger issue that would distract NIH scientists from making further medical progress on important diseases?

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THE FEDERAL GOVERNMENT VS. YORK COUNTY: A TRANSFER PRICING CASE FOR MANAGERIAL ACCOUNTING STUDENTS

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CASE DESCRIPTION

The primary subject matter of this case concerns transfer pricing. Secondary issues examined include opportunity costs, sunk costs, the use of progressive levels of critical thinking skills, the application of classroom knowledge to real life situations, and effective communication skills. The case has a difficulty of level of two and is appropriate for sophomore-level students in managerial accounting classes. The case is designed to be taught in a 1.25 hour class and is expected to require 2.5 hours of outside preparation by students, preferably working in small groups. Alternatively, the case could be assigned as a project that requires minimal classroom time.

CASE SYNOPSIS

During their college experience, students are exposed to facts and theories in many different subject areas. By the time they graduate, students are expected to have developed critical thinking skills. They should be able to apply what was learned in the classroom to real life situations and be able to effectively communicate their analysis and conclusions. This case is derived from an actual situation occurring between the federal government and York County, Pennsylvania in 2003, as described on National Public Radio's Morning Edition. The case requires students to assume the role of a consultant to York County. They need to identify the conflict, consider relevant theories, analyze the situation from both parties perspectives, and suggest a reasonable solution to the conflict.

A CASE STUDY OF INTRINSIC VALUE, ACCOUNTING FUNDAMENTALS, AND MARKET EFFICIENCY USING AN INTERNET IPO

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CASE DESCRIPTION

The primary subject matter of this case is the relationship between financial accounting measures, intrinsic values and market values. The case provides an excellent platform for examining the basis for market valuations of equity securities of an IPO and the relationship of these market valuations to the historical and projected financial performance of the company as measured by generally accepted accounting standards. The case has a difficulty level of three or four, appropriate for junior- or senior-level accounting and finance students. The case is designed to be taught in one class hour and is expected to require between two and three hours of outside preparation by students.

CASE SYNOPSIS

In its initial public offering in early 1999, the shares of MarketWatch.com (MKTW on NASDAQ) opened at $35, reached a high of $130 during the day and closed at 97½. MarketWatch.com's close represented a 473.5 percent increase -- one of the largest ever for an IPO. The record at the time for the largest opening-day percentage gain at closing was held by theglobe.com, which closed up 605.6 percent for its November 13, 1998 opening. Prior to that, the record was held by Broadcast.com, which closed up 248.6 percent. The MarketWatch.com IPO is used as a case study of the relationship of intrinsic values and market values of an equity security over a six year time frame. The case provides anecdotal evidence of market inefficiency and serves as an illustration of the relationship of financial accounting measurements, intrinsic values, and market values.

PROCTER & GAMBLE: THE GROWTH OF A GIANT

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CASE DESCRIPTION

This case study is intended for use in any business class that studies the success and failure of organizations. This case highlights the growth and advancement of a corporation that has successfully withstood, and conquered, the obstacles of change over the course of 167 years. It is suggested that the case be covered in a one-hour class period.

CASE SYNOPSIS

Procter & Gamble might never have been born had it not been for the suggestion of Alexander Norris to his two sons-in-law back in 1837. William Procter, and James Gamble, both immigrants, were married to sisters; Procter was from England and Gamble from Ireland. With an initial pledge of $3,596.47 each, they formalized their partnership and embarked on their bold new enterprise making and selling soap and candles: Procter & Gamble. Competition was a major focus from the onset, with fourteen other similar companies vying for market share. It was not long before P&G began to learn of how change can burden, and strengthen a corporation.

In 1850 one of the staples of their product line, candles, fell in popularity with a change that would not only change their business, but life as we all know it today – the invention of the light bulb. It was the first of many changes, but only nine short years later P&G had gross sales of $1 million and was employing 80 people.

P&G faced the adversity of fire in 1884, but used it to their benefit by using the latest technological advances to recreate a pleasant workplace for their employees. They utilized the challenges of the 1887 local and national labor unrest by instituting a profit sharing program for their factory workers. It was a strategic move that would become an important lifeline for this corporation for more than a century and a half of continuous change: a strong relationship with its employees. The corporation today is 25% employee owned.

Their steadfastness and perseverance withstood decades of internal, as well as external changes. Many companies have fallen by the wayside due to their inability to conquer change, but P&G has not only conquered it, they have perfected their execution of implementing it in every nook and cranny of their operations. The result to date has been a history of incredible product popularity and corporate growth.

COMPANY HISTORY

It was not until 1879 that the company's famous Ivory soap was created and marketed, but by 1890 P&G had responded to several market needs and demands, offering 30 different types of soaps. They knew how to go with the flow of a changing society, and while maintaining the "purity" of their flagship Ivory soap, they were also offering variety in colored and scented soaps; and rapidly expanding their customer base.

Products were changing and it soon became necessary to expand their geographic boundaries. In 1904 they began producing outside of Cincinnati and began to enjoy their increased production capacities. The result was the success of improved distribution and revenues.

The expansion from soaps to food occurred in 1911 with the product still well known today as Crisco, an all vegetable shortening that was a healthier alternative to animal fats and less costly than butter. This company was clearly on the cutting edge of change and willing to face it head on. Management realized that it was time to expand outside of the United States and it was in 1915 that Canada saw its first P&G facility. A Chemicals Division was created shortly thereafter and its focus was to develop new products. Not only did P&G not shrink from a changing environment, they were pursuing it with fervor. They were actively looking for ways to insure that what had originated as a two man operation of soap and candles, would continue to provide new and useful products to consumers and advance with a rapidly changing world.

P&G had not forgotten that they had made a commitment to a strong working relationship with their employees many years prior, and in 1919 the articles of incorporation were revised to include the directive that the "interests of the Company and its employees are inseparable." By deciding to change its selling strategy from wholesalers to retailers directly, P&G was able to increase its sales force by 450 salesmen. This was a crucial change that stabilized production, reduced employee layoffs and was instrumental in effecting a change in the way the grocery trade operated.

As the products became more and more popular, P&G had become a household name equated with quality and variety. However, the corporation was not content to rely solely on the customers' perception of it in the 1920s. It proactively created a market research department to delve deeper into customer wants, needs and buying habits. It was one of the first in history. P&G made good use of boundary-spanning roles to link and coordinate their organization with key elements in the external environment. Change was inherent, a way of life and a path to survival for P&G. It was sought out, embraced and encouraged.

OUTCOMES

A corporate icon, the name Procter &Gamble carries clout and provides brand recognition to households across the world. From its humble beginnings of soap and candles, to an impressive array of various product lines, including but not limited to food, drugs, paper and personal care products, P&G has become a giant in the corporate world of change.

By 2002 P&G boasted twelve billion dollar brands in their portfolio. These brands represent more than half of their sales and earnings. They learned early on that customers not only want new and innovative products, they are also fickle and need to be catered to with products and services that go beyond their expectations. P&G learned that there is no limit to its customer base and has traversed from its original small operation in Cincinnati to encompass successful global operations in every corner of the world.

This corporation, however, is not without controversy. Special interest groups, such as the Ethical Consumer Research Association, are utilizing the Internet to spotlight what they believe to be information indicating that P&G has supported repressive regimes during the apartheid years by holding a licensing agreement in South Africa. PeTA uses the forum to advertise their claims that P&G has abused animals in their product testing labs. P&G has alleged in a 1999 lawsuit that a major multi-level marketing corporation has gone so far as to spread rumors tying P&G to Satanism. The response from the defendant in this case responded that the allegation was based out of fear of the MLM's growth in Asia, something that P&G allegedly viewed as a marketing threat.

Fact or fiction, any type of negative publicity can certainly take its toll on a corporation, yet P&G has weathered these challenges and has spent considerable time and money filing lawsuits to defend themselves against the individuals who were responsible for spreading the rumors.

EXPECTATIONS FOR THE FUTURE

There is nothing to indicate that P&G would not continue to grow and enjoy the continued growth and success it has achieved over the past 167 years. Although the consumer products industry is facing challenges with the rising costs of raw materials, and industry giants like Colgate-Palmolive Company and Unilever Group are reporting sharply reduced earnings reports for the second half of this year, P&G appears to be navigating successfully through this storm and continues to thrive. Analysts indicate that this is the result of smart products and muscular marketing. P&G boasted $51 billion in sales last year, making it five times larger than Colgate-Palmolive. Size alone does not stand as the sole reason for their past, current and projected future financial success. P&G has focused on targeting higher margin areas such as beauty care. This market requires less capital spending than many of their traditional businesses such as disposable diapers.

P&G has been a giant in the arena of renewed creativity and continues to create the products that consumers crave – and with higher margins than their traditional products. With items such as the Swiffer mop, the Whitestrip Tooth Whiteners and the battery powered Crest SpinBrush toothbrush it is creating all new product categories that embellish its already impressive product line. In the last three years, P&G has updated all 200 of its product brands to remain competitive in the fickle consumer market. At present, P&G is growing market share in 70% of their businesses. While there is no guarantee that they will not begin to feel the pinch of rising costs that their big name competitors currently face, P&G's aggressive marketing techniques are increasing sales in the right areas to effectively combat any threats of rising raw material costs.

In an area that is unrelated to its marketing and operations side of the business, P&G has entered into a ten year agreement with Hewlett Packard and has outsourced its information technology infrastructure, data center operations, desktop and end user support, network management and applications development, and maintenance for P&G's operations in 160 nations. P&G's overall plan is to reduce costs and maximize profits, and is steadily signing deals to outsource parts of its operations.

DISCUSSION

How does a company grow from a small operation of soap and candles to that of a corporate giant with revenue of $53 billion annually? They did it by building a corporate culture that teaches the most important lesson of the permanence of change – and it started from the top down. P&G met both the domestic and global challenges of growth by insuring that quality products were viewed as critical success factors in their strategic performance. They built a strong foundation of team players that anticipated and sought out change. P&G looked beyond the scope of their immediate market area and realized that globalization was a crucial and strategic move that had to be made. Their inherent size has afforded them the rewards of economies of scale and has, for the current time, insulated them from the rising costs of raw materials.

Speed of development in a rapidly changing environment has given P&G a position in the market that far surpasses their competition. In a world that is unpredictable and volatile, Procter & Gamble is able to sustain continued growth and market share by insuring a wide band of products on which to present to the consuming public. With a passion for success, they sought out areas that were far removed and much riskier than their original products of soap and candles.

Entering into the arena of drugs was a key move. The beauty market offered wide margins on which to leverage other products that may have otherwise fallen prey to the higher costs of capital investment for production. P&G was quick to copy a highly successful super-concentrated detergent back in 1987 that had been introduced by a Japanese household products manufacturer. P&G modified the product and markets it under the name of Tide, a product that was originally introduced in 1946 and that had evolved into many new and improved versions over the years. Not

content to settle with its limitations in different geographic areas, P&G varied the density of the formula to meet national preferences. By adding a special dosing device they created a detergent that would adapt to meet the demands of the hard water and heavy clay soil found in Europe. This is but one small example of how flexibility and responsiveness to changing market needs have helped P&G become a giant.

They cultivated and encouraged employees who knew that name recognition was key to their corporate growth and who realized that one of the best ways to achieve that was through quality products. P&G has clearly understood that a key test of quality is understanding, meeting and exceeding customers' requirements and expectations. P&G has been a supplier that customers believe has provided the greatest perceived added value and has received customer allegiance in the form of market share as a result. P&G has not been a victim of complacency and has kept up with market and technological changes over the years – a vital ingredient to their success. Embracing the past and sitting comfortably on those successes has never been sufficient for this corporation. They have, and continue to, embrace the future by energizing their employees to focus on the "what" and the "how" of the corporation through strategic vision, thinking and planning. "What" does the corporation want, and "how" will it get there? Strategic vision, strategic thinking and strategic planning have clearly been the focus of P&G from its inception and all have been vital to their success. Strategic vision has been the guiding beacon for P&G with a focus on designing its future corporate position. Strategic thinking has been, and continues to be, used as the process used to develop the strategic vision. P&G uses the strategic planning process to develop how this corporation will reach its future operative goals.

The mission statement of their Lewisburg, Ohio facility clearly shows that P&G respects its employees and recognizes that they are key to their operation with the strong message that the corporation's values of people, safety and quality are reinforced by the plant's expectations of each employee to treat one another with dignity and respect and to remain honest. Strength in each of these areas is key to corporate success. Deficiencies are met with disconnect and failure.

CONCLUSIONS

Thus far, Procter & Gamble has withstood the test of time and the challenges presented to any corporation. Their vision and ability to execute has proven that while change can turn one company into a fatal tailspin, it can be the basis of success to the corporation that can effectively use a changing environment to its complete advantage. P&G, has survived through adaptation and an aggressive willingness to view change as a catalyst for success. Today's environment is increasingly competitive and fast moving. P&G has shown that it is capable of dealing with these challenges successfully with effective mechanisms.

P&G has thrust itself into the world of change, innovation, acquisitions, globalization, cultural evolutions and above all, continued customer satisfaction. The corporate graveyard, which has become home to many a fallen corporation over the past 167 years, should not expect to see P&G if it continues to follow the proven path for success.

