Volume 18, Number 2 ISSN 1948-3198

# Allied Academies
# International Conference

Las Vegas, Nevada
October 12-15, 2011

# International Academy for Case Studies

# PROCEEDINGS

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# TABLE OF CONTENTS

# INNOVATIVE ENTREPRENEURS: A STUDY OF TWO SIMILAR BUT DISSIMILAR COMPANIES

**Fonda L. Carter, Columbus State University**
**Robin Snipes, Columbus State University**

## CASE DESCRIPTION

*This case takes two very innovative entrepreneurs and analyzes their strategies for creating successful companies based on five strategic attributes. The companies are similar in their drive to succeed but very different on their focus to get there. The case has a difficulty level of three and is appropriate for courses in entrepreneurship, small business management, and strategic management. It examines the company history of Zappos, an online shoe store website, and Ryanair, a no frills European airline. The purpose of the case is to illustrate to students how companies can take a different strategic path to success. The case can be taught in a 75 minute course and the case preparation time is approximately 2 hours. The case would also work as a group project with assignment of the different companies to different groups.*

## CASE SYSOPSIS

*Zappos was founded in 1999 by Nick Swinmurn as an online footwear company as a result of his frustration at trying to purchase a pair of boots. In 2000, Tony Hseih joined the company as CEO and invested capital from his venture capital company, Venture Frogs. By 2006, the company's annual sales were over $600 million and in 2009 the company was sold to Amazon for 1.2 billion dollars. One of Zappos's main strategies is to deliver "WOW" to their customers through service. This service to customer's strategy is in stark contrast to Ryanair, a European airline founded in 1985 by three individuals. The Irish airline company began with one plane and one route and a "no frills" emphasis. The company initially struggled until 1991 when Michael O'Leary was hired and charged with making the airline profitable. With his entrepreneurial leadership, the company went public in 1997. The capital raised from the stock offering allowed the company to expand to a pan-European carrier. By 2009 the airline was carrying more international passengers than any other airline and thriving even during recessions. The case looks at the similarities of the companies on their path to success but with a different strategic focus on five attributes: (1) Understanding of customer's needs or opportunities; (2) Ability of the company to provide a product or service to satisfy that need or opportunity; (3) A supply chain to get the solution to the customer in a cost efficient or resource efficient manner; (4 ) A marketing plan to convince the customer that the company is delivering superior value; and (5 ) A financial plan to make sure the company is making money.*

# BC FROZEN FOODS LIMITED: CHALLENGES AND CHANGE

**Seena Shah, University of La Verne**
**Issam A. Ghazzawi, University of La Verne**

## CASE DESCRIPTION

*This case highlights the importance of change and responding to environmental challenges via creating effective business strategy that helps organizations to be more sustainable. While the needed strategy (s) must insure a continued focus on the organization's core competencies, it also must insure that the organization has to continue creating value to its customers.*

*This case has a difficulty level of three and up, appropriate for junior level and beyond. The case is designed to be taught in two class hours in an entrepreneurship, strategic management, management, or marketing management course. It is expected to require about three hours of outside preparation for students, consisting mainly of reading the case and familiarizing themselves with the business environment in Western Canada as well as with some knowledge of the agriculture and frozen food industry.*

## CASE SYNOPSIS

*The food processing industry has undergone massive changes due to economic, social and political influences. As a result, many companies in the food processing business were forced out of business as the economic climate became more intense and global competitors emerged on the scene. BC Frozen Foods is one such company that has felt the crunch of a changing environment. The primary challenges facing the company are increased local competition, labor shortages, weather, and economic conditions. This has led the company to rethink and develop new approaches to tackle threats to its viability. The results were major changes to its operations to adjust to the intense environment. The company has implemented an approach whereby it has begun diversifying its product line.*

## INTRODUCTION

It was the spring of 1989, Asad Shah, the controlling owner of S and S Fraser Valley Foods was finding it difficult to operate his business as a joint owner with Amrit Singh Naiger. The two men were not able to see eye to eye on the direction of the business. Disagreements frequently occurred on how to manage the business, on what prices to pay growers, and how much to sell the product for.[1]

Two years prior, the pair had opened S and S in a facility formerly operated by a defunct Westvale food. Westvale had operated in the food industry since World War II and had built a portion of the plant that BC Frozen Foods owned.

S and S was a mid-size food processing company located in Mission, British Columbia[2]; a city 45 minutes east of Vancouver. The company was strategically located in the Central Fraser Valley, an area that is rich in fertile soil and vegetation. Realizing the opportunities available to the company, Asad knew that the company needed the right kind of leadership to help it grow and become more profitable. A critical decision was left whether to buy out Amrit Singh's interest in the company or to continue operating as joint owners. In 1989, Asad opted to buy out Amrit's interest.[3]

During the 1990s, the company made some mistakes as it was still new to the food processing industry. Such mistakes included: Budgetary, seasonal labor forecasting, pricing, and costing. However, by the mid 1990s, BC Frozen Foods had emerged as a serious competitor in the local processing scene.[4]

Tragedy struck the company in 1997 when Asad Shah suffered a fatal heart attack. His role as the president of the company would not be easily replaced by another. Asad had a background in engineering and was able to create processing line equipment to facilitate production. When the company required a production set up or ran into an operating snag, Asad was able to masterfully craft a design to resolve the issue. After his passing, the company needed new blood to carry it through the next millennium. Yasir Shah, Asad's son, had learned a lot shadowing his father.[5] Yasir immediately applied what he had learned to operate the business. Although Yasir did not have the engineering background of his father, he brought a much more business savvy approach to the operation of the business.[6] See Appendix A for the company's organizational chart.

The company has made adjustments to a changing market. Several new industry developments have led the company to make dramatic changes in an effort to remain viable. With over thirty full time employees and about seventy seasonal employees during peak months, the company has been rethinking its approaches to these problems.

## ENDNOTES

1 **The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. This case was prepared by Issam Ghazzawi and Seena Shah of the University of La Verne. The paper has benefited by incisive comments from Sue Caple of the University of La Verne.**

# THE CASE OF SMALLVILLE COLLEGE: YEAR-END ENTRIES FOR HIGHER EDUCATION

**Theresa A. Gunn, Alfred University**
**Tammara L. Raub, Alfred University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns financial reporting issues in higher education using fund accounting. Secondary issues examined include endowment investment issues, adjusting entries, pledge accounting, and capital projects as they all relate to fund accounting. The case would be appropriate for a senior level undergraduate course as well as a graduate course. This case is designed to be taught in one to two class hours in conjunction with a section on not-for-profit accounting or auditing and is expected to require approximately two to three hours of outside preparation by the students.*

## CASE SYNOPSIS

*In this case, students are introduced to Adam Counterman, a staff accountant at a regional accounting firm, who is assigned to the engagement team auditing Smallville College. The College is a new engagement for Adam's accounting firm. Fund accounting is generally used in higher education and to date, Adam has not been exposed to this form of accounting. The trial balance of Smallville College is unadjusted so there may be some adjusting entries that are needed that the client has missed. The students will need to lead Adam through the steps of preparing proper adjusting entries so the client will be able to prepare accurate financial statements.*

## INTRODUCTION

Smallville College contains the schools of liberal arts and professional studies. Student enrollment is around 1,500 and full time employees total 325. In the prior year, Smallville College has had one of its business school alumni, Martin Moneybags, donate $50,000,000 effectively doubling its endowment. Martin Moneybags made his money investing in the Gifthorse hedge fund that had very favorable historic returns as compared to the standard and poor's index. As Mr. Moneybags also serves on the board of trustees he recommended the Gifthorse hedge fund to members of the investment committee of the board of trustees. Upon Mr. Moneybags recommendation, the board decided to put the entire equity position of the endowment in this hedge fund. The investment committee has a board approved investment policy of 80% equities and 20% fixed income.

Smallville College has a June 30 year end and is classified as a not-for-profit using fund accounting. During the current year they approved a new billing date of June 15 to allow students and their families 60 days instead of 30 days to pay.

The College has several fund types that make up its general ledger. An unadjusted trial balance has been provided.

Smallville College
Trial Balance
June 30, 2012

| | Unadjusted Trial Balance | |
|---|---|---|
| | Debits | Credits |
| Assets | | |
| Cash and cash equivalents | 8,000,000 | |
| Student accounts receivable | 16,000,000 | |
| Contributions receivable | 0 | |
| Investments | 100,000,000 | |
| Equipment | 5,000,000 | |
| Buildings | 60,000,000 | |
| Construction in progress | | |
| Accumulated depreciation | | 25,000,000 |
| Liabilities | | |
| Accounts payable | | 2,000,000 |
| Accrued interest | | 0 |
| Accrued wages | | 0 |
| Deferred revenue | | 0 |
| Long-term debt | | 7,000,000 |
| Net Assets | | 102,000,000 |
| Revenues | | |
| Tuition | | 75,000,000 |
| Grant revenue | | 2,000,000 |
| Gifts | | 0 |
| Investment income | | 5,000,000 |
| Expenses | | |
| Wages | 20,000,000 | |
| Operations and capital expenditures | 6,800,000 | |
| Interest Expense | 200,000 | |
| Depreciation | 2,000,000 | |
| | 218,000,000 | 218,000,000 |

Budget Fund – This is the main operating fund for the College. All tuition, fees, room and board charges are recorded here as are all of the main operating expenses such as financial aid, wages, fringe benefits and general operating expenses.

Endowment Funds – This is actually a group of individual donor funds that are pooled and invested permanently. A portion of the market value is allocated for spending each year by the board and this is withdrawn from the investment pool and spent according to each donor's wishes. The current endowment consists of 300 separately named funds with varying restrictions, i.e. endowed chairs, scholarships, and direct support of specific programs.

Plant and Project Funds – This group of funds tracks the overall property, plant and equipment of the College along with the associated accumulated depreciation. There are also individual funds to track major construction projects.

Agency Funds – This group of funds contains the student senate and the individual clubs the senate supports. The activity in these funds is not included in the College's statement of activities.

**Smallville College - Assets**

The College's assets consist of cash, student accounts receivable, pledges receivable, long-term investments, buildings and equipment.

Cash

Cash consists of petty cash on hand and cash in bank accounts. Since the College is in a rural setting the local banks are very small and don't offer much in the way of cash management products. The College daily deposits locally all cash and checks received. The College uses fraud protection products that prevent unauthorized checks, wires or ACH transactions from being processed. The College also takes advantage of online banking to check all transactions daily, and to process ACH, wire transfers and foreign currency transactions.

Student Accounts Receivable

Student accounts consist of the net amount after financial aid has been posted that each student has been billed but has not paid. This amount is reduced by an allowance based on the ageing of the balances. The College generates most of its revenue through student billings. As students register online for courses and select housing and meal plans, charges are posted electronically to each student's account. The financial aid department then awards scholarships and those are posted against the accumulated charges. On June 15 the bursar runs a billing process for the fall semester that produces electronic statements that are emailed out to all of the students. The student can then go online to a secure site and pay the bill via an ACH debit to their bank account. At this time, the College does not accept credit cards. Students also have the option of sending a paper check into the bursar's office or paying at the counter in cash. The mail is opened by the cashier and the checks are immediately stamped 'for deposit only' into the College's bank account. They are then entered into the student's account. Cash is accepted at the counter and posted to the student account with a receipt printed for the student at that time. All cash and checks are taken to the head cashier and reconciled and deposited daily.

Pledge Receivable

The College receives two major kinds of gifts: unrestricted gifts that support the budget fund and endowed gifts that support student scholarships and donor restrictions. Unrestricted gifts are generally received through the secure donation website or by a check in the mail. Mail is opened by the gift processing office and checks are entered into the gift tracking system. Daily the checks are brought to the head cashier for deposit and processing into the system and also daily the gift tracking system produces a feed to post all of the gifts to the correct funds.

The gift solicitation department also obtains pledges for future gifts. These pledges are recorded into the gift tracking system, but not in the general ledger. Pledge receivables are posted at year end only. A report is produced from the gift tracking system of all pledges made during the year and unpaid at June 30$^{th}$. If the pledges are for multiyear payments they are discounted by using a present value calculation.

Endowed gifts generally tend to be electronic transfers of stock into the College's brokerage account where they are immediately converted into cash and then invested into the endowment fund under long-term investments (see below).

Long-term Investments

Long-term investments consist of the pooled endowments funds that the board of trustees has decided to invest 80% in the Gifthorse hedge fund and 20% in bonds and cash. They are recorded on a current market value basis quarterly with transactions recorded monthly. The board reviews the market value quarterly and compares the actual return with the market index. During the year the endowment fund had earnings and gains net of fees of $5,000,000 and $1,000,000 was allocated for use in the budgeted fund.

Buildings and Equipment

Buildings and equipment are recorded in the general ledger as expenses during the year to enable budget tracking. At year end, the expenses are credited and the assets are debited. Depreciation is then calculated and recorded on all booked buildings and equipment at year end. Construction in progress is also moved to an asset account in the plant and project fund at year end. The College has received a $2,000,000 grant to upgrade its Library. This capital improvement project was started during the year and is approximately 50% complete at June 30$^{th}$.

**Smallville College – Liabilities**

Liabilities consist of accounts payable, accrued interest, accrued wages and long term debt.

