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SCR Mission and Purpose

The Society for Case Research (SCR) facilitates the exchange of ideas leading to the improvement of case research, writing, and teaching; assists in the publication of written cases or case research and other scholarly work; and provides recognition for excellence in case research, writing, and teaching. The society publishes three scholarly journals:

- **Business Case Journal**
- **Journal of Case Studies**
- **Journal of Critical Incidents**

If you are interested in joining SCR, publishing in one of the journals, or contacting the Officers of the Society, go to www.sfcr.org. To purchase copies of the Critical Incidents or Teaching Notes, contact the Executive Director, Joanne Tokle, at tokljoan@isu.edu.
Welcome to Volume 9 of the *Journal of Critical Incidents*. This volume features 28 critical incidents, about the same number published in last year’s edition. We’re continuing to focus on quality, while giving opportunities to new authors as well as highly experienced case writers. We hope that you find this volume meets and advances the high standards you have come to expect from every *Society for Case Research* (SCR) publication.

This was a year of unexpected circumstances and transitions. We were deeply saddened to learn of Dr. Tim Brotherton’s illness, and his need to resign as editor so that he could focus on treatment and recovery. We are happy to report that he is making good progress and that he is back in the classroom after an extended medical leave. We expect to see him actively involved in submissions to *JCI* next year. Elizabeth (Beth) Jones stepped in as co-editor for this volume.

Thank you for your support in the publication of this edition and for your patience as well. It took us a couple of months longer to get through the review process than we originally planned. We would like to thank the authors for their contribution of many, high-quality critical incidents. The success or failure of any journal is ultimately due to the efforts of its authors, and we have some excellent submissions again this year. In addition, we can’t thank the reviewers enough for their willingness to volunteer their valuable time through the summer and into the fall in order to give constructive feedback to authors at every stage of the process. We also appreciate the flexibility of the authors and reviewers as schedules changed repeatedly through the editorial process.

A special thanks goes to Steven Collier, who served as copyeditor—and more. Steve joined us at the end of the editorial process and brought the journal to completion through his attention to detail and understanding of publishing. We could not have completed this journal by our end-of-year deadline without his encouragement and support.

From Tim: I was very fortunate to have Beth assume the role as co-editor. She willingly volunteered on a moment’s notice to take over the challenging responsibilities of getting the journal published. Her expertise and attention to detail have been invaluable. I can safely say there would not have been a journal published this year without Beth’s tireless efforts.

Looking ahead, more changes are in the works for *JCI*. Beth Jones will continue as editor, but after seven years, Tim Redmer is stepping down. We look forward to selecting from the SCR ranks a new leader who also is interested in carrying on the mission of *JCI* and SCR publications.

Please read the critical incidents in this edition and consider adopting them for use in your courses. Members of the Society for Case Research should continue to be our best customers. Thanks again for everyone’s time and effort this year. We look forward to working with each of you in the years ahead, and we hope to see you in Chicago at the MBAA Conference in March.

Sincerely,

Elizabeth Jones
Timothy Redmer
2016 *JCI* Editors
Publication Information:
The goals of the Society for Case Research (www.sfcr.org) are to help authors develop and publish worthy business case studies. The Society for Case Research publishes three journals: Business Case Journal, Journal of Case Studies, and Journal of Critical Incidents. While the first two case journals have no page limits, the JCI does not publish long cases. JCI's focus is on brief incidents that tell about a real situation in a real organization (similar to end-of-chapter cases in textbooks). The critical incident tells a story about an event, an experience, a blunder, or a success. Unlike a long case, the incident provides only limited historical detail of how the situation developed. Rather, it focuses on a real-time snapshot that stimulates student use of their knowledge to arrive at a course of action or analysis.

Critical incidents can be based on either field work or library research. The maximum length of a critical incident is three single-spaced pages. A teaching note must be submitted with the critical incident. The quality of the teaching note is a central factor in the review and acceptance process. Submissions are double-blind, peer-reviewed. Formatted copies of acceptable critical incidents and teaching notes are available to assist authors in meeting the JCI submission requirements. The Journal of Critical Incidents is listed in Cabell's Directories of Publishing Opportunities and is published annually in the fall.

JCI Publication Process:
Authors are encouraged to submit drafts of critical incidents to the Case Research Track at the Annual MBAA International meeting in Chicago in March, where open peer review offers suggestions and support. Alternatively, authors can attend the SCR Summer Case Writing Workshop for in-depth, open peer review. Additionally, authors can submit critical incidents directly to the Journal of Critical Incidents editors by April 25, 2017.

Timeline for JCI Volume 10, Fall 2017

<table>
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<tr>
<th>Date</th>
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<tr>
<td>April 25</td>
<td>Submit Critical Incident and Teaching Note to the JCI editors (<a href="mailto:jci.sfcr@gmail.com">jci.sfcr@gmail.com</a>). If you have attended an SCR conference or workshop, include a memo indicating how you have addressed recommendations from your peer reviewers.</td>
</tr>
<tr>
<td>Summer</td>
<td>Two rounds of blind peer review</td>
</tr>
<tr>
<td>September</td>
<td>Authors notified whether Accepted, Conditionally Accepted, or Rejected</td>
</tr>
<tr>
<td>Late Fall</td>
<td>Publication of JCI, Volume 10.</td>
</tr>
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</table>

Authors of critical incidents are expected to review other submissions; failure to do so may mean deferral of your critical incident to a later volume. Additionally, JCI will gladly accept volunteers from all disciplines to serve as reviewers. To volunteer, email the editors at jci.sfcr@gmail.com.
Groupon: Innovative Accounting Metrics for a New Business Model?

Jeffrey Miller, Sam Houston State University
Jeffrey Strawser, Sam Houston State University

Abstract
Groupon, Inc.’s growth had been spectacular, and in less than three years after its founding, it was ready to make its initial public offering (IPO). Its revenues and its customer base had grown rapidly. The company, however, had yet to show a profit. In fact, Groupon had already accumulated nearly one-half billion dollars in losses. Andrew Mason, the chief executive officer (CEO), explained that Groupon did not measure its financial position in conventional ways. Rather, it relied on three primary metrics to indicate the company’s value, financial stability, and performance (Groupon, 2011). One of these metrics, for example, was called adjusted Consolidated Segment Operating Income. Groupon used this metric to show that it was a flourishing company. Would the Securities and Exchange Commission (SEC) accept these metrics as evidence of Groupon’s profitability, which was so critical to the filing of the IPO? If not, would it spell doom for the IPO?

Learning Outcomes
In completing this assignment, students should be able to:

1. Appraise the credibility of the accounting metrics Groupon used to determine its profitability
2. Analyze whether Groupon’s revenue recognition policy is appropriate

Application
This critical incident could be used in an upper-level undergraduate or graduate-level financial accounting course, or in an auditing course. It is most appropriate for courses where revenue recognition or non-GAAP disclosures are taught.

Key Words
SEC, revenue recognition, non-GAAP disclosures, IPO

Contact
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Memorial Hospital and Changes Related to Accounting for Leases

*Macey Buker, Weber State University*

**Abstract**
Memorial Hospital was part of a successful, for-profit, integrated healthcare organization. The hospital relied upon leases to finance equipment and real property. Pat Carter, chief executive officer, recently hired a new chief financial officer, Carla Johnson, to oversee the hospital’s finances. During a meeting, Carla informed Pat of a newly adopted accounting standard that altered the financial reporting requirements for leases. Pat asked Carla to evaluate the new standard, Number 2016-02 Leases (Topic 842), adopted by the Financial Accounting Standards Board (FASB), to see what effects the change might have on the hospital’s reporting requirements. Pat also wanted to know if there were any actions the organization could take in order to minimize the overall impact of the newly adopted standard.

**Learning Outcomes**
In completing this assignment, students should be able to:

1. Evaluate the financial impact of changes in reporting requirements for leases based upon Topic 842
2. Propose and defend alternative approaches that will reduce the potential impact of changes related to lease reporting

**Application**
This critical incident is appropriate for upper-level undergraduate and graduate courses in accounting and finance.

**Key Words**
lease, accounting for leases, FASB Topic 842, lease reporting, FASB 2016-02

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Northstar Café: Food Cost Accounting

Lindsay Meermans, Wittenberg University
Rachel Wilson, Wittenberg University
Greg Heine, Wittenberg University

Abstract
This case explores the vital relationship between the measurement of inventory and income for the restaurant Northstar Café. The case centers on a new accounting intern, Greg, as he learns the intricacies of inventory accounting procedures and their effects on financial statements. After several weeks under the guidance of his informal mentor, Brian, Greg was now responsible for completing the weekly review of inventory count reports and the subsequent profit and loss statement for Northstar’s Beechwold location. With Brian’s help, Greg had already caught a few inventory errors. He was worried there might be more that he was missing. Was there a more efficient way to review these inventory count reports, he wondered?

Learning Outcomes
In completing this assignment, students should be able to:

1. Calculate food cost using the cost of goods sold model
2. Analyze the relationship between the valuation of inventory and the measurement of income
3. Identify ways in which accounting partners impact the operational success of a restaurant
4. Evaluate the methods currently employed by Northstar Café for inventory accounting, and develop additional or alternative procedures for inventory review

Application
This case was written primarily for undergraduates in a managerial or cost-accounting course. To properly prepare for this case, students need to be familiar with the basic accounting equation, the cost of goods sold equation, and broad relationships between financial statements. It offers an opportunity for students to move beyond the basics and identify connections between a restaurant’s inventory systems and financial statements.

Key Words
inventory, restaurant accounting, cost of goods sold, food cost

Contact
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Staff Utilization: It’s More Than Just a Metric

Robert R. Picard, Idaho State University  
Ann M. Hackert, Idaho State University

Abstract
Mitch Mainhardt was ultimately responsible for hiring and developing the professionals in his office. He and Joy Jones were reviewing staff utilization for two accountants: Jennifer and Jason. Both were in similar stages in their career, but their utilization metrics hinted at different issues that might need addressing. Staff utilization is one measure used by firms to evaluate the economic contribution of staff members and identify other issues that might require management intervention. Many professional service firms, though, have begun to consider moving away from using utilization as a primary input in performance appraisals due to potentially adverse effects on job satisfaction and staff retention. However, monitoring utilization still provided management with opportunities to identify and address issues at both ends of the utilization spectrum. What is staff utilization? How can staff utilization metrics be used as pointers to help management develop and retain staff?

Learning Outcomes
In completing this assignment, students should be able to:

1. Describe the staff utilization metric and how it is calculated  
2. Identify staff performance issues that might be highlighted by a staff utilization metric  
3. Explain the performance expectations for an accounting firm from the perspectives of managers and accounting staff  
4. Evaluate the performance of Jason and Jennifer

Application
The critical incident can be used in undergraduate and Master of Accountancy accounting classes, in human resource management classes, or as an activity in a professional accounting organization.

Key Words
staff utilization, staff accountant, performance metric, performance monitoring

Contact
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The Case of the Wayward College Dean: An Examination of Alleged Fraud

Kathy S. Pollock, Indiana University Purdue University Fort Wayne
Janet C. Papiernik, Indiana University Purdue University Fort Wayne

Abstract
This descriptive critical incident describes the events and resulting tragic consequences of Dr. Cecilia Chang’s extensive, alleged fraud that extended over a 30-year period while serving as a college dean at St. John’s University. In a for-profit company, employee embezzlement typically averages a loss of approximately $130,000 over an 18-month period (ACFE Fraud Survey, 2014). In a non-profit organization, however, the trust extended to employees may put the organization at even greater risk, potentially allowing higher amounts of lost dollars and a longer period of time for the fraud to be detected. Although no one will ever know the full amount actually stolen or misused by Chang, the courts awarded approximately $2 million in restitution. After her death, the case was settled for $1.2 million collected from the estate.

Learning Outcomes
In completing this assignment, students should be able to:

1. Understand basic fraud examination concepts, including the fraud triangle
2. Understand fraud opportunities by explaining how power can leave an organization more susceptible to theft
3. Explore how fraud scandals might affect non-profit organizations in particular

Application
This critical incident is most appropriate for courses in business ethics and fraud examination.

Key Words
non-profits, fraud, fraud triangle, embezzlement, abuse of power, corruption

Contact
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“10 Things I Hate About . . .” Contract Breaches

Jessica A. Magaldi, Pace University

Abstract
The critical incident stems from a contract dispute between actor Evan Rachel Wood and film producer 10 Things I Hate, LLC, concerning the film 10 Things I Hate About Life. The producer contended that Ms. Wood was in breach of her Artist Services Agreement because she worked only 11 days instead of seven weeks. Ms. Wood contended that the producer had inadequately financed the film, and that production had stopped because of financing; hence, she was not obligated to perform. This critical incident asks students to decide whether the producer should sue, and to consider what claims it should consider bringing against Ms. Wood, including what damages the producer might be entitled to recover. In considering the producer’s option to sue, the student is asked to consider what defenses or counterclaims the producer might anticipate from the defendant as well any independent claims that Ms. Wood might bring against the producer.

Learning Outcomes
In completing this assignment, students should be able to:

1. Interpret key provisions of a contract in light of the underlying principles of contract law, especially as such principles relate to contract breach in the context of a dispute between parties
2. Assess whether legal remedies are available to a victim of a contract breach, and if so, evaluate the likelihood of success of a particular remedy
3. Assess the enforceability of a contract to determine whether the parties may be bound
4. Assess what legal defenses are available to a party accused of breaching a contract, including whether the party may be excused from performance

Application
This critical incident is appropriate for classes in business law, the legal environment of business, contract law, arts and entertainment management, and ethics. It was tested in a business law course at the undergraduate level.

Key Words
contract breach, contract formation, contract remedies, damages, fraud, excuse of performance

Contact
Jessica A. Magaldi, Department of Legal Studies and Taxation, Pace University, One Pace Plaza, New York, NY 10028. Email jmagaldi@pace.edu. Phone 917-974-3074.
Abstract
To celebrate the legendary basketball player Michael Jordan’s induction into the Basketball Hall of Fame, the grocery store chain Jewel-Osco was considering an advertisement in a commemorative edition of *Sports Illustrated* magazine. The proposed advertisement featured basketball shoes, the number “23,” and a short paragraph that wittily included a phrase similar to Jewel-Osco’s tag line. Jewel-Osco did not have Michael Jordan’s permission to use his name or number. The proposed advertisement posed legal and management dilemmas for Jewel-Osco. A celebrity such as Michael Jordan has publicity rights to control his image, but the First Amendment gives broad protections to the right to speak; and our society values the ability to discuss, comment, and share newsworthy events. Should Jewel-Osco run the congratulatory advertisement?

Learning Outcomes
In completing this assignment, students should be able to:

1. Explain the legal rights and restrictions on the use of someone’s name, likeness, image or other distinguishing characteristic in advertising, covering the right of publicity, appropriation, First Amendment freedom of speech, trademark, and copyright law
2. Examine the legal approaches used to determine whether a business’s use of a person’s name, likeness, image, or other distinguishing characteristic is acceptable
3. Formulate a plan designed to minimize the risk to a business considering the use of a celebrity name, image, likeness, or other distinguishing characteristic in a business announcement, advertisement, or other use

Application
The case is most appropriate for courses in the legal environment of business, business law, marketing and advertising, ethics, and business and society.

Key Words
appropriation, publicity rights, first amendment, business law, marketing, advertising, ethics

Contact
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Taking the Leap: Gary and Darla Become Entrepreneurs

Tony Tocco, Rockhurst University
Craig Sasse, Rockhurst University
Turner White, Rockhurst University

Abstract
Gary and Darla Beggs, after long, professional tenures in large corporations, decided to become business owners. The two experienced business professionals were looking for an opportunity to use their skills and knowledge to successfully operate their own small business and to do it on their own terms. Gary had executive experience in the trucking business, and Darla had significant HR experience at several companies. After an eight-month search, they identified two viable acquisition targets. After determining the criteria they would use to evaluate acquisitions, they began weighing the opportunities before them. Given their criteria, what should they choose?

Learning Outcomes
In completing this assignment, students should be able to:

1. Analyze and compare the criteria for selecting an entrepreneurial opportunity
2. Evaluate and select a small business opportunity comparing and contrasting various quantitative and qualitative data

Application
This case is most applicable for courses on small business or entrepreneurship. It could also be used in general or introductory business classes at the undergraduate level, and in MBA or Executive MBA classes where students are considering going into business for themselves.

Key Words
entrepreneurship, business acquisition

Contact
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The Colonel Crowther Foundation: Succession Planning in a Non-Profit Organization

*Robert G. Edmonds, SUNY Maritime College*

**Abstract**
This descriptive critical incident is based upon a real life situation encountered by the author. As vice president and a member of the Board of Directors of the Colonel Crowther Foundation, the author and members of the board were shocked and deeply saddened by the unexpected death of the visionary founder and executive director of the foundation, Dr. Bob Hileman. Dr. Hileman’s death from a massive heart attack left a major void in the organization’s leadership and created a crisis in succession management for the board, posing a threat to the very survival of the foundation.

**Learning Outcomes**
In completing this assignment, students should be able to:

1. Evaluate the need for organizations of all sorts and sizes to develop a management succession plan for future leadership, and address the criteria needed to formulate such a plan
2. Categorize the various types of leadership found in organizations, and explain the type of leadership needed by the Colonel Crowther Foundation following the sudden death of its executive director
3. Examine the role an organization’s board of directors plays in helping the organization to develop a viable succession plan

**Application**
This critical incident is appropriate for use in undergraduate courses such as introduction to business, fundamentals of management, organizational management, strategic management, entrepreneurship, and small business management.

**Key Words**
boards of directors, governance, corporate succession, succession planning, leadership, situational leadership, transformational leadership, charismatic leadership, succession management, historical re-enactors

**Contact**
Dr. Robert G. Edmonds, Department of Global Business and Transportation, SUNY Maritime College, 6 Pennyfield Avenue, Bronx, NY 10465. Email redmonds@sunymaritime.edu. Phone 718-409-5568.
Abstract
The idea for TrintMe was born at an alumni meeting in California when one of VS Joshi’s former classmates wondered why he had never asked her out while at college. Joshi realized that two individuals who had the same feelings for each other had not been able to express themselves because of the fear of rejection; so he developed a Facebook (FB) application, TrintMe, to solve the problem. Just as the marketing campaign for TrintMe was gathering momentum, Joshi discovered that FB was going to change its APIs (Application Programming Interfaces). Users of TrintMe connected to the app through FB, and a change in APIs meant that they could no longer access information about FB’s users, which threatened the very basis of TrintMe’s existence. As the deadline to withdraw from the FB platform drew close, Joshi wondered if he could save the venture before the change came into effect.

Learning Outcomes
In completing this assignment, students should be able to:

1. Discuss the challenges in emergence and early development of entrepreneurial ventures
2. Develop criteria for deciding whether to persist or exit at critical junctures in the life of an entrepreneurial venture
3. Evaluate alternative strategies founders can pursue to improve the survivability of their ventures
4. Assess the role of founders’ social and human capital in emergence and development of their ventures

Application
This decision-oriented critical incident is most appropriate for courses in new venture creation, entrepreneurship, and strategy.

Key Words
migrant, entrepreneur, opportunity, Facebook, Silicon Valley

Contact
Sarika Pruthi, School of Global Innovation & Leadership, Lucas College & Graduate School of Business, San José State University One Washington Square, San Jose, CA 95192-0070. Email Sarika.pruthi@sjsu.edu. Phone 408-924-6540.
How Can FIFA President Gianni Infantino Improve FIFA’s Tarnished Image?

Nanette Clinch, San José State University  
Marco Pagani, San José State University  
Asbjorn Osland, San José State University

Abstract
The Fédération Internationale de Football Association (FIFA) focused on improvement of football (known as soccer in the U.S.) and organized international soccer competitions, including the World Cup. Gianni Infantino, a member of the United European Football Association (UEFA) since 2000, was appointed as president of FIFA in 2016. Several high-ranking officials of FIFA had resigned following criminal allegations of fund misappropriation. FIFA had to clean up its organizational culture of corruption and regain the trust of the public, including sponsors Coca-Cola, Anheuser-Bush InBev, Visa, and McDonald’s. How could Infantino work to regain the trust of sponsors?

Learning Outcomes
In completing this assignment, students should be able to:

1. Analyze the value of eliminating corruption in international brand management by working to restore the FIFA brand
2. Synthesize impact of compliance with U.S. laws prohibiting corruption

Application
The critical incident is most appropriate for courses in international marketing and international business. Topics include international brand management (i.e., restoring FIFA brand), stakeholder management (e.g., the relationship between FIFA and sponsors), and compliance with U.S. laws.

Key Words
FIFA, sponsors, corruption, brand

Contact
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My Job or My Values

Samantha Gardner, Idaho State University
Neil Tocher, Idaho State University
Alexander R. Bolinger, Idaho State University

Abstract
This decision-oriented critical incident describes Stacey Garrison’s personal dilemma of whether to candidly express her concerns about the human resource management practices of Lexi and Mark (owners of the bakery where Garrison works), or to instead keep quiet to assure that she remained in the “in-group” at the bakery. The decision point arose when Garrison and two of her fellow bakers were invited to lunch with the bakery owners and asked whether Alex, another baker who had not been invited to lunch, should be fired. Garrison was shocked that the owners would openly discuss possibly terminating one baker with the other three bakers, and felt compelled to tell the owners her true feelings. However, Garrison enjoyed benefits as an informal member of the managers’ in-group, and she feared that expressing her true feelings would jeopardize those benefits and put her at risk of retribution.

Learning Outcomes
In completing this assignment, students should be able to:

1. Evaluate the advantages and disadvantages of relying on informal human resource management practices
2. Appraise the concept of informal in-groups in relations between employees and their managers, and how employee in-group/out-group status may influence managerial decisions
3. Formulate managerial actions that create and sustain organizational culture
4. Assemble a defensible rationale for what each student would do if she or he were in Garrison’s position, and why

Application
This critical incident is appropriate for upper-level undergraduate and graduate courses in human resource management (HRM) and organizational behavior.

Key Words
In-group, out-group, employee referrals, culture, trust, morale

Contact
Neil Tocher, College of Business, Idaho State University, Pocatello, ID 83209-8020. Email tochneil@isu.edu. Phone 208-282-3588.
Abstract
Adam Norris made his way in the “arms race” of pharmaceutical sales. He was the sales representative for a new drug that could help patients manage a serious health problem. The drug could also help him and his colleagues become sales team of the year if he could get it listed on the St. Thomas hospital formulary. To do so, Adam needed the names of the decision-makers, a guarded secret at St. Thomas. This critical incident discusses the dynamics of pharmaceutical sales in the early to mid-2000s. When Adam was presented with a chance to take the names without explicit permission, what should he do?

Learning Outcomes
In completing this assignment, students should be able to:

1. Consider a sales representative’s moral dilemma using multiple approaches and rationales, and make an ethical decision based on that analysis
2. Analyze the ethics of an industry’s sales environment to understand the contextual influences and pressures that emanate from different workplace or industry situations
3. Evaluate the ethics of proprietary information and the importance of secrecy and transparency

Application
The critical incident is most appropriate for a course on business ethics, professional selling, or sales management.