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VALUATION OF A DREAM: RIVERSIDE COUNTRY CLUB FOR SALE

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CASE DESCRIPTION

The primary subject matter of this case concerns the business valuation process. Secondary issues examined include the challenges of valuing small, privately held businesses and determination of an appropriate discount rate. The case requires students to have an introductory knowledge of accounting, finance and general business issues, thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one or two class sessions of approximately 1.25 hours (depending on the level of detail covered) and is expected to require 3-4 hours of preparation time from the students.

CASE SYNOPSIS

This case describes the challenges faced by Chris Johnson, who for years has nurtured a dream of owning a golf course. As a successful insurance agency owner and accomplished golfer, Mr. Johnson hopes to one day make his dream a reality. Opportunity arises when Golf Corp LLC, a leading national golf course owner and operator in the U.S., decides to sell Riverside Country Club, an entry-level semi-private course located near Mr. Johnson's residence, in an effort to refocus its corporate strategy toward operating higher-end properties. Mr. Johnson now has an opportunity to realize his dream, but is uncertain as to the fair value of acquiring Riverside.

CASE BACKGROUND

Golf Corp LLC was founded in 1991 with a strategy to acquire and manage golf courses in "demand driven" markets that provide opportunities for revenue growth and margin improvement through Golf Corp's integrated marketing and operational programs. The essence of Golf Corp's strategy is to "market" each course as a separate brand with well-defined customer segments, distinctive positioning, tailored "one-to-one" programs - and responsive tracking and follow-up. Golf Corp's growth is based on its proprietary marketing information systems and high-quality customer service and course conditioning.

Golf Corp's current portfolio of 18 facilities spread over nine southeastern states reflects its orientation towards higher-end properties. The portfolio features a number of marquee daily fee and resort courses, however, Golf Corp's recent growth reflects an increasing orientation towards high-level private clubs.

Golf Corp currently employs three financial analysts to conduct end-of-year reviews for each of its 18 facilities as well as identify potential opportunities for further investment as capital flows permit. Analysts are responsible for preparing contribution reports and making recommendations to Golf Corp's senior managers for further action. Brent Steadman was Golf Corp's newest analyst and one of his first assignments was Riverside Country Club. Historical data on Riverside showed the country club had experienced minor losses in the first two years of operation, but had been profitable ever since. After further review, Mr. Steadman concluded: 1) there was a low probability

Riverside's future profits would be able to provide a return required by Golf Corp's investors and 2) changes in current market conditions allow Golf Corp the opportunity to replace Riverside with another course in order to better utilize their integrated marketing and operational programs.

After reviewing all of the internal documents presented by Mr. Steadman, Golf Corp's senior management team made a call to Tom Johnson, the head golf professional and manager of Riverside Country Club and asked him to discreetly contact local individuals who might be interested in purchasing Riverside. Tom's first call was to his brother Chris, a successful independent insurance agent and avid golfer.

BUYERS BACKGROUND

Chris Johnson is thirty-eight years old and has been in the insurance business since graduating from the University of Arkansas with a degree in marketing on a golf scholarship. Mr. Johnson is an accomplished golfer with statewide recognition, having won State Amateur Player of the Year awards on three different occasions. While the first few years for the Johnson Company were lean, the business has been very successful in recent years. Mr. Johnson is currently in a financial position where the potential for realizing his dream of owning a golf course is possible.

GOLF INDUSTRY

In 1990, an estimated twenty-three million Americans were classified as golfers having played 421 million rounds of golf at approximately 11 thousand courses. By 2003, the number of American golfers has grown to over 27 million and the number of rounds played increased to approximately 495 million (see Table One for a year by year comparison of growth). In addition, the number of golf courses available for play increased to just below 15 thousand by 2003. Golfers in the US spent over $24 billion in 2003 on equipment and green fees, of which $4.5 billion was allocated to equipment spending and $19.5 billion to green fees and dues. Avid golfers (classified as playing more than 25 rounds per year) account for only 23% of all golfers, but attributed to 63% of total golf spending. Finally, approximately 15% of all golfers are permanent residents of a golf course community.

The median cost of a weekend round of golf at a daily fee course is $40. An average daily fee golf course will record 30,000 rounds played per year, employ a total of 13 full-time people and generate about $992,000 in revenues.

RIVERSIDE COUNTRY CLUB

Riverside Country Club opened in 1995 as a semi-private golf course located in Maumelle, Arkansas, a growing suburb located in the greater Little Rock metropolitan area. Riverside offers an 18-hole championship golf course spread out over 151 acres along the Arkansas River, complete practice facilities, a full-service snack bar with an ability to provide catering services, and a Pro Shop offering top quality merchandise. Riverside Country Club was originally built by Golf Corp LLC to take advantage of the surging popularity of golf that occurred during the early 1990's.

THE SITUATION

Johnson decided his approach to realizing a dream should be an investment and not an emotional decision. He would apply his capital and expertise to owning a golf course as if it were a going concern with an appropriate return on investment. Johnson first contacted Golf Corp to express his interest in the possible acquisition of Riverside. After signing a confidentiality agreement, Golf Corp provided limited financial information and recent appraisals of fixed assets.

Golf Corp indicated more information would be provided if Chris decided to further pursue the acquisition.

Johnson needed more information before negotiating the potential purchase of Riverside and approached Rick Scott for help. Scott is an associate with Williams Inc, headquartered in Little Rock, Arkansas. Williams Inc. is one of the largest investment banking firms off of Wall Street and has a long historical record of private company sales. Scott informed Johnson that his firm could help with the negotiations. Scott was both familiar with golf property valuations and had developed a data base containing a number of recent golf course transactions that might prove useful in valuing Riverside. Scott also stated most business valuations are more art than science and there are numerous ways to value a business, ranging from basic industry rules of thumb to discounted cash flow (DCF) analysis. The value of a business can vary significantly from buyer to buyer, depending on each buyer's own analysis and estimates. Value may vary depending on the data used, the methodologies used, the weight placed on the various methodologies and the overall interpretation of the data. However, Scott described a number of possible valuation methods.

1) *Asset Based Methods:*
   a) *Accounting Book Value:* This method uses accounting values taken from the company's financial statements. This method assumes that assets values are equal to market value and the value of the firm is equal to the value of its assets.
   b) *Adjusted Tangible Book Value Method:* This method also uses accounting values but recognizes that accounting values are based on historical information that does not always reflect market values. Fixed assets values are adjusted to reflect current market values.
2) *Market Comparison Methods:*
   a) *Direct Market Comparison Method:* This method attempts to locate similar businesses that have recently sold, and uses those comparable price figures to determine an appropriate valuation, adjusting appropriately for differences.
   b) *Multiple of Revenue or Income:* This small business valuation method estimates the price using a multiplier of revenue or income.
3) *Free Cash Flow (also called Discounted Cash Flow):* The free cash flow method estimates the present value of cash flows available for distribution to all of the company's investors discounted at the average rate of return required by all investors. Cash flows available for distribution are known as free cash flows and the average rate of return required by all investors is known as the weighted average cost of capital (WACC).

THE TASK

At the conclusion of the meeting, Scott suggested Johnson come back at the end of the week. Scott said he would put together a preliminary valuation report to help Johnson decide on an appropriate offering price for Riverside. Scott turned over a copy of his notes from his meeting with Johnson to a young associate with a message detailing what Scott needed for his next meeting with Johnson.

1) Discuss each valuation method. Describe the strengths and weaknesses of each?
   a) Asset based methods.
      i) Accounting book value.
      ii) Adjusted tangible book value,
   b) Market comparison.
      i) Direct Market Comparisons
      ii) Multiple of Revenue and Multiple of NOI
   c) Free cash flow (also called the discounted cash flow method).

2) Using methods discussed in Question 1, develop values for Riverside Country Club.
3) Recommend a fair-market value for Riverside Country Club. Support your value.

Table One
Growth of Golf in the US
Source: National Golf Foundation, http://www.ngf.com

Year	Number of Golfer (millions)	Rounds Played (millions)	Number of Golf Courses
1994	23.3	409.0	12,161
1995	23.7	431.4	12,572
1996	23.7	420.1	12,885
1997	24.9	481.5	13,196
1998	25.0	465.1	13,529
1999	25.2	496.4	13,907
2000	25.4	518.4	14,268
2001	25.8	518.1	14,550
2002	26.2	502.4	14,725
2003	27.4	494.9	14,827

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CORCORAN.COM AND THE MANHATTAN REAL ESTATE BUSINESS

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ABSTACT

This is the story of a booming urban real estate company's struggle to extend its footprint internationally through its presence on the World Wide Web. Corcoran had been a successful residential realtor in uptown Manhattan since the 1970's. The company enacted an e-commerce strategy in 1995 and by 1999, the Corcoran Group generated $2 Billion in sales, $200 million of which was through Corcoran.com. The average sales price for a web-generated sale was $484,000 as opposed to the company's overall average of $585,000. Not a bad return on investment for one of the company's early years in internet technology.

Web-technology brought benefits to Concoran other than the bottom-line sales. It reduced agents' legwork by minimizing a buyer's need to preview properties from 14 listings to just 4 or 5. It leveraged operations' ability to better track customers, service their particular tastes, and to automate much of the agents' daily work. It brought the company up to speed with the other 57% of real estate firms nationally with a World Wide Web presence. This technology-based achievement continued to blossom as it became the basis to power Corcoran into international markets.

To lead its web-growth period, Concoron hired technical expertise to compliment its existing competence in Manhattan real estate sales. The new VP of IT directed the company's expansion, and enabled a network of affiliates worldwide all coordinated through Concoron.com. The affiliate model constituted a new business model that focused almost entirely on international, rather than domestic markets. The affiliate model represented not only an international sales network but also a new level of management problems to the company. Managing rapid growth and internationalization are the closing themes of the case. Therein lie the case's most interesting and compelling lessons.

This case offers pedagogical lessons to enhance either graduate or undergraduate classes. It is a vibrant example of a local company deploying technological expertise for growth and international expansion, and it exposes a number of growth-associated problems. The authors provide an interesting history of an aggressive entrepreneur and her development of a successful real estate startup and the related launch of its e-business model, Cororan.com. They demonstrate an international, technology-based growth strategy and present the reader with a number of difficult issues that might face any firm facing similar environments. The case is value-added content for classes of Entrepreneurship, International Management, or Strategic Management.

FRESH DIRECT

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ABSTRACT

FreshDirect offers online grocery shopping and delivery service to Manhattan's East Side and Battery Park City. When it was launched in July 2001 by Joe Fedele and Jason Ackerman, FreshDirect pronounced to the New York area that it was "the new way to shop for food". The creators of FreshDirect are confident in the success of their business because their entire operation has been designed to deliver one simple promise to grocery shoppers, "higher quality at lower prices". FreshDirect has integrated numerous components into their business model to support this mission: a state-of-the-art production center and staffed it with top-notch personnel; a SAP manufacturing-software system that coordinates and controls every detail of the facilities operations; and an extremely high standard for cleanliness, health and safety. Systems efficiency is the company's core competence enabling it to discount and market high quality products. Efficiencies have stemmed from the elimination of middle tier suppliers and a market concentration of approximately 4 million people within a 10-mile radius.

This case is an outstanding example of web-based "urban exploitation". The company has positioned itself to succeed where many others in the online shopping industry have failed. By capitalizing on operational efficiency, neighborhood presence, and economies of scale allowed only in large metro regions, FreshDirect has created a successful retail niche. It has also nurtured brand images of convenience and freshness coupled with low price and high quality products.

A number of strategic elements are described within this case. The company profile, a description of the founders, their ideas for the company, and the initial round of funding is presented. A summary of the business plan is provided with a particular focus on its operating and marketing strategies. The authors dedicate particular detail to discussing the company's interactive website. They then provide an overview of the retail grocery industry, its on-line business segment, and FreshDirect's immediate competitive environment.

The FreshDirect case adds pedagogical value in a variety of ways. It illustrates an e-commerce strategy effectively implemented in highly competitive market. It demonstrates the ability of web infrastructure to rapidly scale a traditional retail business. It also reveals how a unique set of technologies and core competencies work in alignment to support a low-cost niche strategy. This case could be utilized in a variety of class settings including Entrepreneurship, Strategic Management, Marketing or Ecommerce. It is appropriate for either upper-undergraduate or master's level courses.

SUCCESS IN INTERNATIONAL BANKCARD PROCESSING MARKETS: MARKETING AND DELIVERY OF BANKCARD SERVICES (TSYS)

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CASE DESCRIPTION

This case depicts a US-Based firm that painstakingly but successfully markets its bankcard processing services to international prospects. The basic modes of supply are a combination of services supplied from one country to another, corporate subsidiary setup of operations and local personnel recruitment. Prior to the establishment of operations, an extensive discovery, sales and marketing process leading to contract negotiation took place. This case examines the strategic challenges facing a services firm and the integration requirements necessary for successful market penetration. Any firm embarking on such exportation must be cognizant of and form entry strategies bearing in mind the specificity of promotion channels, early mover advantage, longer sales cycle and a need for direct in-country representation to achieve product awareness. This case is designed for a junior level undergraduate course in International Business, International Marketing or International Strategy in which the above topics may be covered. The case is designed to be taught in a one hour class and is expected to require two hours of outside preparation. This case endeavors to provide an enhanced understanding of delivery and execution of bankcard services marketing and delivery with the objective of long-term growth, increased revenue generation and improved market share.