Accounts Payable

Accounts payable is made up of all invoices for goods and services received by June 30th, but not yet paid. General operating expenses are initiated by the various departments and divisions by submitting a requisition to purchasing. Purchasing determines the vendor to use by taking into account price and quality and produces a purchase order and issues it to the vendor. This process also encumbers the funds so that the area financial manager will know that the available balance in their budget has been reduced by this order. When the order is received by the department and the invoice is processed by the business office this encumbrance is relieved and the department budget is charged the actual expense with an offsetting credit to accounts payable. When the check run is processed accounts payable is cleared.

During Adam's review of the July accounts payable check runs, an unrecorded invoice for $200,000 was paid in July for work performed on the library project in the month of June.

Small purchases and all travel related expenditures are generally paid with the College's credit cards. An employee may be approved for a credit card by their area vice president if their job description requires it. Before receiving a credit card each employee must undergo a training seminar and sign an agreement. Statements are reconciled monthly and approved by the division administrator and then forwarded to the credit card program director for final review. Bills are paid monthly by automatic withdrawal from the College's bank account. A monthly accounting feed is processed by the program director that charges each department's budget for the prior month's charges.

Human Resources and Payroll

The majority of the College's expenditures are personnel related. Faculty are contracted to work from September 1 through May 1, but are paid over 12 months. Most administrators and staff are 12 month employees. New positions or employees are added to the system by the human resources employees and payroll is processed by the payroll department employees.

Accrued wages consists of all wages earned by employees as of June 30th but not yet paid. Faculty have earned their entire pay as of May 1st, but have their pay deferred to fund their paychecks for 12 months. The remaining faculty wages are paid through August 31st.

Accrued Interest and Long-term Debt

Long-term debt consists of an outstanding bond issue with a balance at June 30th of $7,000,000. The interest rate is 3% and payments are made on October 1st and April 1st.

**Smallville College - Net Assets**

There are three categories of net assets: unrestricted, temporarily restricted and permanently restricted. Most net assets are classified as unrestricted. Only donor imposed restrictions can make a net asset temporarily restricted or permanently restricted. Permanently restricted net assets are made up of donor gifts that must be invested in the endowment and not spent. Temporarily restricted net assets are made up of the earnings on the permanently endowed gifts, any unspent withdrawals from the endowment that the donor stipulates are for a specific purpose and gifts that donors have given that can be spent for a particular purpose.

For our case study financial statements the beginning balances in net assets are as follows: Unrestricted - $22,423,000; Temporarily Restricted - $25,000,000; Permanently Restricted - $58,577,000. Total beginning net assets are $102,000,000.

Ending net assets are computed on the statement of activities by classifying activities by their restriction type as indicated above with the unrestricted activities in the first column, temporarily restricted activities in second column and permanently restricted activities in the third column. Activities are also classified as operating and non-operating. The operating section comes first which includes: revenues of tuition and the endowment income allocated for operations; expenses of wages, operating expense, interest expense and depreciation. There is then a change in net assets from operating activities calculated by subtracting the expenses from the revenues. Then the non-operating activities are listed: endowment income, less endowment income allocated for operations followed by endowed gifts and capital grants.

Based on the above information, Adam Counterman has the information to prepare multiple adjusting journal entries that the client missed. Once the adjusting journal entries are processed, Smallville College will be able to generate proper financial statements for June 30, 2012.

## READINGS

Optional reading for students and/or instructors using this case

Greater Washington Society of CPAs Educational Foundation. www.nonprofitaccountingbasics.org

-*Excellent website for Nonprofit Accounting Basic information*

Lee, H. (2008). The growth and stratification of college endowments in the United States. *International Journal of Educational Advancement.* 8(3/4) 136-151.

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## AUTHORS' NOTE

This is a fictitious college and case study. Any relatedness to actual colleges, individuals or situations is purely coincidental.

# ZEPHYR BROADCASTING NETWORK: AN EXAMINATION OF ISSUES RELATED TO THE CORPORATE OWNERSHIP OF MEDIA

**Carrol R. Haggard, Fort Hays State University**
**Patricia Lapoint, McMurry University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns business ethics and media ethics. The case can be used to explore the important connection between TV news and corporate ownership of the news in a business ethics or media ethics course. A secondary issue examines outsourcing.* *Students are asked to analyze data and issues in order to determine whether corporate ownership of the news media presents a conflict of interest among SBUs. The case has a difficulty level of two. The case is designed to be taught in two class hours and is expected to require 8-10 hours of outside preparation by students.*

## CASE SYNOPSIS

*Walter Lipscott, VP of the News Division of ZBN, a wholly owned media subsidiary of the LRV conglomerate, Scott Drewhurst, the 30 year old nephew of the majority stockholder, Merrill Chandler, and Thadius Rockwell, Washington veteran investigative reporter for 45 years sat in Walter's office sharing a bottle of scotch and ruminating over how journalism has changed over the past 4-5 decades. "In the old days, journalists were tough-nosed, no nonsense reporters who went after the story," Walter stated. "Those guys who covered the White House were considered the 'elite' of our industry; they were not afraid to ask the tough questions of the administration. Today, journalism has become a matter of sound bytes, selectively edited for marketing appeal." "You are right, Walter," chimed Thadius. "In my early career as a cub reporter, I was 'hungry' for a news story. The editorial staff trained me to find the truth—go after the facts no matter where they may take you. It seems we lost our way when the news became big business in the 80s and 90s."*

*In order to address industry-wide declining viewership, and "corporate's" push for profits, Walter established a strategy team to plan a direction for the news division. The team discussed two primary options: charge other LRV SBUs (Strategic Business Units) for positive "news" coverage of their operations, in essence covert advertising; and outsourcing of the news. In the former case, the team is faced the issue of how ZBN should cover a story about a LRV power plant which is dumping a highly deadly poison into a rural watershed. In the latter case, the team must consider the human toll involved in further reducing its staff. In both scenarios, the team must evaluate profits juxtaposed with ethical considerations.*

# ACCOUNTING FOR INVESTMENTS AND PRIVATE COMPANY FINANCIAL REPORTING – CHANGES, ISSUES, AND CHALLENGES

**Marianne L. James, California State University, Los Angeles**

## CASE DESCRIPTION

*The primary subject matter of this case concerns proposed financial accounting and reporting changes that will affect virtually all U.S. public and private companies. The case addresses proposed significant changes to the measurement and recognition of investments and the emergence of private company financial reporting standards. The main focus of this case is on the technical accounting changes and their likely financial statement effect, as well as short-term and long-term strategic decisions that may substantially be influenced by these significant changes.*

*This case has a difficulty level of three to four and can be taught in about 40 minutes. Approximately four hours of outside preparation is necessary for students to fully address the issues, concepts and suggested assignments. The assignments include both case-specific questions and questions requiring research. This case can be utilized in an intermediate accounting course, but also can be utilized in a graduate level course focusing primarily on the strategic issues. The case may enhance students' technical, critical thinking, analytical, research and communication skills.*

## CASE SYNOPSIS

*Significant changes to financial accounting and reporting during the next five years will affect nearly all private and public entities. One of the proposed changes that likely will affect most entities involves accounting for investments. As part of their convergence project, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are revising the accounting rules governing the recognition and measurement of investments, while attempting to develop global consistency. In addition, the Blue Ribbon Panel on Standard Setting for Private Companies (BRP) recommended to the Financial Accounting Foundation (FAF) that accounting standards for non-public entities should be developed. While this may enhance the usefulness of financial reporting by private companies, it likely will cause comparability issues between private and public companies, particularly in light of the likely implementation of IFRS by public companies during the next five to seven years. In addition, since many private companies eventually become public and public companies frequently invest in or acquire private entities, it can also affect investment and acquisition strategies, as well as financing decisions. Thus, the two issues – accounting for investments and private company financial reporting are interrelated.*

*This case addresses technical accounting issues as well as the strategic issues that may affect companies' investment and acquisition strategies. The case was developed for an intermediate accounting course, but can also be used in a more advanced course focusing primarily on the strategic issue. The suggested assignments include case-specific as well as research questions. Assigning this case may enhance students' critical thinking, technical accounting, research, and communications skills.*

**Fortschritt Company**

Karin Felder is the Chief Financial Officer (CFO) of Fortschritt Company, a successful professional networking company founded in 1996. The company went public in 2010. Initially, the company grew through internal innovation, its services capturing a significant percentage of the industry's market share in the U.S. as well as abroad. After its successful initial public offering (IPO), the company's board of directors voted to pursue further growth by acquiring several competitors during the next five years and authorized management to explore diversification opportunities related to the growing on-line games market.

Fortschritt Company has been quite successful and its revenue and income have increased consistently during the past few years. The company has accumulated a significant amount of cash and cash equivalents from the proceeds of its IPO and from successful operations. The company invested a significant portion of the IPO proceeds in short-term and long-term investments in equity and debt securities of other entities. In addition, the company recently acquired a significant ownership interest in two start-up companies.

Fortschritt Company's most recent financial statement notes show that the company classifies 35% of its investments as current and 65% as non-current. Seventy percent of the current investments are classified as "available for sale" (AFS) securities and carried at fair value, the rest is classified as "held to maturity" and reported at amortized cost. About 40% of the company's non-current investments consist of equity shares of public companies and are accounted for under the equity method, about 31% are measured and reported at fair value, and about 29% relate to ownership interest in privately held entities and are recognized at cost.

To support its expansion and growth objectives, the company is planning to acquire several privately held start-up companies during the next five years. The company is currently researching potential acquisition targets that are operating in the on-line games industry as well as several of its smaller competitors. The company plans to utilize its significant amount of cash and cash equivalents to finance the majority of these acquisitions.

On October 12, 2011, Karin Felder prepares for her weekly meeting with the company's Chief Executive Officer (CEO), Robert Meier, and Chief Operating Officer (COO), Marion Kunze, to discuss financial reporting issues as well as the company's short-term and long-term strategic plans that will impact the financial results of the company. Karin, holds active CPA and CMA licenses and is very knowledgeable not only about U.S. GAAP but also IFRS; she is proactive and keeps current on new developments both in terms of global and U.S. financial reporting issues. She also regularly participates in professional and academic meetings and conferences to exchange ideas with colleagues both in industry and academia.

Karin has been instrumental in preparing her company and its accounting staff for the likely adoption of IFRS. She is very knowledgeable about the FASB/IASB convergence projects, which will change IFRS as well as U.S. GAAP. She is also aware of the movement toward private company financial reporting standards. While she recognizes the advantages of a simpler set of accounting standards for private entities, she is aware of the challenges it can hold for public and private companies. Karin is especially concerned about the potential effects on Fortschritt's future acquisitions and the additional financial reporting issues it may entail for the company when it acquires private entities in the future.

**Karin's Meeting with the CEO and COO**

On October 14, 2011, the company's CEO, COO, and Karin (the CFO) discuss long-term and short-term strategies to achieve the company's long-term growth objectives as well as financial reporting issues that may affect these goals. The CEO is concerned about recent fluctuations in the market value of the company's investments and the effect of these fluctuations on the company's financial position. He has heard that FASB proposed changes in accounting for investments and asks Karin to comment on this issue.

Karin explains that FASB is revising its accounting standards on financial instruments, which likely will require that nearly all of the company's current investments and a significant portion of its non-current investments will have to be measured at fair value with the corresponding fair value adjustments recognized in income. Specifically, consistent with FASB's proposal (FASB, 2010, 2011), the default category for measuring and recognizing investments in marketable securities is "fair value through net income." For some investments, changes in fair value may be recognized as part of comprehensive income if they meet stringent business strategy requirements. Karin believes that some of its investments in debt securities may qualify under these criteria. Marion and Robert are concerned about the effect of the proposed changes on the company's investments currently classified as "available for sale" and assert that the company may have to consider the potential effect on the company's future income.

Robert mentions that he recently heard that separate standards for private companies may be developed soon. He is aware that for some time, support for separate private company financial accounting standards existed and wants to hear about the current status of this movement, as well as Karin's opinion regarding the outcome of this issue. Marion asks whether this could affect Fortschritt Company in any way.

**Private Company Financial Reporting**

Karin explains that in 2009, the American Institute of CPAs (AICPA), the Financial Accounting Foundation (FAF), and the National Association of State Boards of Accountancy (NASBA) sponsored a Blue Ribbon Panel on Standard Setting for Private Companies (BRP). The BRP was asked to (a) consider the needs of private company financial statement users, (b) how accounting standards can meet those needs, and (c) to make a recommendation to the FAF Board of Trustees. Initially, the BRP considered seven models – five of them based on U.S.

GAAP (including a new standalone US GAAP for private companies) and two based on IFRS. Early on, the panel eliminated the IFRS models and the new standalone U.S. GAAP for private companies from further consideration.

In January 2011, the BRP issued its final report and recommendations (BRP, 2011). In its report, the BRP recommends that U.S. GAAP be adjusted with exceptions and modifications to better meet the needs of private entity financial statement users. The panel further recommended that immediate action should be taken to tailor U.S. GAAP to those needs.

Karin believes that these recommendations likely will lead to significant changes in financial reporting and cause significant departures between private company and public company financial statements. Marion wonders why the BRP chose not to recommend IFRS for SMEs, which was developed specifically for small and midsize companies and did not recommend the development of a stand-alone set of accounting standards, specially developed for private companies. Robert asks whether this ultimately will affect Fortschritt Company, which after all is no longer a private entity. Karin explains that this may affect Fortschritt's financial reporting if in the future they acquire a private company that prepares its financial statements consistent with (different) private company financial reporting standards.

In light of Fortschritt's plans to acquire several start-up private entities during the next five years, Robert asks Karin to prepare a brief list of points that should be considered in planning, assessing, and executing acquisitions of private companies. Karin indicates that she will also include financial reporting issues that may arise during the acquisition and the subsequent consolidation of financial statements. She will have the information ready for the next board of directors meeting in two weeks.

