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DRINKING UP THE PROFITS: A FORENSIC ACCOUNTING CASE

Vincent J. Shea, Saint John's University
Bobby E. Waldrup, University of North Florida
Robert Slater, University of North Florida

CASE OVERVIEW

This case is based on happenings at Sullivan's Bar, a drinking establishment owned by Frank Sullivan. Over the past few years Frank has noticed a decline in profits from Sullivan's Operations, even though there seems to be more customers in the bar. Frank asks one of his regulars at the bar, Dr. Scott Graham for help. Dr. Graham is an accounting professor at the local university and teaches accounting information systems. Dr. Graham challenges a few of his graduate students to help determine what could be causing the decline in bar revenues.

The case features Dr. Graham and his students as they explore operations at Sullivan's Bar. To determine where the lost profits may be hiding, Dr. Graham and his students examine the financial records, document operations, brainstorm on ideas, and do an onsite investigation at the bar.

This case is designed for undergraduate accounting students learning about accounting information systems, internal controls, fraud, and forensic accounting. The case may be used in class as an illustrative example of documenting system operations, brainstorming, gross profit analysis, and forensic investigations.

STUDENT QUESTIONS

1. Revising the Estimate:

In their original analysis Dr. Graham and his team made a few errors in their assumptions. These assumptions were critical to the analysis. Using the following assumptions recalculate the expected sales for Sullivan's Bar.

Assumptions:

- a. The estimated spillage for draft beer is about 10%.
- b. The estimated spillage for bottled beer is about 5%.
- c. Assume that bartenders have been pouring 1.5 ounce shot drinks.
- d. The bartenders are pouring beers with no foam head at the top.

Based on the revised assumptions above, what were the expected sales for the year?

2. Comparing Estimates:

Using the recalculated expected sales, compare your calculations from question 1 to the actual results Sullivan's Bar achieved for the year.

Make sure you detail the differences between the original estimate and the revised estimate for each category of product.

3. Investigate the Invigilation:

Using the answer you calculated from question 2, answer the following question: Did the amount of theft estimated by the team using the invigilation process explain the difference between expected sales and actual sales?

4. Differences?

Examine your answer to question three. Are there any differences? What could possibly cause these differences?

5. Policies:

How should Frank address the issue of the employees not following the policies? Specifically address different steps Frank can take fix this issue.

6. Controls:

List and describe some controls Frank can put in place to fix the issues at his bar?

7. Freebies:

Discuss the impact of Frank giving some of his customers free drinks from the both the point of view of the bartenders and of the owner. Should Frank discuss his behavior with his employees?

8. Sliding:

In the case sliding was considered fraud. However, some experts do not agree. Do you consider sliding fraud? Should Frank give him employees some latitude in giving out complimentary drinks?

9. Bartender Fraud:

Why was it so easy for the bartender to get away with fraud in this particular case?

10. Other types of fraud schemes I:

An additional type of fraud that has been discovered in the hospitality industry is bartenders selling drinks from their own bottles. What would be the effects of this type of fraud on the

financial statements compared to skimming or sliding?

11. Other types of fraud schemes II:

What other types of fraud schemes could happen at a bar like this? List each scheme and the impact it would have on the various financial statements and managerial measurements. How would the fraud likely be committed and how would it be prevented and/or caught.

12. Frank's Perspective:

Assume that Frank is correct and that he will lose some business if he starts pouring beer with a 1 inch head and 1 ounce liquor drinks. Frank estimates he will lose 10% of his customers. From the financial perspective, if Frank makes this change, would Sullivan's Bar be more or less profitable?

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ADVANCED GAME PRODUCTS, INC.

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CASE DESCRIPTION

This case primarily concerns the application of financial reporting standards and current tax law to certain transactions of a company called Advance Game Products, Inc. (AGP). Internal control issues are also presented. Specifically, the case involves issues related to the accounting and tax treatment for two types of sales rebates, licensing arrangements whereby professional athletes permit their likeness to be used in the company's video games, and a contract with another company under which it will be the primary creative force behind the development of certain new games while AGP will take on the primary role of marketing those games. Students are also asked to identify potential concerns over the processing of the rebates and make recommendations on what internal controls the company should implement. The case has a difficulty level of 4, although the assignment could be easily adapted for use in a second Intermediate Accounting course or junior level business tax course. The case is designed require 1 to 4 hours of class time and require 12 hours of student preparation outside of class if all questions are assigned.

CASE SYNOPSIS

Jamie Jetson, a recent college graduate with an Accounting degree, has been assigned to the Advanced Game Products, Inc. (AGP) client engagement. The company operates in the dynamic video game industry, where creativity is paramount. Jamie's firm has been hired to do the audit and tax work for AGP. There were several big changes at AGP during the year, and Jamie's accounting firm has to determine how to deal with those items. AGP has recently signed contracts with celebrities for the rights to use their likenesses in video games under development. Unfortunately, one of the professional athletes, who already received a large advance, was involved in a big public scandal, so AGP has cancelled the development of his game. Another big change was that the company recently started a sales rebate program for both games sold in stores and games downloadable from the Internet. AGP has also signed a new agreement with another company to help it develop new games to work with new gaming platforms. With these new developments come both opportunities and concerns for AGP.