CASE SYNOPSIS

Service industry exportation entails a certain marketing-related complexity not similarly encountered with the export of manufactured goods. TSYS boasts top notch sales, technical and project management expertise that effects success in the services marketplace. Having thoroughly penetrated the US bankcard services market, TSYS set out to explore new and international opportunities through a customized sales approach of bankcard processing services. Just as regulations and other compliance issues vary from country to country, so do processing requirements, rules and other idiosyncrasies of the industry on an international level. The solution to ensure ultimate delivery is shaped by several elements "unique to a services solution that differentiate it from a [tangible] product solution" (Hill). Speed to market is greatly affected in comparison with that of tangible product offerings. Additionally, estimation and control of the timeliness of deliverables tended to be more elusive thus requiring increasingly skilled management of the process. TSYS' marketing with regards to cross-border service bankcard provision involved dealing with factors such as intangibility, customization requirements, lack of inventory, time sensitivity and change and quality management. The case is instructional in terms of the challenges such financial service firms may face and how to respond.

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INTRUCTORS' NOTES

CASE QUESTIONS

Question 1:
Explain some of the factors and challenges TSYS met upon the launch of international expansion. Discuss the strategies employed in facing the challenges.

Question 2:
How can TSYS determine the value of diversifying into multiple markets? Is there a point at which further expansion becomes detrimental?

Question 3:
Using the internet, explore the global reach of various credit card processors such as TSYS, Certegy, First Data, Nova, Global Payments, and Capital One and bankcard associations such as Master and Visa. What does the future for the outsourcing for bankcard processing portend? Also consult the article: Simpson , Burney . (2004) A Powerful Group Of Processors. Credit Card Management. 17 (8), 30-35.

Question 1:
Inherent with bankcard processing is the sensitivity of data. The precision with which data is to be processed is essential in any market related to bankcard processing services. The due diligence required when exploring other markets entails the research of key channels, potential markets, and areas in which to benefit from economies of scale or strategically enhancing processing platforms to economically handle multiple smaller markets. Often has been the case that the larger customers would observe the results of the processing of smaller entities and employ a "wait-and-see" approach. A successful observation phase implied higher possibility of signing on the bigger clients. The sales cycle deals with contractual agreements and highly coordinated turning over of clients. That is, when a bank changes processor, there is a deconversion (from in-house or other vendor) and a subsequent conversion (in this case, to TSYS) of the live cardholder accounts. The processing of these accounts cannot be placed on hold while outsourcing changes are underway thus the meticulous nature of this process.

Question 2:
The pricing in the bankcard processing arena is rarely based on a standard worldwide price due to the factors in the negotiation process. In the services industry, there are not necessarily price increases due to distance as may be the case when a physical product must be shipped or direct investment in assets within the target market is a factor. The objectives of a firm as well as market conditions have greatly affected prior pricing decisions. This case depicts a firm using, in certain initial phases of a particular market entry, a market-differentiated price-setting strategy based on market-specific demand and potential rather than cost of the sales process, establishment of operations and project management. This can imply different foreign and domestic pricing. Further expansion may become detrimental if the different platforms on which processing takes placed are not managed properly and either cause reduced economies of scale or data processing issues.

Question 3:
The bankcard processors continue to be greatly influenced by the merger and acquisition activity of the larger banks of the world. In many cases, this activity has resulted in changes in vendors for the processing service. There is presently a trend towards consolidation of the market share among the major processors. The problem for some processing firms, however, is the overall pieces of the pie are becoming larger as the banking industry consolidates under fewer and fewer roofs. Consider JP Morgan Chase as well as Bank of America and Fleet Bank. This implies that in the near future there will be some processing firms with greatly reduced market share and possibly some acquisitions or takeovers of the weakened firms.

SEMANATOAREA HARVESTER COMBINES: WHAT TO DO IN A CLUTCH?

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CASE DESRIPTION

The primary subject matter for this case is the decision to outsource components from outside the country of origin. A recently privatized manufacturer of tractors and combines in Romania recently had an order returned because of faulty second tier supplier parts (clutches.) Secondary issues are the buyer power of the major purchaser of this company's tractors and combines. A tertiary issue would be the economic decision making process balanced with international management issues. This case is appropriate for juniors and seniors in international business, strategy, economics, or political science. The difficulty level is three to four, and the hours of preparation outside of class would be an hour or less. One should expect this case take no more than an hour of class time.

CASE SYNOPSIS

This case involves a real life decision of a recently privatized tractor manufacturer in a former soviet bloc country. Since privatization, many new managers are faced with making business decisions about quality of products delivered and balancing those decisions with government pressures to use supplies and materials from local suppliers. The ability for these newly emerging companies to compete in the world market is highly dependent on both pricing and reliability in the case of farm machinery. The problem appears to be easily fixable by using imported parts from Italy, but the state government strongly encourages the development of in-state suppliers. The primary purchaser of the plants output can make or break the company and he has demanded immediate satisfaction. The buyer can easily find alternative suppliers of farm machinery in the world market at competitive prices. Nevertheless, if the company chooses a proven Italian supplier of clutches, the company could lose state funding for expansion.

INNOVATION IN EMPLOYER HEALTH COVERAGE: THE CONSUMER DRIVEN HEALTH PLAN (CDHP) AT LOGAN ALUMINUM

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ABSTRACT

Over the past four years, health insurance costs have increased five times faster than both wage growth and inflation. The total annual price tag of the common PPO (Preferred Provider Organization) plans now exceeds $10,000. For 2004, employer-sponsored health insurance covers 161 million Americans under age sixty-five and nearly 12 million senior citizens. This includes PPO, HMO, and other health insurance plans. The continued dramatic increase in the cost of health insurance is forcing employers to continue to react. In an effort to contain costs, some firms plan to reduce or eliminate benefits. Some plan design proposals are those that convert "traditional" comprehensive group health plans into defined contribution health plans and the even newer "consumer-driven health plans" (CDHP).

CDHPs generally include two elements: a fairly high deductible, perhaps $1,000, and a medical savings account. In 2003 only about 5% of firms offered a high-deductible plan, but this number doubled to 10% in 2004, including 20 percent of the largest firms. The theory behind CDHPs is that by empowering consumers by giving them more power over their own health care decisions and providing financial incentives to make wise financial health service decisions, health care costs will be better understood and therefore controlled. Concerns about CDHPs include: that it simply shifts health care costs; that structural problems may stay unaddressed; that there may be reduced preventive and primary care services; and that the consumers will be unable to make good medical choices.

In this case we examine Logan Aluminum. Logan is located in southern Kentucky about 60 miles north of Nashville, TN and has a community hospital, many medical providers locally, and access to larger hospitals in Bowling Green and Nashville. Logan has a workforce of about 1000 employees with an average age of 43. After huge increases in healthcare insurance costs in 2002, Logan decided to make a major change in plan design. The company moved to a CDHP model for its entire workforce. While the Logan plan does include both CDHP components of a high insurance deductible and a medical savings account, the Logan plan is actually a broader and integrated approach. The key elements include the innovative CDHP plan details, the wellness program, the health screening and interventions, and financial incentives. Employees at Logan are not required to pay part of a monthly premium for their healthcare. At the start of the year, $800 is made available in each employee's family healthcare reimbursement account (for family coverage). The money can be spent on medical services such as doctor visits, lab tests, emergency room visits, and hospital care. There are no co-pays or deductibles for the first $800. In the first year using the CDHP model, company costs actually declined (net cost reduction of 4.6 percent). National data showed an increase of 13-14% that year. In the second year overall costs were up less than one percent compared to 2003. Logan has a team-based culture that emphasizes employee involvement in nearly every facet of its operation. Placing more decisions in the hands of employees is consistent with the empowerment and team-based philosophy under which Logan manages. This case provides many details, contains instructor notes, and stimulates discussion in several healthcare and management areas.

HENCO FURNITURE

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CASE DESCRIPTION

The primary subject matters of this case are entrepreneurship and marketing. Secondary subjects include management and organizational theory. The case would work well in junior-level to MBA courses in entrepreneurship, marketing or management. The case could be taught in an hour-long class, although 75 minutes would be ideal. The student will need to read and reflect on the case for 30 minutes to an hour, before class.

CASE SYNOPSIS

Henco Furniture Inc. is a retail furniture store that does almost $10 million in annual sales in a southwest Tennessee town of 4,200. The store is located in a warehouse in an industrial park. This case tells the story of an entrepreneur who is remarkably successful despite breaking many of the rules of retailing. The case includes an in-depth look at the company's colorful owner--the driving force of the business. Readers are provided an analysis of the furniture industry and an explanation of the major competitors.

After retiring from making and selling products to people who used them as fund-raisers for schools and other civic organizations, Tom Hendrix founded Henco Furniture. He had warehouse space he used as part of his previous business and was trying to decide what to do with it. After looking at several options, he decided to open a furniture store. The store uses a warehouse located in an industrial park near Selmer, Tennessee, a town of 4,200 people, in rural southwest Tennessee. His first full year in business, 1997, Henco did about $1.2 million in sales. Sales for 2004 were close to $9 million-quite remarkable for a furniture store in an industrial park in a small rural community.

The story of Henco Furniture necessarily features the biography of its founder. After he graduated college he sold bibles door-to-door. He says anyone who can survive selling bibles for a couple of years, can do anything. Ultimately, he chose to go out on his own, founding and operating first the fundraising business and now Henco Furniture. About himself he says, "I'm a tough guy, reasonably intelligent, a stick to it kind of person." That is an understatement.

THE HENCO STORY

After retiring from making and selling products to people who used them as fund-raisers for schools and other civic organizations, Tom Hendrix founded Henco Furniture. He had unused warehouse space from his previous business and was trying to decide what to do with it. After looking at several options, he decided to open a furniture store, an interesting use of a warehouse in an industrial park near Selmer, Tennessee, a town of 4,200 people, in rural southwest Tennessee. His first full year in business,1997, Henco did about $1.2 million in salesr. Sales for 2004 were close to $9 million--quite remarkable for a furniture store in such a location. He contributes his success to several things.

First, he identified critical parts of the business and hired capable people to run them. He lists the critical parts as: (1) someone to buy back what is selling, (2) someone to decide what to buy

in the first place, (3) someone to hire and train sales staff, (4) someone to keep the details straight—keep orders straight, etc., and (5) someone to manage the warehouse. From his prior business experience, he knew a lot of people with these skills and was successful in convincing them to come to work for him.

The second thing he did was take lower mark-ups on his merchandise. He can take lower mark-ups because he has no debt. His building was paid for before he opened the furniture business. He marks everything up the same percentage, significantly less than the competition. He does not have "sales." His emphasis is on "everyday low prices." He points out that his price is lower than the sale prices of many of his competitors, and tel stories of satisfied customers who have told him how much they saved shopping at Henco.

A third factor in Henco's success is his aggressive promotional activities. He is considering using other media but his main emphasis has been on television advertising. He does about $30,000 a year in television advertising and sees his primary market as people 25-65 who live within a 150 mile radius of the store. He never mentions a specific price in his ads. He continually re-enforces the message that his prices are lower than competitors' sale prices. He uses slogans like "It's worth the drive" or "Eggs are cheaper in the country" to send the message that his prices are low. The main purpose of his TV ads is to get people to visit the store. About 50% of Henco's business is from the Memphis-Shelby County area, 1 ½ hours away. Also, he gets a lot of customers from the Jackson, Tennessee area, an hours drive. He has had customers from as far away as Little Rock, Arkansas and has even shipped merchandise to Florida. He is currently expanding his promotional efforts into northern Mississippi and plans to do so in northern Alabama.

The fourth reason Henco is successful is that he works hard to make customers know their drive to the store is appreciated. The first thing customers hear when they enter the store is: Welcome, we're glad you came". The last thing customers hear when leaving the store is thanks for coming. While the customer is shopping, people walk around offering them free, fresh-baked cookies. Also, the store has a restaurant where shoppers may sit down and eat a meal. When you enter Henco you feel you have entered your mother's home rather than a retail furniture store. The salespeople are taught to find out what the customer needs and to "educate" the customer on the products. They are taught to be "need fillers." Mr. Hendrix seldom mentions profit because he believes if you serve the customer the profits will come.

The fifth element of Henco's success is store layout. After visiting the top-ten furniture retail stores in the nation and getting them to tell him the secrets of their success, Mr. Hendrix incorporated many of their ideas into his store. One such idea was to organize the furniture into shops on a street. Prior to the street concept, it was difficult to find what you are looking for in a 200,000 square foot warehouse. Now the shops are divided into bedroom furniture, living-room furniture, dining-room furniture, etc. The street is named "Main Street USA." As the customer walks through a shop, she automatically returns to the "street." All the activities of the business are on the street. The place where the financial transactions are performed is called the bank. The restaurant is called the "Whistle Stop Café." These renovations cost about $1.5 million, but sales are up about 40% since the store layout was changed. A diagram of the layout of the store is found in Exhibit One.