Key Words
ethics, pharmaceutical sales, information

Contact
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Food Fight: Law and Public Relations in Pizza Wars

Brad Reid, Lipscomb University
Andrew Borchers, Lipscomb University

Abstract
This decision-oriented critical incident addresses potential legal and marketing conflicts in the restaurant industry based on claims of superior food or of inferior competitor products. The organizational focus is Pizza Hut and its response to Domino’s in a recent comparison advertising campaign (Buss, 2015). At the time of this incident, Pizza Hut was trying to relaunch its brand and restore sales while Domino’s was gaining market share. The critical incident looks back at a historic case (Pizza Hut v. Papa John’s International) from the late 1990s with similar circumstances. The incident leaves students to answer how Pizza Hut should respond to Domino’s comparison advertising, considering legal, ethical, and marketing factors.

Learning Outcomes
In completing this assignment, students should be able to:

1. Evaluate major policy choices facing leaders in dealing with advertising claims by their firm and their competitors
2. Recommend strategies for firms responding to competitor claims of superior food
3. Evaluate the implications of silence in the face of competitor claims

Application
This critical incident is appropriate for undergraduate finance and strategy courses. It may also be used in business ethics courses.

Key Words
comparison advertising, Lanham Act, restaurants, lawsuits

Contact
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How to Get New Banks to Join the LIBOR Panel

Marco Pagani, San José State University
Elizabeth Grace, San José State University
Asbjorn Osland, San José State University

Abstract
“We cannot get new banks to join the LIBOR panel. This is unfortunate from my perspective. But you can understand the situation of a bank chief executive who has to explain to shareholders why the bank should join a LIBOR panel, given the past,” said Finbarr Hutcheson, president at the Intercontinental Exchange (ICE) Benchmark Administration. Mr. Hutcheson needed to signal a clear break with past scandals, improve the index’s shortcomings, and regain the trust of institutions and investors. The London Interbank Offered Rate (LIBOR) was the most important benchmark of the international financial system. LIBOR was a “polled” measure, indicating the average rate at which LIBOR contributor banks could obtain unsecured funding in the London interbank market. Hundreds of managers, traders, and brokers working for the most prestigious global banks had manipulated LIBOR over several years, finally resulting in jail sentences and heavy fines by U.S. and European regulators. One way to make the LIBOR more robust was to increase the participation of banks. How could Hutcheson do this? Was the LIBOR a flawed measure that inevitably lent itself to conspiracy?

Learning Outcomes
In completing this assignment, students should be able to:

1. Describe the LIBOR and how it was computed, including the defining features of a new reference interest rate; and the new compliance versus the former honor approach
2. Evaluate the changes made to the LIBOR and the impact of erroneous LIBOR estimates on participant institutions and their shareholders
3. Evaluate the strategies to increase the number of LIBOR participant institutions

Application
The critical incident is most appropriate for courses in markets and institutions, investments, and international finance.

Key words
LIBOR, ICE, reference interest rate, international financial markets

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Long Term Care: A Personal Financial Decision

Jeff Brookman, Idaho State University
Ann M. Hackert, Idaho State University
Robert Picard, Idaho State University

Abstract
David Kirkbaum was considering how best to finance possible long-term care he might require in the future. At 52 years old, he realized long-term care might be something he should include in his overall retirement and insurance planning. David was reviewing the costs, benefits, and risks of alternative ways to pay for care. He could purchase a long-term care insurance policy, or invest on his own to cover potential future long-term care costs. David anticipated retiring at 67, in 15 years. He thought long-term care insurance might make sense for both him and his spouse, who was also 52 years old. The decision was complicated because of the uncertainty associated with the costs of care, future insurance premiums, and whether he or his spouse might ever use the benefits of such a policy.

Learning Outcomes
In completing this assignment, students should be able to:

1. Describe the purpose, characteristics, and uncertainty regarding the need for long-term care (LTC) as part of financial, insurance, and retirement planning
2. Identify the inputs needed to evaluate alternatives for financing LTC
3. Evaluate the alternatives for financing possible LTC
4. Discuss recommendations for how David should proceed and determine how David’s options might fit within the scope of his financial planning for retirement and insurance

Application
This critical incident can be used in a basic finance or personal finance class. The CI assumes the student has basic skills in finance, including an understanding of time value of money calculations and concepts. The topic allows students to apply theoretical concepts related to financial decisions to practice and application.

Key Words
finance, investments, personal finance

Contact
Ann M. Hackert, College of Business, 921 S. 8th Stop 8020, Idaho State University, Pocatello, ID 83209. Email hackeann@isu.edu. Phone 208-282-2506.
Abstract
John, a long-time board member at Midwestern Community Credit Union (MCCU), noted in one of his financial reviews that MCCU’s operating expense ratio was substantially higher than those of peer credit unions. Examination revealed that MCCU had recently taken some key steps to bring this expense ratio down. Other causes of the higher expense ratio were structural, involving fixed costs that could not quickly be changed even if Midwestern had chosen to do so. For example, MCCU had two more branches and seven more automated teller machines than the average for similarly sized credit unions. While operating these branches and ATMs added to the expense ratio, they also gave members better service; and in part, were results of expansion opportunities. Moreover, MCCU remained financially strong with respect to profitability and capital. Still, John wondered, should there be any concern with MCCU’s office operating expense ratio?

Learning Outcomes
In completing this assignment, students should be able to:

1. Explain interest-rate risk for a depository institution such as a credit union
2. Critically evaluate the revenue and cost conditions of a credit union
3. Apply the concepts of variable, fixed, and marginal cost to a depository institution such as a credit union
4. Analyze performance of the credit union

Application
This critical incident is appropriate for use in money and banking or depository institution management courses at the undergraduate and graduate levels. It could also be useful in certificate and training programs for financial professionals. It is a decision-oriented incident.

Key Words
credit unions, office operation expense ratio, variable costs, fixed costs

Contact
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Tax Inversions: Maximizing Wealth by Going Abroad

Julio Rivas-Aguilar, Lipscomb University
Andrew Borchers, Lipscomb University

Abstract
This critical incident describes the merger and controversial tax inversion of U.S.-based Burger King and Canada-based Tim Hortons. Inversion is a strategy that seeks to maximize stockholder wealth by acquiring foreign subsidiaries in tax-friendly countries and subsequently shifting tax residencies. Burger King proposed to relocate its tax address to Canada, thereby paying a lower tax rate and increasing its stockholder’s wealth. However, this move led to significant resistance, given Horton’s iconic brand image in Canada and outrage from U.S. customers of Burger King. The consequence of the merger led to boycotts and strong negative reactions from consumers on social media. The reader is faced with the decision of whether to relocate Burger King’s tax residence.

Learning Outcomes
In completing this assignment, students should be able to:

1. Evaluate the tax and reputational implications of a corporate inversion
2. Recommend a course of action for a consumer products firm that is undergoing a merger with the potential for tax inversion
3. Evaluate the long- and short-term impacts of tax inversions on firm value

Application
This critical incident is appropriate for undergraduate courses on finance, business law, strategy, and business ethics.

Key Words
tax inversion, mergers, corporate social responsibility, social media

Contact
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Country Crock: Healthy Recipe Leaves Bad Taste in Consumers’ Mouths

Bradley Brooks, Queens University of Charlotte
Steven Cox, Queens University of Charlotte
Timothy E. Burson, Queens University of Charlotte

Abstract
Country Crock spread (a butter substitute made by Unilever) had changed its recipe to meet increasing consumer pressures for healthy food products. Consumer posts on sites such as the brand’s website, Facebook page, and Twitter page almost universally stated that the new recipe had (literally) left a bad taste in consumers’ mouths. Country Crock was torn between meeting increasing consumer demands for healthy food products vs. offering a positive taste for consumers. This critical incident poses three alternatives for Country Crock: (a) maintain the new recipe with the healthy ingredients; (b) return to the original recipe; or (c) develop some new recipe. Which option should Country Crock choose?

Learning Outcomes
In completing this assignment, students should be able to:

1. Evaluate the risks of meeting consumer preferences for one attribute that simultaneously could move the product offering away from consumer preferences on another attribute
2. Determine how product positioning can be determined by applying attributes to develop a perceptual map
3. Identify the risks to brand equity from a multi-attribute product offering using Keller’s Brand Equity Model
4. Develop a course of action to respond to a dilemma of how to meet multiple consumer preferences that can be incongruent

Application
This decision-oriented critical incident is suitable for undergraduate courses in marketing, business and society, consumer behavior, and public relations.

Key Words
marketing, product innovation, brand equity, consumer behavior, multi-attribute models

Contact
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Radosta Oil: Back from the Brink

Lorin Walker, University of Central Missouri
Matthew VanSchenkhof, University of Central Missouri

Abstract
The press hinted at a possible hostile takeover, and Jerry Bailey knew his job was on the line. Bailey was keenly aware that things needed to change quickly. Radosta Oil’s stock price was in a precipitous and continuing slump, having fallen by almost 20% over the last 12 months, while competitors’ stock prices were holding steady or slightly increasing. In addition, morale was at an all-time low, with people leaving the company in droves. The senior team was traumatized and casting about for direction. Bailey had been named Radosta Oil’s chief executive officer in the wake of the former CEO’s sudden and traumatic death. The last four months had been a maelstrom of activity for the recently appointed CEO, and now he was expected to present his turnaround plan to the board of directors in five weeks. Bailey had just finished a whirlwind, three-week tour of Radosta Oil, and was creating a cohesive, balanced scorecard (BSC) strategic approach to map out a clear and integrated path to recovery.

Learning Outcomes
In completing this assignment, students should be able to:

1. Develop metrics for company performance that are measureable, specific, and relevant
2. Construct a balanced scorecard to create a focused operational direction
3. Assess key metrics and develop methods to communicate metrics to employees

Application
This critical incident would be useful in MBA courses focused on strategic team direction, and in undergraduate courses focused on strategy, energy management, or organizational metrics.

Key Words
organizational strategy, strategic turnaround, balanced scorecard

Contact
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Woman in the Eye of the Storm

Monika Hudson, University of San Francisco

Abstract
A female African American attorney was mentally reviewing her performance over the last 30 months to determine if she was likely to be retained at her current law firm—or even if she wanted to stay. Was she correct in feeling as though she would always have to demonstrate super-competence, given her gender and ethnicity? Self-as-source stereotype threat as well as other-as-source stereotype threat underpin an examination of issues related to performance evaluation, promotion, and retention in the legal profession.

Learning Outcomes
In completing this assignment, students should be able to:

1. Identify and analyze the implications of the general diversity issues in play within the context of this incident
2. Compare and contrast the theoretical versus enacted values of the individual involved in this incident
3. Formulate possible antecedents and consequences of the concerns, perceptions, and behaviors portrayed
4. Categorize the role of communication in both the emergence and resolution of the situation presented
5. Critically examine the logical approaches a decision-maker might take in response to the situation, and hypothesize possible outcomes resulting from the decisions made

Application
This critical incident is most appropriate for graduate students of organizational behavior or human resources management, leadership, diversity and inclusion, or business communication, where the individuals involved have previous workplace experience.

Key Words
diversity and inclusion, performance evaluation, promotion and retention

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Kim Hamel and Her 90-Day Plan

Dawn E. Chandler, Queens University of Charlotte
Steven Cox, Queens University of Charlotte

Abstract
This critical incident about a senior-ranking female in law enforcement focuses on a decision about whether to create a formal, 90-day plan during a career transition, or take things day-by-day as a means to positively impact her police department. It affords students an opportunity to think about the importance of first impressions in a role, leadership styles, social capital as a career asset, gender barriers to advancement (particularly in law enforcement), and managing a career transition effectively. The critical incident discusses the protagonist’s career history in law enforcement, the strengths that helped her succeed, and the challenges and opportunities her department faced that could serve as a basis for 90-day plan goals and associated actions. Students have the opportunity to develop 90-day plans for positions of their choosing based on learning gained from the critical incident.

Learning Outcomes
In completing this assignment, students should be able to:

1. Describe the importance of actions taken during a role transition on later ability to succeed in that role
2. Create a role transition plan that includes considerations such as leadership approach, relationship building and management, gender issues, learning, and gaining power and influence
3. Identify and account for gender barriers and challenges in a 90-day plan
4. Tailor a 90-day plan for a position of interest to them

Application
The critical incident is appropriate for upper-level undergraduate and graduate courses in organizational behavior, principles of management, career development, leadership, and gender and diversity, as well as related graduate courses.

Key Words
career transitions, leadership, gender, power, influence

Contact
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Domelights.com: An Examination of Who Is to Blame for a Hostile Work Environment

Charles P. Wilson, Rhode Island College Police (Ret.)
Shirley A. Wilson, Bryant University
Harsh K. Luthar, Bryant University

Abstract
This descriptive critical incident describes events which took place within the Philadelphia Police Department which resulted in a federal lawsuit for a hostile work environment. The incident focuses on the comments and online activities of members of the department, and on the impact of those comments and activities on racial minorities within the department and on the community at large. Students are asked to discuss the role of the police department in this situation, and whether the department bears responsibility for the online activities of its members and the perceived hostile work environment that resulted.

Learning Outcomes
In completing this assignment, students should be able to:

1. Analyze the various components of what comprises hostile work environments based on race
2. Evaluate and predict the extent of employee freedom of speech as it relates to various postings on a work-related website
3. Examine the effects of racially biased attitudes and speech on minority and dominant culture employees, and the impact of those attitudes and that speech on organizational effectiveness
4. Assess the organization’s responsibility to investigate and correct complaints of race-based harassment
5. Create a policy for use of social media in the workplace

Application
This critical incident may be applied to classes in organizational behavior and human resource management, as well as classes dealing with ethics, diversity, cultural studies, and general management.

Key Words
personnel/OB, policy, strategy, ethics, human resource management, diversity, cultural studies

Contact
Charles P. Wilson, Rhode Island College Campus Police (Ret.), 600 Mt Pleasant Ave., Providence, RI 02908. Email Cpwilson22@verizon.net. Phone 401-465-9152
Please Don’t Touch Me: A Time for Feedback?

Claire L. McCarty, University of Wisconsin-River Falls
Elizabeth DeRosier, University of Wisconsin-River Falls
Mike Schechter, Schechter Legal Counsel

Abstract
Alicia Jones and Kevin Killian worked for Midwest Products. More than once, Alicia experienced Kevin putting his arm around her when talking to her. She felt uncomfortable, and all she could think about was that arm. She stopped paying attention to their conversation. They weren’t close friends. He didn’t appear to be anything but friendly, but Alicia found it very intrusive. Upon finding out that he did this to his assistant, Monica Tabesh, Alicia realized he might be doing this to all women employees. She decided that she needed to take some action. What should she do? Is this sexual harassment? Should she talk to Kevin about his actions? How?

Learning Outcomes
In completing this assignment, students should be able to:

1. Judge whether a situation is workplace sexual harassment or not
2. Explain the purpose of and types of feedback
3. Construct a script for and practice giving feedback

Application
This incident, a decision-oriented critical incident, is appropriate for use in management, human resources management, business law, ethics, or any course where giving feedback and dealing with uncomfortable situations are objectives.

Key Words
sexual harassment, feedback, human resources management, management

Contact
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English-Only Controversy at City Market Co-op

Paul E. Olsen, Saint Michael’s College
Peter T. Kelly, Saint Michael’s College

Abstract
This critical incident considers an English-only language controversy at City Market, Onion River Co-op, a grocery store and food co-op located in Burlington, Vermont. A City Market manager’s practice of encouraging his staff, primarily immigrants and new Americans, to speak English at work was perceived by employees and their union as an “English-only” mandate. Director of Human Resources Meredith O’Neill was faced with deciding how to address the manager and his practice of encouraging employees to speak English at work, upset employees and their union, and what, if anything, City Market’s Personnel Handbook and union contract should say about speaking English at work.

Learning Outcomes
In completing this assignment, students should be able to:

1. Analyze a challenge in managing a diverse workforce
2. Evaluate the implications of adopting a policy regarding language at work
3. Create a policy regarding language at work
4. Propose managerial action consistent with a progressive disciplinary system

Application
This decision-oriented critical incident is appropriate for courses in human resource management, labor relations, and business law. Major issues in the critical incident are workforce diversity, English-only rules, and progressive discipline. Additional issues include employee relations, unions, and public relations.

Key Words
workplace diversity, English-only policies, human resource management, employee relations, employee discipline

Contact
Dr. Paul E. Olsen, SPHR, SHRM-SCP, Department of Business Administration and Accounting, Saint Michael’s College, One Winooski Park, Colchester, VT 05439. Email polsen@smcvt.edu. Phone 802-654-2661.
Abstract
Sylvia Wright, owner of a local Hallmark card shop, had just read a newspaper article announcing the closing of another location in a neighboring county. As the Christmas shopping season approached, Sylvia wondered if she, too, would join a growing list of Hallmark stores that had ceased operation in 2015. News of the closings had evoked a range of emotions from Sylvia. She was not surprised, but was disappointed and saddened that the trend seemed to continue at an unabated pace. Shop owners cited many reasons for their declining sales: the downturn in the economy, increased competition from other retail formats, changes in consumer buying habits and preferences, unappealing lease agreements, and lack of support from Hallmark Corporate. Her shop had operated at its current location for almost 20 years and the lease was up for renewal next spring. She enjoyed her work and loved her customers. Sylvia knew that she needed to make a decision about her shop in the next six months. She realized it was time to revisit her old business plan, and wondered if her first step in the process would be to complete a fresh SWOT (strengths, weaknesses, opportunities, and threats) analysis.

Learning Outcomes
In completing this assignment, students should be able to:

1. Demonstrate an understanding of external environmental factors
2. Discuss the impact of channel management strategy on channel members
3. Prepare a SWOT analysis
4. Based on a SWOT, select and justify a course of action for the future

Application
This decision-oriented critical incident is appropriate for use in undergraduate courses such as principles of marketing, retailing, marketing channels, marketing strategy, and small business administration.

Key Words
marketing channels, SWOT analysis, external environment, channel design, retailing

Contact
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Bolstering the Booster Club

JoAnn L. Atkin, Western Michigan University
Michael McCardle, University of North Florida

Abstract
Dennis Chandler, the incoming president of the Blue Line Hockey Booster Club (BLC) faced a challenging situation. The BLC’s mission was to offer financial and spirit-based support to the university’s D1 hockey team, which included activities such as supplying nutritional drinks for the team and organizing and hosting the end-of-season team banquet and awards ceremony. However, membership had fallen to its lowest levels in five years and the average age of club members was steadily increasing past 50 years of age. Dennis knew that to stay relevant, the club needed to think differently about its membership offerings and develop new marketing strategies to attract and recruit a younger generation of hockey fans. One likely target: the students on campus. But how could he strike a balance between attracting new, younger members without alienating the current, older ones?

Learning Outcomes
After completing this assignment, students should be able to:

1. Identify the core customer value associated with a product
2. Analyze and redesign a current product offering
3. Develop a positioning statement
4. Design a marketing communication plan to reach a specific target audience

Application
This critical incident is primarily suggested for an undergraduate marketing principles course. It also could be used or adapted for a non-profit marketing class or marketing communications class, depending on which discussion questions the instructor finds most relevant.

Key Words
marketing, non-profit, product offering, integrated marketing communication, fundraising

Contact
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WTF? McDonald’s Minion Unhappy Meal

Paul E. Olsen, Saint Michael’s College
Karen Popovich, Saint Michael’s College
Tiffany A. Thompson, Saint Michael’s College

Abstract
This critical incident describes the social media response of some customers when they believed a Happy Meal’s Minion toy was saying the expletive, “What the f@#k?” In July of 2015, McDonald’s released the Minion Happy Meal toys in conjunction with the release of the movie Minions, a prequel to the two Despicable Me movies. Soon after, upset customers, including parents, uploaded thousands of videos online complaining about the supposed inappropriateness of the toy. Seemingly overnight, the videos and controversy went viral, splitting viewers into two groups who either heard the expletive, or who brushed it off as simple Minion garble. Customers who did not want children exposed to such language brought their concerns to McDonald’s attention via social media, hoping the company would rectify the situation. Students are asked to decide what course of action, if any, McDonald’s should take in response to the incident.

Learning Outcomes
In completing this assignment, students should be able to:

1. Describe how consumers use social media when protesting organizations and corporations
2. Differentiate between the actions organizations and companies can employ in response to “negative” or “critical” social media that go viral
3. Evaluate different levels of public relations crisis response strategies
4. Analyze the impact of a public relations event on stock prices

Application
This decision-oriented critical incident is designed for use in undergraduate marketing, public relations, business ethics, or introduction to business courses as an introductory example of public relations, crisis management, and social media reach. Students should enjoy the CI as they will be familiar with both McDonald’s and the Minions.

Key Words
public relations, crisis management, and social media

Contact
Paul E. Olsen, Department of Business Administration and Accounting, Saint Michael’s College, One Winooski Park, Colchester, VT, 05439. Email polsen@smcvt.edu. Phone 802-654-2661.
Groupon: Innovative Accounting Metrics for a New Business Model?

Jeffrey Miller, Sam Houston State University
Jeffrey Strawser, Sam Houston State University

Introduction

Groupon, Inc. was “the fastest growing billion-dollar company in history” (Goldman and Shontell, 2011), and within three years of its start, the company was ready for its initial public offering (IPO). Andrew Mason, the company’s chief executive officer (CEO) and founder, was confident that the IPO would be a success despite the fact that Groupon had yet to show a profit. In fact, Groupon had already accumulated nearly one-half billion dollars in net losses. Its revenue growth, however, had been spectacular, and its business model was innovative, which perhaps called for a new way to measure success. Mason believed that three primary accounting or financial metrics clearly showed Groupon’s true value (Groupon, 2011). Would the Securities and Exchange Commission (SEC) accept these metrics as evidence of Groupon’s profitability, which was so critical to the filing of the IPO? If not, would it spell doom for the IPO?

Groupon’s Business Model

Groupon was a spin-off of a company that Mason had founded called The Point, which was a website that attempted to bring together groups of people for some common cause. The Point quickly failed as a business venture. Out of this experience, however, Mason came up with an attractive business model for Groupon, a website that offered potential customers discounted deals or coupons from merchants. Customers paid Groupon for the coupons, and then Groupon remitted a percentage of the proceeds to the merchants. The percentage remitted varied, but commonly ranged between 50 and 60 percent. The purchaser of the coupon received the service or goods at a discounted price, and the merchants obtained some funds—and more importantly, potential new customers. Mason believed this approach would create a win-win for customers and merchants (Goldman and Shontell, 2011).