At the end of the meeting, Karin indicates that the company is well prepared for the adoption of IFRS, assuming that the SEC decides to mandate some level of adoption. After the conclusion of the meeting, Karin returns to her office to compile the promised information. She also prepares some questions and answers on several related issues that may be of interest to the board of directors. She plans to offer a copy of these to Marion and Robert prior to the board of directors meeting.

## CONCLUSION

Proposed changes to accounting for investments and the advent of specific accountings standards for private entities is likely to affect the majority of public and private entities. The effect will be particular significant for companies that have significant investments in debt and equity securities, companies that are currently private and are planning to become public, and companies that are planning private entity acquisitions. Students should become aware of expected changes, the effect of these changes on the financial statements, and the strategies that executives may use to address the challenges and opportunities that arise. This case addresses a number of issues that may arise and can be utilized in class to introduce and discuss proposed changes and their implications for companies.

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## AUTHOR'S NOTE

This case deals with a fictitious company. Any similarities with real companies, individuals, and situations are solely coincidental.

# FIDELITY LAND DEVELOPMENT: VALUING CAPITAL ADEQUACY

**Jeffrey J. Jewell, Lipscomb University**
**Charles E. Frasier, Lipscomb University**
**Jeffrey A. Mankin, Lipscomb University**

## ABSTRACT

*Fidelity Land Development Inc. operates subsidiaries in many states. Its Delaware subsidiary has received a notice of deficiency based on the previous four years of Delaware franchise tax returns. Delaware's franchise tax is an annual tax of 0.5% of a company's net worth. The primary issue for the notice of deficiency is that the state determined that the subsidiary had inadequate capital. The state uses two basic ratios to determine the adequacy of a company's capital. These tests are only used for companies that are subsidiaries. Fidelity had a policy of lending to its subsidiaries all of its capital needs, so the subsidiary had very little equity compared to its debt. Because of this lending policy, the subsidiary's net worth was low and the state franchise tax was low. All of the subsidiary's debt was owed to its parent, Fidelity.*

*In the state's notice of deficiency, the state recalculated the net worth of the subsidiary by reclassifying the debt owed to the parent as all equity. This solved the state's assertion of capital inadequacy and increased the taxes due from the franchise tax substantially. During all four years Fidelity maintained its AAA credit rating and was a large multi-state company.*

*This case examines the state's assertions about capital adequacy and its application of the franchise tax. It also examines the company's arguments against using subsidiary debt as a proxy for net worth. One of the fundamental questions examined is the nature of debt and equity.*

# TRANSFORMATION FROM WITHIN: THE CDBG CASE

**Scott Johnson, Northeastern State University**
**David Kern, Northeastern State University**
**Katie Haight, Northeastern State University**
**Ryan Haight, Northeastern State University**

## INTRODUCTION

Steve Bradshaw, Senior EVP of BOK Financial Corporation, was concerned about the performance of the CRA Department, which had recently been assigned to him. The department was named after the Community Reinvestment Act (CRA), a federal regulation that encouraged banks to promote development in low-to-moderate income (LMI) communities through lending and investment programs. The bank had received "satisfactory" ratings over the past few years in CRA performance evaluations; however, government regulators were increasingly critical about antiquated processes, the lack of required policies and procedures, and the absence of initiative in addressing needed improvements. Failure to receive satisfactory ratings could jeopardize the growth strategies of the holding company. In effect, the performance of a single compliance-oriented department could hinder strategic action by BOK Financial Corporation (BOKF) and its subsidiaries[1].

Steve acted quickly in addressing the leadership of the department. The new leader would have to be a self-starter and work with minimal direction. Due to the poor reputation of the department and the necessity of building cooperation with the business units, a candidate would have to understand the bank's internal culture, work across organizations and interact with senior executives. Paula Bryant-Ellis, although no longer with bank, fit the requirements of the position, and was willing to take on the transformation of the CRA department.

At the beginning of 2004, the department was only meeting the minimum requirements of the regulations. Policies and procedures within the department were deficient or did not exist. There was no interface with the bank's loan systems. This led to a manual process of reporting and documentation. Loans were originated by CRA personnel with little underwriting experience and an inadequate understanding of credit policies and procedures. Lending decisions were often made on an ad hoc basis. The result was a significant portfolio of negative return loans. Other business units also originated loans that should have been subject to examination, but often were not recognized as such by CRA personnel. There had been no attempt to correct or even document procedures and performance. No meaningful effort had been made to improve efficiency. The department itself was a loosely organized collection of 19 people spread across five locations with the head office in Tulsa. Attempts by CRA personnel to address compliance deficiencies in the business units were frequently presented negatively, accompanied by threats of examination failure, which ultimately led to an atmosphere of resentment and mistrust. It was no surprise that the CRA Department garnered little respect, and even less cooperation from the business units of the bank. There were clear warning signs that the parent corporation could be facing unsatisfactory ratings in the future, which could restrict expansion plans of the parent company and its subsidiaries.

## BUILDING THE FOUNDATION

The first three months involved long, frustrating hours working with local CRA personnel in preparing for examinations that would begin in the fall of 2004 for the Albuquerque and Arkansas bank subsidiaries. It would involve full immersion in coordinating the antiquated processes employed by CRA personnel, and in learning the compliance end of the business. The days were spent manually collecting and recording data, fighting fires, and trying to make some sense of the department. Without a background or experience in the compliance elements of the regulations, Paula worked nights reading the regulations in detail, and reviewing performance evaluations of other banks that had received "outstanding" ratings. It was clear that the most successful banks developed profitable lending and investment strategies, effective service programs for the community, and strong compliance systems and processes.

The late night study sessions laid the groundwork for an outline that would be refined and enhanced by input from key players in the restructured group. The plan ultimately addressed four key thrusts: 1) establish a new direction; 2) build an effective group; 3) automate the arcane manual review process; and 4) create a culture of collaboration with business units.

## THE VISION

Developing the overall direction was an important first step; however, building a comprehensive approach would involve a complex, evolutionary learning process that would take several years to produce significant results. The next step was to create a vision of what this group would ultimately accomplish. That vision would not allow continuing to operate as a cost center; nor could it accept merely "satisfactory" performance ratings. The vision focused on:

- becoming a positive force in supporting people and businesses in LMI communities;
- being recognized through the achievement of outstanding performance evaluation ratings, and
- contributing to the growth and profitability of BOK Financial Corporation.

It would take the addition of experienced colleagues and several years before this vision would be fully developed into a formal plan. The initial plan was not documented as such, but one that involved a mix of doing and planning on the run. Formal processes and planning documents would have to come later.

## BUILDING THE TEAM

The CRA Department had 19 employees spread over five locations with only a few in Tulsa. There was a void in leadership and little organizational structure. The skill set of most employees focused on clerical activities and manual preparation of reports. There was little aptitude for investments and loans, which was essential in building a strong community development organization. There was no impetus for automation, which was typical of banks achieving "outstanding" performance evaluations. People within the department were entrenched, and questioned the need for improvement. It was evident that minor adjustments would not suffice. The change would have to be dramatic, starting with the recruitment of two experienced managers who would drive the investment and compliance priorities.

Angela (AJ) McKean joined CDBG as Investment Manager in November 2004. She brought a wealth of knowledge and experience in loans and investments both in banking and in community development. The fact that she had worked for Bank of Oklahoma for seven years contributed to her credibility with the business units. Her most recent position as executive director of the Tulsa Industry Authority provided insight into the community. Angela's input provided an important second perspective to critical early decisions for the group. Angela also started to develop opportunities in the investment arena, working with outside experts and across units within the holding company and its subsidiaries. Her expertise and experience within the bank and the community further enhanced the image of CDBG.

In this time frame, Cassandra Burroughs was promoted from within the bank to Compliance Manager for CDBG. With seven years experience as a commercial loan officer, Cassandra contributed a strong banking background, but had little knowledge of systems and compliance. Her ability to grasp new concepts, hard work and driven personality would be essential to overhauling the manual processes. Hers would be a key area where automation was essential. The automation initiative would provide strong impetus for improving multiple procedures and performance evaluation processes involved in CRA examinations. As importantly, Cassandra eagerly sought the challenge with a high level of energy and commitment.

In January 2006, Gail Banham joined the team to restructure the loan activity, and to make the changes necessary to develop a strong loan portfolio. Gail's background in commercial lending and in credit administration brought critical knowledge to the group. Gail recognized the lack of lending expertise in the group and began to build her team as well.

The issues of focus and structure were also tackled. Most of the new managers would be located in Tulsa, encouraging the existing staff to develop new skills, while adding experienced personnel where necessary. There was a shift from a loosely organized collection of individuals in multiple locations to a strong central group that would begin the process of building collaboration with the business units. The restructuring of the Community Development Banking Group was completed with an overall reduction of two positions, providing salary allocations to add experienced managers. The enhancement in human capability provided the resources needed for the group to tackle existing problems, automate systems, serve newly acquired subsidiaries and begin building profitable loan and investment portfolios.

## OVERCOMING EXTERNAL RESISTANCE

Much of the initial effort was directed toward building a competent group with capable leaders; however, resistance to change from larger, more powerful organizations within the bank presented greater challenges. The business units continued to view CDBG as another version of the old CRA Department. CRA compliance was not their problem. This attitude was a major impediment for the CDBG leadership team, which could only be successful by working with business units and bank subsidiaries.

Paula Bryant-Ellis made key decisions early that would allow her to focus effectively on cross-organizational collaboration. The group had acquired experienced leaders who developed detailed plans and executed them in concert with the overall vision. That vision and overall plan was clearly and continuously communicated to upper management and leaders in business units and bank subsidiaries. Steve Bradshaw acted as a powerful sponsor for CDBG, providing support and assistance at critical times in the process. Steve's support was particularly important in assisting Paula in building alliances with key players in business units.

Developing collaborative relationships involved a consistent approach. Paula and her key team leaders would identify an issue or opportunity. In each area, the appropriate manager would research issues and problems, develop initial ideas for solutions, and review with Paula prior to preparing reports or setting up meetings. Concurrently, CDBG unit managers would meet with business unit peers to establish a level of common understanding and begin building ongoing working relationships. The communication program operated at multiple levels. At the initial meetings with business unit leaders, Paula provided support to CDBG unit managers to encourage broad agreement on the issues and the options for improvement. These sessions would be followed with multiple meetings and contacts involving the unit managers and their peers in the business units. The process appears to be straightforward, but it frequently involved multiple iterations, starts and stops, personality issues, and, occasionally, failure to move forward. It was often frustratingly slow and difficult. In some cases, this influencing approach worked reasonably well. In other situations, this approach was not enough to assure compliance or collaboration.

Members of the CDBG leadership team also visited key managers in the bank subsidiaries to build communications essential for a collaborative relationship. Paula would address "how we will work with you and how we operate in your market." Unit managers would follow-up with multiple contacts. Previous successes and ongoing collaborative efforts would be discussed as examples of effective practices. Emphasis was consistently placed on working together for the benefit of the corporation and the bank subsidiary.

## BUILDING A TRACK RECORD OF SUCCESS

In the first six months, Paula, Cassandra and Angela developed and documented all key procedures while dealing with CRA examinations in the Albuquerque and Arkansas bank subsidiaries. Whenever possible, procedures were improved in business units to encourage solid banking practices. Cassandra Burroughs took the lead as Compliance Manager, working with personnel in the CDBG compliance unit and partners in the Credit Services organization to build interfaces to the loan system. Recognizing that the task would take years with existing staffing and skill levels, external firms were engaged to accelerate the automation process. By the end of 2006, virtually all systems had been converted from the manual process. Angela McKean had to start from scratch. After policies and procedures were developed, she began work on long term investment programs. By 2006, the first of these new investments were approved. This long term approach created the foundation for building a strong investment portfolio.

The most effective banks prioritized the lending activity as an opportunity to build long-term profitable business in developing communities, which had been absent in the old CRA department. The historical problem was recognized as an opportunity when Gail Banham hired experienced lenders who would generate profitable, credit-worthy loan business that would meet regulatory requirements. As importantly, they would work with business unit and bank subsidiary managers to build a profitable loan portfolio that met regulatory requirements, setting the stage for dramatic improvements in the loan portfolio.

The crowning success, however, was in receiving an outstanding rating for the flagship banking division, Bank of Oklahoma. This achievement reflected improvements in every area of CDBG, and was the “aha” moment for many skeptics in other parts of the bank. This achievement capitalized on all of the small and big successes the CDBG team achieved in two years, including documented procedures, automation, improved processes, a new investment program, a restructured CDBG organization, and an effective lending unit.

## LOOKING AHEAD

The CDBG leadership pondered the question of how to consolidate their progress and move forward. What would it take to sustain a positive culture and continuous improvement? Should the team incorporate formal benchmarking of medium to large banks that had achieved outstanding ratings? Should they put together a “strategic plan” for the group? What other techniques, issues and questions should be considered?