The sixth reason that Henco is successful is selection. The large shopping area permits them to carry a large selection of merchandise. They have furniture from the moderately priced to the most expensive. In addition, most of the merchandise displayed is available for immediate delivery or pick up. They have around 95% of their inventory on display at any given time. Because of this broad selection of merchandise only about 30% of their sales are from catalogs available in the shops. The customer can take their purchase with them.

While Henco is a growing business, it is still small in the total furniture industry. They expect to have sales of $10 million this year. (See Exhibit B for sales data since 1997, and a financial statement is found in Exhibit C.) When retailers buy enough of the same merchandise to

fill large shipping containers, they can save as much as 30%. Currently, Henco buys some full containers but not as many as they hope to when they increase sales volume.

Mr. Hendrix is 73 year old, but does not appear to be slowing down. However, one of his daughters and her husband has entered the business, and he is slowly moving her to the head of the business. He writes his own ads. His daughter appears in some of the ads and will soon start working with him on creating ads.

The shopping concept is important as is pricing and every day low prices, but the best way to understand what makes Henco Furniture successful, is to get acquainted with the man behind the business..

TOM HENDRIX

Tom Hendrix's shoulders do not droop. It is a straight line from his chin to his toes. He has no trouble using damn and Jesus in the same sentence. Keeping up the pace can be a challenge when you walk with him. Unless you want a sermon on economics, you should not admit to any debt problems. To him, America is synonymous with making money. He often alludes to what a great country this is, but not how it is great because of a criminal justice system that offers protection against predatory behavior, or because of a constitution guaranteeing freedom from a tyrannical central government, or that the US practices separation of church and state, or extends the freedom to dissent. For him, America is great because you can create a life entirely around economics. The issue of whether the pursuit of individual or collective wealth is the best way to live never comes up. That matter has apparently been long settled in his mind.

He was on the front porch of his father's house, shortly after graduating from college with a degree in agriculture, when his father's friend Cooper Mullin asked him what he planned to do with his life. He said, "I can't decide whether I want to be a multi-millionaire or just get a job and make enough money to have two Cadillacs." He talks often of education, and this talk always comes back to learning more about making money.

Tom Hendrix repeatedly refers to life as a trip. It seems unlikely he would ever have heard the Grateful Dead's Truckin', for while the Dead were taking their long-strange musical trip, Hendrix was taking his own money trip. Jerry Garcia's life seemed to be about the trip. Tom Hendrix's life is about the destination. Tom uses two synonyms for trip - drive and walk.
Mr. Hendrix repeats words and phrases that become themes and all the themes come back to the joy of walking down economic main street. Sherry Lynn, his wife, has taken the walk with Tom for forty-five years. She is nearly as tall as he is, and Tom is about six feet. They are youthful in appearance, healthy looking people. One of his two daughters, Susan, who is in some of his TV commercials, has the same air of certainty. It's apparently a Hendrix thing. Of someone who has accumulated a lot of credit card debt he says, "They do not have enough sense to take a walk down economic main street." If you visit his furniture business you will be walking down a replica of a West Tennessee Main Street. Of a sofa built to last, Hendrix says, "It is designed to take the family trip." All of his television commercials end with the same heavily-gesticulated phrase, "It's worth the drive." He refers to his and everyone else's life as a trip.

About being single-minded and unique he says, "I always just paddled my own canoe." To explain the importance of faith to life's journey he says, "Your headlights don't shine the whole way." The entrepreneur, he says, "travels under a different tent." To be successful you have to have a gut belief, faith, hope, to be willing to "travel a road that is not sure".

When he recalls significant events in his life, they tend to involve the travel motif. When asked how he kept himself so physically fit, he recalled a time when in his mid thirties he had tried to ride a little boy's bicycle in Springfield, Tennessee. He had run short of breath from being out of shape and smoking two packs of cigarettes a day. Not long after this, he says, he put a pack of

Winston's on the dash of his Thunderbird and drove from Texas to Tennessee and never touched them.

He quotes Sam Walton, who said, as the owner of a retail business you are "working for the people walking across the parking lot." If you only pursue profit, you may wind up without it. The key is to look for a service to craft the product. The biggest challenge to the entrepreneur is to find and figure out how to provide, a valuable service. But the reason for the service is to collect wealth for yourself and to help spread it around a little by being generous in your community. The best generosity, for him, is to give someone a job, not a handout.

Jim Tucker only lacked finishing his dissertation for a Ph.D. in aeronautical engineering, when Tom Hendrix gave him a job making more money than Jim could ever have earned in the field he was studying. Jim said he didn't know anything about the furniture business and Tom said, "That's perfect, we will figure it out together." Tom said he wanted Jim to help him because he is a "neck up" sort of person, which is Tom's way of saying he is intelligent. Tom sells his talking--his vocabulary, he draws you in, making you temporarily forget the rest of the world does not talk and think the way he does. Even "neck up" people have trouble resisting Tom's brand of salesmanship.

Jim, who for years flew Tom's private jet, now takes care of information for the business, inventory control, payroll, accounting, and logistics. Sherry Lynn does projects, offers design advice to customers and generally helps in the business, but he never wants her to feel like she has a job to report to.

Tom says he watched Teresa Paris, hired as a sales person, and noticed her eye for interior design, so he called her into the office one day and told her he wanted her to help him build the business. "I see good things in your future", he told her. "I want you to be my buyer." Tom liked her flair for knowing how to best display furniture in the showroom, as well as her taste in selecting what to buy.

He needed a warehouse person, so he chose Loretta, because she was someone who would "dog the details". She had been with him for twenty-five years when he ran the original Henco. She came to tend his furniture warehouse despite a cut in pay. Cathy Burnett, another employee is smart, dogmatic, but she needed a softer side. He said to her, "Cathy, I want you to be a master teacher."

Here is Tom on bad attitudes: "We don't want bosses here. We want master teachers. I have no patience for bad attitudes. Bad attitudes gum up the works, they destroy serenity."

Tom on the importance of faith to a business: "You have to build the organization ahead of the volume, hire people before you need them at wages higher than you can afford, based on faith that together you can get it done."

Tom says business is so much fun and then he tells a story to illustrate why he says that. One of his employees has a mouth full of bad teeth, so he is paying for her to get a dental makeover. The best way to do good is to render a good service. He believes rendering a good service is the reason for all business.

At one point Tom said, "Jesus taught faith, hope, stuff that gives you staying power…with that you can do anything. We are created in the image of God, now that's something pretty damn special. When we scale our life down [out of fear] we are selling ourselves short."

He describes himself as a tough guy, reasonably intelligent, a stick to it kind of person. Sherry Lynn and I wanted to build a national business. I believed we could do it. You start by framing it in. I remember pulling off on the side of the road and taking a yellow pad and sketching out cash flows. Sometimes I would pep myself up. I would say, "Not many people can do what you are doing. I had to pep myself up, nobody else would.

He continues, "There are people who pick up the garbage, that's a necessary role for someone to play. But somebody has to be the visionary. I could have taken that $3500 I borrowed to start my first business and handed it out like welfare, but then it would have been gone pretty soon. The best way to practice generosity in your neighborhood is to start a business, render a

valuable service to people, give people a job, a purpose. It's a much more generous trip to build a business than to hand out money to people."

HENCO'S FUTURE

When you ask Mr. Hendrix about the future, his eyes sparkle; and he talks about expanding his business by opening more stores. He is thinking about opening a store south of Nashville. He feels he can find an abandon warehouse and replicate what he has done in Selmer. He says, "The recipe will work anywhere. You just have to find the right property." He thinks that a store in that area is capable of doing $40 million a year in sales. He talks about opening other stores as well. He says that the key is volume, and if he can increase his volume he can offer his customers even better prices. While most people his age are playing golf or touring the country in a RV traveling to the next city, Mr. Hendrix is looking for his next great economic trip.

THE WESTERN NORTH CAROLINA PLAYHOUSE

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CASE DESCRIPTION

The primary subject matter of this case concerns cost-volume-profit analysis for a non-for-profit regional playhouse. The difficulty of the case would make it appropriate for graduate-level managerial accounting courses. The case is designed for one or two three-hour class sessions and should require six to eight hours of outside preparation by the students.

CASE SYNOPSIS

This case asks students to apply cost-volume-profit analysis to a regional playhouse that is undergoing renovation. The methods familiar to students in manufacturing will be used to address questions such as how to keep the playhouse operating on a regular schedule while servicing the debt associated with the renovation, which combination of plays to produce (and how many performances) and how to raise outside contributions.

ROSA

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ABSTRACT

The radio played softly in the background as Sharon carefully read the registered letter from the Equal Employment Opportunity Commission. It stated that Rosa Reyes was suing Midwest Manufacturing for discrimination because of her race, color, national origin, gender, and perceived and/or actual disability. Rosa was asking for punitive damages of $100,000, court costs, and a clean disciplinary record. EEOC extended an offer to mediate the charge. It asked Midwest to contact EEO within ten days with a response to the charges.

Midwest has a progressive disciplinary system with a possible five step procedure, depending upon the severity of the behavior. The steps are verbal warning, written warning, second written warning, suspension, and termination.

Sharon went to the personnel files and took a look at Rosa's information.

ROSA

Rosa was born in San Antonio, Texas in 1946 of Hispanic parents. She grew up in Texas and moved to the Midwest after graduating from high school to take a job in a factory in Indiana. Her uncle had moved north a few years before and had taken a job. When Rosa graduated, her uncle had gotten her a job on an assembly line where he worked. She could make more money than any job she knew about in San Antonio and so moved north. She had lived with her uncle and aunt. She was a good worker and did well. She was happy in Indiana. A few years later, she met Jose Reyes and had gotten married. When she and Jose started having children, she had stopped working.

In 1975, Rosa rejoined the workforce. She had taken a job as a gear and spline grinder at Midwest Manufacturing. This was an entry level job and the skills she needed to perform the duties of the position were provided through training at Midwest - classroom as well as on the job training. Rosa thrived in her new position. She was well liked and respected by both her hourly coworkers and her managers and received very good evaluations from her supervisors. Rosa realized the importance of education and enrolled in classes at the community college. She took a class or two each semester so as not to take time away from her job or family.

In 1986, Rosa was promoted to a Leadperson Setup position. This position represented an increase in responsibility and reflected the respect she had earned through her performance in the grinder position. One of her new duties was that of group leader for her department, as well as more complex machining responsibilities. She continued her studies and was accepted into the Industrial Technology department at a nearby university. Her evaluations continued to be very good.

In 1991, Rosa left the ranks of the hourly when she received a promotion to Standards Engineer. This reflected her good work for Midwest as well as the fact that she would be graduating from the university soon and Midwest wanted to retain her. As a Standards Engineer, Rosa worked with customers and the hourly operators on quality issues. She received her degree in IT from the university in May 1992. She performed well in this new position and was again promoted in 1994 to Area Manager – Non Gear. This position was responsible for quality in preliminary gear development - holes, contours, rims, etc. Rosa remained popular with the hourly and salaried employees and was highly regarded by management, getting many tough assignments and performing in an exemplary fashion on them.

2001 marked a difficult business year for Midwest that resulted in a major restructuring and downsizing in March. The reduction in force plan for salaried workers was based on skills and performance. These two factors were weighted equally in making these decisions. Rosa made the cut but ended as a Quality Area Manager, a step down from her previous position. But after 26 years with Midwest, she did still have a job!!

Another company reduction in force occurred May 2001, followed by another in November 2001. The same RIF plan was used each time with skills and performance being equally weighted. Rosa maintained her position each time.

Rosa's medical file showed no real problems or time lost. Her attendance record showed nothing out of the ordinary. And Rosa did not have any disciplinary write ups in her file except for those two most recent ones.

THE INCIDENTS

In a meeting of quality and operations managers on May 9, Rosa was observed by the other eight managers in attendance to be sleeping during the managers meeting. She was placed on notice in a disciplinary counseling session with her supervisor that sleeping during meetings or at any other time while at work is not acceptable. Any further incident such as this will lead to further disciplinary action, up to and including discharge. A disciplinary warning was written and placed in her personnel file by her manager John Jones. When she asked him why he had gone to that length for this event, John told her that the only reason he wrote her up is because the VP of HR, Henry Blodge, made him do it. During this meeting, Rosa contended that another (Caucasian, male) manager in her department had fallen asleep during a meeting and John had simply joked about him when he called out to wake him up during the meeting. He had not written that person up. John had duly noted this in his documentation but had no comment to Rosa about this.

Rosa notified Company Nurse that she didn't come to work for 2 days, 5/11 and 5/12, for various medical reasons. She was seeing her physician and having blood tests done. The phone message to the nurse said," Plans to bring in a doctor's note. She has a medical condition that causes her to sleep during meetings."

When Rosa returned on 5/13, she had a doctor's note that "she was a diabetic and her blood sugar can affect her to make it appear that she is falling asleep." This is the first that Midwest knew about this. Rosa claimed, "On that day I was having a problem with my blood sugar. After 27 years of excellent service, my superiors know that I would NEVER intentionally misrepresent myself or this company."