ALIBABA: THE CHINESE DRAGON OF E-COMMERCE

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ABSTRACT

The Chinese company, Alibaba, is changing the way global business is conducted. This fast growing B2B company has benefited from the explosion in information technology and has developed a unique business model. This case examines Alibaba's success and how the company is unique from most Western companies. Issues such as changing methods of engaging in international business, unique strategies, and stakeholder priorities are discussed in the case.

Global trade starts here
Alibaba motto

Jack Ma is a man on a mission. The Chinese entrepreneur who founded Alibaba, and other companies, wants to change the way business-to-business (B2B) is conducted, and to develop a platform to support small and medium sized enterprises (SME). Alibaba, Taobao, and other Ma creations have already begun to make some wonder how this former English teacher, with an unassuming demeanor, has been so successful, and what the future holds for his companies and the future of B2B activity.

HUMBLE BEGINNINGS

The founder of Alibaba, Jack Ma grew up in the Chinese city of Hangzhou, a city known for its beauty. Hangzhou has been consistently rated the most livable city in China for a number of years. Ma began his work life as a child, acting as a tour guide in order to improve his proficiency in English. Ma's academic skills in math and science were poor, however, he possessed an ability with languages. After graduating from the Hangzhou Normal College, Ma began teaching English. Not satisfied with the salary of an English teacher, Ma began his own translation business. After a trip to the United States and gaining experience with computers and the Internet, Ma created China's first Yellow Pages company. Ma then started Alibaba in his small apartment and has grown the Alibaba Group into a collection of fast-growth companies including Taobao, Alipay, and Alisoft. While still a humble and frugal man, Jack Ma is building a strong competitive force in the information-based global economy. He is known for not thinking about today or tomorrow, but thinking decades ahead. Jack Ma has a long-term focus which has served him well in becoming one of China's wealthiest individuals. His rise from poverty to prosperity began with a vision and is constantly expanding upon that vision.

WHAT'S IN A NAME?

Jack Ma's selection of Alibaba as the name for his company is part of an overall strategy – and one mired in symbolism and folklore. How and why did he select such a name? For one, it has a strong identification among people from numerous cultures. It comes from a tale of “The Thousand and One Nights” – a story that featured a poor wood cutter, lots of gold, and 40 thieves.

According to an interview discussion with Jack Ma posted on a company forum, the innovatively driven CEO found himself in a San Francisco coffee shop pondering the word Alibaba. When his waitress came by, he asked what she knew about Alibaba, and she said “open sesame”. Following this, he left the restaurant and asked 30 people on the street if they knew Alibaba. They were people from India, Germany, Tokyo, and China. Amazingly, they all knew Alibaba. They also knew aspects of the tale – open sesame and 40 thieves. Ma asserted that Alibaba was not a thief, but rather, a smart, kind business person who helped his village. What a name, he thought. It was easy to spell and had global recognition. His company would “open sesame” for small and medium size enterprises.

The company's controversial name, one associated with thieves, gives it great depth. It also enables Jack Ma to provide China with a lasting global brand – Alibaba – which after countless years, can still be identified across many cultures.

From a symbolic standpoint, there is a great deal of power in words with strong, specific connotations that are mapped to an aspect of a company's position. The word, Alibaba, in this case, becomes redefined. According to some experts this naming strategy is one of the most powerful.

THE YAHOO-ALIBABA CONNECTION

Yahoo was the first Internet company to set up shop in China in 1999. In 2005, it paid \$1 billion and handed over its China operations to Alibaba in return for a 40% equity stake in the Chinese company. This action was heralded by both companies. The cordial relationship between the top gurus at Yahoo and Alibaba was not without problems. Over the years privacy, censorship, and human rights issues became sticking points that led to Yahoo's friendly exchange of cash for ownership rights in Alibaba.

On September 14, 2009 Yahoo sold \$150 million worth of Alibaba shares in part because of a Chinese law that gives the government of China regulatory oversight over mergers that “involve acquisitions of Chinese companies or foreign businesses investing in Chinese companies' operations”. At the same time, Jack Ma sold 13 million of his shares, slightly less than 5% of his holdings in Alibaba for about \$35 million. It appears that while Yahoo had a good relationship with Alibaba, it did not wish to assume the geopolitical risk imposed by the Chinese government. The stock sale was positively viewed by the Alibaba Group because they wanted Alibaba.com to have broader ownership.

Good relations quickly soured when Alibaba sharply criticized Yahoo for its public support of Google after that company's conflict with the Chinese government over cyber attacks. The attacks stemmed from the government's censoring of Google's search engine results. What happened is that Yahoo aligned itself with Google in condemning the cyber attacks it experienced as a result of hackers in China. John Spelich, the International Affairs chief at Alibaba, says Yahoo's support of Google was “reckless, given the lack of facts in evidence”. By

criticizing Yahoo, Alibaba strained one of the most prominent corporate alliances between a Chinese and an American firm in the Internet industry.

Alibaba and Yahoo have different positions on human rights in China. Yahoo's management suffered a major smear of its public image when it disclosed account information in 2004 to Chinese authorities about journalist Shi Tao, one of its email users. The information was used to convict Mr. Shi, who was sent to prison for 10 years, for divulging a government document related to a politically sensitive anniversary. Yahoo's co-founder apologized personally to the family of Shi Tao. Alibaba, on the other hand, flatly stated that it would comply with the Chinese government should there be a conflict between a Yahoo China email user and Beijing in the future. Jack Ma said at the time, "I'm not a political group; I'm a businessman".