Going Public

In less than three years, 16 million customers had used Groupon to purchase more than 70 million coupons from approximately 57,000 merchants. The company had more than 7,000 employees, and its total revenues exceeded $1 billion (Groupon, 2011). Google was so impressed with this start that it offered $6 billion to purchase Groupon. Groupon’s board of directors, however, refused the offer and instead decided to take the company public (Goldman and Shontell, 2011). Before a corporation can
offer the sale of its securities to the public, however, it must file a Form S-1 with the SEC. Form S-1 required companies to provide a description of the securities, the purpose of the proceeds, an assessment of risk, an estimate of the expenses of issuance, management’s discussion and analysis of management, and other detailed administrative and financial information (Securities, 2015).

In Groupon’s Form S-1, Mason stated that financial performance was not measured in conventional ways. Instead, he cited three main financial metrics. “First, we track gross profit, which we believe is the best proxy for the value we're creating” (Groupon, 2011). Groupon presented gross profit (see Table 1, below) by stating revenues at the total or gross amount received from the customer, with the cost of revenue attributed to payments to merchants. The amount and growth of revenue was critical in Groupon’s IPO, particularly in view of the large accumulated losses. If Groupon acted as an agent in these transactions, revenue would be recorded at the net amount. If Groupon, however, was the principal—i.e., it assumed the risks and awards of each transaction—then revenue would be recorded at the gross amount. Groupon recorded the gross amount because it promised a full return of the customer’s money if the customer was not satisfied for any reason.

### Table 1: Gross Profit Metric

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2008 (in thousands)</th>
<th>2009</th>
<th>2010</th>
<th>(in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$94</td>
<td>$30,471</td>
<td>$713,365</td>
<td></td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>89</td>
<td>19,542</td>
<td>433,411</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>$5</td>
<td>$10,929</td>
<td>$279,954</td>
<td></td>
</tr>
</tbody>
</table>

Free cash flow was a non-GAAP (non-generally accepted accounting principles) financial measure. Mason believed that “there is no better metric for long-term financial stability” (Groupon, 2011). Public companies commonly supplemented their financial reports with such metrics if they believed that these non-GAAP disclosures better reflected the results of operations. The amounts, however, must be reconciled to the most comparable GAAP measurement. Non-GAAP disclosures must not be misleading, and the reasons for using such measurements must be disclosed (Skadden, 2013). Free cash flow was determined by taking cash provided by (used in) operations, and deducting cash used for purchases of property and equipment as noted in Table 2.

### Table 2: Free Cash Flow Metric

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2008 (in thousands)</th>
<th>2009</th>
<th>2010</th>
<th>(in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>$ (1,526)</td>
<td>$ 7,510</td>
<td>$ 86,885</td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>$ (19)</td>
<td>$ (290)</td>
<td>$ (14,681)</td>
<td></td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$ (1,545)</td>
<td>$ 7,220</td>
<td>$ 72,204</td>
<td></td>
</tr>
</tbody>
</table>

(Groupon, 2011)
The third metric was adjusted Consolidated Segment Operating Income (CSOI), which showed “operating income before our new subscriber acquisition costs and certain non-cash charges; we think of it as our operating profitability before marketing costs incurred for long-term growth” (Groupon, 2011). This metric was an important financial measure for Groupon because it illustrated that the company was thriving. As demonstrated in Table 3, Groupon’s adjusted CSOI showed a profit for the last two years.

Table 3: Adjusted Consolidated Segment Operating Income Metric

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss (income) from operations</td>
<td>$ (1,632)</td>
<td>$ (1,077)</td>
<td>$ (420,344)</td>
</tr>
<tr>
<td><strong>Adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online marketing</td>
<td>162</td>
<td>4,446</td>
<td>241,546</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>24</td>
<td>115</td>
<td>36,168</td>
</tr>
<tr>
<td>Acquisition-related</td>
<td>0</td>
<td>0</td>
<td>203,183</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
<td>186</td>
<td>4,561</td>
<td>480,897</td>
</tr>
<tr>
<td>Adjusted CSOI</td>
<td>$ (1,446)</td>
<td>$ 3,484</td>
<td>$ 60,553</td>
</tr>
</tbody>
</table>

(Groupon, 2011)

Mason was convinced that these three accounting metrics appropriately demonstrated the value and financial stability of Groupon. The company was attempting to raise $750 million with its IPO. Would the SEC accept these calculations, which seemed critical to the IPO? Would SEC disapproval bring doom to Groupon’s IPO?

References


Memorial Hospital and Changes Related to Accounting for Leases

Macey Buker, Weber State University

Introduction

“I can’t believe that we were not aware of this upcoming change,” thought Pat as she drove out of the parking lot.

Pat Carter was the chief executive officer (CEO) of Memorial Hospital, which was part of a successful, for-profit, integrated healthcare organization. Pat was a successful CEO within the integrated healthcare organization, and had been for more than 20 years. Pat recently hired a new chief financial Officer (CFO), Carla Johnson, to oversee the hospital’s finances. Pat had just finished meeting with Carla to discuss changes related to accounting for leases recently adopted by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The executive team relied extensively on leases to finance both equipment and real property. In fact, many suppliers provided equipment for little to no cost in exchange for exclusive supply and consumable purchase agreements. Pat asked Carla to evaluate the impact of the change on accounting for leases under the new standard, Number 2016-02 Leases (Topic 842). In addition, Pat wanted to know if there was anything that the organization could do to minimize the overall impact to the organization. Pat would need to review the information, and make sure that she understood all of the specifics related to the change in accounting standards.

Background

Carla presented information about the current treatment of leases, and provided five examples of leases to show how the change would impact financial reporting. Pat recalled that the treatment of leases currently classified each lease as either an operating lease or a capital lease. Carla listed the four criteria for classifying operating leases and capital leases: (a) the present value of the minimum lease payments must equal or exceed 90% of the fair value of the asset; (b) the lease term must be at least 75% of the remaining useful life of the leased asset; (c) there is a bargain purchase at the end of the lease; and (d) there is a transfer of ownership. To qualify as a capital lease and require balance sheet reporting, at least one of these criteria had to be met; otherwise, the lease would be classified as an operating lease and reported only on the income statement and in the footnotes. Pat knew that Memorial Hospital had used leases as a primary method of financing equipment and property to provide the highest degree of leverage on the assets of the organization. Although the operating leases had been disclosed in the financial statement footnotes, most financial institutions, shareholders, and
other creditors and stakeholders had largely ignored the information. In fact, the Securities and Exchange Commission had estimated that more than $1.25 trillion in leases were not reported on balance sheets (FASB, 2016).

FASB and IASB had been collaborating on new reporting requirements for leases for over three years (FASB, 2016). This process had finally been completed, and the new changes had to be implemented during the fourth quarter. Carla had explained that all leases, including finance and operating leases, would now be reported on the balance sheet in an effort to provide additional transparency for key stakeholders. A lease would be classified as a finance lease if the lease transfers ownership of the underlying asset, there is reasonable certainty that an option to purchase the underlying asset will be exercised, the lease is for the majority of the remaining economic life of the underlying asset, the present value of the sum of the lease payments and residual value guarantee equals or exceeds the fair value of the underlying asset, or the underlying asset is so specialized that there is no alternative use at the end of the lease term. If a lease does not meet any of these criteria, then it should be classified as an operating lease. Finance lease reporting requires interest and amortization to be reported as separate items on the income statement, while operating lease reporting requires interest and amortization to be reported as a single cost item. The leases would be recorded as a right-of-use asset with an offsetting lease liability. The amount recorded on the balance sheet would be determined by the present value calculation of lease payments, including options to renew that were economically advantageous. The lease liability would need to be classified as both short-term and long-term, based upon when the payments are to be paid.

**Financial Impact**

Pat still could not comprehend the gravity of this information. As an organization, Memorial Hospital currently had ten real property leases, two real property subleases, and forty-five equipment leases. The balance sheet would include changes of $5.9 million in long-term assets, $1.3 million in current liabilities, and $4.6 million in long-term liabilities. The impact to the income statement included a shift from rent expense of $2.1 million. The $2.1 million would result in $1.6 million in depreciation and amortization expense and $0.5 million in interest expense. Because there were numerous property and equipment leases, Carla selected a few leases, provided in the table below, that would be representative of the impact related to the change in accounting for leases. Of the good news was that the overall impact to net income was minimal because the new standard merely required the expense to be reported in specific categories.

The most troubling issue related to the potential change in financial ratios, which had a direct impact upon existing debt covenants established by a number of contracts with creditors. The debt covenants required Memorial to maintain a number of ratios at minimum levels. For example, the current ratio could not fall below 1.7 and the debt-to-equity ratio could not exceed 35%, or the note would have to be repaid immediately. The reduced ratios also had the potential to negatively influence shareholder confidence and reduce the stock price. Recent financing obligations, including a line of credit, had established specific criteria for profitability and liquidity ratios. Liquidity ratios would change because current liabilities would change, while current assets would not. This meant the liquidity ratios were going to be a significant challenge. In addition, other financial ratios including return on assets, cash flow to assets, current ratio, debt ratio, times interest earned, asset turnover, average age of plant, and debt-to-equity ratio would change.

As Pat pulled into her driveway, she realized the hospital needed to develop a comprehensive plan to minimize the impact of the change. The plan would need to consider the debt covenants established
in financing contracts. Pat knew Memorial had to determine how best to reduce the impact of the change on daily hospital operations. Although the new regulations would not need to be adopted until 2018, a new approach to financing needed to be established sooner. Shareholders and key stakeholders also needed to be educated about the change.

Table: Memorial Hospital Lease Information

<table>
<thead>
<tr>
<th>Lease 1: The lease was entered into on November 1, 2012 with Beaugard Properties for a medical office tower attached to the hospital. The lease was for 10 years, with an option to renew for an additional 10 years. The lease called for monthly payments in the amount of $17,397.76, with a 3% annual increase. The estimated value of the medical office tower was $7,500,000. The incremental borrowing rate at the time the lease was finalized was 6.3%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease 2: The lease was entered into on January 1, 2013 with Smith Family Trust for land that the hospital occupied. The lease was for 20 years with two options to renew for 20 years each. The lease called for monthly payments in the amount of $20,472.07, with a 5% increase every 10 years. The estimated value of the property was $6,200,000. The incremental borrowing rate at the time the lease was finalized was 6.7%.</td>
</tr>
<tr>
<td>Lease 3: The lease was entered into on March 1, 2013 with Managed Medical Supply for infusion pumps. The lease was for seven years with a monthly payment of $13,785.64 and the exclusive purchase of consumables. The estimated value of the pumps was $750,000. The expected useful life of the equipment was 10 years. There was not an option to renew the lease. The incremental borrowing rate at the time the lease was finalized was 7.6%.</td>
</tr>
<tr>
<td>Lease 4: The lease was entered into on October 1, 2012 with Copper View Medical Supply for compression sleeves. The lease was for two years with a monthly payment of $6,886.80 and the exclusive purchase of consumables. The estimated value of the compression sleeves was $500,000. The expected life of the equipment was 10 years. There were five options to renew the lease in increments of two years. The incremental borrowing rate at the time the lease was finalized was 6.3%. Renewal terms were consistent with the original lease terms.</td>
</tr>
<tr>
<td>Lease 5: The lease was entered into on January 1, 2014 with U.S. Medical for 20 irrigation solution warmers. The lease did not indicate a term or any extensions, but required the purchase of consumables. The estimated cost for each warmer was $7,500. The expected life of the equipment was seven years. The incremental borrowing rate at the time the lease was finalized was 6.1%.</td>
</tr>
</tbody>
</table>

References

Northstar Café: Food Cost Accounting

Lindsay Meermans, Wittenberg University
Rachel Wilson, Wittenberg University
Greg Heine, Wittenberg University

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Introduction

Greg Heine’s first profit and loss (P&L) statement for the Beechwold store was due in less than two hours. Having already worked through lunch, there was little time before the finalized reports would be due for the weekly partners’ meeting. Greg had already caught a few inventory errors, but missed others that had been pointed out by his superior. He was worried there could be additional errors he was missing. Greg wondered if there was a more efficient and effective way to review these inventory count reports. Would creating an inventory report to monitor fluctuations in Cost of Goods Sold (COGS) be worth the effort?

Greg was the newest member to join Northstar Café’s accounting department. After several weeks under the guidance of his informal mentor, Brian, Greg was now responsible for completing the weekly review of the inventory count reports and subsequent P&L statement for Northstar’s Beechwold location. During the training, Brian emphasized how important correct food cost figures were to the overall accuracy of the restaurant’s P&L, as well as to the accuracy of the inventory balances on the balance sheet. Total food cost was found in the COGS category in the restaurant industry, and was made up of the costs of food, alcoholic beverages, and non-alcoholic beverages. As with most retailers, the cost of goods sold was Northstar’s largest expense on the P&L, making its accuracy of great importance.

Company History and Background

In 2004, husband and wife Kevin and Katy Malhame founded Northstar Café in Columbus, Ohio. Their purpose was to bring joy, delicious food, and wellness to their operating team members and guests, while having a positive impact on their community and the world. The menu they created for Northstar featured New American cuisine emphasizing organic, locally grown ingredients. Northstar operated five restaurants under three brands: three Northstar Cafés, one Third & Hollywood, and one Brassica. They selected high traffic, visible, corner locations with well-educated, relatively affluent demographics. The company’s vision favored restaurants in neighborhoods over shopping districts. All five restaurants featured from-scratch kitchens in which staple grains, whole fruits and vegetables, and whole animals (chickens) or large (primal) cuts of meat were used to prepare a variety of sauces and finished dishes.
Accountant’s Role in Controlling Food Cost

Greg, a student at a small liberal arts college in the Midwest, was one year from completing a degree in accounting and finance. This position was Greg’s first full-time internship as well as his first experience in the restaurant industry. Greg joined a team of four accounting partners (a title for employees at the manager level). Greg’s mentor, Brian, had joined the accounting team nearly three years ago, shortly after graduating from a large state university’s business program. The position had also been Brian’s first experience in the restaurant industry. Brian was charged with coaching Greg in his responsibilities as an accounting intern for Northstar’s Beechwold location. Eventually, Greg’s weekly responsibilities would include such tasks as reviewing inventory counts (compared with item sales), inputting supplier invoices, and preparing income statements.

Greg knew from his accounting courses that cost of goods sold had a significant impact on a company’s bottom line. Brian had explained to him that food costs are controllable from both the purchasing and operating sides of a restaurant. Referring to food costs as a percentage of sales was the industry norm. To calculate food costs, a restaurant takes the beginning inventory, adds purchases during the period, and then subtracts the ending inventory. This number was then divided by total sales in order to determine the cost of goods sold percentage.

Brian stressed to Greg how crucial it was for accounting partners to work with the restaurant partners in considering both profitability and vision when purchasing food. The restaurant partners had to balance factors such as quality, minimum order quantities, maximum quantity needed, perishability, and lead-time between deliveries. Additionally the restaurant partners negotiated prices with vendors and oversaw the efficient use of product. Restaurant partners also counted the inventory weekly, which is reported to the accountants for analysis.

Greg’s First P&L

Greg was determined that his first P&L would be flawless. Northstar holds weekly partner meetings on Wednesday afternoons, where the P&Ls were distributed to all partners. The restaurant partners then conducted their own weekly team meetings to discuss the performance of their restaurants. This short reporting period helped to quickly identify issues as they occur. Northstar used a 4-week, 13-period fiscal calendar, which was typical for the restaurant industry.

Greg recalled from his training how the invoicing at Northstar worked. Each restaurant’s kitchen partner typically did most of the food ordering. Once the orders had been delivered and verified for quantity and quality standards, the senior managing partner at the restaurant signed off on the delivery receipt or invoice. Some of the larger vendors, like SYSCO and Premier Produce One, were electronically invoiced and imported into Northstar’s accounting software, Compeat. An accounting partner manually entered smaller vendors’ invoices into Compeat.

Either Tuesday night or Wednesday morning, the restaurant partners took an inventory count of food in the restaurant and then entered the numbers into Compeat, to generate the inventory count report (see table). This report showed the beginning inventory, purchases, ending inventory, and calculated usage amounts for each inventory item. The actual usage column represented the cost of goods sold for the items. The ending inventory count was required in order to calculate actual usage because Northstar used a periodic inventory system. In a periodic inventory system, the inventory account was updated periodically rather than at the time of purchase or sale as in a perpetual system. Brian explained that
Northstar valued inventory at the most recent invoiced price, which was consistent with the FIFO method of accounting.

Compeat’s data entry screen for inventory included two unit-of-measure columns: one for the inventory and one for the purchase. Since these units of measure were often different, extra care had to be taken when entering inventory counts or purchases. As an example, Brian explained to Greg that peanut butter was purchased in a 50-pound container, but inventoried by the pound. The purchase unit of measure was converted to the inventory unit of measure within Compeat prior to generating inventory reports.

During training, Brian reviewed the inventory count report for the Short North location with Greg. He quickly pointed out a few inventory count errors to Greg. First, when inputting an invoice into Compeat, Greg had misinterpreted the quantity of tomatoes actually received. Northstar often used local farmers who provided handwritten invoices with few details. If an associated unit such as boxes or pounds was not provided on the invoice, the accounting partner had to verify the correct unit of measure. After calling the restaurant partner, Greg learned they received five boxes of tomatoes as opposed to only five tomatoes. Each box had six tomatoes. Brian also noted that the beer usage and resulting cost seemed low. He asked Greg to scan the report for popular beers with no purchases. Greg saw that New Holland The Poet beer showed zero purchases. Greg called the Short North store and found they had an invoice which had not been forwarded to him. Greg realized that once the invoice was entered into the system, cost should normalize. Finally, Brian noticed that the red wine ending inventory counts looked abnormally high. Greg spotted that the report listed 91 bottles of ‘La Rioja Alta’ in dry storage. He called the restaurant and confirmed it was a transposition error, with only 19 bottles in dry storage.

Brian scanned the report one last time and told Greg that he felt fairly confident there were no other obvious mistakes. But how could Greg be sure the inventory count report was correct before he completed the Beechwold P&L on his own? Brian had years of experience to guide him, but Greg was just beginning. Greg looked at the Beechwold report. The week’s ending inventory count was $32,487.18. Was that within the normal range? How did it compare with a running average? Brian had taught Greg how to use an Excel template to gather data from Compeat to create the weekly P&L. The template also allowed them to compare the past three weeks’ P&Ls to monitor fluctuations and trends in sales and total expense categories. Could he create a similar template for the inventory report? Would that be useful in monitoring fluctuations in COGS?

### Table: Sample Beechwold Inventory Count Report Period 1, Week 4

<table>
<thead>
<tr>
<th>Item Description / Item #</th>
<th>Inventory Unit</th>
<th>Beginning Inventory</th>
<th>+ Purchases</th>
<th>Actual Ending Inventory</th>
<th>Actual Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese Gruyere / 62</td>
<td>Lb</td>
<td>0.00 / $0.00</td>
<td>22.45 / $219.34</td>
<td>5.22 / $51.00</td>
<td>17.23 / $168.34</td>
</tr>
<tr>
<td>Onions, Red / 203</td>
<td>Bag</td>
<td>1.00 / $14.75</td>
<td>4.00 / $59.00</td>
<td>10.00 / $147.50</td>
<td>?</td>
</tr>
<tr>
<td>Rice, Brown / 145</td>
<td>Bag</td>
<td>8.00 / $118.48</td>
<td>12.00 / $177.72</td>
<td>8.00 / $118.48</td>
<td>?</td>
</tr>
</tbody>
</table>
Staff Utilization—It’s More Than Just a Metric

Robert R. Picard, Idaho State University
Ann M. Hackert, Idaho State University

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Introduction

“So, do we have a looming problem, or problems, here? Jason’s utilization is trending down while Jennifer’s has consistently approached the highest in the office, often exceeding 100 percent. What is the story, Joy?” Mitch Mainhardt, the Seattle office managing partner for Kershawn Taylor, a global network of professional firms providing audit, advisory, and tax services, was meeting with Joy Johnson to discuss audit staffing after having reviewed a six-month summary of monthly staff utilization reports. Joy Johnson was a senior audit manager. They were discussing Jason and Jennifer, two staff accountants on one of her recent audits. Formal staff performance reviews were due in a few weeks, and Mitch prided himself on staying on top of staff performance, development, and retention. After all, he was ultimately responsible for hiring and developing the professionals in his office, and he appreciated the importance and challenges of staff recruiting, development, productivity, and retention. Mitch understood that the utilization metric could be a valuable pointer to the need for management intervention. Were the staff utilization metrics of either Jason or Jennifer, or both of them, pointing to a need for management intervention of some sort?

Staff Utilization—What Is It?

The staff utilization metric was derived as one way to evaluate the workload and potential economic contribution of a staff member to a professional services firm. Typically, it was derived by dividing the number of billable hours in a week by the number of hours in a normal work week. If a normal work week was comprised of eight hours per day, Monday through Friday, the denominator was 40 hours. For periods longer than one week, the numerator was the staff member’s billable hours for the period, and the denominator was the number of weekdays in the period multiplied by eight hours per day.

In many accounting firms, utilization expectations were scaled by position. Staff and senior accountants were expected to maintain a 90 percent or greater utilization rate. Managers, due to increasing responsibilities, were expected to achieve a utilization rate between 75 and 80 percent; and partners were expected to achieve a utilization rate of 60 percent or less, depending on administrative or other responsibilities. Managers assumed more planning, staff mentoring, and client relationship responsibilities. Partners were responsible for building relationships with potential and existing clients, and carried an increased responsibility for professional service such as assuming leadership positions in civic and professional organizations.
Why It Matters

Mitch considered potential issues that might be indicated by the utilization report and reviewed his framework for utilization with Joy. “When I think of utilization, I like to put it in the context of inputs, outputs, and metrics. Inputs represent skills and behavioral attributes that a person brings to the job. Outputs represent the quality and quantity of the product produced. Utilization is a metric that can provide insight, as an indicator, into the input and output factors. If the inputs and outputs of a staff member are high, then everybody wants that person on his or her jobs. Consequently, that staff person’s utilization will be high. Conversely, if a staff person had issues in one or more of the input or output measures, then that person’s attractiveness, when it comes to staffing jobs, decreases and his or her utilization likely declines. I see utilization as a metric that helps me identify a staff person who might be experiencing difficulties in one or more of the input or output measures. Joy, do you have any observations regarding Jason or Jennifer?”

The Big Picture—An Early Investment in Future Schedule Flexibility

As Joy considered both Mitch’s observation and question, she couldn’t help but think about the accounting profession’s age-old question of work-life balance. She knew accounting wasn’t the only profession experiencing this issue, but steadily intensifying competition for the best and brightest graduates placed a spotlight on the concern in public accounting firms. “Well, first I think Jason might have a bit of a disconnect on expectations. I think we, as an industry, might have missed the mark on setting expectations regarding this career path. While hugely rewarding both professionally and financially, public accounting is a lot of work and can impact personal schedules. This is especially true in the early stages of a career, when expectations of work schedules are more fixed. Flexibility begins at the manager level and above. I think Jason expected a lot more flexibility right out of the box.”