On July 10, Barry Johnson, a supervisor in the same department as Rosa, initiated a 2nd documented notice. Rosa had been reported by various employees in the department to be fading in and out of alert status - closing her eyes and drooping her head during work hours while at her desk. When Barry went to her desk, that is what he saw. So he woke her up and wrote her up to serve as an example to other employees that sleeping at work is unacceptable behavior and is in violation of the Company Work Rules and Regulations. Rosa stated that she would bring in medical documentation.

At her disciplinary counseling session, Rosa thanked the company for calling to her attention to her serious medical condition. She was very grateful to Midwest for pointing this problem out because it will make her get a doctor's opinion of the problem. She stated that she did not like to go to doctors because they "only tell you to change your eating habits, quit smoking, and lose weight. I know all that stuff without having to pay to hear it!"

July 17, Rosa brought in documentation from her physician regarding a sleep disorder called sleep apnea. This condition made it difficult for Rosa to get a good night's sleep and hence left her tired and drowsy during the day. Rosa requested formally that the two documented warnings be removed from her personnel file.

On July 18, Rosa was told by John Jones that the warnings would stay in her file.

BACK TO MIDWEST

Midwest underwent another round of downsizings in August 2002. Rosa was not effected, The same criteria were used as before.

In February and March of 2003, the employee rumor mill at Midwest was full of downsizing talk. Everyone was sure there were more downsizings to come and who knew how deep or wide the next would be!! In this climate, on May 16, 2003, the company received a charge of discrimination from EEOC.

When looking at Rosa's file, Sharon also looked up some disciplinary warnings for other like circumstances. She found three recent events –

7/18/2002 White, male, over 40 employee who was written up for sleeping on the job.
5/13/2002 Black, male, over 40 maintenance manager who was written up for sleeping on the job.
12/6/2000 Black, male, over 40 maintenance manager who was written up for sleeping on the job.

All three of these employees remained with Midwest at this time.

TO YOU

What do you think Sharon and Midwest should do?

MAXIMIZING THE IMPACT OF EXPERIENTIAL LEARNING: STRATEGIES FOR ASSIGNING CASES AND PROBLEM-BASED PROJECTS

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ABSTRACT

Students seldom welcome large, complex projects as graded assignments. However, experiential learning opportunities, such as business cases, research papers, art projects, presentations and various performances, offer rich learning opportunities for students. We have identified four areas of concern for students: (1) experiential learning opportunities are more challenging to complete than pencil-and-paper tests, (2) the open-ended, ambiguous nature of experiential learning assignments creates uncertainty and anxiety, particularly for highly grade-conscious students, (3) students wonder what the teacher really expects and how the assignment will be graded, (4) students often underestimate the magnitude of an assignment, seldom budgeting enough time to finish by the due date. Interestingly, the size and scope of such projects overwhelm some students, causing them to procrastinate further in spite of the rich opportunity for personalized growth.

This paper examines the strategies that teachers can use to maximize the impact of cases and experiential learning projects by managing and mitigating the four student concerns identified above. With proper planning, teachers can make assignments that allow students to learn not only the core building blocks of a discipline but practical project-management skills. The solution is to create experiential learning assignments that include adaptive, parameter-based problem solving while offering feedback at various stages of completion. Students can learn to break the assignment down into its component parts – research, writing, evaluation, problem solving, editing, and presenting a final solution – and to develop a schedule for completing each part. Teachers can make the process more predictable by creating milestones and deadlines for each of the assignment components and having students report on their progress.

THE ORANGE PEEL SOCIAL AID AND PLEASURE CLUB

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CASE DESCRIPTION

This case provides students enrolled in management science/quantitative business methods courses the opportunity to decide how a real-world entertainment club should assign its bartenders to work stations at its wet bar so as to position itself to realize the bar's revenue potential. The bar has six work stations and the expected revenue each of the club's eight bartenders generates varies from work station to workstation. Doubling up bartenders at selected work stations is practiced. The complexity of the assignment requirements and restrictions to be programmed in this case go beyond what the "assignment" algorithms found in most student software can accommodate. Linear programming is not so limited and thus, is this case's methodology of choice. This case is valuable to students for several reasons. Its assignment restrictions and requirements reflect the reality in which this club operates and are therefore, quite realistic and practical and worth knowing how to program. Programming many of these assignment restrictions and requirements will also challenge students well beyond what they customarily encounter in most linear programming problems. It also requires students to use their intuition to some extent in order to recognize when for some assignment situations the club faces, the application of a methodology such as linear programming is not particularly necessary. Finally, students can transfer the lessons this case teaches to other business settings. This case is designed for upper class undergraduate and MBA students and to be taught in 2 class hours, with 3-4 hours of student preparation time. The instructor can modify this case to achieve more complexity. Suggestions for doing so are in the "Instructor's Note."

CASE SYNOPSIS

The Orange Peel Social Aid and Pleasure Club located in downtown Asheville, NC is the premiere music venue in Western North Carolina. This entertainment club attracts music groups from all over the United States and the world and is reputed to have the best beer selection in town. Fans travel to the Orange Peel from all over the southeast of the United States to enjoy their favorite musicians live. The club opened in the Fall, 2002 and has become the most popular night spot in Asheville since that time. The Orange Peel's goal is to provide its customers the best convivial social atmosphere and "pop" music in a 100 mile radius.

An important revenue center for the club is its wet bar. The opportunity for the bar to generate the most revenue occurs on nights when the club has a sold-out show. Therefore, it is important on such nights that the club's manager assign its eight bartenders to the bar's six work stations so as to position the club in the best way possible to realize the bar's revenue potential. This is not a straight forward decision. Certainly, one might expect the manager to have all six of the bar's work stations staffed and the cash register at each station open. While maybe necessary, it is not sufficient to put the club in a position to realize the bar's revenue potential. This is because the revenue performance of each bartender varies from one work station to the next. Therefore, their work station assignments at the bar are crucial.

This case is about how to staff the bar so as to position the club in the best possible way to realize its bar's revenue potential. Should the club's manager wish to less than fully staff the wet bar for nights that are not sell-outs, the "Teaching Note" will consider this possibility.

INTRODUCTION

The Orange Peel Social Aid and Pleasure Club is located in downtown Asheville, NC and is the premiere music venue in Western North Carolina. This entertainment club attracts music groups from all over the United States and the world and is reputed to have the best beer selection in town. Fans travel to the Orange Peel from all over in southeast United States to enjoy their favorite musicians live. The club opened fall 2002 and has become the most popular night spot in Asheville since that time.

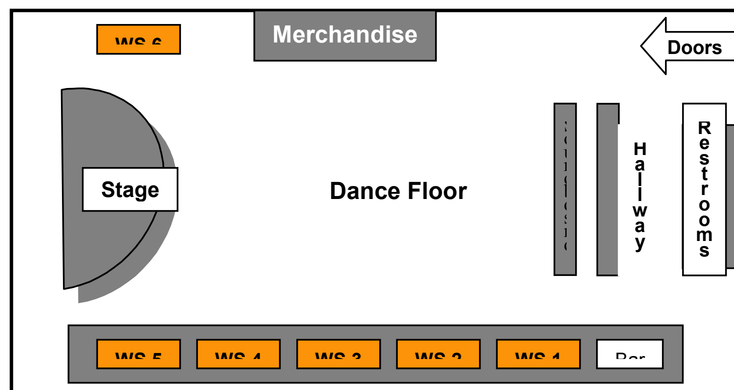
THE CONCERN

The Orange Peel's goal is to provide its customers the best convivial social atmosphere and "pop" music in a 100 mile radius. The club's shows frequently sell out because of its popularity. This means that sell-out crowds of close to 950 excited guests on these nights look to purchase their beverages from one of eight bartenders tending the wet bar. The wet bar is one of the club's most important revenue centers and the newly-hired club manager is greatly concerned that the effectiveness of its management during sold-out shows could be improved. She knows that with the club's current success selling out its shows problems in the club's operations function are easy to overlook or ignore even though they could eventually prove to be decisively debilitating. Consequently, she shares her concern with the club's owners and general management and receives their blessing to task herself with assessing the bar's productive efficiency and submitting to them recommendations to improve the bar's revenue performance where it appears warranted.

PROBLEM SPECIFICS

The layout of the wet bar is as follows (See Figure One).

Figure 1 Layout of the Orange Peel



There are five work stations, each with a cash register (WS1 through WS5) behind the main bar and one work station with a cash register, work station six (WS6), at the satellite bar. Due to the layout of the bar some work stations have more traffic than others. When customers first enter the club

they see WS1 and WS2 first. Therefore, the bartenders assigned to these stations usually tend to be the busiest. The bar is 20 yards long with the work stations and their cash registers evenly spaced and the bartenders walk and sell the entire 20 yards. Since most customers walk to the closest cash register the bartenders assigned to WS3, WS4, and WS5 often must walk between 10-17 yards to take a customer order. Also, many of the ingredients for mixing beverages have special placements behind the bar and require bartenders to move back and forth behind the bar to get to them. The satellite bar, W6, has its own cash register and is on the other side of the bar at a room corner.

THE ASSESSMENT

The club's manager does her assessment over several weeks of sold-out shows reviewing cash register receipts while randomly assigning her eight bartenders to different work stations and observing their performances. As a result of her assessment, the club's manager observes that the skill and efficiency with which each bartender mixes and serves drinks varies. Also, since the ingredients for mixing beverages have special placements behind the bar, some bartenders must move back and forth behind the bar more than others to get to them because of their work station assignments. Also, the satellite bar, compared to the main bar, has a low selection of products. Consequently, revenue at the satellite bar (WS6) is on average lower than at any of the other work stations at the main bar. This infers that revenue varies between bartenders and for any one bartender from work station to work station. Cash register receipts at the six work stations for the eight bartenders support this inference. Table One summarizes this variation. The club manager also observes that the bar's operation often appears to stall when the beer kegs on tap have gone empty and are being replaced by full ones. Kegs on tap are located at WS5 because of their close proximity to the keg cooler.

Table OneAverage Sales for Each Employee at Each Work Station/Cash Register

	WS 1	WS 2	WS 3	WS 4	WS 5	WS 6
Andrew	$1,527.00	$1,589.00	$1,487.00	$1,362.00	$1,253.00	$ 489.00
Lori	$1,350.00	$1,387.00	$1,268.00	$1,124.00	$1,069.00	$ 396.00
Sterling	$1,685.00	$1,654.00	$1,592.00	$1,473.00	$1,365.00	$ 542.00
Gavra	$1,106.00	$1,068.00	$1,058.00	$ 965.00	$ 952.00	$ 628.00
Chad	$1,298.00	$1,368.00	$1,365.00	$1,254.00	$1,123.00	$ 485.00
Mike	$1,459.00	$1,387.00	$1,369.00	$1,152.00	$1,158.00	$ 486.00
Jessica	$1,268.00	$1,158.00	$1,087.00	$1,154.00	$1,041.00	$ 368.00
Leslie	$1,468.00	$1,475.00	$1,368.00	$1,198.00	$1,024.00	$ 472.00

THE PROBLEM

Following her assessment, the club manager reports her finding and conclusions to the "Peel's" owners and general management. She concludes that a bartender's work station assignment can matter. Her problem then is to assign her bartenders so as to put the club in the best position possible to realize the bar's revenue potential. She is content for the moment to see if the effectiveness of the bar's management can be improved through making informed workstation assignments without resorting to any physical modifications.

She does however, have several considerations she must entertain that will constrain what she does. Andrew and Lori are the bar managers. The club determined early on that it needed to assign them exclusively to WS1 and WS2 because these workstations are where the greatest flow of customer traffic occurs and it is from these two vantage points that those in charge of

coordinating the bar's operations can best see what needs to be done. (The two bar managers are not assigned to the same workstation, however.) She agrees. The other bartenders, Sterling, Gavra, Chad, Mike, Jessica, and Leslie are part timers and report for work as needed. This will provide the club manager with some welcomed flexibility particularly when she makes assignments for less-than sell-out shows. She does want to assign Sterling, Chad or Mike (at least one of the three) to WS5 because the bartenders at that work station also have the responsibility to change out the beer kegs when they are empty. The door to the keg cooler is right beside WS5 and Sterling, Chad and Mike have already agreed to lift kegs that weigh up to 80lbs. This is the club manager's way of remedying the stalling of the bar's operation when kegs have to be exchanged. And lastly, there can be no more than two bartenders assigned to any one work station and its associated cash register at the same time that is consistent with how the bar operated prior the club manager's hiring. The club's owners and general management are pleased with her recommendations because they are barely disruptive while promising to fine tune the bar's operations and increase its productivity. Assuming that the club manager has a management science background, what should she do? What results should she get? And how would she proceed if the show is not a sell-out?

MAJOR LEAGUE BASEBALL'S GLOBAL EXPANSION: IS BASEBALL IN MLB'S FUTURE?

