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CASE SYNOPSIS

Dong-A has been the leading domestic firm in the Korean pharmaceutical industry since its establishment in 1932. By continuously investing in research and development (R&D), Dong-A has developed three original drugs and achieved a competitive advantage over its domestic competitors. However, since the introduction of a drug price reduction policy in 2012 by the Korean government, Dong-A's sales revenue from the domestic market has decreased significantly. This new policy has also influenced the landscape of the Korean pharmaceutical industry by changing the strategic positions of other pharmaceutical firms. Dong-A must respond to this challenging environment.

COMPANY BACKGROUND

Dong-A Pharmaceutical Co., Ltd (hereafter Dong-A), the largest pharmaceutical company in South Korea, began as a wholesale store for medical supplies and hygienic materials in 1932. Joong-Hee Kang, the founder of Dong-A, started his own store in Joonghak-Dong, Jongro-Ku, Seoul, based on his work experience at a small Japanese pharmaceutical company. After obtaining permission to manufacture medicines in 1942, the company released its first five products. In particular, 'Seng Myung Su,' digestive syrup, had a great success. In 1963, Dong-A released the comprehensive nutritious tonic 'Bacchus,' which has become the most popular energy drink in Korea since then. Its name is derived from the Roman god Bacchus (Dionysus in Greek); Chairman Shin-Ho Kang, the son of the founder, was inspired by the sculpture of Bacchus that stood in the hallway of the basement of the city hall in Hamburg, Germany, where he obtained his medical degree. The success of Bacchus made Dong-A the No. 1 pharmaceutical company in Korea by sales in only 4 years. Since then, Dong-A has played a pivotal role in the Korean pharmaceutical industry. After the death of its founder, Joong-Hee Kang, in 1977, his son succeeded him as the leader of the company. With the vision of becoming a 'Global company renowned for its innovative pharmaceutical products,' Dong-A has invested intense efforts in producing innovative products. Dong-A was the first Korean pharmaceutical company to establish a research laboratory. Its continuous investment in research and development (R&D) resulted in the development of three original drugs: Stillen (a mucoprotective gastrointestinal agent) in 2002, Zydena (an erectile dysfunction treatment) in 2005, and Motilitone (a dyspepsia treatment) in 2011. In 2010, Dong-A was the No. 1 pharmaceutical company in Korea, with annual sales of KRW (Korean Won) 846.8 billion (USD 769.8 million).

In addition to pursuing the domestic market, Dong-A has pursued global markets by actively collaborating with foreign pharmaceutical firms. In 2007, Dong-A and Trius Therapeutics, an American company, entered into a license agreement to develop antibacterial compounds. Dong-A signed an agreement with Meiji Seika Pharma, Japan, to license Zydena tablets in 2011. Dong-A also agreed to a comprehensive collaboration with Meiji Seika to construct a biosimilar production plant in Songdo, South Korea, to target the global market for antibody-based drugs.

DONG-A'S PRODUCT

Dong-A's products can be classified into three major categories: ethical (ETC) drugs, over-the-counter (OTC) drugs, and other healthcare products

Ethical (ETC) Drugs

ETC drugs require a prescription for purchase because of the potential for side effects if inappropriately consumed. Most newly developed drugs are classified as ETC. When pharmaceutical firms develop a new drug and acquire a patent, it is called an 'original drug.' Patented original drugs guarantee high revenues for the company due to the exclusive sales rights for the developed drugs for limited time periods. However, substantial expense, effort, and time are required to invent a new original drug. Moreover, once the patent for the original drug expires and its components and formula are released to other pharmaceutical firms, copycats of the original drug can be manufactured without the license of the original company. These copycat drugs are called 'generic drugs' and have an identical composition and similar efficacy compared to the original product. Although less expense, time, and resources are required to produce generic drugs, there is intense competition in the generic drug market because entry barriers of generic drug market are low. Therefore, the development of original drugs is a key indicator of the competitiveness and level of innovation of a pharmaceutical company.

Dong-A has outperformed other Korean pharmaceutical firms in the ETC market. Dong-A's original products include Stillen, Zydena, and Motilitone. As shown in Figure 2, Stillen generated sales of KRW 80.8 billion (USD 75.2 million) in 2012. There is great opportunity for Motilitone, which ranked second in its share of the Korean functional dyspepsia market immediately after its release. Dong-A has competitive advantages over other domestic competitors due to its wide product lines in the ETC market.

Over-the-Counter (OTC) Drugs

OTC drugs are non-prescription drugs that qualify as safe and effective. The OTC market represented 31.5% of sales for Dong-A in 2010. By contrast, the OTC market provided 17.5% and 11.1% of sales for Dong-A's domestic competitors, YuHan and Daewoong, respectively, indicating that Dong-A is highly dependent on the OTC market. While most ETC products recorded negative growth in sales in 2012 due to the drug price reduction, the OTC segment recorded growth of 22.2%.

Dong-A produces a variety of OTC products. Panpyrin, a cold drug, has been Dong-A's flagship OTC product since its launch in 1956 and accounts for 80% of Korean cold drug sales. In 2012, it garnered sales of KRW 27 billion (USD 25.1 million). Another OTC product is Circulan, a synthetic mixture of traditional ingredients that improves blood circulation.

Other Healthcare Products

In addition to drugs, Dong-A produces diverse healthcare products such as multi-vitamins, mouthwash, and shampoo. Of these products, Bacchus Energy Drink is the top seller, recording KRW 170.9 billion (USD 153.5 million) in sales in 2012. Of this, KRW 20.8 billion (USD 18.7 million) are from overseas sales. Sales growth of Bacchus is expected to continue in both the Korean and global markets.

DONG-A'S SUCCESS FACTORS

New Product Development

Since the establishment of its research center in 1977, Dong-A has led the Korean pharmaceutical industry by continuously investing in advanced technologies and original medicines. In 2002, Dong-A successfully developed its first in-house developed drug, Stillen (mucoprotective gastrointestinal agent). Since it is very difficult for a newly established company to develop an original drug by its own technologies, it was a big achievement to Dong-A. Since then, Dong-A has launched and developed various ethical drugs.

In particular, Dong-A has a strong position in gastric treatment drugs. Dong-A has developed two original gastric treatment drugs, Stillen and Motilitone. These drugs are renowned for their use of natural materials based on Korean oriental medicine instead of artificial and chemical components. For instance, Stillen includes wormwood and other herbs. Motilitone is made from morning glory seeds and a natural substance extracted from a corydaline tuber and has no known side effects. In addition, Dong-A has developed Zydena, which is Korea's first and the world's fourth erectile dysfunction drug. Zydena has been proven effective in domestic clinical studies and in phase 2 clinical studies in the U.S. Zydena competes in the global market with Pfizer's Viagra and is exported to 32 countries around the world.

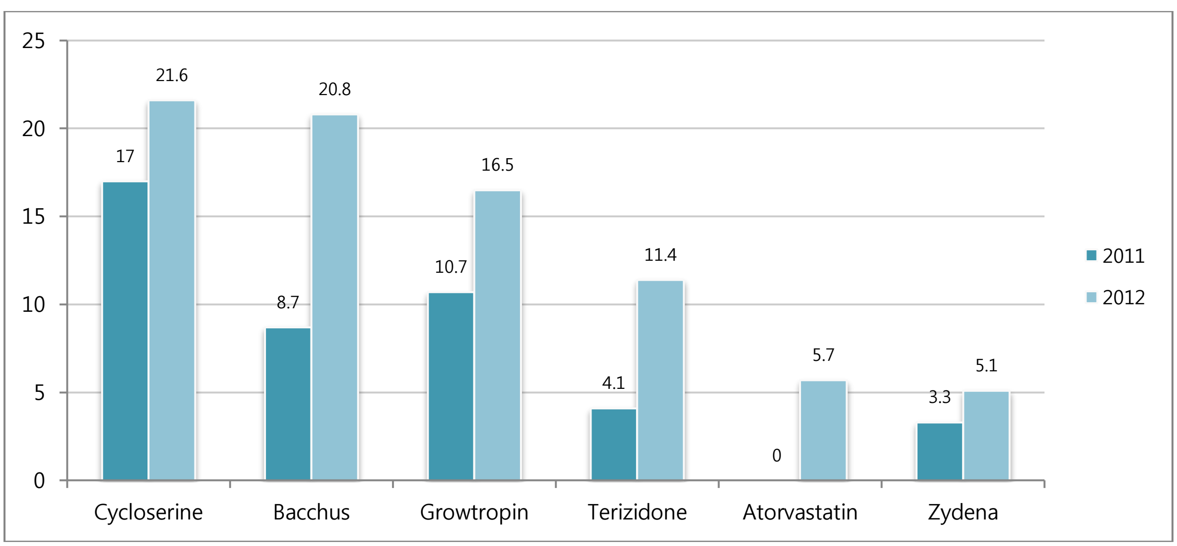
Dong-A has established global R&D networks with foreign pharmaceutical firms. Dong-A diversifies its Research Centers and each center is run to serve different purpose. For instance, Dong-A established Innovative Drug Discovery Research Laboratories, Biopharmaceutical Research Laboratories, Dong-A Dementia Center, and Research Planning Management Department. These research centers are an open innovation platform with universities and research institutes in Korea and abroad. Through this global network, Dong-A was able to access advanced technology and knowledge for new drugs. For instance, in 2014, it signed an MOU (Memorandum of Understanding) with the University of Freiburg in Germany on conducting joint research. Dong-A entered into an agreement with Meiji Seika Pharma Co. Ltd., a Japanese company, for comprehensive collaboration in the construction of a biosimilar production plant in Songdo, Korea. DMB-3111, a biosimilar of Herceptin® for a breast cancer, is being jointly developed with Japan's Meiji Seika Pharma. A phase I clinical trial was completed in Japan in 2014, establishing a base for entry into the Korean, Japanese and other global markets.

Dong-A also plans to build its own R&D laboratory in the U.S. to collaborate with American pharmaceutical firms and universities. By collaborating with domestic and foreign universities, research institutes, and pharmaceutical companies, Dong-A aims to acquire advanced technology and knowledge to develop original drugs in the areas of anticancer, dementia, and biopharmaceuticals.

Global Presence

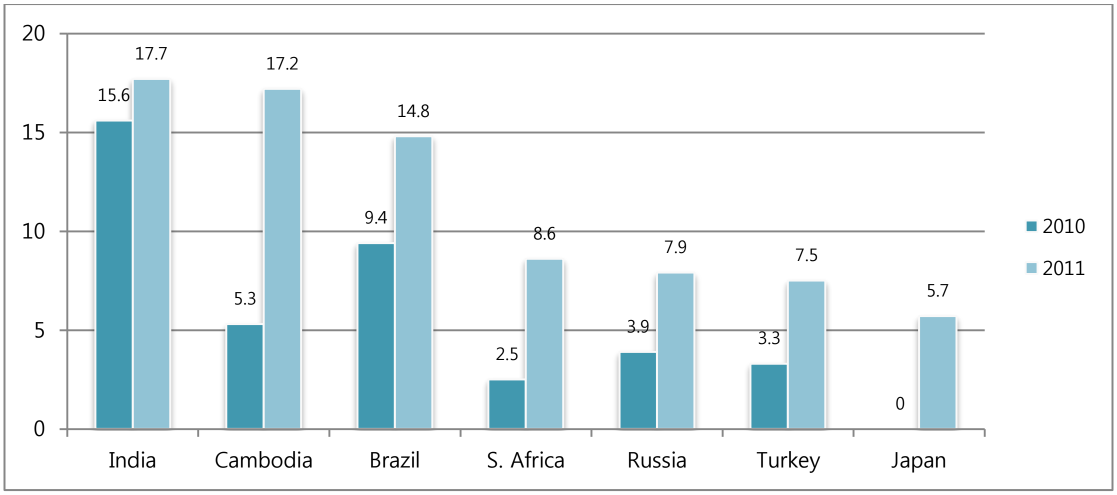
Dong-A aggressively pursues globalization by exporting its drugs to foreign countries (see Figure 1). Dong-A exports its drugs and ingredients to more than 40 countries in Europe, Latin America, and Asia. Figure 2 shows Dong-A's international sales by major countries in 2010 and 2011. Dong-A is making most of the exporting profits from these countries. Dong-A made a significant achievement in exports in 2012, accomplishing annual growth increase of approximately 77% in sales. This was the result of an increase in the sales of existing products in emerging markets, such as Brazil, India, South Africa, Russia, Turkey, and Cambodia, as well as the export of APIs (Active Pharmaceutical Ingredients) to Japan, which started in 2012. Dong-A aims for global business sales of up to 40% of total sales by 2020. Figure 3 shows the international sales of Dong-A's products between 2011 and 2012. Dong-A continuously pursues opportunities to license out products and form local partnerships to enter other countries and introduce Dong-A's products. For example, Dong-A formed a licensing agreement with Abdi Ibrahim Pharmaceuticals, a top-ranking pharmaceutical company in Turkey, to sell and promote Dong-A's drugs. This agreement has allowed Dong-A to make inroads in European pharmaceutical markets with its product Zydena. First publicized in the Netherlands, Zydena is now sold in Russia and Turkey, and sales of greater than USD 20 million are anticipated by 2015. Furthermore, Dong-A has established subsidiaries in the USA, Brazil, and China to efficiently respond to local market needs.

Figure 1 Dong-A Export Drug Sales (KRW billion)



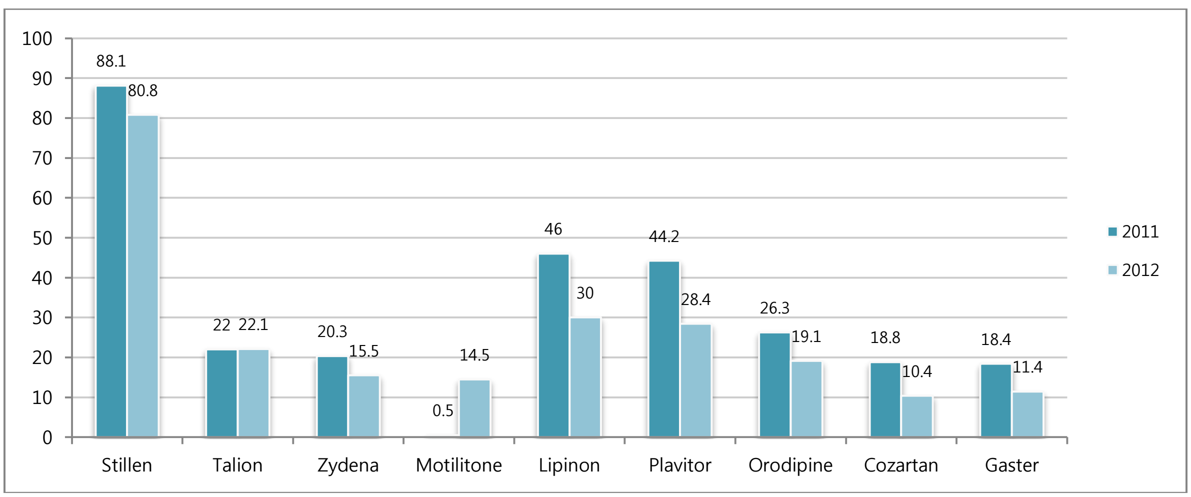
***Source*: Dong-A Financial Report (2012**

Figure 2. Dong-A's Export Sales by Region (KRW billion)



Source: Dong-A Financial Report (2012)

Figure 3. Sales Growth of Key Dong-A ETC Products (KRW billion)



Source: Dong-A Financial Report (2012)

Bacchus, Dong-A's energy drink, has become a great success in Cambodia. In 2010, Dong-A introduced Bacchus to Cambodia, and its sales rapidly increased. Its success in Cambodia can be attributed to Dong-A's efforts to localize its products. Dong-A made a strategic alliance with CamGold, a local distributor. With the help of CamGold, Dong-A sensed that Cambodians had a growing interest in their health and promoted Bacchus as a restorative drink rather than merely an energy drink. Dong-A emphasized the health-restoring effects of Bacchus, in contrast to the temporary stimulatory effects and potential side effects of caffeine-containing energy drinks. Furthermore, Dong-A slimmed Bacchus's container design to increase its attractiveness to Cambodians. The price of Bacchus is relatively expensive in Cambodia, thus positioning it as a premium restorative drink. The price of Bacchus is approximately 70 cents, more expensive than Red Bull (60 cents), which had dominated the Cambodian energy drink market for years. Only one year after its release, Bacchus outperformed Red Bull and was ranked the best-selling energy drink in Cambodia

PHARMACEUTICAL INDUSTRY IN KOREA

Korea's pharmaceutical market accounts for approximately 2% of global pharmaceutical sales. South Korea ranked 12th in the global pharmaceutical market with KRW 8.9 trillion (USD 8 billion) in annual sales in 2011. With increasing insurance coverage and an aging population, the Korean pharmaceutical market is expected to grow by approximately 6.5% annually until 2015. Korean pharmaceutical firms rely heavily on generic drugs for sales rather than original drugs. The Korean government has attempted to encourage firms to develop original drugs. For instance, the government provides financial support and tax deductions for pharmaceutical firms to increase their competitiveness in the development of original drugs. However, firms continue to focus on producing and selling generic drugs and OTC products.

In addition, the demand for "cosmeceutical products," cosmetic products produced by pharmaceutical companies, is increasing in the Korean pharmaceutical industry. Korean women are highly interested in beauty products and tend to prefer cosmetic products produced by pharmaceutical companies. The Korean cosmeceutical market is estimated at approximately USD 38.57 million, and the demand for cosmeceutical products is increasing by greater than 15% annually.

The prospects for Korean biopharmaceutical products are also promising. Biopharmaceutical products differ from traditional drugs in that they are produced using biological rather than chemical processes. Korean pharmaceutical firms are developing biosimilars, which are generic versions of biopharmaceutical products. The biopharmaceutical market is estimated to be USD 129 billion in 2012 and is expected to grow 18.1% annually. Table 1 shows the revenues of the leading pharmaceutical companies in Korea; Dong-A was No. 1 in both 2011 and 2012.

Table 2 uses key account measurements to compare the top 10 Korean pharmaceutical firms to global firms with divisions in Korea. Global pharmaceutical firms have greater profits and lower COGS (cost of good sold)-to-sales ratios than Korean firms. In particular, Korean domestic pharmaceutical firms spend much more money on the costs of sales and administration compared to global pharmaceutical firms. In addition, Korean pharmaceutical firms invest a much smaller portion of their revenues in R&D than global firms.

Table 1
COMPETITORS' SALES REVENUES

	2011 (KRW Mn)	2012 (KRW Mn)
DONG-A	930,980	907,294
YUHAN	667,652	762,793
DAEWOONG	706,643	664,648
PFIZER	452,676	418,824
GLAXOSMITHKLINE	506,194	473,201

Source: Korea Health Industry Statistics System (2013)

Table 2.
COMPARISON BETWEEN KOREAN AND GLOBAL PHARMACEUTICAL FIRMS
(UNIT: % OF SALES REVENUE)

	Global Top 10 Pharmaceuticals		Korean Top 10 Pharmaceuticals	
	2010	2011	2010	2011
Operating income	16.0%	21.3%	10.1%	7.8%
EBIT	20.1%	21.1%	11.0%	8.0%
COGS	32.5%	31.5%	53.8%	56.9%
Cost of Sales & Administration	31.9%	29.5%	36.2%	35.4%
Net Profit	14.2%	15.9%	8.1%	6.0%
Cost of R&D	15.9%	14.1%	8.0%	7.6%

Source: Korea Health Industry Development Institute (2012)

MAJOR COMPETITORS

We chose two major domestic competitors of Dong-A in the Korean generic and OTC drug market. In addition, two global pharmaceutical firms are described because they have strong presence in the Korean original drug market.

Daewoong

In 1945, Daewoong Pharmaceutical began business as Chosun Liver-oil Pharmaceutical Industry Co., Ltd. Daewoong ranked 2nd in total Korean pharmaceutical markets and 1st in the Korean ETC markets. It has 17 blockbuster products including Ursa (nutrients for the liver), Smecta (a gastric treatment), and Easyen (a pain reliever). Daewoong also has 15 products with sales each surpassing USD 10 million. Also, Daewoong is one of the most rapidly growing pharmaceutical companies in Korea. Daewoong has grown at the rates of double digits. Daewoong has a strong network of sales and marketing with the largest number of sales representatives in the Korean pharmaceutical industry. Daewoong plans to be a top 50 global pharmaceutical company in 2015. To achieve this goal, Daewoong is expanding its presence to China. Daewoong is also expanding its product lines by launching a cosmetic brand, 'easy dew.' Particularly, Daewoong is strong at biologics. Daewoong is the only Korean company to have biologics products approved by Korean government.

Yuhan

Yu-Il Han, a Korean entrepreneur who was highly respected by Koreans for his philanthropy, established YuHan in 1926. Its products include Almagate (a gastric treatment), Beecom-C (a nutritional supplement), and home products such as bleach. YuHan is recognized as the most respected company in Korea by the Korean Management Association for 12 consecutive years. YuHan is the first in Korean pharmaceutical industry to receive 10^{th} No-Accident certificate in 2013. In 2014, YuHan broke through KRW 1 trillion (USD 911 million) in sales for the first time in the local pharmaceutical industry. YuHan seeks to expand its market by forming strategic alliances with global companies. For instance, Yuhan has formed a strategic alliance with Boehringer Ingelheim, a leading German pharmaceutical company among domestic pharmaceutical companies, Yuhan ranked 3^{rd} in total Korean pharmaceutical industry.

Pfizer

Pfizer was founded by Charles Pfizer and Charles Erhart in 1849 and has remained one of the largest global pharmaceutical companies. Pfizer entered the Korean market in 1969. Pfizer has over 100 different product lines and continues to invest in R&D to develop original drugs. For instance, it invested approximately 17% of its sales revenue in R&D in 2012. Norvasc, Celebrex, and Viagra are some of the company's main products Pfizer ranked 3^{rd} in total Korean pharmaceutical markets and 1^{st} as a foreign company in Korea. With its enormous funding power, more growth in Korean market could be expected.

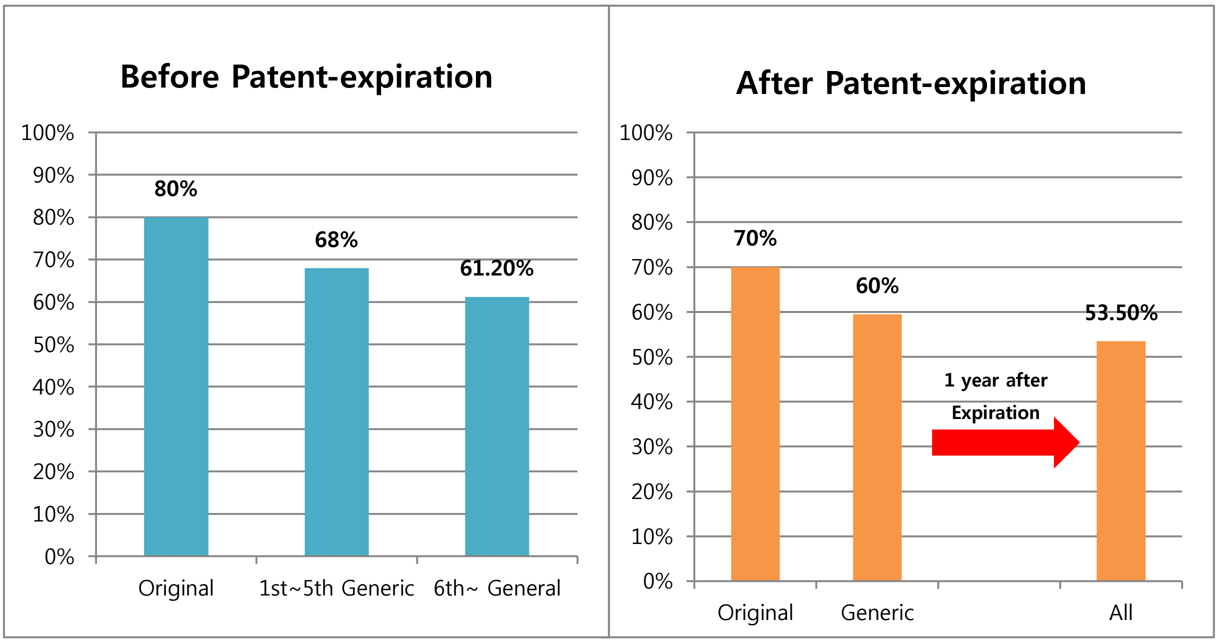
GlaxoSmithKline

GlaxoSmithKline (GSK) is a British pharmaceutical company that was established in 1715. GSK Korea began business in 1986 with 3 main businesses (drugs, vaccines, and consumer products). It has more than 1,400 product brands and 28,000 different packages. Major ETC products include Zeffix (hepatitis B infection treatment) and Avandia (diabetes treatment). Vaccines, such as Cervarix (cervical cancer vaccine), are another main product category. GSK has strengthened its OTC business by converting some of its ETC drugs, such as Zantac, to OTC drugs. Also, GSK has strong brand power in Korean cosmeceutical market. Its cosmeceutical brand 'Physiogel' is a typical brand of cosmeceutical products in Korea.

DRUG PRICE REDUCTION POLICY

In August 2011, the Korean government announced a new policy to reduce drug prices by 17% on average. As Figure 4 shows, the new policy requires the prices of all generic drugs to be less than 60% of the price of the original drug. Before this new price policy, the prices of generic drugs differed based on their order of registration. For example, the first to fifth enlisted generic drugs were priced at a maximum of 68% of the original drug's price, the sixth at 61.2%, the seventh at 55.08% and so on. However, under the new price policy, the price cap of both the original and generic drugs is 53.50% of the patented original drug price one year after the patent expiration of the original drug. Under the old system, Korean pharmaceutical firms that produced generic drugs competed to be the first firm to register a generic drug to obtain the highest price cap. Therefore, they focused on developing generic drugs as rapidly as possible, even compromising quality. Companies aimed to meet the minimum requirements for generic drugs by imitating original drugs rather than improving them. Accordingly, generic drugs cannot be differentiated from one another in terms of their quality. To promote these undifferentiated generic drugs, Korean pharmaceutical companies used to provide illegal rebates for doctors and hospitals to encourage them to prescribe their companies' generic drugs. For instance, the firms provided monetary support for doctors or hospitals. They also offered expensive meals for doctors, hosted overseas academic conferences, and made large donations to hospitals.

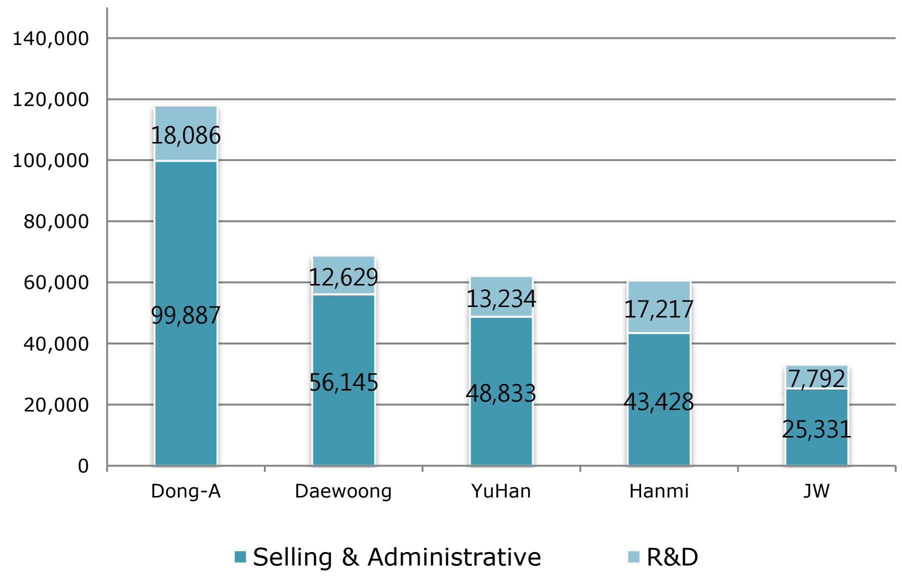
Figure 4. Price System of Original & Generic Drugs



According to the Fair Trade Commission, Korean pharmaceutical firms spent approximately KRW 100 billion (USD 89.4 million) on illegal rebate practices between 2006 and 2010. In December, 2011, a government investigation team indicted 25 medical professionals and pharmaceutical industry government officials for receiving bribes from pharmaceutical firms. In addition, eight pharmaceutical firms and three drug wholesalers were ordered to take back money that had been given to medical professionals. Seventeen local and multinational pharmaceutical firms were fined KRW 14.3 billion (USD 12.8 million) for offering cash, gift cards, lavish entertainment, and other kickbacks to nearly 8,700 hospitals, doctors and pharmacists over a five-year period in return for prescribing their medicines. As a result, these illegal rebate practices increased drug prices in Korea. Domestic pharmaceutical firms are believed to spend an average of 20% of their revenues on rebate practices every year, a total of nearly KRW 3 trillion (USD 2.9 billion). Their marketing budgets account for approximately 35% of sales, nearly triple the manufacturing industry average. As Figure 5 shows, the selling and administrative expenses of the top five Korean pharmaceutical companies are much higher than their investments in R&D. The Korean government established the new price policy for generic drugs to eliminate these illegal rebate practices and to motivate Korean firms to improve original drugs. The new policy will bring fundamental change to the Korean pharmaceutical industry. An overall decrease in ETC sales revenue is inevitable due to the price reductions of the new policy. In addition, because the prices of original and generic drugs gradually become equal, generic drugs should be differentiated from original drugs by their quality and efficacy rather than by price. Otherwise, firms that are highly dependent on generic drugs will lose their market share to original drugs.

In addition, the new policy encourages pharmaceutical firms to focus on developing OTC drugs and other health care products to compensate for the sales reductions in the ETC market. Because the new policy applies only to ETC drugs and not OTC drugs, many pharmaceutical companies might convert their ETC products to OTC products and compete to promote their OTC products. For instance, the number of advertisements for OTC drugs increased 12% in 2013 compared to the previous year

Figure 5. Proportion of Sales invested in Selling & Administrative Expenses and R&D among Korean Pharmaceutical Firms (KRW Mn)



CONCLUSION

The Korean pharmaceutical industry has grown rapidly over recent decades, and Dong-A has played a pivotal role in its development. Because of strong investments in R&D, Dong-A has invented original drugs and achieved substantial success in the global market. However, the Korean government's implementation of a new drug price reduction policy represents a substantial challenge to Korean pharmaceutical companies. The overall price for ETC drugs has decreased, and the price gap between original drugs and the generics that follow will gradually disappear. Dong-A, which produces a variety of generic drugs, must address not only decreasing ETC drug revenues but also potential losses due to a declining pricing advantage in its generic drugs compared to original drugs. Moreover, the new policy may change the landscape of the Korean pharmaceutical industry as other companies modify their product portfolios in response to the new policy. Thus, it is critical for Dong-A to understand how the new regulations affect its business and formulate a response to this challenge to sustain its dominant market position in Korea.

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SECURITIZING AN ATHLETE'S FUTURE INCOME: THE VERNON DAVIS TRACKING STOCK

Rakesh Duggal, Southeastern Louisiana University

CASE DESCRIPTION

This case deals with evaluating an uncommon stock offering that promises a return based on an athlete's future income. The case has a difficulty level of four, appropriate for senior level. The case is designed to be taught in three class hours and is expected to require approximately six hours of outside preparation by students.

CASE SYNOPSIS

Financial intermediaries perform a valuable task of repackaging risk-return attributes of investment options. High-profile athletes expecting a huge payoff in future may be interested in giving up a portion of their future income in return for a payment now. Sports fans and investors, on the other hand, may be interested in buying stock in an athlete in anticipation of an attractive payoff in the future. Fantex, Inc, a financial intermediary, is proposing to sell stock in Vernon Davis, a 49ers tight end, in return for a share in Davis's future income.

Stacey Richards, a finance major, worked as an intern for a small wealth advisory firm. One afternoon, Jack Simmons, her immediate supervisor, called her into his office to ask whether she had any knowledge about the Vernon Davis Tracking Stock. One of the firm's clients, an avid NFL fan, had expressed an interest in investing in this stock, so Jack asked Stacy to investigate and come up with a fair value for the stock.

Stacey found that Fantex, Inc., the firm behind the Vernon Davis tracking stock, was a brand building company that purchased a minority interest in an athlete brand and worked to increase the value of this brand (www.Fantex.com). Fantex, Inc., was a wholly-owned subsidiary of Fantex Holdings, Inc. In October 2013, Fantex entered into a brand contract with Vernon Davis, a tight end for the San Francisco 49ers, pursuant to which Fantex agreed to acquire a 10% interest in the gross income that Vernon Davis would receive after October 20, 2013, as a result of his activities in the NFL and related fields such as broadcasting and coaching. As consideration for this interest under the brand contract, Fantex agreed to pay Vernon Davis a one-time cash amount of $4.0 million contingent upon obtaining financing through an initial public offering of 421,100 shares at $10 each.

Stacey gathered the following relevant information on the proposed offering from the S-1 form filed with the SEC:

VERNON DAVIS

Vernon Davis was born on January 31, 1984, and was 29 years old at the start of the 2013 NFL season. He attended the University of Maryland and played as a starting tight end before entering the NFL draft in 2006 after his junior year. He was drafted by the San Francisco 49ers in the first round and he was the 6th overall pick. He had his best professional year in the 2009

NFL season when he was selected to the Pro Bowl for making 78 receptions for a total of 965 yards and 13 touchdowns. He also tied the record for the most number of touchdown receptions in a single season by a tight end.

Stacey was interested in finding out whether Vernon Davis's NFL career had been affected by any systematic injuries as this had the potential to affect the value of the tracking stock. She found that Davis missed six regular season games in 2006 after suffering a hairline fracture to his left fibula. He missed two regular season games in 2007 after suffering a sprain to his right knee and another two games in 2010 following an ankle injury. In addition, Vernon Davis suffered a concussion in both 2012 and 2013. The above injuries did not suggest to Stacey that Vernon Davis was more prone to injuries than a typical NFL player or that he was more prone to a particular type of injury. Given the nature of the sport, Stacey thought, Vernon Davis could encounter similar or perhaps worse injuries in the future, which might shorten his career and adversely affect investors in the Vernon Davis Brand.

VERNON DAVIS BRAND INCOME

In 2013, Vernon Davis's brand income came from two sources, his NFL player contract and a few endorsement contracts. Vernon Davis was in the fourth year of his six-year contract with the 49ers. Fantex Inc., acknowledged in the S-1 filing that the value of the Vernon Davis Brand depended largely on whether Vernon Davis signed another six-year contract worth at least $33 million with an NFL team at the expiry of the current contract. Also, the Vernon Davis Brand would be more valuable if he was able to win more endorsement deals. However, there was substantial uncertainty whether Davis would be offered an NFL contract in the future and whether he would be able to retain or exceed the value of his current endorsement deals. Stacey concluded that the status of Davis's future contracts would not be known for quite some time.

NFL Player contract

Vernon Davis's contract provided for an aggregate salary of up to $15.1 million for the 2013-2015 period. He was expected to receive $6.07 million in 2013, $4.7 million in 2014, and $4.35 million in 2015. His contract also provided for bonuses of up to $1.8 million. Each of these payments would be considered brand income when received by Vernon Davis and investors in the tracking stock would be entitled to 10% of these amounts.

None of the above payments, however, was guaranteed. Moreover, the 49ers reserved the right to terminate his contract at any time if the 49ers management determined in their sole judgment that Vernon Davis did not meet any of the following expectation:

- Maintain his excellent physical condition.
- Provide full and complete disclosure to the 49ers' physicians on his physical and mental abilities that might impair his performance.
- Perform satisfactorily when compared with other players competing for the same position
- Refrain from personal conduct that would adversely affect the 49ers.

Stacey found that even if Davis Vernon met all of the above expectations, the 49ers could still terminate his contract if he was anticipated to contribute less to the 49ers' ability to compete than another available player.

Other Contracts

Vernon Davis had endorsement contracts or license agreements with Hungry Fish Media, LLC, Krave Pure Foods, and KGO-TV. One of these contracts would expire in 2013, while the remaining contracts would expire in 2015. These contracts, in general, required Vernon Davis to participate in the production of promotional materials, make appearances at certain events to endorse products, and sign autographs at these events. Vernon Davis would receive a total compensation under these agreements of up to approximately $460,334. However, $75,000 of this amount was contingent on performing additional specific services, such as mentioning endorsed products on nationally televised broadcasts or using endorsed products during a pre-game or post-game conference, or interview. Investors in the Vernon Davis Brand would be entitled to 10% of these payments when these amounts were received by Vernon Davis.

The sponsors reserved the right to terminate these contracts if Vernon Davis failed to play in the NFL or failed to play for the 49ers, or engaged in conduct adversely affecting the sponsors. In addition, Vernon Davis could also terminate these contracts.

INFORMATION FOR INVESTORS

Stacey gathered the following information on the tracking stock for potential investors.

Dividend Policy

Fantex was permitted, but not required, to declare and pay dividends on its tracking series in an amount up to the "available dividend amount" for the applicable series, to the extent permitted by the Delaware General Corporation Law.

Management Fees

Fantex would provide management services for which it would charge a 5% fee on any cash flow received from Vernon Davis.

Underwriting Fees

Fantex Brokerage Services would charge a $0.50 per share fee to sell the 421,100 shares.

Fantex Trading Platform

The tracking stock would not be listed on a national or regional exchange**.** Fantex Brokerage Services, a subsidiary of Fantex Holdings, Inc., would allow its clients to post their bid-ask prices on its website to facilitate trading in the stock on its platform.

STACEY's THOUGHTS ON VALUATION

Stacey had some thoughts and questions on how to value the tracking stock. She was wondering what valuation technique would be appropriate to value this uncommon stock offering. She recalled the comparative valuation methodology covered in her investment banking class. In this methodology, an analyst would compile a sample of recent initial public offerings (IPOs) that were similar to the IPO being valued and, based on the IPO prices, would compute various average valuation measures such as firm value to sales, firm value to earnings before interest, taxes, depreciation, and amortization (EBITDA), firm value to free cash flows, etc. The analyst would then apply the average sample multiples to value the new offering. However, to Stacey's knowledge, the Vernon Davis tracking stock was the first attempt by an investment bank to securitize an individual's future earnings stream. Stacey also recalled having studied the discounted cash flow approach. However, she was not sure how to forecast cash flows for stockholders. Should she assume that Davis's NFL salary would be received at the end of each calendar year? Should she forecast cash flows for just the next three years (2103-2015) or should she assume that Vernon Davis's contract would be renewed for another 6 years for $33 million? How should she handle the up to $1.8 million in bonuses? What assumptions should be made regarding the renewal of the endorsement contracts after 2015? Could she assume that all endorsement income was received by Vernon Davis in equal annual installments at the end of each calendar year? Stacey also wondered whether, the tracking stock had above average risk for potential investors. If this was true, she should use an appropriate discount rate. While Stacey was gathering the above information, she received an email from Jack containing the following two exhibits, which Jack felt Stacey might need for her assignment. On examining the exhibits, Stacey believed she could use the information to come up with appropriate estimates for the discount rate.