Mitch nodded. “I know,” he said. “When I started, career advancement was the main focus. Nowadays, life outside of work seems to be a much bigger consideration. I never questioned that I was paying dues early in my career, and never thought I had many rights as a newbie. Nonetheless, I enjoy working with this new group, and certainly don’t see them as lazy or unmotivated. I do think they really want more input into their schedules, though, and more importantly, want to know why our expectations are what they are. Because of the nature of the work at different levels, daily flexibility increases as the position level rises. At the staff level, audit field work or tax prep is the product. Quality work and high productivity get noticed. Moreover, meeting clients’ expectations of seeing their auditors on site doing that work requires a steady presence in the clients’ offices.”

Joy sighed. “Maybe I just haven’t communicated all of that to Jason. Both Jason and Jennifer seem eager to do well, and to advance in their careers. Jennifer, however, seems more willing—no, actually eager—to get as much experience as she can as fast as she can. She works longer hours to hit deadlines, and volunteers for extra and increasingly complex duties and assignments. As a result, her professional judgement seems to be solidifying more quickly than Jason’s. Jason, on the other hand, seems to feel pressure to be home for dinner by 6 in the evening whenever he is in town. He also wants to limit his travel whenever possible, so that he can teach that martial arts class we gave him permission to start. Somehow, that translated into a perception that Jason is not as eager to advance. It’s ironic, isn’t it? A certain amount of increasing flexibility comes with advancement, but in some ways, advancement is a result of commitment and less flexibility in the earlier years.”
“True enough,” said Mitch. “And of course, we also have to watch Jennifer so that her eagerness doesn’t result in burnout. When we find someone who adds value like Jennifer, we certainly don’t want to lose them because we weren’t paying attention.”

**Jason and Jennifer**

Jason had been a physically and socially active person his whole life. He valued his free time more than money, but one of his long-term goals was to accumulate enough wealth so that he could retire in his 50s. He was looking forward to when he could participate in adventure travel opportunities. Jason had been a very bright and engaged student, and found success in all of his endeavors. Born and raised in the Seattle area, he enjoyed spending time with his friends and family. Most of all, he found a great deal of satisfaction practicing and teaching the martial art of taekwondo. Since joining the firm, he performed solidly on his engagements and was well liked by most of his colleagues. Shortly after Jason started, he went to his mentor, a partner in the office, and was granted permission to teach a taekwondo class two nights per week with the caveat that engagement deadlines still had to be met as usual. As a result of his arrangement, Jason would leave at 5:00 p.m. more often than other staff members on his team. He always completed his work competently, but rarely was able to pick up the slack for anyone else, especially during the busy season.

Jennifer came to the U.S. from Romania to attend Seattle University. She was extremely bright and pleasant, and well-liked by everyone in the office. Jennifer enjoyed socializing with friends and was an avid runner, training for and running in marathons in whatever spare time she could find. Her personal ethics and cultural background drove her to work hard to achieve, and to take advantage of every opportunity presented to her. She felt a personal responsibility to justify the time and expense the firm incurred sponsoring her work visa. Her consistently high performance and willingness to “go the extra mile” made her a sought-after staff accountant at engagement scheduling meetings. No one doubted that she would be very successful in her career at Kershawn Taylor.

Joy stood up to leave Mitch’s office and was unsure about how to approach the evaluations she needed to write. Firm performance reviews considered many skills and attributes, including professionalism and integrity, communication skills, positive impact on morale and retention, professional competency, contribution to the team environment, quality of client service, curiosity and innovation, whether viewed as mentor by others, and utilization. Utilization was often considered an important indicator of many of these attributes because if a staff member was always in high demand, there was an assumption that he or she was a high performer on these attributes. As she walked out the door, she was brought back to the present by a text from the senior on one of her engagements, who had stumbled upon a potentially dicey issue that needed her attention. “My kingdom for a full team of Jennifers,” she thought with a wry smile.
The Case of the Wayward College Dean: An Examination of Alleged Fraud

Kathy S. Pollock, Indiana University Purdue University Fort Wayne
Janet C. Papiernik, Indiana University Purdue University Fort Wayne

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Introduction

Dr. Cecilia Chang served as dean of the Institute of Asian Studies at St. John’s University. Her primary role as dean was to keep donations flowing in from wealthy individuals, including donors from Taiwan, her home country. Over the course of her tenure as dean, she raised millions of dollars for the Institute. Taiwan citizens, Chang’s mother, and the Taiwan government sent hundreds of thousands of dollars per year, much of it used to build Sun Yat Sen Hall, which housed the Institute. Chang’s legacy was shattered when, in 2010, she was indicted by the state of New York and the federal government for alleged misappropriation of funds through fraud and embezzlement. At 59, after almost two years of court proceedings (USA v. Chang) and a 30-year association with St. John’s, Chang hung herself with stereo speaker wire in her home. Her suicide note expressed extreme bitterness that St. John’s had abandoned her (Rashbaum, Ruderman, & Secret, 2012). How could this alleged fraud and ensuing suicide have been prevented?

Background

St. John’s University is in the Borough of Queens, New York. Chang came to New York in 1975, and attended St. John’s University as a graduate student of Asian Studies. At that time, the Asian Studies Department served as a diplomatic liaison for the nationalist government of Taiwan. During the Cold War (post-World War II to the early 1990s), the conservative Catholic religious order of St. John’s allied with the Nationalists in Taiwan against Communist China. Chang graduated from the master’s program and was soon hired by St. John’s. Three years later, she was named a dean (Rashbaum, et al., 2012). Her quick rise to upper administration was highly unusual. In retrospect, it was very apparent why Chang was appointed as dean. Deans of academic units were typically more accomplished as academic scholars. However, Chang wrote in her personal notes that the university did not want a reputable scholar, but rather viewed her as a “money tree” (Rashbaum, et al., 2012, p.2).

During the 1980s and 1990s, Chang raised millions of dollars for St. John’s and controlled approximately 20 full-tuition grants for each academic year. Many of these grants were given to students from Taiwan, as well as to children of her friends. Chang also arranged trips to Taiwan for
Father Donald Harrington, who was the president of St. John’s University, and for politicians and other dignitaries. Chang regularly interacted with U.S. congressional representatives, and in 2003, petitioned Frank Murkowski, former governor and senator from Alaska, to lobby the president of Taiwan to continue financial support of the university. Murkowski was one of more than two dozen members of Congress who spoke at one of many pro-Taiwan conferences organized by Chang at St. John’s. Chang solidified the relationship with Murkowski by granting his granddaughter a full-tuition grant to attend St. John’s. She also offered Murkowski and his daughter, Lisa Murkowski (who was later elected to the U.S. Senate representing Alaska), the opportunity to receive honorary degrees (Rashbaum, et al., 2012). Tuition grants, trips to Taiwan, honorary degrees, and other favors were all arranged by Chang in an effort to bring in millions of dollars for the university.

Chang was not only very intelligent, but was also a petite, elegant, and persuasive lady. A former assistant to Chang, who attended fundraisers where the Dean hosted potential donors, had noted, “just by being there, she was the center of attention” (Rashbaum, et al., 2012, p.2).

The Alleged Fraud Trail

Chang lived an extraordinary lifestyle. Her home, valued at $1.7 million, was located in Jamaica Estates, Queens, with seven bedrooms and many luxury accessories. On her many trips to Asia, often accompanied by Harrington, she stayed at the most expensive hotels and accepted extravagant gifts. Harrington later testified that Chang “convinced him to accept the gifts because Chinese culture would consider it impolite” to refuse them (Rashbaum, et al., 2012, p.4).

In the early years of the new millennium, Chang was often found at Foxwoods Resort Casino in Connecticut, gambling at the high-stakes tables. A U.S. agent testified that Chang would call her office at St. John’s and request bank withdrawals of just under $10,000, the amount required by law to generate a transaction report to the government. Students would then deliver the money to her in Connecticut, where she would use these same amounts in casino games. Students were also reported to have worked as chauffeurs and housekeepers for Chang, doing laundry and cooking for her son (Rashbaum, et al., 2012).

Indictments and the Tragic Consequences

Things began to seriously unravel for Chang when St. John’s hired F.T.I. Global Risk and Investigations to perform a forensic accounting investigation of her expense accounts and financial records. As a result of this investigation, findings were forwarded to the Queens District Attorney, and in 2010 Chang was indicted by the state for misappropriation of monies. At the same time, a federal investigation pursuing similar charges was also close to indictment. A plea deal, consisting of two to three years in state prison, was offered to Chang to settle both cases. She refused to accept it (Rashbaum, et al., 2012).

At the U.S. federal trial, St. John’s General Counsel testified Chang had been reimbursed at the level of $350,000 per year, totaling approximately 10 percent of the total university budget, for what had appeared to be legitimate business expenses. However, many of these expenses turned out to be items such as cash advances at casinos, extravagant hotels and dinners, skiing and surfing trips for her son, and subscriptions to dating web sites. She also used donor money to buy her son an automobile, pay over $20,000 toward his tuition for law school, and pay veterinarian bills for her son’s dog (Rashbaum, et al., 2012).
Chang’s lawyers portrayed her as a pawn used by St. John’s to solicit money for the university. They claimed any monies she had taken from the university were used to reimburse herself for fundraising expenses she had incurred. One of her lawyers was quoted as saying, “If you spoke to her, she sincerely believed that this was owed to her and she had not done a thing wrong” (Rashbaum, et al., 2012, p.4). A law enforcement official stated that she often referred to the fact that she had worked at St. John’s for over 30 years. During the trial, Chang’s lawyers noted she frequently attended meetings with water bottles filled with vodka. They requested she be admitted to an inpatient substance abuse program, but instead the judge ordered her to jail. After serving one week, Chang was released, but remained under house arrest and submitted to daily alcohol testing. In late 2012, soon after her release from prison and while still on trial, Chang hung herself.

On May 3, 2013, Father Harrington, 67, announced his retirement as president of St. John’s University. Harrington was involved “in an ongoing corruption probe” of his own—he was under investigation “for recommending hundreds of thousands of dollars of no-interest loans from the university to his chief of staff and secret business partner, Rob Wile, who was also stepping down” (Schapiro, 2013, p.1).

Although it was impossible to gauge how much money was allegedly misappropriated by Chang, in February, 2014, it was established that the U.S. government would collect a $1.2 million settlement from her estate (Marzulli, 2014). How could an alleged fraud of this much money extend over such a long period of time and slip by undetected?

References


“10 Things I Hate About . . .” Contract Breaches

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Introduction

A contract dispute developed between the actor Evan Rachel Wood and the producer of the film 10 Things I Hate About Life. The producer contended that Ms. Wood was in breach of contract due to her failure to complete her obligations to star in the film, contending that she had worked only 11 days instead of the seven weeks she was contractually obligated to perform. Ms. Wood contended that the producer had inadequately financed the film, that production stopped because of financing issues, and that she was therefore not obligated to perform under the contract. Should the producer bring a lawsuit against Ms. Wood? If so, what claims should it bring and what damages should it seek to recover from the defendants? What defenses or counterclaims might the producer anticipate that the defendant might bring in response?

The Challenge

Film producer 10 Things Films, LLC, a production company set up for the purpose of producing and distributing the motion picture film 10 Things I Hate About Life (Complaint, 2014), was having difficulty with its principal actor. Evan Rachel Wood, a two-time Golden Globe Award nominee who starred in Across the Universe and Whatever Works (IMDb, n.d.), had been contracted to perform as the lead in the feature film 10 Things I Hate About Life (Complaint, 2014). The film was planned as a sequel to the successful 1999 romantic comedy 10 Things I Hate About You (McNary, 2014). 10 Things I Hate About You was an updated version of William Shakespeare’s comedic play “The Taming of the Shrew,” which starred Heath Ledger, Julia Stiles, and Joseph Gordon Levitt in a current-day interpretation (IMDb, 1999), and grossed over $38 million domestically (Box Office Mojo, 1999). The new film was about two teenagers who fall in love just as they are about to kill themselves (IMDb, 10 Things I Hate About Life, n.d.) and, on November 26, 2012, Ms. Wood signed a contract to star in the film (McNary, 2014).

The Actor Services Agreement (2012) provided that Ms. Wood would receive $300,000 for her participation in the film, which included acting in the film and performing related promotional activities. Ms. Wood was obligated to be available for filming during a seven-week period in late 2012 and early 2013, with time built in for a holiday hiatus around Christmas and the New Year, and for a trip to the Sundance Film Festival that she was scheduled to take to promote another of her films (Actor Services Agreement, 2012). The clause in the contract (Actor Services Agreement, 2012) that described Ms. Wood’s obligations to render acting services read:
The Start Date for principal photography is on or about December 17, 2012 and is scheduled to wrap on or about February 3, 2013 . . . Artist’s shoot dates (“Shoot Dates”) are currently scheduled for approximately seven (7) consecutive weeks (with a holiday hiatus from December 22, 2012 through January 2, 2013 . . .). Artist will be available commencing on or about November 26th for rehearsals and other pre-production services for approximately six (6) non-consecutive dates. Producer understands that Artist has a premier at the Sundance Film Festival on January 21, 2013 and will not schedule Artist to work on that day (or the days abutting that day if necessary for Artist to travel to and from Utah). . . . Producer shall use best efforts to ensure production services are completed by February 14, 2013. (p. 1)

Production on the film started on time and during four weeks of filming, Ms. Wood was needed for 11 days (Complaint, 2014). On January 14, 2013, the producer suspended production of the film (Complaint). The clause in the contract (Actor Services Agreement) that the producer relied on to support its right to stop production was as follows:

Producer shall have the right to terminate, suspend or delay the Term during all periods in which Artist of Lender is in uncured material breach of this Agreement; Artist is prevented from or fails, refuses or neglects to fully perform Artist’s required, material service; or the development, production or distribution of the Picture is prevented by a “Force Majeure” event . . . or the conduct of Producer’s business generally, is materially impaired, hampered, interrupted, prevented, suspended, postponed or discontinued by reason outside of Producer’s control, or for any other reason whatsoever. (p. 8)

The contract also provided that “in the event any suspensions or delay due to a force majeure event lasts for six (6) consecutive weeks or longer, either party shall have the right to terminate this Agreement with no further obligation on the other party hereunder” (Actor Services Agreement, p.9).

On February 8, 2013, three and a half weeks after halting production, the producer was ready to recommence production and sought Ms. Wood’s services again. At this point, the producer and Ms. Wood disagreed as to whether Ms. Wood was required to rejoin the production. The producer argued that the contract gave the production company the unequivocal right to briefly suspend production of the film, that Ms. Wood had been paid for her services and that the entire production, including the rest of the cast, was relying on Ms. Wood to return to complete the filming process (Complaint, 2014). The producer contended that Ms. Wood did not wish to return to filming in February for her own personal reasons, but that she was contractually obligated to do so.

Ms. Wood contended that she had no legal obligation to return to the production because the producers had not been candid about the financing of the film, and because they had not used their best efforts to ensure that her services would be completed by February 14, 2013 (Answer, 2104). Ms. Wood believed that the producer did not have sufficient funds to complete the film, and that there was no certainty that the funds would be raised.

Nevertheless, Ms. Wood and the producer discussed resuming production in November of 2013 (Complaint, 2014). Through their lawyers, they exchanged emails amending the original contract such that the producers would pay Ms. Wood an additional $75,000 by September 1, 2013 to secure
her return to the film on November 4, 2013. The producers emphasized, however, that they did not actually have to provide this additional money because Ms. Wood was already under contract to complete her original obligations. Ms. Wood contended that she was under no obligation to return. In the fall of 2013, the producer did not pay Ms. Wood the additional money. Ms. Wood did not return to filming, and production did not resume.

From the producer’s point of view, although Ms. Wood had a contract and principal photography on the film had begun, Ms. Wood refused to complete principal photography in the timeframe specified in the Actor Services Agreement (2012), and after additional negotiations, refused to resume filming (Complaint, 2014). 10 Things Films, LLC estimated that because the film was never made, the producer incurred, at a minimum, a loss of profit of $20,000,000, a loss of equity investments in the film of $6,000,000, and a loss of $500,000 for financing costs and expenses.

10 Things Films, LLC had to consider its options, including bringing a lawsuit against Ms. Wood. What claims should the producer have considered bringing? What damages might the producer have sought from the defendant? In considering its option to sue, what defenses or counterclaims should the producers have anticipated the defendant would make?

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Technical Foul: Congratulating Michael Jordan

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Introduction

Excitement filled the marketing department at Jewel-Osco, a grocery store chain in and around Chicago. Jewel-Osco had negotiated for a full-page advertisement in Sports Illustrated’s commemorative issue celebrating Michael Jordan’s Hall of Fame career. The ad proposed by the marketing team was congratulatory, but was it too much of a sales pitch (Jordan v. Jewel, 2014)? Did the use of his name and defining characteristics, without his permission, raise concerns?

The Advertisement

When the announcement of Michael Jordan’s induction into the Basketball Hall of Fame came, Chicago celebrated. It was an event for the city as well as for Jordan personally. To celebrate, Time, Inc., the publisher of Sports Illustrated, planned to publish a special Sports Illustrated Presents on Michael Jordan’s career. The commemorative issue, titled “Jordan: Celebrating a Hall of Fame Career,” was not part of the magazine’s regular subscription, but was to be sold separately in stores for approximately three months after the induction ceremony (Brief, 2012).

About a month before publication, a Time, Inc. sales representative contacted Jewel-Osco and offered free advertising space in the commemorative issue, a full page on the inside back cover, in exchange for stocking the magazine at special displays by the checkout counters in its stores (Jordan v. Jewel, 2012). The marketing department was enthusiastic about the offer. A Jewel-Osco marketing representative described it as a “great offer,” saying it “would be great to have our logo in Sports Illustrated [since] having your logo in any location where people see it is going to help your company” (Jordan v. Jewel, 2014). Jewel-Osco agreed to the deal, and as requested by Time, Inc., set out to design a page for the issue “with some play on words or design that is specific to Michael Jordan” (Jordon v. Jewel, 2012).

The ad was a collaborative effort between Jewel-Osco and its marketing vendor, Vertis, Inc., with Jewel-Osco’s internal copywriter creating the message and Vertis, Inc. designing the graphics (Jordan v. Jewel, 2012). The result was an advertisement that was mostly black, with two tennis shoes spotlighted in the bottom half resting on a wooden, basketball court-like floor. The shoes were unlaced and featured Jordan’s number “23” on the top of the tongues. Above, against the darkened background and in white lettering, the copy read:
A Shoe In! After six NBA championships and numerous buzzer beaters, Michael Jordan’s elevation to the Basketball Hall of Fame was never in doubt! Jewel-Osco salutes #23 on his many accomplishments as we honor a fellow Chicagoan who was “just around the corner” for so many years. (Jordan v. Jewel, 2014)

Beneath this tribute was Jewel-Osco’s logo and slogan, “Good things are just around the corner.” Both the Jewel-Osco logo and the slogan were federally registered trademarks. While the wordplay with “just around the corner” was clever, the copywriter worried that it was too much of a sales pitch for shopping at Jewel-Osco—that the advertisement was “too selly [sic],” and “hitting too over the head” (Jordan v. Jewel, 2014).

Michael Jordan

Michael Jordan was one of the world’s most recognizable and liked personalities. As prominent as he was worldwide, in no place was he bigger than in Chicago, where he led the Chicago Bulls basketball team to six NBA titles, with two three-peats (three consecutive championships); was voted the NBA’s most valuable player five times; won two Olympic gold medals; and created iconic brands such as “Air Jordan” and “MJ.”

The branding of Michael Jordan helped him become a billionaire. His endorsement income in 2014 alone was more than $100 million (Hackman & Peters, 2015), and his lifetime endorsement deals were worth more than $500 million. His estimated net worth was $1.14 billion (The Richest, 2016). Jordan was focused and savvy in building his brand, which became one of the biggest in sports history. According to Marc Ganis, president of SportsCorp., “Jordan is very strategic about the deals he makes. His image is guarded zealously and he only makes long-term deals for big money that convey a positive image of the Michael Jordan brand” (Garcia, 2015). Speaking of his own image, Michael Jordan said, “it is something I value very preciously” (Hackman & Peters, 2015).

The Dilemma

The proposed ad posed a legal and management dilemma for Jewel-Osco. The law recognized the right of an individual, including celebrities like Jordan, to control the commercial value and exploitation of his or her name, image, likenesses, and other identifying characteristics. This right of publicity was limited, however, by the First Amendment’s freedom of speech. Under the First Amendment, there was broad protection for speech on newsworthy events, and our society values the ability to discuss, comment, and share topical events. Was the proposed ad protected speech, or did it misappropriate Jordan’s name or likeness? Should Jewel-Osco run the ad?

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Taking the Leap: Gary and Darla Become Entrepreneurs

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“Introduction

“This is as tough as any decision we have ever made.” It had been eight months since Gary and Darla Beggs had decided in earnest to pursue owning their own business. The couple, now retired from long stints in corporate positions, was looking at two viable acquisition opportunities. Both presented positives that met their criteria, but both also carried risks they had set out to avoid. They now had to decide whether to make an offer for either.

Background

Gary Beggs experienced a steady rise up the ranks in the transportation and logistics industry. He had served as an office manager in Kansas City and an assistant branch manager in Dallas, and had opened a new facility in Fort Worth. Within eight years, he was recruited by one of the premier trucking companies of the time, Yellow Freight, as an account executive. After a 20-year tenure at Yellow Freight, Gary was hired by USF Bestway (Phoenix) as President and CEO.

Darla Beggs had spent most of her working life in corporate environments. The bulk of her experience was in group insurance, employee benefits, and benefits administration, but she also knew a great deal about employment law and a wide array of HR practices critical to company operations. She was interested in applying her experience to expand her scope to managing a whole business.

After Gary completed the successful sale of USF, he and Darla both retired from their corporate jobs. Still young enough to keep working, they decided to pursue owning their own business. While Darla had followed Gary in his various career moves, the couple was determined to be equal financial partners in a new venture. Furthermore, they agreed that Darla would be the one directing and leading the new venture. Gary would play a strong supporting role, but would also remain free to do other things outside the business.

Striking Out as Entrepreneurs
In the late summer of 2005, Gary and Darla embarked on their search for business opportunities. They were open to all possibilities—location and business—that they thought would best use their skills and knowledge and meet their personal lifestyle goals. They identified explicit criteria to guide their decision.

First, they did not want to take on a new start-up because that typically required long hours of sweat equity to establish. Second, they did not want to work weekends, which meant avoiding retail businesses. Third, they did not want to take on businesses with large amounts of assets or significant debt. Fourth, they wanted to avoid slow-growth businesses and ones that were vulnerable to recessions. Fifth, they wanted to find a business where they could use their skills to make the company better, so that it could improve satisfaction for both employees and customers using their product or service.