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CASE DESCRIPTION

The primary subject matter of this case concerns the strategic choice of Major League Baseball not to expand the league into Mexico. Secondary issues examined include the cross-cultural aspects marketing. The case has a difficulty level of three, being appropriate for junior level students. The case is designed to be taught in one class hour and it is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

Major League Baseball had a decision to make. With the failure of the Montreal Expos, MLB was seeking to relocate the team to one of six cities. One of the strong contenders for selection was the city of Monterrey, Mexico. Monterrey has a rich baseball history and a number of advantages over its competitors. At the same time, moving into Mexico would present MLB with a number of difficulties. The case explores the choice MLB made, and looks at the unique situation presented by the prospects of moving baseball south of the border.

INTRODUCTION

In March 2004, the World Series Florida Marlins played the Houston Astros in a preseason goodwill game in Mexico City. The game ended in a 2-2 tie and many of the 11,000 fans in attendance pelted the field with debris as the game came to an undecided end. While professional basketball and American football have begun to see significant increases in international interest, baseball's interest globally has remained flat. With the failure of the Montreal Expos franchise, Major League Baseball (MLB) had to find a new city for the team, and one serious contender was a city in Mexico.

HISTORY OF BASEBALL

Baseball, as played in the United States, dates back to the mid-1700s and evolved from a very similar British game called rounders. Rounders, or "base" as it was sometimes called was played on a diamond-shaped field and had many of the characteristics of modern day baseball. Credit for the invention of baseball often goes to Abner Doubleday, a general in the U.S. Civil War. Historians now doubt Doubleday's invention of the sport and generally believe that the legend was created by A.G. Spalding in an attempt to make baseball "America's Pastime" and to sell more baseball equipment. Having a Civil War hero as the invention of an American game was good for his business.

It can be argued that American baseball was really created by Alexander Cartwright in 1845 when he created the rules of the modern game. In 1846 the first game as played between two amateur teams in Hoboken, New Jersey. It was amateurs who enjoyed the sport enough to play without compensation who first played baseball in America. As amateur teams multiplied in the U.S., travel and other expenses increased which required the charging of an admission fee to view a game. In 1869 Harry and George Wright organized the first team of paid players, the Cincinnati Red Stockings. The brothers were able to recruit the best players and won many games. The era of professional baseball had arrived.

In 1875 the National League was formed to set standards for ticket prices and to regulate player contracts. In 1901 a rival league was formed called the American League. Over time the two leagues learned to work together and to successfully defend against new entrants. In 1922 the United States Supreme Court decided in their favor and ruled that baseball was exempt from anti-trust legislation. The National and American Leagues no longer had to worry about competition. The game grew in popularity in the U.S. and was played on a limited basis in other countries as well. Mexico was quick to follow the U.S. in appreciating the sport.

BASEBALL IN MEXICO

The origins of baseball in Mexico are somewhat unclear, however, it is generally believed that the game arrived sometime between 1870 and 1890. Many areas of Mexico claim to have been the birthplace of baseball in the country, including Mazatlan, Veracruz, and Nuevo Leon. Monterrey, Mexico in the Mexican state of Nuevo Leon developed a strong interest in baseball in the early years, and has maintained that interest up to the present. Monterrey today boasts a popular team called the Sultanes, is home to the Baseball Hall of Fame for Mexico, and is proud of the fact that its Little League team was the first non-United States team to win the Little League World Series. In 1957 Jose “Pepe” Maiz Garcia was the star player for the Monterrey Little Giants which won the World Series. Maiz is still actively involved in Mexican baseball.

The relationship between Mexico and the United States in terms of baseball goes back even earlier than the Little League World Series. In the 1940s eighteen Major League players accepted higher salaries to play for Mexican teams. Liquor dealer Jorge Pasqual offered many Major League players salaries that were often as high as five times their normal salary if they would play for Mexican teams. A number of players from the Negro Leagues accepted Pasqual’s offer, as did some players from the Major Leagues. Baseball Commissioner, A.B. “Happy” Chandler did not like Major League players defecting to Mexico and threatened to ban any players who made the move. The few players who did play in Mexico found conditions to be difficult, including one playing field that consisted of a railroad track running through the outfield. Most of the players soon returned to the U.S. and attempted to get their jobs back. All the players were blacklisted and not allowed to play until they challenged the League in court and the League rescinded its ban.

By 1955 the Mexican League was struggling for survival and Anuar Canavati, president of the Monterrey Sultanes created a plan to begin working with the Major Leagues. The Mexican Leagues prospered and grew to twenty teams. Today the Mexican League consists of 16 summer teams and 8 winter teams. Roughly half of the Major League teams have working relationships with Mexican teams. In addition, a number of Mexican players have gone on to the Major Leagues.

Mexican baseball teams do not draw the same attendance figures as the Major Leagues and are closer to the Minor Leagues in revenues. Attendance for the 16 summer teams can be seen below.

Mexican League Average Attendance 2003	
Saltillo Sarape Makers	11,387
Monterrey Sultanes	9,301
Yucatan Lions	4,424
Monclova Stealers	4,053
Luguna Cowboys	3,559
Puebla Parrots	3,024
Angelopolis Tigers	2,732
Cancun Lobstermen	2,604
Oaxaca Warriors	2,430
Cordoba Coffeegrowers	2,044
Reynosa Broncos	1,643
Mexico City Red Devils	1,559
Tabasco Carrlemen	1,540
Veracruz Reds	1,475
Two Laredo Owls	1,351
Campeche Pirates	1,225

MONTREAL TO MONTERREY?

In 2002 the Montreal Expos were purchased by the other 29 Major League teams due to the team's inability to attract a sizable fan base in Montreal. The decision was made to relocate the team to a city that would be more supportive of a Major League team. A number of cities had expressed an interest in being the new home of the Expos including Washington, D.C, Portland, San Antonio, Las Vegas, and San Juan Puerto Rico. Monterrey, Mexico was also a strong contender for selection. Monterrey is located in Northern Mexico which puts the city within a few hours by air of many U.S. cities. The city is relatively clean, economically viable, and safe. With 3.5 million inhabitants, Monterrey exceeds the population of some U.S. cities with successful baseball programs.

Monterrey has a desert climate, making it a good choice for outdoor sports. Currently the city has a 27,000-seat stadium which is considered by many to be the best in Latin America. The stadium has an impressive view of the Cerro de la Silla Mountains and residents are excited about the prospects of Major League baseball coming to Monterrey. The MLB relocation committee visited Monterrey and declared that the stadium was suitable for Major League play. Some modifications would have to be made including the addition of 3,000 more seats. The Commissioner of baseball, Bud Selig stated, however, that the city chosen for the Expos would have to be willing to build a new stadium within five years.

Monterrey has a very supportive ownership group headed by wealthy financier Carlos Bremer and Jose Maiz of World Little League fame and the owner of the Monterrey Sultanes. MLB has been eyeing the international market since 1999, playing 60 games in Mexico, Cuba, Venezuela, Japan, Puerto Rico, and the Dominican Republic. MLB plans to start playing some games in Europe next season. The Mexican League is a member of the National Association of Professional Baseball Leagues which regulates the Minor Leagues in the United States. Mexican baseball is at present considered the equivalent of America's Triple A League. Attendance at Mexican League games increased by 4.2% in 2003. Some observers worried that moving a team to Mexico would lead to many difficulties due to language barriers and the volatility of the Mexican peso. Others felt that since over 40% of players under MLB contract are from Latin America, that it is perhaps time for

a Mexican team. As Jose Maiz states: "If we had the team here (Monterrey), 104 million Mexicans could follow the team, plus 25 million Mexicans working in the States."

WASHINGTON OVER MONTERREY

While some had predicted that Monterrey would be selected as the new home of the Expos, on September 29, 2004 it was announced that Washington, D.C. had won the bid to host the team. The mayor of Washington, Anthony Williams made the announcement by stating: "After 30 years of waiting, and waiting, and waiting, and a lot of hard work and more than a few prayers, there will be baseball in Washington in 2005." The team will play its first three seasons in R.F.K. Stadium until a new $400 million stadium is built. Baseball Commissioner Bud Selig released a statement justifying the selection of Washington by stating "There has been tremendous growth in the Washington, D.C. area over the last 33 years and we in Major League Baseball believe that baseball will be welcomed there and will be a great success." Selig praised the city of Washington, D.C. for its tenacity and dedication to having baseball return to the city. Washington has been home to previous Major League teams. From 1901 to 1960 the Senators played in Washington before moving to Minnesota to become the Twins. From 1961 to 1971 Washington hosted another team called the Senators, but this team also moved, this time to Texas to become the Rangers. The Washington, D.C. area has a wealthy and growing population, however, not everyone is happy with the selection. The proposed stadium site is only 35 miles from another Major League team, the Baltimore Orioles, and the team's owner as expressed concerns about the possibility of Washington eroding the fan base of the Orioles. In addition, the proposed stadium will replace property currently housing homosexual strip bars, dance clubs, and adult theaters. Leaders of the District's homosexual community have vowed to fight the stadium. As MLB eyes competiting markets, the organization must not only consider the sale of pennants and hats, but also television revenue and the possible expansion into other cities and markets. While other American sports have been successfully exported to the global market, baseball has experienced limited international appeal. As MLB baseball ponders international expansion, the people of Monterrey are still hopeful that they too will soon be able to host a Major League Baseball team.

DISCUSSION QUESTIONS

1. Did MLB make a mistake in selecting Washington, D.C. over Monterrey, Mexico?

2. Should MLB establish a Mexican franchise?

3. How important is internationalization to the success of MLB?

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THE UTAH SUMMER GAMES

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CASE DESCRIPTION

The primary subject matter of this case concerns the development, implementation, and analysis of a real market research project. Secondary issues examined include the link between research objectives and questionnaire development, sampling and non-sampling error, and practical problems and issues that affect marketing research projects. The case has a difficulty level of four. The case is designed to be taught in one to two class hours, and is expected to required 2 to 3 hours of outside preparation by students.

CASE SYNOPSIS

In 2004 the new director of the Utah Summer Games, an athletic event modeled after the Olympics that draws over 3100 athletes, is concerned about the lack of any data other than anecdotes and annual registrations. No one was sure how satisfied athletes and their families are with the athletic events, the opening and closing ceremonies, and the products, services and environment of Cedar City. They also do not know how people learn about the events. The case depicts the planning, implementation, and some results of a marketing research project developed to measure satisfaction levels regarding the community and the opening ceremonies, and to assess what other activities participants do in conjunction with the games. Manageable in scope, the case illustrates marketing research steps, has some shortcomings for students to identify, and has enough results to permit them to reach some tentative conclusions. The case is simple enough to be used in a marketing principles course. Its value is probably greatest in a marketing research course, where it can also be used as an illustrative project in the beginning, and referred to throughout the course as sampling and non-sampling error, questionnaire development, and data analysis topics arise. It could also be used as a model for semester-long student projects.

THE MILTON HEALTH AND REHABILITATION CENTER

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CASE DESCRIPTION

This short case focuses on the problems of mixing religious values with a secular work environment. Fairness issues dealing with freedom of expression and prayer in the workplace, religious intimidation, discrimination and harassment are raised. The case has a difficulty level of four, and is best-suited for use in junior, senior, or graduate-level courses in human resource management or organizational behavior. This case can be presented and discussed in about one and a half hours, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

This case is set in a private mid-western rehabilitation center. The new owner has implemented an operating philosophy based on Biblical principles, and the born-again assistant administrator now begins all staff meetings with prayer. The situation is exacerbated when the assistant administrator persists in inviting staff to attend evangelistic meetings at his church. A few workers are concerned about this new imposition of religion in the workplace, and become more alarmed when they discover that the highest raises have been given to workers who attended some of the evangelistic meetings and who regularly volunteer to pray at the staff meetings. After an employee quits and files a complaint with the Michigan Department of Civil Rights, an investigation discovers that a couple of workers have felt somewhat annoyed, while the majority at the center feel the working environment has never been better. Are the new owner's religious values appropriately expressed and displayed at work, or has the work environment become one of religious discrimination, harassment and intimidation?

VERMONT TEDDY BEAR COMPANY

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ABSTRACT

Remember when you had a teddy bear as a child? Perhaps you still have it. How could a simple stuffed toy cause an ethical business dilemma? That is just what has happened to the Vermont Teddy Bear Company. This small business has approximately 290 employees in a factory in Shelburne, Vermont, and does most of its business over the Internet or by mail (Gram, David, 2005.)

The Vermont Teddy Bear Company is the largest hand-crafter of teddy bears in North America. Approximately 450,000 "Bear-Gram" gifts (teddy bears) will be delivered around the world this year (http://ir.vtbearcompany). There are over 100 bears from which to choose for any occasion. The situation that has developed in 2005 is especially interesting for a company that is located in a state that demands high ethical standards, following a code of ethics set by Ben & Jerry's. They set a high standard for being socially responsible with their "Save-the-Rainforest" campaign. (Gram, David, 2005).

What actually happened? The Company decided to market a bear called "Crazy for You" for the recent Valentine's Day holiday. They began selling the bears in January, 2005 and were sold out by early February. The $69.95 brown bear comes with a straitjacket and commitment papers that read: "Can't Eat. Can't Sleep. My Heart's Racing. Diagnosis: Crazy for You"(Gram, David, 2005, p.1). Complaints began to roll in. Mental Health groups felt that in marketing this bear, the Vermont Teddy Bear Company was showing insensitivity toward those who are mentally ill. The CEO of the company decided that they would no longer manufacture the bear, but continued the sale of those bears that were already in inventory. (Gram, David, 2005) Is this just the beginning of problems for the Vermont Teddy Bear Company or will they escape unscathed?