Exhibit 1
BOND YIELDS
(Wall Street Journal, 10/23/2013)

MATURITY	YIELD (%)
3-month t-bill	0.036
1-year note	0.104
3-year note	0.599
5-year note	1.288
10-year note	2.504
30-year bond	3.597
Barclays Capital Intermediate Corporate Index	2.400
Merrill Lynch CCC-rated Index	8.997

Exhibit 2 **HISTORICAL STOCK RETURNS**		
STOCK TYPE	**ANNUAL RETURN (%)**	**STANDADRD DEVIATION (%)**
Mid-cap stock ($1.77b<Market cap<$6.8b	11.0	24.9
Low-cap stock ($478m<Market cap <$1.77b	11.5	29.3
Micro-cap stock ($1.2m<Market cap<$478m	12.3	39.0
Source: 2011 Ibbotson SBBI Valuation Yearbook: Table 2-1, page 23		

REFERENCES

Fantex, Series Vernon Davis Convertible Tracking Stock, Retrieved February 1, 2015, **from http://www.sec.gov/Archives/edgar/data/1573683/000104746913010747/a2217440zs-1.htm**

PATCH – AOL'S HYPERLOCAL EXPERIMENT

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CASE DESCRIPTION

The primary subject matter of this case concerns corporate growth strategies and the importance of analyzing the business models for growth. This case can be targeted as a strategy case, specifically a module dealing with corporate level strategy. After completing this case, students should recognize corporate growth strategies and the interconnection between strategic goals and market conditions, how scale impacts the effectiveness of an initiative, and the impact of ignoring scale effects, positive or negative, in strategic management.

The case of AOL – Patch shows the challenges of growing a hyperlocal news web operation in a changing market landscape. AOL acquired Patch in 2009 and, within 3 years, expanded the operation to more than 800 sites nationwide without proving the profitability of the business model at any level. At the corporate level, AOL invested up to $300 million into the expansion of the Patch operation during this time period, with most of the expenses related to human resource acquisition. During this time, the hyperlocal news marketplace experienced intense change, mostly attributed to the decline of print media and the emergence of new distributors of local news. By the end of the case, after multiple years without profitability, the Patch operation was forced to reduce in size, laying off many workers and shutting down 30% of the Patch sites.

CASE SYNOPSIS

Patch was AOL's attempt to capitalize on the changing local news market in the U.S. The decline of print media has caused many of the local daily and weekly publications to close their doors, leaving an opportunity for digital methods of news dissemination to step in and provide the service to communities. Despite failed attempts from established news organizations such as the New York Post and Washington Post to operate hyperlocal news networks profitably, AOL remained committed to Patch and invested heavily. The primary driver attracting these high-powered organizations to local news is the estimated $20 billion opportunity in local market advertising throughout the US. The traditional business model for a hyperlocal operation is buoyed by advertising revenue. The outstanding question is how to find harmony between the operational model and the business model required to fund it. On the surface, it doesn't seem that the revenue generated by standard online advertising mechanisms is sufficient to support continued operations of small independent sites or large regional or national networks of sites.

INTRODUCTION

On April 10th 2012, Starboard Value, a money manager that owns a 5.3% stake in America Online (AOL), sent a letter to AOL's board of directors applauding the sale of over $1B in patents to Microsoft and also warning them of an upcoming proxy fight for the election of directors to the AOL board. On the positive side, the letter applauded the patent sale as a "big first step towards realizing the full value of AOL." Counteracting the applause, however, and serving as justification for the challenge of board composition, was the mention that the "real" problems of poor performing acquisitions and investments were still outstanding.

When addressing poor performing acquisitions, the letter made specific mention of Patch, the local news service AOL bought in 2009. While the initial investment in Patch was small, approximately $7 million, AOL spent hundreds of millions of dollars on the service in the following years. According to estimates presented by Starboard Value, approximately $150M was spent per year on Patch since acquisition. The letter also describes Patch as an "unproven and, thus far, unsuccessful business model that is draining valuable resources from the Company."1 What was it about Patch that made it a centerpiece of Starboard's opposition to AOL's acquisitions strategy? Was Starboard justified in challenging AOL's leadership on its unwavering support of Patch?

The hyperlocal news market has served communities throughout the United States for many years. Most operations were weekly newspapers that evolved to blogs and news websites with the onset and growth of digital media. These operations existed mostly at a small scale on minimal budgets supported by local advertising dollars. Patch, along with efforts launched by The New York Times and Washington Post, has attempted to develop local operations with national support networks, capitalizing on economies of scale and revenue growth buoyed by the addition of national advertising dollars. Profitability has proved difficult to attain leading to a key question yet to be answered: Can a hyperlocal news operation find success operating on a national scale?

The Patch Story Begins for AOL

Patch was the brainchild of AOL's Chairman and Chief Executive Officer, Timothy M. Armstrong. The idea came to him on a Saturday morning in 2007. He was driving through his hometown of Riverside, Connecticut when he spotted a group of signs in the ground that advertised events around town. When he got home, he checked online and could not find a calendar of events for Riverside. Armstrong's first response was to call the editor of the local paper and suggest he build an events calendar for the paper's website. The paper's editor promptly replied, "We don't really need any help. We have a fine business".2 Armstrong's disagreement with this position prompted him to start a company around local news and event listings. He called it Patch.

When Armstrong accepted the position of chief executive of AOL in 2009, he did so with the caveat that Time Warner acquire Patch and make it a centerpiece of AOL's portfolio. Time Warner agreed and purchased Patch in the summer of 2009 for $7M. Armstrong did not participate in the negotiations to purchase Patch and asked that his start-up investment in Patch be returned to him in the form of AOL stock. The acquisition was in line with AOL's strategy at the time: reinvent itself as a content provider beyond its legacy dial-up Internet business. AOL split from Time Warner in late 2009, promptly announcing that it would be investing $50 million in 2010 into the startup of the Patch.com network. After AOL split from Time Warner to become a public company, Armstrong handpicked the board of directors, so convincing them to approve investing heavily in Patch was not a difficult task. AOL spent another $160 million on Patch in 2011. By most estimates, the board allowed AOL to invest a total of $500 million in Patch between 2010 and 2013.2 At its peak in the summer of 2013, Patch consisted of 860 sites employing more than 1,400 people3 and published an original piece of Patch content every 12 seconds.4 Exhibit 1 shows the national distribution of the number of Patch sites by state at its peak.

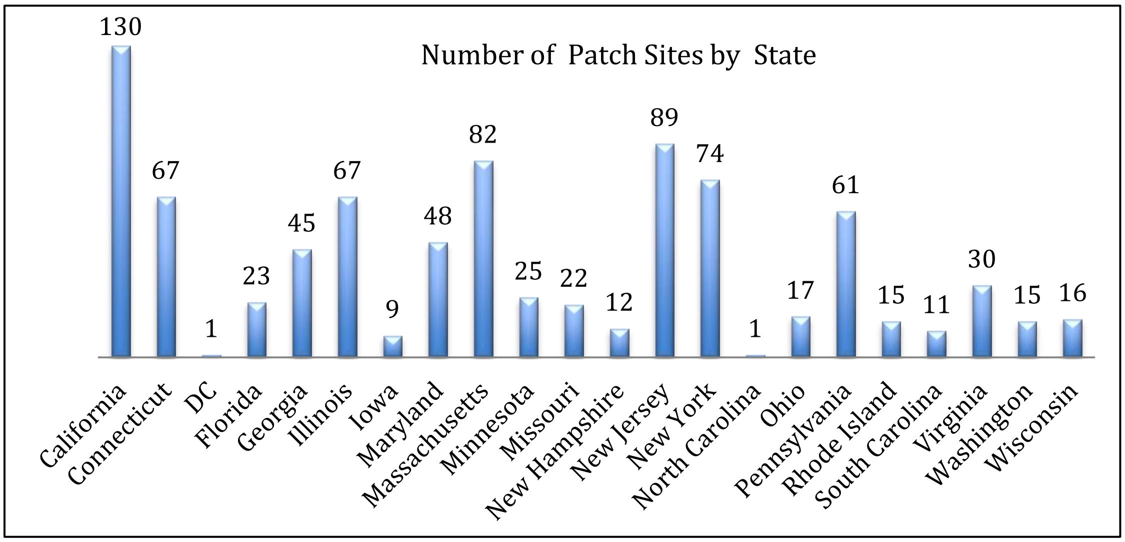

Exhibit 1 National Distribution of Patch Sites in the United States[5]

What exactly is patch?

Patch was AOL's foray into local news. Part of AOL's Brand Group with AOL.com, The Huffington Post, and TechCrunch, it was a network of local websites operated by AOL offering local news and information in communities of 15,000 to 70,000 people, directly competing with local newspapers and other media. AOL's initial assessment was that these communities in aggregate could have local online advertising economies worth a total of $20B. The staffing model for each site covering a specific community is a single advertisement sales person with one paid journalist and an average of 10-15 paid freelance reporters. This journalistic team reported on local topics of interest like city government, police and fire department actions, school news, and local sports. The sites also featured user-generated content similar to letters to the editors in traditional newspapers. In addition, the sites featured local interest information like listings of weekend activities and contact information for local officials.

Patch was originally going to be run by Ariana Huffington. Ms. Huffington was president and CEO of The Huffington Post Media Group, established in 2011 by AOL after the acquisition of The Huffington Post for $315M.6 The Huffington Post Media Group, known internally as the Brand Group, included The Huffington Post in addition to legacy AOL properties such as AOL Music, Engadget, Stylist, MovieFone, and Patch. See exhibit 2 for a complete listing of web properties included in The Huffington Post Media Group.7

Exhibit 2 The Huffington Post Media Group in 2011[7]

Shortly after taking leadership, Ms. Huffington integrated Patch with the Huffington Post and began developing an organization experienced in hyperlocal content. She recruited Liena Zagare, the founder of a successful network of hyperlocal blogs in Brooklyn, NY, to improve Patch's ties to its communities, and Patch implemented a blogging platform modeled on the Huffington Post's. The platform attracted more than 20,000 bloggers within a year, pleasing Patch's editors. The Patch sites also enjoyed huge traffic boosts when stories were linked on the Huffington Post site.

Unfortunately, what looked to be a promising marriage between Patch and The Huffington Post began to show signs of strain within the first few months. Patch journalists complained that they were frequently tasked with helping with reporting for national stories in the Huffington Post, draining resources from their neighborhood reporting efforts. Local editors were also promised that they could hire associate editors to help with their workload, even though salaries for these roles weren't part of the website's expense structure.

Within six months of AOL's merger with the Huffington Post, Ms. Huffington's involvement in Patch had waned. In May of 2012, Ms. Huffington announced that she was scaling back her portfolio to focus on The Huffington Post. Ms. Huffington's withdrawal from overseeing Patch highlights the internal division over the management of the operation that plagued Patch from day 1.8 As a result, Patch struggled with leadership throughout its existence.

Patch did not have local offices. Paid journalists worked using laptops and wireless connections from home or in the community. The organizational hierarchy consisted of local editors and advertising sales managers at the ground level, with four regional editors overseeing the entire country. In theory, this would give AOL a distinct competitive advantage in the ability to provide national distribution for the highest quality local stories.9

The value readers received from Patch.com sites was in the up to date information on local events, personal interest stories, crime and police blotters, government news, sporting events, yard sales and other topics. The scope and effectiveness was defined by geographic area and the timeliness of the information. The sites could be used to help plan weekend activities for children or to stay informed on the status of the new stoplight in the neighborhood. The value advertisers received from Patch is the ability to target the consumers most likely to patronize their businesses. Advertisers have access to an online, automated ad creation system that includes the ability to create discounts and coupons. 9 This provides the ability to ensure that their advertisements and sales promotions remain up to date at all times.

The patch business model

The known business model for Patch was dependent on the sales of display advertising. There is much speculation on additional revenue streams, but none have been substantiated. No financial figures have been published, but some estimating has been done as to the profitability of the Patch operation per site. According to an LA Times article detailing the Patch operation in Manhattan Beach, CA,[10] Patch pays somewhere between $38k and $45k per year to the editor. Patch also pays freelancers $50 per article. Freelancers are used on average 30 times per month. With the addition of administrative expenses like payroll taxes, which we will assume to be $700/month (15% of the editor's salary), this sums up the site's liabilities. Assuming the editor makes exactly $38k per year, the total per month expenses equal $5,366.67. [10]

The incremental revenue from each view of an online display ad remains remarkably small. Patch.com asks for $15 for every 1,000 viewers it brings to online ads that businesses create themselves. Each page has 6 slots for advertisements on each page. Assuming 60,000 page views per month and 100% fill of available advertisement slots, this would generate $5400 per month in revenue. Based on this high-level analysis, the average Patch site stands to profit only $33 per month. Exhibit 3 summarizes this analysis. Relevant assumptions include substantial viewership and a low-end expense structure. [10]

Patch Site Financial Analysis

Revenue	
Ad Price per 1000 viewers	$15.00
Page Views per Month	60000
Ad slots per Page	6
Total Revenue (per Month)	$5,400.00

Expenses	
Average Editor Salary (per month)	$3,166.67
Freelancer cost (per article)	$50.00
Average # of Freelancer articles (per month)	$30.00
Estimated Admin Expenses (per month)	$700.00
Total Expenses (per month)	$5,366.67

Total profit per month	**$33.33**

Exhibit 3 Patch Site Financial Analysis. [10]

In 2011, Patch saw its number of employees, number of sites, and revenues peak. During this time, the number of employees increased to 1410 and the number of sites increased to 860.[11] This scale had a negative impact on AOL financially, as its personnel costs also peaked, increasing 31% over the previous year and totaling an increase of $156.4 million. Exhibit 4 shows AOL's cost of revenues in 2010, 2011, and 2012 from AOL's 2011 annual report, highlighting the increase in personnel costs.[11]

	Years Ended December 31, 2012	2011	% Change from 2011 to 2012	2010	% Change from 2010 to 2011
Costs of revenues:					
Personnel costs	$ 648.8	$ 646.2	0%	$ 494.6	31%
Facilities costs	53.5	57.3	(7)%	41.5	38%
TAC	356.9	305.5	17%	297.7	3%
Network-related costs	160.6	186.6	(14)%	206.7	(10)%
Non-network depreciation and amortization	63.0	70.5	(11)%	83.6	(16)%
Other costs of revenues	304.4	318.3	(4)%	296.5	7%
Total costs of revenues	$ 1,587.2	$ 1,584.4	0%	$ 1,420.6	12%

Exhibit 4 AOL costs of revenue in 2010, 2011, and 2012[11]

Also in 2011, Patch was on track to bring in between $40 million and $50 million in revenue while achieving profitability with 100 sites.[10] That translates to an average of $50,000 for each of its 860 sites. The same year, the average Patch site cost between $150,000 and $200,000 a year to operate, or a total of $160 million.[8] Even in its best year, Patch fell far short of profitability by more than $100 million.

In 2012, Patch's financial impact on AOL was similar to 2011. Despite a considerable continued success in advertising sales revenue, profits remained stagnant due to the high personnel costs partly attributable to Patch staffing. Exhibit 5 shows the AOL Brand Group revenues in 2010, 2011, and 2012[12]

	2012	2011	% Change from 2011 to 2012	2010	% Change from 2010 to 2011
Revenue:					
Brand Group	$ 730.2	$ 732.6	0%	$ 727.1	1%
Membership Group	914.6	1,035.5	-12%	1,278.1	-19%
AOL Networks	644.1	491.2	31%	427.2	15%
Corporate and Other	1.5	7.0	-79%	43.2	-84%
Intersegment eliminations	(98.7)	(64.2)	-54%	(58.9)	-9%
Total Revenue:	$ 2,191.7	$ 2,202.1	0%	$ 2,416.7	-9%

Exhibit 5 AOL Revenue Summary from 2010, 2011, and 2012[12]

The 2013 financial results exhibited the similar behavior as the prior years. In the 3rd quarter of 2013, AOL reported total revenue of $561 Million, an increase of 6% over the previous year. Unfortunately the positive revenue growth figures were clouded by costs associated with operating Patch. Restructuring costs of $19 Million and intangible asset impairments of $25 Million directly attributed to Patch resulted in a decrease in net income of 90%.[13]

The major issue with Patch's business model was that display advertising failed to live up to AOL expectations at the local level. According to Starboard Value[14], in 2011 AOL executives hoped to sell 80 percent of their Patch ads to restaurants, spas, and other community businesses. Instead, local merchants bought a mere 18 percent. Approximately 70 percent of those who did give Patch a try failed to renew their contracts.[14] Making the situation worse, Patch sites included a box of text ads served by Google. Starboard estimates that local businesses can buy a Google text ad on a Patch site for just 5 percent of what Patch's salespeople ask for a display ad. According to Alan Mutter, a media consultant and journalism instructor at the University of California at Berkeley,[14] "Patch has prov ,en the inherent flaw of the hyperlocal business model—namely that it requires an expensive sales force to convince small businesses with meager marketing budgets to buy ads on sites with limited consumer appeal."

The Economics of Hyperlocal News

The rapid rise of portable web-access devices like smartphones and tablets and the decline of traditional newspapers have re-energized the digital world to provide news sites to local communities. The financial driver behind this focus is the potential untapped profitability found in local advertising estimated at more that $20 billion annually aggregate in the US. Despite the tremendous financial potential, bids from big players like AOL, MSNBC (Everyblock), and Allbritton Communications (TBD.com) have consistently struggled with their business models. The consensus amongst analysts and pundits of hyperlocal news is that there is a place for this information in the digital news world. Even Google is in on the hyperlocal trend and is in the process of trying out a local news card on its Google Now service. The product would provide a service similar to having the local daily newspaper delivered to one's smartphone.[8] The outstanding question is how to find harmony between the operational model and the business model required to fund it. It doesn't seem that the revenue generated by standard online advertising mechanisms is sufficient to support continued operations of small independent sites or, for that matter, large regional or national networks of sites. [15]

The "Traditional" Hyperlocal Business Model

The traditional hyperlocal business model is based on the following assumption:

"Scale the consumer base with amazing hyperlocal content and then local businesses will be knocking down the door to advertise to users." [16]

The inherent flaws in this assumption apply to all hyperlocal endeavors (web sites, applications, etc.). The most obvious and impactful flaw is that the success of the endeavor is based on it having the content or functionality to engage users. In the case of hyperlocal sites, building content is costly and time-consuming. However, without useful content, visitors will not frequent the site. The domino effect of this challenge is that without visitors, local business owners will not be interested in promoting content or advertising on the site.

Another common challenge faced by site operators is that the sites don't sell anything to consumers. There is no direct conversion from page views to revenue. The sole revenue source, selling ads to businesses, is one step removed from the content goal of attracting viewers to the site. Local sites that have successfully generated a revenue stream from the viewer through the selling of local tours, tickets to local events, or other sources of ecommerce revenue, have fared better than those who have depended strictly on advertising sales as the lone revenue source.

From a content perspective, hyperlocal sites simply aren't essential reading. Matt Booth, head of interactive local media at researcher BIA/Kelsey,[14] says that people tend to use a search engine 109 times a month on average. They visit local websites one to two times a month. Advertising dollars follow the traffic. "The question for these hyperlocal sites is how do you get frequency way up," says Booth. "People only really need or desire these sites a couple times a month. The rest of their information requests are satisfied elsewhere." [14]

According to research by the Pew Research Center on how people seek information about their local communities,[17] the Internet is the most trafficked source of local information for those under the age of 40. For those in this demographic, the Internet is used to gather information on weather, politics, crime, arts/cultural events, local businesses, schools, community events, restaurants, traffic, taxes, housing, local government, jobs, social services, and zoning/development. Contradicting this optimism, a survey by the Pew Research Center for the People & the Press found that only 20 percent of American adults reported using digital tools to communicate with their neighbors or stay informed about community issues at least once in the past year. Only one in 10 reported reading a community blog at least once in the past year. Considering both pieces of information, the potential audience seeking neighborhood news in a given community would be roughly 20 percent of the population, including both frequent and infrequent users.

The Competitive Environment

The hyperlocal news market is not short on competition. For every major urban population center, there are one or more established local weekly or monthly newspapers that are firmly engrained into the neighborhood culture. The curators of these publications are long-term members of the community and have personal relationships with many of the readers and business owners. Taking market share from these local publications is virtually impossible due to the personal connections. Also, in any given community there may be multiple hyperlocal bloggers, and aggregators such as Topix.com and Outside.in provide stiff competition. Not to mention other sources of local information such as online directories, event calendars and government sites, also generate competition.

A team of business analysts and journalists at the City University of New York Graduate School of Journalism's New Business Models for News Project recently completed a research study looking into who fills the void left in a metro area when the local newspaper ceases operations. Part of the solution, according to the study, is hyperlocal bloggers. They found that some hyperlocal bloggers in markets of around 50,000 people were bringing in more than $200,000 annually in revenue. They projected that after three years, a blogger could attain editorial and advertising sales help and net $148,000 out of a potential $332,000 in revenue.[18]

The research also indicated that there is a role for a profitable news organization to cover city-wide stories and work collaboratively with those in the community, just on a much smaller scale and without the cost of printing and distribution when compared to traditional newspapers. According to Warren Webster, president of Patch, "We studied the business of daily newspapers of the towns we were going into, and found that if we stripped out costs like paper or broadcast towers, we can operate at 4.1% of cost of an online newspaper. At that scale, local online ads can be very profitable." [19]

Success vs. Failure in Hyperlocal News

These optimistic viewpoints have not reflected reality to date except for a few isolated success stories. There are a limited number of sites driven by passionate, hard-working and media savvy founders that have not only survived the hyperlocal market, but have won accolades and journalism awards. However, even among the best of the best, there's not much publicly available data to speak to their business success. A recent Seattlepi.com article covering Seattle's local blog landscape attributed a million monthly page views to the Next Door Media network of neighborhood sites. Next Door Media is a network of local neighborhood sites and a regional portal that features content developed by experienced journalists who focus on news coverage. Unlike Patch, which expanded rapidly prior to proving a successful model, Next Door spent more than a year testing and refining its idea of neighborhood-focused social networks.[20] In two years, Next Door has successfully expanded to being available in nearly 18,000 neighborhoods in 50 states, with users numbering in the single digit millions. While the growth is impressive, it has yet to be seen whether or not the users translate into long-term profits.

Widely recognized as one of the best hyperlocal initiatives in the country, Baristanet.com, which covers seven New Jersey communities, says it is profitable and claims to receive 9,000 visits per day. Specific revenue numbers for the site are not available, but the site is reported to be profitable month over month with the revenue coming mostly from the sales of advertising. Baristanet is another example of cautious scaling. When the site was started in 2004, the founder, Debbie Galant, ran the site entirely by herself. She did most of the writing, training, and recruiting, and also advised advertising sales. She performed as the technical liaison involved with site redesign and navigation. When asked in an interview what was the one bit of advice she would pass to those with hyperlocal site aspirations Galant responded, "pace yourself". [21]

Another profitable hyperlocal franchise is the ARLNow site based in Northern Virginia. ARLNow is a local news website focused on the Arlington, VA community of 220,000 people. With its granular brand of journalism, the site has reached 200,000 unique visitors monthly and advertising revenue increased more than 225% year over year in 2013 versus 2012. The quote below from Scott Brodbeck, founder and editor of ARLNow, summarizes his learning on the key to success in hyperlocal news:[22]

> "The biggest secret to success is having a news product that everybody reads and talks about. The second secret to success is having a reasonably-priced, effective and simple-to-understand ad product."

On a larger scale, Examiner.com, owned and bankrolled by billionaire Philip Anschutz, attracts traffic on a similar scale as Patch, but manages the content creation business in a vastly different manner. Examiner.com carries a full-time editorial staff of less than 30 people who organize articles, photos and other media submitted by more than 85,000 freelance "examiners." These examiners write about topics ranging from restaurants to running. This approach keeps the fixed overhead low. Patch, by contrast, employed nearly 1,000 full-time journalists. [8]

What's Next in Hyperlocal News

Despite the lack of widespread notable successes, the future of the hyperlocal news market still looks promising to some. One development that seeks to change the success dynamic is franchising. Ventures like Main Street Connect, now the Daily Voice, founded by a long-time community newspaper publisher, are exploring applying the franchise model to expansion in the hyperlocal market.[23] This model is based on identifying an established businessperson in the community, giving them the training, support, and infrastructure, and helping them produce a community news site that is profitable. They will be monitored and mentored, looking at sales, traffic, and the quality of headlines, visuals, and reporting. Under the current model, franchisees will need to invest about $20,000 for six URLs, and should expect cash flow of $250,000 to $500,000 within 18 months.[24]

Also, contributing positively to the success dynamic is the preference for hyperlocal sites present amongst the public relations community. Public relations professionals see hyperlocal new sites as opportunities to place targeted stories with more control over the content. This partnership to distribute helpful information contributes to the freshness and quality of content.[25]

Another common position is that the local journalism ecosystem will evolve and be dominated by local entrepreneurs who band together to share stories and pictures and to sell ads. Companies such as GrowthSpur hope to help local journalists with the business and advertising ends of the operation by offering tools, training, networks, and other resources to hyperlocal and local media websites.[3] Trade groups such as LION (Local Independent Online News) publishers have emerged with the focus of monetizing local news and providing business services such as liability and health insurance, sales training, and revenue advisement. LION prides itself on helping small, independent sites compete with the larger corporate networks entering the local news market.[26]

The Best of Patch

By October of 2012, Patch had grown to 906 sites. It witnessed its highest traffic ever during the week leading up to and immediately after Hurricane Sandy in early November 2012. The local areas served by 329 of the Patch sites were affected by the hurricane. The Patch journalists working those sites wrote more than 14,000 articles on Hurricane Sandy.[27] Their stories contained information their areas needed, information such as when the hurricane would hit, where to get supplies, what shelters were open, and when the power was expected to come back on. Patch broke traffic records each day of the week Sandy hit. The 329 Patch sites saw traffic four times higher than normal. Even Patch's mobile site saw a 700% increase in traffic.[27] That same week, local leaders of the towns impacted by Sandy reached out to Patch for assistance coordinating the deliveries of donated supplies. People around the country were sending supplies, but the wrong supplies were going to the wrong areas. Since Patch was instrumental in delivering information during the crises, could Patch assist with coordinating the aid effort?

Patch leadership saw this as an opportunity to reinforce the usefulness of Patch in crisis situations. They decided that instead of passing messages and coordinating the delivery of supplies, they would rally their resources and get the job done themselves. Armstrong himself called Wal-Mart and Home Depot, and with the help of 500 AOL employees, loaded two 18-wheel trucks with supplies. The trucks, which had huge AOL logos on their sides (see exhibit 6 below), delivered much needed supplies to communities on the New Jersey shoreline and in Long Island. Patch finally was succeeding in establishing a place for itself in the local communities it served.

Exhibit 6 Patch AOL Hurricane Sandy Relief Aid Truck[27]

This momentum coincided with the launch of a new, redesigned Patch platform known as Patch 2.0. Patch 2.0 modified the platform from relying on staff and freelance journalists for content to more of a platform for user generated content, similar to YouTube and Tumblr. The idea was to give Patch more content and traffic with lower costs. The redesign was focused on giving Patch more of a human connection and even featured a mascot proposed by Armstrong, an elf in a rain slicker (shown in exhibit 7 below).

Exhibit 7: Proposed Patch Mascot[28]

As time passed, the success of the fall of 2012 proved to be an aberration. Even as traffic hit all time high levels, revenues struggle to benefit from the increased attention to the site. Patch wasn't able to monetize the traffic from Hurricane Sandy. In addition, the modifications of Patch 2.0, designed to reduce costs, failed to make a considerable impact. Patch had indeed become more popular, but failed to turn the increased popularity into revenue. The sites had a new look and feel, but costs remained high.

The Patch Story Ends for AOL

In December of 2011, while riding home from a posh AOL executive gathering, Armstrong received a forwarded message from Jeffrey Smith, head of Starboard Value. The letter announced that Starboard had acquired 4.5% of AOL and made a point-by-point case against Armstrong's management of the company. The biggest criticism was against his massive investment in Patch. The letter called for AOL's board to take immediate action to address the concerns highlighted in the letter and ended with a request to meet. This open letter was a public shaming of AOL's management that initiated a half-year conflict for control of AOL. [2]

After 4 months of meetings between the AOL and Starboard Value executive teams, there was still a rift between the two teams on the strategy of AOL. Smith was a seasoned investor who routinely met with management teams. It was clear to him that Armstrong and his team were not clear on how their core business fit together with the business they are trying to cultivate. The AOL team was hoping that Smith would share his ideas for AOL's long-term strategy so that the two sides could figure out a way to incorporate it into the existing strategy. The real goal for Armstrong was to avoid the proxy conflict without having to sacrifice Armstrong's long-term vision for Patch. At the end of a meeting in late February, Smith demanded a seat on the board. The threat was clear, "put me on the board so I can hold you accountable for major investments like Patch, or let's have the shareholders decide whom they want in charge." The request was denied.[2]

In August of 2013, after 2 years without profitability, Patch announced mass layoffs at all levels and a corresponding reduction in the number of sites from 900 to 600. It was believed that these 600 sites represented 90% of the Patch traffic.[2] There was also a very public meltdown by Armstrong that resulted in the public firing of Patch Creative Director Abel Lenz. This event was highly reported on multiple digital media outlets, exhibiting the strength of the emotional connection Armstrong had with Patch.

At this point, after continually failing to achieve profitability year after year, what strategic direction should AOL pursue concerning Patch? Is eventual profitability a realistic goal for a large-scale Internet operation in hyperlocal news or should AOL cut its losses and concede failure?

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WHITE COUNTY, POWELL VALLEY, AND THE CASE OF THE MISGUIDED CHIEF EXECUTIVE OFFICER

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Kelly F Gamble, Valdosta State University

CASE DESCRIPTION

The primary subject matter of this case is ethical failures resulting in fraudulent activities in two health care organizations. The case is appropriate for a senior or graduate level government and nonprofit accounting course. It could also be used in the nonprofit portion of the advanced accounting class, or as one of several cases in an advanced auditing class. The case is designed to be taught in one class hour and is expected to require approximately three hours of outside preparation by students. The events described in this case are based on a real world situation as reported in various newspaper sources.

CASE SYNOPSIS

The case concerns a charismatic and energetic chief executive officer who was employed at health care facilities in Indiana and Wyoming for approximately six years and six months respectively. With the aid of a childhood friend and a related entity, Plake and Associates, he created fraudulent billing schemes in which the hospitals were billed for approximately $1.7million. The fees were paid for the purpose of recruiting physicians and other staff. However, the two men shared the fees on a 75%/25% basis without performing any services. The case demonstrates the challenges faced by community-based health care systems when authority is delegated to the chief executive officer, and the organization's corporate governance structure (i.e., board of directors) is overly reliant on the integrity of that individual.

INTRODUCTION

"He is in custody? Wow! Wow! Wahoo!" This was the initial reaction of the Powell Valley Healthcare (PVHC) treasurer upon hearing the news of the arrest of Paul Cardwell, the hospital's former chief executive officer (CEO). This reaction was typical of most of the employees on PVHC's campus who were elated by the CEO's capture and arrest. Months later, they found themselves sitting in an overflowing courtroom looking at their nemesis. Standing before a judge and flanked by his lawyers was their former CEO, once a man of educational, athletic, professional, and community service success, but now a convict awaiting his sentence. The man who had been known for wearing tailored business suits was now wearing an orange prison jumpsuit and shackles. They listened to his insincere apology and request for forgiveness, but they were not ready to accept his apology after the financial challenges he had created for the hospital.

What could he have done to result in such contempt? A look back at the CEO's most recent corporate experience might add some clarity.

THE HEALTH CARE SYSTEMS

White County Memorial Hospital (WCMH)

WCMH is a critical access hospital located in White County, Indiana. It provides a comprehensive range of services including general medical/surgical services and a 24-hour emergency department. The CEO of WCMH resigned due to failing health and the board of directors (board) engaged an executive search firm to identify potential CEO candidates. After a lengthy nationwide recruiting process, the search firm identified Cardwell, a state resident, as the leading candidate for the position.

Cardwell had impressive credentials, and the hospital's search committee was impressed by his warmth and charm. The committee recommended Cardwell as the top candidate to the board which quickly extended an offer to him. Although Cardwell was from a major metropolitan area, he accepted the offer and rapidly adapted to life in Monticello, Indiana, a town with a population of approximately 5,300. The easy commute and friendly community appealed strongly to Cardwell, as did the high level of autonomy provided by WCMH.

Cardwell had a childhood friend, Michael Plake, with whom he had bonded from the moment they'd met as children. While Cardwell was outgoing and successful, Plake was shy and aloof. The men continued their close friendship even though their careers had taken different trajectories. Cardwell had achieved great success as he continually climbed the corporate ladder, while Plake was self-employed and had moved from one failed venture to another. His latest venture, Plake and Associates, would prove to be the ultimate undoing for both men.

Plake and Associates was established as a recruiting firm which specialized in the placement of physicians in rural, community-based, health care facilities. This plan seemed viable since these institutions were especially challenged in finding physicians willing to relocate to their communities. Plake contacted Cardwell to offer congratulations on his new position as the CEO of WCMH. The two friends hadn't spoken in several months, so they used the opportunity to catch up on each other's lives. Plake shared the financial struggles he was experiencing as well as his optimism for his new venture, Plake and Associates. Cardwell observed that the two men might be able to conduct business in the future since recruiting physicians was one of his primary initiatives as the new CEO. The men agreed to continue the discussion within the next week.

As agreed, Plake called Cardwell the following week with a proposal. He suggested that WCMH retain his firm to help the new CEO recruit physicians. Cardwell was initially skeptical of the idea that Plake and Associates would be able to meet the hospital's needs. However, Plake was persuasive and offered an incentive that was too difficult for Cardwell to resist. WCMH would pay Plake and Associates a recruitment fee, and Plake would provide his friend with a percentage of that fee. The only decision to be made was the allocation of the funds. The men discussed various scenarios and verbally agreed that Plake and Associates would pay Cardwell 75% of the funds received from WCMH, with Plake keeping the remaining 25%.

Although the distribution was unequal, both men felt like winners. Plake would finally receive a consistent income stream, thus relieving some of his financial anxiety.Cardwell believed he would be helping an old friend gain sound financial footing while, at the same time, receiving additional income for his own use. Cardwell was the CEO of WCMH from 2003-2009. Within that timeframe, the men collected approximately $800,000 from their financial arrangement.

In 2009, Cardwell notified the board that he was retiring at the end of the year. He cited several reasons for his departure, including: job tenure, his achievement of goals – including the construction of a new hospital, and his need for new challenges. The board thanked him for his service and expressed appreciation for the advanced notice he had provided to them so they would have plenty of time to search for a replacement. All parties agreed that Cardwell had done an excellent job and that he was leaving the hospital in a solid financial position. The board members of WCHM also felt that it would be good to have new leadership as they completed construction and moved into the new facility.

Powell Valley Healthcare (PVHC)

PVHC is located in Powell, Wyoming, a city with a population of approximately 6,400. PVHC is a community-based organization that provides hospital, emergency, and outpatient services. PVHC also has a clinic, provides home care and hospice services, maintains a 100-bed care center, and a 24-unit assisted living facility. In June 2010, its trusted leader of 13 years announced his resignation and the board was suddenly in need of a new CEO. It hired a search firm and Cardwell was identified as a top candidate.

Cardwell's charisma and magnetic personality, as well as his ability to relate to board members, were contributing factors in his selection. All candidates, including Cardwell, passed background, court, and credit checks, as well as Internet and newspaper records searches. Each member of PVHC's leadership team contacted their counterpart at WCHM, and received glowing reports about Cardwell. He was extended, and accepted, an employment offer from Brim Healthcare (now HealthTech Management Company), which provided management services to PVHC. Cardwell was scheduled to start his employment in October 2010, but after extending the start date he announced that he would not be joining the organization after all.

A second search was launched and, once again, Cardwell was among the top candidates forwarded to HealthTech. During the vetting process, he shared the circumstances which led to his declining their previous job offer. He told the board members that he and his wife had gone to Thailand to complete the adoption of a baby girl. However, the Thai authorities took custody of the baby because the mother had not signed a consent form. The adoption had taken precedence over everything else while he'd searched for the mother to obtain her approval. The search had taken two months, but the consent form was finally signed, and he and his wife were awarded custody of the child. Now, with all of these events finally behind him, he told the board that he was ready to continue his career. He was excited by the opportunity to work with PVHC and would accept the job if the board was still interested in him. Fortunately, the board still wanted to hire him and Cardwell began working for PVHC in March 2011.

The employees were immediately drawn to Cardwell because of his outgoing and charismatic personality, as well as his high energy level that was simply infectious. He told the board that he would pledge his first year salary to the hospital's foundation to help establish a women's health center. He also promised to recruit a dozen physicians in order to expand services and meet local health care needs. The board members knew how important this was having had success with the initiative under the previous CEO. Cardwell told the board about an Indiana based company Plake & Associates; a firm that had successfully helped him recruit doctors for WCMH. The board accepted the recommendation to recruit physicians through this company.

Once again, Plake called to offer his friend congratulations on his latest position and to express his hope that Cardwell was ready for the new challenges. Since the previous physician recruitment arrangement had been so lucrative, Caldwell suggested that they also institute it at PVHC, especially since he'd received authorization from the board to use Plake's firm. The terms between the men remained unchanged and they earned approximately $850,000 from this arrangement in just seven months.

Figure 1: Summary of the Key Participants

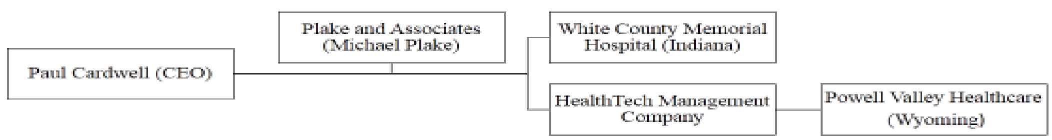

Figure 1 below identifies the main participants in this case and their relationships.

THE UNRAVELING

PVHC's internal auditors were auditing the cash disbursement function as part of the rotational audit process. As the auditors sorted disbursements by vendors, they noted recurring payments made to one particular firm, Plake and Associates, for physician recruitment. Since this was a new firm from the previous audit, the auditors were not familiar with it and flagged it for additional follow-up. There were no invoices to support the payments and the payment descriptions appeared unusual, so they asked the accounts payable supervisor for additional information.