# CASH PROBLEMS AT CAPE CHEMICAL

**David A. Kunz, Southeast Missouri State University**
**Benjamin L. Dow III, Southeast Missouri State University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns managing a firm's cash flow. Case requires students to evaluate a number of proposed alternatives to address a projected cash short fall as well as develop additional courses of action. The case requires students to have an introductory knowledge of general business issues thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 1-2 hours of preparation time from the students.*

## CASE SYNOPSIS

*Cape Chemical is a regional distributor of liquid and dry chemicals. Revenues and profits have grown steadily. The sales growth has required the acquisition of additional fixed assets and current assets. Financing the additional assets has placed a strain on the firm's ability to raise capital. While the company ended last year with a healthy cash balance, there were many occasions during the year that it was necessary to obtain short-term bank loans in order to keep the company operating. As part of the firm's annual planning process, the finance and accounting staff prepare a projected income statement and balance sheet for the coming year. This year, Kathy Ford, the company's chief financial officer, directed David Bush, the firm's budget analyst, to also develop a monthly cash budget in an effort to identify potential cash flow problems. The cash budget indicated that the company would need additional cash during the third quarter of approximately $2,000,000. The company's board of directors had previously established a target capital structure of 50% debt and 50% equity and the projected 2012 ending balance sheet indicates the company will be very close to the target. Cape Chemicals' primary bank also incorporated the target capital structure into its loan covenants. Loan covenants require a quarterly compliance report. Increasing the firm's bank debt, even for a short period of time, is not an option Ford wants to consider. Other alternatives for covering the projected cash shortfall must be evaluated.*

## BACKGROUND

Cape Chemical is a regional distributor of liquid and dry chemicals, headquartered in Cape Girardeau, Missouri. The company, founded by Ann Stewart, has been serving southeast Missouri, southern Illinois, northeast Arkansas, western Kentucky and northwest Tennessee for over a decade and has a reputation as a reliable supplier of industrial chemicals. Stewart's previous business experience provided her with a solid understanding of the chemical industry and the distribution process. As a general manager for a chemical manufacturer Stewart had

Profit & Loss (P&L) responsibility, but until beginning Cape Chemical she had limited exposure to company accounting and finance decisions.

To improve management of the accounting and finance area, Stewart hired Kathy Ford, an accountant who had worked with the accounting firm that conducted Cape's first annual audit. Ford has been the company's chief financial officer for the last seven years.

## CHEMICAL DISTRIBUTION

A chemical distributor is a wholesaler. Operations may vary but a typical distributor purchases chemicals in large quantities (bulk - barge, rail or truckloads) from a number of manufacturers. Bulk chemicals are stored in "tank farms", a number of tanks located in an area surrounded by dikes. Storage tanks receive and ship materials from all modes of transportation. Packaged chemicals are stored in a warehouse. Other distributor activities include blending, repackaging, and shipping in smaller quantities (less than truckload, tote tanks, 55-gallon drums, and other smaller package sizes) to meet the needs of a variety of industrial users. In addition to the tank farm and warehouse, a distributor needs access to specialized delivery equipment (specialized truck transports, and tank rail cars) to meet the handling requirements of different chemicals. A distributor adds value by supplying its customers with the chemicals they need, in the quantities they desire and when they need them. This requires maintaining a sizable inventory and operating efficiently. Distributors usually operate on very thin profit margins.

## THE SITUATION

The company ended last year with a large cash balance, but on numerous occasions during the year it was necessary to obtain short-term bank loans in order to keep the company operating. The firm's annual planning process includes the preparation of a projected income statement, balance sheet and cash flow statement for the coming year by the finance and accounting staff. Once the forecasted statements are approved, the annual information is broken into quarterly and monthly financial budgets. This year, Kathy Ford, the company's chief financial officer, directed David Bush, the firm's budget analyst, to also develop a monthly cash budget in an effort to identify potential cash flow problems.

Ford and Bush agreed on a number of budget assumptions necessary to complete the cash budget. Assumptions focused on the timing of cash inflows (collection of receivables) and timing of cash outflows (payment of vendors, operating expenses, capital expenditures, financing charges, tax payments, etc.). The cash budget indicated that the company would need additional cash (additional financing) during the third quarter (July, August and September) of approximately $2,000,000.

Ford reviewed the cash budget with Stewart. The company's board of directors had previously established a target capital structure of 50% debt and 50% equity and the projected 2012 ending balance sheet indicates the company will be very close to the target. Cape Chemical's primary bank also incorporated the target capital structure into its loan covenants (debt ratio could not exceed 50%). Loan covenants require a quarterly compliance report. Ford and Stewart are reluctant to increase the firm's bank borrowing even for a short period of time. Alternatives considered were:

- Reduce inventory levels. Ford thought this option had merit. Ford noted the firm had an ongoing program to systematically review inventory levels of all items and levels were slowly being reduced, but she thought more could be done to reduce inventory. Stewart agreed that some reduction was possible but was concerned that additional inventory reductions could negatively impact sales. Stewart stated "I don't want to jeopardize sales by not carrying enough inventory."
- Collect accounts receivables faster. Cape Chemical's selling terms are net 30. Ford thought it might be possible to increase credit standards and collection effort, but it could not be accomplished without a major confrontation with the sales staff. The sales force already feels that they are losing sales because of the company's conservative approach to granting credit (high credit standards) and an overly aggressive collection effort. Stewart was reluctant to increase credit standards but felt the credit department could increase its collection effort on accounts that were habitually late in paying invoices.
- Delay selected capital expenditures (equipment replacement). Capital projects of approximately $2,750,000 are planned for 2012, $400,000 for the first quarter, $1,000,000 for the second quarters, $1,000,000 for the third quarter and $350,000 for the fourth quarter. Stewart opposed delaying any capital expenditures stating, "Projected revenues are dependent upon new product lines and these lines require investment in new equipment". Ford agreed that some projects could not be delayed, but thought some replacement projects and other expenditures such as replacing a portion of the warehouse roof, replacing selected vehicles and purchasing new office computers scheduled for the first half of the year could be delayed to the second half or longer. This would require increasing maintenance on those pieces of equipment originally scheduled for replacement and maybe a temporary roof patch for the warehouse but should not disrupt operations. Stewart was not convinced. She remained concerned about the negative impact investment delays would have on operations and sales.
- Delay paying finance charges or tax payments. Ford thought delaying payments to the bank could be arranged, but she was reluctant to approach the bank about rescheduling payments. Approaching the bank could cause the bank to be concerned about the firm's ability to manage its cash. Both Stewart and Ford agreed that delaying tax payments was not an option that should be pursued at this time.
- Slow payments to vendors (accounts payable). During the early years of operation the company was not always able to pay its vendors according to terms. The delayed payments resulted in some vendors threatening to stop extending credit. This never happened but the lack of vendor credit would have caused substantial problems. Since that period, a concerted effort has been made to avoid late payments to vendors. Ford thought slowing vendor payment for a few months was possible. She thought it was unlikely vendors would notice a change in Cape Chemical's payment pattern. Stewart was skeptical. She did not want a repeat of earlier vendor problems.

## THE TASK

Using Income Statements and Balance Sheets for Cape Chemical (historic and projected) and selected industry average ratios.

1. Prepare the report evaluating the alternatives and a recommended course of action. Using ratio analysis to support your evaluations and recommendation.
2. Would your recommendation change if the projected cash shortfall was for six or nine months rather than three months

# ZERO TOLERANCE OR ZERO RATIONALITY

**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 organizational culture and conflict management. Secondary issues examined include ethics, human resource management, organizational theory and strategy. The case has a difficulty level appropriate for upper division and graduate business students. The case is designed to be taught in one to two class hours and is expected to require two to four hours of outside preparation by students. Zero tolerance policies, while still on the rise in many institutions in this country (most prominently in U.S. school systems), are increasingly being challenged in courts at various levels. Two of the most common reasons for court cases in this area are inflexibility in relatively minor violations and egregious penalties that far exceed the particular situation. Both of these reasons for litigation are evidenced in the case presented here.*

## CASE SYNOPSIS

*A large international distribution company has a personnel problem in their Orlando, Florida division. An internal audit has discovered that two long-time employees have violated a zero tolerance policy concerning the private use of a company vehicle. This division falls under the supervision of Linda Douglas, southeastern U.S. regional vice president for the company. Linda, while vacationing in Miami Beach, has been instructed by the international vice president for human resource management at the company headquarters in London, Victoria Vasilias, to terminate both the delivery driver for personal use of a company delivery van and his supervisor that knew of the violation and did nothing about it.*

*Linda investigates the allegations and learns from the supervisor that the driver had an emergency involving his elderly mother, and felt he had no choice but using the company van. The supervisor explained that he could not justify firing the driver for a number of reasons, including his loyalty to the company and the negative impact on the morale of the other drivers in the unit. The supervisor is not concerned about retaining his job because he could easily get a job immediately with one of their competitors and take a lot of business with him.*

*Linda offers to write a detailed explanation of how the employees' dismissal would be harmful to the company and suggest an alternative punishment if Victoria would present the explanation to senior management in London. Victoria was not supportive, but agreed to read the explanation when she received it. She also told Linda that she might be jeopardizing her (Linda's) career with the company if she submits the explanation rather than terminating both employees immediately. Linda must now choose which course of action to pursue.*

Linda Douglas had just finished brunch at an outdoor table on Ocean Drive and settled into her beach chair on beautiful South Beach in Miami Beach, Florida. It was her first full day of vacation and she was looking forward to a relaxing week of rest and relaxation in South Florida. Linda is the southeast U. S. regional vice president for a large international distribution company headquartered in London. The company's southeast regional headquarters is located in Atlanta. She regularly checks in with her office when on vacation and decided to call in before going for a quick swim and starting the paperback novel that she purchased at the airport.

She could tell by the tone of Helen Lane, her executive assistant, that something was very wrong. Helen informed Linda that the company's international vice president for human resource management, Victoria Vasilias, had called from London trying to reach her regarding a serious matter that she would only discuss with Linda. Linda had met Victoria on a few occasions both in London and Atlanta, but had not worked with her to any great extent. Helen had committed Linda to receiving her call at her hotel room the next day at 8 am Miami time.

Linda tried to put the matter out of her thoughts as she enjoyed the rest of the day on the beach, informally toured Miami Beach in her convertible and ended the day with an enjoyable dinner with Rachel Douglas, her cousin and a Miami native, at an outdoor waterfront restaurant in North Bay Village. As she expected, Victoria called the next morning exactly at 8 am. After the customary pleasantries, Victoria got to the point:

Victoria: I have some rather unpleasant news to share with you. Our internal audit division has found that two of your employees have violated two of the company's no tolerance policies and will have to be terminated.

Linda: What happened?

Victoria: The audit report found that Jim Evans, a driver in the Orlando division, used a company delivery van for personal travel and that the manager for the division and Jim's boss, Dan Dole, was aware of the violation and did nothing about it. Misuse of a company vehicle violates a company zero tolerance policy. Failure to enforce the zero tolerance policy is also considered a violation of the policy.

Linda: Both of them are long term employees of the company. Let me check into this a bit more before we discuss it further. Can I call you tomorrow?

Victoria: This is a pretty straight forward matter. They have both violated no tolerance policies and will have to be terminated. However, I will allow you time to verify that the internal audit results are correct. Perform your own investigation and call me back tomorrow at 3 pm London time.

Linda: Thanks Victoria. I will do that.

Linda immediately placed a call to Dan Dole.

Linda: I just got off the phone with Victoria Vasilias in London. She wants me to fire both you and Jim Evans based upon internal audit report results. What happened?

Dan: I guess no good deed goes unpunished. Jim and I have each been loyal and valuable employees of the company for years.

Linda: Just tell me exactly what happened.

Dan: Jim and his wife live in an area of Orlando near Lake Nona, just east of the airport. He, like all delivery drivers at our location, takes his van home at night. Other than commuting, they are only to be used for deliveries and other company business. This arrangement saves the drivers commuting expense and is considered by them to be an important fringe benefit. It also benefits the company because they are occasionally called out after hours to make an unscheduled delivery to customers.

Linda: One of our zero tolerance policies is that there is no personal use of company vehicles.

Dan: All of our drivers are very careful about observing that policy.

Linda: Then why did Jim violate it?

Dan: Jim and his wife Betty only have one car. One Saturday Betty was shopping when Jim received a call from his elderly mother who lives alone in a large retirement community near Leesburg. She had fallen and couldn't get up. Jim found out later that she had fractured her hip. After hanging up, Jim got in the van and drove as fast as he could to her house. All the vans are equipped with SunPass. With SunPass, a decal device is attached to the windshield, which allows toll road fees to be billed automatically to an individual or a company. Jim went through numerous turnpike toll booths on the way. The auditors picked it up on the monthly SunPass statement because it was on a Saturday, not a regular work day. That is one of the things they regularly check.

Linda: That explains Jim's problem. What about you?

Dan: When I got the auditor's report, I called Jim in and asked him about it. He told me the story and I confirmed it by contacting the hospital that treated his mother. I told him that it was a serious violation and not to let it happen again. He told me that he and Betty were very sorry and they had already purchased a second car so that if a similar situation happened again they would be able to respond quickly without using the van. I have known Jim for 20 years. He has been a terrific employee and I believed his promise that this would never happen again. Betty is a cancer survivor and Jim had previously experienced some heart problems. If he loses his job, he will have a very hard time getting an individual health insurance policy. At his age, I also know that he will have a hard time getting another delivery job if he loses this one. Jim is our most senior delivery person and has trained virtually the whole delivery staff. The delivery staff looks up to Jim and the loss of his leadership would certainly adversely affect our operations. In addition I feel that, had I received a similar call, I would have done exactly the same thing. I felt that giving him a second chance was the right thing to do. Internal audit followed up on the matter and when I told them that I was not going to fire Jim they reported me to headquarters.

Linda: Aren't you worried about your future with the company?