Searching Acquisitions

While Gary and Darla did some consulting work during their search, they were most interested in owning their own business. Gary believed they could leverage their corporate experience to give the right business a competitive advantage. Darla saw ownership as a way to fulfill a desire to be in charge of all aspects of a business. She also felt a particular desire to work and enhance customer relationships that, in her experience, many larger businesses neglected. They looked at some interesting possibilities. For example, Darla was intrigued by a small cabinet-making firm manufacturing high-end, custom furniture. The firm showed some solid growth potential, but Darla noticed the hands-on nature of the female owner. The owner was the lead for the construction crew, wielding tools like a true artisan. That was not a role Darla saw herself playing.

Another opportunity the couple looked at more seriously was a logistics company based in Texas. The firm installed systems designed for companies operating warehouses with conveyors. The Beggs’ research showed the company was earning an annual net income around $130,000 and generating overall annual cash flows of nearly $1 million. The couple declined to pursue it further because they saw a fragmented industry with some small players specializing in advanced logistics software. Still determined to purchase an existing business that met their criteria, they became very serious about two other acquisition opportunities.

The first was a heating, ventilation, and air conditioning (HVAC) company in the fast growing Dallas-Fort Worth area. The small firm primarily installed and serviced HVAC systems. Since a big part of its revenue was derived from replacement of HVAC, its business was affected by summer heat. For example, due to milder temperatures, 2004 generated about $400,000 less revenue than 2000. The company’s projected revenues for 2006 were $1.8 million, with free cash flow in the $700,000 range. The Beggs, however, could not pinpoint cash flow precisely because of how some of the cash transactions were mingled with other business interests of the owners. While the business was somewhat seasonal, it was generally resistant to recession. The firm was 27 years old, and the owners appeared to be selling for no other reason than to enter retirement.

Gary and Darla’s research showed the company had a solid customer base of 4,000, and was well equipped with needed inventory and equipment. From a cash flow standpoint, the business did not keep receivables as customers paid by check or credit card at time of service. A market study showed that the firm’s area of service was experiencing explosive growth, with the number of homes served going from 1,000 in 1980 to 7,000 by 2001. The median value of these homes was $350,000, and the median income of the homeowners was $130,000. These trends indicated growth potential not only
for installation, but also for servicing. Furthermore, the income levels augured well for homeowners to upgrade to higher efficiency units upon replacement. To run the business, the owner or an employee would have to be licensed and knowledgeable about HVAC work. Neither Gary nor Darla had HVAC experience, and neither possessed a license which would take 12 to 18 months of preparation and testing to acquire.

The other opportunity was an event-based staffing business headquartered in Dallas. While the primary segment involved staffing banquets, sports venue concessions, and other large events such as concerts, NASCAR races and conventions, it also included a small staffing segment for ministries. In researching this opportunity, Gary and Darla recognized that while the business was not a high margin one, they thought it would generate reliable cash flow. It was primarily a light industrial, waiter-server-based business. Although small, the firm showed some potential for growth. Gary and Darla were both intrigued by the ministry part of the business, in part because it tended to supply longer-term needs, for which staffing, in turn, could lead to more routine, higher margin revenue streams. Also, they knew that in Texas, the ministry segment was big business, with large Christian organizations like Daystar Broadcasting employing large staffs.

The banquet segment, however, generally occurred on weekends. The couple noted that the biggest asset they would be buying would be the customer base, and they were uncertain whether the current owners maintained strong relationships with key clients. Further, they would have to manage cash flows so they could pay employees ahead of payment by customers. The business did show some growth in 2005, generating revenues of nearly $2.3 million, but it also presented a net loss of over $100,000. Gross profits were a decent 27% of total revenue.

**Conclusion**

Gary and Darla were at a decision point as they compared strengths and weaknesses of the two opportunities (see table below). The couple had ideas on what a fair valuation might be for each. They had to consider, however, the possibility of walking away from either or both if the owners did not accept their bid. How should they proceed?

| **Table: Strengths and Weaknesses of Acquisition Opportunities** |
|---|---|
| **HVAC Business** | **Staffing Business** |
| Good location with solid customer base | Service company with no real equipment or capital assets |
| Cash payments at time of service | Allows small start |
| Excellent cash flow | Potential for growth |
| Business seen as recession-proof | Modest capital investment |
| Business somewhat seasonal | Banquet business requires weekends and has lower margins |
| Cash flows difficult to trace | Showed net loss of $100K (partly due to owner salaries) |
| Needs license that may take up to 18 months | Gross margins overall no more than adequate |
| | Must pay employees ahead of receipts |
| | Potentially weak relationships with key clients |
The Colonel Crowther Foundation: Succession Planning in a Non-Profit Organization

Robert G. Edmonds, SUNY Maritime College

Introduction

That evening’s telephone conversation with board member Rob Hileman seemed surreal. Dr. Robert Hileman, Jr.—Rob’s father and the executive director of the Colonel Crowther Foundation—had died suddenly of a massive heart attack at the age of 64. The news stunned the board of directors, whose immediate thoughts and prayers were for Bob’s wife and children. Just a few hours earlier the board had discussed and approved the foundation’s annual plans and activities. Now everything was in jeopardy. A single telephone call had turned the foundation’s world upside down and placed its educational activities and its very mission at risk.

Who among the board members or the foundation’s other stakeholders would now take up the mantle of leadership? How would the foundation survive the tragic, sudden loss of its visionary founder and leader?

The Colonel Crowther Foundation

The Colonel Crowther Foundation was established by Dr. Robert R. Hileman, Jr., a semi-retired accountant and Civil War historian, in November of 2005 in Huntingdon, Pennsylvania as a 501(3)(c) non-profit organization. With only 40 members, the foundation was primarily dedicated to educating the public on the history of the Civil War era by focusing on the public and private life of Colonel James E. Crowther, his family, and his leadership of the 110th Pennsylvania Volunteers. The foundation went beyond the mere preservation of historic documents and artifacts, and instead became an organization that:

Creates a living heritage . . . where preservation is enhanced by demonstrations and education . . . Our efforts will focus on documenting, communicating, and interpreting past events, knowing that learning from yesterday is preparing for tomorrow.

The foundation conducted a number of annual activities and special events in central Pennsylvania and northern Virginia, culminating in the Col. Crowther Weekend Encampment.

Held in Tyrone, Pennsylvania in early August, the annual encampment attracted more than 200 spectators and highlighted the recruitment and training of volunteers for Colonel Crowther’s 110th
Pennsylvania Volunteers. Dr. Hileman’s strategic plan also called for the creation of a museum to preserve the Crowther family correspondence along with other Civil War documents and artifacts. The foundation also planned to operate an educational center providing Civil War research resources, lectures, and even courses for scholars and the general public. A website was planned to promote the foundation’s resources.

To promote the concept of living history, the foundation had built strong working relationships with several Civil War re-enacting groups, such as Company A of the 110th Pennsylvania Volunteers and the Keystone Regiment. These dedicated re-enactors assisted the foundation by recreating living history programs that focused on Civil War-era business, social, and military camp life. To help educate the public about life at that time and heighten the educational experience, hands-on interaction between the public and re-enactors was initiated and included military drilling, medical treatment of the wounded, semaphore communications, and artillery demonstrations.

The daily activities of the foundation were managed by the volunteer president and executive director, Dr. Bob Hileman. He was supported by eight volunteer directors of varying backgrounds, including two members of the Crowther family. The board members assumed corporate duties as vice president, treasurer, and secretary, but were geographically dispersed across four states: Pennsylvania, Virginia, North Carolina, and New York. Funding was primarily through annual contributions from board members, donations solicited by the foundation from local businesses, membership fees (the foundation awarded honorary military rank based on members’ contributions), fundraising raffles, and donations from the general public at foundation events and activities.

Succession

Semi-retired, Dr. Hileman was distantly related to Colonel Crowther and had authored two books on the Colonel’s life. His charisma was reflected in his energy, vision, and enthusiasm for the foundation. He planned the annual calendar of events, gave public lectures on Colonel Crowther, prepared news releases, gave radio and TV interviews, promoted the foundation (along with his wife, Carol), and spearheaded fund-raising activities. He was also the person who developed relationships with the historic reenactor groups, and secured their participation in the Colonel Crowther Weekend Encampment each year. Dr. Hileman was not only the public persona of the foundation, but the person most responsible for its mission, strategic planning, educational activities, and early successes.

While the board of directors was reliably supportive, its geographical dispersion often precluded regular, direct contact and involvement in the foundation’s activities and oversight. Most board business was conducted through telephone conference calls or email exchanges. The death of the foundation’s executive director caught the board by complete surprise and created a void in leadership that was difficult to fill. The foundation was totally unprepared; there had never been any discussion of who might replace Dr. Hileman someday, nor had there been any thought of developing a succession plan. Yet the urgent need for just such preparations was now at the top of the board’s agenda. The board needed a plan to identify, develop, and track a pool of potentially talented leaders from the foundation’s membership and outside stakeholders.

Helter-Skelter Crisis Leadership

The foundation’s board of directors was forced to implement crisis management. A series of telephone conference calls resulted in agreement to carry on the activities of the foundation and to initiate a series of interim appointments. Rob Hileman, Bob’s son, was elected interim president;
Carol and Paul Hileman, Bob’s wife and other son, were elected to share the executive director’s duties; one of the board members was elected vice president; and other board members continued in their duties as secretary and treasurer on an interim basis. Two new members were added to the board to help broaden its representation. The board remained committed to carrying on the pioneering labor of the fallen executive director as a tribute to his dedication, hard work, and memory, yet all the directors were deeply concerned about the foundation’s prospects for long-term survival in the absence of its founder’s driving vision and charismatic leadership.

The Future of the Foundation

The very future of the foundation was in jeopardy. Board members had stepped up on an interim basis to stem the crisis and carry on the immediate work of the foundation’s founder, but the succession planning needed to match the future needs of the organization’s management with potential talent was still lacking. The foundation’s meager financial resources precluded hiring a professional executive director, so the new director would have to be a volunteer. On the other hand, three of the board members had some 25 years of museum experience and the skill sets needed to assume the role of executive director: Bob Edmonds had served as the Director of Education and Interpretation for Sleepy Hollow Restorations, Susan Leppert was the former Director of Old Bedford Village, and Deb Topinka was an historical reenactor and board member of Cumberland Valley Township Historical Society. Would one of these members be willing to assume the more permanent mantle of leadership now desperately needed by the foundation? Or could perhaps someone from among the foundation’s other varied stakeholder groups step in to lead it? Another question confronting the board was what type of leader would now be most appropriate for the foundation to continue its mission into the future? Should the new executive director be a charismatic, transformational, or situational leader? The board members knew that if they didn’t get this right, the Colonel Crowther foundation could become just another small business which failed to plan for succession and ceased to exist following the unexpected loss of its determined founder.
TrintMe: Perseverance a Friend or Enemy?

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Introduction

On a bright November afternoon, the cheerleading contest at Menlo College, California, was in full swing. The purpose of the contest was to promote TrintMe, a dating app that enabled individuals, in particular college students, to find a partner based on a match between both parties’ intentions. Sounds of “TrintMe” reverberated in the air, however, VS Joshi, founder of TrintMe, was oblivious to his surroundings. Just the previous day, he had discovered that Facebook (FB) was going to change its APIs (Application Programming Interfaces) to a newer version (Constine, 2015). Users of TrintMe connected to the app through FB, and it was on the basis of access to FB’s users and their social networks that Joshi was able to offer an innovative service to his users. A change in APIs meant FB was no longer willing to share this information with third parties due to privacy issues, which threatened the very basis of TrintMe’s existence. Just as the marketing campaign for TrintMe was gathering momentum, the question that was racing in Joshi’s mind was whether he could save the venture before the change came into effect: “Initially the challenge is getting the product right, getting the messaging right and once you get that right now you pull the rug out from underneath us. So this is a very critical juncture that we are at. Lot of things in front of us.”

The Idea of TrintMe

The idea for TrintMe was born at an alumni meeting in Mountain View, California, when one of Joshi’s former classmates wondered why Joshi had never asked her out while at college. At that moment, Joshi realized he had missed an opportunity. Two individuals who had the same feelings for each other had not been able to express themselves because of the fear of rejection. Joshi developed a smartphone application, TrintMe, to solve the problem. TrintMe enabled individuals to express their true intentions (“trints”) in private. Only if their intentions matched did both parties learn about their true feelings for each other; if there was no match, no one discovered anything (TrintMe, 2014).

Even though he had conceived TrintMe at a relatively late stage in his life, Joshi was not new to the idea of entrepreneurship. His passion for business dated back to his school days when he first embraced entrepreneurship to meet his personal expenses and fund his higher education. Joshi came to United States to study entrepreneurship after obtaining a bachelor’s degree in engineering and MBA in India. Upon graduating from Babson College in Boston, Massachusetts, he worked at Compaq and EMC in Houston and Boston, respectively. When the dot.com bust in 2001 triggered a massive spell of layoffs at EMC, Joshi also lost his job.
Undeterred, he decided to take up independent consulting assignments for small international firms in the U.S. and India to leverage his knowledge of the two countries. Joshi believed only some people were “wired up” to search for opportunities and bring something new to the market. He felt he had a natural ability to identify business opportunities, unlike other members of his family who deemed hard work as the only means to earn a living.

Even though he valued the experience of independently consulting for a variety of companies, as a first-generation migrant in the U.S., Joshi soon felt isolated from mainstream social networks and yearned to return to the workplace to revive his personal connections. When NetApp, one of the leading players in the data storage industry and consistently ranked as one of the best companies to work for in the U.S. by *Fortune* magazine, proposed an exciting relocation package to lead their management software portfolio marketing in California, he gladly accepted the offer. He had been at NetApp for five years and the monotony of routine work had begun to set in by the time he stumbled upon the opportunity for TrintMe. When his attempts to change to a different business group within NetApp proved to be futile, he decided to leave.

**Silicon Valley and the Leap into Entrepreneurship**

The leap into entrepreneurship was not easy. At first, Joshi approached a professor at Stanford University to solicit his opinion about the business idea. The professor validated the idea, and also agreed to serve as member of Joshi’s advisory board. Joshi was not concerned about financial security as his wife continued to work full-time. However, the opportunity cost of paid employment he had to forgo in order to pursue an independent venture was quite high. He had declined a lucrative job offer from Dell Computers just after quitting NetApp in order to pursue his idea.

Pivotal to Joshi’s decision to transition into entrepreneurship and take the final plunge was the appeal of Silicon Valley (SV), California. As long as Joshi could remember, he had nursed a desire to live and work in SV. The SV ecosystem, replete with the presence of a large Indian community and several data storage companies, was what he found most attractive. Even prior to coming to SV, Joshi was confident he would be exposed to exciting new entrepreneurial ideas in the Valley that he could someday translate into an independent venture. Compared to other places like Boston, he perceived mainstream society in SV to be a lot more receptive to migrants like himself. Unlike on the East Coast where he struggled to integrate with society, he felt he was allowed to retain his individual identity in SV.

Joshi was also ready to leap into entrepreneurship because close geographic proximity with several other entrepreneurs in SV made it easier for him to build a team. Based on a referral from a friend’s friend at TiE (The Indus Entrepreneurs), a networking organization for Indian professionals in the Valley, he recruited two software engineers on a contractual basis. He gained access to a wide network of professionals by reaching out to organizations such as the Silicon Valley Association of Start-up Entrepreneurs and the Silicon Valley Forum for marketing and product development. Additionally, he felt he could approach alumnae from his Indian engineering college for help and advice when necessary. His wife continued to lend financial support in a situation where household savings were reliant on the salary of only one earning member. As a software engineer, she also assisted with software development. Most importantly, perhaps, she provided strong moral and emotional support to her husband in what was a situation fraught with utmost uncertainty.

**TrintMe: A Future Not So Certain**
Joshi first launched the TrintMe app at Babson College in Boston, Massachusetts, where he had previously won the Big Idea Competition and Runners-up Award at the Babson Forum on Entrepreneurship & Innovation. Following a presentation to Mark Cuban and Daymond John on Shark Tank soon after, he managed to expand his team to five people including an iPhone app developer, Android app developer, back-end developer, and two marketing personnel. He himself led the marketing function with another recruit even as he outsourced app development to a third party. Following a successful campaign in SV, Joshi planned to scale up the marketing effort to other colleges both within and outside the U.S. He was particularly enthusiastic about introducing the service in his home country, India, where he was confident of finding a big market due to the perceived reluctance for open communication in matters of dating and match making. Along with exploiting a new market, he also intended to offshore software development and distribution to India. More recently, he was excited about the patent application he had filed with the United States Patent and Trademark Office.

The news about FB’s decision to change its APIs had torn apart his plans. Users of TrintMe connected to the app through FB, and as soon as they connected, they obtained information about FB’s users and their social networks. Joshi was able to provide an innovative service to users mainly because of access to this information. However, FB was no longer willing to share this information with third parties due to privacy issues (Constine, 2015). Just when Joshi had perfected the service and chalked out a growth strategy for his venture, the very basis of its existence was at risk.

Amidst the screams of music and peals of laughter that engulfed him at Menlo College, Joshi contemplated the next step. The high opportunity cost of paid employment he had forgone to pursue the business idea and build the app compelled him to persevere and search for a survival strategy. After all, he had left no stone unturned to drive the marketing campaign for TrintMe, and if growing user acceptance in the target market was an indication, his efforts were beginning to pay off. At the same time, however, the TrintMe app was hosted on FB’s platform and he had only six months before FB pulled the plug. Could he save the venture and keep it alive without FB’s support? Joshi blankly stared ahead as the question raced in his mind. He had until 1 May, the deadline FB had set, to make a decision.

References


How Can FIFA President Gianni Infantino Improve FIFA’s Tarnished Image?

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Introduction

When Giovanni Infantino, a member of the United European Football Association (UEFA) since 2000, was appointed as president of Fédération Internationale de Football Association (FIFA) in 2016 (FIFA.com, 2016), he made elimination of any vestiges of organizational corruption a goal. FIFA had to clean up its organizational culture of corruption and regain the trust of the public, including sponsors (Esteri & Futterman, 2015). How could Infantino work to regain the trust of sponsors?

FIFA Scandal

FIFA, an association founded in 1904 and based in Switzerland, was governed by Swiss law. It had 211 member associations dedicated to the improvement of football (or soccer, as it was known in the U.S.). It spent roughly USD 550,000 daily to support the various associations’ activities, one of which was to organize international soccer competitions culminating in the FIFA World Cup™ (FIFA, 2016). 2014 revenues for FIFA were estimated at USD 2.096 billion (Totalsportek2, 2016).

U.S. Attorney General Loretta Lynch announced the indictment that alleged corruption in FIFA both abroad and in the United States (Federal Bureau of Investigation, 2015). The defendants were charged with racketeering, wire fraud, and money laundering conspiracies (U.S. Department of Justice, 2015). Two pled guilty in May, 2015 (U.S. Department of Justice, 2015). As alleged in the indictment, “FIFA and its six continental confederations, together with sports marketing companies, [constituted] an enterprise of legal entities associated in fact for purposes of the federal racketeering laws” (U.S. Department of Justice, 2015). FIFA sold marketing rights, which amounted to 70 percent of FIFA’s total revenues between 2011 and 2014. In the process, soccer officials allegedly engaged in systematic bribery totaling over $150 million paid by sports marketing officials (U.S. Department of Justice, 2015).

Initially, FIFA appeared to be blind to public opinion, looking internally for leadership in an organization permeated by alleged corruption. The two top individuals in FIFA were suspended for 90 days in October, 2015. FIFA’s choice for replacing them was a 69-year old FIFA veteran, Issa
Hayatou, who required regular kidney dialysis. In 2011, Mr. Hayatou himself had been reprimanded by the International Olympic Committee for a scandal involving FIFA kickbacks.

**What Should Sponsors Do?**

One sponsor, Puma, believed the South African Football Association had engaged in match fixing, and Puma suspended its sponsorship. But then Nike became the uniform and equipment supplier for the South African national team (Ewing, 2015). If FIFA rebuilt its brand, then sponsors would no longer risk being complicit in corruption. Clearly, they could not afford to be accepting of organized crime (Pilon, 2015). Pilon (2015) observed that historically, sponsors ended partnerships with professional athletes amid scandals and criminal allegations. For instance, Nike terminated an endorsement deal with American football player Ray Rice following the release of a video portraying Rice abusing his wife.

FIFA’s new president, Infantino, had not been tainted by the scandal as yet. Additionally, sponsors could not question Infantino’s presidency since the election was internal to FIFA. Given the historically corrupt organizational culture of FIFA, though, sponsors could ask to be partners in enhanced transparency. What, specifically, could Infantino and FIFA’s sponsors do?

**References**


My Job or My Values

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Introduction

“Awesome!” thought Stacey Garrison. Lexi, the co-owner of the bakery where Garrison had worked for over two years had just invited her and the other bakers out to lunch. Garrison’s excitement soon turned to confusion, though, when she found that Lexi had asked all the bakers to come to lunch except for Alex, who was the newest baker on the staff and the only male baker. To make the situation even more uncomfortable, all four of the bakers were working that day, so they had to figure out how to get out to lunch without Alex finding out. They awkwardly found extra stuff to do, letting Alex know it was okay for him to go home anytime he wanted. Eventually he left, and the group headed down the street for some lunch.

At lunch, Lexi started asking the bakers lots of questions about Alex and how they felt he was doing. It was clear she was having doubts about Alex as a baker. It even seemed as though she was thinking of letting him go, and wanted justification for doing so.

About halfway through lunch, Lexi’s husband Mark, who was also the co-owner of the bakery, joined the group at the restaurant. Previously, he had been Alex’s biggest advocate, but Garrison quickly noticed that this was no longer the case. After much deliberating, the owners straight-out asked the three bakers to decide whether they thought Alex should be fired.

Garrison’s mind raced! She had to make a big decision on what would come out of her mouth next. “What is more important,” she thought. “My in-group status with the owners, or my values?”

Background

Stacey Garrison started working for Community Bakery in February of 2012. She was very excited when she began, because when she was hired, the bakery had low turnover; was a fun place to work; and was a difficult place to get hired. Everyone who worked there got in by knowing someone who either currently worked there or had previously worked there, and who had left on good terms. Garrison was no exception.

The job went very well for Garrison, and in June of 2013 she was promoted to baker. Her new position required her to work in the back of the store next to the manager’s desk, which caused her to
notice that things seemed to drastically change at the bakery about the same time she had been promoted. For example, she noticed that many of the long-term employees started leaving for various reasons. She also observed that management seemed unable to keep hiring good employees, and was not receiving many referrals from current employees. Bakery management even started advertising available positions in the newspaper, and began hiring nearly anyone who brought in a résumé. The owners of the company hated that they had to hire without knowing more about the individuals who were applying. However, since they had relied on employee referrals for new hires for so long, once the referrals stopped, the hiring process was no longer effective in weeding out applicants who were not good fits for the company. The hiring issues seemed to make the owners wary about what was happening at the bakery as a whole, and the trust they previously had in their team seemed to vanish overnight.