The supervisor referred the auditors to Cardwell who had approved the payments, and he promised to provide the auditors with supporting documents. The documents provided by the CEO suggested that Cardwell and Plake fabricated 'recruiting agreements' and 'invoices' to create the illusion that the contract and invoices had been previously provided to PVHC. The auditors were not satisfied with either the documentation or the explanations and brought the issue to the board's attention.

Faced with potential scrutiny from the board, Cardwell resigned his position at PVHC and then asked to be reinstated. Supported by pleas from several doctors, Cardwell asked the board in September 2011 to allow him to return. After a grueling executive session, the board eventually declined his request and referred the matter to the FBI for further review. The FBI's investigation confirmed the auditors' findings and subsequently discovered that Cardwell and Plake had run a similar scheme at Cardwell's previous employer, WCMH.

Both Plake and Cardwell were ultimately arrested and indicted by a federal grand jury in Wyoming on 15 criminal counts – 12 counts of mail fraud, one count of wire fraud, one count of conspiracy to commit money laundering, and one count of conspiracy to commit mail and wire fraud. The grand jury's indictment alleged that Cardwell and Plake had created a "fraudulent billing scheme" in which Cardwell sent money from PVHC to Plake's company, Plake and Associates, for the purported purpose of recruiting physicians and other staff to the hospital. The indictment alleged Plake performed no recruiting services for PVHC. Instead, he regularly sent approximately 75 percent of the money back to Cardwell while keeping 25 percent for himself.

Cardwell was released on a $50,000 unsecured bond, but he was able to convince the federal judge in Wyoming to allow him to remain free without paying any of his bond, on his promise that he would live with his mother in Indiana. In August 2012, authorities realized that Cardwell had disappeared and he was ultimately placed on the FBI's list of most wanted white collar criminals.

A MATTER OF LIFE AND DEATH

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INTRODUCTION

The news was not good. It was June, 2012. In the roller-coaster ride that had been Tami's life the past few years, this was surely a large speed bump. Tami had just been told that as yet, no kidney donor had been found for her daughter Courtney. Tami knew she had to step up her efforts, and also get help and enlist others in her efforts. Between her work commitment and taking care of Courtney, there was little time left to pursue the search for a donor on her own.

TAMI'S STRUGGLES

At the age of eight, Tami Carroll's daughter Courtney Carroll had been diagnosed with IgA Nephropathy, a complex blood disease that affects the kidneys and can cause renal failure over time. At this time, there was no known cure for the disease. Soon after the diagnosis, Courtney's parents relocated to the Conroe, Texas area, about 40 miles north of Houston, so Courtney could receive treatment at the highly regarded Texas Children's Hospital in Houston. Even though Courtney was in and out of the hospital frequently, she graduated from Conroe High School in 2007. Courtney's precarious health did not keep her from shining in school -- she proved herself to be a gifted musician, playing the saxophone, beginning in intermediate school until she graduated. A talented visual artist, Courtney had won many art show awards all over the state for painting and illustrating. A recently started project – illustrations for a children's book – had been occupying a good amount of Courtney's time lately. Courtney believed in life and in doing things to give back to the community and society.

In 2008, in spite of the excellent ongoing care that she had been receiving, Courtney's kidneys failed. Courtney was fortunate to receive a kidney transplant from her father, without the long wait that is often the case with unrelated donors matched by donation registries. However, within a period of three years, the donated kidney had also been ravaged and rendered dysfunctional by IgA. The only solution for Courtney's survival and continued health was to receive a kidney from a living donor. Tami, though, was not a compatible donor, and that closed one possible avenue for Courtney. Tami Carroll knew she had to work proactively to find a living donor so that Courtney could have a chance to live.

LOOKING FOR A KIDNEY DONOR

The organ donation registries sought donors and matched them with needy patients systematically, and their system was good at matching donors with recipients, but it was also excruciatingly slow. According to statistics from the National Kidney Foundation that Tami had read, more than 594,000 people in the U.S. suffered from end-stage kidney disease; Tami had personally seen evidence of this close to home – in the form of new dialysis facilities opening up everywhere. According to the same statistics, in 2010, nearly a hundred thousand had died due to various causes arising out of kidney failure. In 2012, over 90,000 people were waiting for a kidney transplant, and the availability of donors was less than 5,000. This mismatch between need and availability of kidneys meant that a very small percentage of patients received a kidney, and the wait for a well-matched donor could take years. Tami also had another serious concern that made it necessary to expedite the search: Courtney would be covered under her father's health insurance until she was 26, and then she would be without the insurance necessary to pay for the transplant and post-transplant recovery and care, which could take up to a year. Since the slowness of the registry system was a problem and it could make the difference between life and death, it could not be relied on entirely.

However, if an individual were to attempt finding a donor on her own, how would she go about it? What would be the best approach for an ongoing search? It appeared to be a daunting task. Tami knew she needed help, and the more people she could enlist in her cause, the better her chances of finding a compatible living donor would be.

This was when Dr. J.W.'s offer to her came back to Tami's mind. A business professor at a nearby university and a client of Tami's massage therapy practice, Dr. J.W. had mentioned more than once about using social media to spread the word about Courtney and her need for a kidney donor. Dr. J.W. had told her about the huge numbers of people who were on Facebook, Twitter and some other social media that Tami hadn't even heard of and couldn't remember the names of. The possibility of Courtney's case being promoted by her friends and relatives and then spreading through the world of social media through their network contacts and in turn those people's contacts was fascinating. To Tami's mind, it appeared to offer the multiplication of her efforts, many times over. Why, just recently, Tami had heard on the evening news about how Facebook had nearly a billion registered users the world over. Now even if a small percentage of Facebook users in the U.S. could be exposed to Courtney's situation and need, someone might know someone who knew someone who could be a possible donor. In fact, Tami had also even come across a study done by Loyola Medical Center, which showed a small degree of success for efforts to seek kidney donors through Facebook. She had heard of a family in New York, dubbed "The Flood Sisters," who had successfully secured a kidney donor for their father using Craig's List.

Tami also thought of the publicity Courtney might get if she vigorously used social media in the quest of a donor. The local news sometimes carried stories about people who were using social media in unusual ways to promote themselves and their causes – sometimes in crazy ways and for what appeared to be frivolous causes. Tami had also heard of people using Craig's List and eBay for advertising their need and getting solicitations, but that became news only for the notoriety it gained, and Tami knew that was not what she wanted for Courtney. Yet, such free publicity in the normal media would be a nice additional benefit, and could only help.

The next morning, Tami met with Dr. J.W. at a local coffee shop. They had a detailed discussion about what Tami needed to accomplish through the use of social media. One thing was clear: Tami did not have the knowledge or skills to run a social media campaign. With all that she had on her plate, Tami felt she couldn't possibly invest the time to run a social media campaign, much less learn enough to plan and organize it. Dr. J.W. mentioned to her that most effective social media campaigns were run by specialists or social media agencies, but that was also not a feasible option because of the cost involved. Dr. J.W believed a cost-effective solution had to be found, and quickly, but there were only so many hours that she herself could spend helping Tami.

"I can do a class project next semester," said Dr. J.W. "I'll be teaching a class on social media and communications next semester, and the class can develop several campaigns for you."

"It'll take a few months, but we can get the perspective of young people and harness their day-to-day familiarity with social media. This will add a realistic dimension to any plans they come up with," said Dr. J.W.

"Thank you," said Tami, with her hopes raised a bit, and more confidence that she may soon be on the way to the beginning of a social media campaign on Courtney's behalf.

CREATIVE PROMOTIONS NIGERIA, LTD

D.K. (Skip) Smit, Baze University

CASE OVERVIEW

This case invites students to play the role of Prof. Jonas Davidson, Dean of the Faculty of Business Administration & Social Sciences (FBASS) at Baze University and longtime Visiting Professor of Marketing at Lagos Business School (LBS) in Lagos, Nigeria. At the end of an LBS seminar he taught recently, Mr. Chris Adeniyi, one of the executives attending the seminar and the Director of Marketing for Creative Promotions Nigeria, Ltd., asked Prof. Davidson's advice on how to increase the probability of successfully soliciting the business of "bottom of the pyramid" customers from the large corporate bodies which Creative Promotions has targeted; companies interested in "bottom of the pyramid" business opportunities include banks, Fast Moving Consumer Goods (FMCG)companies, pharmaceutical companies, and so on. The 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 one-hour and a half class session and is likely to require at least a couple hours of preparation by students.

CASE SYNOPSIS

Prof. Jonas Davidson, Dean of the Faculty of Business Administration & Social Sciences (FBASS) at Baze University and longtime Visiting Professor of Marketing at Lagos Business School (LBS) has been asked by Mr. Chris Adeniyi, one of the executives attending the seminar and the Director of Marketing for Creative Promotions Nigeria, Ltd., to provide advice on how to increase the probability of successfully soliciting the business of "bottom of the pyramid" customers from companies interested in pursuing such opportunities, including banks, Fast Moving Consumer Goods (FMCG)companies, pharmaceutical companies, and so on. The data and information in the case include:

1) *For Nigeria: Information on the Nigerian environment plus selected statistics.*
2) *For Creative Promotions Nigeria, Ltd.: Background information on the company, marketing strategy being used by the company, and problems and opportunities the company has encountered so far.*
3) *For customers in the "bottom of the pyramid" socioeconomic group: Information on their attitudes and behaviors regarding banks and banking (that is, one industry which has an interest in pursuing business opportunities with members of this socioeconomic class.*

THE SITUATION

At the end of the Lagos Business School (LBS) seminar facilitated by Prof. Jonas Davidson, Mr. Chris Adeniyi, Director of Marketing for Creative Promotions Nigeria, Ltd., requested that Prof. Davidson chat with him a bit about the problems and opportunities Creative Promotions Nigeria Ltd. (hence, CREATIVE PROMOTIONS) is facing. Prof. Davidson had agreed to chat with Mr. Adeniyi for 15 minutes; during that 15 minute period, Mr. Adeniyi demonstrated the product/service which CREATIVE PROMOTIONS is selling and indicated some of the problems which CREATIVE PROMOTIONS has encountered, as it solicits "bottom of the pyramid customer-related" opportunities from banks, Fast Moving Consumer Goods (FMCG) companies, and/or pharmaceutical companies. Having identified a market which CREATIVE PROMOTIONS believes banks, FMCG companies, and pharmaceutical companies should find interesting (that is, the 69% of all Nigerians classified by the National Bureau of Statistics as "poor" i.e. situated at the "bottom of the pyramid"), Mr. Adeniyi has now asked Prof. Davidson for suggestions on how to maximize the probability of successfully soliciting "bottom of the pyramid" business opportunities from companies pursuing those opportunities. Prof. Davidson has promised to provide (by tomorrow) at least a few suggestions for Mr. Adeniyi.

ADDITIONAL INFORMATION (1): THE COUNTRY

The Federal Republic of Nigeria is a large (one tenth the landmass of the United States) country in West Africa. Administratively, Nigeria is composed of 36 states plus the Federal Capital Territory (FCT). These states differ in many ways, one of which is that the terrain ranges from beaches and swamps in the south to desert conditions in the north. Levels of education and income tend to be higher in the south than in the north. The dominant religion in the north is Islam while the south is predominantly Christian. Hausa is the dominant ethnic group in the north; in the east, the dominant group is the Igbo, while the west is predominantly Yoruba. A small set of statistics on Nigeria, together with comparative data for the United States, are as indicated below:

	NIGERIA	**USA**
Size (square kilometers):	923,768	9,826,675
Population:	170 million	314 million
Major Ethnic Groups:	Hausa/Fulani 29%	White 80%
	Yoruba 21%	Black 13%
	Igbo 18%	Hispanic 15%
		includes white+black
Religions:	Muslim 50%	Christian 78%
	Christians 40%	Jewish 2%
	All Others 10%	All Others 20%
Median Age:	19.2	36.9
Life Expectancy at Birth:	52 years	78.5 years
Fertility Rate (births per woman):	5.38	2.06
Infant Mortality Rate:	74/1000	6/1000
School Life Expectancy:	nine years	16 year
% Of Population Who Are Literate:	68%	99%
GDP (purchasing power parity, or PPP):	$414 billion	$15.04 trillion
GDP per capita (PPP):	$2600	$48,100
% of Population Below Poverty Line:	70%	15%
Unemployment Rate:	21%	9%
Electricity Consumption:	18 billion KWH	3.741 trillion KWH
% Of Population In Urban Areas:	50%	82%

% of Population Internet users	26%	78%
Kilometers of Roads	193,000	6,506,204
% Of Roads Paved:	15%	67%

Source: CIA World Factbook 2013

ADDITIONAL INFORMATION (2): THE COMPANY

On its webpage, Creative Promotions provides the following information about itself:

> **Creative Promotions** is an innovative, digital media company that specialises in the use of multimedia content to create interactive solutions for ***advertising, marketing, education, training and entertainment***. Creative Promotions are proud to be one of the first in Africa to unleash the power of the DVD to produce interactive training simulations, 3D games, animation and educational content that can be played on any home DVD player. Unknown to many the humble DVD player, which is wide spread across Africa and present even in very poor households, has the power to be used as a simple yet inexpensive minicomputer. This not only makes our solution widely accessible but more importantly affordable for advertising, educating and entertaining. Why pay for one when you can have all three?

ADDITIONAL INFORMATION (3): THE COMPANY'S MARKETING STRATEGY

Regarding the current marketing strategy of Creative Promotions Nigeria, Ltd.:

Target market: As indicated earlier, the target market identified by Creative Promotions includes financial institutions, Fast Moving Consumer Goods (FMCG) companies, pharmaceutical companies, and other corporate bodies interested in pursuing business opportunities with "bottom of the pyramid" customers in Nigeria.

Products: The "products and services" Creative Promotions produces are multimedia presentations on behalf of the companies in its target market, that is, financial institutions, FMCG companies, pharmaceutical companies, and so on. The purpose of the multimedia presentations which Creative Promotions creates and then delivers to members of its target market is to educate, entertain, and promote products and services products and services developed for "bottom of the pyramid" consumers by the companies in Creative Promotions' target market.

Price: The price Creative Promotions charges for the products and services it produces is a function of several factors, including the number of CDs produced for the customer, whether the Intellectual Property (IP) rights granted are local or international, whether promotional items are provided as part of the bundle of services Creative Promotions develops for a client, whether links to websites and/or social media are provided, and whether the technical support Creative Promotions provides is part-time or full-time. For a bundle of services which includes 50,000 CDs, the price Creative Promotions charges a client can range from 27 to 75 million naira (that is, from about $170,000 to nearly 00,000.

Promotion: Regarding media: Creative Promotions promotes its products and services through its internet homepage and through sales presentations by its marketing staff. Regarding the message: As Creative Promotions indicates on its website, the message Creative Promotions is using is that the multimedia content which the company delivers using DVDs gives advertisers the ability to accomplish three objectives (advertise, educate, and entertain) all at one affordable price.

Place: Creative Promotions delivers the multimedia presentations it creates for its customers (that is, financial institutions, FMCG companies, pharmaceutical companies, etc.) on DVD disks. These DVDs can be run on the DVD players owed by millions of Nigerians including many classified as "bottom of the pyramid" customers.

ADDITIONAL INFORMATION (4): ATTITUDES AND BEHAVIORS OF CUSTOMERS AT THE BOTTOM OF THE PYRAMID IN NIGERIA

In the process of organizing himself to pursue business opportunities relating to customers at the "bottom of the pyramid," Mr. Adeniyi has collected a considerable amount of information about consumers in Nigeria in general and especially consumers classified in the "bottom of the pyramid" category. The information he has collected includes:

1) While there are 250 ethnic groups in Nigeria, three groups (Fulani, Yoruba, and Igbo) make up 70% of the population. All groups are present in all parts of Nigeria; however, the Fulani homeland is in Northern Nigeria, the Yoruba homeland is in Southwestern Nigeria, and the Igbo homeland is in Southeastern Nigeria. As noted earlier, levels of income, education and urbanization are higher in the south than in the north; in addition, Northern Nigeria is has a higher percentage of Muslims while Southern Nigeria has a higher percentage of Christians. Despite the differences set forth above, however (that is, differences in religion, ethnicity, education, income, urban vs. rural settings, etc.), research suggests that there may be (irrespective of their characteristics on any of the above dimensions) many similarities between the attitudes and behaviors of Nigerians anywhere in the country who are classified as being members of the "bottom of the pyramid" socioeconomic class.
2) Researchers who have collected bank and/or banking-related data from Nigerians in the "bottom of the pyramid" socioeconomic class tell Mr. Adeniyi that:
    a. The first thing which comes to mind, when customers at the "bottom of the pyramid" think about banks and banking, is that the primary objective for these "bottom of the pyramid" customers is that they are trying to improve their standard of living, either by finding ways to save or by gaining access to a loan (for example, a mortgage).
    b. Because they have very little knowledge of the policies and procedures which banks follow when making loans (the need for a primary source of repayment, the need for collateral and a second source of repayment, the importance to the bank of the character and credibility of the borrower, the service charges and/or fees associated with loans, etc.), there is a lot which "bottom of the pyramid" customers don't know about banks and banking and borrowing. The small amount of information these individuals have learned about banks and banking and borrowing (the interest rates, the fees and service charges, the need for

collateral, and so on) may not have pleased them very much. Borrowing money for the first time to pursue a business opportunity and/or to enhance their quality of life may (at first glance) have looked and sounded painlessly easy and simple; what many "bottom of the pyramid" customers have quickly discovered, however, is that dealing with banks and banking and borrowing is neither painless, easy, nor simple. The bottom line here is that his discussions of the above issues with researchers have persuaded Mr. Adeniyi that the "product" Creative Promotions is producing and promoting (that is, "interactive training simulations, 3D games, animation and educational content that can be played on any home DVD player. . (to achieve the three objectives of) advertising, educating and entertaining" has the potential to be extraordinarily relevant and useful to banks and bankers interested in pursuing business opportunities with "bottom of the pyramid" customers. (please see Note 01 at the bottom of the following page).

c. Regarding the best experience members of the bottom of the pyramid socioeconomic class have had with a bank, the researchers indicate an example would when two things happen:
    i. A bank is able to provide a "bottom of the pyramid" customer with a product or service which really does improve his or her standard of living.
    ii. The fees for its products or services which the bank charges against the very meager resources of the "bottom of the pyramid" customer are very small.

d. Regarding the worst experience members of the bottom of the pyramid socioeconomic class have had with a bank, the researchers indicate an example would when one or more of the following things happens:
    i. A bank is not able to provide a "bottom of the pyramid" customer with a product or service which really does improve his or her standard of living.
    ii. The fees for its products or services which the bank charges against the very meager resources of the "bottom of the pyramid" customer are quite high.
    iii. The "bottom of the pyramid" customer deposits his money in a bank but the bank becomes insolvent and the customer loses his deposit.

e. Regarding pivotal (that is, attitude and/or behavior-changing) experiences with banks, the researchers identify the following two examples:
    i. When a "bottom of the pyramid" customer places his or her money in a fixed deposit and then begins to be paid interest on their deposit.
    ii. When a "bottom of the pyramid" customer needs cash and is able to withdraw (using an ATM) the money he or she needs from money he or she has on deposit with a bank.

f. Regarding an ideal experience for a "bottom of the pyramid" customer with a bank, the researchers indicate that this is when the bank is able (effectively and efficiently, and with minimal fees) to provide products and/or services which help the "bottom of the pyramid" customer improve his or her quality of life.

g. Regarding issues which prevent bottom of the pyramid individuals from experiencing an ideal experience with a bank, the researchers indicate that often "bottom of the pyramid" customers do not meet the requirements of the bank, regarding the conditions under which the bank would be able to provide products and/or services which would help the "bottom of the pyramid" customer improve the quality of his or her life.

h. Regarding concerns of bottom of the pyramid consumers at this time in their life, not only about the financial services offered by banks but also in general, as suggested earlier, the researchers indicate that "bottom of the pyramid" customers are trying (through increasing their savings and/or gaining access to loans) to improve their quality of life.

i. Regarding the most important things members of the bottom of the pyramid socioeconomic class in Nigeria are trying to achieve at this time in their lives: as suggested earlier, the researchers indicate that members of the "bottom of the pyramid" socioeconomic class are trying to improve their quality of life.

j. Regarding the one thing members of the bottom of the pyramid socioeconomic class in Nigeria would change about financial services from banks, if they had a magic wand, the researchers indicate that "bottom of the pyramid" customers would simplify the process of setting up accounts and/or borrowing money, and would reduce the fees associated with doing these things.

> NOTE (01): While he has not yet spoken with researchers dealing primarily with FMCG and/or pharmaceutical companies interested in pursuing business opportunities with members of the "bottom of the pyramid" socioeconomic class, Adegboye suspects that his talks with those individuals will yield results similar to those reported by banking-related researchers, that is, that the "product" Creative Promotions is offering (advertising, educating, and entertaining) has the potential to be extraordinarily relevant and useful to companies in those sectors as well.

THE CHALLENGE

Assume you are Prof. Jonas Davidson. What suggestions will you make to Mr. Adeniyi, regarding the approach Creative Promotions Nigeria Ltd. could use to maximize the probability that Creative Promotions will succeed in selling their products and services to companies (including financial institutions, FMCG companies, and/or other corporate bodies in Nigeria) interested in pursuing business opportunities with members of the "bottom of the pyramid" socioeconomic class?

CHILDREN HAVING CHILDREN: A CASE STUDY

Devi Akella, Albany State University

CASE DESCRIPTION

This case study is based on four interview accounts of pregnant teenage mothers who belong to the African American population. The case study revolves around teenagers' behavior and their reasons for choosing early motherhood over career and higher education. This case study can be used in any organizational behavior class at the undergraduate level to demonstrate the practical application of the Social Learning Theory. It could also be used in a healthcare management class at the undergraduate level to gain insights about the reasons behind health disparities. This case study could also generate discussion on public health issues in an undergraduate healthcare management class as well. The case study has been designed for a 60 minute session slot. The instructor should distribute the case study along with the discussion questions to the students at least 7 days before the class. Students would require approximately 45-60 minutes of outside class preparation.

CASE SYNPOSIS

United States has the highest level of teenage pregnancy amongst the industrialized nations. Further the level of teenage pregnancy is highest amongst the minority population. This case study deconstructs the various factors, which influence and manipulate the overall behavior of the African American teenagers and initiates them to choose early motherhood over education and career. Why do African American teenagers decide to get pregnant early? What factors are behind their decision? What behavioral and learning processes initiate teenagers to get pregnant? This case study tries to interpret the behavior of teen mothers to suggest possible interventions to impede the recurrence of teen pregnancies within the African American society.

INTRODUCTION

Individuals learn appropriate and desirable behavior from their external environment, surroundings and the people with whom they interact. To be able to change one's behavior it is essential to understand the individual's perceptual processes and the factors influencing their learning processes. Then an effort should be made to influence and manipulate the external events and factors to guide individuals' behaviors—to assist them in learning and exhibiting appropriate and desirable behaviors.

This case reviews four interviews with adolescent mothers and/or expecting teen mothers to gain insights about their perceptions, behaviors, attitudes and mental schemas to understand the factors influencing the behavior of these teenagers. And if possible to generate strategies to effectively intervene to avoid replication of this negative behavior.

BACKGROUND

Teenage pregnancy is defined as a teenage girl, usually within the ages of 13-19, becoming pregnant. Even though the teen pregnancy and birth rates have dramatically declined in U.S. in the past twenty years. The U.S. teen childbearing rates remain high in comparison to other countries across the world. According to the National Campaign to Prevent Teen Pregnancy 2013, the teen birth rate for girls in the age group of 10-14 was 0.4 per 1,000 girls in 2012 with an overall decrease of 71 percent since 1991. There were 3,674 births to girls in the age 10-14 in 2012. The teen birth rate was 14.1 per 1000 for girls in the age 15-17 in 2012. There were 86,440 births to girls in the age group of 15-17 in 2012. While there were 218,980 births to girls in the age group of 18-19 in 2012. In United States 71 percent of all births were to teenagers in the age group of 18-19 (National Campaign to Prevent Teen Pregnancy, 2014).

There exists considerable disparities in the rates of teenage pregnancies amongst the racial and ethnic groups within the country. African American and Hispanic youth contribute to 57 percent of the total teen pregnancies even though they constitute only 35 percent of the total population of girls in the age group of 15-19 years (Centers for Disease Control, 2010).

The minority population in United States is also faced with problems like poverty, lack of education and quality healthcare. Black, Hispanic and Native American youth live in families with incomes at or below 200 percent federal poverty level (Healthy Teen Network, 2008). "There happens to be a direct correlation between living in poverty, lack of education and early childbirth" (Moore, 1993 as cited in Healthy Teen Network, 2008:3). Children living in poverty are likely to be faced with a number of issues like alcohol and substance abuse, teen pregnancy, gang membership involvement and high rates of illiteracy (National Campaign to Prevent Teen Pregnancy, 2013). Children born to teen mothers have a higher tendency to emulate early sexual behaviors, drop out from school and be faced with teen pregnancies.

This raises questions between the social and economic variables, racial and cultural backgrounds and its influence on teenage pregnancies within a certain community. Does our environment cause our behavior? Is there a connection between environment, individual's behavior and his/her decisions?

Interviews were conducted at a public high school situated in the city of Albany in Dougherty County. Albany is a predominantly a black city with 65 percent of its population consisting of African Americans. The teen birth rate is 75 per 1000. The city has a poverty rate of 48 percent. The community has the highest teen pregnancy rates, single parent families and the largest number of school dropouts (Anonymous, 2011). The stories below reveal the lifestyles, problems, regret and hardships of pregnant teens and teen moms. For obvious reasons the identity of the teenagers need to remain anonymous.

EXCERPTS FROM INTERVIEW WITH TEEN MOMS

Teen mom I

I am seventeen years old and in my senior year. I will be finishing school by 2014. I had my baby in February this year. It is a girl. I have my father, grandmother, sister and myself and my daughter. There are five people at home. My sister is younger than me. My grand mom and father work in our house. My father does construction work. He is an hourly paid worker. My grand mom works in a group home at Lee County. We live in a three bedroom and two bath house. My father earns roughly $500 per week. I live near the Elementary school here have my own room for my daughter and self.

One of my cousins went to college and got a degree. My sister is in high school…my father got his GED. My grand mom went to high school and she later finished college. I plan to go to college…yes Ma'am want to finish college. Now my grandmother looks after the baby. She is retired…my mother's mom. She looks after the baby and I come to school. When I go home…the baby ain't much I put her in the walker and she walks around. She eats and drinks from bottle. I can have a social life but choose not to go anywhere…even on weekends I prefer to spend all my time with my baby. Rest of my family also helps if needed…

When I had my baby I had my school work…my sister would meet the teachers and bring my school work home and after I do it take it to my teachers at school. They give me make up tests and I was able to stay on track at home. I carried on at school right till the end. I did not tell my family about my pregnancy. My cousin did. I denied it all the time but then they took me to the doctor and found out that I was six months pregnant. But my grand mom was sort of upset but not really mad at me. I was scared to tell anyone, scared of the outcome…did not know what to do.

I never planned on getting rid of it…well my religion does not believe in abortion. I am a Baptist. The baby's father goes to the same school as well. He is around and plans to be around. I am relieved…it is done and finished. I don't regret it. I chose not to use any preventions I have been having sex since I was fifteen it was my first serious relationship. I did not know anything about it…I just wanted to try but I just wish I could have waited…just tried it. To be honest I did not want to do it. My boyfriend pressurized me into it. I just followed what he said that it would be fun. I did it because of what he said. Teenage pregnancy is everywhere…not just our community (laughs).

I plan on going to college at Florida State University…I plan to become a registered nurse. I like running…I just like running track…I ran in middle school got prizes. But after I had my baby I didn't do much. I run to keep thin.

My baby has been positive because I enjoy her she can't do anything about it so just love her and treat her with care. I feel same when I look at my age group, everyone treats me same and sees me same. I have stopped dating am concentrating on my studies and baby now.

<u>Teen Mom 2</u>

I am seventeen years old and going to have a baby in Jan. 2013. It is a girl. I have my mom, Dad and two brothers, me and my sister. My brothers and sister are younger than me. I am the eldest. We don't live with my Daddy. My mommy does no work. All my brothers are studying. They all go to school. One is in high school, one in middle and one of them in elementary. My mom stays at home, cooks, sets up doctor's appointment. My uncles, my daddy and grand mommy all earn (unable to comprehend concept of earning monthly salary…) (laughs) my mommy get child support. My mom gets paid child support from my Daddy. Am not sure how much, about our income (very vague), properly around $600 per week.

It is a 3 bedrooms, 3 bath, living room, kitchen and yard. We made a bedroom out of the den…so I could have my own room. My mommy, brothers and sister and I have rooms. We live near the school. Daddy actually got his GED but mommy …she tried to graduate. I have morning sickness and would like to stay at home…but work piles up on me…I need to get out of my bed and home…check up on my work and come to school. My teacher asks me about my work if I don't get around my work.

When the baby comes I will stay at home (prompts) for a little while will not come to school and then come back (laughs). During the time I will come and walk around my teachers and get my work. I can call up but if I call up they still might not do it so need to come and meet them to take the missed work home. My mum will look after my baby.

I plan to carry on at school right till the end. I came back from school sick, thought it was a cold but back of mind I knew I was pregnant so went for a doctor's check up with mum. The doctor wanted to put me on a Depro shot but then after examination she came into the room and said she wanted to talk to me first and then asked my mom to step out. Then she said…'you know you are pregnant right and I started crying". She said we need to tell your mom. And she called my mum. But before doctor could say anything she said I already know no need to tell me anything and burst out crying. She knew I was pregnant I had been throwing up at home, so she was like…looking up how many pads they were in the bathroom (starts laughing and crying at the same time)…she was like I know doctor I already know my daughter is pregnant …doctor know my daughter is pregnant. I was a month and two days pregnant at that time. I don't have any sickness not anymore…my doctor told me to lie down for a while………

All classmates and teachers are same no difference in their behavior. The teachers only complain about me wearing tights when I wear tights that's all I tried to wear jeans but then that is too tight in the middle so I then talked to them and now wear tights.

I want to finish school, have my baby, go to college be a Fashion Designer. I (shrugs) feel the same, same, like everybody else feel 17.

I don't go anymore (mumbles)…

Teen Mom 3

I am 16 years in grade 11. I will finish school in 2013 and will go to Fort Valley. I want to be a lawyer…ye a lawyer. My son is nine months (prompts) born in Feb. 12th 2012.

I have seven people in my house—my mom, my three sisters, my brother, myself and my baby. I am in the middle, they are two after me a boy and a girl. I have two elder sisters they did not have any babies. My mother works (prompts)…she works at an adult day care for mental people. Am not sure how much she gets…never told me.

Our house is big…yes it is big. Have a room with my son…lots of privacy and space. My doctor told my mum about my pregnancy. Me and my mom went to doctor (prompts) hm…my mom suspected I was 2 months pregnant. I told her I had missed a cycle and she took me to the doctor. I was not scared because I had an idea that I was pregnant. I was scared telling my mom and went up and approached her. She was mad…did not yell at me or anything like that she was mad…tried to hide it…but was really mad. My sisters acted normal were not mad at me. The baby's father is around…still sees me, still have a relationship with him. He contributes towards my baby. I did use protection but don't know what happened but must have burst so something must have happened. My mother did not get rid of me so I did not as well. Ours is a single parent household my mother is a single mother. My mother is a high school graduate. My cousin graduated on Saturday…my sisters (prompts) oh no they are still here. I don't know what my sisters are doing or what they are planning never asked them.

I went to school right till the end. I send my mum and boyfriend to get my school work. So when I got back I will be on track. Haven't missed anything am right on graduation track (prompts) yes Ma'am I regret my decisions…my pregnancy. I don't know, I still ask myself that question I don't know (prompts), it was me alright but I don't know why…should have waited but I don't know why. My pregnancy actually brought people closer I don't know why but it did. They came to my house…I don't know why. Made no difference at home not really (prompts) Oh ya, my mom and I became really close. Me and my mom and aunties all really close (prompts). When I am at school I leave my baby at the day care I am (reflects) what is called? What govt. pays you for because I am a teen mother at school they help me pay for it. They pay me for it.

I like dancing and singing and spending time with my baby. I am a good person, people call me for advice I am a serious person I have a good personality.

I don't go out anymore. I don't want to leave him with anybody. I hate coming to school and leaving him. I don't want to go out. When I go to Fort Valley to study I will leave my baby with my mum. My mum says she will take care of it watch him around when I go to college.

For me, it has been positive with my baby. I have done things I have never done before. I went Christmas shopping by myself, get to attend a mother-son Sunday this is a lot am glad it brought my mum and me closer.

They all say a baby ruin a life if you are a teen that's not true, it actually helps you become more mature opens your eyes makes you realize you have to look after someone else other than yourself got to be more careful.

Teen Mom 4

I am 16 years studying in 11^{th} grade. Will finish school by 2013. I stay with my boyfriend (prompts) no I stay with my family and boyfriend. I go to his house and he comes over something like that. It was decided both of us should be with the baby. So he stays with my family a few months and then we stay with his family the rest of the time.

My mother, my two brothers me and my baby. My brothers are younger. My mother is a single mother. In my boyfriend's home his grand mom, daddy and granddaddy. He goes to school for which you pay for.

My mom does not work. She gets child support from my two brothers' father. She passed 10th grade in high school. She was more upset than mad but now she is happy. She adores her grandbaby. She likes spending time with him. I did not know I was pregnant somebody else had a feeling I was and told my mum. She made me go through the pregnancy thing and then and that's it. My mum is 32 years old and a single mom

I don't know how I got pregnant, was using condoms so I don't know (prompts) but now I take precautions I am on birth control. I had my baby in September. I am currently behind because of my pregnancy but all my teachers are helping me get back on track. My mother used to come and collect my work they would tell her I need to do it to pass. So when I came back my teachers were why I had not done any work. But when my mom came they never gave her anything it was like there is no work. Luckily all my teachers are trying to help me catch up so I should be able to graduate with my class.

My mom looks after the baby when I come to school. Sometimes I go out. But it is not like earlier. Before I used to go out every other week. But now both our families are like you need to spend time with baby.

I had mixed feelings. I would laugh and cry at the same time. Would be very happy and very sad. Had a lot of sickness. I had a fear something would be wrong with my baby. Because when I had my first check up my baby might be diagnosed with down syndrome he said something was higher, than normal am not sure what he said but luckily he came out healthy happy baby boy.

I want to become a lawyer but first need to graduate from high school so my son can have a better life with me than I had with my mum. She suffered a lot having me at such an early age would like a better life for my son and myself. I don't want always depend on the government to support us.

I receive Medicaid and nothing else. I don't need any help. My baby's father helps me with support. The other girls get child support because the father is not there to help so the govt. is paying but later on in life the father has to pay all that money. I did not sign up because my baby's father helps out.

People say you ruined your life you can't do anything. You are stuck you can't do anything now.I just had my baby early. I don't feel bad now. Not anymore…

BACKGROUND

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I am seventeen years old and in my senior year. I will be finishing school by 2014. I had my baby in February this year. It is a girl. I have my father, grandmother, sister and myself and my daughter. There are five people at home. My sister is younger than me. My grand mom and father work in our house. My father does construction work. He is an hourly paid worker. My grand mom works in a group home at Lee County. We live in a three bedroom and two bath house. My father earns roughly $500 per week. I live near the Elementary school here have my own room for my daughter and self.

One of my cousins went to college and got a degree. My sister is in high school…my father got his GED. My grand mom went to high school and she later finished college. I plan to go to college…yes Ma'am want to finish college. Now my grandmother looks after the baby. She is retired…my mother's mom. She looks after the baby and I come to school. When I go home…the baby ain't much I put her in the walker and she walks around. She eats and drinks from bottle. I can have a social life but choose not to go anywhere…even on weekends I prefer to spend all my time with my baby. Rest of my family also helps if needed…

When I had my baby I had my school work…my sister would meet the teachers and bring my school work home and after I do it take it to my teachers at school. They give me make up tests and I was able to stay on track at home. I carried on at school right till the end. I did not tell my family about my pregnancy. My cousin did. I denied it all the time but then they took me to the doctor and found out that I was six months pregnant. But my grand mom was sort of upset but not really mad at me. I was scared to tell anyone, scared of the outcome…did not know what to do.

I never planned on getting rid of it…well my religion does not believe in abortion. I am a Baptist. The baby's father goes to the same school as well. He is around and plans to be around. I am relieved…it is done and finished. I don't regret it. I chose not to use any preventions I have been having sex since I was fifteen it was my first serious relationship. I did not know anything about it…I just wanted to try but I just wish I could have waited…just tried it. To be honest I did not want to do it. My boyfriend pressurized me into it. I just followed what he said that it would be fun. I did it because of what he said. Teenage pregnancy is everywhere…not just our community (laughs).

I plan on going to college at Florida State University…I plan to become a registered nurse. I like running…I just like running track…I ran in middle school got prizes. But after I had my baby I didn't do much. I run to keep thin.

My baby has been positive because I enjoy her she can't do anything about it so just love her and treat her with care. I feel same when I look at my age group, everyone treats me same and sees me same. I have stopped dating am concentrating on my studies and baby now.

Teen Mom 2

I am seventeen years old and going to have a baby in Jan. 2013. It is a girl. I have my mom, Dad and two brothers, me and my sister. My brothers and sister are younger than me. I am the eldest. We don't live with my Daddy. My mommy does no work. All my brothers are studying. They all go to school. One is in high school, one in middle and one of them in elementary. My mom stays at home, cooks, sets up doctor's appointment. My uncles, my daddy and grand mommy all earn (unable to comprehend concept of earning monthly salary…) (laughs) my mommy get child support. My mom gets paid child support from my Daddy. Am not sure how much, about our income (very vague), properly around $600 per week.

It is a 3 bedrooms, 3 bath, living room, kitchen and yard. We made a bedroom out of the den…so I could have my own room. My mommy, brothers and sister and I have rooms. We live near the school. Daddy actually got his GED but mommy …she tried to graduate. I have morning sickness and would like to stay at home…but work piles up on me…I need to get out of my bed and home…check up on my work and come to school. My teacher asks me about my work if I don't get around my work.

When the baby comes I will stay at home (prompts) for a little while will not come to school and then come back (laughs). During the time I will come and walk around my teachers and get my work. I can call up but if I call up they still might not do it so need to come and meet them to take the missed work home. My mum will look after my baby.

I plan to carry on at school right till the end. I came back from school sick, thought it was a cold but back of mind I knew I was pregnant so went for a doctor's check up with mum. The doctor wanted to put me on a Depro shot but then after examination she came into the room and said she wanted to talk to me first and then asked my mom to step out. Then she said…'you know you are pregnant right and I started crying". She said we need to tell your mom. And she called my mum. But before doctor could say anything she said I already know no need to tell me anything and burst out crying. She knew I was pregnant I had been throwing up at home, so she was like…looking up how many pads they were in the bathroom (starts laughing and crying at the same time)…she was like I know doctor I already know my daughter is pregnant …doctor know my daughter is pregnant. I was a month and two days pregnant at that time. I don't have any sickness not anymore…my doctor told me to lie down for a while………

All classmates and teachers are same no difference in their behavior. The teachers only complain about me wearing tights when I wear tights that's all I tried to wear jeans but then that is too tight in the middle so I then talked to them and now wear tights.