Dan: Not really. Our main competitor in my territory has been trying to hire me for years. At the risk of sounding boastful, nobody in this territory has the customer relations that I have developed over the last 20 years. I have won the top sales award for the region for the last three years, in addition to being the division manager and handling all the administrative tasks. I can't believe the company would turn their best salesman into their biggest competitor over something like this.

Linda: I certainly hope we can work this out. Let me get back to you.

Linda was very concerned that either enforcing or not enforcing the no tolerance policy violations could cause problems. Enforcing the policy would result in the loss of two key employees and probably a significant drop in both sales and profits if Dan is forced to work for a competitor. In addition, terminating Jim and Dan would damage the positive organizational culture that Dan has created and might result in morale problems, additional turnover and a reduction in the productivity of the remaining delivery staff employees. Not enforcing the policy would send the message that it is not really a zero tolerance policy after all. This could harm the enforcement of all other company no tolerance policies. In addition, not enforcing the policy would put Linda into conflict with company leadership.

She spent the day on the beach mentally formulating her reply to Victoria while enjoying the idyllic setting as much as possible. She once again met her cousin Rachel for dinner at South Beach and discussed her situation before ending the evening at a popular club on Collins Avenue. Allowing for the time differential between Miami and London, she placed the call to Victoria the next morning.

Linda: Victoria, I have talked to Dan Dole and, while the facts presented by the internal auditors are correct, there are additional facts that need to be considered.

Victoria: You know as well as I do that zero tolerance means zero tolerance. These two need to be terminated immediately.

Linda: What should be our goal? Enforcement of an inflexible policy or doing what is best for the company? Does it necessarily follow that termination has to be the punishment for violating a zero tolerance policy? Shouldn't a manager that has discretion over the disposition of large amounts of company resources also have discretion over disciplining its employees?

Victoria: We are a worldwide company with thousands of employees and we have to have strict rules governing their conduct. If we didn't there would be chaos. You need to do your job and terminate them as soon as possible.

Linda: There are other factors to consider. If I am responsible for the profitability of the region, then shouldn't I also have the discretion to make decisions that affect profitability? Wouldn't that include making decisions when extraordinary problems occur that conflict with company policies? We also have little tolerance for poor economic performance by regional managers. Firing these two will definitely adversely affect the profit of my region. If I send you a memo outlining the problems that firing these two would cause and proposing some other punishment, would you at least discuss it with the other members of top management?

Victoria: Quite frankly, sending such a memo could be quite injurious to your career. If you send it, I will read it. I will not guarantee anything further. Good day.

Linda had a big decision to make. Should she just fire them or should she write the memo? She was reluctant to discuss the matter with the senior vice president for North American operations and her superior, Benjamin Hill. Mr. Hill had transferred to that position from the company's London headquarters the previous month and Linda had yet to meet him in person. Because of the potential effect it might have on her career, she needed to spend some time considering the issues before she made that decision. As she relaxed in her beach chair she could not stop considering the pros and cons of what she should do next.

# CLAYTON HOTEL SUITES AND CASINO: RE-VISIONING HOTEL SIGNAGE

**Michael Luthy, Bellarmine University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns a newly hired college intern being given their first assignment. Specifically, they are being asked to develop appropriate criteria to evaluate consumer submitted suggestions for a new marketing piece, namely a new do-not-disturb door hanger. Secondary issues examined include communications as students prepare a professional memo on their criteria, selections, and rationale for choices. The case has a difficulty level of either one, (appropriate for freshman level courses) or two, (appropriate for sophomore level courses). The case is designed to be taught in one class hour and is expected to require from zero hours of outside preparation by students if it is to be used as a distributed case to generate discussion, to 1-2 hours if outside consideration and development of the memo assignment is mandated by the instructor.*

## CASE SYNOPSIS

*Developing students' critical thinking skills is a daunting challenge for all instructors. Often it requires striking a balance between the level of sophistication (or higher level of thinking, think Bloom's Typology) required to complete the task and a task that can be of interest to the student population. The Clayton Hotel and Suites case strikes that balance.*

*Students are tasked with developing appropriate criteria to evaluate consumer submitted suggestions for a new marketing piece for a resort chain – namely a do-not-disturb door hanger. They then must apply their criteria to a sampling of responses to an online contest. Although disguised, the opportunity (and task) of evaluating/designing a better do-not-disturb door hanger is based on a contest held by Embassy Suites in 2007. While the contest is over, the company maintains the ability for the public to visit their website at embassysuitesdndcontest.com/ and try their hand at designing such a sign. Additionally, Embassy has posted the contest's winning entries at embassysuitesdndcontest.com/winners/.*

*This is a limited scope, focused case, one suitable for either in-class discussion with no advanced preparation by students or an assigned case requiring analysis and preparation of a written memo. The case was developed from a class exercise that has garnered very positive feedback from participants. The examples listed in this case were generated by students in the author's class. Permission was obtained to use their work in this case study and the exercise was approved by the author's university Human Subjects Protection Board.*

Congratulations! Today you begin your college internship at Clayton Hotel Suites and Casino, part of the Clayton Holdings, an international chain of lodging and gaming properties headquartered in New Mexico. Clayton owns and manages over 75 properties located throughout North and South America. They cater to both business professionals and leisure travelers. While not as recognized or established as Hilton or Marriott brands, they have a reputation for good quality and service, with a less formal, more playful image.

Recently, the marketing department at Clayton decided to generate some positive publicity for the company by asking the public to help them design a new "do not disturb" door hanging sign for use throughout their properties. This kind of user-generated material has been helpful to many companies, either with limited budgets or specific positioning strategies, and Clayton believes it will help further define their image.

Over the last month, on their corporate website, Clayton has asked visitors to use their creativity to design the best way to tell the world outside their door that they would rather not be bothered. The winner would receive a 4-night stay at the Clayton hotel property of their choice and $400 in gaming chips at the casino.

Below is a sampling of the submissions from the website:

- Good things come to the kind and patient.
- Sleeping children. You're babysitting if you wake them.
- There's nothing to see here. Move along. Move along.
- I'm in an online meeting. Unless you have my cooked to order breakfast, do not even consider knocking.
- Take a hike!
- Just pretty please let me be.
- I had a second helping of beans for dinner.
- The flight has been long. Don't get me wrong. I'd like you to stay But I'm hitting the hay.
- I can't hear you.
- Relaxation in progress.
- Get lost @ Clayton.
- No peepin…I'm sleepin.
- Peace exemplified.
- OJ and I are trading memorabilia. Please do not knock as it might startle the guy with the gun.
- Time for me.
- I promise I'll make the bed, just leave fresh towels.
- Come back at a later time.
- I-Pod … I-Phone… Has anyone heard of I-Sleep?
- Need I say more?
- I asked the magic 8 ball what would happen if you should knock. It said "outlook not so good" Better come back later.
- Thanks but no thanks. Hotel services not required.
- Please do not peeve, for if I retrieve, you will really want to leave.

- Let the sounds of the ocean be our only wake up call.
- You’re not my mom, I’ll clean up my own mess.
- I think someone is at the front desk. I’m sure they need your help more than me.
- It isn’t my fault the bed is this comfortable. Resting.
- I’m taking a snooze or enjoying the shower. Please come back in another hour.
- I’m busy, please don’t bother me.
- I didn’t have my A game today.
- If I needed someone to clean my room I would have stayed at mom’s house.
- Forget the clock and please don’t knock.
- Not even the flippin queen of England is important enough to wake me up this morning!
- This bed is divine said the weary guest. The lights are still off. The room is a mess.
- Please do be quiet and late come back, but for the time being I’m still in the sack.
- No me molestas! (Spanish for “don’t bother me) I’m fine, really.
- I think I say Brad and Angelina down the hall. You go that way and I’ll stay here in my room and sleep.

## INSTRUCTOR’S NOTES

**Questions for Students and Potential Responses:**

1. What criteria would you use to evaluate the submissions?

Any number of criteria may be identified to respond to this question. Originality (as in not currently being used or copyrighted) is important as well as avoiding profane or overtly suggestive wording. Additionally, while certain events or phrases may be currently topical and therefore possibly relevant (e.g. OJ [Simpson] or Brad [Pitt] and Angelina [Jolie] references) they may become quite dated and/or potentially offensive to some. Also, if the sign is to be used over a large number of geographically dispersed properties, some references may have limited applicability (e.g. magic 8-ball).

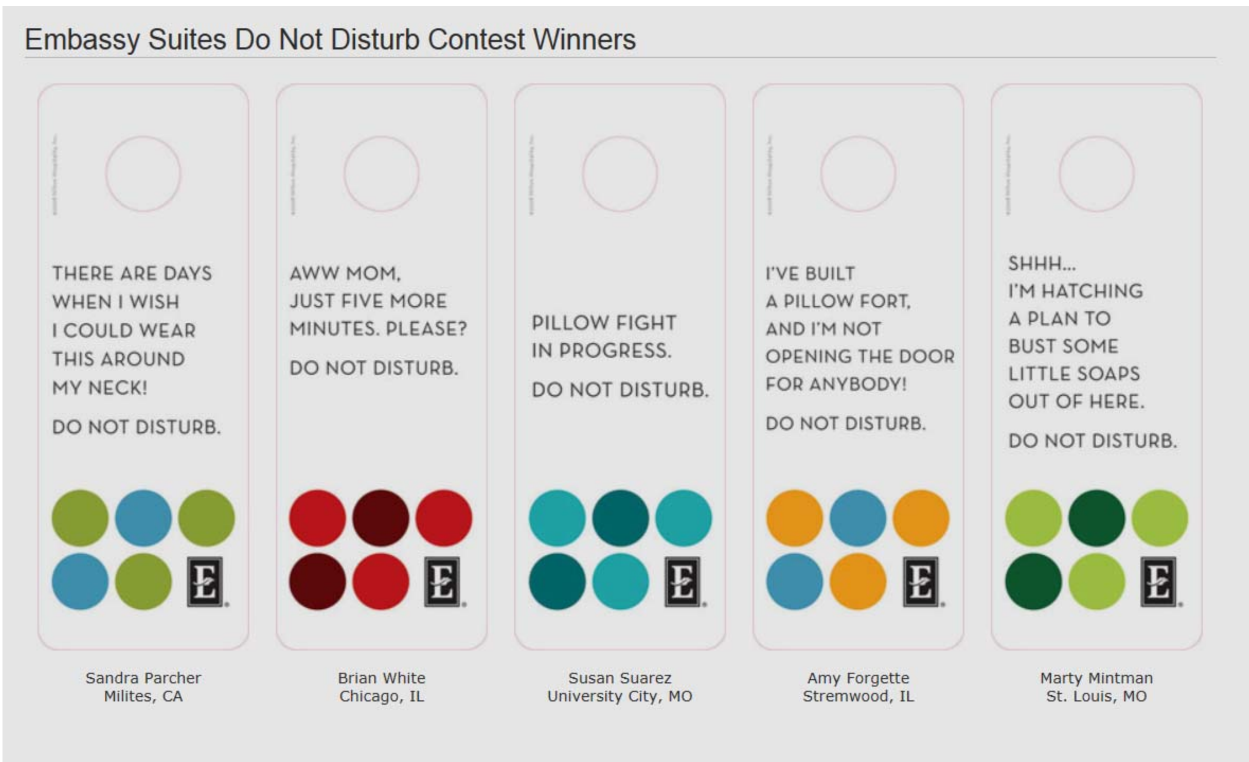
Ultimately, Embassy Suites in their challenge listed three criteria: clever, outrageous, and inspiring. While providing some direction to contestants it also gave the company the widest latitude in interpreting those criteria and making their final decision. Lastly, some may consider the likelihood that the selected winning phrases can be translated into Spanish without something being “lost” in accommodating guests to Latin American or southern United States properties.

2. Select 2-3 submissions you believe warrant further consideration and comment on your reasoning.

People can (and will) differ in which submissions they select. Given the discussion above, I would choose the following:

- Forget the clock and please don't knock. (It is short and to the point without being rude or insulting).
- Thanks but no thanks. Hotel services not required. (Again, the message gets the point across without being overly harsh).
- I asked the magic 8 ball what would happen if you should knock. It said "outlook not so good" Better come back later. (Slightly violating my own discussion above, I believe the magic 8-ball reference is sufficiently widespread to work. Also, I believe this message has a playfulness to it that works better than the standard "do not disturb" sign).

**EXHIBIT 1. CONTEST WINNERS AND THEIR SUBMISSIONS**

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University student submissions to Embassy Suites contest, 2007.

# FIRST UNITED BANK GIVING STRATEGY

**Anne Macy, West Texas A&M University**
**Adrian D. Walker, West Texas A&M University**

## CASE DESCRIPTION

*The primary subject matter of this case is how donations fit within the overall strategy of a firm. Secondary issues include a discussion of how to structure a donation and of the tax benefits of corporate donations. The case has a difficulty level of three and is appropriate for an upper-level business course. The case can be taught in one class hour and is expected to require two hours of outside preparation by students.*

## CASE SYNOPSIS

*This case centers on the decision of First United Bank to name the new event center on the campus of West Texas A&M University. First United Bank is a privately owned bank in the Texas Panhandle. Its fifteen branches are in seven counties covering approximately 320,000 square miles in northwest Texas. In the case, students investigate the bank's decision to name the event center, and in particular, how the naming fits within the corporate philanthropic strategy. Additionally, the case includes discussion on the university's process of asking for the donation and on the tax implications of donations.*

## WHY DO FIRMS AND INDIVIDUALS GIVE?

Firms and people give for many different reasons. While altruism is at the core of much giving, not-for-profit entities need to consider other motivations for donations. Giving may result from a desire to support a certain institution or a philosophy. Political contribution requests focus on supporting a candidate or platform in order to increase the chance of winning. Requests for athletic events also are couched in terms of winning or, sometimes more effectively, of beating a rival. Giving to hospitals or disease charities may be to honor a loved one or to help another in need.