Despite these frustrations, Yahoo retains its stake in Alibaba and Yahoo CEO, Carol Bartz, who took over the company in 2009, said that she has no reason to sell further interests in Alibaba. Yahoo will retain its 39% share in the parent company – Alibaba Group.

THE ALIBABA GROUP

The mission of the Alibaba Group is "to make it easy to do business anywhere." The company has a set of core values which include: putting the customer first; teamwork, embracing change; acting with integrity; developing a passion in employees; and a commitment to serving the SMEs of the world. These core values have helped Alibaba become a successful organization by creating a strong and coherent corporate culture. Perhaps the strongest value is the commitment to customers, especially companies in his target market. Ma feels strongly that the small and medium-sized companies of the world have been underserved and he hopes to level the playing field with Alibaba.

The Alibaba group consists of several companies, led by Alibaba.Com. Additional companies include: Taobao – An Internet retail Website (similar to e-Bay); Alipay – A third party internet payment company (similar to PayPal); Alisoft – An e-commerce software company; and China Civilink (which operates in China as HiChina Web Solutions) - An e-commerce firm that provides domain name registration.

The flagship Website, Alibaba.Com, is vast and offers a wide variety of products from red onions to red dump trucks. On the site businesses can search by product or country, view pictures and specifics of various products, find company contact information, and in some cases even take a virtual company tour. The site is easy to navigate and offers sellers the opportunity to showcase their goods to the world. While suppliers can join Alibaba for free, many more services are available to suppliers who pay to become Gold Suppliers. Gold Suppliers can showcase an unlimited number of products, get earlier access to potential buyers, are offered Web templates for storefronts, and have access to performance tools to evaluate consumer activity. The company provides many examples of how SMEs have become more successful through Alibaba such as Mr. Doron Sanders Company: Paloma Dead Sea of Israel - "We generated more than a million dollars in sales in just one week thanks to our Gold Supplier membership!" Also from Mr. Shin Dong-man Company: Nubicom Inc. of South Korea - "Since we joined Alibaba.com in December 2008, we have inked US\$600,000 worth of deals with customers from the USA, Hong Kong and China!" From the testimonies found on the company site, many SMEs may see the opportunity to greatly expand their business through Alibaba.

Alibaba.Com offers a site for businesses seeking customers worldwide. Initially the company acted as a site for Chinese manufacturers to find buyers worldwide but the company

has since expanded into other parts of the world catering to not only Chinese suppliers, but also Indian, Korean, Japanese, and Southeast Asian companies. In addition, suppliers from many other countries have their goods listed on Alibaba. While the company still has a focus on Asian suppliers, Alibaba is moving into Europe and the United States. Ma feels that the business model can work anywhere and is currently heavily promoting the company in the UK, and has begun promotion in the United States as well. Ma feels that the business can not only sell China goods to the world, but also allow companies to sell their goods to Chinese buyers.

With the global recession decreasing the demand for Chinese made goods, as well as good made elsewhere, Alibaba has responded by reducing the cost to its Gold Suppliers. After cutting Gold Supplier fees in 2009 by 60% the number of subscribers rose dramatically. Ma decided to sacrifice short-term profitability for long-term sustainability. Alibaba is a publically traded stock, listed on the Hong Kong Exchange. Listed in 2007 with an IPO of \$1.5 billion, the stock price has shown very good performance.

While investors are often concerned about short-term results, Ma insists on a long-term perspective, and his priority list is a bit unusual by Western standards. Ma places customers first, followed by employees, and places shareholders last. He is not concerned about how the investment community feels about his approach saying that people can always choose not to invest if they disagree with his strategy. Ma states that he wants “shareholders” and not “share traders.” He wants investors who share his long-term vision for the company. Jack Ma has a unique perspective concerning stakeholder values and priorities. At a press conference in April 2009 he surprised the audience by apologizing for having made a \$39 million profit over the previous 12 months. Ma said that because of the world-wide financial crisis his goal was to make no profit. To support this goal, he reduced the fees for transactions by 60%. He wanted to support small and medium sized Chinese business so that they could survive the recession by continuing to sell internationally.

LOOK TOWARDS THE FUTURE

With the global economic slowdown, profits at Alibaba have declined. Chinese exports, as well as exports from the rest of the world, have declined as global demand has fallen. While some companies would see such an environment as causing a need for reduction, Ma sees it has an opportunity for expansion and is hiring more employees. Ma feels that as travel budgets tighten in the world, companies will forgo trade shows and instead seek more online interactions. He has also begun to expand in the opposite direction by creating Export to China, a system which allows non-Chinese firms to establish Chinese language storefronts to export their products to China. China’s economy has suffered with the rest of the world but its economic growth has remained strong, relative to other countries. There is a strong and growing consumer base in China, and Ma hopes to tap into a part of that growth opportunity as well.