I want to finish school, have my baby, go to college be a Fashion Designer. I (shrugs) feel the same, same, like everybody else feel 17.

I don't go anymore (mumbles)…

Teen Mom 3

I am 16 years in grade 11. I will finish school in 2013 and will go to Fort Valley. I want to be a lawyer…ye a lawyer. My son is nine months (prompts) born in Feb. 12th 2012.

I have seven people in my house—my mom, my three sisters, my brother, myself and my baby. I am in the middle, they are two after me a boy and a girl. I have two elder sisters they did not have any babies. My mother works (prompts)…she works at an adult day care for mental people. Am not sure how much she gets…never told me.

Our house is big…yes it is big. Have a room with my son…lots of privacy and space. My doctor told my mum about my pregnancy. Me and my mom went to doctor (prompts) hm…my mom suspected I was 2 months pregnant. I told her I had missed a cycle and she took me to the doctor. I was not scared because I had an idea that I was pregnant. I was scared telling my mom and went up and approached her. She was mad…did not yell at me or anything like that she was mad…tried to hide it…but was really mad. My sisters acted normal were not mad at me. The baby's father is around…still sees me, still have a relationship with him. He contributes towards my baby. I did use protection but don't know what happened but must have burst so something must have happened. My mother did not get rid of me so I did not as well. Ours is a single parent household my mother is a single mother. My mother is a high school graduate. My cousin graduated on Saturday…my sisters (prompts) oh no they are still here. I don't know what my sisters are doing or what they are planning never asked them.

I went to school right till the end. I send my mum and boyfriend to get my school work. So when I got back I will be on track. Haven't missed anything am right on graduation track (prompts) yes Ma'am I regret my decisions…my pregnancy. I don't know, I still ask myself that question I don't know (prompts), it was me alright but I don't know why…should have waited but I don't know why. My pregnancy actually brought people closer I don't know why but it did. They came to my house…I don't know why. Made no difference at home not really (prompts) Oh ya, my mom and I became really close. Me and my mom and aunties all really close (prompts). When I am at school I leave my baby at the day care I am (reflects) what is called? What govt. pays you for because I am a teen mother at school they help me pay for it. They pay me for it.

I like dancing and singing and spending time with my baby. I am a good person, people call me for advice I am a serious person I have a good personality.

I don't go out anymore. I don't want to leave him with anybody. I hate coming to school and leaving him. I don't want to go out. When I go to Fort Valley to study I will leave my baby with my mum. My mum says she will take care of it watch him around when I go to college.

For me, it has been positive with my baby. I have done things I have never done before. I went Christmas shopping by myself, get to attend a mother-son Sunday this is a lot am glad it brought my mum and me closer.

They all say a baby ruin a life if you are a teen that's not true, it actually helps you become more mature opens your eyes makes you realize you have to look after someone else other than yourself got to be more careful.

Teen Mom 4

I am 16 years studying in 11^{th} grade. Will finish school by 2013. I stay with my boyfriend (prompts) no I stay with my family and boyfriend. I go to his house and he comes over something like that. It was decided both of us should be with the baby. So he stays with my family a few months and then we stay with his family the rest of the time.

My mother, my two brothers me and my baby. My brothers are younger. My mother is a single mother. In my boyfriend's home his grand mom, daddy and granddaddy. He goes to school for which you pay for.

My mom does not work. She gets child support from my two brothers' father. She passed 10th grade in high school. She was more upset than mad but now she is happy. She adores her grandbaby. She likes spending time with him. I did not know I was pregnant somebody else had a feeling I was and told my mum. She made me go through the pregnancy thing and then and that's it. My mum is 32 years old and a single mom

I don't know how I got pregnant, was using condoms so I don't know (prompts) but now I take precautions I am on birth control. I had my baby in September. I am currently behind because of my pregnancy but all my teachers are helping me get back on track. My mother used to come and collect my work they would tell her I need to do it to pass. So when I came back my teachers were why I had not done any work. But when my mom came they never gave her anything it was like there is no work. Luckily all my teachers are trying to help me catch up so I should be able to graduate with my class.

My mom looks after the baby when I come to school. Sometimes I go out. But it is not like earlier. Before I used to go out every other week. But now both our families are like you need to spend time with baby.

I had mixed feelings. I would laugh and cry at the same time. Would be very happy and very sad. Had a lot of sickness. I had a fear something would be wrong with my baby. Because when I had my first check up my baby might be diagnosed with down syndrome he said something was higher, than normal am not sure what he said but luckily he came out healthy happy baby boy.

I want to become a lawyer but first need to graduate from high school so my son can have a better life with me than I had with my mum. She suffered a lot having me at such an early age would like a better life for my son and myself. I don't want always depend on the government to support us.

I receive Medicaid and nothing else. I don't need any help. My baby's father helps me with support. The other girls get child support because the father is not there to help so the govt. is paying but later on in life the father has to pay all that money. I did not sign up because my baby's father helps out.

People say you ruined your life you can't do anything. You are stuck you can't do anything now.I just had my baby early. I don't feel bad now. Not anymore…

THE "ETHICS CASES" CASE

Kyle Ristig, Centenary College of Louisiana

CASE DESCRIPTION

This case can be used to illustrate concepts of ethical issues versus financial return. Considerations include the ethics of those that would gain financially from a particular course of action, the ethical consideration of those that attempt to help others but, in doing so, may compromise their ethical standards, and society's view of ethics versus finances. While the case does touch on copyright law, there is no need for legal expertise to discuss the case. The emphasis is on the ethics of the decision to be made. The case has a difficulty level of two to three, and is designed to be taught in one class hour. Depending on the depth of detail the instructor intends to pursue, preparation time for the students will take from one to two hours.

CASE SYNOPSIS

A young professor is deeply committed to helping his students both academically and financially. A long period of strained personal finances has left the professor with a strong desire to ease the financial burden felt by his students. In preparing for the upcoming semester, the professor has found a volume of ethics cases that would fit perfectly into his course. The problem is that the volume is as expensive as the required text and he is torn whether to require the purchase of the volume or not. While investigating alternatives, the professor found that a professor at a university in another state has posted the entire volume of cases (including copyright notice) on that university's web site. Should the young professor require his students to purchase the volume and thereby violate his mission of helping ease his students' financial burden (but maintain his ethical standards) or should he download the files from the university's web site for free and help his students financially (but violate ethical standards and create legal issues).

BACKGROUND

The idealistic young professor sat blankly staring at the diplomas on the wall of his office. "Teaching ethics," he thought, "should not be so complicated." He had advanced degrees and teaching experience, but wasn't certain what his next step should be. As a student in pursuit of his bachelor's degree, he often worried as to how he could pay for his college education. "Why are books so expensive?" he wondered as he struggled to balance the meager income of a part time job and payments of tuition, books, room, board, and the small amount of cash necessary for an occasional dinner date and movie. As he moved from the completion of his bachelor's degree, then to a master's, and finally a doctorate, the experience of a strained budget remained with the professor over his career. He would, he decided, do what he could to ease the financial burden on his students. Over time, he studiously worked to select textbooks that not only addressed and explained the topics that he believed important, but that were also available at a reduced cost through the purchase or rental of used hardcopy texts or virtual (online) texts. He worked to find low cost alternatives in virtually every way possible. He provided his classes with tips on how to hold costs down. He organized a cooperative in which the students would pool their money and purchase pens, paper, and other supplies in bulk from the local warehouse club. He introduced his students to the discount cards sold by the local high school athletic club. To raise money for sports activities, the high school athletic booster club established alliances with local restaurants to offer discounts and “buy one - get one free” or “BOGO” deals for meals. This was particularly appealing to the young professor's students since they frequented the Mexican restaurant and several fast food restaurants near the college campus. Although it was a relatively small amount, the professor was convinced that any amount saved was significant in the eyes of his students. Many were using financial aid and loans that would have to be repaid at some point in the future. A few dollars saved at this time could translate into even more dollars that would not have to be repaid in later years. Almost as important, the professor felt he was establishing an attitude of giving for his students. He was, after all, teaching ethics. He believed that by setting an example of concern and compassion for his students, they would carry that attitude with them as they graduated and moved into the business world. It was his fervent hope that they would remember how he had worked to help them and they would do the same for others.

It was during the summer that the professor was revising his courses for the coming school year. He had reluctantly selected his textbooks earlier in the spring after becoming discouraged to see yet another increase in the cost of textbooks. But he had no choice – these were the lowest cost texts he could find that would meet the requirements for his courses. He found the increase repugnant as his school had worked diligently to hold the line on costs, but other providers of goods and services to the students didn't seem to care if the increases would financially harm the students or not.

It was during this time that the professor was searching for a few new ethics cases. He had used the same ones for a number of years and, as was typically the case, the students had passed along notes regarding the cases to fellow students. These notes were then revised and passed down to entering freshmen for their use. He noted that students would review the notes that had been passed down and never really gave much thought to the predicaments presented. “Why should they?” he wondered. He was well aware that every alternative and scenario is discussed at length in the notes that are passed around, as well as potential solutions. While he suspected this was occurring, it was confirmed a year ago by a student who confided that his suspicions were true. There were comprehensive study notes on all of the cases he presented. “Ah,” he thought, “some things never change.”

In order to keep the students engaged, the professor knew he must introduce new cases for the upcoming Fall semester. While perusing information from several case publishers and meeting with colleagues during a regional conference, it became apparent that one volume of cases would satisfy his requirements exactly. This consisted of eight cases in one volume that was available from a regional publisher, but although the volume consisted of only 81 pages, the cost was equivalent to an expensive new textbook. Unfortunately, the cases were not available individually – only in a soft-bound volume and no used copies were available. The young professor struggled whether to require the purchase of the book or not. He knew that it would add significantly to the students' understanding of social responsibility and ethics in the business world, but at a cost.

While searching for potential alternatives, the young professor had come to the conclusion that the volume of cases was essential to his course. It was during this search that he found that a professor at Megabig State University had posted the entire volume of cases online. The volume of cases had been scanned into separate PDF files and posted on the university's web site. While clearly intended for the use of the Megabig State University professor's students, the files were not password protected nor was access restricted in any way. The young professor noted that the publisher's copyright notice was on the cover page of each case and the volume of cases could be found through a simple internet keyword search.

The young professor has been concerned about the rising cost of textbooks and the impact it has on his students ability to afford tuition, room and board. He knows that the cases, while stimulating a worthwhile discussion but expensive, will place additional financial stress on his students. What should he do?

MAKING THE MOST OF YOUR MONEY: EVALUATING EMPLOYEE RETIREMENT PLAN FUND PERFORMANCE

Jan M. Serrano, Francis Marion University
Erica Hernandez, Bowie State University

CASE DESCRIPTION

The primary subject matter of this case concerns evaluation of mutual fund choices offered by competing retirement plans, a topic appropriate for discussion in a number of business courses including investments or personal finance, entrepreneurship, and management/human resources. Learning objectives include evaluating the different types of funds offered by a plan carrier, analyzing performance measures for various types of mutual funds relative to the appropriate benchmark, selecting from among alternate plan carriers, weighing the importance of performance versus fees, and analyzing differences in the approach for evaluating bond funds vs. equity funds. The case has a difficulty level of three, appropriate for junior level courses. The case is designed to be taught in two class hours including background lecture on performance measures. It can be discussed in one class if students have previously been exposed to fund performance measures. Students must evaluate historical performance for each mutual fund option offered by two competing plan carriers. Data is broken down by fund objective, and further by return, risk, and risk-adjusted return measures and includes similar information an appropriate benchmark index. Based on this data, they must determine which funds have performed better in each category and explain why. They must then answer a series of questions using their analysis of the given funds as the basis of their responses. Ultimately, this process should allow them to determine which plan carrier's options are most suitable for the client. This is expected to require four hours of outside preparation by students if they are required to evaluate all of the funds. Alternatively, they could complete the case in half the time if they were each assigned only one of the fund groups to evaluate.

CASE SYNOPSIS

"Which retirement plan company offers the best funds? What do all of these numbers mean?" David Lyons has accepted a new position at Central Eastern University. He has met with the HR director who has informed him that he must choose between two firms approved by the university to offer 403-B retirement plans. Pressed for time, he highlights the funds with the lowest annual expenses, choosing the fund with the cheapest fees as he has heard that this was the most important factor in long run performance. Unsure of his choices, however, he contacts George Smith, a a former neighbor and friend who is a Certified Financial Planner® to ask for help. This case involves comparing mutual funds of different types on the basis of common return, risk, and risk-adjusted return measures. Most investors at some point in their life or career must evaluate the merits of various mutual fund choices. Small business owners and HR managers may face a similar choice when setting up a retirement plan for their employees. From employees to business owners to individual investors, people need to be familiar with the

basic performance measures presented in mutual fund sales material in order to make an informed decision. This concise case presents students with performance measures for various types of funds offered by two different firms and must sort through the data to determine which funds have performed the best in each category. Names and locations have been changed to protect privacy, any similarities to persons of same name is completely coincidental. Firm and fund names have been disguised so that students must rely solely on information given in the case.

DECISIONS

David stared at the paperwork on his desk. "I am a history professor, not a financier! How am I supposed to know which one of these is better? What do all of these numbers mean?" The glossy information packets for David's new 403-B plan seemed to glare back at him from atop his desk. "Hmm, I bet I know who could make some sense of this." David swung around to his computer and began tapping furiously at the keys.

Hi George,

The eagle has landed! Claire and I got a place near campus. It's a little small, but it will do temporarily until we can check out the area a little better. I am excited about the opportunity to work on this great research project but it has been hectic. I am trying to get my things ready for the start of school next week.

Thanks again for all of your help getting ready for the move. - Hey man, I need your advice on something. I talked with HR today, and they told me that I could choose from two different companies for my retirement plan here at Central Eastern. I have attached the information for the funds available from Dollar Wize Financial and GRO Wealth Advisors in case you can take a look at it. I can't really tell which one has the best funds, but Dollar Wize Financial offers the fund with the lowest expense ratio. I looked that up and it appears to be the annual fee that the fund charges. I put them in a spreadsheet to compare the returns and fees for each fund. Both companies had some funds with even higher returns last year but some of them have high expenses too. Dollar Wize offers funds in two categories that GRO Wealth doesn't even offer. They have a fund called the "Social" fund and they have a large value fund. I took this risk quiz on the website and it suggested a mix of 75-85% Stocks, 10-15% bonds, and 5-10% cash. All of the bond funds have negative returns, though, and the return on the money market funds is less than the annual expenses, so I think that I may just put it all in a stock fund. That Dollar Wize S&P 500 index fund has really low fees, so I am leaning toward this company. I don't want to make a poor decision. HR said the default option in either plan would be a target date 2045 fund. I don't even know what that is, but they said that they would put all of my contributions into that if I did not select specific funds. Evidently the first thing I have to do is pick which company to go with, then I can meet with the investment professional to help me decide what specific funds to use. I have to get all of this done in the next two weeks before they run payroll.

Hope Jeanette is doing well. You two will have to come and visit soon. Let me know if you can help. Thanks bud! - Dave

Dave's Choices Sorted By Return

Fund Name	12 Mo (%)	Expense Ratio(%)
Dollar Wize Growth	39.84	0.94
Dollar Wize Mid Cap Growth	38.97	0.86
Dollar Wize Social	38.20	0.90
Dollar Wize Stock	34.15	0.81
Dollar Wize S&P 500 Index	32.25 Good	0.10 Low
Dollar Wize Small Stock	29.79	1.12 High
Dollar Wize Large Value	27.68	0.68
Dollar Wize Global Stock	25.64	1.01 High
Dollar Wize International	25.19	0.90
Dollar Wize Life Cycle 2045	21.60	0.76
Dollar Wize Balanced	20.50	0.61
Dollar Wize Money Market	X 0.01	0.37
Dollar Wize Bond Strategy	X -1.92	0.46
Dollar Wize Bond Index	X -2.36 Poor	0.22
Dollar Wize Inflation Prot Bond	X -8.11 Poor	0.45

Fund Name	12 Mo (%)	Expense Ratio(%)
GRO Wealth Small Blend	39.99	0.68
GRO Wealth Mid Growth	36.78	0.64
GRO Wealth Growth	35.00	0.47
GRO Wealth S&P 500 Index	32.99	0.43
GRO Wealth Mid Value	32.55	0.61
GRO Wealth Large Blend	32.26 good	0.31 Low
GRO Wealth Stock	27.83	0.49
GRO Wealth Global Equity	27.27	0.52
GRO Wealth Life Cycle 2045	26.25	0.80
GRO Wealth International	20.54	0.50
GRO Wealth Balanced	16.67	0.46
GRO Wealth Money Market	X 0.02	0.41
GRO Wealth Bond	-2.01 X Poor	0.45
GRO Wealth Inflation Prot Bond	-9.02 X Poor	0.61
No Lg Value		

Figure 1

"Hmm, not much to go by here." George thought as he looked over the spreadsheet Dave sent. "Lets see if I can find these funds in my database. I would like to see what the returns look like over a longer time frame." George turned back to his keyboard to reply.

Dave,

I would be glad to help you. I have a student intern this year from the finance program at the university. I am sure that he would love to take on a real world assignment. I will get back in touch with you soon. All the best. - George

THE CHALLENGE

The next day, George met with his student intern, Alex to tell him about the project. He handed Alex a folder with David's email, the spreadsheet David sent, and tables with more detailed performance data for each of the funds as well as their benchmark index. "Read it carefully," George said. "My friend Dave is basing his decision on fund fees and performance over the last twelve months. There is probably more to it than that. First of all, I want you to read his email and look over the spreadsheet to identify the critical issues that we need to discuss with Dave. Then, review the detailed information on the fund choices available from each company, Dollar Wize Financial and GRO Wealth Advisors. I have already sorted them for you by fund type in Tables 1-4. Prepare a recommendation of the company you think would be the best fit for Dave's situation. Have it on my desk in two days." Alex was excited to be able to help Dave pick the best plan carrier for his 403-B. More than that, he was excited to be working on a real-world project that he could talk about at his big interview coming up next month with a large investment firm in Dallas. He had just covered the chapter on fund performance measures in his investments 350 class. Now he had to explain those things to a real person and help them make an important decision. As he walked to the library, he thought about the comments in the email; " Dollar Wize has an index fund with the lowest fees... two categories that GRO Wealth doesn't offer...put it all in a stock fund... default option is a target date 2045 fund..." With only two days to prepare his analysis, he decided that he had better get busy!

Table 1

Performance Measures Large Cap Funds

Large Cap Growth Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Growth	6.3	4.0	5.5	11.8	-38.6	45.0	19.6	-2.7	17.8	39.8	17.0	22.7	8.3
Dollar Wize Stock	15.1	16.2	11.5	19.8	-37.2	29.2	16.9	-0.1	16.3	34.2	15.9	18.7	10.2
Dollar Wize Social	13.6	7.6	14.4	7.5	-38.8	30.6	22.8	-2.9	11.0	38.2	14.2	19.0	8.2
GRO Wealth Growth	6.3	5.4	5.5	16.7	-39.8	36.5	15.0	1.2	15.9	35.0	16.5	20.0	7.5
Russell 1000 Growth Index	6.3	5.3	9.1	11.8	-38.4	37.2	16.7	2.6	15.3	33.5	16.5	20.4	7.8

Large Cap Growth Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Growth	16.44	1.08	0.92	0.04	0.41	6.19	0.14	107.47	107.76	1.10	48.33		
Dollar Wize Stock	14.07	0.9	0.88	0.28	0.61	9.49	0.54	98.98	85.27	0.94	51.67		
Dollar Wize Social	15.21	0.99	0.91	0.07	0.43	6.61	0.07	98.29	95.52	1.01	48.33		
GRO Wealth Growth	15.47	1.02	0.93	0.01	0.38	5.83	-0.18	101.94	104.49	1.03	46.67		
Russell 1000 Growth Index	14.99	1	0.95	0.04	0.42	6.19							

Large Cap Blend Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize S&P 500 Index	10.73	4.85	15.72	5.43	-37.03	26.51	14.98	2.03	15.93	32.25	16.08	17.87	7.33
GRO Wealth Large Blend	10.17	3.79	18.32	4.20	-32.96	19.40	13.65	7.30	12.81	32.26	16.98	16.79	7.46
GRO Wealth Stock	13.03	7.49	17.24	7.99	-39.68	32.04	15.73	-4.94	17.27	27.83	12.53	16.84	7.28
GRO Wealth S&P 500 Index	11.55	5.67	15.23	4.70	-37.50	27.85	16.46	0.66	15.98	32.99	15.79	18.25	7.47
Russell 1000 Index	11.40	6.27	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	16.3	18.59	7.78

Large Cap Blend Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize S&P 500 Index	14.62	1	1	-0.01	0.39	5.69	-0.59	96.91	98.17	0.98	37.50		
GRO Wealth Large Blend	13.24	0.89	0.97	0.06	0.44	6.61	-0.10	87.15	83.61	0.89	45.83		
GRO Wealth Stock	15.94	1.08	0.97	-0.04	0.36	5.30	0.05	106.76	108.73	1.09	55.83		
GRO Wealth S&P 500 Index	15.18	1.04	0.99	-0.01	0.39	5.69	0.30	104.52	104.60	1.04	59.17		
Russell 1000 Index	14.93	1.02	1	0.02	0.41567	6.02							

Large Cap Value Funds - Rate of Return

Rate of Return Net of Fees

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Large Value	11.29	5.74	19.81	1.40	-41.64	29.54	15.13	-4.68	17.23	27.68	12.58	16.3	5.91
Russell 1000 Value	16.49	7.05	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	16.06	16.67	7.58

Large Cap Value Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Large Value	16.47	1.11	0.97	-0.17	0.26	3.85	-0.63	98.86	107.48	1.06	39.17		
Russell 1000 Value	15.5	1.04	0.97	0	0.38	5.7							

Table 2

Performance Measures Mid Cap and Small Cap Funds and International Funds

Mid Cap Growth Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Mid Cap Growth	9.05	16.07	14.78	8.20	-45.96	50.39	23.57	-2.41	14.93	38.97	15.95	23.71	9.42
GRO Wealth Mid Growth	15.52	9.78	9.05	17.35	-46.25	46.92	28.50	-5.23	17.96	36.78	15.21	23.62	9.68
S&P MidCap 400 Growth	14.01	13.57	5.81	13.50	-37.61	41.08	30.57	-0.94	17.27	32.77	15.54	23.22	10.67

Mid Cap Growth Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg
Dollar Wize Mid Cap Growth	19.74	1.23	0.84	0.07	0.40	6.3	-0.07	106.51	110.78	1.10	51.67
GRO Wealth Mid Growth	18.34	1.16	0.85	0.12	0.44	6.95	-0.03	101.31	102.29	1.02	47.50
S&P MidCap 400 Growth	17.68	1.13	0.87	0.2	0.54	7.99					

Mid Cap Value Funds - Rate of Return

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
GRO Wealth Mid Value	25.61	11.86	20.19	6.30	-40.59	37.39	21.20	-2.17	16.60	32.55	14.78	20.28	10.38
S&P MidCap 400 Value	18.93	11.48	14.62	2.65	-34.87	33.73	22.78	-2.43	18.53	34.25	15.8	20.58	9.98

Mid Cap Value Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg
GRO Wealth Mid Value	17.13	1.13	0.93	0.17	0.51	7.72	0.04	98.27	96.86	0.96	47.50
S&P MidCap 400 Value	18.02	1.17	0.9	0.13	0.49	7.12					

Small Cap Blend Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Small Stock	14.57	8.09	12.37	7.70	-42.91	62.65	22.96	-15.60	12.99	29.79	7.37	19.88	7.79
GRO Wealth Small Blend	20.50	3.44	17.97	-6.14	-32.75	26.97	27.49	-3.90	14.07	39.99	15.35	19.96	8.71
Russell 2000 TR USD	18.33	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	15.67	20.08	9.07

Small Cap Blend Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg
Dollar Wize Small Stock	21.37	1.35	0.85	-0.11	0.29	4.55	-0.2025	98.40	114.89	1.09	49.17
GRO Wealth Small Blend	19.58	1.24	0.85	0.01	0.35	5.72	-0.3575	97.28	98.95	0.99	50.00
Russell 2000 TR USD	19.7	1.25	0.86	0.03	0.38	5.96					

International Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize International	19.66	17.23	22.52	16.03	-45.21	31.78	9.65	-13.78	19.41	25.19	8.83	13.25	7.36
GRO Wealth International	19.98	21.39	22.17	19.22	-40.38	39.55	9.72	-13.33	19.57	20.54	7.70	13.85	9.23
S&P Intl 700 TR	20.22	16.43	27.36	15.07	-42.82	36.59	9.26	-11.74	17.63	19.22	7.37	13.06	8.04

International Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg
Dollar Wize International	18.78	1.16	0.82	-0.05	0.31	4.93	-0.23	98.87	101.46	1.02	0.47
GRO Wealth International	17.40	1.05	0.79	0.14	0.44	7.20	0.36	96.05	102.34	0.94	0.54
S&P Intl 700 TR	18.49	1.14	0.81	0.01	0.35	5.63					

Table 3

Performance Measures Global Equity Funds, Balanced Funds, and Bond Funds

Global Equity Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Global Stock	19.39	15.70	23.43	11.32	-26.55	21.31	11.37	-2.68	13.65	25.64	11.59	13.42	10.1
GRO Wealth Global Equity	13.49	9.62	19.09	10.07	-42.29	32.91	12.24	-7.74	18.45	27.27	11.62	15.72	6.92
S&P Global 1200	14.90	10.17	21.46	10.23	-40.11	31.69	11.95	-5.08	16.82	25.84	11.75	15.52	7.64

Global Equity Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Global Stock	10.8	0.65	0.78	0.4	0.78	12.94	0.32	77.77	56.73	0.67	52.50		
GRO Wealth Global Equity	16.56	1.10	0.93	-0.08	0.32	4.88	-0.49	99.87	103.53	1.02	50.00		
S&P Global 1200	16.17	1.07	0.94	-0.01	0.37	5.61							

Balanced Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Balanced	10.94	10.68	11.65	8.99	-31.31	28.05	13.76	1.68	12.90	20.50	11.42	15.04	7.54
GRO Wealth Balanced	9.02	4.97	10.15	4.81	-23.45	22.41	11.95	1.82	10.98	16.67	9.65	12.56	6.21
Balanced Average	8.67	5.24	10.78	7.00	-24.65	22.32	11.68	1.10	10.90	15.28	9.16	12.32	6.22

Balanced Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Balanced	11.22	0.74	0.92	0.15	0.53	8.00	0.58	122.67	121.07	1.19	64.17		
GRO Wealth Balanced	9.44	0.63	0.96	0.11	0.49	7.32	0.14	99.41	97.29	1.00	49.17		
Balanced Average	9.98	0.63	0.86	0.1	0.47	7.46							

Inflation Protected Bond Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Inflation Prot Bond		3.79	1.11	12.19	0.42	10.42	6.23	11.88	6.94	-8.11	3.21	5.22	
GRO Wealth Inflation Prot Bond	8.01	2.53	-0.01	11.04	-1.78	9.58	5.89	13.16	6.40	-9.02	3.09	4.92	4.38
Inflation-Prot Bond Average	6.96	2.38	0.58	10.61	-2.95	11.01	6.11	11.34	6.40	-7.95	2.88	5.18	4.42

Inflation Protected Bond Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Inflation Prot Bond	0.06	0.07	0.03	0.40	0.56	51.01	-0.07	21.35	-56.95	0.98	50.00		
GRO Wealth Inflation Prot Bond	6.48	0.07	0.03	0.32	0.43	38.05	1.47	11.98	-57.76	1.04	49.17		
Inflation-Prot Bond Average	0.06	-0.10	0.05	0.00	0.42	-0.27							

Aggregate Bond Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Bond Index	4.36	2.26	4.35	5.37	3.76	6.45	6.29	7.68	4.06	-2.36	0.01	0.32249	0.002649
Dollar Wize Bond Strategy	5.14	2.89	3.99	9.07	4.82	13.83	8.83	4.16	10.36	-1.92	0.06	0	0.05571
GRO Wealth Bond	4.17	2.25	4.12	5.97	1.24	7.01	6.72	6.96	5.29	-2.01	0.03	0.32	0.02
Barclays US Agg Bond TR USD	4.34	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	3.26	4.44	4.55

Aggregate Bond Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor	Info Rat	Up Capt	Dn Capt	Rel Risk	Bat Avg		
Dollar Wize Bond Index	3.25	0.01	0.00	0.32	0.80	227.57	-0.77	94.90	99.29	0.97	40.83		
Dollar Wize Bond Strategy	4.00	0.06	0.06	0.00	1.11	69.00	0.67933	118.53	96.31	1.19	67.50		
GRO Wealth Bond	3.25	0.03	0.02	0.32	0.79	87.52	-0.08	21.35	-56.95	0.98	50.00		
Barclays US Agg Bond TR USD	3.37	0.01	0.00	0.00	0.88	297.88							

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Table 4

Performance Measures Money Market Funds and Life Cycle 2045 Funds

Money Market Funds - Rate of Return

Fund Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg	10 Yr Avg
Dollar Wize Money Market	1.06	2.93	4.78	5.03	2.89	0.61	0.06	0.01	0.02	0.01	0.01	0.14	1.72
GRO Wealth Money Market	1.32	3.21	5.04	5.26	2.84	0.51	0.11	0.05	0.04	0.02	0.04	0.14	1.82

Money Market Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor
Dollar Wize Money Market	0.55	-0.01	0.02	0.15	0.14	-15.87
GRO Wealth Money Market	4.58	0	0.02	0.15	0.54	8.68

Life Cycle 2045 Funds - Rate of Return

Fund Name	2008	2009	2010	2011	2012	2013	3 Yr Avg	5 Yr Avg
Dollar Wize Life Cycle 2045	-39.15	32.04	14.72	-5.02	14.79	21.6	9.85	14.96
GRO Wealth Life Cycle 2045	-38.75	28.57	15.4	-3.63	17.56	26.25	12.67	16.24

Life Cycle 2045 Funds - Risk and Risk Adjusted Return Measures

Fund Name	ASD	Beta	R2	Alpha	Sharpe	Treynor
Dollar Wize Life Cycle 2045	15.38	0.95	0.96	-0.15	0.97	15.6
GRO Wealth Life Cycle 2045	15.84	0.99	0.97	-0.1	1.02	16.36

Comparison of Life Cycle Funds to S&P 500 Index Funds and Balanced Funds (5 Year Data only)

Fund Name	2008	3 Yr Avg	5 Yr Avg	ASD 5 yr	Beta 5 yr	R2 5 yr	Alpha 5 yr	Sharpe 5 yr	Treynor 5 yr
Dollar Wize S&P 500 Index	-37.03	16.08	17.87	15.82	1	1	-0.01	1.4	22.54
GRO Wealth S&P 500 Index	-37.50	15.79	18.25	16.28	1.03	0.99	-0.03	1.12	17.76
Dollar Wize Balanced	-31.31	11.42	15.04	10.65	0.66	0.97	0.24	1.40	22.54
GRO Wealth Balanced	-23.45	9.65	12.56	11.52	0.63	0.97	0.12	1.08	19.60
Dollar Wize Life Cycle 2045	-39.15	9.85	14.96	15.38	0.95	0.96	-0.15	0.97	15.6
GRO Wealth Life Cycle 2045	-38.75	12.67	16.24	15.84	0.99	0.97	-0.1	1.02	16.36

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THE COIN HAS TWO FACES: DIFFERENCES THAT MATTER

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Keywords: Pluralism and culture, diversity, interfaith, meat packing industry, JBS SA, Swift & Company, Mexican workers in the U.S., Somali workers in the U.S., work-time prayer, culture challenges, and religious freedom.

> The plurality of religious traditions and cultures has come to characterize every part of the world today…Pluralism is not diversity alone, but the energetic engagement with diversity. Diversity can and has meant the creation of religious ghettoes with little traffic between or among them. Today diversity is a given, but pluralism is not a given; it is an achievement. Mere diversity without real encounter and relationship will yield increasing tensions in our societies…Pluralism is not just tolerance, but the active seeking of understanding across lines of difference… Pluralism is not relativism, but the encounter of commitments…is based on dialogue…
>
> Diana L. Eck (2006, paras. 1-4)
> Professor of Comparative Religions
> and Indian studies,
> Harvard University

> As companies do more and more business around the world. Diversity isn't simply a matter of doing what is fair or good public relations. It's a business imperative.
>
> Carol Heimowitz (2005, p. R1)
> The Wall Street Journal

CASE DESCRIPTION

A diverse workforce poses unique challenges to organizations. While employees with different backgrounds bring a gamut of cultural values to the workplace, conflicts, misunderstandings, and stress may increase. Embracing employees' differences can be a major challenge to organizations.

The core pedagogical objective of this decision case research is to help provide an applied, hands-on format for students to increase their understanding and appreciation of the ethnic diversity and beliefs of others. It also advocates organizational pluralism, where employees feel they are fully integrated rather than isolated and ignored.

CASE SYNOPSIS

In 1992 seven year old Hussain Abdullah Osman, his parents and four siblings left their war-torn homeland Somalia, to live in a refugee camp in Kenya. In early 2007, Hussain resettled with his family in Grand Island, Nebraska, to work for a meat packing company, JBS SA. JBS hired Hussain soon after the US Immigration and Customs Enforcement Agency (ICE) raided its plant and several other meat packing plants in different states. ICE agents arrested hundreds of undocumented Latino immigrants who were working there illegally.

The aforementioned raid resulted in the deportation of many workers and caused other undocumented workers, not present during the raid, to leave town. Management of the JBS Grand Island plant moved quickly and recruited Somali refugees who resided legally in the U.S. from locations such as Minneapolis, MN and Columbus, OH to work at its meat packing plant.

In September 2008, Muslim workers (mostly Somalis) at the JBS SA plant in Nebraska walked out to demand time for prayer and dinner during their holy month of Ramadan. The union representatives and company's management agreed to accommodate a prayer time at sunset by moving a scheduled break up by 15 minutes. However, the Latino immigrant workers led counter-protests and walked out the next day complaining that the Muslims were being favored. After two days of tension and work disruption, the company reversed its course regarding the break time and fired Somali workers and others who walked out in protest. The United Food and Commercial Workers UFCW, Local 22, filed a grievance and encouraged fired workers to return and talk to union representatives.

Many of the new Somali workers were observant Muslims who wanted to practice the traditional religious prayer schedule. Despite a different outward appearance, the objections by the non-Muslim workers and managers at the plant were not religious based, but were largely due to economic reasons.

In fact, the recruitment and hiring of Somali refugees at JBS solved the problem of hiring undocumented immigrants and having to risk the possibility of additional ICE raids. The Somalis were good workers, but the observation of Ramadan, and its requisite prayer breaks caused consternation between the Somalis and the Latino workers at the plant; that created an obvious division in the plant. The real trouble between the Latino workers and the Somali workers was not based on differing religious beliefs as much as it was based on increased workloads created by the Somalis leaving the line to pray.

It was the last Monday of September, 2008 and both management and the United Food and Commercial Workers Representatives at JBS, Grand Island were concerned about the tensions at the plant and wanted to find a good solution that would not only accommodate the Somali workers but also help build a sustainable diversity plan, while effectively managing its operations.

AN INTRODUCTION

It was 1992 and one of those scorching summer days where a hot day just got hotter when Hussain Abdullah Osman, age seven, left his war-torn homeland, Somalia, with his parents and four siblings to live in a refugee camp in Kenya. Fourteen years later, he resettled with his family in Grand Island, Nebraska, a central Nebraska town of 43,000 people to work for a meat packing company, JBS SA. (Also known as Swift & Company, its original name).

Thousands of miles away, in 2004, Jose Rodriguez, twenty-two years old, escaped his home town of Nuevo Laredo, in the Mexican state of Tamaulipas, and crossed the Mexico-US border via the Rio Grande, to move to Laredo, Texas. Jose left Mexico to escape drug wars carried out by the Mexican Transnational Criminal Organizations vying for control of the lucrative drug trafficking routes that resulted in the killing of thousands of people (OSAC, 2013). He also came to the US to escape poverty and to find a job opportunity that might help provide for his elderly parents and younger siblings. Jose entered the US illegally in October 2004 and finally resettled in Grand Island, Nebraska where one of his distant cousins lived and worked for JBS SA's meat packing plant. A couple of days later, Jose was hired by JBS to work on the slaughter line.

Exhibit 1
An Image of Grand Island's Cathedral of the Nativity of the Blessed Virgin Mary

Source:
http://commons.wikimedia.org/wiki/File:Grand_Island_%28Nebraska%29_cathedral_from_N.JPG

As a result of his employment at JBS, Jose established himself as part of the Latino community in Grand Island, enjoyed a better lifestyle, and was able to transfer some money to aid his family in Mexico. Due to some unfortunate luck, he was arrested and deported after a United States Department of Homeland Security, Immigration and Customs Enforcement (ICE), raid on the plant in December 2006. The ICE raid caused an immediate need for documented workers at JBS providing the aforementioned opportunity for Hussain to work there on the slaughter line.

JBS SA: COMPANY PROFILE

The company was founded in 1855 by 16-year-old Gustavus Franklin Swift in West Sandwich (now Sagamore), Massachusetts. He began his career at the age of 14, when he went to work for an older brother who owned a butcher shop (Robinson Library, 2014; Encyclopedia Britannica, 2013). The young Swift was able to start his own meat business when his father gave him $20. He used $19 to purchase a heifer, which he then butchered and sold out of his father's wagon. At a later time, he was able to buy another heifer and repeated the process (Robinson Library, 2014).

By working long hours and exhibiting great skills in judging the value of the cattle, the younger Swift had made enough money to open his own butcher shop in Eastham, Massachusetts in 1859. He then hired another brother to run it and opened a second store in Barnstable, Massachusetts (Robinson Library, 2014).

The company was incorporated as Swift & Company in Chicago in 1875 after it expanded to Brighton, Massachusetts; Albany and Buffalo, New York. Swift believed that there were more cattle to choose from in Chicago (Robinson Library, 2014; Encyclopedia Britannica, 2013). Swift also believed that meatpacking would be more profitable than meat selling, especially if he could ship fresh meat from Chicago to the east coast population center rather than ship live cattle that would be slaughtered upon arrival. He acted accordingly and hired an engineer to design a refrigerated railroad cart (Robinson Library, 2014; Encyclopedia Britannica, 2013).