A Turn for the Worse

After Garrison had been a baker for a couple of months, she helped a friend she had gone to school with, Christina, to get a position. Soon after Christina was hired, Garrison noticed that the bakery staff had begun to split into two groups: people who were either liked, or not liked, by the owners. Fortunately for Garrison, she was in the in-group, but Christina was not.

The reason why someone ended up in either group was not always clear, and it sometimes felt as though some people were placed in the out-group at random. However, Garrison felt she knew why she was a part of the in-group. Garrison was now one of the longest-tenured employees, besides the manager and one baker, which seemed to make management a little more comfortable with her. Also, her promotion to baker had brought lots of new responsibilities, and management now had to rely on her to get more things done. She always came through.

Management made it increasingly clear to everyone in the company which clique they belonged to. In-group members received benefits such as extra free food, a longer lunch, better shifts, desired days off, and higher pay. Conversely, out-group members were constantly being watched, and it was clear management didn’t trust them—even if that distrust was not warranted. Further, management seemed to trust very few of the new hires, hence the out-group grew larger and larger as employee referrals dwindled.

Garrison also noticed that management began using some sneaky tactics to monitor employee work habits. For instance, one day in October of 2013, Garrison overheard a conversation between Lexi and the manager. The owner suggested that the manager fake a call from a customer complaining about the service Christina had given her. Later in the day, Garrison heard the manager talking to Christina about the call they supposedly received. All the while, Garrison stood on the sidelines saying nothing, for fear of losing her in-group status or facing possible retaliation. Christina wasn’t the only one who was enduring this. There was another employee, named Meredith, experiencing the same level of distrust from management. Meredith was forced to sign a contract that said she wouldn’t leave for two years, and that if the nightly till was off it would come out of her paycheck. This seemed harsh because the till was regularly off, regardless of who balanced it; and no other employees had been asked to sign such contracts in the past. Garrison felt that both employees worked very hard, but were rewarded only with criticism.

Consequences of Out-Group Status
The bakery had two locations, the main one and a satellite location in another part of town. One Saturday evening in February of 2014, Meredith and Christina were scheduled to close together at the smaller, satellite location. The bakery was closed on Sunday, and the following Monday, Meredith and Christina were called in early before their scheduled shifts for a meeting with management. According to management, they had left multiple refrigerator doors open over the weekend. Management felt that the two had rushed too fast to get out of work, which caused them to be unaware of their surroundings and leave the store in less than pristine condition. They both were placed on probation and suspended from work for two weeks.

Due to the suspensions, Garrison was asked to fill in at the satellite location. When she arrived, there was lots of hushed conversation about the whole situation. The manager of the satellite location confided in Garrison, telling her that only one fridge was cracked open and nothing was ruined. The fridge wasn’t completely open, the manager added, it just wasn’t sealed because there was a box sticking out too far. Also, there were a couple of dishes left in the sink. They had clocked out a few minutes after closing time; hence, the manager assumed they rushed.

The employees at the satellite location also talked to Garrison about the situation, and seemed to feel that management was making an example of Christina and Meredith. They conceded that the two were human, and did make mistakes by leaving dishes and not double checking the fridges. They also pointed out that Christina and Meredith were not the first ones to make such mistakes. When employees made similar errors in the past, management would have a friendly talk with them and remind them to perform a thorough walk through before they leave.

Eventually, Garrison noticed that Christina and Meredith were so fed up with the job and its constant criticism that they seemed to stop trying. Garrison felt that their attitudes were likely due to them feeling like they would not be recognized regardless of how hard they worked. It also seemed to Garrison that as others saw the treatment the two received, their dedication to the company steadily diminished until they all sort of stopped caring.

**An Internal Struggle**

As Garrison sat at lunch, she was having an internal fight with herself. On one hand, she wanted to tread lightly and protect her job, her trusted status with the owners, and the nice income she had grown used to receiving. On the other hand, she just didn’t think she could take much more of this stuff. The tactics that management used went against her values. She didn’t believe in lying, manipulation, unfair treatment, or gathering data to fire someone from their colleagues while buying them lunch. It seemed like she had to decide on a daily basis if her job and the trust of the bakery owners were more important to her than her values. The job paid her bills, and its flexibility enabled her to attend college, but she also felt that ownership prodding the bakers for justification to fire someone who didn’t deserve it was ridiculous. Thus, she really wanted to tell them that it wasn’t appropriate to bring the bakers in on the decision, even though being honest would likely make her work life unbearable. As Lexi looked toward Garrison with a questioning gaze, Garrison thought to herself, “what’s more important, my job or my values?”
Taking the List: Ethics in Pharmaceutical Sales

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Introduction

Adam stared at the names left on Mary’s desk. Had she left the list there for him to see? Was it his to take? His promotion to institutional sales at PharmaInc charged Adam with getting Glaxor, a calcium channel blocker (CCB) drug, accepted at the area’s premier teaching hospital, St. Thomas. St. Thomas instead used a competitor’s considerably less expensive product. St. Thomas closely guarded the names of those who decided which drugs were acceptable—the very people Adam needed to persuade. Yet a list of names that Adam had tried for more than a year to get was now lying on the desk in front of him. Should he take the list? Was that ethical?

The Hypertension Drug Wars

According to the American Heart Association, in 2006, more than 13 million Americans suffered from chronic heart disease. It killed nearly 2,500 people each day and rang up annual direct and indirect costs of $142.6 billion. Hypertension, high blood pressure, was a leading contributor to heart disease and was present in almost 18% of U.S. adults (American Heart Association, 2006). Lowering blood pressure and reducing hypertension had become the first line of defense against cardiovascular and heart disease. CCB drugs were preferred over several other medical approaches. Known for its sales and marketing, PharmaInc was late to the hypertension treatment market. However, that allowed PharmaInc to test Galaxor’s effectiveness relative to other treatments on the market. Those tests proved Galaxor to be similarly effective at lower doses. With FDA approval, Galaxor hit the market to compete with the market leader, Betopine.

Medical schools with teaching hospitals, a keystone of the U.S. medical system, provided clinical training for medical students and residents. Many, like St. Thomas, were part of large public or private university systems. They collaborated with a variety of organizations—community hospitals, private practices, community health centers, etc.—to provide their students with clinical training (Bunton, Henderson, & Mallon, 2013). Teaching hospitals were particularly important to the pharmaceutical industry. They not only provided patient care, but also led in innovation and research examining the cost and effectiveness of medical treatments (Bunton et al., 2013). As part of their mission, medical hospitals conducted clinical trials testing new medicines and therapies on human subjects, identifying the safety, effectiveness, and side effects of new treatments relative to old treatments. Thus, the adoption of a drug by a teaching hospital, like St. Thomas, would be a significant victory for a pharmaceutical company. Not only did acceptance drive sales to the extended
network of hospitals, clinics, and physicians attached to the teaching hospital, but it also signaled the treatment’s safety and effectiveness to others outside the network. In order for this to happen, though, the hospital’s pharmacy and therapeutics (P&T) committee had to first recommend the medicine for the hospital’s formulary. The formulary was a continually updated list of medications deemed by the clinical judgment of hospital physicians, pharmacists, and other experts to be appropriate for the treatment of patients under normal circumstances. The P&T committee was charged with making evidence-based decisions for both the good of the patient and the hospital’s bottom line.

Pharmaceutical companies were engaged in a sales force “arms race,” hiring droves of sales representatives. The pharmaceutical industry sales force had grown to over 100,000 representatives and $10 billion in marketing expenses. At one 658-bed acute care facility, two large pharmaceutical companies each had assigned nearly 20 sales representatives, approximately one sales representative for every 16 patients (Wasserstein, Brennan, & Rubenstein, 2007).

The relationship between hospitals and pharmaceutical companies was both positive and strained. On one hand, the two industries collaborated on productive research. On the other hand, the interactions between doctors and sales representatives were rife with potential conflicts of interest. While doctors managed patient outcomes and hospital finances, pharmaceutical sales representatives focused on sales (Wasserstein et al., 2007). Companies typically paid sales representatives base salaries plus incentives from 20% to 40% of total compensation. Additionally, to direct the efforts of the sales representatives, pharmaceutical companies linked incentives to quotas on certain drugs based on geographic territories. Not only did this provide clear goals for sales representatives, but the quota-based system also supported teamwork by keeping each company sales representative from competing against other company sales representatives. For the sales representatives, these incentives became the scorecard by which they determined company and industry winners and losers. The potential for generous compensation by working together created teams of hard-driving, motivated sales people.

Most interactions between sales representatives and doctors were “sample drops,” lasting only a few seconds. Yet interactions often included gift-giving, paid meals, travel funding for educational symposia (Wazana, 2000), and paid speaking engagements. Doctors typically attested that their clinical decisions were unswayed by these gifts, but gifts had become part of the industry culture and were considered a normal employee benefit by some. Measures to shield hospital staff from marketing influences were routinely ignored by both doctors and sales representatives. However, new studies found that even small gifts and meals led to feelings of reciprocity between doctors and sales representatives. Access to doctors seemed to impact the addition of new drugs to the formulary in ways independent of the treatments’ therapeutic advantages, and shaped the doctors’ prescribing practices in terms of cost, rationales, and early adoption (Wazana, 2000).

Adam’s Opportunity

After five years as a sales representative to local physicians, Adam had recently been promoted to institutional sales, with responsibility for sales of the hypertension drug Galaxor to all of the area’s hospitals. However, his excitement over the promotion quickly turned to concern, as a daunting challenge was laid before him. The previous year, his team had had an aggressive Galaxor sales quota. But top management was expecting Galaxor to be PharmaInc’s next big hit, and they more than doubled the territory’s sales quota to $11 million. Adam realized that to get there, he and his team needed to get Galaxor on the St. Thomas formulary fast. To do so, Adam faced two challenges. First, hospitals were provided Betopine for well below market price in order to build and maintain Betopine’s overall market share. This represented a significant price difference and it was a
tactic PharmInc would not consider. The difference in price was enough for St. Thomas’ Pharmacy Director to tell Adam his drug would “break the hospital’s budget.” Second, getting Galaxor on the formulary required persuading the P&T committee members of the medicine’s advantages. But at St. Thomas, to avoid undue influence and distraction, the names of the P&T’s members were closely guarded. Because pharmaceutical sales was a high-stakes, high-rewards game, Adam believed “Sales reps would do whatever it took to get an advantage on their competitors.” St. Thomas never publicized the P&T committee members and actually held meetings at odd times in random places, just to deny direct access by the swarm of industry sales representatives. For an entire year, Adam worked to uncover the names of doctors on St. Thomas’ P&T committee.

In a moment of luck, Adam met Mary, a veteran hospital administrative assistant nearing retirement. Mary took the minutes of every P&T meeting—including attendance. Whenever he went to the hospital to visit doctors, Adam made a special point to visit with Mary. Frequently, he would take her to her favorite restaurant for lunch and sometimes leave her little gifts. For Mary, Adam offered a fun chat and a pleasant break in the day. When Adam felt that the friendship had been well-secured, he asked her if she might let him see the P&T names. Mary responded: “Adam, you know that information is confidential. I could get fired!” Nevertheless, Mary was alone in the office one afternoon when Adam arrived and asked him for a favor: “Adam, can you man the phones while I run to the ladies’ room?” “Sure,” Adam replied. Alone in the office, Adam made himself comfortable in Mary’s chair. There, on the desk in an open folder, was the list of names he’d spent a year trying to uncover. Should he take the list?

References


Food Fight: Law and Public Relations in Pizza Wars

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Introduction

In the fast food business, resting on past glory may be the kiss of death. In late 2015, Pizza Hut was struggling in the U.S. to maintain sales growth and freshness. Patnaik (2016) reported that the Pizza Hut brand “suffered from the challenge of maturity” and “the rather tired nature of the brands and . . . a lack of meaningful menu innovation.” Meanwhile, Domino’s was a hit with millennials, a key demographic in the otherwise slow-growing pizza business. Their stock shares were “up 35% in 2016 alone. Domino’s has aggressively courted Millennial stomachs by upping its online game and allowing young people to order via texts and also tweets” (Horowitz, 2016). Domino’s challenged Pizza Hut by name, claiming that Pizza Hut’s attempts to innovate are just gimmicks. Further, Domino’s TV advertisements showed a distinctive Pizza Hut store disguised as the scene of a “Pizza School” where Pizza Hut employees were taught to make good pizzas the Domino’s way. How can Pizza Hut best respond ethically?

“Better Ingredients, Better Pizza”

David Gibbs, CEO of Pizza Hut, almost certainly knew of the long history of lawsuits between firms in the food industry. Particularly instructive was the Pizza Hut, Inc. v. Papa John’s case (2000) that emerged from Papa John’s 1995 slogan: “Better Ingredients. Better Pizza.” In 1996, the Patent and Trademark Office granted Papa John’s a trademark. According to court records (Pizza Hut, Inc. v. Papa John’s, line 7), the firm “invested over $300 million building customer goodwill in its trademark ‘Better Ingredients. Better Pizza.’” The record goes on to point out that the investment included printing the slogan on merchandise, shirts, boxes, and other items. Further, Papa John’s used the slogan in advertisements as a tag line.

Meanwhile, Pizza Hut, in a competitive response created a new, nine-month, $50-million campaign called “Totally New Pizza.” As part of a competitive response code-named “Operation Lightning Bolt”, this campaign attacked low-quality pizza with advertisements claiming better tasting pizza. Pizza Hut challenged customers to find a better pizza anywhere (Arsenault and Hass, 2002).

In a pair of TV advertisements, Papa John’s brought the competition to a climax. Using Frank Carney (co-founder of Pizza Hut) as spokesperson, they alleged their pizza was superior. Carney had left Pizza Hut years earlier, but had become a Papa John’s franchisee based on his preference for their
product. In May of 1997, Papa John saw a nearly 12 percent increase in year-over-year sales while Pizza Hut lost nearly nine percent (Pizza Hut, Inc. v. Papa John’s, 2000, line 9).

Appealing under the Federal Lanham Act, Pizza Hut sued Papa John’s for false advertising. The Fifth Circuit Court of Appeals reversed the trial court’s initial ruling for Pizza Hut. They found the slogan “Better Ingredients, Better Pizza” was puffery and exaggerated opinion, and that Pizza Hut had failed to demonstrate produced consumer reliance (see Reichman & Cannady, 2002, for information on this concept and the Lanham Act).

Gibbs found himself in a comparable situation in late 2015. His Pizza Hut brand was struggling to “relaunch” itself (Ruggless, 2015) and restart sales growth (Halzack, 2014). Meanwhile, an upstart, Domino’s this time, was racking up sizable sales gains with the key millennial demographic. The Pizza School advertisements were simply the latest in a series of competitive moves that frustrated Pizza Hut’s progress.

Decisions

How should Gibbs respond? While he could sue, public litigation could further publicize a negative comment; however, failing to respond may be considered as a tacit admission of truthfulness. Consequently, from a legal perspective there was no ideal solution. Indeed, the legal protections granted by the First Amendment provide powerful protection to commentators. Additionally, “puffery” or “sales talk” was not considered fraudulent.

Academic research served only to highlight the risks and benefits, identifying no ideal solution. France and Bone (2015) presented a summary of legal issues in comparison advertising. Merenski, Lewis, and Garrett (2015) pointed out such advertising as a legal minefield.

Apart from the low likelihood of success, executives on both sides had to decide if there was an optimal approach to minimize damage to their brand’s reputation from their competitor’s claims and their own counterclaims. For example, one could make changes in the product to blunt the critic’s challenges. As another alternative, one could appeal to a “neutral” industry group (or a group of supposedly unbiased customers) to evaluate the validity of the criticism. One could attack the credibility of the advertisement, perhaps with a satire of the competitor. Or one could simply ignore the advertisements and counter with a competitive move of their own. Litigation was an option, albeit expensive and not likely to succeed. Finally, one could try to manage the situation as a crisis (Gruber, et al., 2015). Each approach had its own risks and potential benefits.

There are also ethical considerations for executives in competitive situations like this. From Pizza Hut’s perspective, a firm might decide to “turn the other cheek” and simply ignore the advertising attacks. From Domino’s perspective, executives could ask themselves, “How would we feel if Pizza Hut developed advertisements as cutting as ours?” and “What are the potential responses from Pizza Hut?” This is essentially a “Golden Rule” ethical perspective (Burton, 2005). A variety of other ethical frameworks exist for executives to consider.

How can Pizza Hut best respond in an ethical way? Should it launch an old-school, false-advertising lawsuit against its rival, or just stick with new product development? How far could Domino’s go in twisting the tail of an old lion without enraging it?
References


How to Get New Banks to Join the LIBOR Panel

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Introduction

“We cannot get new banks to join the LIBOR panel. This is unfortunate from my perspective. But you can understand the situation of a bank chief executive who has to explain to shareholders why the bank should join a LIBOR panel, given the past,” said Finbarr Hutcheson, president at the Intercontinental Exchange (ICE) Benchmark Administration (Albanese, 2015, June 17). Mr. Hutcheson, a former chief executive of the NYSE Liffe, and a 15-year veteran of Goldman Sachs, had been chosen by ICE to lead the efforts to modify the methodology and procedures for the LIBOR computation (ICE, 2016). He needed to signal a clear break with past scandals, improve the index’s shortcomings, and regain the trust of institutions, investors, and regulatory agencies. LIBOR was the acronym used for the London Interbank Offered Rate, perhaps the most important benchmark of the international financial system. Producing a robust and reliable index rate would promote the continuous development of the global financial sector, ensure the dissemination of fundamental pricing information, and facilitate international trade and exchanges. One way to make the LIBOR more robust was to increase the number of banks participating. Hutcheson was at the center of the social network that made up international banking. How could he use his leadership to encourage participation by more banks?

LIBOR Manipulation

Multiple financial institutions manipulated LIBOR over several years, finally resulting in jail sentences and heavy fines. Tom Hayes, the first convicted LIBOR-rigging participant, worked from the Tokyo derivatives trading desk and manipulated the yen LIBOR by convincing the rate submitters at his own firm and at other contributor banks to quote biased LIBOR rates to benefit his own trades. Between 2001 and 2010, Hayes made 1,200 requests to five brokers to rig Japanese yen LIBOR. His co-conspirators included a ring of traders at eight other banks, including HSBC, RBS, J.P. Morgan, Citigroup, and brokers at ICAP and RP Martin (Arvedlund, 2015). While at UBS, he generated $260 million in revenue for his employer (Fortado & Binham, 2015). Tom Hayes was just one of many LIBOR riggers; indeed, hundreds of managers, traders, and brokers working for global banks participated in the manipulation of LIBOR rates. Dozens of financial institutions were fined by U.S. and European regulators for collusion and interest rate rigging.
The Intercontinental Exchange became the LIBOR administrator in February 2014. ICE wanted to increase the number of participating banks above the 20 that participated before detection of the rigging scandal. ICE believed it could attract more contributing banks by using new technology to verify the information submitted. To safeguard the integrity of the process, ICE established oversight committees. These committees were made up of industry representatives who contributed by creating the LIBOR benchmark, participants who independently audited the process, and prominent financial institutions such as the Federal Reserve, the Swiss National Bank, and the Bank of England. Industry participants also thought more participants would create a more robust LIBOR benchmark. However, the scandal had resulted in $6 billion in fines to some of the world’s biggest banks, and not all banks were eager to participate. Banks were afraid that public submission of honest estimates would reveal to the entire market their deteriorating creditworthiness, attracting scrutiny from regulators and increasing their funding costs.

ICE Benchmark Administration (IBA), the benchmark administrator for the LIBOR, solicited and received feedback from more than 200 stakeholders over 18 months. IBA published a summary strategic document for LIBOR reform titled *Roadmap for ICE LIBOR* (2016, March 18). The purpose of the roadmap was to create a robust, sustainable LIBOR. The specific objectives for IBA were to (a) implement and use a uniform daily submission methodology, (b) publish a clear LIBOR definition, and (c) rely on transaction-based submissions. To prevent rate rigging, IBA needed to use transactional rates instead of estimates. It planned to use three levels of rate submissions, referred to as a waterfall of three methodologies: (a) a volume-weighted average price of eligible transactions, (b) transaction-derived submissions, and (c) appropriately framed expert judgment. IBA stressed that quoted LIBOR rates should be built on trade data, thereby minimizing subjectivity and expert judgment by the banks that made up the LIBOR panel. In the old system, the LIBOR submitters and users had serious conflicts of interest; the same institutions tasked with submitting LIBOR quotes were trading instruments based on the LIBOR itself. Ideally, IBA would create a centralized calculation based on real-time transaction data, as trade data were objective and not as easily manipulated as subjectivity and expert judgment. IBA hoped its many reforms would encourage banks to submit data and contribute to the robustness of LIBOR.

**How LIBOR Works**

LIBOR, developed in 1970, was a “polled” measure indicating the average rate at which LIBOR contributor banks could obtain unsecured funding in the London interbank market for a given period in a given currency. The unsupervised submission process led to conflicts of interest and corruption that concluded with massive fines and several jail sentences. Fraudulent profit-seeking and institutional reputational motives (McConnell 2013) compromised public trust in LIBOR. More participating banks would increase the robustness of the process. Both the individual bank submissions and the LIBOR rates were publicly available every trading day at noon. Banks might not want to participate because passing on real transaction data could signal strategically important information. Active participation in the process would also increase administrative costs.

IBA computed 35 daily rates for five currencies and seven maturities, from overnight to 12 months. IBA based its calculations on information submitted by reference panels of 11 to 18 banks for each currency calculated, and continued to use the BBA system of a trimmed mean, excluding the upper and lower quartiles. As a result of the crisis, IBA expanded LIBOR governance. IBA had an independent governance structure with oversight by Financial Conduct Authority regulation in the UK. British regulators required audits of panel banks’ LIBOR processes, and manipulation of LIBOR.
became a criminal offense in the UK (ICE, 2016). LIBOR was a key rate for global institutions, individual investors, and homeowners alike. LIBOR was the reference rate for an estimated USD $350 trillion of outstanding contracts in maturities, ranging from overnight to more than 30 years (ICE Benchmark Administration, 2016, March 18), and also the benchmark rate for half of the adjustable-rate student loans.

**How Could IBA Encourage Banks to Participate?**

Hutcheson and regulators could use moral suasion to increase LIBOR participation. The Federal Reserve had set a precedent for market intervention by using its good offices to avert a financial collapse after the failure of Long-Term Capital Management (Fleming & Liu, 2013). Regulators could focus on the benefit of a structured process, where reliable and transparent technology would better monitor individual submissions and responsibilities. Moreover, the new LIBOR computation methodology ensured the embargo of data submissions for three months. In fact, the individual submissions could not be disclosed for 90 days, and therefore would not release delicate private information in real time that could adversely affect panel banks. Finally, governments could use regulatory power too. However, first IBA needed to make a good-faith effort to encourage voluntary cooperation. How could Hutcheson lead this process?