With Alibaba.Com as the B2B component, and Taobao as the retail equal, and the support functions of Alipay, Alisoft, and HiChina, the Alibaba Group seems well positioned to change global purchasing practices. Jack Ma’s success is based on hard work, a strong customer focus, and knowing the needs of the market. He has competed successfully against eBay in China and attributes his success to knowing the Chinese market better, and employing Chinese business practices. As Alibaba seeks to expand globally it will be necessary to maintain this focus and to adapt to the different business and cultural constraints found in the rest of the world.

Discussion Questions:

1. What do you think of Jack Ma's priority list which places shareholders last? Do you think this approach will work if he seeks capital outside of China? Explain.
2. What are the unique components of Alibaba's Business model/strategy?
3. Many successful companies have controversial or provocative names such as Caterpillar, Gap, Virgin, and Yahoo. In what way is the name Alibaba controversial? How does this name advance Alibaba Group's strategy?
4. How would you assess Alibaba Group's reaction to Google's conflict with the Chinese government over its censoring of search engine results?
5. What potential pitfalls may the Alibaba Group face as it expands outside of Asia?
6. Do you think the future of international business will change as more people become familiar with the Alibaba business model? Explain.

SOURCES AVAILABLE UPON REQUEST

M&D SUPPLY CASE C: “SONS UP”

Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

CASE DESCRIPTION

This is the third in a series of cases that focus on entrepreneurial behavior in response to challenge and adversity. Each case examines a family's path to business success despite overwhelming personal and professional odds. Secondary issues include strategies and tactics that were employed to sustain the business in response to severely declining market conditions and changes in the competitive landscape. Case “C” introduces a new protagonist.

Jeff Dyson has just become the company's second generation owner/ manager. He takes charge during the heyday of the region's energy industry and enjoys immediate success. His mother is happy with the business she built during the decade of the Seventies, but Jeff wants to make his mark. Excitedly, he expands the business, but soon finds himself in over his head when the bottom suddenly falls out of the regional economy. A three-year road construction project requires tearing up the major arterial road that runs past M&D. Immediately, customer traffic plummets. Family dynamics come into play when Jeff's mother, the major shareholder, decrees Jeff should hire Bob, recently married to his sister and unemployed, to “co-manage” the business. Bob is older, entrepreneurial, and a seasoned business professional. Jeff welcomes someone to help him manage the business during the tough era, but soon finds out he and Bob have different, often conflicting management styles. Jeff marries Pat, the woman of his dreams, and inherits an adorable seven-year old stepson. Joyfully, he and Pat make plans for adding to their family, not knowing the sadness that looms on the horizon.

Students are provided a series of dilemmas requiring them to develop, analyze, and prioritize the entrepreneur's alternatives. The case requires students to consider numerous personal, professional, and family business dynamics that come into play and to recommend courses of action.

M&D SUPPLY CASE B: “ADOPT AN ATTITUDE”

Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

CASE DESCRIPTION

The M&D Supply series focuses on entrepreneurial behavior in response to challenge and adversity. It examines a family’s path to business success despite personal and professional odds. Secondary issues include strategies and tactics that were employed along the way to reposition the business in response to declining market conditions and changes in the business’ competitive landscape. All of this tempered by the life and living of the key player in this chapter, Bernice Dyson.

In case B, students are provided an entrepreneurial dilemma requiring them to examine the seemingly overwhelming challenges faced by the principle from her unique perspective. The case requires students to examine situational ethics, leadership and leadership traits exemplified by the principle. Secondary issues include the interplay between a female owner’s uneasy and often challenged integration into a male dominated industry and customer base and what was done to align the business with its market opportunity.

PENGUIN MANUFACTURING: UNSEEN LINKAGES BETWEEN MANAGERIAL ACCOUNTING, GAAP, AND CREDIT ANALYSIS

Kurt Jesswein, Sam Houston State University

CASE DESCRIPTION

This case focuses on linkages between managerial accounting techniques, the reporting requirements under generally accepted accounting principles, and the potential misunderstandings that can arise when preparers and analysts of financial statements have different understandings of the accounting process and the implications of the reported results. The specific topic dealt with in the case is how indirect costs (more specifically, the depreciation of equipment used in the production of a company's inventory) are absorbed in the production process and how those costs then appear in the financial statements. GAAP requires those costs be reported as a component of the cost of goods sold with any residual amounts incorporated in the work-in-process and unsold finished goods inventories. Companies occasionally do not adhere to this requirement, which can lead to results that can be misinterpreted by analysts. Due to the technical accounting topics covered, the case would be most appropriate for graduate students or senior accounting and finance students studying financial reporting issues or the analysis of financial statements. Although the case deals in part with somewhat arcane accounting topics, the case itself is designed to be taught in one or two class hours and is expected to only require one to two hours of outside preparation by students.

CASE SYNOPSIS

Penguin Manufacturing has been a very successful producer of high-quality machine parts. Despite the severe downturn in the economy the company has continued to expand and to generate profits and positive cash flows. The company is switching to a larger, more sophisticated financial institution that is better suited to meet its growing needs. Top management did not expect to run into any difficulties in securing financing from its new bankers and is perplexed as to why its application for credit was coming under what it believed was excessive scrutiny. Despite Penguin's strong financial statements, the lending officer assigned to the company was having problems interpreting some of the financial ratios generated in the credit analysis process and had requested some additional insights into the company's accounting processes. In their discussions they discover that the company has not been fully complying with generally accepted accounting principles related to assigning depreciation expenses associated with the production of the company's inventory to its cost of goods sold. Although this improves some of the company's financial ratios, it makes other ratios appear weaker than they actually are. After the two parties better understand how such discrepancies cause variances in the analysis of the company's financial statements, they have a clearer understanding of how to resolve their differences. Through the exercise the students will gain a better appreciation of how managerial accounting topics can impact financial reporting issues, which in turn can affect the analysis of a company's financial results.