When the late Gustavus Swift died in Chicago in 1903, the company he founded remained a family owned business until it was bought by ConAgra Foods in 1988 (Robinson Library, 2014).[i] However, in 2002, Swift & Company was purchased by Hicks, Muse, Tate & Furst, a private equity group when ConAgra divested its fresh beef and pork processing business (Refrigerated Transporter, 2014). Finally, Swift & Company was acquired again in 2007 by the Brazilian meat giant, JBS S.A., for $225 million and assumed its heavy debt load, estimated at more than $1 billion (Hoovers.com, 2014).

THE MEAT, BEEF, AND THE POULTRY PROCESSING INDUSTRY IN THE US: INDUSTRY PROFILE

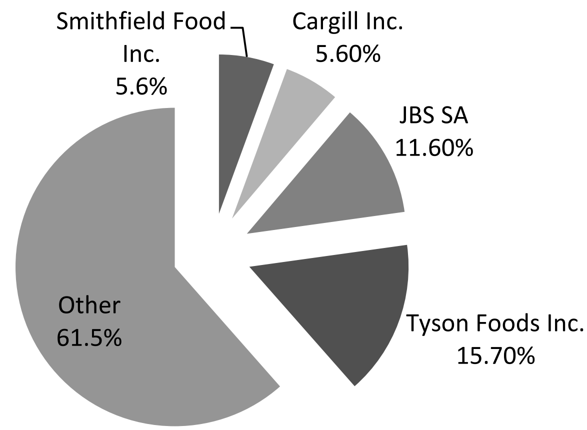
Companies in this industry slaughtered animals, processed the carcasses and packaged the meat into products and by-products. Additionally, companies also purified and refined animal fat, bones and meat scraps. Products were sold to meat and grocery wholesalers, retail traders, other food manufacturers, renderers, and retail traders (IBIS, 2014; First Research, 2014). The industry revolutionary breeding processes helped develop meat animals with lower fat content, faster weight gain, and much greater quality. Additionally, the various meat qualities allowed meat packers to offer branded products, such as Angus beef, organic (grass-fed) meat, and low fat Bison meat with a minimum amount of hormones, for which some consumers were willing to pay a premium (First Research, 2014).

Meat processing required workers to make repetitive motions with sharp tools, making it one of the most injury-prone jobs in the US (First Research, 2014). Very importantly, labor turnover in this industry was high as the workers in slaughterhouses and meat processing plants received relatively low wages and often worked in difficult conditions (First Research, 2014).

According to IBIS reports (2014), the Meat, Beef and Poultry Processing industry has had a medium concentration of ownership. Although the industry had a few meat processing and meat related companies, the key players in this industry, namely: Cargill, Inc.; JBS SA, Inc.; Smithfield, Inc.; and Tysons Food, Inc.; the aforementioned four largest companies in the industry were estimated to account for just over one-third of the domestic market (IBIS, 2014). Please refer to exhibit 2.

While the US was and still is the world's largest producer of beef and poultry, it was the third-largest pork producer in the world (IBIS, 2014). Two of the US major players in this industry, JBS SA and Smithfield were foreign-owned companies. JBS SA was Brazilian-owned and the later Smithfield was owned by Chinese Shuanghui International. Said companies were sold to foreign-owned companies in the past decade (IBIS, 2014).

Exhibit 2
The Meat, Beef, and Poultry Processing Market Share in the U.S.



Source: This exhibit was based on information published by IBIS World, 2014.

Cargill, Inc.

One of the US oldest companies, Cargill Inc. was founded in Iowa in 1865 when it entered the grains industry. Located in Minnesota, Cargill became a global marketer, processor, and distributor of agricultural and food products, in addition to financial and industrial products and services. The company had over 142,000 employees in 62 countries. On an annual basis, the company processed over 8 million cattle and over 10 million hogs (IBIS, 2014).
Cargill operated via its food ingredients and applications segment located in Wichita, Kansas, known as Cargill Meat Solutions. In addition to that, the company owned and operated two pork-processing facilities in the states of Illinois and Iowa; produced, processed and marketed poultry; and marketed turkeys and turkey parts branded Honeysuckle White and Riverside brands from its turkey-processing facilities (IBIS, 2014). Furthermore, Cargill also made refrigerated boxed pork products and processes meat in Central America, Asia and Europe (IBIS, 2014). In fiscal 2014, Cargill's meat-processing revenue was estimated at $12.0 billion (IBIS, 2014).

JBS SA

A conglomerate Brazilian multinational, JBS SA was (and continues to be) the world's largest animal protein processor (IBIS, 2014). Its subsidiary, JBS USA Holdings was the American and Australian arm of JBS SA. Located in Greeley, CO, JBS USA produced and marketed about twenty four brands of beef, pork and chicken in the United States. While JBS USA had beef, pork, sheep, and lamb-processing operations; it also owned JBS Five Rivers, the nation's largest feedlot operator.

The company sought to expand its US market share aggressively over the past five years through acquisitions, which resulted in the purchase of Pilgrim's Pride, a US leading poultry processor after Pilgrim filed bankruptcy in late 2009 (IBIS, 2014). In fiscal 2014, the company's revenue from US operations was estimated at $24.6 billion (IBIS, 2014).

Smithfield Food, Inc.

Headquartered in Smithfield, Virginia; the company was founded in 1936. According to IBIS (2104), Smithfield was the largest pork processor and hog producer in the world. Smithfield grew through acquisitions beginning in 1981 (over 30 acquisitions). In addition to its US operations, Smithfield had (and continues to have) operations in Mexico, Europe, and in China. In September 2013, Shuanghui International, a Chinese meat processor, acquired Smithfield for about $7.1 billion. This acquisition was the largest takeover of an American U.S. company by a Chinese firm to date. In January 2014, Shuanghui has changed its name to WH Group (IBIS, 2014).

Smithfield operated through its pork segment. The company vertically integrated by sourcing much of its livestock (about 50.0%) from its hog production segment to ensure adequate supply. While beef operations were a major source of Smithfield's offerings, the company was the fifth-largest beef processor and the largest cattle feedlot operator in the US; Smithfield sold it to JBS SA in 2008 for $565 million (IBIS, 2014). According to IBIS (2014), the sale was motivated by the company's inability to grow in this segment. It used the proceeds to reduce debts and invest in higher return opportunities. In fiscal year 2014, Smithfield’s (WH, its new name) meat-processing revenue was estimated at $12.0 billion (IBIS, 2014).

Tysons Foods, Inc.

Headquartered in Springdale, AR, the company started in 1935 as a one-man poultry operation and has grown to about 115,000 employees and over 300 locations in 130 countries (IBIS, 2014). Tysons has become the world's largest processor of chicken, beef and pork (IBIS, 2014). The company has had seven international subsidiaries that served the markets in Asia, Europe, and South America. In 2014, Tyson's meat-processing revenue was estimated at $33.4 billion (IBIS, 2014).

TENSION AT THE JBS SA NEBRASKA MEATPACKING PLANT

Tensions at the JBS SA’s Grand Island, Nebraska, plant began after the December 2006 raid by ICE, one of the largest immigration stings in U.S. history. JBS plants in six states, “Iowa, Minnesota, Nebraska, Texas, Colorado, and Utah were raided and dubbed by immigration officials, Operation Wagon Train” (Conley, 2013; Kammer, 2009). Please see exhibit 3.

According to Kammer (2009):

> The raids resulted in 1,297 arrests, a number equal to about 10 percent of Swift’s workforce at the plants. But because the raids were confined to the first shift, the actual share of the workforce that was illegal was much higher. While all those arrested faced illegal immigration charges, several hundred were also charged with illegally assuming

> the identity of U.S. citizens by using fraudulently acquired Social Security numbers (para. 4).

Exhibit 3
ICE Immigration Enforcement Agents Transporting Suspects After a Raid

Source: http://en.wikipedia.org/wiki/U.S._Immigration_and_Customs_Enforcement

As steam billowed on this cold December day from the roof of Grand Island's largest employer, 250 suspected illegal immigrant workers were arrested and detained in this town alone (Conley, 2013). This raid led to chaos and confusion that sparked anger, caused substantial production problems, and attracted a group of protesters as those suspected illegal workers were herded onto buses and taken away (Conley, 2013). According to Carlos Barcenas, an immigrant from Mexico and local pastor of Vida Nueva: "Some ladies were heard yelling, 'please take care of my kids' (Conley, 2013, para. 7). Yolanda Chavez Nuncio, Chair of Nebraska Latino American Commission recalled (in Conley, 2013):

> Part of the issue was that a lot of times people didn't know that their parents or family members had been arrested and it took time for the word to get out (para. 9).

As a consequence to this raid, Grand Island community members, the school system, churches, and other organizations came together to take care of the children whose parents were arrested and find safe homes and food for them (Conley, 2013). Grand Island police wanted to help and the community knew that this action was taken by the “Feds” and that local law enforcement was not involved. Margaret Hornady, Mayor of Grand Island at the time of the raids, confirmed that the police had little to no advance warning of the raids (2014). It was a difficult time for affected families. In some situations, both parents worked at the plant and if both were arrested by ICE, the children had nowhere to go when they were dismissed from school. The school system worked with these children and helped locate places for them to stay while their parents were going through the immigration process (Barcenas, 2014, Hornady, 2014). According to Barcenas (2014), the arrests brought different segments of the community together. However, the continued downside of the raids was that “everybody runs when they hear about immigration.”

Following the raid, many workers were deported and other undocumented workers who were not there during the raid left town. The stricter enforcement of immigration laws coupled with federal immigration crackdown hit meat and poultry-packing plants particularly hard and had a significant impact on the industry. As a result, the management of JBS at the Nebraska plant and at other plants was forced to find American workers or immigrants who resided legally in the US.

As they struggled to fill the grueling low-wage jobs that attract few workers who were United States citizens, they advertised in immigrant-based newspapers and circulated fliers in immigrant neighborhoods (Kammer, 2009; Semple, 2008). JBS moved quickly to replace these workers and immediately recruited Somali refugees from locations such as Minneapolis, MN and Columbus, OH to work at the meat packing plant (Lamken, 2014). There was no specific corporate initiative to determine the religious or cultural practices of the recruited refugees, and any such efforts were left to managers of the individual locations. Somali refugees, like Hussain Abdullah Osman, started to work at the Grand Island plant in January 2007; at that time, approximately 200 of the 2800 employees were Somalis (Lamken, 2014).

Like any other city that was hit with an immigration wave and was seeking legally documented workers, Grand Island witnessed an influx of Somali immigrant workers and their families who resided legally in the US as political refugees (Semple, 2008). Many Mexican-American workers at the JBS meatpacking plant watched with some discomfort as hundreds of Somali immigrants moved to town to fill jobs once held by Latino workers who were taken away in immigration raids (Semple, 2008).

Grand Island’s Chief of Police Steve Lamken commented: “A new population was plopped into our community with no notice. The Somalis were more of a contrast from past immigrant populations, such as Sudanese immigrants. The Somali women wore ‘head scarves,’ the Somalis were from a very different culture, were not Christian as compared to the Sudanese, and were Muslims. The community struggled to build some level of contact with the Somalis, but it was difficult” (Lamken, 2014). Chief Lamken learned that the Somali community claimed to be tribal, yet Grand Island did not have an Imam or a strong elder among the Somalis. There was no leader. They came to Grand Island to work, but were not part of a tribal community, even though they claimed to be tribal, which made it difficult to engage in a community discourse (Lamken, 2014).

While the employees at the plant worked hard, they had no formal education and were not literate in English. The city of Grand Island was (and still is) a blue collar/meat packing community; it dealt with numerous issues of multi-culturalism. None of the immigrants ever left Grand Island saying they were treated poorly (Brown, 2014; Lamken, 2014). However, “the attitudes of some people in the community towards the immigrants included closed-mindedness and many wished the meat packing plant and its employees would just go away” (Brown, 2014). This opinion was supported by Stephani Riak Akuei, an anthropologist who resided in Grand Island and is married to a Sudanese immigrant. According to Ms. Akuei (2014):

> This is a small white Anglo-German town and most people are not accepting of different cultures. . . . People here are mid-westerners, church going people, not very out-going, create prejudices, and know nothing about refugee adaptation. People live in their own enclaves.

RIGHT OR FAVORITISM

In September 2008, when Hussain had worked at JBS SA, Grand Island, for over a year and half, a number of Muslim workers (mostly Somalis) walked out to demand time for prayer and dinner during their holy month of Ramadan. The union representatives and the company's management met with Somali workers and agreed to accommodate a prayer time at sunset by moving a scheduled break up 15 minutes (Eyck, 2008).

The management at the JBS SA's plant and the local United Food and Commercial Workers Union (UFCW) agreed to temporarily change the timing of the second-shift lunch break to accommodate workers wanting time to pray at sunset during the Muslim observance of Ramadan (about 30 days long). Workers usually took the 30-minute break in shifts. However the agreed upon change forced the entire line to break at once during the Ramadan, which according to union officials did not violate the union contract (Starherald.com, 2008).

An accommodation for one group's needs can both disrupt production and stoke resentment. As the company agreed to accommodate the prayer requests for the Muslim workers, other non-Muslim workers, largely Latino immigrants, led counter-protests and walked out the next day complaining that the Muslims were being favored (Eyck, 2008). Workers told local press that the company's action was unfair and that the change would shorten everyone's hours and pay, a charge denied by the union. Others said they simply didn't want to see the accommodations made (Eyck, 2008). After two days of tension and work disruption at Grand Island's plant, the company reversed its course regarding the break time and went further by firing Somali workers and others who walked out in protest. The UFCW Local 22, filed a grievance and encouraged fired workers to come back and talk to union representatives (Eyck, 2008).

The situation was so volatile that, Grand Island's mayor, Margaret Hornady, longtime resident of Nebraska, reflected by saying "every wave of immigrants has had to struggle to get assimilated" (in Semple, 2008, para. 10). Different from the Mexican workers who were deported, many of the new Somali workers were observant Muslims who wanted to practice the traditional religious prayer schedule. This was complicated even further, since few spoke English (Semple, 2008). Please see exhibit 4 for praying time.

Exhibit 4:
Prayer "Salat" in the Muslim Faith

Prayer "Salat"*	Prayer Time
1. Salat al-fajr	Dawn, before sunrise
2. Salat al-zuhr	Midday, after the sun passes its highest
3. Salat al-'asr	The late part of the afternoon
4. Salat al-maghrib	Just after sunset
5. Salat al-'isha	Between sunset and midnight

* Salat is the obligatory Muslim prayers, performed five times each day by Muslims. It is the second Pillar of Islam. All Muslims try to do this. Muslim children as young as seven are encouraged to pray (BBC Religions, 2009). Since each Prayer takes about 7 minutes to perform, that adds up to over 30 minutes of private time (Wikia, n.d.; Radi, 2014).

Management at JBS failed to contemplate important cultural as well as religious differences between the Latino non-Muslim employees and the Muslim Somali employees. JBS did not consider the ramifications in the workplace for the Latino immigrants who remained employed at the plant after the 2006 immigration raids, and experienced an increase in their workload when the newly hired Somali refugees left the line for regular prayers. Following the ICE raids, JBS "didn't want to be raided again" (Hornady, 2014).

The Somalis wanted special consideration for prayer breaks during Ramadan; however, the objections to prayer breaks by the non-Muslim workers and managers at the plant weren't religiously based, but were primarily due to economic reasons (Hornady, 2014). This point was echoed by Nicky Coolberth, Assistant Communications Director for UFCW, who said, "the real issue when you work on a line is having a sufficient crewing. The underlying problem was the Somali workers were leaving the line" (Coolberth, 2014). When the Somali workers walked off the line they were violating the guidelines of the break times delineated in their contract. But at the same time, they were practicing their religious liberties. "The root of the problem is that people go to work every day and it gets harder and harder when someone leaves the line. Understanding and managing different cultures and holidays in the work place can be a very difficult organization, employee and management issue" (Coolberth, 2014).

> The problem wasn't really a racial or cultural problem at its root.
> The Latinos thought it was fine that the Somalis should be able to pray,
> and had a general tolerance for people celebrating their religions. They
> didn't want to get stuck with extra work and they also felt like, well,
> okay can I walk off work during the Feast of our Lady of Guadalupe?
> The real issue was that there was an entirely new group of people who arrived
> mid-contract, but the contract was negotiated before they got there (Coolberth, 2014).

The recruitment and hiring of Somalian refugees at JBS eliminated the problem of experiencing additional ICE raids by hiring documented workers. The Somalis were good workers, but the observation of Ramadan and its requisite prayer breaks caused consternation between the Somali and Latino workers at the plant; that created an obvious division in the plant (Coolberth, 2014).

The workforce of 2800-3000 employees was evenly split between the two shifts. The plant operations were divided between the slaughter and fabrication departments, with three times as many employees in the fabrication department, as compared to the slaughter department. Employees were routinely disciplined for "walking off," or leaving their lines or work stations without notice or permission, regardless of the reason or excuse given. Leaving the line without permission caused problems including: a product progressing down the production chain without being trimmed or deboned, a product stacking up, or even a product falling on the floor. JBS did not discipline or discharge any of its Muslim employees for praying, but some were disciplined for walking off their lines without permission (United States District Court, 2013). Such requests were usually granted and angered the non-Muslim employees.

The existing union contract had been negotiated before Somali Muslims became a significant part of the factory work force, when religious needs had not been an issue, and break times were assigned according to a rigid schedule to ensure continuous production and prevent workers from working too long without a break. The sharp knives the meat packers wield for their job posed a substantial risk of accidental injury (Semple, 2008; Eyck, 2008). According to Semple (2008):

> This newest wave of immigrant workers has had the effect of unifying the other ethnic populations against the Somalis and has also diverted some of the longstanding hostility toward Latino immigrants among some native-born residents (para. 9).

"A lot of the initial conflict comes from lack of understanding of the religious practices… they may not understand why people think it's important to fight for," said Renaye Manley, organizing director for Interfaith Worker Justice, an organization that promotes workers' rights in the faith community (Eyck, 2008, para. 14). However, Jill Cashen of the UFCW stated that "tensions at Swift had been building and weren't just about workers' misunderstanding of Ramadan traditions... workers leaving the moving line to pray caused workload problems and safety concerns for others" (Eyck, 2008, para. 14).

JBS CORPORATE POLICIES

JBS's corporate office established broad policies pertaining to discrimination, harassment, retaliation, absenteeism, and retention, yet relegated the day to day responsibilities to address these matters to each plant's individual Human Resources Office. Equal Employment Opportunity Commission compliance training known as "Best Work Environment" was given to all employees. Workers at the plant were represented by the UFCW Local 22, responsible for making requests to management to accommodate employees' religious practices (U.S. District Court Transcript, 2013).

In 2007-2008, the collective bargaining agreement (CBA) in place stated that JBS and the Union would provide reasonable accommodations to employees based on their religious tenets. The CBA stated that JBS would determine what accommodations to provide based on its interpretation of the United States Civil Rights Act, 42 U.S.C. Section 2000. In 2007-2008 JBS's unwritten policy in relation to breaks was that unscheduled breaks were for restroom purposes only. There was no policy allowing breaks for prayer and break requests were given at the discretion of the supervisor (U.S. District Court Transcript, 2013).

In September 2008, JBS and Union representatives met with Muslim employees, who requested a break at sunset in order to pray. The employees were told that the only way this request could be accommodated was if the break occurred at the designated meal break between 7:30 and 8:30 p.m. per the CBA. This was unacceptable to the Muslim employees since sunset times change during the year. Management's position was that 200 employees could not be relieved from work within the same 10 minute window as this would create safety and quality control concerns (U.S. District Court Transcript, 2013).

THE LATINOS OF GRAND ISLAND

The Latino community in Grand Island was composed primarily of Mexican, Central, and South American immigrants who maintained the cultures and traditions of their homeland. The Latino women from Mexico continued to cook Mexican-style meals and practiced certain family rituals that included singing traditional ballads with children in the evening. Mexican women were also credited with instilling Catholic beliefs and practices in their children and proliferating the church's dogma, the foundations of Catholicism beliefs. Although modern secular beliefs found their way into the lives of the younger generations, philosophically, Catholicism remained strong in Grand Island (Gamio, 1971). According to Barcenas (2014):

> Although a large number of Mexican immigrants identified themselves as Catholics, the Latino immigrants in Grand Island do not practice religion as regular church goers. ... People are too busy, most people only had Sundays off from work and they spent the day with their family – shopping, boating, visiting, etc. … The first and second generation immigrants were falling apart.

Latino and Mexican-American religious traditions included a uniform cultural identity and sense of pride. These traditions supported ongoing struggles for justice coupled with resistance to assimilate into American culture (Matovia & Riebe-Estrella, 2002). There was always a lack of conformity to the American way of life among Latino immigrants. The Mexican-American Pastor stated: "Many people who come to this country, want to be here, but they don't want to be part of America. They come here and we (Americans) don't teach them how to assimilate. Despite the Latino population's self-identification as Christians or Catholics, religion is generally not a part of the routine of day to day life, and does not play a role in the work place" (2014).

Like many other Latino workers, Jose Rodriguez was part of the large employee base of approximately 2800-3000 employees at the JBS Grand Island plant; his routine of going to work every day and providing a living for his family was disrupted and underwent dramatic change on December 12, 2006.

THE SOMALIS OF GRAND ISLAND

Over the past century, many towns and small cities across the United States have experienced and become accustomed to multicultural and multiethnic pluralism. While Hispanic communities acclimate to the Judeo-Christian identity, such was not the case with the new immigrant population from Somalia. Unlike the undocumented or documented Hispanic workers, Somali refugees brought new questions and challenges to ethnic diversification (Shandy, & Fennelly, 2006). Communities such as Grand Island were faced with a cultural shift and a contrasting identity because refugees who emigrated from Somalia were of Muslim faith, which caused social and cultural integration challenges (Trabalzi & Sandoval, 2010).

Islam was and still is the primary religion in Somalia. The majority of Somalis were (and still are) Sunni Muslims. Almost all social norms, attitudes, customs, and gender roles among Somalis derive from Islamic tradition (Lewis, 2008). They followed the five pillars of Islamic faith: (1) Faith or belief in the Oneness of God and the finality of the prophet Muhammad; (2) prayer five times a day; (3) giving 2.5% of one's income to charity; (4) making a pilgrimage to

Holly Mecca (in Saudi Arabia), at least once in one's lifetime; and (5) fasting from dawn until dusk every day during the month of Ramadan (Somalis, 2012). During the ninth month of the lunar calendar, Muslims, including Somalis, observe Ramadan to mark the initial revelations to the prophet Muhammad (Lewis, 2008). During the 30 days of Ramadan, people pray and fast between sunrise and sunset. Pregnant women, the ill, and children are exempted from the fast (Lewis, 2008).

The culture of Somalia was a mix of traditions that was indigenously developed over a period of time as a result of the wave of old centuries migration into Somalia that started in the 5th century A.D. from Africa and followed by Arabs and Persian in the 11th century A.D. (Somalia, 2012). The Somalis have acquired and cultivated the art of memorizing and speaking for long hours. They were also (and still are) extremely keen listeners and learners, had (and still have) a rich musical heritage centered on traditional Somali folklore. "Due to the Somali people's love for and facility with poetry, Somalia has been referred to by scholars as a "Nation of Poets" and a "Nation of Bards" (Somalia, 2012:7). It was a fact that neither the tenet requiring prayer five times a day nor the importance of Ramadan to Muslims was considered by Swift (JBS) during the hiring process of the Somali employees at the plant.

DECISION TIME: WHAT TO DO?

It was the last Monday of September 2008, both management and UFCW Local 22 representatives at JBS, Grand Island, were concerned about the tension at the plant and wanted to find a good solution that would not only accommodate the Somali workers but would also build sustainable diversity awareness for all employees and managers, while effectively managing its operations.

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END NOTES

[1] This case was prepared by Issam A. Ghazzawi and Marie Palladini as a basis for class discussion, rather than to illustrate either effective or ineffective handling of a management situation. The case was based on both primary and secondary data. For information, contact: ighazzawi@laverne.edu.
The authors extend their deepest appreciation to members of the Grand Island, NE., community who provided insight into this case.

[1] ConAgra Foods purchased 50% of Swift in 1988 and the remaining portion in 1990.

[1] JBS S.A. was the largest beef processor in South America and one of the largest worldwide beef exporters. The acquisition made the newly consolidated JBS Swift Group the largest beef processor in the world.

[1] Tens of thousands of Somali refugees fleeing civil war have settled in the United States since the 1990s, with the largest concentration in Minnesota. Hundreds of thousands of Somalis died as a result of this war.

[1] Ramadan is the ninth month of the Islamic calendar. It is a time of fasting for the Islamic people. Each day during this month, Muslims all over the world abstain from eating, drinking, smoking, as well as participating in anything that is ill-natured or excessive; from dawn until the sun sets. Fasting is one of the Five Pillars of the Islam religion, and one of the main types of Islamic worship. Fasting is intended to educate the Muslim in spirituality, humility and patience. It is a time to cleanse the soul, focus attention on God, and put into practice selflessness. Ramadan is a time for Muslims to fast for the sake of God and to put forward more prayer than is customary. For more information, refer to: http://whatisramadan.com/ and/or http://beliefnet.com

[1] Muslims do not pray for the benefit of God "Allah". They pray because God has command them to pray, and accordingly, they believe they obtain great benefit by praying (BBC

Religions, 2009). While they can pray at any place, it is especially good to pray with others in a mosque. Praying together in a congregation helps Muslims to realize that all humanity is one, and they are all equal in the presence of almighty God (BBC Religions, 2009).

[1] This prayer timetable gives Muslims the pattern/rhythm of their day. Prayer for a Muslim involves uniting mind, soul, and body in worship; so a Muslim carrying out these prayers will perform a whole series of set movements that go with the words of the prayer. The prayer ritual, which is over 1400 years old, is repeated five times a day by hundreds of millions of people all round the world. Carrying it out is not only highly spiritual, but connects each Muslim to all others around the world, and to all those who have uttered the same words and made the same movements at different times in Islamic history. In their prayer, there is no need for a priest to act as an intermediary; instead, there exist a prayer leader in the mosque-the imam. He is not a priest, simply a person who knows a great deal about the faith. For more information, please refer to (BBC Religions, 2009).

[1] In certain circumstances, if someone was not able to perform one's prayer within the prescribed time period; the prayer must be performed as soon as one is able to do so. Additionally, when travelling over long distances or in other circumstances, one may shorten some prayers, a practice known as “qasr”. Furthermore, several prayer times may be joined, which is referred to as Jam' bayn as-Salaatayn. Qasr involves shortening the obligatory components of the Zuhr, Asr, and Isha prayers to two rakats. Jam' bayn as-Salaatayn combines the Zuhr and Asr prayers into one prayer and prayed 2 Rakats each in one session, offered between noon and sunset, and the Maghrib and Isha prayed 3 Rakats then 2 in one session between sunset and Midnight. Neither Qasr nor Jam' bayn as-Salaatayn can be applied to the Fajr prayer (Radi, 2014; BBC Religions, 2009).

REVENUE RECOGNITION AT INGELHEIM SUSTAINABILITY CONSULTANTS – A CASE EXPLORING THE EFFECT OF THE NEW CONVERGED STANDARD

Marianne L. James, California State University, Los Angeles

CASE DESCRIPTION

The primary subject matter of this case deals with the new revenue recognition standard issued jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), which once effective will supersede both U.S.Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) on all revenue recognition-related issues. The primary objective of this case is to help students learn and understand the major provisions of the new revenue recognition standard and explore the potential effect on the financial statements of a service provider. Secondarily, the case explores potential ethical considerations that may arise for accounting professionals implementing the new standard.

The case has a difficulty level of three to four and can be taught in about 40 minutes. Approximately two hours of outside preparation are necessary to fully address the suggested case-specific, research, and ethics questions which are largely independent, providing instructors with considerable flexibility. The case can be utilized in an Intermediate Accounting course to reinforce the revenue recognition-related concepts and issues discussed in class. It can also be used in an advanced level course focusing primarily on the research components or in an accounting ethics course focusing primarily on the related ethical issues.

Using this case can enhance students' technical, analytical, research, and communication skills and may provide opportunities for discussing ethical considerations in the context of revenue-recognition and the implementation of the new comprehensive accounting standard. Furthermore, the case also provides students with some insights into sustainability consulting, which represents a rapidly expanding area with continually increasing involvement by and enhanced opportunities for accounting professionals.

CASE SYNOPSIS

After years of collaboration, two exposure drafts, and extensive due process, in May 2014, the FASB and the IASB issued their new accounting standard on revenue recognition. The U.S. GAAP version of the converged standard, Accounting Standards Update No. 2014-09, which is entitled "Revenue from Contracts with Customers," will be integrated into the FASB Accounting Standards Codification (ASC) topic No. 606 and supersede all currently existing GAAP on revenue and revenue-related topics (FASB, 2014). *ASU 2014-09, which includes several appendices and exceeds 700 pages, is quite complex and may significantly affect revenue recognition for many entities.*

This case deals with a fictitious midsize privately-held company that provides comprehensive sustainability-related consulting services to clients. Sustainability, which is

defined as preserving resources for future generations while creating value for current generations (U.N. 1987), is an important aspect of many organizations' operations. Sustainability falls into three broad areas – environmental (ecological), social, and financial sustainability. The company background included in this case provides students with the opportunity to consider revenue recognition-related issues under the new revenue standard in the context of an industry that is enjoying rapid growth and increasing involvement by accounting professionals, both in the U.S. and globally. The specific revenue recognition-related issues addressed include long-term contracts, bundled services, variable consideration, and discounted future services; which represent issues that tend to require additional consideration under the new standard.

This case may enhance students' understanding of major changes to revenue recognition. The case explores the effects of changes to revenue recognition on the financial statements as well as related ethical considerations, which are critically important to future accounting and business professionals. In addition, the case may help students gain some insights into a growing industry which enjoys increasing involvement by accounting professionals. Use of this case may enhance students' technical accounting, critical thinking, research, and communication skills; and also enhance ethical awareness related to accounting choices.

THE CASE

Melinda Flores is the new accounting manager of Ingelheim Sustainability Consultants a midsize privately-held firm. After graduating with an accounting degree six years ago and passing all four parts of the Certified Public Accountant (CPA) exam, Melinda worked for a mid-tier public accounting firm - for the first two years as a financial statement auditor and later as an employee benefits consultant. Throughout her career, Melinda closely followed the standard-setting activities of FASB and its collaboration with the IASB, and especially the boards' deliberations on the long-awaited revenue recognition standard. Through her professional activities and her memberships in several professional organizations such as the American Institute of Certified Public Accountants (AICPA), Melinda stayed informed not only about standard-setting activities, but also about new developments and trends affecting the accounting profession.

As an environmentally and socially conscious individual as well as a financially-oriented professional, she is very interested in the continually growing trend toward environmental, social, and financial sustainability, which already is embraced by organizations of all types and sizes. She strongly believes that companies must consider the comprehensive impact of their activities on the environment and on people and create value for current generations, while preserving natural, social and financial resources for future generations. During the past few years, she has watched, with great interest, the growing involvement of accounting professionals with sustainability-related issues – in advisory, implementation, and reporting support capacities.

Eager for new challenges and in a desire to enhance work-life balance, a few months ago, Melinda accepted the position of Ingelheim's accounting manager. As one of her duties, Melinda periodically conducts employee training sessions for the company's 16-person accounting staff. Her first training session scheduled for October 14, deals with updates on new accounting standards, with a special focus on revenue recognition. She plans to spend the morning session discussing revenue recognition with special emphasis on how implementation of the new standard will affect Ingelheim Corporation.

The Company's Environment, Products and Services

Ingelheim Sustainability Consultants is a midsize privately-held corporation specializing in sustainability consulting and support. Because of its size and ownership structure, the company is not subject to SEC reporting rules. The company differentiates itself from its competitors by providing customized comprehensive services, tailoring each consulting engagements to the specific needs of its clients. The majority of the company's clients are small to midsize companies with no in-house sustainability-related staff; thus, they rely on Ingelheim to advise them on all aspects of their sustainability-related activities. Ingelheim's founders build their business by servicing this important niche. As a result, Ingelheim tends to establish long-term relationships with its clients. While Ingelheim's offers advisory services on all broad categories of sustainability - financial, environmental, and social sustainability – it currently derives 62% of its $284 million in revenue from engagements dealing with environmental sustainability.

Due to the nature of its services and the size of its clients, a significant portion of Ingelheim's contracts extend beyond one year. In addition, over the past four years, the company has utilized specific strategies to significantly expand its long-term client base. One of the programs that contributed to the company's ability to build long-term relationships with clients is that Ingelheim offers its clients significant discounts for additional services contracted for within 18 months following the initial consulting engagement.

A typical long-term consulting engagement includes all aspects of planning, implementing, and monitoring of environmentally-oriented programs; such as acquisition of energy-saving equipment; implementing recycling programs; setting up employee-benefits programs such as wellness facilities; providing the necessary research support; assisting with the selection of vendors; and monitoring the progress achieved with each project. In addition, the company assists clients with internal and external sustainability reporting, including any grant-related reporting where necessary.

Consulting engagement involving new clients typically commence with an information-gathering sustainability assessment, which includes extensive data collection, meetings with key executives, competitor assessment, consideration of the needs of the client's internal and external stakeholders, and identification and prioritizing of internal and external stakeholders' expectations. This initial review may require one to two months and includes the development of a sustainability roadmap tailored to the company's needs. The next step typically involves the selection and implementation of sustainability-related projects, such as recycling, energy-saving, and employee-wellness programs, and may require several months or occasionally several years, depending on the type of activities a client wishes to implement.

The company frequently assists its clients with the selection of vendors and may oversee the implementation of each project and process. Ingelheim may also help its clients identify publicly available incentive programs and upon the clients' request assist with the related application, documentation, and reporting processes. Currently, support with formal sustainability reporting represents a relatively small part of Ingelheim's revenue. However, the company recognizes tremendous growth potential in this area and plans to expand its offering in the near future to include support for clients' formal reporting to stakeholders, focusing on what is commonly referred to as the "triple bottom line," which refers to people, profit, and planet.

Future Expansion Plans

Ingelheim's management has closely watched the expanding prevalence of formal reporting of sustainability-related activities by not only large companies, but also by midsize and even small companies. The company's management is aware that reporting on sustainability-related activities is moving away from promotional-type to more formal reporting and understands that this creates both challenges and opportunities for organizations reporting on sustainability. Ingelheim's Chief Financial Officer (CFO), Alvin Turner, has read several studies that strongly suggest that stakeholders and especially investors and consumers expect companies to report not only on their financial results; but also on their comprehensive impact on the environment, the future availability of recourses, and the community in which a company operates.

Recently, several of Ingelheim's current clients, whom the company has assisted in establishing significant sustainability-related programs, have indicated that they are interested in formally reporting on their sustainability-related activities to investors, consumers, and other stakeholders. The company's management recognizes that this provides an important opportunity for future growth and plans to significantly expand its sustainability-reporting services by the year 2018. A management team consisting of the company's CEO, CFO, marketing manager, and accounting manager (Melinda), is in charge of planning and implementing the expansion. The team has met several times over the past two months and estimates that in order to accomplish the expansion goal; the company will need to add ten accounting professionals knowledgeable in formal sustainability reporting to its current team of 87 consulting professionals. Currently, only three of these professionals have a strong sustainability reporting background; most of them have environmental engineering and corporate social responsibility consulting backgrounds.

The additional professionals needed to support the company's sustainability reporting-related expansion plans must be knowledgeable about reporting trends, reporting guidelines and options, choices of formats, and regulatory issues. In addition, it will be necessary for Ingelheim to expand its facilities, purchase additional equipment, and acquire transportation for the additional consultants who will need to travel between clients and office; and enhance the company's information technology. Furthermore, Ingelheim will have to hire additional support staff.

The company is planning to raise additional capital to support the expansion by selling additional ownership shares. The company's current owners expect that steadily increasing revenue and profitability will allow the company to achieve a very favorable selling price for its privately placed shares. The CFO, who is also a current shareholder, is planning to start creating interest for the company's shares. He believes that continuing revenue and profit growth are essential in helping the company achieve a high share price.

Ingelheim's Revenue Recognition

Ingelheim's contracts with its clients usually involve several service components such as initial assessment, planning, implementation-related activities, monitoring, and in a few cases reporting support. Depending on the combination of services provided and the length of the contract period, the company currently utilizes either the percentage-of-completion method or applies revenue recognition for multiple deliverables. Under the percentage-of-completion method, the company recognizes revenue and expense proportionally based on the estimated stage of completion. The company calculates the stage of completion based on the proportion of the total estimated consulting hours completed to date.

For contracts involving multiple deliverables, the company allocates revenue and costs to the various components of the contract and recognizes them when they are substantially completed. For consulting engagements involving long-term monitoring, Ingelheim allocates the related revenue and cost over the time period covered by the contract, recognizing revenue and expense based on the passage of time, rather than the performance of specific tasks.

A portion of Ingelheim's contracts includes bonuses for achieving pre-specified target completion dates or targeted results. For example, the company recently received a $280,000 bonus for helping a client successfully implement a recycling program that achieved a waste recycling rate of 80% by September 1 of the current year. Currently, consistent with GAAP, Ingelheim defers recognition of the bonus revenue until it has met the conditions for earning a bonus.

Ingelheim's contracts typically provide clients with the opportunity for discounted future services. At the end of each year, Ingelheim estimates the amount of discounts its clients will likely claim in the future and discloses the related information in the financial statement notes.

Alvin is aware that FASB finally issued the long-awaited revenue recognition standard. He has delegated much of the decision making regarding adoption and implementation of new standards to Melinda and asks to be informed periodically of pending changes. Melinda is planning for the company to adopt the provisions of the new revenue recognition standard for the 2017 fiscal period. She knows that this implementation is likely to affect Ingelheim's revenue recognition. To help her accounting staff prepare for the implementation, which will include the derivation of comparative prior-year information, Melinda is planning to focus her upcoming employee training session on revenue recognition.

Employee Training Session

Prior to starting the one-day employee training session, Melinda prepares a brief overview of the significant changes under the new revenue recognition standard (ASU 2014-09) with a special emphasis on issues pertinent to the company. Exhibit 1 presents the handout distributed to the training session participants. During the training session, Melinda soon notices that most of her staff is already quite knowledgeable about the main provisions of the new revenue recognition standard. Thus, after spending a brief amount of time on the core revenue concept, the new five-step process, and discussing GAAP changes pertaining specifically to Ingelheim Company, the group starts a lively discussion. One of the accounting staff members mentions the length of time it took for FASB and IASB to issue a final standard on revenue recognition. This leads to the question of whether the new standard achieved the intended objective. Another staff member says that he had heard that the implementation date for the standard has been postponed. Then a new staff member, who had just earned her master degree in accounting and currently is preparing for the CPA exam, asks whether the new standard would reduce potential earnings management. Melinda shares her opinions with her staff and feels confident that her own understanding of revenue recognition has been enriched by the discussion. She leaves the seminar feeling very pleased, but also thoughtful.