**References**


Long-Term Care: A Personal Financial Decision

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Introduction

David Kirkbaum was feeling slightly panicked. Up until now, he had felt that he was well positioned for retirement at a reasonable age, while still leaving his wife and son a nest egg once he was gone. David had been careful to take a proactive approach to financial planning, and he was confident that his financial plan covered everything: health insurance, life insurance, investments, retirement, and a college fund for his son. But that was yesterday. Today he’d learned he had overlooked an important and expensive element of his financial plan: providing for the possibility of long-term care. What exactly was long-term care? Would he need it? Did he really need to plan for it? If so, how? David needed to answer these questions because he was determined to have a comfortable retirement and help provide for his wife and son after he died. How could he have overlooked this important part of his financial plan? David planned to retire in 15 years, at the age of 67. Now, he wanted to be confident that he had addressed the potential long-term care needs for both himself and his spouse, who was also his age, in his financial plan. The question was, should he purchase long-term care insurance or self-insure by creating an investment portfolio for this purpose?

Long-Term Care—What Is It?

Long-term care (LTC) encompassed a variety of services to help meet both the medical and non-medical needs of people with a chronic illness or disability who cannot care for themselves for long periods. LTC was more commonly needed by the elderly, although it may be needed by people of any age. Experts suggested that more than two-thirds of individuals age 65 and older will likely require long-term care (Scism, 2015). Through Internet research and talking with a financial planner, David learned that the two primary solutions for funding long-term care were to purchase long-term care insurance (LTCI), or to self-insure by investing on his own for long-term care needs. He was not sure of the costs and benefits of purchasing long-term care insurance compared with the costs and benefits of self-insuring, but he needed to decide whether to purchase LTCI or self-insure.

Costs and Benefits

While the different options varied in cost, all were expensive. The median annual price of a private nursing-home room was around $90,000 (Scism, 2015). Basic insurance did not cover the cost of long-term care for most individuals, with the exception of those receiving some form of government-
sponsored Medicaid, or—for a limited number of days—covered under Medicare. LTCI, on the other hand, provided at least some coverage for long-term care needs. Individuals usually decided to purchase LTCI policies when they were in their 50s, 60s, or 70s, and paid into the policy for 10, 20, or 30 years. The younger the policyholder was when he or she started a policy, the lower the premium. Younger policyholders, of course, paid premiums for more years. Individuals who waited to purchase LTCI paid higher premiums and faced increased risk that a policy could be denied or cost more because of age-related medical disorders such as diabetes, high blood pressure, osteoporosis, or other conditions.

LTCI was expensive, but not having it could be financially devastating should LTC become necessary. The uncertainty of whether one would ever need the policy created a dilemma for most people considering LTCI. It was possible that an individual could pay premiums for years, and then die suddenly and not need the policy; or that the individual could stay healthy and have the policy go unused. In either case, the benefit from the premium would be lost, resulting in no return for all of the dollars spent. Another uncertainty was that the federal government allowed the insurance industry to change premium amounts over time. While an individual might start paying for the insurance in his or her 50s, there was no guarantee the premium would remain the same as the individual aged. Sometimes annual premiums increased by as much as 40 percent over the life of the policy (Scism, 2015).

**David’s Risk Factors**

David was 52 years old and in good health. He had not suffered any life-changing ailments, and he ate a healthy diet and exercised regularly. However, Alzheimer’s disease ran in his family. David’s mother was diagnosed with Alzheimer’s disease at age 79, and lived with the disease until dying at age 83. David could not be sure whether he would live a long, healthy life or whether he was genetically predisposed to the disease that affected his mother. David knew there was a genetic component to these diseases and this worried him. It was this concern more than anything that caused him to consider LTCI. David was not worried about similar genetic dispositions with his wife because she was in good health and had a family history of longevity and freedom from serious diseases. Her grandparents lived into their 90s, and her parents were healthy and currently in their 70s.

**The Numbers**

David knew that he would have to make some assumptions in order to arrive at a reasonable decision about how to adequately plan for his and his wife’s LTC needs. First, he needed to estimate when LTCI benefits might be needed. David thought he would not need benefits until he and his wife were at least 80, hopefully 85. Since it was not possible to determine this with any degree of certainty, he chose 82 as a best-guess age for when he and his wife might need long-term care. Next was the question of the type and cost of long-term care that might be needed. Care options included home health care, assisted living, or nursing home residency. It was difficult to determine which of those he might need. David’s research told him that the median hourly rate for a home-health aide was $20/hour. Assisted living facilities had a national median yearly rate of $42,000 per person. The estimated cost of nursing home care was about $90,000 per year per person (Fidelity Investments, 2015). It was even more difficult to determine future costs. A 2010 study found costs for nursing home care increased by 14% in the prior two years, so he knew he would have to factor at least some cost increases into his analysis (Prudential Research Report, 2010).
Next, David estimated insurance costs by looking online for premium estimates. He learned that he could get a plan that paid $150/day ($54,750 annually) for up to three years for a premium of $162/month for himself. It would cost $243/month to get the same benefit for his wife. The combined cost was about $400/month, with a combined benefit of $109,000 per year for three years (Guide to Long Term Care, 2015). David thought he should plan on a benefit of $109,000 per year for three years in his calculations. These values were inflation-adjusted, meaning they were based on today’s costs but adjusted for price level changes between now and the time they would be incurred.

David also wanted to consider the option of self-insuring. Instead of putting $400 per month into insurance premiums, perhaps David should invest the $400 per month on his own and use the resulting investment portfolio for LT care. David estimated that his investment accounts would grow at a real rate of interest (after inflation) of about 3% per year. That is, he expected his investment return to be about 6%, with inflation at about 3%. He could calculate the real rate of interest as: (1 + nominal rate of interest)/(1 + inflation rate) = (1 + real rate of interest).

Instead of purchasing LTCI, David could put $400 a month into his own LTC investment fund. David wondered if he would be better off purchasing insurance or investing for long-term care on his own. Also, if $400/month would not give him comparable LTC benefits, how much more per month would he need to invest to match LTCI payouts? David sat down to think about his choices, and to decide whether to purchase LTCI or to self-insure by investing on his own to cover expected LTC needs.

References


Credit Union’s Office Operating Expense Ratio?

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Neil Tocher, Idaho State University

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Introduction

John served on the board of directors for Midwestern Community Credit Union (MCCU) for 20 years, as well as on its asset-liability management committee (ALMC). MCCU had survived the aftermath of the 2008 financial crisis quite well, and still maintained a strong net-worth ratio of 8.8% in February, 2013. A net-worth ratio of 7% or more was defined as “well capitalized” by the National Credit Union Administration (NCUA). Although John had been examining the numerous pages of MCCU financial data each month for years, he observed during the March, 2013 ALMC meeting that the cost of office operations and assets was noticeably higher than those of the credit union’s peers. John decided he needed to better understand MCCU to determine whether the credit union should make any operational changes, and if its current operation was financially sound.

The Financial Ratios

Table 1 shows the February, 2013 MCCU profitability, or return-on-assets (ROA) analysis. MCCU had an asset size of $140 million, with $127 million in deposits. The most recent peer group ($100 to $250 million in asset size) credit union data available was year-end 2012. John had long known that due to increased competition resulting from an above-average number of banks and credit unions in the local area relative to the population, loan interest rates were lower than the national average in MCCU’s region. Because loans are the major asset for credit unions, and since MCCU had been very competitive in pricing loan rates, John knew that their asset yield was well below the nation’s peer group, despite MCCU’s having a loan/deposit ratio of 82.8 % compared to 65.6 % for its peer group. (Rates are typically greater on loans than investments).

<table>
<thead>
<tr>
<th></th>
<th>MCCU 2/13</th>
<th>Peer Group: 12/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Yield</td>
<td>3.30 %</td>
<td>4.31 %</td>
</tr>
<tr>
<td>(less) Cost-of-Funds</td>
<td>0.51 %</td>
<td>0.60 %</td>
</tr>
<tr>
<td>(equals) Gross Spread</td>
<td>2.79 %</td>
<td>3.71 %</td>
</tr>
<tr>
<td>(less) Net-Operating Expense Ratio</td>
<td>2.47 %</td>
<td>2.76 %</td>
</tr>
<tr>
<td>(equals) Operating ROA</td>
<td>0.31 %</td>
<td>0.95 %</td>
</tr>
<tr>
<td>(less) Provision-for-Loan Loss</td>
<td>0.0 %</td>
<td>0.33 %</td>
</tr>
<tr>
<td>(equals) Return on Average Assets</td>
<td>0.31 %</td>
<td>0.62 %</td>
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The ALMC had looked at options to increase the credit union’s rates earned on investments. One was going out longer on maturities, since the yield curve had a typical positive slope. However, they also noted that this would have limited benefit as the longer-term rates were still low, and this would also increase their interest-rate risk. John saw that MCCU’s provision for loan loss was zero for the first two months of 2013, but was expected to be about 0.2% for the year. And he recalled that ROAs tended to fluctuate from year to year. Looking back just 12 months prior, MCCU had an ROA of 0.53%, while its peer group had an ROA of 0.48%.

Table 2 shows the components of the 2.47% net-expense ratio for MCCU. Note that MCCU’s net-expense ratio was considerably less than its peer group. Expense ratios are measured as the expense-to-total assets. The 1.55% office operations/assets (OO/A), compared to the peer group ratio of 0.71%, was noted by the ALMC at the March meeting. As they discussed this ratio, data showed that it had been high for some time, including the time period before the current CEO started a few years earlier. It was also noted that a small part of this difference may be attributable to some expenses coded by MCCU as office operations that may be coded differently by other credit unions in the peer group. For example, although MCCU has a higher loan/deposit ratio than its peer group, it had a lower loan servicing expense. At the March ALMC meeting, the committee decided that management should further examine the OO/A ratio.

<table>
<thead>
<tr>
<th>Table 2: Net-Expenses/Assets</th>
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<tr>
<td></td>
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<tr>
<td>Salary and Fringe</td>
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<tr>
<td>Office Occupancy</td>
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<tr>
<td>Office Operations (OO/A)</td>
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<tr>
<td>Education and Promotion</td>
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<tr>
<td>Loan Servicing</td>
</tr>
<tr>
<td>Professional and Outside</td>
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<tr>
<td>Deposit Insurance</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total Expenses/Assets</strong></td>
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<tr>
<td>(less) Non-interest Revenue</td>
</tr>
<tr>
<td><em>(equals)</em> Net-Expenses/Assets</td>
</tr>
</tbody>
</table>

More Information Was Needed

The following week, John met with MCCU’s chief financial officer, Meredith, to get a better understanding of the office-expense ratio. He learned that four major drivers accounted for about 67% of the office-expense ratio: ATMs, debit card program expenses, data fees, and depreciation of branches and furniture. Meredith also showed John that in a 2013 nationwide sample of 165 credit unions of similar size (average asset size = $138 million) the average had four ATMs and three branches. In comparison, MCCU operated 11 ATMs and five branches. ATM expenses included the variable costs of processing transactions as well as machine maintenance. Fees to run on different ATM networks had a floor (a fixed cost), but also increased with more transactions. Since MCCU owned the ATMs, their ATMs also had a depreciation cost (a fixed cost). Second, the debit card program expenses were largely variable costs, including processing transactions and handling fraud (such as issuing new cards when breaches happened and covering disputed and fraudulent transactions). MCCU had high usage of its debit card program since its “value checking” account
required 10 debit card transactions per month to qualify for a higher interest rate, and because a large percentage of its membership was young adults, who tended to have higher debit card usage. But they also received about $0.30 per debit card transaction, which was an important source of fee revenue. Third, their data fees, largely fixed costs, were relatively high from offering up-to-date technical services such as mobile and home banking. Data fees also came from the core processing system of the branches and email usage. An extra, but temporary, operating expense came from the process of changing core processors. They were paying for two processors for a short time period as they finished an old contract, with the expected benefit of reducing future processing costs by 20% with the new core processor in place. Finally, MCCU’s branches had increased from one in 1999 to five by 2011. One was a small, rented satellite branch. The others came as opportunities appeared to better serve members, including a “purchase and assumption” of a small credit union in 2000 as well as building new branch locations in 1999 and 2006. In the meantime, MCCU needed to grow into their branches since a larger asset size per branch would bring efficiencies and a lower OO/A. For example, according to Bancology (2015), the median deposit size for a credit union branch was $61 million in 2015. This would translate into a credit union asset size of about $68 million. But John also knew that MCCU resided in a rural region with low population density, which generally leads to smaller and less efficient branches. MCCU’s branches were being depreciated over 40 years, while the furniture and equipment were being depreciated between three to seven years. MCCU planned to examine whether it would make sense to close any branches in the future.

John also recalled that MCCU moved into new corporate offices in 2008 (rented, not owned), which were expanded in 2012 to include a call center. The flip side to the extra operating expense of the call center was quicker and better service to older members, who tended to still prefer to contact the credit union via phone. John felt this was creating good value for the members.

What MCCU Was Able and Unable to Change

MCCU’s management had already switched their ATM and debit card processor, which accounted for about 20% of total office operating expenses. This change was expected to reduce processing costs by 20%. In their cost review, they also made some smaller cost-saving changes. These included reducing janitorial costs and implementing centralized purchasing for supplies to get the best pricing. However, many of the office operating expenses were fixed costs that could not be reduced in the short run. These included having an above average number of branches and ATMs for a credit union of their size. Was there something else MCCU could and should do?

References

Introduction

In the fall of 2014, Alex Behring, CEO of Burger King (BK), faced a quandary on where to locate his firm’s headquarters. BK had announced a merger with Tim Hortons of Canada to create a behemoth in the fast-food business. The merger was largely non-controversial as it offered improved economies of scale and new products to grow BK’s breakfast offerings. Controversy, however, came in deciding where to locate the headquarters for the combined firm. Like other CEOs, Behring was tempted to relocate BK’s headquarters (and tax residence) outside the U.S. in a corporate “inversion” move to reduce the firm’s tax bills and increase the firm’s value.

BK, however, faced an outpouring of negative social media when reports suggested the firm would move its tax residence to Canada. In fact, consumers generally viewed the merger and tax inversion as one action. In one thread, nearly 3,000 largely negative posts delivered messages like “If you do an inversion deal, burger king will NEVER have me or anybody in my family as a customer ever again” (Brody, 2014). Indeed, relocating one’s tax residence to avoid taxes generated strong negative feelings among politicians and citizens with nationalistic feelings. Given tax and customer concerns, should Behring ask his board to keep a U.S. tax residence?

Corporate Tax Inversions

The United States had the highest corporate tax rate in the developed world: 40%. Regardless of the location of operations, firms were obligated to pay this rate on their profits. The “effective” rate a firm paid, however, was often lower due to deductions. This high rate motivated U.S. firms to merge with foreign firms in low tax countries, and subsequently move their tax residence. By 2014, several U.S. firms including Pfizer, Walgreens, and Medtronic pursued tax inversion strategies (Mider, 2014). In late 2014, BK joined these firms with a planned inversion of its own.

BK acquired Tim Hortons, Inc., a Canadian fast-food restaurant, in a deal announced on August 26, 2014. Their combined 18,000 outlets would have $23 billion in sales. Both firms were to keep their headquarters in their original locations. However, the new global firm would move its tax residence to tax-friendly Canada (BK Press Release, 2014). Tim Hortons was an iconic and beloved Canadian brand. Troubled as U.S. consumers were, Hortons’ customers were even more outraged, and they expressed this in social media. Hsu and Lawrence (2012) pointed out that such social media outcries affected “word of mouth” (WOM) and can damage brand equity.
In reality, the tax rate aspect of the deal was quite modest (Sahadi, 2014), as BK’s U.S. effective rate was about 27.5% and Canada’s was 26.5%. Experts pointed to another, far greater tax benefit, however. Profits repatriated to a Canada-based BK would not face double taxation as they would in the U.S. This amounted to a 40% tax on $500 million a year in foreign income.

The market’s response was clear: Hortons’ stock price went up by 19%, a common response for targets of acquisitions. BK shares went up by 19.5%. Combined, these increases generated $5 billion in new market value. How much of this increase belonged to synergy benefits versus tax benefits was debatable, however.

Before finalizing the deal, Behring had a notable example to consider. Walgreens had purchased 45% of Swiss firm Alliance Boots GmbH in 2012, with an option to buy the balance. When completed, this move would create the first global pharmacy enterprise with 11,000 stores in 10 countries, and a global wholesale distribution network (Walgreens Press Release, 2014). The merger held the potential for major cost efficiencies, just as BK hoped to achieve through its merger. Moreover, moving Walgreens’ tax residence to Europe offered major tax advantages. U.S. investors reacted favorably over the summer of 2014 to the anticipated Walgreens move.

Although Walgreens had sophisticated social media capabilities (Bruell, 2012), social media forces went to work in a significant effort to disrupt the merger (Carr, 2014). One group, Change to Win, secured more than 300,000 social media responses, in part with a “Walgreens gone wrong” Facebook page. After a blizzard of negative publicity, Walgreens ultimately announced on August 6, 2014 that it would continue the merger, but abandon the tax inversion effort. The firm kept combined corporate offices in Chicago (Ziobro & Calia, 2014). Wall Street did not agree with this decision, and Walgreens’ stock price dropped by 14.3% the day of the announcement.

Behring’s quandary at BK had similarities to Walgreens’ situation with one difference. Both firms stood to gain economies of scale through mergers. As noted, early stock market reaction seemed to favor both mergers and related tax inversions. Moreover, as consumer-oriented firms, both companies had to consider the negative publicity, fueled by social media, of inversion deals. However, a significant difference came in their customer bases. Although both served a wide range of consumers, Walgreens’ drug sales were largely funded by government-run health plans, such as Medicaid and Medicare. Hence, Walgreens faced political pressures that BK did not.

Practitioners generally supported tax inversions (Chambers, 2014; BakerHostetler, 2014) as a strategy, while academic research (Capurso, 2016; Cloyd, Mills, & Weaver, 2003; Desai & Dharmapala, 2009) raised doubts on the long-term benefits of inversions. The U.S. Congress and administration generally opposed inversions (Capurso, 2016), and considered legislation to limit them (Walker, 2014).

Given tax and customer concerns, should Behring ask his board to keep a U.S. tax residence?

References


Country Crock: Healthy Recipe Leaves Bad Taste in Consumers’ Mouths

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Timothy E. Burson, Queens University of Charlotte

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Introduction

“You have ruined waffles, English muffins, and toast” (Quirk, 2015). In August 2015, this comment was one of the nicer consumer posts on Country Crock’s Facebook page after the brand had revised its product to meet consumer pressures for healthful offerings. Amid a wave of negative customer reviews, Country Crock had to decide whether to continue its revised healthy recipe; return to its previous Country Crock recipe; or try some other revised recipe.

Consumer-Driven Food Product Revisions

By 2015, numerous food marketing giants had begun revising recipes of brands—even successful brands—to meet increasing consumer demands for healthier (and simpler) food ingredients. Hershey, for example, had begun replacing artificial colors and flavors in its products with more natural ingredients (Doering, 2015). Between 2011 and 2015, Tyson Foods had reduced human antibiotics in its chicken processes by more than 80%. The company had cited the need for transparency in its social media in connection with the changes (Doering, 2015). Other food manufacturing giants such as Campbell, General Mills, McDonald’s, Mondelez, and Nestlé had made similar pushes toward healthier processes and products (Doering, 2015, Gagliardi, 2015).

Such moves seemed reasonable since a 2014 Nielsen study had revealed that over 60% of Americans identified the absence of artificial colors and flavors as affecting their purchase decision (Doering, 2015). Ken Cook, president and cofounder of Environmental Working Group (a nonprofit research and advocacy group), explained that “the way the public forms an opinion has changed . . . a single blog or tweet [can] catch fire and churn up a discussion that wouldn’t have happened a decade ago . . . [Brands] are very vulnerable” (Doering, 2015).

Country Crock

Butter-substitute spreads had been sold for decades as a healthier, vegetable-based alternative to butter that was lower in calories, total fats, and saturated fats than butter (Watson, 2014). Unilever’s brand overview on its Country Crock website provided a consistent message in stating that “[Country
Crock] satisfies the priorities of today’s most health-conscious households, bringing you a deliciously creamy alternative to butter with 0g trans-fat per serving and no hydrogenated oils. With 70% less saturated fat, 30% fewer calories than butter and no cholesterol, you can feel great about cooking with Country Crock® Original Spread” (UnileverUSA.com, 2015).

Within these health-conscious households, CountryCrock.com specifically provided tips for the busy mom on how to provide healthy options for her kids while balancing her time commitments (CountryCrock.com, 2015).

Citing consumer concerns about artificial ingredients in late 2014, Unilever changed the recipe of its I Can’t Believe It’s Not Butter spread (a butter-substitute similar to Country Crock) (Watson, 2014). The revised, I Can’t Believe It’s Not Butter recipe seemed to generate little public reaction among consumers.

On August 3, 2015, Country Crock announced that it would be “introducing new, simpler offerings with a country-fresh taste made with real ingredients including delicious oils, purified water, and a pinch of salt” (PR Newswire, 2105), although it did not provide a date for the change. Mike Faherty, the general manager of the Baking, Cooking & Spreads Company for Unilever, North America, announced:

*We are continuously listening to consumers who are asking more from today’s food brands to deliver great tasting products that they can trust and are made with fewer, simpler ingredients. In making these changes, we remain true to our brand heritage by bringing the country-fresh taste families know and love . . . The new, improved Country Crock Original, Churn Style, and Light varieties are made with no artificial preservatives or flavors. Delivering real taste from real ingredients, Country Crock buttery spreads contain 0g trans-fat per serving, no partially hydrogenated vegetable oils, and no cholesterol.* (PR Newswire, 2105)

**Consumer Reactions**

Consumers began voicing displeasure with the new recipe, however, later that month. As of August 26th, the Country Crock website contained over 210 one-star reviews and only 31 five-star reviews (Snyder, 2015). Many consumer comments on the website, as well as on the company’s Facebook and Twitter pages, were scathing:

*New recipe is terrible!!! I made toast for my grandson, and he spit it out and said it was ruined.*

*It is truly inedible, smells horrible, and ruins any food you put it in or on.*

*Revolting is too nice a word for this review . . . this stuff is completely inedible as in it literally ruins whatever food you just had the unfortunate experience to have placed in your mouth.*

*Threw our food away because we thought it was spoiled. After a couple of meals, we realized you changed the recipe and that it was the Country Crock . . . We will be searching for a new butter!* (FoxNews.com, 2015; Quirk, 2105)
How could responding to trending market demands go wrong? Meeting consumer health demands could secure Country Crock’s future. But with so many consumers voicing a preference for the previous recipe, it could, instead, jeopardize the viability of the brand. For Country Crock, choosing between consumer health demands, a previous brand recipe, or finding some other recipe option seemed a precarious decision. How should Country Crock respond?