PHYSICIANS QUALITY CARE—DISNEY COMES TO THE DOCTOR'S OFFICE

Wilburn C. Lane, Jr., Union University

ABSTRACT

This is the story of an urgent care clinic that has developed a successful strategy that allows it to compete extremely well against the largest medical clinic in its community and to insulate itself from the threat of the retail walk-in-clinic. The author's childhood experience of visiting Disneyland and his continued fascination with "The Disney Way" has allowed him to develop a strategy that gives him a sustainable competitive advantage. His focus on the "experience" his patients have when they come to his clinic separates him from the competition. To enhance the patient's "experience," Physicians Quality Care has created the position of "Patient Concierge," built a movie theatre in the clinic, put in a mechanical ride for children, and bought a cappuccino machine to provide patients with free cappuccinos. His emphasis on customer service can be seen in how he hires and trains employees. As you read this case you will feel like you are in Disneyland taking a trip down "Main Street, U. S. A."

STONEHAM COUNTY: CITIZENS CONCERNS REGARDING THE IMPACT OF WIND FARMS

Patricia LaPoint, McMurry University
Carrol R. Haggard, Fort Hays State University

CASE DESCRIPTION

The primary purpose of this case is to explore public policy issues and economic development at the community level. The case can be used to explore the intricacies of complex decision making with respect to cost analysis in the economic development goals of local communities and the tradeoffs of long-term environmental and community relationships. The case has a difficulty level of three. The case can be used in a course on Strategic Policy. The case can be presented and discussed in two to four class periods depending on the number of issues considered. Students can be expected to spend about 10 hours of outside preparation to be fully prepared to complete the case.

CASE SYNOPSIS

As the United States strives toward energy independence, a strategic public policy emphasis on wind energy is growing. The proliferation of wind farms is fueled by a claim that wind power can reliably supply a significant and environmentally benign share of our country's growing demand for electricity. As wind farms have proliferated, however, adverse impacts of wind power are becoming clear to a growing number of citizens.

Georgina Oldman, County Judge for Stoneham County, was excited. She had just received a call from a corporation interested in the construction of wind farms in the county. The proposed 406 wind turbine farm would have a capacity of 650MW. The \$750 million project would produce an estimated 10-year abated tax revenue of \$15 million. The new revenue would fund badly needed services. The local economy had fallen on hard times over the past 2 decades, so the prospect of growth due to wind farms was seen another "oil boom" to the region. For the county, the call from the Shamrock Energy Inc. LLP was a timely godsend.

Judge Oldman knew that the county would have to establish a reinvestment zone and grant tax abatements. The required public hearing on the project drew a large crowd with speakers both supporting and opposing the project. Some speakers addressed the positive economic impact of the project, such as job creation, increased tax revenues, and economic stimulation. Others addressed the negative effects of wind farm development citing the impact on tourism, lost of aesthetics, noise and environmental concerns, and the potential impact on the air force base. Having become clear that the county commissioners had much to consider, the county staff was directed to develop a cost / benefit study, analyzing both the tangible and intangible aspects to provide a recommendation regarding the project.

STRATEGIC MANAGEMENT: THIS TIME IT'S PERSONAL

John Leaptrott, Georgia Southern University
J. Michael McDonald, Georgia Southern University
Jerry W. Wilson, Georgia Southern University

CASE DESCRIPTION

The primary subject matter of this case concerns a description of a normative process of the individual-level application of elements of the strategic management process. This process includes the scanning of the environment, analysis of alternative courses of action based on information gained from the scanning process and the formulation and implementation of strategies based on that analysis. Secondary issues examined include an examination of the career effects of following both sound and flawed decision-making processes relating to career decisions. The case has a difficulty level appropriate for junior or senior level business students. The case is designed to be taught in 1-3 class hours and is expected to require 1 hour of outside preparation by students.

CASE SYNOPSIS

This case contrasts the career decision-making processes of three very good friends that attended university together – Kitty, Nancy and Teresa. They first met when they were all enrolled in the same strategic management class and worked together as a group. After graduation, they were all hired by the same company. Kitty and Teresa are still with the same company and are doing very well. In the case, they are at a restaurant saying goodbye to Nancy. She recently lost her job with the company as a consequence of restructuring and has accepted a position with a company that will take her to a different part of the country.

The case describes the two very different paths taken by the three friends to manage their careers to this point. All three began work in the same division with their employer – selling consumer electronics to medium and small retailers. Nancy transferred from the consumer products division to the automotive products division without considering the strategic position of that division. In contrast, Teresa & Kitty carefully considered the strategic position of the various divisions of the company before transferring to the division with best prospects for growth. While her friends continued to do well in their division, Nancy is paying a heavy price for not paying attention to some very important changes that were taking place in the company.