CAPE TRAVEL, INC.

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CASE OVERVIEW

Over the last three or four years, gross revenues generated by this travel agency located in a small city in rural Missouri have fallen from $3,000,000 per year to approximately half that amount. While the commissions received by this agency (10% of gross) continue to cover office overheads, they no longer provide the owner the level of compensation he desires and (because of mortgage, college tuition, car payments, and other financial obligations) needs. Students are challenged to come up with suggestions for increasing the agency's gross revenues and commissions. This short one-page case contains a bit of information about the market in which the travel agency is located, a bit of information about several of the key customer groups served by the agency, and a bit of information about the kinds of services the agency has provided its customers over the years. The teaching note includes a copy of suggestions for the owner generated by a group of students who tackled this assignment as a "live case" class project; the epilogue includes the owner's very positive comments about the suggestions he received from those students. This case is appropriate for senior-level undergraduates as well as students in MBA and/or Executive Development Programs. It is designed to be taught in a class session of 1.5 hours, and is likely to require a couple of hours of preparation by students.

CASE SYNOPSIS

Jacob Johns needs to increase the gross revenues and commissions generated by his travel agency, which is located in a small city in rural Missouri. This case is best used to stimulate discussion around the question of options which can be identified for "turning around" a company which is not doing well. As indicated above, this one-page mini-case contains a bit of information about the market served by the travel agency, the key customer groups in that market, and the sorts of services the travel agency has (over the years) been providing to those customer groups. As also indicated above, the teaching note includes suggestions generated by a group of students who tackled this assignment as a "live case" exercise, and (in the epilogue) the very positive comments Mr. Johns made regarding the insightfulness and usefulness of those suggestions.

SOUTHEAST MISSOURI STATE UNIVERSITY

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CASE OVERVIEW

This case challenges students to consider what revisions to the current mission statement of Southeast Missouri State University (SEMO) might be appropriate. As the case indicates, last year the author was asked this question (that is, what changes in the university's mission statement might be appropriate) by an influential businessperson living within the university's service area. While the case is short, it does provide a brief overview of the history of the university, a copy of the university's current mission statement, and several characteristics of the university's 26 county service area and the individual counties within that service area. The epilogue to the case (contained in the teaching note) provides a copy of the revised mission statement prepared last year by the author and his students, plus a copy of the very positive comments about this revised mission statement made by the influential local businessperson. This case is appropriate for senior-level undergraduates as well as students in MBA and/or Executive Development Programs. It is designed to be taught in a class session of 1.5 hours, and is likely to require a couple of hours of preparation by students.

CASE SYNOPSIS

This case can be used to stimulate discussion of at least four interesting and important questions: 1) What models and/or variables can be used to assess organizational mission statements and to improve them if they are found wanting; 2) Can the models and/or variables identified in question #1 (above) be used not only in the case of mission statements of "for-profit" organizations but also with "non-profit" organizations like universities; 3) Assuming the answer to question #2 (above) is "yes," what might an updated and revised mission statement for Southeast Missouri State University look like; and 4) If the models and/or variables set forth above were applied to the mission statement of a reader's own university, what might an updated and revised mission statement for his or her own university look like? As indicated above, data in the case include: 1) Brief history of SEMO; 2) Copy of SEMO's current mission statement; and 3) Some information regarding SEMO's service area and the characteristics of the individual counties comprising that service area. Data in the teaching note include: 1) A copy of the revised mission statement prepared by the author and his students; and 2) In the epilogue, a copy of the very positive comments about the revised mission statement made by the influential businessperson whose question triggered the creation of this case.

SHIFTING GEARS FOR ENTREPRENEURIAL FINANCE: RICHARD LEMONT, PhD

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CASE DESCRIPTION

The primary subject matter for this case concerns the re-thinking of teaching methods and strategies in shifting from a typical business school orientation in financial management and business strategy to a more directed approach toward entrepreneurial finance. The case has a difficulty level appropriate for business school professors faced with this particular challenge, as well as for PhD graduates coming into an environment where innovative and deeper pedagogical thought is necessary. The case is designed to be used in a seminar setting and should take no more than one hour for a seminar exercise, less if the case is available in advance for reading purposes.

CASE SYNOPSIS

Richard LeMont, a recent graduate of a Midwestern university with a DBA degree in Finance and Strategy/Policy, is faced with teaching a course in entrepreneurial finance. His doctoral training, while preparing him to deal with research and typical business school courses, has failed him where the entrepreneurial course is concerned. The reader is tasked with developing solutions to the problems highlighted by his first four weeks of the course.

BUSINESS ETHICS AND THE NEW EMPLOYEE: SOME PITFALLS

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CASE DESCRIPTION

The primary subject matter of this case concerns business ethics,. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate level. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

This case presents students with several scenarios, of the type new employees could encounter, and asks them to evaluate the possible outcomes, using ethics as a primary framework. Some of the points they will have to consider include peer pressure, downward influence from their boss, social norms, and legal issues. Each scenario presents a specific instance in which an individual is asked to do something that may or may not be unethical, followed by a series of questions to encourage ethical considerations during decision making. These are geared toward the goal of critical thinking and discussion, rather than establishing a single, absolute right/wrong answer.

INTRODUCTION

Below you will be presented with several scenarios, of the type many new graduates encounter in their first year out of college. Read each case, with an eye toward ethical issues. Identify any problematic areas, and be prepared to discuss them.

1) THE INTERVIEW

Doug Johnson* recently graduated with a degree in Business Marketing. His grades and past work experience made him an attractive candidate for many companies. He was invited to interview with the AACE* Corporation, on the strength of his resume and a phone interview. As this company was not local, he was flown in for his interview, and put up in a posh downtown hotel. His interview schedule included a formal interview, during which he was asked questions about his past work experience, the courses he took in college, and his future career plans. He then had lunch with a manager from Human Resources, Tom Carpenter*, who was to then take him on a tour of the city. They had lunch at a semi-casual downtown establishment, which was apparently popular to local businesspeople, judging by the crowd size and professional attire of the customers. Doug made sure not to order anything overly extravagant, so not to appear greedy. The HR manager, on the other hand, had one of the more expensive items on the menu.

During lunch, the HR manager began to discuss the upcoming city tour. He asked whether Doug planned preferred city (apartment) housing, or suburban (single family) housing. Doug admitted he had not given it much thought. Mr. Carpenter mentioned that the quality of schools varied in different parts of the city, and asked if Doug wanted to see the areas with better schools. Doug once again admitted he had not given it much thought, as he had only recently gotten married, and had not yet had children. The discussion continued, focusing on what other points of interest

Doug might want to see. Mr. Carpenter pointed out that the city had professional sports teams, theater, a zoo, and other attractions. Doug expressed an interest in seeing the sports arena, and a local theme park, which Mr. Carpenter assured him was fantastic. Mr. Carpenter went on to mention, with apparent pride, that the city had many churches, of varying denominations, and he could show Doug any that he wished to see. Doug indicated that while he had been raised Roman Catholic, he had not been to church in years, nor had his wife, so they could skip that part of the tour.

After lunch, they began their tour of the city. They drove past the AACE plants, and through the downtown area. The theme park, as promised, was impressive. Mr. Carpenter drove through several neighborhoods both city and suburban, that were within the price range that Doug said he could afford, based on his expected salary, and his wife's anticipated income. As they drove through the neighborhoods, Mr. Carpenter pointed out the house he had first lived in, when he moved to the city. He also mentioned as he went through each neighborhood, the names of several other AACE employees who lived in the vicinity. He showed Doug the school his children had attended, and pointed out that it was the best public school in the city. They finished the tour with a surprise. Mr. Carpenter told Doug he had gotten approval to use the company's box in the sports arena for the Professional Baseball game that night, and asked Doug if he would like to attend. Doug eagerly agreed.

The game was a blast. The home team won, and Doug even managed to get an autograph from one of the players. Several other company employees were in the box, and they all were friendly, and cordial. Conversation was light, and tended to be focused on the Home Team, which was favored to win a pennant, and possibly even make the World Series.

After the game, Doug was dropped back at his Hotel, and returned home the next day, to await word and hopefully a job offer.

In the above scenario, did you see anything ethically questionable? If so, what was it, and why was if potentially wrong? From a legal perspective, did you perceive any potential problems in this situation?

2) THE RESUME

Susan Thomas* recently graduated with a MBA in Accounting. Her GPA was good, although not impressive, and she found herself jobless after two months of looking. One evening, while eating at a local restaurant, she ran across one of her former classmates, Ron Doby*. Ron asked her to join him, for dinner and a drink. After eating, having a few beers, and some small-talk, their conversation turned to their professional situations. Susan mentioned her difficulty in obtaining employment. Ron expressed sympathy, and mentioned that he had relatively quickly gotten a job, with a local company. Susan silently wondered how Ron, who had barely squeaked through most of his classes, had gotten that job, when she had applied, and had been passed over. Instead of asking, she congratulated him on his good fortune. Ron, visibly tipsy by this point, laughed, and told her he had the secret to making resumes look more impressive. He went on to tell her that work experience was more important than grades. Susan expressed surprise, since she knew, from the projects they had worked on together, that Ron had not related experience.

Ron shook his head, and said "perhaps, but they don't know that". He went on to relate how he had "padded" his resume, with jobs he had never held. "It's easy" he said, "just find a company that is no longer in business, and in the same city you were living in at the time, and claim them as your employer". "That way", he assured her, "nobody could check and find out that it isn't true." Ron offered to help her "fix"her resume. He gave her his card, and then paid for their entire meal, pointing out that he was in a much better position to pay for it.

The entire way back to her house, Susan's stomach churned. She had been passed over for a job, for someone who lied on their resume. She then began to wonder how many times that had

happened. Was it true, as Ron had claimed, that "everybody does it", and that she should as well. She thought about Ron's last statement "If you do the job well, and the company is happy with your work, what difference does it make if you fudged the resume a bit to get the job? Its a competitive market, and you do what you have to to get ahead." After paying the cab driver, Susan went into her small apartment, and collapsed into a chair at her cheap dining table. Sitting in the middle of the table, was her stack of unpaid bills.

What should Susan do? Why?

3) IF ITS BROKE, SHIP IT

Joe Landy* was thrilled. He was the first in his family to go to college, and now was a graduate, with a degree in Business Management. Even better, he had found a job in his hometown, working for the same company that his father had worked for, before retiring. Joe was the new Assistant Manager of Distribution, for Oldvent Electronics* a manufacturer of consumer electronics, such as radios, walkie talkies, and cellular devices. His homecoming was grand. His parents threw a party, and nearly all of his childhood friends showed up, to wish him well.

Joe's father was proud, knowing his son had the opportunity to move up in management, something he could never do, without a degree. He missed no opportunity to share with others his son's good fortune. Soon the whole town knew that Joe Landy was back, and working for Oldvent.

Joe's job went smoothly for several months. His department smoothly shipped every order, on time, and accurately. Customer relations, which had been pretty good before, improved even more. Then, one day, a crisis occurred. Over 1600 radios, due for shipment to the company's biggest customers, were found to be defective. A parts manufacturer had shipped flawed transistors, that burned out within hours of being turned on. Every single one of the radios that were selected for testing had failed, within 4 hours of being turned on. In a panic, Joe went to his boss Lucy Vega*. He related the problem to her, explaining that the radios were over a week's production, and failing to ship them would make the first missed shipment to those customers in years.

Ms. Vega shook her head. "Joe," she said, "its even more of a problem than you think." The revenue for those radios is supposed to be part of our third quarter financials. Without that income, we'll be well short of market expectation, which will really hit our stock price hard. Additionally, those radios are supposed to be our first shipment for the holiday season. If the retailers have no stock, during the busiest retail season, they will be seriously upset with us. "Joe", she said, putting her hand on his forearm "ship those radios."

Joe was stupefied. His boss was telling him to ship defective product, on purpose. Ms. Vega, sensing his discomfort, said "let me explain." "The radios are warrantied, and we can replace them when they fail. Plus, since most will be Christmas presents, it will be six months before we get them back. Since we know they will come back, we can plan our production rate to include the replacements." She went on to point out that, at the time the radios would be returned, the company would be hitting its slowest season, so the added work would mean layoffs would be put off a few weeks. In addition, the defective radios could be repaired, and sold as reconditioned units, basically eliminating the economic losses associated with production. However, if they were to pull and repair the units now, company policy requires that they be labeled reconditioned, so they could not be sold through the large retailers they were due to be shipped to.

Joe's mind raced. Somehow this didn't seem completely right to him. However, Ms. Vega's arguments seemed sound, and she was so sure of herself. If they ship the radios, they would get their sales, make the earnings target, and could fix the problem later. If they pull the radios, the big retailers would be out of stock during the busiest part of the season, and may not even want the radios, once replacements are made. Plus, if they miss the earnings target, then stock prices will plummet. For Joe, personally, this is not a huge problem, since he's only been in the stock plan for

a few months. However, Mr. Landy, Joe's dad, has over half of his retirement savings in Oldvent stock.