Because the motivations for giving differ, the institution doing the asking must appeal to the relevant reason in order to increase the chance for a successful request, known as an ask. This is even more important because not-for-profit institutions rely on contributions as an even greater percent of budgets because government contributions have declined because of budget concerns. Additionally, the flat stock market over the last decade has limited the amount of funds generated by endowments.

## A CLOSER LOOK AT CONTRIBUTIONS

The Giving USA Foundation tracks contributions. The majority of contributions are from individuals, providing 73% of all contributions at a total dollar value of $211.77 billion. Corporations are at the other spectrum providing 5% or $15.29 billion in contributions. Foundations provide 14% or $41 billion, and bequests are third at 8% or $22.83 billion (Giving USA, 2011).

Corporations are the smallest amount but also represent the greatest growth potential. Foundations rely on endowments and other giving, which are dependent on increases in net wealth, and thus, the stock market. Net wealth and the stock market also partially determine bequeaths. If individuals have accumulated a large amount of wealth at the time of death, they may decide to bequeath part of the wealth to organizations but only if the amount that remains for family is enough to maintain the wealth of the family. Bequeaths are also volatile because of the randomness of deaths of major estate holders (Giving USA, 2011). In comparison, earnings and tax policies influence corporate giving more than stock market returns do (CECP, 2011).

This dichotomy is evident from the change in giving during 2008-2010. Total giving during the recession and first year of recovery decreased 3%. Individual giving decreased only 1% while foundation giving declined 2.9%. Bequeaths declined 27.1%. What is even more interesting is that bequeaths declined 38.7% during 2008-09 but rebounded 18.8% during 2009-10 as the economy and net wealth recovered. Additionally, bequeaths rose because of concern of changes to the tax law that would eliminate some of the benefit of giving.

Corporations are the outliers with an increase in giving of 23.2% over 2008-10. Corporate giving increased 11.4% during the recession and 10.6% during the initial recovery (Giving USA 2011). According to the Committee Encouraging Corporate Philanthropy (2011), corporations cite financial performance as the reason for changes in giving budgets over this period. For 2010, 70% of the surveyed firms reported increased profits with 50% of the firms reporting profit increases of greater than 10%.

While only at a small percentage of total giving, corporations are the growth area. Not-for-profits need to consider corporate reasons for giving as they structure the asks. Firm profitability along with cash flow considerations need to be part of the discussion. Because not-for-profits prefer cash gifts, the firms asked must not only generate the cash but also not have another use for the cash flow.

## CORPORATE GIVING STRATEGY

A firm's goal is to maximize shareholder wealth. Thus, any gift must satisfy this goal. This implies that not any gift will suffice. The gift must increase shareholder value. Because of this additional hurdle that corporate giving must meet, firms create corporate giving strategies. Maximization of shareholder wealth includes maximizing earnings, which results from maximizing sales and minimizing costs. Therefore, corporate giving must either increase sales or decrease costs to satisfy the constraint.

Unfortunately, good giving is not easy. While firms may want to do strategic philanthropy, many firms are not successful in practice because the donation does not increase the competiveness of the firm (Porter and Kramer, 2002).

An obvious benefit to giving at that it helps build and solidify relationships within the community. The firm is able to create a level of awareness of the organization and influence the firm's reputation within the community. Giving allows the firm to pre-sell its benefits to the community. As a firm receives the benefit of the improved relationships, it will progress to bigger commitments (Community Organization Fundraising, 2011). In other words, if a firm sees an increase in sales following a major donation, it is more likely to give again. No change in sales decreases the likelihood of a further gift.

The emphasis on building relationships is not just about increasing sales but decreasing costs. Regulation is a substantial cost for firms in certain industries such as banking. Banks are particularly sensitive to regulation because of economics of scale. Smaller banks are less able to spread lump-sum regulation costs across customers and types of products.

Since the financial crisis, regulation of financial institutions has increased with the passage of the Dodd-Frank bill. Seventy percent of the public responding to a Bloomberg 2010 poll thinks that financial firms need greater regulation (Bloomberg, 2010). The level of distrust of corporations exceeds 50% (Lynch, 2010). Reputation enhancement can help curb the public appetite for regulation. The Dodd-Frank bill creates a tiered system of regulation based on size, with the benefit to smaller banks, which have better maintained their reputations through the financial crisis.

Giving is a form of investing. The investment donation is in a cause, either to address the cause itself or to address the consequences of the cause (Kristoff, 2010). A good donation produces tangible results. A firm can share the results with customers and stockholders to demonstrate wise use of funds and support for a community cause.

As evidenced by the lack of a decrease in giving during the current recession, donations are part of an overall marketing strategy for firms. Firms can use donations as a way to attract attention from old and prospective customers no matter the economy (Fipp and Garfinkel, 2010). Customers may tire of traditional forms of marketing and may view giving in a more positive light than other marketing tools.

An interesting dilemma for a firm is to whether it should give its own assets or give its employees time. Most firms prefer to give assets instead of employee time because customers may focus the positive feelings generated on the employee and not the organization (Kim, Cho, Kim and Lee, 2011).

Corporations recognize the growth potential from giving. Among 250 business leaders, up to 68% leaders have claimed corporate social responsibility as an opportunity and platform for growth. Although it is a good image for corporations to donate and give back to the public, it is also an additional burden on them when the public is carefully watching (Kim, Cho, Kim and Lee, 2011). This implies that firms must be cautious in donations and choose donations that enhance growth opportunities without incurring public scrutiny.

A final consideration for corporations is tax policy. Donations are tax deductible, which means that the amount donated reduces the earnings taxed. Generally, firms can deduct up to

10% of its taxable income for a year. A firm may carry over to five succeeding years any amount in excess of the 10% limitation. However, each year is subject to a 10% maximum (IRS, 2011).

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West Texas A&M University website: http://www.wtamu.edu.

# LEARNING TO LISTEN: GUIDED PRACTICE FOR BUSINESS STUDENTS

**Gary P. Schneider, Quinnipiac University**
**Kathleen A. Simione, Quinnipiac University**
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## CASE DESCRIPTION

*This case uses a video recording of a lecture on the subject of listening to guide lower-division business students toward the acquisition of important listening skills. The exercise provides the basis for a quiz and in-class discussion of the listening techniques and their use in business and in the business school classroom The case has a difficulty level of two and is suitable for use in first or second year business courses. The case and related activities are designed to take about 30 minutes of in-class time to complete. Outside class preparation is minimal, ranging from 0-10 minutes.*

## CASE SYNOPSIS

*This case provides students with guided practice in listening as they learn skills and activities that can increase their level of active listening. Students watch a video of a business consultant giving advice on listening techniques and are subsequently tested on the content of that video. The questions test how well they implemented the consultant's advice during the video.*

## INTRODUCTION

In this case, you will watch a short video of a talk given by British business consultant Julian Treasure on the subject of listening. Watch the video and listen carefully. You may take notes that you will be permitted to use when answering questions about the content of the talk. The video is a part of the TED (Technology, Entertainment, and Design) Talks series and is available at: http://www.ted.com/talks/julian_treasure_5_ways_to_listen_better.html

## SOFT SKILLS AND LISTENING

Soft skills; which include oral and written communications, teamwork, collaboration, critical thinking, problem-solving, and professionalism; often distinguish job candidates who are otherwise similar in terms of academic qualifications, work experience, and other traditional measures of potential employee suitability (Conference Board, 2006). According to recent surveys (see Woods, 2011, for example), employers consider a job candidate's soft skills as an important, or the most important attribute when interviewing for open positions.

One of the key soft skills is listening. Experts note that there is a significant difference between the physical act of listening and the cognitive involvement of engaging with another person by actively listening (Treasure, 2011a). Jo and Shim found that mangers' use of supportive oral communication, which requires active listening, increased subordinates' perceptions of management support and friendliness. Their survey also indicated that trusting relationships between employees and management resulted from the use of supportive oral communications.

The ability to engage in active listening is one of the most important skills that sales professionals, managers, and other businesspersons can possess (Gallo, 2009). Maes, Weldy, and Icenogle (1997) conducted a survey of 354 business managers who selected oral communications skills as the single most important competency for college graduates seeking their first jobs. Listening skills are also crucial to academic success (Conley, Drummond, de Gonzales, Rooseboom, and Stout; 2011), which suggests that they be taught or imparted as early as possible in students' academic careers.

## ABOUT THE SPEAKER

Julian Treasure is a British business consultant who advises companies on how to create auditory environments for their customers and employees. In his book (Treasure, 2011a) and his popular online lectures (Treasure; 2009, 2010, 2011b), he advocates using sound to achieve specific results such as branding and changing the speed at which customers move through a retail environment.

## REQUIRED ACTIVITY

After viewing the video, answer the questions from the list below selected by your instructor. The discussion questions require about a paragraph each and the short answer questions require no more than one sentence each.

## DISCUSSION QUESTIONS

1. Why is the loss of listening a serious problem?

2. Why are people losing their listening abilities in the modern world?

3. Treasure argues that a lack of listening can lead to a world in which what happens?

4. Provide one example of "the hidden choir;" briefly explain the benefit of listening to it.

5. Which of Treasure's listening exercises is the most important? Why?

## SHORT ANSWER QUESTIONS

1. Name the seven filters that Treasure mentions in his talk.

2. What exercise does Treasure recommend to help your ears reset and recalibrate?

3. Name three techniques that listeners use to extract meaning from sound

4. W hat do the letters in the acronym "RASA" represent?

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# SOUTH PHILADELPHIA INTERNATIONAL BLUES FESTIVAL – A CASE OF THE QUEUING BLUES

**Robert J. Sellani, Nova Southeastern University**

## CASE DESCRIPTION

*The primary subject of the case is the application of queuing theory for Walk-Up ticket sales and Will Call pick up at a large, outdoor, three day music festival. The case incorporates both quantitative and qualitative assessment, simulating a real life experience. Students will be challenged by the difficulty in forecasting not only total attendance, but the timing of when the bulk of event attendees will arrive. In addition, various combinations of arrival rates can be used to simulate different potential arrival scenarios. Students will have an opportunity to evaluate two different ticketing alternatives. One using Ticketmaster estimated fees and another alternative from a vendor supplying portable ticket booths, staffed by business school students – a bit of "do it yourself".*

*The case has a difficulty level of Master's in Business Administration in Service Operations. The case is designed to be taught in one class and can be taught in one of two ways. Students can be divided into teams of four students to prepare a case analysis defining the problem, developing alternative solutions, and providing a recommended solution and course of action. The Assignment Questions are designed to lead students from a high level overview to breaking down details sufficient to provide reasonable service estimates. A second method is to combine the end questions as a springboard for the case class discussion in addition to the Assignment Questions. For either alternative, the case can be taught in one and a half to two hours. Student preparation time should be expected to be six hours in total for the group, about one and a half hours per student. On an individual basis, a student should be able to read the case and complete the case questions in six to eight hours.*

## CASE SYNOPSIS

*The South Philadelphia International Blues Festival inaugural event was in November of 2007. This free event attracted approximately 3000 attendees in its first year. The 2008 event attracted approximately 8000 attendees and was again a free event open to the public. In 2009, a decision was made to charge an admission fee for the event. As a result, various issues had to be resolved ranging from ticket pricing through the actual ticketing process. One option was for the University to handle ticketing through Ticketmaster. Another option was to use the University's Marketplace software for ticket sales and then rent ticket booths, staffed by student volunteers from two business school organizations. Students will be asked to answer a number of queuing questions based on estimated arrival rates. In addition, students will be asked to evaluate the decision to use the University Marketplace software and rent ticket booths, staffed by student volunteers instead of letting Ticketmaster handle all the ticketing complexity.*

## INTRODUCTION

After attending a music festival in Ft. Lauderdale, Florida, Dr. Rob Sellers, Associate Professor and Dr. Randy Olhman, Dean of the School of Business at Philadelphia University, started discussing the possibility of the University hosting such an event on campus. Both Dr. Rob and Dean Olhman are musicians, so the idea of the University hosting such an event brought about the camaraderie of mutually shared subjects they love – business and music.

The decision to host such a large event on the University campus was not in the realm of Dean Olhman alone to make. This decision needed to pass muster of the University President, Ron Ferreri and Executive Vice President, Dr. John Cadbury. In May of 2007, Dr. Rob and Dean Olhman put together a presentation and scheduled a meeting with President Ferreri and Executive Vice President Cadbury. Both executives were receptive to the idea of such an event and on November 9, 10, and 11, of 2007, the South Philadelphia International Blues Festival became a reality.

### The 2007 Event

The Inaugural South Philadelphia International Blues Festival was set for the second weekend in August of 2007. The November date was far enough into the season to be fairly safe from storms and unpredictable weather. It was also a good time because many potential fans were already here in South Philadelphia, enjoying the history of the region.

One of the selling points during the presentation was that many residents in Philadelphia were not familiar with Philadelphia University's programs and for many, had never been on campus. Residents were not aware that the campus boasts the largest State-Private library in Pennsylvania and city residents had access to this wonderful resource for free. Therefore, one main goal was to try to attract as many people as possible on campus in order to showcase the University. That goal also meant that the event had to go off without any major problems. The possibility for problems ranged from parking to disorderly conduct and everything in-between. A major consideration was whether the University should charge for the event or whether it could absorb the costs and give back to the community a wonderful weekend event for free. The decision was the event would be free with the exception of a nominal fee for parking.