Kitty and Teresa incorporated the logic-based principles of the strategic management process in their to their own personal career development decisions – with significant positive results. Nancy, on the other hand, utilized career decision-making criteria that were based on factors related to personal convenience and intuitive appeal. The case provides a clear description of how the strategic management process has tremendous utility for the individual-level career decision-making process as well as management of the organization.

INVESTMENT DECISION IN APAREL STORES: A TEACHING CASE IN THE INTRODUCTORY FINANCIAL ACCOUTNING COURSE

Songtao Mo, Purdue University Calumet

ABSTRACT

This paper presents a case study intended for use in the introductory financial accounting course at the undergraduate level. The case study is designed to enable students to evaluate information provided by corporate annual reports and obtain an understanding of making informed investment decision. The project can be used to stimulate student interest in financial accounting by illustrating the application of accounting knowledge in real life experience.

SALES ORDER PROCESSING AND INTERNAL CONTROLS: A CASE STUDY

Susan Muzorewa, Morgan State University
Arundhati Rao, Towson University

ABSTRACT

In this case, Antibody Inc, a manufacturer and seller of customized sportswear has not realized the growth it had anticipated 5 years ago at inception. Based on the recommendations of a marketing consultant, Mr. Gilliam the founder and CEO the company has decided to switch from customized to mass production of the sportswear. This will require a large infusion of cash from a bank. Every bank approached thus far wants assurance that a well designed accounting system will be in place soon. The case encourages students to apply the internal control guidelines laid down in SAS no. 78 and draw flowcharts to document the follow of data. This course is suited for accounting information systems or the auditing course.

A TEAM APPROACH TO PORTFOLIO MANAGEMENT

Steve A Nenner, Sam Houston State University

ABSTRACT

This case provides a platform to involve students in the process of stock selection in the context of portfolio management. With portfolio simulation and tracking software now widely available, offering a portfolio simulation exercise has become quite common. However, without some limitation or guidance, students who are given the full universe of stocks as a selection pool often do not know where to start and simply choose a few familiar companies without considering diversification strategies. In this case, the students are divided into teams, each of which analyzes a particular industry sector. Through a series of assignments, each team analyzes stocks within their sector and makes investment decisions based on their results. Total class portfolio performance is also measured, which allows for discussion concerning diversification. This case is suitable for the first class in investment or portfolio management. It is designed to last through an entire semester with periodic assignments corresponding to topics covered throughout the course, including financial statement analysis, valuation models, portfolio diversification, macroeconomic analysis, and performance measurement.

MAYA WORKS: ADVANCING CAPITALISM THROUGH SOCIAL ENTERPRISE

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ABSTRACT

This case explores the strategic direction of a small U.S. organization devoted to helping the Mayan population of Guatemala. Maya Works is an organization that is attempting to create a sustainable market for the traditional crafts produced by Mayan women in the impoverished parts of the country. This social enterprise is attempting to capitalism to advance its social agenda. The organization faces many challenges as it tries to sow the seeds of entrepreneurship in Guatemala and is searching for strategic direction to continue and grow the organization.

INTRODUCTION

In a nondescript building in Chicago a handful of selfless and dedicated people work to improve the lives of the Mayan population of Guatemala. The Maya Works' headquarters in Chicago is part office, part warehouse, and all heart. The small staff and its volunteers who work at this not-for-profit organization are trying to improve the lives of the women of Guatemala who produce handicraft by promoting and selling their goods in more developed markets and economies. Handicrafts produced in Guatemala sell at very low prices in the country of origin but can command much higher prices in countries like the United States, Canada, and the countries of Europe. Maya Works hopes to empower the Mayan women of Guatemala and promote their version of social justice. Guatemala earn over one million dollars. The Mayan of Guatemala have suffered poverty, discrimination, and civil war in one of the poorest countries in the Americas.

GUATEMALA

Located in Central America, Guatemala borders Mexico, Belize, Honduras, and El Salvador. Guatemala was a colony of Spain for three centuries during which time the Spanish essentially enslaved the Maya to work on large plantations. While the conquistadors are long gone from Guatemala, the country remains divided between the Maya and the ladino (non-indigenous) population. The two groups even speak a different language, with the ladinos speaking Spanish, and the Maya speaking Quiche, or one of the other Mayan languages.

Guatemala has a population of over 14 million, more than half being of Mayan decent. The per capita GDP of Guatemala is \$4,900 on a purchasing power parity (PPP) basis, but the income of the country is very unevenly distributed. Much of the population lives on less than \$2 a day giving Guatemala one of the most uneven income distributions in the Americas. According to the World Bank, *“Poverty in Guatemala is high and deep, and the country has remarkably unequal distribution of income, resources, and income.”* Guatemala ranks only above Haiti on

the U.N.'s Human Development Index of countries in the Americas. Tensions between the rich and poor has resulted in many problems for Guatemala and contributed to the poverty of the indigenous Maya. While the country is now a democratic republic, the country's history is filled with military dictatorships, revolutions, coups, and bloody internal conflict. Since the turbulent times of the 1980s, things have improved in Guatemala. For the most part the country is at peace, however, violent criminal activity continues to be a problem in Guatemala, especially in its capital, Guatemala City. Guatemala, along with other Central America countries is part of the Central America Free Trade Agreement (CAFTA) and benefits from trade from the United States. The United States is the country's largest customer for its exports of coffee, bananas, sugar, clothing and other textile products. With a low level of education found among the Guatemalan people, there exists a need for assistance in helping the population enter the global marketplace. Guatemala is ripe territory for social entrepreneurship.