The next day, Melinda meets with her friend and former colleague, Bettina, who is an audit manager. After exchanging personal and professional news, Melinda talks about her training seminar. She asks Bettina what effect the new standard will have on her clients' financial statements and what she recommends to her clients regarding the adoption date of the new revenue standard. Bettina replies that her clients, whose primary business transactions involve point-of-sale revenue recognition, will not experience a significant financial statement impact upon adoption of the revenue standard. However, she anticipates that clients who are selling bundled products, who have long-term contracts, and contracts with variable consideration, will tend to experience more significant effects.

Melinda shares some of the seminar participants' comments with her friend. She asks Bettina for her opinion about the potential for manipulation under the new standards from her perspective as a financial statement auditor. They talk about the different aspects for a while and then return to their respective offices. Upon returning to her office, Melinda finds a message asking her to meet with the CFO.

Meeting with the CFO

After greeting Melinda, Alvin tells her that he reviewed her seminar handout and has a few questions and observations regarding the new revenue standard. Specifically, he wants to know how applying the provisions of the new revenue standard will affect Ingelheim's financial statements in the future. Alvin emphasizes that the amount of revenue reported during the next few years is especially important because of the company's plans to raise additional capital to support the planned expansion. Specifically, he asks Melinda to keep in mind the need for favorable revenue growth prior to and during the financing year. When Frank notices a concerned expression on Melinda's face, he immediately emphasizes that (of course) earnings management was neither intended nor tolerated. He clarifies that since a number of revenue-related issues involve competing supportable estimates, choosing estimates with favorable results will help the company achieve sustained growth in helping its clients' achieve their missions. Alvin again emphasizes that reporting the highest achievable revenue around the financing year will be very important.

To help him understand the expected effect of the new revenue standard, Alvin asks Melinda to (1) summarize the potential financial statement effect of applying the new revenue standard's provisions to its typical contracts, (2) consider strategies for enhancing revenue under the new standard, and (3) consider the needs of the company in recommending an adoption date for the new standard. Melina promises to consider these issues and provide the requested information by the end of the week.

After the meeting, Melinda reflects on her conversation with the Alvin, who is her direct superior. She remembers that previously, Frank had asks her to make the decision regarding the adoption date; now instead he was asking for a recommendation. She also recalls some of the issues she and her staff discussed, as well as her conversation with her friend Bettina about the potential for earnings management. She returns to her office to address the CFO's questions. A few days later, Melinda once again meets with the CFO to provide the requested information. Alvin, however, is called away just as the meeting starts and he asks Melinda to leave the information for his review. They would discuss further strategies at a later date.

Melinda is planning to meet with Bettina during the weekend. She considers whether she should share her vague concerns with her friend.

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Exhibit 1 **SUMMARY OF CORE CONCEPTS AND PRINCIPLES**		
Accounting Issue	Current Applicable GAAP - ASC Section 606	Future GAAP – ASU 2014-09
Fundamental concepts/principle	Revenue generally is recognized when (1) earned <u>and</u> (2) realized or realizable	Core Concept: Revenue is recognized when goods or services are transferred to customers for the amount the company expects to receive in exchange for those goods or services (ASC 606-10-05-4) Realization requirement was eliminated, which concurrently eliminates the installment cost method and the cost recover method.
Application of concepts/principle	Revenue must be both earned and realized/realizable. Some exceptions when (1) revenue earned over several periods; (2) realizability not reasonably assured; (3) contract involving multiple deliverables; (4) for interchangeable commodities	Five steps are used to apply the core principle: (1) Identify contract with customers (2) Identify the performance obligation(s) in the contract (more detail below) (3) Determine the contract price (4) Allocate the transactions price to each performance obligation (5) Recognize revenue when (or as) each performance obligation is satisfied
Separate Performance obligations (Bundled services)	Multiple deliverables Revenue/contract price allocated to each deliverable	Goods or services that are distinct or capable of being distinct are considered separate performance obligations. Some contract provisions currently not considered separate, may meet the criteria for "separate performance obligation" under the new standard if they confer a "material right." E.g., options for additional goods and services
Realization-related methods	Deferral of profit if collectability is not reasonably assured: Installment sales method Cost recovery first method used instead	Realization requirement eliminated from core principle; revenue is recognized to the extent that the seller is entitled to the contract price. Thus, installment sales and cost recovery methods are eliminated

WHAT EVERY COLLEGE STUDENT SHOULD KNOW ABOUT NON-COMPETE AGREEMENTS

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CASE DESCRIPTION

The pros and cons of non-compete clauses or agreements continue to be heavily debated in today's workplace. Many college students graduate from college and are confronted by prospective employers with the decision to sign or not to sign a non-compete clause or agreement without really knowing enough about them to make a good decision involving potential career implications. This research case takes an in-depth look at the background and history of non-compete agreements, current Employer use, enforceability, determining validity, state by state surveys and a summary of the judicial approaches to non-compete agreements. It also surveys how current students and faculty perceive them and their level of understanding of how non-compete clauses or agreements work. This case further provides the student with the needed information as to whether or not the employment opportunity is of such value as to cause the student to sign the agreement and purse a career with the employer. This case has a difficulty level of being appropriate for senior level or first year graduate classes. The case is prepared for two hours of instruction and discussion. The students should receive the case earlier and be prepared to discuss the ramifications of the case together with the instructor.

CASE SYNOPSIS

Non-compete clauses or agreements continue to be a major concern for both Employers and Employees. Of particular interest is our research survey of current students and faculty perceptions and level of understanding regarding non-compete agreements. Of the 551 respondents, 70.8% were senior level students while 29.2% were faculty and staff for a regional university. 78.9% indicated they felt a non-compete clause or agreement did not protect their interests as an employee. In addition, 22.0% were required, or had been required in the past, to sign a non-compete clause or agreement to get a job. The majority of respondents *felt the following: by signing a non-compete clause or agreement, they were giving up some of their personal rights; a company that requires employees to sign a non-compete clause or agreement only does so to protect its own interest without concern for the employee; a non-compete clause or agreement favors the employer over the employee; believes that they would have a better chance to win a dispute against an employer if their claim was heard by a judge and jury; disagrees that a non-compete clause or agreement is appropriate, felt they understand a non-compete clause or agreement and believes a non-compete clause or agreement does not protect their interests an employee. This research is of further value to students because it identifies current and future trends of Employer use of non-compete clauses or agreements in the workplace. Students should be able to identify whether a non-compete agreement is "overly broad" in their mandatory restrictions, whether Employers are expanding current "Noncompetition" provisions of agreements by expanding the "Restricted Period" and the geographic territory covered by such agreement. Finally, this research provides* *recommendations as to whether or not a student should proceed in signing or decline the signing of a non-compete clause or agreement being required by an employer.*

INTRODUCTION

Vigorous competition is the backbone of America. Both consumers and businesses depend on competition to set product pricing, assure widespread choice, and foster higher quality consumer goods and services. Our free enterprise system should allow individuals the opportunity to join other companies or to start their own business. Job mobility surrounding today's workforce has resulted in employers being concerned over the possibility of losing valuable and financially harmful information to a departing employee. As a result, employers attempt to prohibit, regulate, or restrict postemployment competitive practices through the use of legal restrictions.

These legal restrictions consist of what has become known as a non-compete agreement, a non-compete clause, or a covenant not to compete. These are contractual terms under which the employed party agrees in writing not to pursue a similar profession or business endeavor, or compete against the former employer party. These agreements are used with the premise that upon employment separation, a former employee may start working for a competitor or start a similar business, and gain a competitive advantage by using confidential or sensitive information obtained by the former employer. Employers often require a non-compete agreement as a separate document while other employers include a non-compete clause within the employment contract as part of the company confidentiality policy.

Regardless of how they are implemented, employers look at non-compete agreements and clauses as an effort to protect their intellectual property. Accordingly, employees look at such agreements as a restriction to future employment opportunities and to their career opportunities. No business wants to lose their key employees. They have first-hand knowledge that could enable them to do financial damage to their former employers by disclosing or utilizing confidential or private information important to success. (Orelup and Drewry 29)

CURRENT EMPLOYER USE

Today, non-compete agreements are prevalent in free-enterprise markets heavily dependent on a loyal and knowledgeable workforce. These markets include start-ups, small businesses and high-tech enterprises. The former owners are also including them in business acquisitions to forbid competitive practices. When used effectively, a non-compete agreement "can protect, preserve, and promote the success of a business. If misused, however, they can be a bane to business and an invitation to prolonged and unpleasant litigation" (Tanick).

In the context of employment, an employer seeks to reduce the risk of economic harm, by attempting to limit current or previous employees from seeking new employment with business competitors or from disclosing confidential company information, trade secrets, or proprietary company data. The desired result of non-compete agreements would be that when employment ends, the agreement would prevent or substantially restrict the future employment of the past employee during a specific period of time (smallbusiness.findlaw.com).

Before even requiring a con-compete agreement, an organization should determine what is confidential about the business and whether there is adequate information needing protection. In regards to this information, an employer should consider:

- How well it is known externally
- The extent to which it is known internally
- The value to the business and its competitors
- The difficulty or ease with which the information can be duplicated by outsiders or legally acquired (Business Owner's Toolkit).

Specific items that may be covered in a non-compete agreement include, but are not limited to:

- Sensitive customer/client information
- Customer Relationships
- Trade secrets
- Confidential information
- Compositions/formulas
- Inventions
- Discoveries
- Data
- Business methods
- Processes
- Manufacturers
- Machines
  ("Business Owner's Toolkit", Beck)

Areas of employment where a nondisclosure or non-compete agreement may be considered include the following:

- Research or product development
- Engineering and drafting employees engaged in design
- Technicians employed to service machines, appliances and similar products manufactured or sold by the company
- Manufacturing, maintenance and production department heads with substantial supervisory authority over production and manufacturing company products
- Creative employees who work on trade names, advertising, broadcasting, and other promotional materials
- Sales and service employees who deal directly with customers and clients of the organization
- Administrative positions that require accounting for or processing of detail related to experimental, inventive, or creative work
- Those employees with sufficient information to be able to start up and/or compete in a similar business
  ("Business Owner's Toolkit")

STANDARD PROVISIONS

Most non-compete agreements have three basic or standard provisions:

- Noncompetition – prevents an employee from engaging in activities that competes with the employer
- Nonsolicitation – restricts solicitation of other employees, customers or clients
- Nondisclosure or confidentiality – limits unauthorized use of confidential, proprietary, or trade secret information
  (Orelup and Drewry 29)

ENFORCEABILITY

Many employers are surprised to learn that these agreements may be unenforceable as written. Most courts disfavor such agreements and consider them in opposition of public policy (Orelup and Drewry 29). Contemporary case law will generally enforce these agreements only to the extent necessary to protect the employer, and even then, they vary greatly depending upon jurisdiction (Wikipedia contributors). Non-compete agreements must be carefully written to withstand legal scrutiny. There is not a broad or standard agreement where overarching limitations and restrictions apply, in other words, each agreement should be individually evaluated, giving careful consideration to business circumstances, employee involvement and comply with the laws of the state where written (Orelup and Drewry 29).

DETERMINING VALIDITY

There are many state specific variations in determining validity, but most states look at the following five (5) guidelines when determining the validity of a non-compete clause or agreement:

Reasonableness. To determine if the non-compete is reasonable, or appropriate, courts have applied a four-part test:

1. Does the employer have a legitimate protectable interest such as time, investment, and other resources invested in the employee?
2. Is the restriction reasonably related to that interest?
3. Is the agreement reasonable in time and place/
4. Does the restriction impose an undue hardship on the former employee?
   (Lehane; Daily)

To have a protectable interest,"the employer must possess a substantial right in its business sufficiently unique to warrant the type of protection contemplated by a non-compete agreement" (Lehane). The employer cannot limit the employee's right to pursue work elsewhere and cannot unduly limit work opportunities. Employers bear the burden of proof that the agreement is narrowly tailored regarding legitimate business interests or economic harm. Courts will favor the employee if there is any contract ambiguity (Orelup and Drewry 29).

Duration The non-compete agreement must be temporally specific. Courts will generally consider any postemployment length over two years as unreasonable. Any agreement longer than two years will be closely scrutinized by the courts (Orelup and Drewry 29).

Geographic Scope. An agreement must be narrowly tailored to meet the protective needs of the employer and to ensure the greatest likelihood of enforcement. Courts may refuse to enforce a geographic scope beyond a particular market area. An agreement that restricts a former employee from opening a business *anywhere* would most likely be considered unreasonable and unenforceable by judicial proceedings (Lehane).

Activity. Agreements must be narrowly tailored as to specific business activity or service provided by the employee. A non-compete restricting an employee from working in an area in which he was never associated could be deemed as too restrictive and unenforceable.

Independent Consideration. A basic tenant of contract law is that there must be some benefit to both sides for a contract to be valid ("smallbusiness.findlaw.com"). As with any contractual agreement, both parties must give and receive something of value, or "consideration". Some state courts have determined that an offer of employment is sufficient consideration for a non-compete to be legally binding, even if entered into after employment begins (Daily). However, some courts will not enforce the agreement unless the employee receives something of value other than continued employment in exchange for signing a non-compete agreement. For example, if the non-compete agreement is signed after employment begins, the employee must receive a bona fide benefit (bonus, stock options, promotion, etc.). Without this type of independent consideration, some courts may rule continued employment as misleading and rule the consideration as insufficient for agreement validity (Orelup and Drewry 30).

JUDICIAL APPROACHES TO NON-COMPETE AGREEMENTS AND CLAUSES

The above-described areas of reasonableness, duration, geography, activity and consideration are guidelines by which courts determine validity of non-compete clauses and agreements. However, the approach to enforcement and judicial theory differs among jurisdictions. Currently, there are four judicial approaches to non-compete agreements and clauses.

Reasonable Modification or Reformation. A non-compete agreement determined to be overly broad may be modified or rewritten. The courts will limit the restrictions as necessary to protect the legitimate business interests of the employer. The states of Alaska, Delaware, Florida, Illinois, Kentucky, Missouri, New York, Ohio, Rhode Island, Tennessee, Texas and Wyoming (on a very limited basis) currently follow this method (Beck).

Blue-Pencil Doctrine. The courts of Alabama, Arizona, Colorado, Connecticut, Idaho, Indiana, Maryland, Minnesota, Montana, New Jersey, North Carolina, Pennsylvania, South Carolina, Vermont, Washington, and West Virginia prefer not to rewrite overly broad agreements. Instead, these states prefer to the "blue-pencil" rule; the provision deemed overboard is stricken from the non-compete and the remainder is enforced, if practical (Beck).

Thus, an employer faced with a possible lawsuit in a reasonable modification state, has the potential benefit of the court rewriting or modifying an overbroad agreement while employers in a blue-pencil state do not. Usually, the courts will uphold what is necessary for protection of the employer's legitimate interest, and all else considered unnecessary and unreasonable will be blue-penciled, provided the remainder of the agreement meets the other criteria for reasonableness. The entire agreement will be ruled void if the test of reasonableness cannot be passed. To avoid this, the employer should establish specific geographic criteria such as city, county, or circular distance. By doing this, the courts of blue-pencil states will be allowed to strike specific clauses and enforce the rest.

No-Modification. A number of other states follow an all-or-nothing policy of enforceability. Those states following this judicial approach include Arkansas, Georgia, Louisiana, Nebraska, South Dakota, Utah, Virginia and Wisconsin. The courts there are prohibited from modifying or striking any portion of a non-compete agreement or clause within an employment contract. If any portion of the document is found to be unreasonable, the entire agreement is considered unenforceable. It is important to note that whether state courts are governed by statute, public policy, or case law, each agreement must be narrowly tailored and customized for each circumstance. If non-compete agreements in these states are deemed reasonable, they are upheld as written.

Presumptively Void. Currently California, North Dakota and Oklahoma are the only states that consider non-compete agreements unlawful. As a matter of public policy, these states have ruled that such restrictions violate free trade. California has even ruled that any employer that asks an employee to sign such agreements may be exposed to civil liability. However, California will still uphold reasonable nondisclosure and nonsolicitation agreements (Roberts).

Unspecified. If there is no clearly defined judicial precedence for review, an employer should write postemployment restrictions with the assumption that the no-modification approach will be followed. Again, each restriction should be narrow and specifically defined as to activity, geography and time limitation. The states and district that currently have no documented judicial review process for non-compete agreements include: District of Columbia, Hawaii, Iowa, Kansas, Maine, Massachusetts, Michigan, Mississippi, Nevada, New Hampshire, New Mexico, and Oregon (Orelup and Drewry 32-44; Beck 1-14).

LAWS STATE BY STATE

Employers must be cognizant of the laws within the states where they reside and each state's approach to enforcement or modification of such agreement; laws of enforceability, modification, and validity from state to state.

Traditionally, courts have striven to protect a person's right to secure employment, while also pursuing protection for a business. The goal is to prevent unfair competition from arising due to an employment relationship. Each non-compete agreement must be viewed based on merit with the courts weighing the details and circumstances of the involved parties (Orelup and Drewry 32).

METHODOLOGY

What are current students and educators' perceptions and level of understanding regarding non-compete agreements? Our research focused on better understanding current student and educators' perceptions and how well they understood the meaning and application of non-compete agreements.

The participants in our survey were students and educators from a regional university located in the southeastern U.S. This group was chosen because they represented more than one generation, are facing the potential of being asked to sign a non-compete agreement in the near future, or have already faced the decision of signing or declining to sign a non-compete agreement or clause. The survey was electronically submitted to all College of Commerce and Business Administration students, along with all faculty and staff for the regional university.

Respondent Profile

Of the 551 respondents, 70.8% were senior level students while 29.2% were faculty and staff for the regional university. Of the respondents, slightly less than 54% were female. In regards to age, 44.6% were age 26 or older, 19.4% were ages 23-25, and 36.1% were ages 18-22. The primary ethic backgrounds for the respondents were as follows: 78.6% were Caucasian American; 13.1% were African America; 2.9% were Hispanic/Latino Americans; 1.5% were Asian American; 1.5% were mixed ethnicity; .36% were Native Americans; .36% were of other ethnicity and 2.2% were not US citizens. Those respondents not married represented 65.9%.

The employment status of the respondents was as follows: 48.2% employed full time; 29.1% employed part time; 18.0% unemployed; and 5.1% were temporary employees. The number of years in full time employment for the respondents was as follows: 30.7% had 0 years of being employed, 11.3% had one year of being employed; 17.8% had 2-5 years of being employed; 13.1% had 6-10 of being employed; and 29.6% had over 11 or more years of being employed. The largest percentage of respondents (48%) identified themselves as professional employees, followed by retail (28%), educational institutions (11%); clerical (8%) and technical (5%).

As to whether the respondents or a family member had ever been a union member, 54.2% answered "No"; 40.2% answered "Yes" and 5.6% answered "Don't Know".

Current Knowledge and Perceptions

A great majority (72.1%) of the respondents had heard of a non-compete clause or agreement prior to this survey. Also, 78.9% indicated they felt a non-compete clause or agreement did not protect their interests as an employee. In addition, 24.0% were required, or had been required in the past, to sign a non-compete clause or agreement to get a job. Table 1 below provides responses pertaining to the respondents various perceptions of non-compete clauses or agreements. As indicated, most respondents felt by signing a non-compete clause or agreement, they were giving up some of their personal rights; a company that requires employees to sign a non-compete clause or agreement only does so to protect its own interest without concern for the employee; a non-compete clause or agreement favors the employer over the employee; believes that they would have a better chance to win a dispute against an employer if their claim was heard by a judge and jury; disagrees that a non-compete clause or agreement is appropriate, felt they understand a non-compete clause or agreement and believes a non-compete clause or agreement does not protect their interests an employee.

Table 1

Perceptions of Non-Compete Clauses or Agreements

	Yes	No	Don't Know
By signing, they are giving up personal rights	278	144	133
	(50.6%)	(26.2%)	(24.2%)
The Company is only protecting its own			
interest without concern for the employee	355	91	108
	(64.1%)	(16.4%)	(19.5%)
Non-Competes favor the employer over			
the employee	434	17	99
	(78.9%)	(3.1%)	(18.0%)
Believes employees have a better chance			
to win a dispute if their claim was heard			
by a judge and jury	277	106	164
	(50.4%)	(19.3%)	(30.3%)
Believes it is not legal for a company			
to require employees to sign a non-			
compete as a condition of employment	297	104	154
	(53.5%)	(18.7%)	(27.7%)
Disagrees that a non-compete clause or			
agreement is ever appropriate	384	49	120
	(69.4%)	(8.9%)	(21.7%)
Feels they understand a non-compete			
clause or agreement	301	110	143
	(54.3%)	(19.9%)	(25.8%)
Feels a non-compete does not protect			
their interests as an employee	289	97	164
	(52.5%)	(17.6%)	(29.8)

Existence / Communication of Non-Compete Clauses or Agreements

Of the 551 respondents, 37.8% indicated they were not certain as to how a non-compete clause or agreement would affect them, 38.4% indicated they were certain as to how a non-compete clause or agreement would affect them, while the remaining 23.8% indicated they did not know about such a policy. Of the respondents, 24.0% indicated they had worked for a company that required a non-compete clause or agreement as a condition of employment, while 60.4% indicated they had not with the remaining15.6% did not know. In reply to the question, "I would prefer to work for a company that does not require a non-compete clause or agreement as a condition of employment", 44.1% agreed with this statement, while 5.3% disagreed, and the remaining 32.5% did not know whether they would or would not.

In reply to the question, "Companies that require a non-compete clause or agreement as a condition of employment should provide above average salaries and benefit packages", 65.2% agreed with the statement, while only 6.2% disagreed, and the remaining 28.6% did not know whether they would or would not. Of the respondents, 25.2% indicated they would not anticipate a long-term employment relationship with a company that requires a non-compete clause or agreement as a condition of employment, while 31.8% indicated it would not matter, and the remaining 43.0% did not know whether they would or would not.

In reply to the question, "My current employer or previous employer has clearly explained that I must sign a non-compete clause or agreement", a majority of respondents indicate they had not, while 15.8% indicated they had been clearly explained that one must be signed and the remaining 21.5% replied they did not know. An overwhelming percentage of respondents indicated that companies that require a non-compete clause or agreement as a condition of employment should indicate policy to prospective employee as follows:

Table 2
Expected Methods of Communicating Mandatory Non-Competes

	Yes	No	Don't Know
On the employment application	446	22	82
	81.1%	4.0%	14.9%
On the employment contract	470	11	72
	85.0%	2.0%	13.0%
In the employee handbook	478	7	69
	86.3%	1.3%	12.4%

DISCUSSION

A major finding of our study is that an average of 84.1% of respondents felt that mandatory non-compete clauses or agreements should be communicated either in the employment application, employment contract, or employment handbook while an average of 13.4% were neutral or had no opinion. It was obvious from our research that the day of employers waiting until an employee was working or had been working for a period of time and then approaching them with a non-compete are over. Prospective employees want to know up front if the employer is going to request that a non-compete be agreed to and signed before a job offer is accepted.

CURRENT / FUTURE DIRECTION OF NON-COMPETE AGREEMENTS

Our research provided information that current and future mandatory non-compete agreements will attempt to soften the blow of such employment restrictions by offering a modest signing bonus. Most of the proposed signing bonuses are between $2500 and $5000 dollars and specifically states that the "Employee acknowledges this sum as sufficient consideration for the provisions contained herein". Additional provisions further specify "in consideration of the Employee's employment and continued employment by said company, and in consideration of the signing bonus being paid as set forth herein." (Confidentiality and Noncompetition Agreement, Rev. 01/15)

Current non-compete agreements are further expanding the "Noncompetition" provision of agreements by expanding the "Restricted Period" and the geographic territory covered by such agreement. A typical clause of this nature would read as follows:

> "Employee acknowledges that because of his skills, Employee's position with said company and the confidential information that Employee shall be provided on account of such employment with said company, competition by Employee with said company could damage the said company in a manner which could not be adequately compensated by damages or an action at law. In view of such circumstances, Employee agrees that, during his employment with said company and for a period of two (2) years thereafter (the 'Restricted Period'), Employee shall not, directly or indirectly, own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of any business similar to the type of Business conducted by said company within one hundred fifty (150) miles of any geographic territory for which Employee was assigned or had responsibilities while employed by said company (collectively, the 'Restricted Territory'). In addition, Employee shall not during the Restricted Period and within the Restricted Territory represent any manufacturer or other vendor that said company has represented or solicited for representation during Employee's employment with said company." (Mayfield, Confidentiality and Noncompetition Agreement, Rev. 01/15)

As noted above, it is most interesting to see how truly broad non-compete agreements of today have become. Non-compete agreements are currently specifying that for a period of two (2) years after employment ends, Employees shall not, "directly or indirectly", own, manage, operate, control, be employed by, "participate in or be connected in any manner" with the ownership, management, operation or control of any business "similar" to the type of Business conducted by said company within one hundred fifty (150) miles of "any" geographic territory for which Employee was assigned or had responsibilities while employed by said company. Surely, anyone reading the above provisions, with the exception of the Employer, would consider the words of "directly or indirectly", "be connected in any manner", "any business similar", and "any" geographic territory to be overly broad in content.

In addition, current non-compete agreements require the "breaching party" to be liable for all costs of court action and lawsuits, along with reasonable attorney's fees, in a similar provision as follows:

> "The parties agree that if any party hereto is held by any court of competent jurisdiction to be in violation, breach or nonperformance of any of the terms of this Agreement, such breaching party shall pay all costs of such action or suit, including reasonable attorneys' fees of the other party." (Mayfield, Confidentiality and Noncompetition Agreement, Rev. 01/15)

Furthermore, current non-compete agreements acknowledge they contain the entire agreement of the parties and the written document supersedes any prior understandings and agreements between them. However, the agreement reminds the employee of their "Employment at Will" status by stating as follows:

> "Employee acknowledges that Employee's employment is 'at will,' subject to applicable law, and that either the said company or Employee may terminate this employment at any time, with or without notice, for any reason or no reason whatsoever but that the terms of this Agreement shall survive such termination. Nothing in this Agreement shall constitute a promise or guarantee of employment for any particular duration or rate of pay." (Mayfield, Confidentiality and Noncompetition Agreement, Rev. 01/15)

After reviewing the above current provisions for non-compete clauses or agreements it is obvious why 78.9% of our survey respondents felt that non-competes favor the Employer over the Employee while 64.1% felt that Employers requiring the signing of non-competes were only protecting their own interest without concern for the employees.

CONCLUSION

In a capitalistic society full of steep competition and a constant threat of new entrants, it's not surprising some companies attempt to protect their organization by implementing non-compete agreements. People are the most meaningful assets in an organization. Since human capital is so significant, some businesses require new hires to sign non-competes as a proactive defense mechanism to future competition. However, even though non-competes have been around for centuries, it is now arguable as to whether their original intent is as advantageous in today's business environment. The current business environment is quite different than it was 50 years ago. It wasn't uncommon for employees to stay with the same company for decades or even throughout their entire career. Today's landscape is full of entrepreneurs, startups, small businesses which all lead to a climate much more conducive to change. According to the Bureau of Labor Statistics, the average worker only stays in a job for approximately 4.4 years (Meister, 2012). Today's employees do not consider jobs as permanent places of employment but rather temporary stops on a dynamic career journey. Companies expect new hires to move to other organizations as noted above, thus, one reason why non-competes are more prevalent now than in years pass. While it may seem obvious why companies require mandatory non-compete agreements, there are many disadvantages in their implementation and actually some benefits for companies not to use them at all.

Talent is mobile, so rather than attempt to stifle an employee's mobility, why don't organizations embrace the idea of flexibility throughout an industry? If this is done, it can be in favor of both the employer and the employee. A recent study reveals that non-competes may actually decrease motivation in workers, a counterintuitive result than the agreement's intent (Anonymous, 2014). It is certainly not to a company's advantage to employ disengaged and unmotivated employees, accordingly, why not embrace the idea of the mobile worker, let them go, and acquire new talent. By letting old talent (previous employees) go and new talent (new hires) in, a couple of beneficial scenarios are happening: 1) old talent exiting could spin off and start their own company, thereby stimulating entrepreneurship; and 2) new talent entering the company fresh, provides the new perspective of allowing the company to stay relevant (Simon &

Loten, 2013). Studies have shown that in states, such as California, where non-competes are unenforceable and human capital flows, results in higher levels of patenting, drawing more talent from more restrictive states, have more entrepreneurs, and experience faster growth." (Lobel, 2013) Furthermore, some critics say, "by stifling competition, the non-compete agreements actually hold back the economy, preventing workers from moving on and earning bigger salaries." (Marte, 2013)

In summary, college students seeking employment following graduation must make concerted decisions when asked by an employer to sign a non-compete clause or agreement as part of an employment agreement or contract. The recent graduate must have enough information to determine whether or not the pending employer's non-compete agreement offers a true career opportunity. By signing the non-compete agreement will the true potential for a lengthy career of further learning, promotional opportunities, pay increases, and job satisfaction be made available? Is the relevance of signing the non-compete agreement valid? How great is this potential? Or is the pending employer's non-compete agreement simply an attempt to stifle the employee's mobility, avoid the threat of a new entrant in their line of business, and avoid future potential competition? Is the relevance behind the prospective employer's efforts to have a potential employee sign the agreement no longer valid? How great is this potential? If students can answer these questions, and be aware of the above contents of this research, they are in an excellent position to make the decision of "to sign or not to sign" non-compete agreements.

IMPAIRMENT ANALYSIS: COMPARISON OF IMPAIRMENT OF LONG-LIVED ASSETS BETWEEN US GAAP AND IFRS

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CASE DESCRIPTION

This case study compared the accounting behind the impairment of long-lived assets between US GAAP and IFRS. The case is appropriate for either senior level or graduate accounting students. The case is designed to be taught in one class hour and is expected to require five to ten hours outside of class.

CASE SYNOPSIS

This case study provides accounting students an opportunity to explore a real life example of how accounting estimates and choice of reporting standards impact financial statements. Students will analyze the differences between US GAAP and IFRS for the impairment of long-lived assets. In addition, they will be required to create an estimate of the impairment calculation for nine capesize vessels purchased by Genco Shipping & Trading at the top of the boom market in 2007. The calculation will expose students to the significant amounts of ambiguity often found in accounting estimates. The range of reasonable answers could vary from an impairment of long-lived assets of over $600 million to no impairment at all. These wide ranges of estimates can provide an enlightened discussion of the use of estimates in accounting. Professional judgment will be tested as students wrestle with how answers vary considerably based on the accounting framework chosen.

Keywords: Asset Impairment, US GAAP, IFRS.

INTRODUCTION

Genco Shipping & Trading is a public company and trades on the New York Stock Exchange under the ticker symbol GNK. In 2014 Genco went through a prepackaged bankruptcy where debt holders received the majority of the new equity in the company. The prior equity holders received stock warrants for a total of six percent of the equity of the new company. As a US public company, GNK files its financial statements with the Securities and Exchange Commission (SEC) using US Generally Accepted Accounting Principles (US GAAP). They are a transporter of dry bulk materials, including iron ore, coal, grain, and many other raw materials on large vessels among international shipping routes. Genco Shipping & Trading went public with 17 vessels and has expanded operations through the acquisition of additional vessels to bring the total number of ships up to 53 as of December 31, 2012. Although acquiring assets over time, Genco's largest acquisition of vessels occurred in June of 2007 when they purchased 9 capesize vessels for approximately $1.1 billion. These vessels were delivered to Genco between the third quarter of 2007 and the first quarter of 2010 when the last vessel was built.

The dry bulk shipping industry has experienced a significant boom and bust cycle over the last decade. The Baltic Dry Index (BDI), a shipping and trade index for 4 classes of ships (capesize, panamax, supramax, and handysize), measures the daily average rental rate to ship raw materials across a variety of international shipping routes. The higher the BDI, the more a company can rent its vessels for. As seen in figure 1, the BDI has fluctuated from over 11,000 to below 1,000 since GNK went public. The daily rental rate for capesize dry bulk vessels has ranged from over $150,000 per day to under $5,000 per day. (*RS Platou,* 2013). Following the leasing rates, the fair market value of all classes of ships has varied significantly over the last decade, with the capesize asset prices ranging from $150 million in early 2008 to under $40 million in 2011. (*RS Platou,* 2013*).*

The Securities and Exchange Commission has raised questions about the estimates used by the company for the impairment of long lived assets. Item 6 in the SEC comment letter to Genco dated March 16, 2011 addressed this concern and is listed below, the entire letter can be found at the SEC website at
http://www.sec.gov/Archives/edgar/data/1326200/000000000011016598/filename1.pdf

> Impairment of long-lived assets, page 67
>
> 6. In the fifth paragraph of this section, you state that assumptions used to develop estimates of future undiscounted cash flows are based on historical trends. Please expand this disclosure to discuss the time periods involved in your use of historical trends, and how current charter rates compare to the rates you used in your analysis.

Additional information is presented after the assigned questions to help in creating the estimates needed for the impairment calculation.

This case study requires you to research the relevant accounting literature and create an estimate of the calculation for impairment of long-lived assets included in Table 1. Table 1 includes; the name of the vessel, the year it was built, the size of the vessel, the purchase price, and the carrying value as of December 31, 2012. While Genco is a US listed public company filing under US GAAP, many of the largest drybulk shipping companies file financial statements using IFRS. With some companies filing financial statements using US GAAP and some filing under IFRS, it may create difficulty in comparing financial statements. Genco should be aware of its competition and how alternate accounting frameworks impact operating results, especially in light of the fact that these frameworks are interchangeable.

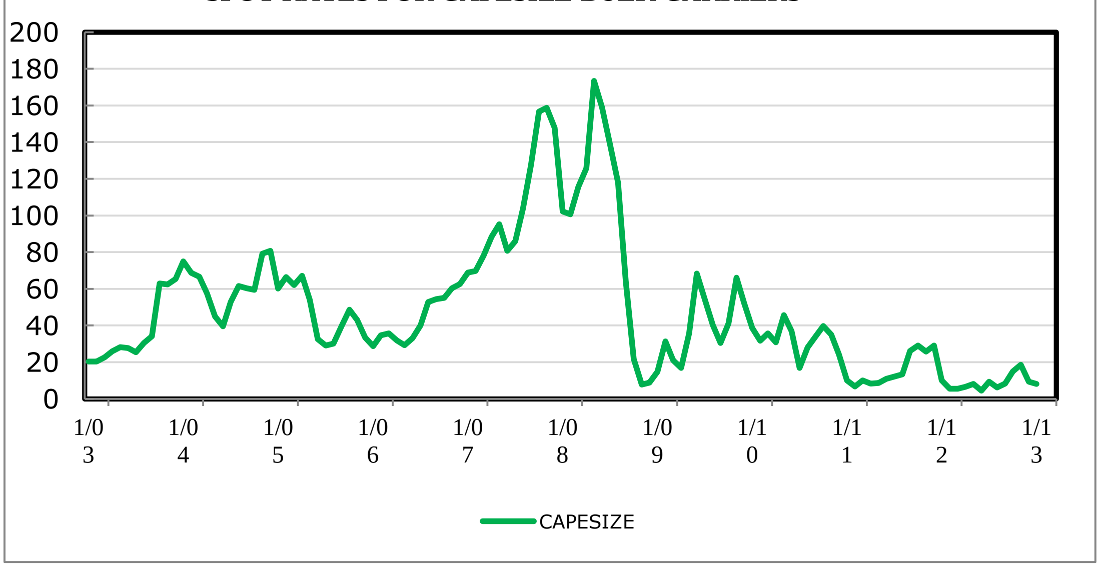
Table 1
CARRYING VALUE OF NINE CAPESIZE VESSELS ORDERED IN 2007

Name of Vessel	Year Built	Size in Tons	Purchase Price in 000's	Carrying Value at 12-31-2012 in 000's
Genco Augustus	2007	180,000	125,000	103,137
Genco Tiberius	2007	175,000	125,000	103,325
Genco London	2007	177,000	125,000	104,685
Genco Titus	2007	177,000	125,000	105,182
Genco Constantine	2008	180,000	129,000	110,334
Genco Hadrian	2008	170,500	121,000	108,377
Genco Commodus	2009	170,500	121,000	110,825
Genco Maximus	2009	170,500	120,000	110,805
Genco Claudius	2010	170,500	120.000	112,517
Totals		1,571,000	1,111,000	969,187

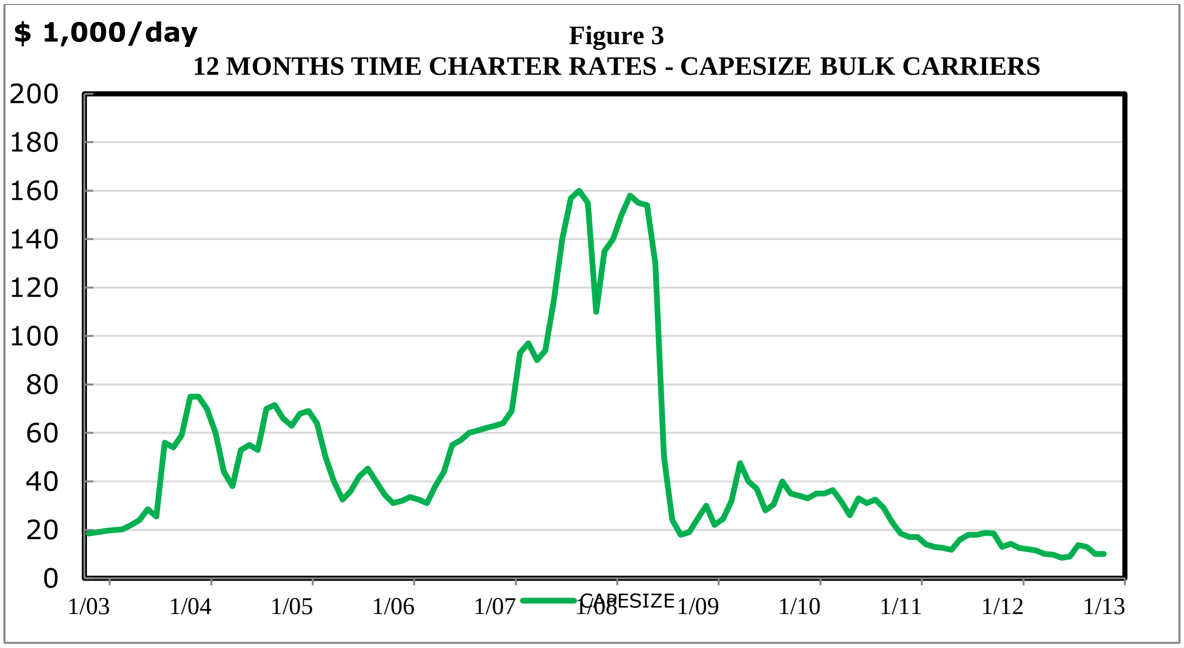
Note: These figures are taken from the December 31, 2012 Genco Shipping and Trading 10K.