In order to attract as many fans as possible, a stellar lineup needed to be put together for each of 3 days. A total of 33 acts were booked, with two huge outdoor stages and an indoor venue for some of the smaller, lesser known acts.

Advertising was done via local newsprint, television, and radio in order to get the word out. Crowd expectations were managed on the low side and there were approximately 3000 attendees by police estimates for the three day event. Since the event was free, there was no other way to establish attendance other than estimates. The following represents the outdoor stage line-up for 2007.

Friday – Outdoor Stages

| | |
|---|---|
| Ben Prestage | 5-6PM |
| The Nouveaux Honkies | 6-7PM |
| Alvin Jet | 7-8PM |
| Evan Goodrow | 8-9:15PM |
| Albert Castiglia | 9:15-10:30PM |
| Tinsley Ellis | 10:30 – midnight |

Saturday – Outdoor Stages

| | |
|---|---|
| Blue 88 | 12-1PM |
| Sally Townes | 1-2PM |
| Rich Del Grosso | 2-3PM |
| Blues Fury | 3-4PM |
| Ain't 2 Blue | 4-5PM |
| Saron Crenshaw | 5-6PM |
| Darrell Raines (w/ Dr. Rob Sellers on drums) | 6-7PM |
| Calvin Newborn | 7-8PM |
| Doug Deming | 8-9:15PM |
| Blues Caravan | 9:15-10:30PM |
| Duke Robilard | 10:30 – midnight |

Sunday – Outdoor Stages

| | |
|---|---|
| Lil Rev Gospel Revue | 12-1PM |
| Lee Boys | 1-2PM |
| Walker Smith Group | 2-3PM |
| Joey Gilmore | 3-4PM |
| Little Ed and the Blues Imperials | 4-5PM |

**The 2008 Event**

Since 2007 went well with no reported problems, the University administration agreed to continue the festival, now the largest event on campus. In an effort to continually improve the event, in 2008, a search was conducted to find talent that would attract more people than last year. In particular, the event needed to attract a younger crowd, more in-line with the age group of University students. Similar to 2007, 33 total bands were booked, but this time more effort was made to attract a younger crowd. The "star" attraction for 2008 was a young and up-coming guitar player named Kenny Wayne Shepherd. In 2008, he was nominated for a Grammy Award, so along with his looks, age, and ability, the Talent Committee felt very comfortable in thinking the event would surpass last years' attendance. The lineup also featured more of a blend of the traditional Blues players along with a younger breed.

Unfortunately Kenny Wayne Shepherd, and others, can be budget breakers and the budget for 2008 was significantly more than 2007. This matter did not go un-noticed by the University administration and the issue of whether the event should be paid for by the attendees was again discussed. The conclusion was the event would remain free, this year, with the caveat that Dr. Rob and Dean Olhman would begin to find sponsors for the event in an effort to offset some of the going costs. And, more importantly, if the event was going to continue in 2009, there was going to have to be an admission charge for attendees. The following lineup was established for the 2008 event.

Friday – Outdoor Stages

| | |
|---|---|
| High School Band Competition Winner | 6-7PM |
| LA Jones | 7-8PM |
| Sheba and the Mississippi Queen | 8-9PM |
| J.P. Soars and Terry Hanck | 9- 10PM |
| Delta Guitar Slingers | 10-11:15PM |

Saturday – Outdoor Stages

| | |
|---|---|
| Sean Chambers | 12-1PM |
| King mudfish | 1-2PM |
| Big City Blues Band | 2-3PM |
| Blue House | 3-4PM |
| Pat Pepin (w/Dr. Rob Sellers on drums) | 4-5PM |
| Rev Billy C. Wirtz & Victor Wainwright | 5-6PM |
| Jamie King Colton | 6-7PM |
| Hep Cat Boodaddies | 7-8PM |
| Anthony Gomes | 8-9:15PM |
| Kenny Wayne Shepherd | 9:15-10:30PM |

Sunday – Outdoor Stages

| | |
|---|---|
| Lil Rev Gospel Revue | 12-1PM |
| Lee Boys | 1-2PM |
| Walker Smith Group | 2-3PM |
| Joey Gilmore | 3-4PM |
| Little Ed and the Blues Imperials | 4-5PM |

**The 2009 Event**

The 2008 event was a big success, with an estimated 8000 attendees. The attention to the lineup had proven that larger and younger crowds could be attracted to the event. In addition, people were traveling from all over the country to this event, given the time of year and location. So many people, both young and old had commented on how nice the event was, hosted on a University campus. The ambiance could not be beat!

Planning for the 2009 event began early in January. The Talent Committee's task was to come up with a line-up that topped last years' event in terms of attendance. The headliner for the event was an up-coming guitar player named Joe Bonamassa. Joe was hot! He was on the cover of April, 2009 Guitar Player and May's edition of Guitarist magazines. Fresh off his performance with Eric Clapton, the Talent Committee felt this years' attendance would indeed surpass last year. The big difference for 2009 was the festival was now going to be a paid event. This fact now changed the face of the festival and added considerable complexity to the planning process – one that Dr. Rob and Dean Olhman were determined to overcome.

It is one thing to attract people to a free event but quite another to attract them to a paid event for up to three days. A major concern was how the ticketing process would impact the attendees experience at the festival. Since the event was free in the past years, attendees just had to pass through a visual security opening to get into the event grounds. There were no tickets to purchase and/or validate, and people could come and go as they please. Long waiting lines were something Dr. Rob and Dean Olhman did not want to see and there were many questions that needed to be answered as the event proceeded to move ahead.

## CHARACTERISTICS OF THE TICKETING SYSTEM

### How should the University sell tickets for this event?

Once the decision was made to charge admission, Dr. Rob and Dean Olhman had to consider the cost/benefits of how the ticketing was going to be conducted. A number of factors were considered. First, the University is not set up to handle ticket purchases on a mass scale. Secondly, having an outside service such as "Ticketmaster" handle the ticketing process addressed only pre-purchased tickets. How would same day tickets be purchased? In addition, substantial fees would be incurred if Ticketmaster services were used. As a reference Ticketmaster fees would average about 6% of estimated ticket sales revenue, with an average ticket price (assuming all combinations) of $30.

Another alternative was for attendees to pre-purchase tickets, using the University Marketplace software where they could use their Master Card to pre-purchase tickets. A substantial discount was offered for early ticket purchase. Purchasers would then print out a numbered voucher which they would present at the Will Call booth for redemption of the appropriate wrist band(s) for the event. The University would then rent portable ticket booths and station them close to the event entrance. Booths would be staffed by members of the Accounting Club and Alpha Kappa Psi, both business school professional organizations. The Accounting Club would be responsible for handling all money transactions and would be reconciling both Will Call and Walk-Up Sales each day. A search was conducted as to find a company that rented ticket booths and one candidate was selected for the task. Booth rental was $1000 per day per booth, which included delivery, set-up and tear down, but no staff. Dr. Rob ran the numbers and the decision was made to rent the ticket booths and staff them with business schools students.

Ticket booths consisted of portable air-conditioned, secure, trailers with 5 windows each and would be clearly marked as “Will Call” and “Walk-Up Ticket Sales”. Will Call customers would present a picture ID and then be asked to sign their name next to their voucher number, indicating those wrist bands were picked up. This process was estimated to take about 2 minutes per Will Call customer. The Walk-Up ticket Sales booth was dedicated to purchasing tickets for the event, including single day, two day, and three day passes. This was a more complex process due to the various ticket purchase options and also because two different purchase methods were available – cash and credit cards. As a result of this more complex process, it was estimated each transaction would take 3 minutes.

What Dr. Rob and Dean Olhman did not know was how many ticket trailers were needed beyond one for Will Call and another for Walk-Up ticket sales. Both Dr. Rob and Dean Olhman were keenly aware that attendees did not want to wait too long. How many trailers would be needed depended on a number of factors - the estimated number of attendees, when they would be arriving and at what rate, how long it would take to complete each transaction, and the percentages of attendees that pre-purchased tickets, among other factors. All these considerations had to be weighed against the cost of each additional booth trailer which also would require more volunteers.

Because of security issues, each trailer was dedicated to Will Call or Walk-Up ticket purchases. For example, it was not possible to use three windows for Will Call and three for Walk-Up ticket sales.

**Forecasted event size and arrival pattern of the Population**

The South Philadelphia International Blues Festival was scheduled in August for a number of reasons. First, the early part of August affords great weather – not too hot or cold. Secondly, many people in Philadelphia that time of year are tourists and the event’s timing takes into consideration many vacationers who would be likely to come to such a music festival.

Last year, attendance was approximately 8000 people, with about 5000 attending on Saturday. Attendance Friday evening was expected to be particularly good. The 2009 lineup included the last 6 winners of the International Blues Competition (IBC) and most people would be getting their spots early for the 6 PM start of the show. Last year, there were about 800 attendees on Friday night. That was expected to double this year with most arriving between 5and 8PM.

Saturday attendance was expected to exceed last years’ 5000 people by at least 10%. Again, a strong line with Joe Bonamassa as the closer would almost certainly assure this night to be well attended. The general arrival pattern for a Saturday event is somewhat different than Friday. Most attendees typically come between the hours of 4 and 7 PM, when the lineup starts to get stronger. Sunday is typically the slowest day with no more than about 1000 people anticipated.

One of the difficulties is to predict what portion of the attendees would be buying three day passes, two day passes, and single day passes. A significant discount was provided to entice attendees to purchase the three day event pass. However, many people in Philadelphia are on vacation and might just get a single day pass, most likely for the Saturday show.

Dr. Rob and Dean Olhman estimated 70% of all ticket combinations would be pre-purchased due to significant ticket discounts, with the remaining attendees purchasing their tickets on event day.

Some fans are hard-core Blues enthusiasts and while quite loyal, only represent a small fraction of likely attendees. Dr. Rob and Dean Olhman estimated that 15% of ticket sales would be for the three day pass, targeted to this group. Friday night represented a showcase of Blues talent, highlighting the last 6 winners of the prestigious International Blues Competition Award (IBC) held in the late part of January each year. The three day pass will assure hard core fans will be there for that event. Dr. Rob and Dean Olhman wanted to package a two day event ticket for Friday and Saturday to appeal to those fans wanting to see the past IBC winners all in one day and also the fabulous Saturday show. Dr. Rob and Dean Olhman estimated that about 5% of tickets would be sold for the Friday/Saturday showcase. In addition for those fans unable to attend Friday night, another two day ticket offering for Saturday and Sunday was made available. This ticket was meant to appeal to a more family outing for both Saturday and Sunday. They also estimated ticket sales for the Saturday and Sunday combo at no more that 5%.

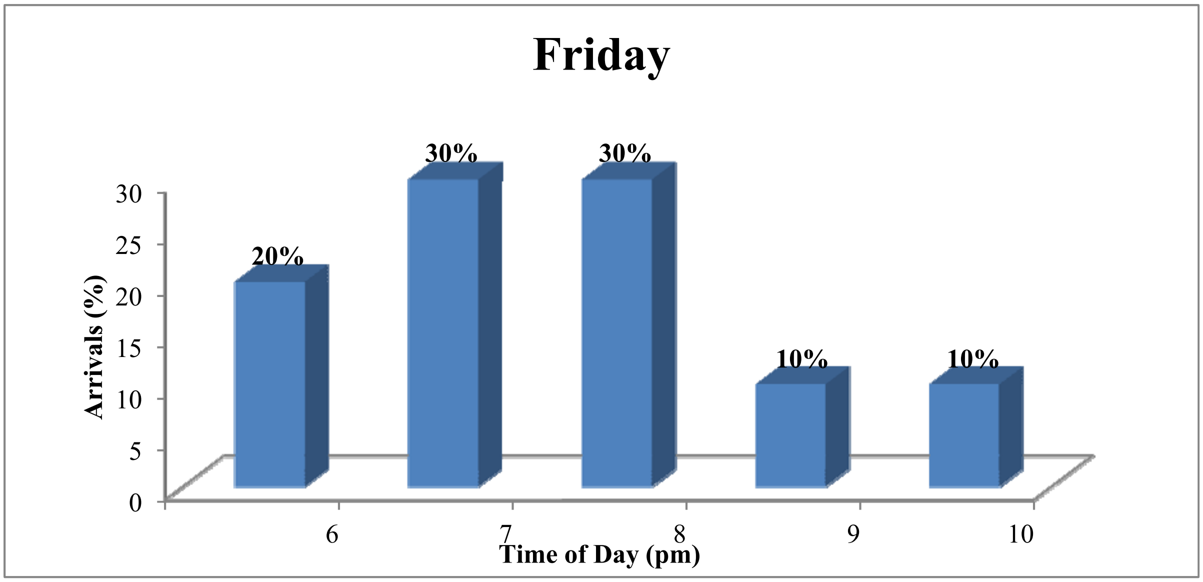
Since Saturday was the big event, Dr. Rob and Dean Olhman expected many fans to purchase this one day event, either pre-purchased (enticed with appropriate discount) or same day sales where fans can purchase tickets on Saturday. Ticket sales for “Saturday only” were estimated to by 75% of total tickets sold for Saturday. Note: tickets for Saturday are for the entire day.