SOCIAL ENTERPRISE AND SOCIAL ENTREPRENEURSHIP

The Austrian economist, Joseph Schumpeter, wrote in the 1940s that the function of an entrepreneur is to “revolutionize the pattern of production.” Today social entrepreneurs are taking that pattern and attempting to produce social change by using capitalism and market principles. Social entrepreneurs must have the same qualities as non-social entrepreneurs such as business knowledge, resourcefulness, creativity, innovation, and a market focus. It has been said that where social entrepreneurs differ is that they are motivated not by the “deal” but by the “ideal.”

The distinctions among social entrepreneurs, non-government organizations or NGOs, charities, and social enterprises are not always clear. Social entrepreneurs generally have a stronger profit focus and are sometimes referred to as people who seek to “do well by doing good.” These for-profit social enterprises (FOPSEs) make a profit from their operations and help achieve social goals as well. Some FOPSEs use their profits to subsidize charities, others do not. Rather than simply subsidizing inefficient operations, many social entrepreneurs aid the less fortunate by helping them enter the market economy. The term social enterprise is a broad description of an organization that engages in commerce, but cares more about causes. All of these different types of organizations seek to promote a social cause, often helping the disadvantaged. University Of Michigan professor of strategic management and author of the book, *The Fortune at the Bottom of the Pyramid*, states that the residents of less developed countries should be viewed as customers, not charity cases. This view could be expanded to one in which these people are viewed as not only customers but also providers of human capital for mutual gain.

Executives without Borders is one such organization that tries to help residents of less developed countries create and build businesses. This organization pools talent to provide its services much like Doctors without Borders does in the medical field. It matches interested business executives and former executives with needs in less developed countries in order to produce a stronger and more efficient global economy. Another interesting enterprise is an organization called Apopo. The organization began as a humanitarian operation in Africa to use African pouch rats, who are gifted with a superior sense of smell, to sniff out land mines in former war zones. Apopo attempted to raise funds through its Adopt-a-Rat program, however, the program gained little support. With the help of consultants and student interns from Oxford University, Apopo decided to run the organization as a business. Apopo has found that its rats

can be profitably employed in cargo inspection and detection of certain diseases. The profit earned from these activities can be used to fund the mine clearing operations which suffer from a lack of support from the marketplace. These two organizations have been successful using different models of social enterprise and entrepreneurship.

MAYA WORKS

Maya Works is a promoter, a facilitator, a provider of training, and a charity. Maya Works does not seek to make a profit but, helps others to make a profit and promotes a social goal. The story of Maya Works began in 1990 with one suitcase filled with place mats woven by widowed Mayan women who lost their husbands during the violent social unrest in Guatemala during the 1980s. At the time it was Dr. Carroll Behrhorst, founder of Bohrhost Partners for Development who envisioned the idea of giving poor women of Guatemala economic power through income generating businesses. The first suitcase of Mayan goods carried by Pat Krause, who would become the founder of Maya Works quickly sold and a business model was formed. Maya Works was officially incorporated in 1996 as a not-for-profit organization. During the early years of the organization, goods were brought back or shipped to the U.S. And stored in the home of Pat Krause in Connecticut. Eventually the operations were moved to Chicago as one of the early participants in the project moved with her husband to that city. In its first 10 years of operations Maya Works returned over \$1.2 million to the hardworking Guatemalan artisans in their network. Artists in the Maya Works network live and work in Chimaltenango, San Marcos, and San Atitlan. Access to the capital and main market is somewhat limited for these artisans.

In the Chicago headquarters, a staff of three and many volunteers work to continue the vision of Dr. Behrhorst. Maya Works is headed by Jeannie Balanda who worked as a Peace Corp volunteer in Guatemala and who holds two graduate degrees – one in business administration and one in non-profit management. She has been with the organization for about a year and is assisted by a marketing specialist and a product development officer. The operations in Guatemala are run entirely by Guatemalan women, giving them a sense of ownership and control. The basic mission of Maya Works has not changed since its founding – to improve the lives of the women of Guatemala through social enterprise. As the organization grew it developed a more detailed and somewhat expanded mission statement.

Mission Statement

To create a space in the global marketplace for the coming together of Guatemalan and North American women. This shared market place opens an opportunity for Maya women, their families and communities to achieve economic security and for North American women, their families and communities to participate in economic justice. The primary tool to achieve this mission is sales in the United States of artisan products created by Mayas within the principles of Fair Trade.

A manifestation of the mission is a woman in Guatemala by the name of Eufemia. Eufemia was only able to attend school for two years. She married at the age of 16 and had three daughters. By the age of 21 she was widowed. Without the support of a husband, Eufemia was forced to work in the fields for very long days with her children at her side. Her children did not attend school on any regular basis and life was very difficult for the family. With the help of Maya Works Eufemia was able to become an entrepreneur, using her weaving skills to make

marketable products. She earns more money and is able to send her children to school, including one child in Spain who is studying to be a nun.