Figure 1
BALTIC DRY INDEX

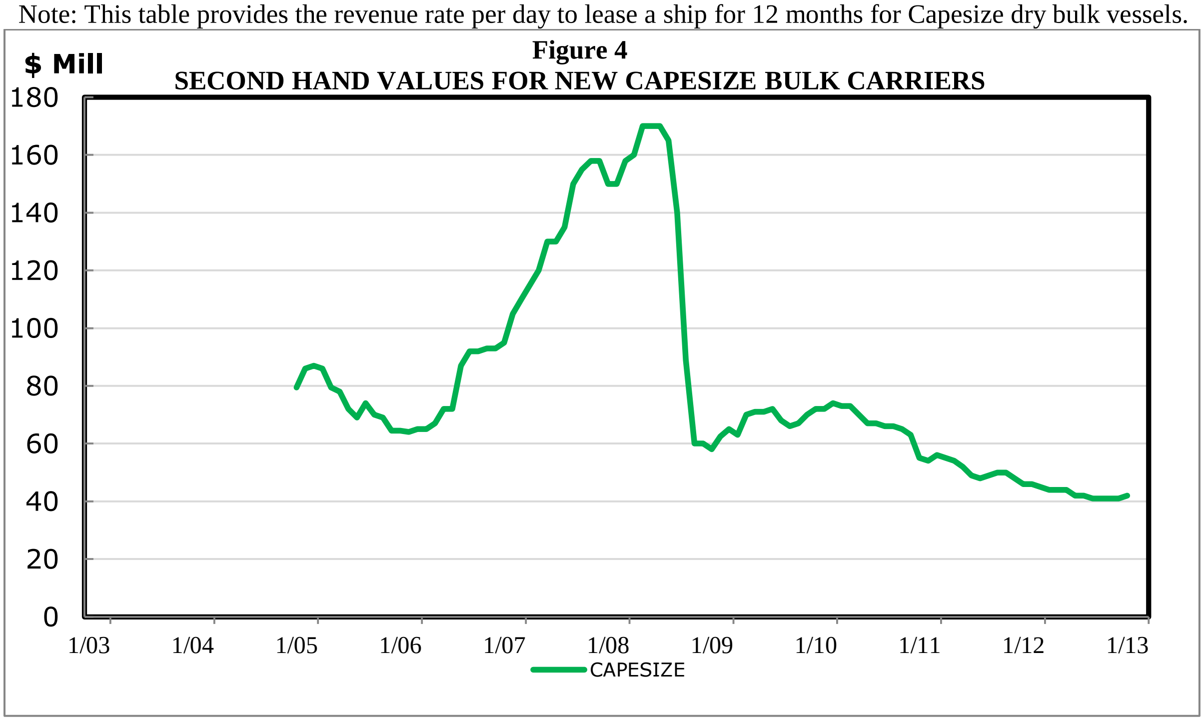
Figure 2
SPOT RATES FOR CAPESIZE BULK CARRIERS



Note: This table provides the revenue rate per day to lease a ship for a single voyage for Capesize dry bulk vessels.



Note: This table provides the revenue rate per day to lease a ship for 12 months for Capesize dry bulk vessels.



Note: This table presents the fair market value of newly built ships straight from the shipyard.

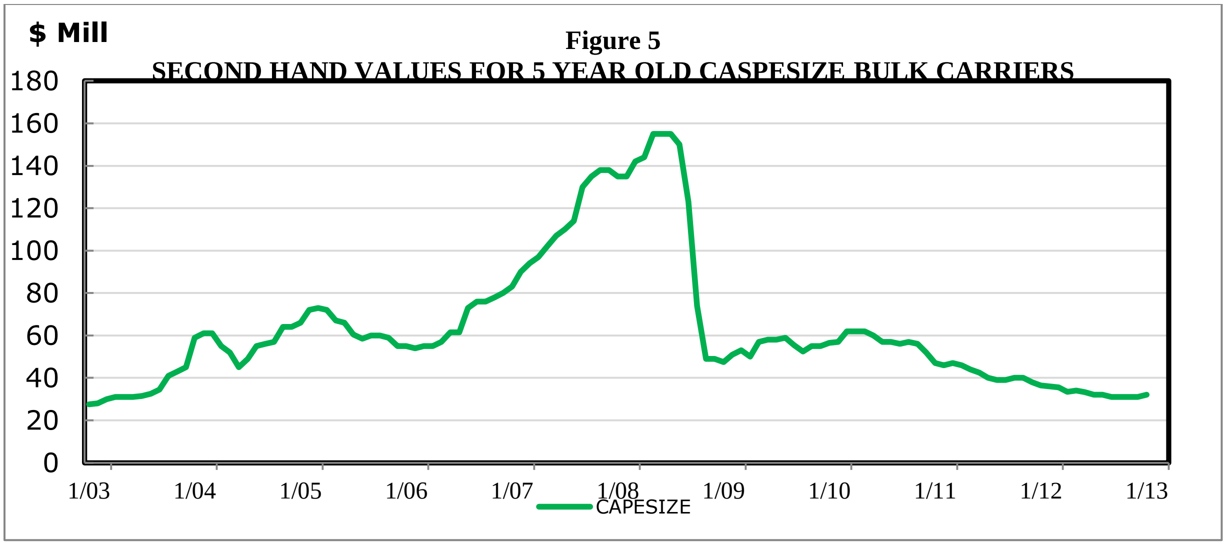


Figure 5
SECOND HAND VALUES FOR 5 YEAR OLD CASPESIZE BULK CARRIERS

Note: This table presents the fair market value of 5 year old ships bought on the open market.

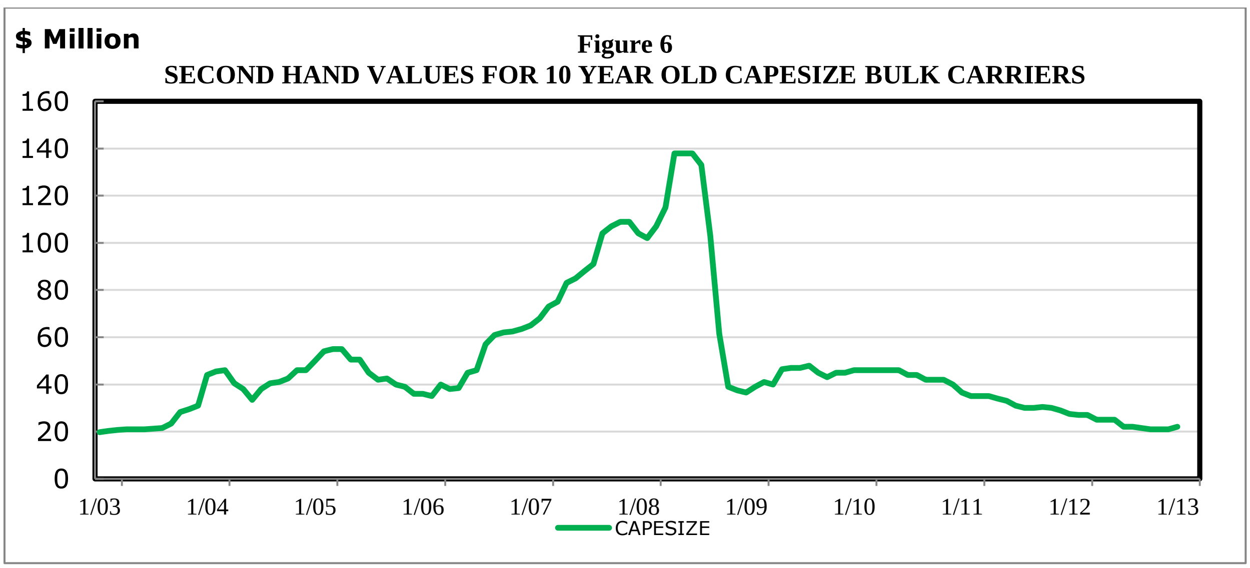


Figure 6
SECOND HAND VALUES FOR 10 YEAR OLD CAPESIZE BULK CARRIERS

Note: This table presents the fair market value of 10 year old ships bought on the open market

ADDITIONAL CASE INFORMATION

Vessel Depreciation and Expenses - When leasing a ship, Genco is still required to pay operating expenses including employee wages, insurance, spare parts, and so forth. The company estimated these costs to be approximately $6,000 per ship per day for 2013 for a capesize vessel in their 2012 10K. Dry bulk vessels are required to have significant inspections every five years after being built with the fifth inspection being expensive and very time consuming. As a result, most companies (including Genco) elect to depreciate vessels on a 25-year useful life. The scrap value of the vessels is roughly equal to the weight of steel in the ship times the price per ton of steel. Recent scrap values for similar sized ships have been approximately $6 million.

Revenue Rates - In prior years, Genco has maintained a utilization rate across all of their ships in excess of 98%, meaning the ship is earning revenue more than 360 days a year. The amount of revenue earned by a vessel follows the laws of supply and demand. If there are four lessee's wanting to lease a capesize vessels and only three vessels available, the price will increase until one of the lessee's is priced out of the market. This is what happened during 2007 and 2008, when the Chinese economy was booming and the need for additional raw materials soared. However, during the last few years, the supply of ships has significantly outpaced the growth in demand for new ships. As a result, the shipping industry now has idle ships which are driving revenue rates down.

Estimated Revenue Rates – The shipbroker reports state the revenue earned by ships under various leasing arrangements. The spot market provides the estimated revenue earned by a ship per day for a single voyage at this time (i.e. carrying iron ore from Brazil to China). The time charter (TC) market provides the estimated revenue per day for a set period of time (i.e. a one year time charter in which the lessor can decide how they wish to utilize the ship for the one year). The age of a vessel has a minimal impact on the daily rental rates. These reports (figures 2 and 3) provide a history of what lease rates have been, but it is necessary to create an estimate of future revenue rates based on the past information. In addition to using historical data, an active futures market is traded providing another estimate for future revenue rates for each of the classes of vessels. These future markets are designated as Forward Freight Arrangements (FFA's).

Fair Market Value of Assets – The shipbroker reports do not list the exact value of a particular vessel, instead you are required to create an estimate with the information provided. First, the size or class of the vessel is required to determine the fair market value. For Genco, you are to examine their nine capesize vessels for impairment. Next, the age of the vessel will significantly impact the fair market value of the vessel, however the shipbroker reports will not list each year individually. For instance, if you have a seven-year old vessel, a reasonable estimate would be to average the value of a five- and ten-year old vessel. Figures 4 through 6 provide estimated fair value amounts for new, five-year old, and ten-year old vessels, respectively.

Use the preceding information and any other relevant reliable information in creating your estimates.

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SWEET PEAS STITCHERY: A CASE OF A START-UP MERCHANDISER – PART B

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CASE DESCRIPTION

The primary subject matter of this case concerns accounting. Secondary issues examined include entrepreneurship, marketing, retail management, and merchandising. The case is appropriate for sophomores or juniors who are in a core financial accounting course or entrepreneurship, retail management, fashion merchandising, and marketing classes that include financial analysis of a merchandising firm.

This case will take approximately one class hour. It will not require students to do any outside preparation. It will challenge their logical thinking skills, knowledge of Balance Sheets, and financial ratios while applying their basic business knowledge. It will also require the students to recognize the implications of a challenging financial situation.

CASE SYNOPSIS

Imagine quitting your secure job to open a new business on a mere $10,000 in a time of economic uncertainty. Neither you nor your partner has any experience in the industry or as entrepreneurs. You are running on blind faith that your initial capital investment will be enough for the business to survive and generate enough revenue to draw a paycheck within the first six months of operation. This case provides an overview of the operations of such a business that opened in 2011. Several things are considered in this case, including the risks of an inexperienced entrepreneur starting a new business during a time of high unemployment and difficult economic times. The odds of success are against the owner because of her limited funds, unemployment rates, and high failure rate, what the Small Business Administration calls the death rate, of new businesses. With no experience in and little knowledge of accounting, it's easy for the owner to fail to recognize when her "accountant" and "CFO" submit financial statements that are incorrect and do not make sense, which happens in this case. It requires students to recognize the strengths and shortcomings in the information provided in the company's Balance Sheets. The owner is finding it difficult to operate on current cash flow and is seeking external investors to supplement the poor cash situation. One such potential investor needs guidance in understanding the Balance Sheets and ratios. She specifically needs to understand if they indicate that investing in the company is a good or bad financial decision.

IN THE BEGINNING

Early in 2011, Abby Adams and her best friend, Beth Rossi, sat down to have their traditional Thursday afternoon coffee. Beth saw a somewhat distressed look on Abby's face. As any good friend would, Beth asked Abby what was wrong. With a deep sigh, Abby confessed that she was unhappy with her life. "I work so many hours that I don't have time to participate in important activities in my kids' lives, soccer games, after school birthday parties, dance classes and even my husband has to take the backseat to my work. I don't know how much longer I can take it!" Beth empathized and agreed that having nonflexible working hours can really create problems when trying to balance the responsibilities of family. "It sure would be nice to find some work-life balance." Almost kiddingly yet half serious she commented, "maybe we should just quit our jobs and start our own business." Abby liked the idea so the two women put their heads together to find out what kind of business they could open. It needed to be in an industry with low barriers to entry because their funding and experience were limited. Over the next few weeks Abby and Beth spent their Thursday afternoon visits brainstorming.

As time passed, the women's jobs and the stresses of motherhood were beginning to strain their marriages. Both were married to professional men and had children of elementary school age. However, their husbands, Mark Adams and Dave Rossi, were beginning to feel like third wheels in their own homes. Their wives were spending all their time on their jobs and with the children, leaving little energy for their husbands. Mark and Dave got together and confided in each other that neither of them was happy being the third wheel. They both knew it would be difficult to survive, or at least live comfortably, without their wives' income so asking them to quit their jobs and stay home was out of the question. Neither of the men knew how to get their marriages back on track if Abby and Beth continued devoting so much time to their careers and children. This simply was not the type of relationship either of the men envisioned when they said "I do." Both had imagined their wives picking the children up from school, taking them to their activities, and having a warm family dinner ready when the husbands returned from work each day.

What the husbands didn't know was that their wives were thinking the same thoughts, but were actually trying to do something about the common problems. They had the same goals: (1) to work flexible hours to enable them to spend time with their husbands and children and (2) to provide additional income for the family. They imagined having a job where they could live by the slogan "family first" and work at times most convenient to the family. One day Abby proclaimed, "we just cannot reach our goals if we continue with our current jobs;" thus, an entrepreneur began to emerge. Abby and Beth had a plethora of questions beginning with "what business? How much money will it take to get the business started?" Beth informed Abby that she had a secret fund she had been saving for a rainy day. She thought it was around $5,000. Abby could match that without hurting the family. With the money situation resolved Beth asked "what kind of business can we start on only $10,000?"

Abby had a business administration degree, but had never taken any classes related to entrepreneurship; Beth was an education major with no business classes at all. Both women, however, were artistic, creative, and enjoyed sewing. Beth wondered, "can we create a business venture that utilizes our common skills and your business background?" They agreed they could so they individually pitched the idea to their husbands who reluctantly came on board; both men were still concerned about the loss of income to the family and retained nagging doubts about the possibility of their wives succeeding.

With the go-ahead from their husbands, the two women redoubled their efforts to conceptualize a home business that would be profitable. They quickly settled on a custom sewing/personalization business. Their questions started flowing so quickly neither could keep up. "How should the business be structured? Home parties? Company sales force? Retail store front?" "Which structure can work without a large capital investment?" "How can we pay any potential employees or sales people?" It was scary thinking about them all, but they moved forward with their husbands' approvals.

What the Rossi's didn't know was that Mark Adams had serious doubts about the business. In fact, he gave Abby an ultimatum: "If you don't bring in a paycheck equal to half of your current salary after one year in business, you will have to make a decision between the business and me. We can't afford for you to bring the family down financially." Abby wasn't concerned. She was confident that she would be able to draw a paycheck after six months of operation.

Abby and Beth formed their partnership on a handshake and a contribution each of $5,000 to provide the partners a $10,000 initial capital investment. Abby quit her job, but Beth had to finish the school year so her work was limited to nights and weekends. Their business, Sweet Peas Stitchery (SPS), was founded in April 2011. SPS is a home party business that sells and monograms purses, bags, home décor, and much more. The women can monogram virtually anything that can be sewn; the custom stitching is offered as part of the merchandise cost. Beth asks Abby: "Can we succeed?"

CHALLENGES

Business Skills

As with many small businesses, the partners faced more challenges than either imagined. The first challenge came from the type of business they opened and the misfit between their backgrounds and the business concept. Adams was an outstanding student, but was similar to most marketing students when it comes to attitudes about courses such as finance, accounting, or quantitative analysis. Along with her peers, she believed that the numbers oriented and operational courses were not something she would use in a marketing position. As a result, she studied hard, made her grades, and purged the quantitative information either after exams or upon completion of the course. Little did she know how important that information would become in 10 years. For Rossi, it was not a situation of refreshing her memory and sharpening her skills; she was more like a fish out of water.

Neither Adams nor Rossi had experience in either retail or sales much less buying, inventory control, accounting, or any of the other functions required for running a successful business. Although Adams took a sales class while earning her business degree, she found that she was rusty there. Some knowledge, working or educational, of retailing, entrepreneurship, or sales is a key element of success for any entrepreneur, especially one in a venture like SPS. The lack of experience does not mean that the two women were doomed to failure. It simply means that they would have to work a little harder than their peers to accomplish their goals. Abby and Beth asked each "do we have the necessary business skills and acumen to make this work?"

Capitalization

The partners' second challenge came from eliminating a steady income and embarking on a new business venture in a time of high unemployment and economic uncertainty. A risk is almost always associated with leaving guaranteed income before having another job. In this case, the women had another job, but not guaranteed income. Without proper research, they had no idea when SPS would generate enough revenue, not to mention profit, for the women to draw paychecks.

The expectations for personal income after six months was driven by the length of time the women's spouses were willing to support them. With an investment of only $10,000, any pay they drew needed to come from the revenue that could be generated with such a conservative investment. Using a retail mark-up method and taking keystone, the customary 50 percent mark up for this type of product, only gave them the sales potential of $20,000 initially, without considering the machine(s) they needed to customize the product and any other expense, such as travelling to market to purchase inventory.

The potential revenue SPS could generate depends on the amount of cash available for purchasing stock and inventory turnover. Specialty retailers average 6 to 8 turns a year (CSI Market 2013), which means SPS can realistically expect to sell $60,000 – 80,000 a year. *If* the company generated that level of revenue it would not afford to pay the owners for the first year, certainly not within the first six months, because any potential profit would be needed to reinvest in inventory. Abby asked, "do we have enough capital to stay afloat?"

The Unemployment Rate

The third challenge for Adams and Rossi is the unemployment rate, which can be viewed as either positive or negative. If it is viewed from the perspective that the business will become a statistic as part of the high failure rate for small business startups, the outlook for the owners is negative. The women left secure, paying jobs at a time of high unemployment. If the business fails, either or both women may have difficulty finding gainful employment. However, with a high unemployment rate SPS should have an easier time recruiting women consultants (sales representatives), which is SPS's target market. According to Adams, the primary purpose of establishing the company was "to empower women to honor their commitment to their families while obtaining financial flexibility in their lives." This power will give the consultants the ability to offer their families opportunities to fulfill dreams. They operate the business on a "family first" philosophy. Adams and Rossi wondered, "can we recruit enough consultants to generate the necessary sales levels for the business and the partners to be profitable?"

THE START-UP PHASE

In April 2011 SPS was open for business. That spring it was housed in a bedroom of the Adams' house, so Abby and Mark paid the company's rent and utilities. The partners had just Abby's one sewing machine capable of stitching monograms onto a range of fabrics. Therefore, they purchased a second one, used, so that both women could sew simultaneously and would have a back up if one machine broke down. They hired a friend to build a website for SPS, hoping to generate customers without having to spend money on advertising. SPS generated some revenue by custom embroidering items for friends but cash was not generated on a daily basis or in an amount large enough to be considered significant. In other words, no chance for drawing paychecks from cash generated existed that spring.

Both women worked diligently through the first few months, although Beth was limited to non-school hours during the first two months. Abby and Beth soon began to disagree about running the business. One afternoon Beth had all she could take and blurted out "I thought we were supposed to be equal partners. You don't value my opinions at all. Everything has to go your way." To which Abby responded "I have to make the decisions, you drag your feet on recruiting consultants and expanding the business. I'm in this for the long haul and need the growth so that we can both start drawing a paycheck. I don't think that matters to you much because you still have your teaching salary." Both women, especially Abby, were feeling the pressures from their husbands to bring home some pay. After all, their wives were working longer hours than before to make the business viable and still weren't able to spend time with them or the children. From their perspectives, things had gone from bad to worse: Abby and Beth were even busier and more stressed, but on top of that finances were tight at home because of the non-existent paychecks.

By late July things reached a crisis in the Rossi household. Beth confessed to Dave, "I don't see that I will be able to draw any pay for several months. I haven't turned down my teaching contract for next year. I think I might sign it and go back to having a steady income." Beth didn't think that she could hold down two jobs plus her family responsibilities, so she decided to approach Abby with the possibility of severing the partnership.

The next morning Beth arrived and announced to Abby, "I want out. This just is not working. I'm under more stress than before and no paycheck is in sight. I can't deprive my family like this. The school principal called yesterday and wanted to know if I was going to sign my contract for next year, so I signed it." Even though Abby understood Beth's financial insecurities, her belief in SPS was greater than her fiscal fears. Reluctantly, Abby agreed, "I hate to lose you as a partner. I know this will work. It has to, we've already put too much into it for it not to work. It will be hard, but I'll see if Mark will loan me the money to buy out your half." He agreed. Abby was then the sole owner of Sweet Peas Stitchery with very little capital left.

THEN THERE WAS ONE

Similar to a ship, Adams knew that she could not captain her business without a crew to run it so she hired her first "Sweetie" (consultant or sales representative) in August 2011, shortly after becoming the company's sole proprietor. She also moved SPS out of her home, into a small storefront. She hoped that her "Sweetie" would host home parties and attract more customers in an adjacent state. Her ultimate goal was to make this a party plan type of business where women would have the opportunity to gain their own financial freedom. She had just taken her first step toward that goal. One little step was enough for her because "a journey of a thousand miles begins with one step" (Lao-tzu ancient Chinese philosopher).

In the fall, Adams found that the business would not survive without an infusion of money. She and her husband Mark invested the $40,000 they had saved to build a new house. Mark leveled with Abby, "neither you nor I will invest any more money into this business, it's beginning to look like it's a sink hole. SPS is going to have to make it on its own. We've given up our dreams of the new house, and you still don't have time for the kids or me. Our family has suffered enough. In fact, you have until January 31 to start paying yourself or we will have major problems." He then gave her an ultimatum, "if you don't make that deadline and start supporting the family financially and emotionally, it will be divorce time. I can't let this continue forever."

Abby reeled from Mark's demands, but knew that he wasn't bluffing. She also knew that the current balance of $42,000 in cash and capital would be enough to "right her ship" and make SPS a profitable business. She made the bold decision to solicit investments from her family and very close friends. She decided to sell up to 25 percent of the business, arbitrarily valued at

$200,000, to the investors, her silent partners. This would leave Adams with 100 percent control of the business operations, but only 75 percent ownership. The 11 investors each owned between 0.5 and 12 percent of the company. The purchase amount was $2,000 for one percent interest so the investors invested between $1,000 and $24,000 individually. More importantly, an additional $50,000 was infused into the business by investors, totaling $100,000 cash invested overall.

The number of consultants grew from 1 to 34 by the end of 2011. Sweeties were recruited through word-of-mouth, home parties, and the website. To become a Consultant (the first rung on the six-step team building ladder that tops out at Executive Director), the Sweeties had to complete and sign a contract to buy a starter kit for their home parties. Consultants receive a 20 percent commission on all sales; an incentive program is designed to increase income to the consultant and sales to SPS. This wasn't enough for Abby to start drawing a paycheck. She wondered, "what else can I do?"

Mark was true to his word. The end of January, he reluctantly approached Abby, "time is up. I want out. You continue to drain our resources. You still can't draw a paycheck and it has been almost a year. I work hard for the money I earn and don't want to continue to supplement the shortcomings of SPS. I need to sever the ties." He filed for divorce and custody of their children in February of 2012. Stunned, Abby did not contest the divorce but fought for custody of her children. The court's final ruling came in August 2012 – Mark and Abby were divorced and shared custody of their children equally. They lived together six months after the divorce. Abby had depleted their personal funds so much that Mark could not afford to move out.

THE GROWTH PHASE

Adams buried herself in her work and her children in the spring of 2012, while she adjusted to being a single mom and entrepreneur. The business started to take off in April, after she received the final recommendations of a student project done at a local university. The student improved the company's website and assisted in developing social media sites. Once the company was visible, the number of "Sweeties" doubled in a month and continued to grow throughout the year. By the end of 2012, SPS had in excess of 500 consultants. Business was so good that through the holiday season, it ran sewing shifts around the clock on four machines to keep up with demand.

In the summer 2012, Adams again moved SPS to a larger facility in an office building to accommodate the growth in consultants and product demand. She bought her third sewing machine; the fourth was purchased in the fall. She also faced the fact that she could no longer run the business and keep track of the financial records. She hired two friends with banking experience to serve as SPS's accountant and CFO. At the end of December 2012 a Balance Sheet and Income Statement were prepared by the accountant and approved by the CFO (see Exhibits 1 & 2). From over a quarter of a million dollars in gross sales revenues, SPS was almost breaking even -- not bad for a company that was less than two years old.

Although the company was near a breakeven situation, in the spring of 2013 Abby was beginning to have trouble paying the bills as they came due. She attributed part of that to the fact that she can no longer count on Mark to write a check when she needed additional cash. While they were married, Mark would usually break down and bail out the company when it needed additional cash to pay for inventory. Abby didn't know what she should do.

Abby had not told anyone that she could no longer afford to carry inventory. But she remembered from college that a "just-in-time" inventory system could help bring down inventory costs and she decided to try it. When she received a batch of orders from her consultants, she ordered the goods necessary to fill those orders. Fortunately, she had found a distributor that could get her the merchandise she needed within 24 hours of placing the order. Inventory on hand was usually less than what it took to fill a week's worth of orders; the company did not have enough cash to stockpile inventory with the hope that it would be sold. Adopting this "just-in-time" inventory system, buying inventory only when it was needed for a customer, helped Abby manage her inventory cash flow needs yet still provide a rapid response to her Sweeties' orders. But "just-in-time" was not enough to eliminate the cash flow pressures. Abby still couldn't pay all the bills on time and couldn't afford the late fees.

That spring Becky Bartlett, one of Abby's original consultants, dropped by the office and noticed that inventory levels were extremely low. She feared that Sweet Peas was about to fail. Becky had what Abby believed to be another good idea. "I believe in SPS and would like to invest in the company. I know that some of the other 'Sweeties' are interested in investing also. SPS could become an employee owned company. I know that's not necessarily what you want, but you could remain as the managing partner. If you will consider this, I have just one condition…I need to have SPS's financials analyzed to make certain the investment is not too risky." Abby agreed and gave Becky a copy of SPS's Balance Sheet and Income Statement to be analyzed.

The women agreed to get together again to go over the analysis of the Balance Sheet and to decide whether or not the Sweeties would be able to buy ownership interests in SPS. Abby decided to meet with her accountant and CFO to see what they thought about the idea: Is the Balance Sheet strong enough to warrant new investors?

EXHIBITS

Balance Sheet with Previous Year Comparison

As of July 31, 2013

	31-Jul-13	31-Jul-12	$ Change	% Change
Assets				
Current Assets				
Checking/Savings				
American Bank	$ 28.21	$ -	$ 28.21	100.00%
City Bank-CD	29,483.61	-	29,483.61	100.00%
City Bank	(982.06)	4,068.03	(5,050.10)	-514.23%
Regional Bank	-	545.25	(545.25)	-100.00%
PayPal	-	631.47	(631.47)	-100.00%
Total Checking/Savings	28,529.76	5,244.75	23,285.01	81.62%
Other Current Assests				
Employee Advances				
Terry Landers	1,984.50	441.00	1,543.50	350.00%
Total Employee Advances	1,984.50	441.00	1,543.50	350.00%
Officer Advances	4,220.50	4,220.50	-	0.00%
Inventory	735.00	735.00	-	0.00%
Total Other Current Assets	6,940.00	5,396.50	1,543.50	28.60%
Total Current Assets	35,469.76	10,641.26	24,828.51	233.32%
Fixed Assets				
Vehicles	37,299.63	-	37,299.63	100.00%
Furniture and Fixtures	621.43	621.43	-	0.00%
Machinery & Equipment	37,069.59	30,135.00	6,934.59	23.01%
Total Fixed Assets	74,990.65	30,756.43	44,234.23	143.82%
Total Assets	110,460.42	41,397.68	69,062.73	166.83%
Liabilites & Equity				
Liabilities				
Current Liabilities				
Accounts Payable				
Loan Payable	7,487.31	-	7,487.31	-100.00%
Total Accounts & Loans Payabl	7,487.31	-	7,487.31	-100.00%
Other Current Liabilities				
Note Payable - Vehicle	27,183.68	-	27,183.68	100.00%
Notes Payable-LOC	3,270.75	-	3,270.75	100.00%
City Bank - Line of Credit	23,520.00	-	23,520.00	100.00%
Capital Credit Card	2,585.89	1,323.00	1,262.89	95.46%
American Bank - Credit Car	1,384.74	1,454.68	(69.94)	-4.81%
Due to Founder	8,015.35	2,062.60	5,952.75	288.60%
Note Payable to BW	113.19	113.19	-	0.00%
Payroll Liabilities				
FUTA	269.32	31.25	238.07	761.76%
Federal Withholdings	4,609.73	436.59	4,173.14	955.85%
Medicare	1,370.54	151.06	1,219.48	807.30%
FICA	5,411.60	541.74	4,869.86	898.93%
State Withholding	1,613.31	162.57	1,450.74	892.40%
SUTA	1,270.05	139.71	1,130.34	809.07%
Payroll Liabilities - othe	387.82	-	387.82	-100.00%
Total Payroll Liabilities	14,932.36	1,462.91	13,469.45	920.73%
25500 - Sales Tax Payable	640.39	640.39	-	0.00%
Total Other Current Liabilities	81,646.36	7,056.78	74,589.58	1056.99%
Total Current Liabilities	89,133.67	7,056.78	82,076.89	1163.09%
Long Term Liabilities				
SBCA Loan	17,461.00	23,204.70	(5,743.70)	-24.75%
Total Long Term Liabilities	17,461.00	23,204.70	(5,743.70)	-24.75%
Total Liabilities	106,594.67	30,261.48	76,333.19	252.25%
Equity				
Shelley Foster Paid in Capital	36,015.00	-	36,015.00	100.00%
Ralph Landers Paid in Capital	14,700.00	-	14,700.00	100.00%
Members' Contribution	23,689.05	16,905.00	6,784.05	40.13%
Members' Drawing	(2,646.00)	-	(2,646.00)	-100.00%
Members' Equity	(50,026.94)	(2,296.38)	(47,730.56)	2078.52%
Net Income	(17,865.37)	(3,472.42)	(14,392.95)	414.49%
Total Equity	3,865.75	11,136.20	(7,270.46)	-65.29%
Total Liabilities & Equity	110,460.42	41,397.68	69,062.73	166.83%

Exhibit 1 Balance Sheet

Sweet Peas Stitchery
Cash Basis Income Statement
For the Year Ended December 31, 2012

		Jan-Dec 12		Common Size
Operating Income/Loss				
Revenue				
Merchandise Sales		$254,350		
Refunds		668		
Net Sales Revenue			$253,682	100%
Cost of Goods Sold				
Cost of Goods Sold		102,163		0.4027
Manufacturing Supplies		15,706		0.0619
Rent expense		6,058		0.0239
Freight-in		4,113		0.0162
Sewing Equipment Repairs and Maintenance		928		0.0037
Temporary manufacturing labor		300		0.0012
Total Cost of Goods Sold			129,268	0.5096
Gross Profit			124,414	0.4904
Expenses				
Selling Expenses				
Freight-out		$ 35,450		0.1397
Commissions		9,693		0.0382
Advertising and Promotion		1,520		0.0060
Merchant Account Fees				
Credit Card Service Fees	$ 8,701			0.0343
Paypal Fee	2,947			0.0116
Bank Service Fee	1,349			0.0053
Total Merchant Account Fees		12,997		0.0512
Total Selling Expense			59,660	0.2352
General and Administrative				
Salaries and Wages				
Salaries	10,426			0.0411
Wages	14,537			0.0573
Total Salaries and Wages		24,963		0.0984
Computer/Internet Expense		9,620		0.0379
Professional Fees		5,464		0.0215
Printing		4,975		0.0196
Taxes and Licenses		3,127		0.0123
Office Supplies		3,086		0.0122
Telephone Expense		2,870		0.0113
Meals and Entertainment		2,791		0.0110
Automobile Expense		2,368		0.0093
Insurance Expense		1,884		0.0074
Rent Expense		1,514		0.0060
Travel		1,201		0.0047
Utilities		1,042		0.0041
Interest Expense		540		0.0021
Total General and Administrative Expenses			65,445	0.2580
Net Operating Loss			-$691	-0.0027

Exhibit 2 SPS Income Statement as of December 31, 2012

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APPLYING THE RESOURCE-BASED VIEW OF THE FIRM TO QINGDAO, CHINA

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CASE DESCRIPTION

The primary subject matter of this case revolves around whether the Chinese city of Qingdao has a competitive advantage relative to other similarly situated cities in China. The challenge for students is to determine whether the city has a competitive advantage and, if so, whether this advantage can be sustained. The case has a difficulty level of six and is designed to be taught in two class hours. It will require approximately 4 hours of outside preparation by students.

CASE SYNOPSIS

This case provides professors with an interesting way to evaluate competitive advantage by using a city rather than a corporation. Evaluation of the competitive advantage of cities is more common in public policy, city planning, and urban development courses but less so in strategic management courses within business schools. The case allows students to take on the challenge of clearly articulating whether or not the resource-based view of the firm (RBV) is applicable to Qingdao, a seaport city in China. Qingdao is well-known as a blue (marine) and green (sustainable) city within China but it is less known among non-Chinese audiences. There are four key elements within the case and teaching notes that will assist professors in teaching the case. First, the case succinctly describes the resources Qingdao controls or possesses in a way students will likely fine interesting. Second, the extensive teaching note applies a step-by-step question and answer format assisting professors to guide students to the realization that competitive advantage is a comparative rather than an isolated status. Third, the teaching note is designed in a way that allows professors to dig deep into the roots of the resource-based view if time allows but skip some of this depth for shorter class sessions. Fourth, the case and the selected teaching note questions would be ideal for a final written case analysis for strategic management students and also for students taking strategic management who are from other academic disciplines. This cross-disciplinary design would be thought-provoking to both business and non-business students alike. Overall, the uniqueness of the case and the depth of the teaching note allow considerable flexibility for professors.

Welcome to China's "Most Livable City." Qingdao, literally translated as "Lush Island," is expected to become a household name as its construction nears completion later this decade. Located on China's east coast, Qingdao is nearly equidistant from China's political capital of Beijing to the west, China's financial center of Shanghai to the south, and economic rival South Korea to the east. Boasting billions of dollars of foreign investment from across the globe, Qingdao is becoming one of China's leading innovators in the area of both blue (marine) and green (sustainable) technology. Over the past few years, Qingdao has blossomed into one of China's most extraordinary cities as a result of a unique history, an idyllic coastal location, and experimental government treatment.

UNIQUE HISTORY

Qingdao is not your typical Chinese city. Ever heard of Tsingtao beer? Currently the most popular Chinese beer sold in America, Tsingtao beer originated in Qingdao back in 1903. Unlike China's traditional alcoholic beverage, bai jiu, which is made through fermenting rice and has an unforgiving average alcoholic proof of 54%, Tsingtao beer has a distinctively European flavor. The reason for this is that Tsingtao beer was not invented by the Chinese at all.

In 1897, the year Thomas Edison would invent the first movie camera, Germany noticed Chinese fortifications being erected on the port's coast. Under the auspices of a pre-emptive strike and in retaliation for the murder of a local German missionary, Germany captured the city of Qingdao and forced China into a lopsided treaty. Germany would control the city until 1914 when WWI would divert German focus to the Atlantic Ocean. This period of German occupation explains the homophonic spelling of the beer "Tsingtao," a German attempt to spell the Chinese sound "Qingdao." Despite Germany's imperialistic motives, its influence on the city was not entirely negative.

Anticipating the city to be their main naval headquarters in the Pacific Ocean, the Germans that settled in Qingdao transformed an impoverished village comprised of fishermen and farmers into an electrified, modern economic port. Through widening roads, advanced architecture, and the implementation of advanced sewage and drinking water systems, Qingdao became one of the most advanced cities in East Asia. Additionally, Qingdao also boasted the highest per capita school and student enrollment in all of China. Though control of the city would pass to the Japanese during WW1, the legacy of the German settlers would endure.

LOCATION ADVANTAGES

Nestled upon the edge of the Shandong Peninsula, Qingdao is situated on China's eastern coastline. Its 36° latitude is the same as the southern rim of America's Grand Canyon and Duke University's Campus Drive. Qingdao experiences all four seasons and has an attractive climate in which winters rarely dip below 32°F and summers peak around the low 80's. This city also showcases beautiful rolling hills and sprawling rivers throughout the urban center. Qingdao's close proximity to Korea and Japan also make it an ideal entry point for northeast Asian international trade.

Figure 1
MAP OF CHINA'S SEACOAST

Qingdao's extensive lake and river network combined with its peninsular zig-zagging quality makes it a city both surrounded and immersed by water. Combine this with the temperate climate and Qingdao is an exemplary location for China to choose as its focal point for oceanography and marine research. This field alone has brought in a staggering 133 billion Chinese *renminbi* (RMB) (21.57 billion U.S. dollars) of investment and anticipates even more (Osnago, Rocha & Ruda, 2013). In 2013, these fields experienced 20% growth and despite current expectations of slower GDP growth for China as a whole, many experts predict sustained expansion. Qingdao enjoys a GDP of over 860 billion RMB ($138 billion USD) (World Bank Development Indicators, 2015) and a per capita GDP of 100,000 RMB ($16,000 USD) in a nation where the average GDP per capita is less than half this amount (Global Poverty Working Group, 2015).

Having established cooperative relationships with 450 other ports around the globe, Qingdao has cemented its international status far beyond northern Asia. The city is also home to a burgeoning deep sea fishing industry and boasts the world's seventh largest cargo port. At present, 19 deep sea fishing companies have already registered with the city and thanks to heavy government subsidization, more are expected to follow.