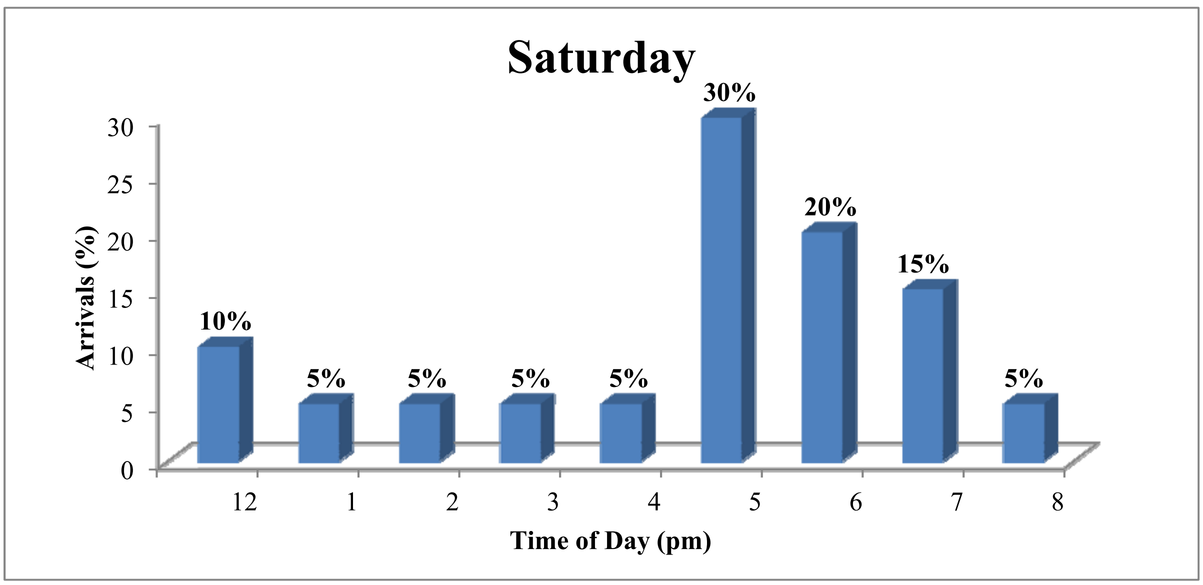
It was also estimated that the average attendees per ticket sale transaction were 2 people (boyfriend/girlfriend, husband/wife).

**Behavior of Arrivals**

The Blues crowd is composed of a wide age range and socio-economic means. One thing they all have in common is when they get to the event, they stake out their territory. This is critical to watching a good performance when you are essentially in an open area with no reserved seating. The Blues crowd hates to wait for anything, especially for ticketing, never mind a beer! Upon arriving at the event, it is unlikely any of the attendees will balk or renege, but you can be sure they will personally let you know if something does not go well.

Dr. Rob and Dean Olhman assumed that arrivals for Saturdays’ event would be similar to the last two years. There are always group that opens up the event and will be in line to either buy tickets or pick them up at Will Call. The second “wave” starts around 4PM and will be very heavy until about 8PM. By then, darkness will have fallen and people want to stake out their turf. In addition, the best acts begin around that time. The last wave will be a smaller group that arrives at the last minute, just to catch the second to the last and/or last acts. Since the major acts start at 8PM, it is unlikely that any tickets or Will Call activity will occur much past that time.




## ASSIGNMENT QUESTIONS

1. Based on the estimates of the event promoters, create a "Total Tickets Sold" chart based on the percentage estimates for the different ticket categories (i.e. single day, two day, three day event and Will Call and Walk-Up ticket Sales) for the entire event.
2. Calculate the estimated ticket booth transactions for both Will Call and Walk-Up Sales, for Friday and Saturday, based on your answer to #1.
3. Calculate the estimated duplicate attendance using data from both Will Call and Walk-Up Sales, for Friday, Saturday, and Sunday.
4. Calculate the estimated hourly transactions using data from both Will Call and Walk-Up Sales, for Friday and Saturday.

5. Calculate the mean arrival rate (lambda) and mean service rate (mu) for Will Call and Walk-Up Sales for Friday and Saturday.
6. Calculate the probability that the servers are busy and customers will have to wait for both Friday and Saturday at both Will Call and Walk-Up sales booths.
7. Calculate the average number of customers in the system and the average number of customers in the queue for both Friday and Saturday at both Will Call and Walk-Up sales booths.
8. Calculate the average time in the system per customer and the average time in the queue per customer for both Friday and Saturday at both Will Call and Walk-Up sales booths.
9. Calculate the cost difference in favor of using the Ticketmaster option versus the Ticket booth rental option and offer the pros and cons of both.

## AUTHOR'S NOTE

*This case was prepared solely to provide material for class discussion. The author did not intend to illustrate either effective or ineffective handling of a managerial situation.*

# RAS CONSULTANTS LIMITED

**D.K."Skip" Smith, Baze University, Abuja, Nigeria**

## ABSTRACT

*Ms. Bonnie Jones is Head of Administration for RAS Consultants Limited (RCL). Earlier today, her Finance Director requested that Ms. Jones recommend to him a price RCL should charge International Oil Company (IOC) representatives to attend a training session which RCL will be running next month for 10 staff members of the Ministry of Environment. Ms. Jones has already collected information on the incremental costs RCL will incur by adding each additional participant to the seminar; she now needs to decide exactly how she wants to use the information she has collected to generate the recommendation she will make to her Finance Director, regarding the price each IOC representative interested in attending the upcoming seminar should be charged. Discussion of this mini-case will provide students an example of the importance of pricing and the very substantial impact pricing and pricing policies can have on corporate revenues.*

# DEVELOPING REWARD SYSTEMS THAT MOTIVATE UNIVERSITY FACULTY

**Robin L. Snipes, Columbus State University**
**Fonda Carter, Columbus State University**

## CASE DESCRIPTION

*The primary subject matter of this case is employee motivation and developing reward systems that match the organization's mission and objectives. Secondary issues examined include performance appraisal systems and employee compensation. This case has a difficulty level of four, appropriate for senior-level undergraduate students or first-year graduate students. The case is designed to be taught in a one-hour class and is expected to require at least three hours of outside preparation by students.*

## CASE SYNOPSIS

*There are many examples of reward systems where the behaviors that are rewarded are not those desired by management. In public universities, officials hope that teachers will focus on quality instruction, but they are mainly rewarded on their research and publications. Moreover, teaching quality is often measured by student evaluations, which may be manipulated by making courses easier or more "fun". Students get rewarded for getting good grades, not necessarily for acquiring knowledge. In short, the reward systems of most universities have failed to achieve their intended objectives. As pointed out by Steven Kerr over 30 years ago, some of the causes of this are the fascination with "objective" criteria, overemphasis on highly visible behaviors, and an emphasis on equity rather than efficiency.*

## YOUR SITUATION

You are Dean of a College of Business at a medium-sized public university in the Midwestern part of the United States. Due to the economy, you have been told by the President of your university that you will not be able to offer salary increases to your faculty again this year. Because of cuts in federal and state budgets, you haven't been able to give your faculty cost-of-living or merit pay increases for three years now. Like many universities, some of the new hires are now making just a few thousand dollars less than tenured faculty. Some of your tenured faculty are very dedicated employees who have been at the university for more than 10 years.

You have a total of 35 faculty in your College, not including the Assistant Dean and three Department Chairs. Although your student enrollment has increased, faculty turnover in your college has been high the last several years – some of your tenured faculty have retired, but much of the turnover is due to rising market salaries for business Ph.D.'s. In fact, only about 20% of your current faculty are tenured (which means that they have been at the college for more than five years). Some of your tenured faculty are very dedicated employees who have been at the university for more than 15 years. Others are less engaged and do the minimal amount of work expected. You have been able to hire new faculty recently, but you haven't been able to fill all of the open positions, and you've had to pay the new faculty close to what your tenured faculty make to get them to come to your college. The labor market for business Ph.D.'s is still very tight – while faculty salaries have been frozen across the nation due to the economy, new Ph.D.'s are still in high demand and their salaries continue to go up.

You need your tenured faculty to help mentor the new faculty and help with the departmental committee work and student advising. Untenured faculty are usually discouraged from serving on many committees so that they can work on their research since it is a big consideration in getting tenure. You know that asking your untenured faculty to do too much service work will set them up for failure in the tenure process. Most U.S. universities continue to use the tenure system. In essence, the tenure process means that all new faculty are on a probationary period for up to seven years. The tenure decision is made by a group of tenured faculty within the same discipline (usually four or five). New faculty who fail to achieve tenure by their seventh year of service are given one year to find another job. Under the tenure system at your college, a new professor will not be given tenure unless he/she demonstrates a strong record of published research and good teaching evaluations (mainly measured by student evaluations of teaching). New professors can apply for tenure at the end of their fifth year of service (which is considered early), but have to apply no later than their seventh year of service.

Recently, your accrediting agency, the Association to Advance Collegiate Schools of Business ("AACSB"), has asked all colleges to submit their learning assessment plans. These plans require that everyone in the college participate in developing learning outcomes for their classes (including the new faculty), and then develop measures to assess learning in every class on each outcome. It is a very time-consuming and paper intensive process, and your faculty are already busy with their other responsibilities, which include not only teaching and research, but committee work and student advising as well. You know that while some faculty do the minimum amount of work, others are already working well over 40 hours a week. Additionally, faculty will receive little help from the staff which has been cut back in recent years as well due to budget cuts. The work will have to be done by faculty, and you know that some will put the time in it and do it well, others will not.

Some faculty have raised the issue of equity in the number of course preps. Within your college, every professor teaches three courses each semester (with the exception of the Department Chairs and the Assistant Dean who are on reduced teaching loads because of their other responsibilities). Some faculty have taught the same courses for years, while others teach new courses almost every semester. Prepping (preparing) a new course requires a lot more of the faculty member's time than the ones he/she has already taught. Although the scheduling process is faculty-driven, some of the untenured faculty have complained that they have more course preps because the tenured faculty have more say in the scheduling process (in part due to the politics of the tenure process). There is also the issue of how to assign graduate courses (your college offers two graduate programs at night and on the weekends). About half of the faculty teach graduate courses and half do not. Because graduate courses are taught at a higher level (and graduate students are charged a higher tuition than undergraduates), faculty who teach in the graduate program are supposed to be the ones who have the highest research productivity and who are considered to be the best teachers in a discipline area. In fact, faculty can only teach in the graduate program if they are designated as “graduate faculty” by the university after a thorough review of their records. Teaching graduate courses requires more time and effort because the courses are more complex, there are more assignments to grade, and graduate students’ expectations are higher than undergraduates. However, besides the designation, currently graduate faculty are given no additional consideration by the college in the way of recognition, release time, or monetary bonuses. They are treated the same as others. Consequently, there are some faculty who do not want to teach in the graduate program, while others teach three or more graduate courses a year. Some faculty enjoy the challenge, while others feel that the amount of work put into teaching graduate courses could be better spent doing research since research is recognized and rewarded by the college (when there is money in the budget).

Lately you have noticed that faculty morale has gone down, but you don’t know exactly what you can do about it. You have read some research that suggests that faculty morale and motivation are affected by disparate workloads and/or compensation levels. Some faculty have complained about the number of students and new course preps given to them as compared to other faculty. Also, because you have so few tenured faculty, you have been asking untenured faculty to pick up some of the student advising and committee work that would normally be done by tenured faculty. You have read that successful collaboration in any organization requires both individual- and group-level rewards, such as college-wide bonuses, but you have very limited funding for either. Although you don’t have any money in the budget for salary increases, you have been given some money to use for faculty travel to present their research papers at academic conferences, and in any other way you deem appropriate to meet the college’s mission and goals. Currently, this annual pool of money equals about $75,000. You have considered giving some faculty a reduction in their course loads to do some of the additional service work required, but that would mean that you would have to hire adjunct instructors to take their place at a cost of about $3,500 per course. Additionally, the quality of adjuncts varies, so student learning might actually be hurt by this plan.

## TEACHING NOTES

*The primary subject matter of this case is employee motivation and developing reward systems that match the organization’s mission and objectives. Secondary issues examined include performance appraisal systems and employee compensation. This case has a difficulty level of four, appropriate for senior-level undergraduate students or first-year graduate students. The case is designed to be taught in a one-hour class and is expected to require at least three hours of outside preparation by students.*

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**Recommended Assignment: Have students write a report to the President of this fictitious university discussing these issues with their recommendations on how to resolve them, in light of the current budget situation. Be sure they include a cover letter that summarizes the report. In the report, they should address the following questions:**

(1) How do you think faculty productivity should be measured? Discuss specifically what each measure should contain. What would be an accurate measure of teaching productivity? Research productivity? Service? Can they all be quantified? If not, will the measures be reliable and valid (free from error)?

(2) Explain how Equity Theory might apply in this case. Do you think faculty are motivated by Equity perceptions? Why or why not? What are the "inputs" and "outcomes" that faculty compare to determine equity?

(3) If you were the Dean of this school, how could you reward faculty in ways that would allow you to restore equity but stay within your budget of $75,000? Can you think of some cost-efficient and/or nonfinancial ways to reward faculty who are doing more than their fair share of the work? Use Expectancy Theory to justify your recommendations.

(4) Can you think of some cost-efficient ways to motivate faculty to participate in developing learning assessment plans?

(5) Some might argue that faculty motivation can be best explained by the tenants of Self-Determination Theory in that faculty are motivated more by intrinsic than extrinsic rewards. What does this theory suggest about how we should motivate faculty to perform their best work?