To ship, or not to ship, that is the question.

BONA FIDE OCCUPATIONAL QUALIFICATIONS: WHAT ARE THEY?

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CASE DESCRIPTION

The primary subject matter of this case concerns human resource management, particularly the issues of discrimination, and the Bona Fide Occupational Qualification (BFOQ) exception to Title VII of the civil rights act and the Age Discrimination in employment act. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate level. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

This case examines the Bona Fide Occupational Qualification (BFOQ) exception in discrimination cases. Title VII of the Civil Rights Act of 1964 prohibits discrimination based on race, color, religion, sex or national origin. The Age Discrimination in Employment Act expands this protection to cover age discrimination against people over 40. However, there is an exception, the BFOQ. Under certain circumstances, an employer can discriminate, if age, gender or national origin can be shown to be a legitimate requirement, in order to perform the job. In this case, the BFOQ is defined, the criteria for a BFOQ are listed, and the limits to BFOQ are discussed. Several real examples are given of cases in which a company has alleged a BFOQ exists. Students are asked to examine each example, and determine which, if any are legitimate BFOQs. The main focus of this case is to teach students to apply the criteria from Title VII of the civil rights act BFOQ exemption, to real situations.

INTRODUCTION

In 1964, the Civil Rights Act was passed. Title VII of this act, which was targeted specifically at employers, prohibits discrimination in employment based on race, color, religion, sex or national origin. However, also included in this act is an exemption, allowing that discrimination may be acceptable, if the type of discrimination is an actual requirement to successfully perform the job. The name given to this clause was Bona Fide Occupational Qualifications (BFOQ). BFOQ can be claimed in the case of sex, religion, national origin, but not race. Later, the Age Discrimination in Employment Act (ADEA) was passed, extending the protection against discrimination to include age discrimination, for employees over 40. At this point, the BQOF clause was also extended to the age category. In the following sections, Title VII, ADEA, and the BFOQ clause will be described in detail. Following this, you will be presented with several scenarios, in which a company claims BFOQ. Your task will be to apply the acts, and the BFOQ exemption, and determine which, if any of the claimed BFOQs are legitimate.

TITLE VII OF THE CIVIL RIGHTS ACT OF 1964

The section of Title VII which prohibits employment Discrimination says the following, according to the Equal Employment Opportunity Commission Website (www.eeoc.gov).

UNLAWFUL EMPLOYMENT PRACTICES SEC. 2000e-2. [Section 703]

(a) It shall be an unlawful employment practice for an employer - (1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin; or (2) to limit, segregate, or classify his employees or applicants for employment in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of such individual's race, color, religion, sex, or national origin.

(b) It shall be an unlawful employment practice for an employment agency to fail or refuse to refer for employment, or otherwise to discriminate against, any individual because of his race, color, religion, sex, or national origin, or to classify or refer for employment any individual on the basis of his race, color, religion, sex, or national origin.

(c) It shall be an unlawful employment practice for a labor organization- (1) to exclude or to expel from its membership, or otherwise to discriminate against, any individual because of his race, color, religion, sex, or national origin; (2) to limit, segregate, or classify its membership or applicants for membership, or to classify or fail or refuse to refer for employment any individual, in any way which would deprive or tend to deprive any individual of employment opportunities, or would limit such employment opportunities or otherwise adversely affect his status as an employee or as an applicant for employment, because of such individual's race, color, religion, sex, or national origin; or (3) to cause or attempt to cause an employer to discriminate against an individual in violation of this section.

(d) It shall be an unlawful employment practice for any employer, labor organization, or joint labor−management committee controlling apprenticeship or other training or retraining, including on−the−job training programs to discriminate against any individual because of his race, color, religion, sex, or national origin in admission to, or employment in, any program established to provide apprenticeship or other training.

(e) Notwithstanding any other provision of this subchapter, (1) it shall not be an unlawful employment practice for an employer to hire and employ employees, for an employment agency to classify, or refer for employment any individual, for a labor organization to classify its membership or to classify or refer for employment any individual, or for an employer, labor organization, or joint labor−management committee controlling apprenticeship or other training or retraining programs to admit or employ any individual in any such program, on the basis of his religion, sex, or national origin in those certain instances where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of that particular business or enterprise, and (2) it shall not be an unlawful employment practice for a school, college, university, or other educational institution or institution of learning to hire and employ employees of a particular religion if such school, college, university, or other educational institution or institution of learning is, in whole or in substantial part, owned, supported, controlled, or managed by a particular religion or by a particular religious corporation, association, or society, or if the curriculum of such school, college, university, or other educational institution or institution of learning is directed toward the propagation of a particular religion. (www.eeoc.gov/policy/vii.html)

Section (e) of the above act is the BFOQ exemption. Some key items to note in section (e) include 1) there is no reference to a BFOQ for race, and 2) the requirement that the qualification be "reasonably necessary to the normal operation of that particular business or enterprise". What constitutes reasonably necessary? This question poses problems even for legal scholars. However, we must attempt to address this. Several reasons have been accepted as constituting "reasonably necessary. Among them are: authenticity, same sex privacy, and requirements to accomplish the work. Under authenticity, the state of Oregon, Civil Rights Division, gives the example of hiring an actor/actress or model based on sex, due to the characteristics of the role they portray. (www.boli.state.or.us). In other words, its reasonable to expect that King Arthur be played by a male, and Guenevere by a female. Same sex privacy applies almost exclusively to situations in which a person must disrobe, or be viewed in a state of undress. The ability to accomplish the work means that a person of the type excluded, CANNOT reasonably accomplish the work, or the criterion is central to the product or service being sold.

Below you will find several cases, in which an employer has claimed BFOQ. Examine each case, and determine whether the BFOQ is legitimate or not, and why.

CASE 1 - ROLE MODEL

A youth foundation runs a camp for the treatment of delinquent boys. This camp has a position open for a youth counselor. Among the stated duties of the youth counselor position, is the requirement that the individual serve as a "male role model" to the children. Therefore, the foundation has advertised the position as being open only to male applicants. A female, with past experience as a youth counselor, and a degree related to the treatment of childhood mental disorders applies for the job anyway, feeling that she is qualified. The foundation rejects her. She files suit, claiming sex discrimination. The foundation responds with a BFOQ defense. (Wisconsin, 2005)

CASE 2 - FAA REGULATIONS

The FAA (Federal Aviation Administration) had a regulation requiring that airline pilots be under the age of 60. Upon turning 60, all pilots are forced to retire. While this requirement does not extend to all members of the flight crew, one airline had the policy of extending this mandatory retirement to include their flight engineers, as the flight engineer is the backup pilot, in case of emergency. Three pilots working for this airline, upon their 60th birthdays, applied for transfers to flight engineer positions, rather than retiring. This is unusual, because the flight engineer position is essentially a demotion from pilot. However, the collective bargaining agreement, between the airline and the union, allows current employees to bid on any open position, based on seniority (The ADEA, 2005).

The airline rejected their applications. The pilots filed suit, and the airline defended with a BFOQ defense. The airline's arguments included 1) pilots and flight engineers are required to meet the same stringent requirements regarding health. 2) It is cost prohibitive to individually assess all employees at the age of 60, to see if they have age related problems that make them unable to function as flight engineers. 3) the flight engineer may be called upon to pilot the plane, if the pilot and first officer become incapacitated (The ADEA, 2005).

The workers responded by stating 1) the "age related problems," such as heart disease, cited by the airline, happen to young, as well as old employees. 2) it would be extremely rare for a pilot and first officer BOTH to become incapacitated, and even more unusual for the flight engineer to then suddenly develop incapacitating health problems. (The ADEA, 2005)

CASE 3 - SEX SELLS

A popular casual sports bar/restaurant has developed what they feel is a theme. This 'theme" involves scantily clad women, working as servers, hostess, and the other publicly viewed employees. Therefore, they require, as a condition of employment, that the waitstaff be female. They argue that this is a BFOQ, and that customers are buying this theme, rather than just food, and that this theme is an integral part of the business. (Wisconsin, 2005)

It should be noted here, that in the past, courts have determined that in the case of "strip clubs" sex as a BFOQ is legitimate, as the primary business is the stripping, and someone of the opposite sex would not appeal to the same customers. However, while this is true, courts have also ruled that "customer preference" was not sufficient reason to limit the sex of a salesperson, cashier, or other service provider. (Wisconsin, 2005)

Essentially, this issue in this case is: are scantily clad women what the customers are paying for, or are they coming to the restaurant to eat, drink, and watch sports.

CASE 4 - THE NURSE

An OB/GYN unit of a hospital advertised for a position opening for a Registered Nurse. The hospital had a 20 year policy of hiring ONLY female obstetric nurses. A male, who was a registered nurse, with past experience as an obstetrics nurse, applied for the position, and was turned down, as he was not female. The hospital argued that a female was necessary for this positon, due to the intimate nature of obstetrics. They said that having a male OB nurse violated the privacy rights of the patients. There are no OB nurse positions that do not involve patients with their private parts exposed. Furthermore, even in cases where a male doctor is allowed, patients demand a female nurse as a "chaperone". Finally, they showed evidence that at a teaching hospital, 80% of all patients refused to allow male students to be in the room during treatment, while few refused female students. (State EEO newsletter, 2004)

QUESTIONS- ANSWER THESE FOR EACH CASE

1) Is this practice discriminatory?

2) Is the BFOQ defense legitimate?

3) Why, or why not?

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KARLEE

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ABSTRACT

Located in Garland, Texas, KARLEE is a contract manufacturer of precision sheet metal and machined components for customers in the telecommunications, semiconductor, and medical-equipment industries. Since beginning in 1974 as a garage-based machine shop, the company has developed into a one-stop supplier of manufacturing services. Its work ranges from initial design and prototyping to painting and assembly to integration of cabling and power elements.

Sales by the woman-owned business approached $80 million in fiscal year 2000, continuing a six-year span in which sales have increased at an average annual rate exceeding 25 percent. KARLEE's business strategy is to cultivate long-term relationships with companies that are among the global leaders in expanding markets. This focus permits the company to dedicate itself to providing high levels of service and to achieve sustainable levels of growth. KARLEE won the Texas Quality Award in 1999 and was named Texas Business of the Year in 2000.

Currently, Jo Ann Brumit, Chief Executive Officer, is concerned with the firm's decline in financial performance. From 1995 until 2002, KARLEE achieved an annual average increase of 39 percent sales growth. However, for fiscal year ending September 30, 2002, KARLEE's revenues were approximately $16 million, down 67.7 percent as compared to the prior period. This was the first downward growth year experienced since 1977.

Jo Ann is in the process of performing a strategic analysis of the company to determine the root cause of the decline in performance. As she formulates the future strategic direction for KARLEE, she wants to ensure the company continues to remain a strong competitor in the sheet metal and machining industry.

SOUTHEAST MISSOURI STATE UNIVERSITY'S ATHLETIC IDENTITY IS MORE THAN A NICKNAME: THE BIRTH OF A BRAND AND A TRADITION

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CASE DESCRIPTION

The primary subject matter of this case concerns the leadership and processes involved in changing an athletic brand at an academic institution. A secondary subject matter involves ethical issues in that the prior nickname was considered politically incorrect and socially irresponsible by numerous constituents. The case has a difficulty level of three, appropriate for junior level. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

Seeds of change were being planted by administrators of the Athletics Department at Southeast Missouri State University during the year 2003. The seeds were being planted among opinion leaders of alumni and students and consisted of suggestions that the usefulness of the current nicknames of the institution, "Indians" for men's sports and "Otahkians" for women's sports, was minimal. The administrators were striving to determine whether the climate was appropriate for proposing a change in the nicknames among various constituency groups: alumni, students, sports teams, faculty and staff. The desire was to have an identity (or brand) which would not be considered offensive by some groups and to be able to market under this new brand identity in a more visible way than in the past. On the other hand, there could be a strong affiliation with the current nicknames among important stakeholders and administrators needed to know the depth of this feeling.

Schools with Indian nicknames were coming under increasing scrutiny from the NCAA. Due to pressures from the NCAA and Native American groups, Southeast Missouri State discontinued the use of costumed mascots in Indian attire at all events in 1985. The University administration cited diversity reasons for this discontinuation as well as the elimination of all caricatures of Indians on any clothing or merchandise. However, the Native American nicknames were retained by the university.

This case shows the progression of stages that the institution went through to make the decision to change nicknames and adopt a new mascot. The role of opinion leadership was evident throughout the process. The role of leadership from the top (the President and the Chairman of the Board of Regents) was a major factor. The fear among some stakeholders of being overly "politically correct" also played a role. A survey of alumni and students had some impact on the decision-making process.

On June 30, 2004 the Board of Regents of the university unanimously adopted "Redhawks" as the new nickname for Southeast and discontinued the use of its Native American nickname. An official retirement ceremony was held during the fall of 2004 for the Indian/Otahkian nicknames and an official roll-out of the Redhawk mascot was held January 22, 2005. The case portrays several indicators of stakeholder acceptance of the new Redhawks brand.

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