BLUE SILICON VALLEY: THE PEARL OF CHINA'S MARINE TECHNOLOGY

Table 1
COMPARATIVE GDP FOR CHINA'S DEEP PORT CITIES

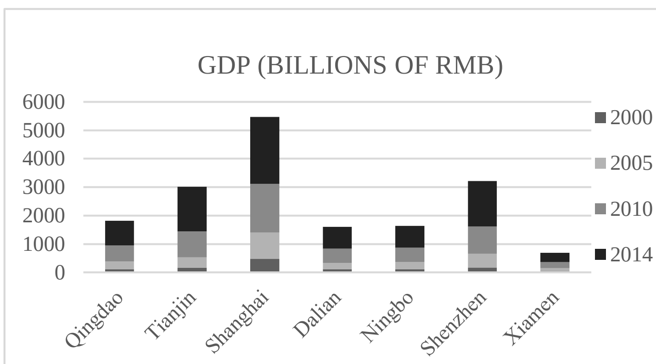
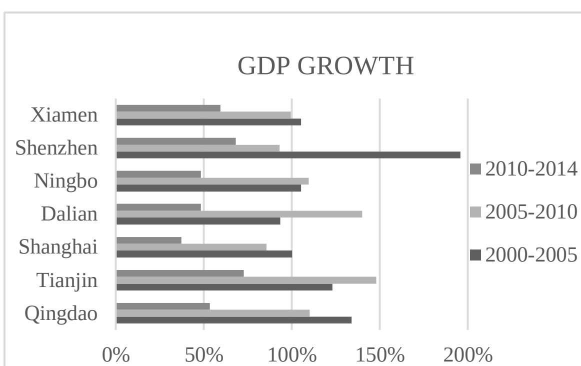


Table 2
COMPARATIVE GDP GROWTH RATES FOR CHINA'S DEEP PORT CITIES, 2000-2014



One primary sector receiving a large portion of these funds has been nicknamed the "Blue Silicon Valley." With completion of various portions of the district expected to finish construction over the course of the next five years, the rapidly expanding region will possess a substantial fraction of China's marine technology and research capacity. From the province and city-sponsored Qingdao National Laboratory for Marine Science and Technology to the federally-sponsored National Laboratory for Ocean Science and Technology, the city intends to become a household name in all areas of ocean-related research.

One way Qingdao has built a name for itself in the scientific community is by bolstering the city's maritime educational system. By touting the city of Qingdao as the premier location for instruction and research in the area of oceanic disciplines, Qingdao has secured a plurality of China's student talent in this domain. Established in 1895, the 18th ranked Tianjin University has an Oceanic Industry and Technological Research Academy. Further, the prestigious Marine Geography and Ocean University has opened a campus in Qingdao. In total, there are 60 institutes and universities in Qingdao with 28 of these dedicated exclusively to marine sciences, oceanography, and fisheries science. In addition to these research universities, the city hosts the National Marine Equipment Quality Inspection Center, which provides quality control for many of the manufacturers in the area and beyond.

Active research programs stemming from this wide base of universities exploring marine science, oceanographic, fisheries, and even as yet unknown resources provides a certain exclusivity for Qingdao. When government officials in China's capital of Beijing have concerns regarding how to best utilize China's extensive shoreline and profit from this resource in a sustainable manner that avoids harming future potential revenue viability, Qingdao is Beijing's foremost source for solutions. Such a reputational effect seemingly encourages Beijing's continuing policy of fund allocations to the developing Qingdao region despite the fact that other larger cities such as Tianjin and Shanghai are also deep port coastal cities.

For example, researchers in Qingdao are currently exploring possible uses of seawater and actively seeking other materials found in the ocean that can be sustainably extracted from China's 12 nautical miles of territorial waters and the additional 24 nautical miles of contiguous waters beyond. Territorial waters are considered to be under the complete control of a nation and further limited influence may be exerted within the contiguous waters. The subsequent 164 nautical miles past the territorial waters is deemed to be under the control of a nation's coastline in the form of an exclusive economic zone. In other words, with few exceptions China generally controls any economically beneficial resource that may be discovered in the future for a total of up to 200 nautical miles from its eastern seaboard (with parts of this shared with North Korea, South Korea, and Japan) (United Nations, 1991). With China at the center of research of economically beneficial but sustainable waters, Qingdao offers China the prospect of as yet undiscovered potential resources. The future for such research is a potential resource China may tap into in the future as Beijing and foreign investors continuously increase funding for Qingdao. Meanwhile, city officials are well aware that becoming the nation's leading innovator of potentially profitable renewable resources from China's 14,500 miles (Central Intelligence Agency, 2015) of shoreline is a capability no other Chinese city possesses.

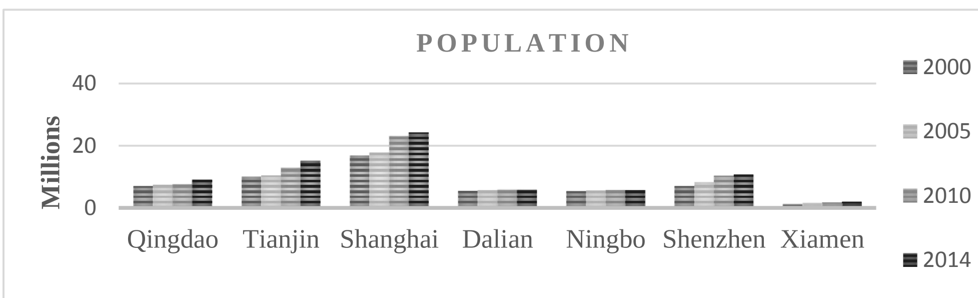
Qingdao is currently in the development process of a new project that will place it in very elite company. Along with the US, France, Russia and Japan, China hopes to be only the 5th country in the world to control a mobile deep sea base. This base will be nuclear-powered and have the capacity to explore the ocean's depths in search of harvestable materials. The base wields accompanying underwater submersible vessels and is capable of being self-sustainable for two months at a time. Beijing officials view the exploration of uncharted ocean depths to be equally important to its space exploration program.

BEYOND THE "BLUE SILICON VALLEY"

The superb location of this "Blue Silicon Valley" has prompted substantial investment in the area of leisure. Utilizing the cities two main river banks, investors have already begun construction on multiple riverside resorts. Ultimately, city planners envision substantial tourism inflow and have invested in a pedestrian walk and botanical gardens to compliment the incoming restaurants and state of the art entertainment facilities. This development has also prompted a $50 million river treatment project to ensure the water is potable for public use-quite a contrast from the vast majority of China's bodies of water.

To understand the importance of Qingdao's initiatives, it is helpful to consider its population relative to other Chinese cities. The capital city of Beijing is home to over 20 million residents and is the sixth largest city in the world by population. Still, Shanghai, another coastal city in south China also having a deep sea port, barely edges out Beijing with over 24 million residents. Qingdao, on the other hand, has only a fraction of residents with a population of approximately 8.7 million.

Table 3
COMPARATIVE POPULATION OF CHINA'S DEEP PORT CITIES, 2000-2014



EXPERIMENTAL GOVERNMENT TREATMENT

Over the next 100 years following German occupation, Qingdao experienced minimal improvements until 1984, when it became one of the initial benefactors of the People's Republic of China's new more open economic policy. Initially, the Chinese communist government allowed only limited foreign economic involvement from other nations as China's economic, social, and political reforms were put in place under the economic leadership of Deng Xiaoping.

Later, however, Deng Xiaoping encouraged foreign investment as reform measures began to mature and stabilize. In other words, within its governmental structure of communism, China developed along two tracks-socialism and capitalism (Naughton, 2007) or what the Communist Party of China (CPC) refers to as socialism with Chinese characteristics. Upon seeing an opportunity for economic and technological advancement, CPC officials permitted a select number of port cities to utilize a more international approach to business. The supportive government policies involved three parts: government subsidization of key sectors, preferential tax and policy treatment, and greater local authority to make economic decisions.

Unlike America which has historically attempted to separate government and the economy via the relative autonomy of Central Bank compared to the nation's political system, China's government is the primary actor in economic decision making. Since 1949 when China first became a socialist economy, the CPC has played the predominant role as the original owner of the majority of Chinese manufacturing. Though the percentage of private firms has risen, some heavy industries important to the social, political, and economic stability of China remain largely state owned. This should not be surprising; the USA takes similar steps with key industries such as the U.S. Postal Service.

One tactic China has is the ability to adjust government subsidization to bolster specific segments of the economy. Through pouring in direct investment from its $1.8 trillion dollar budget, the central government can quickly transform the economic landscape to serve specific goals. To Qingdao's benefit, the government has deemed China's overall marine power growth as a critical area worthy of substantial revenue injection. Recently, the government promised to infuse an additional $100 billion into this sector under the assumption that it will be critical to China's global power in the future.

CPC leaders have also seen the benefit of improving education and have funneled considerable quantities of investment into the marine-related educational institutions in the Qingdao. Seeking to compete with Japan and other developed nations in the area of oceanographic research and innovation, China is actively seeking ways to gain an advantage in what it expects to be an upcoming essential field. Ultimately, China anticipates that its institutions can become world-renowned and attract top international talent from across the globe.

Qingdao is also the benefactor of a unique governing structure titled a "Special Economic and Technological Development Area." This designation gives Qingdao a modified political configuration quite different from other Chinese cities. In Qingdao's case, it means the government is putting a special emphasis on advancing its technological sector through non-standard government economic policies. For example, the West Coast district government is implementing policies in order to create a favorable operation and investment environment for entertainment and digital media enterprises. One such policy is permitting broad partnerships with foreign companies. In 2015, Qingdao contracted with Britain to create a "Digital Entertainment Port." Garnering $1.6 billion dollars of investment, the partnership will include a digital forum center, an ocean exploration center and a digital research and development park. With the initial venture, Qingdao expects additional foreign investment from the international entertainment industry.

Another unique form of government involvement occurs at the government finance level. In 2015, the government made a deal with three of China's main banks which resulted in a $7.8 billion loan to finance many of the aforementioned projects. The loan was designed to spur an economic boost to counteract a nationwide economic slow-down, or the new normal of slower but sustainable economic growth (Gould, 2015). While not a direct subsidy, the loan serves a similar function in allowing the government to support key industries it wishes to advance, albeit with a theoretical repayment due in the future.

Yet another area of differentiation which separates Qingdao from other Chinese cities is its governmental hierarchy. Traditional Chinese cities have a top down management structure in which Beijing makes the major decisions, which are relayed to the provincial governments, which eventually trickle down to the local city government level. As of 2007, Qingdao is one of only five cities in all of China that are outside the traditional government power structure.

Leaders of the city enjoy a special city-level economic decision making capacity and are allowed to report directly to national headquarters for directions. Effectively, this means Shandong provincial leaders do not hold sway over the city of Qingdao and the city-level government is permitted to circumvent the traditional hierarchical structure of provincial authority. Anticipating the city being a key port, the national government opted to remove any potential interference that could come from the provincial level and has all decisions, as well as profits, channeling directly from and to the nation's capital.

It should be noted that unlike America, in which state and local governments raise their own income through sales, property and other forms of taxes, China's national government is the sole recipient of tax revenue. In fact, the greatest expenditure of its national budget is devoted to expenditures at the provincial and local level. Therefore, the mayor of the city of Qingdao has power more similar to the leaders of one of China's provinces. In other words, it would be analogous to an American situation in which the mayor of Los Angeles had power comparable to the Governor of California.

In practice, this relative independence does not necessitate that the city has any substantial economic freedom. The capital's influence is still quite explicit and local leadership is only bestowed upon carefully-vetted, loyal CPC members. Still, any unique status is notable against the background of a top-down authoritarian structure. Any perceived independence, regardless of how small, suggests a potential opportunity for continued deviations from standard CPC policy in the future. City leaders and other Qingdao policy makers are thus exposed to other outside international perspectives on economics that would induce patterns of thinking which could bring about other meaningful change. This includes the idea of technological innovation, for which with Qingdao now has become synonymous.

RECOLORING CHINA'S ECONOMIC LANDSCAPE: CURRENT INVESTMENTS IN THE BLUE SILICON VALLEY

Thus far, Qingdao's policies appear to be working. While China's national city-growth average hovers around 2%, Qingdao has quintupled this at 10% ($131 billion). This has allowed developments to occur throughout the city's numerous districts. A few of these districts merit additional attention, specifically the West Coast Zone, the Hongdao Economic Zone and the previously mentioned Blue Silicon Valley.

The West Coast Zone of Qingdao was recently given special economic status as well. In addition to being a hub for marine engineering, the West Coast Zone also seeks to be a leader in petrochemical and biochemical industries. It currently possesses a Sino-German Ecological Park which intends to host businesses that focus on innovation and environmental friendliness. Similarly, the China-Japan-Korea Innovation Industrial Demonstration Park will take advantage of Japanese and Korean technology and design experience as it seeks to house other high tech businesses. This past year, the West Coast zone experienced an 11.4% growth rate and contributed heavily to Qingdao's net expansion.

The nearby Hongdao Economic Zone is also contributing to Qingdao's advancement. Labelled as a hub for high tech companies, the Hongdao Economic Zone will host multiple software parks. It will also house at least two business incubators designed to further foster technological innovation. Lastly, Hongdao is constructing several parks dedicated to technological research and development.

BLUE SILICON VALLEY: REELING IN TOP TALENT

The development of the BSV thus far has been thoughtful and deliberate. Currently, the Valley boasts 70 projects with initial investment estimated at approximately $6.55 billion. One of these prized commodities is Microsoft's new Qingdao Cloud Computing Center, which will host data for billions of people across the globe. Blue Silicon Valley also will house two business incubators of its own. One is exclusively for students still in school, while the other is open to the public at large. The incubator will provide accepted applicants discounted rent and food as well as access to consulting on different aspects of business and initial subsidized start-up loans. The benefits will start at generous levels and will slowly phase out as the new businesses have the financial resources stand on their own.

The district is also planning ahead by seeking to recruit and maintain top tier international talent. Realizing that a comfortable living environment is important to retention of quality workers, Qingdao has already invested large sums of money toward improving the city's infrastructure and transforming it into a "smart city" that uses prudent technology while also planning to maximize a city's organizational potential. Production is underway for a new railway system comparable to other advanced international cities in order to allow for more comfortable and less congested commuting. An additional $300 million has also been spent on constructing 18 new roads to improve current traffic congestion. Furthermore, the city has undertaken goals of improving other aspects of the city's infrastructure as well including electricity, water, sewage, gas and heating. If these improvements come to fruition, the CPC anticipates that the world's best talent might choose to make Qingdao their permanent home.

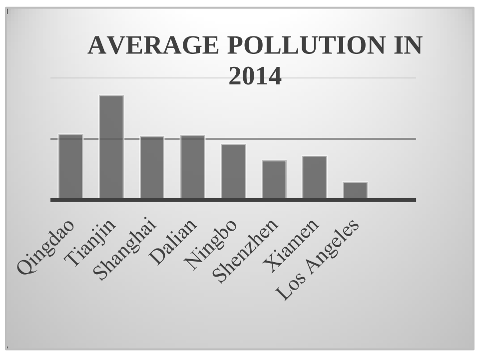
An extremely appreciated side effect of this business construction is that investments have seduced additional investors. As some international enterprises have committed to construction in Qingdao, other lateral industries have followed. For example, a business dedicated to Vanadium titanium resources, an advanced technology which can reduce pollution emission from the manufacturing process, initially began construction in Qingdao. Seeing an opportunity for collaboration and cost cutting measures, the Qingdao Iron and Steel Group formed a partnership that will reduce exhaust emissions by 85% and lower net energy consumption. Qingdao is hopeful that similar "investment attracts investment" stories will continue to occur.

GREEN IS THE NEW GRAY

As China's air and water pollution continues to worsen during its industrial revolution economic phase, Qingdao's government is taking active measures to reverse some of the damage. Since the 80's, China has focused on maximizing the nation's economy while also minimizing social disorder. While the Chinese standard of living has indeed skyrocketed during the past 35 years, it has not come without a considerable toll on the environment. Cost-cutting measures have resulted in some of the world's worst air pollution (2nd only to India). A recent survey suggests that the average person growing up in northern China will have their life span shortened by 5.5 years as a direct result of air pollution. As a means of alleviating some of the damage and inspiring additional foreign investment, Qingdao is implementing new pollution reduction policies that should come as a breath of fresh air to the cities' inhabitants as well as future investors.

Residing in a country with the common malady of an emerging economy, China has been forced to make environmentally destructive policy choices in order to maximize economic development. However, Qingdao seeks to rebrand itself as a leader in sustainability. The city has undertaken several projects already, in the hopes that these projects can build goodwill with potential investors. Leaders have expressed their goals to protect the aquatic environment from further destruction and to actively pursue restoration of the marine ecosystem that has already been damaged. Further, Qingdao has already spent $50 billion towards water treatment. With the help of an advanced membrane water treatment research and development center, city officials are attempting to restore river quality through reductions in environmental contaminates. Currently, the city has established closer monitoring via 25 different testing points across the city.

Table 4
AVERAGE POLLUTION OF CHINA'S DEEP PORT CITIES, 2014



Active scrutiny of other major sources pollution have begun as well. The government estimates that it currently is supervising 96% of the cities pollution sources. It has also threatened to punish serious pollution offenders, although there is no evidence currently of such a punishment occurring. In October 2014, 50 companies voluntarily signed onto an insurance agreement that they will be liable for any injuries caused by their company's pollution. While this is still a far cry from liability standards in the West, it is certainly a positive step towards corporate accountability and enforcement of environmental regulations.

Specifically in the area of air pollution, the city has promoted the replacement of standard-grade coal with lower sulfur concentration coal. Lower sulfur concentration coal is more costly than standard grade, but city officials believe revenues resulting from a green sustainable environment and resultant foreign investment will far exceed the added cost of higher-grade coal. Slowly, some businesses are making the transition and eliminating some of their greatest environmentally offending boilers and other manufacturing equipment. The government has also experimented with "air shooters" designed to launch a special chemical into the sky with the goal of removing particulate matter from the air. Other positive pollution control measures include the endorsement of greener construction methods and improvements in ecological marine farming.

Qingdao passionately desires to portray itself as socially responsible city to the outside world. One way in which it has demonstrated this goal is through the supporting of local villagers who had been displaced by the rapid industrialization of the city. According to the government, these villagers have been provided with replacement apartments at the government's expense. Elsewhere in the city, ecological reserves have been partitioned to help protect local biology.

Table 5
EXPORT VALUE OF CHINA'S DEEP PORT CITIES, 2000-2014

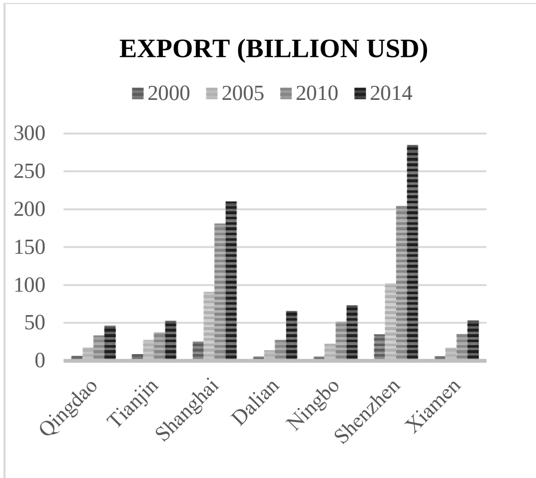


Table 6
EXPORT GROWTH OF CHINA'S DEEP PORT CITIES, 2000-2014

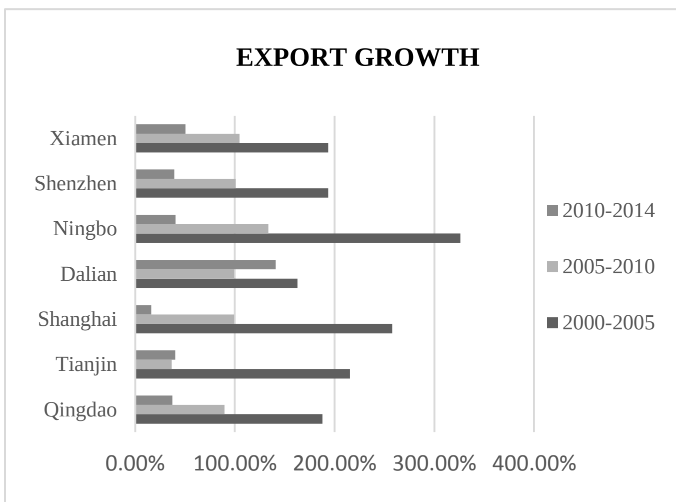


Table 7
IMPORT VALUE OF CHINA'S DEEP PORT CITIES, 2000-2014

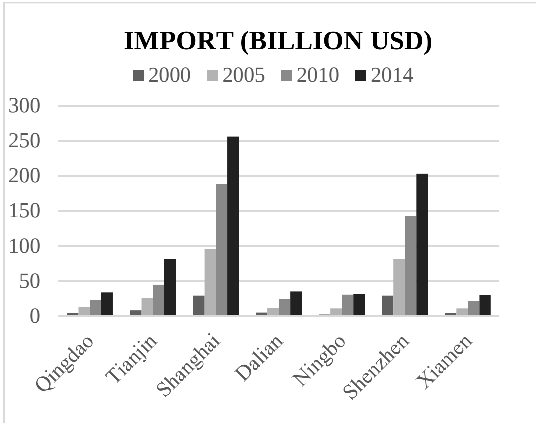
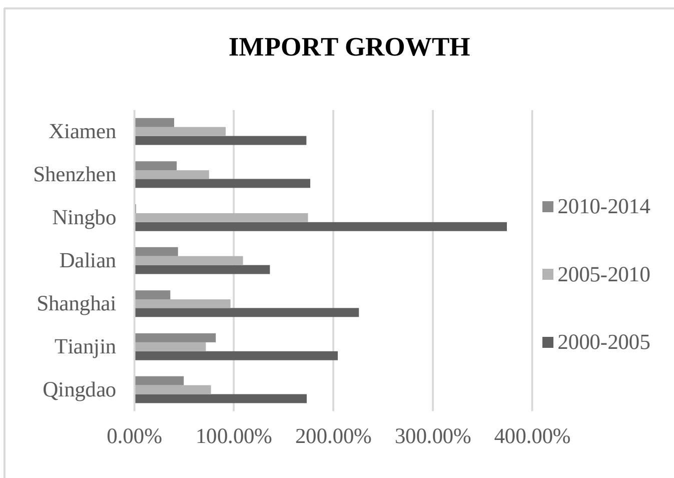


Table 8
IMPORT GROWTH OF CHINA'S DEEP PORT CITIES, 2000-2014



FUTURE OUTLOOK

The "Lush City's" future outlook seems quite promising. Already during the first quarter of this year, economic growth is up 8%. The predicted GDP for 2015 is $82 billion. In addition to securing billions of dollars of investment both from the Chinese government and abroad, the city has begun to develop a reputation as a city capable of competing among international players. By attracting high tech companies and focusing on both blue and green economy, it has garnered high expectations as what is expected to become one of the leaders of its multiple fields. Its strategy to improve infrastructure and attract international talent also seem to be well-conceived and should provide the city with the requisite brain power to achieve its innovation goals.

Still, the leaders of Qingdao have even grander visions. Recently, city officials submitted a request to the national government for the city to become a free trade zone. This means the city would be provided with even less interference from the national government. Currently, Shanghai is the only city to possess this special status. Although 18 other cities have made a similar request to the CPC leaders to become free trade cities, Qingdao officials feel they have a compelling advantage over these other cities given its close proximity to Korea and Japan.

While the current prospectus does appear promising, it isn't completely positive. Qingdao's current rank as the tenth city in China in terms of GDP is expected to be surpassed by other cities experiencing even stronger economic development. The growth rate in 2015 is also expected to slow considerably as a result of broader nationwide economic stagnation. Further, in the same way a city can be easily benefited by preferential government treatment, it can also be quashed if the city becomes a threat to the established order. The strategies that can be used to attract foreign investment often conflict with the strategies to maintain preferential government treatment and it might be difficult for city planners to continue catering to both audiences. During this time of optimism and high expectations, it is easy to maintain a satisfied government, but should the economic and reputational results not be achieved in a timely manner, some Beijing officials might desire to retake the reigns. Further, efficacious innovation in pollution control has been a challenge for Qingdao despite its extensive efforts to retain its status as China's most livable city.

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A MULTIDISCIPLINARY APPROACH TO MITIGATING ANTIMICROBIAL RESISTANCE

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CASE DESCRIPTION

This case presents a scenario of a local public health challenge relating to the global threat of antimicrobial resistance. It is caused and driven by complex factors and a solution is required to contain and prevent it. To holistically address this problem requires a multidisciplinary approach to accurately analyze the problem, identify its drivers and create innovative solutions that are effective, feasible and sustainable. There are many possible solutions to the problem, but all would require a judicious recognition and balance of public and private health care rights, responsibilities, and values. The case description is adapted from real occurrences and can represent real life situations. Fictitious characters and plots that bear no direct relation to any existing individuals or locations are used.

CASE SYNOPSIS

The President of the Democratic Republic of Mullenia (a fictional state) convened an emergency meeting of the Disaster Management Taskforce (DMT) under the Office of the Prime Minister responsible for coordinating all aspects of disaster management in mainland Mullenia. The taskforce comprising the heads of several ministries was called in order to address a recently identified public health crisis stemming from increased antimicrobial drug resistance (AMR). The most affected areas in the country are rural, which typically lack adequate medical resources, but the AMR is rapidly spreading into urban areas as well. A preliminary survey shows that this trend correlates with the indiscriminate sale and use of antimicrobials from unregulated markets and private drugstores that do not require prescriptions. Challenged with poor medical infrastructure and shortage of trained personnel, the country is determined to tackle the issue holistically. This means that, at the least, expertise in medicine, business/economics, sociology/anthropology and public policy is required. You (or your team) have been hired by the Government of Mullenia to offer both short and long term solutions to address these issues.

CURRENT SITUATION

Doto, a 4-year-old girl in the rural village of Tilman in the Sharon Region of northeastern of the country of Mullenia, awoke with fever and diarrhea. Her mother, Akilia, knew of several other children in the area who, suffering similar symptoms, had not improved after visiting the local clinic and taking drugs bought from the local dispensary. One boy from the neighboring village had died when the treatment he was given did not work. Akilia was therefore understandably reluctant to take Doto to the local clinic. Akilia's sister, who worked at the Qualsey Medical Center (QMC) in the town of Shinga (200 km away), was aware of an increase in cases of diarrhea among young children in the Tilman area and also that common antimicrobial treatments were no longer effective. Fearing there was an outbreak of typhoid, she recommended that Akilia bring Doto to QMC as quickly as possible. Akilia and her mother traveled to Shinga by bus the next day where a stool culture and antimicrobial resistance profile performed by the QMC laboratory revealed Doto to be infected with a strain of non-typhoidal Salmonella (NTS) that was unusually resistant to third generation cephalosporin antimicrobials, such as ceftiofur, and traced NTS in some local cattle. Luckily for Doto, her subsequent treatment was effective, but two other children, who had been taken to the local clinic near Tilman and treated with cephalosporin antimicrobials bought from the local dispensary, had died.

Additional samples collected from the neighboring country of Nora and from travelers returning from visits to countries east of Mullenia have also been examined. The initial results of this research indicate that, in the past 12 months, isolates from 80% of the human NTS cases were resistant to cephalosporins, with the percentage of cases rapidly increasing over time. Additionally, an identical strain had recently been isolated from 24 wildlife safari tourists who visited Mullenia National Park.

PROBLEM: ANTIMICROBIAL RESISTANCE

The challenge of antimicrobial resistance extends beyond local to a global concern. Increased rates of failure of antimicrobial treatment, and the persistence of bacterial infections that previously were responsive to therapy calls for immediate action. Effective action requires the collaboration that includes but not limited to anthropologists, clinical scientists, communication specialists, business and transport and economics. Resistance is a phenomenon that bacteria use to protect themselves against the antimicrobials used to kill them. The most common protection mechanism is enzymatic inactivation of the antimicrobial, in which a specific bacterial enzyme modifies the antimicrobial in a way that it loses its activity and no longer affects the targeted microorganism. For example, in the case of streptomycin resistance, the antimicrobial is chemically modified so that it will no longer bind to the ribosome to block protein synthesis. Other strategies utilized by many bacteria are the alteration of the antimicrobial target site through mutation, or using efflux pumps to expel antimicrobials. Efflux pumps are high-affinity reverse transport systems located in the bacterial cell membrane that transport the antimicrobial out of the cell. This is the mechanism of resistance to tetracycline (1-4).

Antimicrobial resistance may be an inherent trait of the organism, or it may be acquired by means of mutation in its own DNA or acquisition of resistance-conferring DNA from another source. A bacterial organism may naturally resist an antimicrobial treatment due to its own particular biology; for example, the bacteria may lack a transport system for the antimicrobial, or may lack the target of the antimicrobial molecule. The development of acquired resistance is inevitable following the introduction of a new antimicrobial. Initial rates of resistance to new drugs are normally on the order of 1%. However, modern uses of antimicrobials have caused a huge increase in the number of resistant strains. Generally within 8-12 years of its widespread use, strains resistant to the antimicrobial become rampant. In this way, bacteria may also become resistant to multiple drugs. The improper use of antimicrobials (e.g., improper dose, unnecessary use, prophylactic use, over the counter drug use, improperly stored and out-of-date drugs) also contributes to the development and persistence of antimicrobial resistance. A major threat posed by antimicrobial resistance arises partly from the ability of resistant bacteria to spread from animal to human populations (and vice versa) and adapt in that population. The result of this spread is increasing failure of recovery from routine therapy. Furthermore, international travel can facilitate the spread disease agents rapidly (1-4).

SETTING

Country Profile

The Democratic Republic of Mullenia is endowed with a range of agro-ecological zones, from low-lying coastal plains to a dry highland plateau, as well as northern savannas and cool, wetter regions in the northwest and south. The population of Mullenia is approximately 35 million, and includes three major ethnic groups. English is also considered an official language of Mullenia. The overall literacy rate is approximately 72% (74.4% males; 69.3% females). While there are heavy population concentrations in the urban centers of Maalda, Zawnie, Tatob and Yorkem, as well as in the foothills of Mount Emei, upwards of 70% of Mullenians reside in rural areas. Smallholder farming in these areas accounts for about 75% of the country's total agricultural production.

Animal husbandry systems practiced in Mullenia include pastoralists and agro-pastoralists with several husbandry methods including communal grazing, tethered grazing, and zero-grazing practices. Pastoralism is a common grazing strategy in arid, semi-arid and grassland savannas, transhumant pastoralists move with their herds of cattle, sheep and goats to gain access to traditional pasturelands. Living in permanent villages, agro-pastoralists have permanent homes in which they keep their livestock at night. During the day they may have their cattle graze in herds on communal pastures, or tethered by rope to limit livestock movement in communal pastures, roadside areas, or other accessible grazing opportunities. Alternatively, livestock cattle (and sometimes pigs) may be kept in a compound, usually confined in wooden stall 24 hours a day and fed grass or fodder cut by the family and brought to the house.

Gold production and tourism have led to high overall growth of the Mullenian economy, yet Mullenian citizens today remain among the world's poorest in terms of per capita income. While the country has largely transitioned to a liberalized market economy, the government retains a presence in growing sectors such as telecommunications, banking, energy and mining. Despite this increasing diversity, however, the economy is largely dependent on agriculture, which accounts for more than one-quarter of GDP, provides 85% of exports, and employs about 80% of the work force. The World Bank, International Monetary Fund (IMF), and bilateral donors have provided funds to rehabilitate Mullenian's aging economic infrastructure, including rail and port infrastructure that are important links for inland countries. Recent banking reforms have helped increase private-sector growth and investment, and the government has increased spending on agriculture to 7% of its budget. All land in Mullenia is owned by the government, which leases land to its citizens for up to 99 years. Proposed reforms to allow for private land ownership, particularly foreign land ownership, remain unpopular. The country is divided into 15 administrative regions: five on the semi-autonomous islands of Bariste and 10 on the mainland.

The head of state, President Owilo Tentete, was elected in 2005. Since 1996, the official capital of Mullenia has been Paj, where the National Assembly and some government offices are located. The main coastal city of Maalda is Mullenia's principal commercial city and headquarters of most government institutions. Sharon, located in the Emei region of northeast Mullenia, is a popular tourist destination. Many international airlines maintain direct service to Sharon from European cities.

Human and Animal Health Infrastructure

Three Ministries, the Ministry of Health and Social Welfare, the Ministry of Agriculture, and the Ministry of Natural Resources are the primary national agencies with responsibility for human, domestic animal, and wildlife health, respectively. The Disaster Management Taskforce (DMT) is an inter-ministerial unit with representatives from all three ministries as well as other government agencies. The Mullenia Food, Drugs, and Cosmetics Act of 2003 established the Mullenia Food and Drug Authority (MFDA), which is an Executive Agency empowered to regulate food, medicines, cosmetics, and medical devices for both humans and animals.

Access and Application of Antimicrobials

The sale and use of antimicrobials in rural Mullenia is not regulated and does not require a prescription in private drugstores. Of a sample of 350 customers interviewed after exiting private drugstores in eight districts, 24% had bought antimicrobials. Thirty percent had seen a health worker before coming and almost all of these had a prescription. Antimicrobials were dispensed mainly for cough, stomach-ache, genital complaints and diarrhea but not for malaria or headache. The knowledge level of the drug seller was ranked as high or very high by 75% of the respondents. Seventy-five drug sellers from three districts participated. Seventy-nine percent stated that diseases caused by bacteria can be treated with antimicrobials but 24% of these also said that antimicrobials can be used for treating viral disease. Most (85%) said that sexually transmitted infections can be treated with antimicrobials, while 1% said the same about headache, 4% general weakness and 3% 'all diseases'. Seventy-two percent had heard of antimicrobial resistance (5). Dispensed drugs were assessed as relevant for the symptoms or disease presented in 83% of all cases and 51% for antimicrobials specifically. Based on this analysis of the survey data, there was apparent mishandling of drugs both on the part of the drugstores and the customers (5).

The Town of Tilman

Tilman is a small town 120 km to the west of Town of Sharon. The estimated population is 18,000 people of which Ewo is the predominant tribe. Three rivers converge in the town and as a result Tilman has year-round access to water. The town is on a main road to the Akpapka Mountain and Mogo Crater, and is adjacent to Lake Panco. Nearly all tourist pass through Tilman on the way to these popular tourist destinations. As a result many people are involved in the tourism industry, running guest houses, selling paintings, offering tours, and other tourist industry activities.

Tilman also has a small agriculture industry exporting bananas to other parts of the country. As most of the population is Ewo there are many (agro-) pastoral herds of cattle and pigs feeding on the relatively overgrazed pasturelands surrounding the town. In the dry season there is little grass and the herds are moved to other regions to find pasture (6).

The people of Tilman have access to western-style health care through doctors, clinics and dispensaries based in the town. For more complicated cases, patients travel to the major towns of Sharon where larger district hospitals exist. All health care is private and at costs that are often very high relative to household incomes of many people living in the town. Health insurance is essentially nonexistent, bank savings accounts are rarely used, and loans for health care expenses are either not available or are associated with high interest and stringent collateral requirements.

Although there is a district veterinary office within the area, it is staffed with only one veterinarian and three livestock field officers who are paraprofessionals. The district office is currently primarily concerned with notifiable disease reporting, and there are no private veterinarians to consult for animal health care. The closest veterinary laboratory and government center is also in Sharon. As a result of the financial costs, and personal preference, many people rely on local traditional medicine, which is cheaper. It is common practice for the citizens to visit various herbalists and shaman or traditional healers when ill (4, 7-9).

CHALLENGES AND POTENTIAL OBSTACLES

Because of the contributions of both human and animal application of antimicrobials, effective control of antimicrobial resistance may require coordinated response by veterinary, human medical and public health professionals. A "one health" approach toward addressing the problem could offer strategic advantages and potential cost savings. However, there are challenges that have seemingly prevented a coordinated, multidisciplinary action plan in the past. Strong historical precedent for maintaining the "silos" that exist between animal and public health professionals, and between health professionals and other health care related disciplines, as well as organizational barriers have deterred a coordinated approach in general for disease surveillance and response.

Some specific obstacles to unifying animal and human disease surveillance and reporting in Mullenia include the following (6, 7, 10, 11):

- Existing laws and policies define responsibilities for disease reporting and response clearly within each sector, but not across sectors (i.e. human, animal, and environmental health).
- The government has not established a standing International Health Regulations (IHR) national task force that encompasses ministries beyond the health sector.
- Government budgets already fall short of estimated costs for achieving the national health sector strategy goals for communicable disease prevention and control, which did not include roll-out of the Integrated Disease Surveillance and Response (IDSR) /IHR strategy.
- The capacity to implement plans at the sub-national level are hampered by a lack of human and material resources.

- Existing mandated disease reporting does not include mandated antimicrobial resistance monitoring for animal or human pathogens.

Major Deficiencies in Current Disease Surveillance Systems

A recent tabletop exercise, along with a recent assessment of current surveillance systems in Mullenia measured against the 2011 World Health Organization (WHO) IHR Monitoring Framework identified the following deficiencies (10, 11):

- Challenges to supply management, staffing, and equipment maintenance affects diagnostic services at the national, zonal, regional, and district levels due to frequent equipment failures, lack of shipping/packing materials for specimen transport, and depleted stocks of essential reagents.
- A national system for specimen transport is lacking, despite efforts on the part of government to address options for media and specimen transport.
- Reporting of animal and human diseases depends on a mix of paper-based, mobile phone, radio, SMS, and electronic notifications. Reporting is often delayed and inconsistent, slowing real-time analysis of surveillance data. Laboratories use a paper-based system that is not integrated into the national surveillance system.
- Basic supplies for specimen transport, preparation and laboratory testing are often difficult to come by. A lack of budgeting for outbreak investigation at the local level, combined with a cumbersome fiscal process at the national level, causes delays in investigations and shortages of essential equipment and materials.
- Personnel training is inconsistent, with no standards for continuing education. There are no resources set aside for routine refresher training on the infectious disease surveillance and reporting training modules, or to schedule site visits between health system tiers.
- Significant informal collaboration exists between human and veterinary sectors and among different ministries. Lack of formal policies and infrastructure, however, could cause significant inefficiencies in overlapping jurisdictions during emergencies.
- There is little understanding of the basic principles of biosecurity; internationally-accepted standards for biosecurity have not been achieved.
- There is no capacity to distinguish naturally-occurring events from intentionally introduced diseases (bioterrorism or agro terrorism). Some priority pathogens of interest to bioterrorism would be unfamiliar to clinicians, and laboratories would not know how to test for them.

CONCLUSION

The global threat of antimicrobial resistance is imminent and requires urgent action by governments and stakeholders. Mullenia aims to set the pace among resource-poor countries in addressing this problem and seeks to produce a well-balanced proposal for immediate implementation specific to the country. The solutions should consider civil rights to pursue private health care, a recognition of the public health implications of private use (and misuse) of antimicrobials, economic welfare, fairness and equity, as well as cultural, political, and technological factors critical to effectiveness of a proposed implementation plan.