Maya Works distributes a large variety of Mayan handicrafts including, including some newer products ideas with a more contemporary design. Maya Works sells Mayan bags, Mayan beads, clerical stoles, jackets, scarves, table runners, aprons, place mats, wall hangings, Mayan fabric by the yard, and many other items. Maya Works recently introduced a baby line including diaper bags, bibs, and baby booties. Gift certificates can also be purchased, along with customized conference items. Conference item prices are determined by quantities ordered and appeal to groups who have an interest in social justice and Fair Trade. Goods are sold online at the organization's Web site (www.mayaworks.org), as wholesale items to other retailers, and through a volunteer network who sells the items in their homes, stores, schools, and churches all on consignment. Maya Works' revenue comes approximately 43% from these consignment sales, 36% from online sales, 4% sales from conference items, 3% from sales in Guatemala, and the remaining revenue from wholesale transactions, donations, and study tours of Guatemala. Promoting the concept and building a network of people who can sell the items continues to be a critical element in the success of Maya Works. In order to facilitate this Maya Works conducts periodic study trips to Guatemala, open to the public, in order to promote their cause and to raise revenue. The tours provide a 10 day visit to the western highlands of Guatemala where participants can meet the Mayan artisans and learn about their culture. Site seeing of Guatemala is also part of the tour package. The cost of the tour is approximately \$1,400 plus airfare. From mayaworks.org, one can sign-up for a study tour, buy products, make a donation, arrange to host a sale, and read the organization's newsletter.

In addition to providing a marketplace for the handicraft products, Maya Works also provides scholarships to the children of the artisans, and technical training to the artisans themselves. Since many of the Mayan women speak the local Mayan language, Spanish classes are also offered to help the women integrate into Guatemalan society and to be better able to negotiate with Spanish speaking suppliers of yarns and threads. Maya Works also provides micro-loans to artisans for supplies and equipment, and has made larger grants, when funding permitted it.

An important value of Maya Works is Fair Trade. Maya Works belongs to the Fair Trade Federation and abides by its principles. Maya Works attempts to ensure that the women of Guatemala earn a fair price for their products, even if this produces a higher price than charged by competitors.

The Fair Trade Federation Principles

- Paying a fair wage in the local context
- Offering employment opportunities for advancement
- Providing equal employment opportunities for all people, particularly the most disadvantaged
- Engaging in environmentally sustainable practices
- Being open to public accountability
- Building long-term relationships
- Providing healthy and safe working conditions within the local context
- Providing financial and technical assistance to producers whenever possible.

Not all sellers of indigenous crafts follow the principles of Fair Trade, however, Maya Works feels that it is an important part of their mission. Maya Works faces a number of competitors. They compete with organizations similar to themselves such as Mayan Traditions,

Mayan Treasures, and De La Selva. Mayan handicrafts can even be found on ebay, and increasingly Chinese manufacturers are beginning to copy indigenous products to capture niche markets. Many such items can now be found in U.S. retail shops such as Pier 1 and others. Maya Works does not currently sell its products on ebay, but is considering using social networking as a means of increasing awareness and expanding sales. Currently Maya Works has little funding available for promotional activities.

Other issues that face not only Maya Works, but many similar organizations, are employee turnover, limited budgets, and the constant need for outside funding. Being such a small operation, Maya Works benefits from few economies of scale and would not be able to handle any very large orders. With the current cadre of Guatemalan artists numbering under 200, large market opportunity would not be able to be achieved. In addition, the current economic environment is causing difficulties for Maya Works. Sales are now lower than expected and there exists a greater need for external funding. As the dedicated members of Maya Works continue their struggle for social justice and the empowerment of Mayan women, they are faced with uncertain economic times and strategy formulation.

Discussion Questions:

1. Are the concepts of social justice and business at odds? Explain.
2. What are the strengths, weaknesses, opportunities, and threats of Maya Works?
3. What strategy recommendations would you make to Maya Works in order for the organization to continue to fulfill its mission and prosper?

SOURCES AVAILABLE UPON REQUEST

DEVELOPING A PLAN OF ACTION FOR MARKETING SEARCH AND RESCUE (SAR) AND FIRE BOATS

Wayne A. Roberts, Jr., Southern Utah University

CASE DESCRIPTION

The primary subject matter of this case concerns marketing planning. Secondary issues include marketing research, business-to-business marketing, and capital goods marketing. The case has a difficulty level of five, but can also be advantageously used in junior and senior courses. The case is designed to be taught in 1 to 3 hours, and is expected to require from 1 to 4 hours of outside preparation by students.

CASE SYNOPSIS

Northwind Marine, a boat builder with over 30 years of experience based in Seattle, has built two super yachts, two submarines, and a variety of commercial and noncommercial boats. Management is interested in focusing attention on search and rescue (SAR) and fire boats. To date efforts regarding these two product lines has been rather opportunistic – those who need a SAR or fire boat must find and approach Northwind. Students are expected to assume they have been hired to develop a marketing plan for these products. Students are provided information about Northwind and Northwind's experience with these products.

This case is appropriate for a variety of marketing courses, ranging from principles of marketing, where students can be asked to apply the marketing planning process in an overview fashion, to marketing research where students are required to generate and evaluate secondary sources of information and to suggest primary research projects, to a capstone course where all aspects of marketing and marketing planning can be examined.