References


Radosta Oil: Back from the Brink

Lorin Walker, University of Central Missouri
Matthew VanSchenkhof, University of Central Missouri

Current Situation

The press hinted at a possible hostile takeover, and Jerry Bailey knew his job was on the line. Bailey was keenly aware that things needed to change quickly. Radosta Oil’s stock price was in a precipitous and continuing slump, having fallen by almost 20% over the last 12 months, while competitors’ stock prices were holding steady or slightly increasing. In addition, morale was at an all-time low, with people leaving the company in droves. The senior team was traumatized and casting about for direction. Bailey had been named Radosta Oil’s chief executive officer in the wake of the former CEO’s sudden and traumatic death. The last four months had been a maelstrom of activity for the recently appointed CEO, and now he was expected to present his turnaround plan of action to the board of directors in five weeks. Bailey had just finished a whirlwind, three-week tour of Radosta Oil, and was creating a cohesive, balanced scorecard (BSC) strategic approach to map out a clear and integrated path to recovery.

Company Background

Radosta Oil was a major oil company in the United States. It originally focused on oil- and gas-related activities in Texas, Oklahoma, and Louisiana, and now had operations across the globe. Its headquarters were in Middleton, Oklahoma, and its field operations teams were located in branch offices and temporary project sites.

Radosta was primarily focused on upstream oil work, meaning oil exploration and extraction, in preparation for sale to downstream processors and refiners. The company’s work was divided among HR and administrative (25%), field exploration (50%), and production operations (25%).

Radosta was a publicly traded, mid-major, integrated oil company with $531 billion in annual sales and 8,000 employees in 14 countries. Radosta Oil’s stock price had declined over two years from $61 to $43. This decline was raising serious questions within the investor community, and Radosta was being talked about in the press as a prime takeover target.

Radosta’s culture reflected the “good old boy,” long-term relationship nature of much of the oil industry. Personal relationships were important, and helped to streamline decision-making, although confusion about company objectives and structure could (and did) slow down operations. The
company and its employees celebrated “big finds” (increasingly rare), individual performance, and camaraderie within departments.

**Bailey’s Challenge**

Bailey faced a tough situation. In addition to the slump in the company’s stock price, overseas oil exploration opportunities were increasingly difficult to execute, except through partnerships with other established players. Radosta had historically been an independent, go-it-alone company.

**Table: Radosta Oil Performance vs. Oil Industry Average Performance**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Radosta</th>
<th>Industry</th>
<th>Metric</th>
<th>Radosta</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>3.93</td>
<td>5.81</td>
<td>Compliance with Regulations</td>
<td>96.3%</td>
<td>98.7%</td>
</tr>
<tr>
<td>Lifting cost per barrel ($)</td>
<td>$47</td>
<td>$21</td>
<td>Administrative response (hrs)</td>
<td>36</td>
<td>18</td>
</tr>
<tr>
<td>Barrels produced per day (M)</td>
<td>3.3</td>
<td>4.4</td>
<td>Cycle time (% of standard)</td>
<td>83%</td>
<td>93%</td>
</tr>
<tr>
<td>Stock price (6 month avg.)</td>
<td>$38</td>
<td>$63</td>
<td>Accuracy (% of standard)</td>
<td>95%</td>
<td>97%</td>
</tr>
<tr>
<td>Revenue per employee (M)</td>
<td>$1.4</td>
<td>$3.4</td>
<td>Deadlines met (%)</td>
<td>52%</td>
<td>68%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>7.96</td>
<td>9.98</td>
<td>Process improvement (% ↑)</td>
<td>14%</td>
<td>27%</td>
</tr>
<tr>
<td>Average size of discovery (B)</td>
<td>3.1B</td>
<td>16.5B</td>
<td>Turnover (% annually)</td>
<td>3%*</td>
<td>5%</td>
</tr>
<tr>
<td>Partner retention (over 8 years)</td>
<td>41%</td>
<td>73%</td>
<td>Promotion from within (%)</td>
<td>79%*</td>
<td>56%</td>
</tr>
<tr>
<td>Performance to plan</td>
<td>74%</td>
<td>94%</td>
<td>Cross-training (%)</td>
<td>26%</td>
<td>31%</td>
</tr>
<tr>
<td>Local content (% local hires)</td>
<td>12%*</td>
<td>8%</td>
<td>Industry certification hours (annual)</td>
<td>36</td>
<td>80</td>
</tr>
<tr>
<td>Return on investment (ratio)</td>
<td>3.2</td>
<td>6.9</td>
<td>Team-building training hours (annual)</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Number of claims/project/year</td>
<td>3.7</td>
<td>1.2</td>
<td>Employee satisfaction (1-5, 5 highest)</td>
<td>3.5</td>
<td>4.3</td>
</tr>
</tbody>
</table>

* Denotes better than industry

Bailey’s analysis of current metrics (table above), combined with the observations he’d made during his tour of operations, led him to three conclusions:

1. Lease scouting teams were stuck in the past, ignoring prime opportunities for big discoveries that could only be exploited by partnering with well-established companies in high-percentage, big-find regions. Even on the rare occasion when Radosta had worked to create partnerships, it was unable to garner the back office support to execute its commitments and hold up its end of the partnership agreements. Consequently, partnerships were short-lived. Radosta Oil lacked a focus on big discoveries, which caused higher lifting costs and lower profits.

2. Radosta’s production arm concentrated on the wrong things. It was sinking enormous sums of money into expensive, safe-bet plays for secondary and tertiary oil recovery from existing wells, versus focusing on cost and efficiency in managing existing properties. This, in turn, added to lifting costs that further risked profitability.

3. Radosta’s back office processes were in a shambles, resulting in high degrees of frustration, employee turnover, payroll mistakes, and delays in things such as expense reimbursements. The situation also caused consternation among other parts of the company that relied on back office operations to support their activities. High turnover meant that knowledge was lost when people left, often making those still there responsible for covering activities they barely
understood. In addition, the more complex needs of newer, high potential plays and the knowledge-sharing demands of partnership opportunities meant that knowledge sharing across department boundaries was crucial. These needs were at odds with the company’s historic, silo-mindset culture.

Bailey believed strongly that Radosta must partner with other companies to succeed. However, the notion of activities with new partners was at odds with Radosta Oil’s traditional approach. He was also painfully aware of how lack of back office support hindered execution of company initiatives. This created consequences of low performance and damaged credibility with stockholders. If the company did not change, and soon, Bailey had the uncomfortable feeling that Radosta Oil might soon be swallowed by a more progressive competitor.

**Balanced Scorecard**

Bailey was familiar with balanced scorecard applications, which employ a four-cell grid to track various factors important to short- and long-term success. He had produced results (and won team and partner support) by using various versions of it in past positions.

Each cell of the balanced scorecard grid described the current state of one of four important factors: financial performance, internal business processes, learning and growth, and partner (stakeholder) satisfaction, as described by Kaplan & Norton (1993). Sub-measures included within each cell could be tracked monthly or quarterly to measure interim progress. For example, within the financial cell, Bailey tracked ROA (return on assets), revenues per employee, and lifting costs. Bailey had often adapted this approach to include diverse items that were important in real time, such as partnership relations, efficiency of administrative processes, and cost of production, to drive integrated change across organizations.

Industry experts believed that oil and gas exploration and production activities would continue to increase. New technology, increased economic activity in emerging countries, and continued demand for reliable sources of energy would likely sustain this trend for the next several decades.

**Bailey’s Task**

Jerry Bailey was keenly aware that things urgently needed to change, and that he was expected to present his findings and recommendations to the board of directors in five weeks. He knew he must win the support of the ten-member board of directors, the nine-member senior team, and business partners. He needed to produce a cohesive BSC strategic approach to set a clear direction, and then quickly create an actionable plan to implement it. Failure to do so would almost certainly be the death knell of Radosta Oil as an independent entity, something he desperately wanted to avoid.

**References**

**Woman in the Eye of the Storm**

*Monika Hudson, University of San Francisco*

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**Stay or Go?**

Sharon Jones realized she finally had her office arranged the way she liked it. She sat at her desk, facing her large office window with its remarkable view of Lake Erie, sipping from a cup of now-tepid tea. Sharon was enjoying a rare moment of freedom, coupled with calm. Looking down at her desk calendar, Sharon was jolted out of her reverie as she remembered she actually had only 10 more days to submit the written statement for her third-year performance review. But was she ready for this type of scrutiny? And as the firm’s only African American female attorney, did she really want to remain employed with Barcoe Green?

**Background**

Barcoe Green was founded in Cleveland, Ohio in 1990 by Bill Barcoe, Sr. and his law school colleague Jim Green. By 2006, the firm had grown to include over 100 attorneys working in the area of corporate law in Michigan, Indiana, and Ohio. The home office, where the founding partners and most personnel operated, was located in Cleveland. Of the 45 attorneys at that location, 32 were white males and only two were attorneys of color. Barcoe Green had done well even during economic downturns and was currently cited as one of the fastest growing law firms in the region.

**The Profession**

Even as women reached numerical parity with men as law students, their professional outcomes continued to lag behind those of their male peers. National statistics showed women were less likely to be found at the upper echelons of legal firms or to report career stability or job satisfaction. These also revealed that “women make up only 17 percent of partners at the firms we surveyed, even though they have represented about 51 percent of law school graduates in the last 20 years . . . of the women partners who work at multi-tier firms, 45 percent have equity status. In comparison, 62 percent of the male partners at these firms have equity” (Mystal, 2010). With lingering questions over gender disparity came lawsuits and claims of gender discrimination.

The situation was even more dire for attorneys of color. “Black lawyers accounted for 3 percent of lawyers at big firms last year, a percentage that has declined in each of the last five years. And the proportion of black partners at such law firms remained stagnant at 1.9 percent during the same period, according to the 2013 diversity scorecard published in the June 2014 issue of *The American Lawyer*” (Olson, 2014). The same study also found that other minorities were now registering a larger
presence among large legal firms, with Asian Americans taking the biggest share of positions and Hispanics the next largest, surpassing blacks for the first time.

The Individual

Sharon Jones had excelled throughout her educational career, especially in law school, where she often set the pace in her classes. Her high grades and active Law Review involvement had resulted in a number of recruitment offers, including high-profile firms in major urban centers. In the end, she accepted a position with the corporate law firm of Barcoe Green in Cleveland, about two hours away from her husband’s family in Pittsburgh. Sharon felt Cleveland’s housing prices and its northeastern Ohio location would support her longer-term interest in balancing work and home life.

During her initial 30 months at Barcoe Green, Sharon was actively mentored by the firm’s two senior partners. One of the firm’s founders made it a point to introduce her to several of his corporate clients. Sharon actively sought out key contacts in her family networks to help her in securing new contracts for the company, gaining a reputation as an emerging “rainmaker.” She’d been notified that the local bar association was considering nominating her for the state bar’s “rising star” award as one of the top 20 lawyers in Ohio under the age of 40.

Finding she really enjoyed bankruptcy work, Sharon intentionally tried to avoid the conflicts and politics swirling about the company by focusing on her cases and minimizing her out-of-office interactions with her peer legal associates. She proudly noted that she “did not do a lot of off-site peer events” because she did not play golf, did not drink, and felt that it was inappropriate to participate in too many after-work gatherings.

Approaching the end of her third year, however, Sharon could not ignore the growing sense of resentment and resistance coming from various law clerks and some of her peer associates as she worked to advance her career. During a Barcoe Green case conference for the City of Detroit’s filings, one of her white male peers had repeatedly offered comments about applicable torts in a way she felt indicated he thought she was not sufficiently knowledgeable about the liability angles the firm wanted to pursue. When Sharon directly approached her colleague about the incident, he flat out contradicted her impressions, noting that she needed to “lighten up and not be so sensitive.” He further stated, “maybe if you hung out after work with us more and didn’t just brown-nose the partners, you’d understand I was just kidding.” While she had walked away without saying more at that moment, Sharon spent the next several days mentally replaying the conversation and pondering its implications.

Sharon had also overheard two of the legal secretaries having a quiet lunchroom conversation stating, “they say the partners are protecting ‘her’ because they want to show the Cleveland legal community the company can retain a black associate.” Although her name was not used, given that Sharon was the firm’s only African American female attorney, it was pretty clear to her who was being discussed.

Her home life was also affected by her worries about how she was being perceived on the job. Sharon found herself torn between wanting to put in additional billable hours at Barcoe Green and spending time at home with her husband. While Tom had not complained, Sharon felt that he was getting tired of handling all of the cooking and cleaning along with his own workload as an architect. Even she noted that her marriage was beginning to feel more like a struggle than a shared dream.

Is This the Place for Me?
Sharon knew her third year at the firm was make or break time: she would either so impress the firm’s partners that they would retain her and consider her for a partnership when she reached her seventh year or she would be terminated. Barcoe Green had a reputation for aggressively weeding out legal associates prior to their fourth year to avoid additional human resource liabilities. Sharon was therefore at a crossroads: was she doing enough to be retained and, if not, could she do more of whatever was needed during the next 12 months to demonstrate her value as a firm asset? Given her perceptions about the attitudes of her peers and subordinates and the possibility that the partners might learn about them, would generating more billable hours be persuasive enough?

Sharon considered whether or not she should approach one of her mentoring senior partners to get a more formal assessment of her performance. But since Bill Barcoe, Jr. had just complimented her on one of her filed briefs, she worried that he might ask what was causing her concern. Sharon was not interested in giving Bill the impression that she had anything other than excellent professional relationships with her peers. She knew that the last African American legal associate had been described as “aloof and not playing well with others.” Sharon felt that she had attempted not to be perceived in the same way: she was the first to volunteer for the firm’s annual, pro bono community legal clinic, she had manned the sign-in table for the last two years at the official Barcoe Green company picnic, and she frequently offered to review her peers’ briefs before they were filed, even at the cost of spending evenings with Tom.

Sharon had recently read a print media article that discussed how an African American vice president at a major international insurance firm routinely coached younger black employees, stating “they’d have to work twice as hard to be equal” (G. Nichols, quoted in Hymowitz, 2016, p. 19). Given her work history, Sharon wondered what more she could do to assure her third-year evaluation would be stellar. Further, considering what was going on at home, was the extra effort really worth it? Was it time to start looking for a new job?

References


Kim Hamel and Her 90-Day Plan

Dawn E. Chandler, Queens University of Charlotte
Steven Cox, Queens University of Charlotte

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Introduction

Kim Hamel sat musing at her desk in her new office, having learned a week prior that she had been promoted to lieutenant in the police force of a mid-sized United States city. She was only the second woman to achieve this position in the force’s nearly 100-year history. Even though Kim had been with the department for 11 years, she knew that people would scrutinize her performance immediately to assess whether she could succeed at a senior level. Part of her wanted to “take things one day at a time” early in the role, focusing on being her authentic self. On the other hand, she had heard of the notion of creating a 90-day plan to help guide her efforts through the transition. Should she “wing it,” or formalize a plan to make an immediate impact? If she chose the latter, what should the plan look like?

Kim’s Background

Kim always knew that she wanted to be in law enforcement. She and her childhood best friend had pretended to be Cagney and Lacey, two female police officers in a popular television sitcom when they were ten years old. She felt drawn to public service. Following this calling, she majored in public administration in college and upon graduating applied to the police academy in a mid-size city within 30 minutes of her childhood home. During the eight years she worked for the city, she found police work to be highly rewarding. Nonetheless, she aspired to be part of a lower crime-rate area closer to the city where she was raised.

Fortunately, her home city posted a job opening for a police officer, for which she quickly applied and interviewed; she received an offer and accepted it. Over the next four years, she worked in two primary capacities. The first was as a law enforcement officer “on the beat,” where she maintained law and order and preserved peace, made arrests and enforced local and state laws, and interacted with other enforcement agencies. Second, she eventually became a detective, a position in which she was responsible for investigating crimes and gathering evidence related to solving them. Both roles involved interdependence with people at all levels in the force, both officers and non-sworn employees (dispatchers and other shift workers), and with supporting city agencies. Kim took time to build rapport with everyone with whom she interacted, regardless of seniority and position.

Over time, Kim desired to advance to broader responsibilities that would give her greater scope to help her city to be a safe one. Also, she wanted to grow her skills and be challenged. When two
sergeant positions (akin to first-line supervisors) opened, she applied. She did have concerns about whether to do so, as she had experienced first- and second-hand the challenges that female officers faced in law enforcement. For example, just as she applied for the positions, her son was born. Her captain asked if she was truly interested in pursuing the promotion. She later mused that he would not have asked her male colleagues the same question. When other women in her department became pregnant, their male colleagues assumed that they would quit. If a female officer or administrator wore a suit rather than a uniform to a meeting, community members and city officials assumed that she was not a member of the force. Female officers and sergeants were not invited to golf events, which drew wide participation by male officers, and when male and female officers were equally qualified and held the same responsibilities, male leaders publicly praised the male officers while remaining silent about the women’s achievements.

In spite of concerns about challenges she and her female colleagues faced, she underwent the promotion process. Eight officers applied, six of whom were men with similar experiences. The process was arduous and included in-basket exercises to test time management skills, a challenging written exam, submission of extensive documentation of abilities, a panel interview with senior administrators, a role play with community members, and at the end of the process, a one-on-one interview with the Chief of Police. Kim and another officer were promoted. The Chief told Kim that her professionalism during the interview process, level-headedness, conscientiousness, proactive style, responsiveness to past feedback, and managerial potential distinguished her from the other candidates.

Kim’s training as a sergeant involved four-month rotations directly overseeing five detectives and officers; each new rotation resulted in a new team composition. Her main approach to leading the teams was to emphasize frequent communication and partnership with her officers. During each four-month cycle, she met with each of the officers one-on-one for the first two weeks to discuss their strengths, weaknesses, and goals, as well as how she could be a resource and coach for them. During the second month, she conducted a mid-cycle performance review, and then informally met to offer feedback and act as a resource between the third and fourth month before a formal performance appraisal.

She took a different leadership approach with each officer she oversaw. For example, in one case, Kim did a handful of “ride alongs” with one junior officer—in which she rode in the passenger seat during his patrol shift—to offer detailed insights and feedback. In another case, she delegated initial search and arrest warrant review to a female officer who aspired to become a sergeant as a way to develop her skills and knowledge. Kim allowed her to set goals, and met with her less frequently than with the others to discuss progress toward each goal. Over the next three years, in 360-degree feedback, her rotational teams lauded her as an excellent listener, team-oriented, and interested in ensuring the success of the department as a whole.

**The Lieutenant’s Role**

Kim’s aspirations to advance and enhance the well-being of her community continued. Furthermore, she now had two young children to keep safe growing up in the city. She vied for the lieutenant’s position against five others through a process similar to that for a sergeant. Her Chief told her that her leadership skills and strong relationships within the force and city distinguished her as a candidate. Having won the position, she would manage eight sergeants who were formerly peers; and indirectly manage 22 of their officers, as well as four dispatchers and others working during each of her shifts. The role of a lieutenant involved supervision and operational oversight of sergeants, officers, and
nonsworn employees; coordination of enforcement services; and providing assistance to the assigned captain (there were three in total in the force) and the Chief.

During the promotion process, she thought carefully about key challenges and opportunities that she would face as she entered the role. For one, two of the sergeants she would manage had weaknesses that were impairing their ability to effectively manage their officers. In one case, the sergeant lacked confidence and was struggling to be perceived as a supervisor by people who were formerly his peers. In the other, the sergeant lacked time management and organization skills. Furthermore, her team of sergeants had never operated together, and would need to communicate frequently and coordinate effectively if they were to achieve goals.

The 10-person senior leadership team (including the Chief and captains), of which she was now a part, tended toward conformity of thought and avoidance of conflict of any kind in their strategic meetings. She had a good rapport with the Chief, with whom she would now be working more closely. However, he was relatively new in the role and so she did not have a strong understanding of his daily work style and short-term aspirations for the force or her position. During the interview process, he signaled an interest in her partnering with another lieutenant to design a leadership development program for the force.

As crime reduction was critical to the community’s well-being, she would also need to immediately partner with the city’s Public Works Division and Planning Department to enforce codes. Separately, improving the city’s quality of life hinged in part on good relationships within the community. The primary vehicles for reaching the broader community were the neighborhood watch committees and social media, through which individuals received communication from the police and where tips to solve crimes were posted. The former typically consisted of a handful of highly engaged citizens. User numbers for the latter—people who posted tips and signed up to receive emails—were currently dismally low. Lastly, some non-sworn employees felt disconnected from the rest of the department, representing a morale problem. As a final consideration, Kim was interested in eventual promotions to captain and perhaps Chief of Police.

**The Decision**

Kim realized that there was much to be done. Should she focus on things day-by-day, allowing events to unfold naturally? Alternatively, in one of the women’s leadership conferences she had pushed to attend, a speaker discussed the importance of having a 90-day plan whenever transitioning to a new role. A 90-day plan emphasized what one would do in detail over three months. The goal of the plan would be to maximize impact and climb the learning curve more quickly. If she decided to create a plan, what should it look like? For one thing, she knew about the notion of SMART (specific, measurable, achievable, relevant, time-bound) goals as a tool to help think strategically about what could be done in a particular timeframe. She also knew that impressions about her ability to operate at a senior level would be forming quickly, and that she needed to make up her mind about how to proceed.
Domelights.com: An Examination of Who Is to Blame for a Hostile Work Environment

Charles P. Wilson, Rhode Island College Police (Ret.)
Shirley A. Wilson, Bryant University
Harsh K. Luthar, Bryant University

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Introduction

“Guns don’t kill people. Dangerous minorities do” (Walters, 2009). Comments like these posted on an Internet website used and operated by members of the Philadelphia Police Department (PPD) left many minority members of the police department feeling that the culture of the department was biased and anti-minority. Many local residents also shared these negative perceptions because of their past dealings with the PPD. Internally, minority officers alleged that the department and the city turned a blind eye as White PPD officers used to write insulting and racist posts about minorities on a website known as Domelights.com. The posts were sometimes written during duty hours using department-issued computers. Minority officers complained that the website created, encouraged, and continued a pervasive and severe hostile working environment for minorities. Further, the minority officers felt the department and the city had helped to create a hostile, exclusive culture by allowing White officers to view, post, and discuss racially offensive material on the site. Externally, all community residents had access to this demeaning and demoralizing website.

A number of White officers had also expressed concerns about the postings on the website, but many were afraid to speak up. They were worried about not receiving support when they were on calls for service, retribution from other officers, and missing out on needed overtime and promotional opportunities. Going against the “Blue Wall of Silence” was an option, but one they had strong, negative feelings about (Nolan, 2009).

As a result of the perceived lack of support from the department and city, minority officers felt they had only one course of action left to them: a lawsuit. The only remaining question was whether the department and city were responsible for the website and the hostile work environment it created.

Domelights.com

Domelights.com was registered to an active-duty sergeant with the PPD. Calling itself “the voice of the good guys,” Domelights.com provided a forum where officers discussed crime news, police gossip, and current events, often in profane and racially charged terms. An examination of the site’s postings for racist comments revealed several possibilities. One posting read
In urban areas it seems [African Americans] living on welfare in paid for housing is ingrained in their culture as well as fighting . . . Kids, along with adults can’t speak proper English or spell at a 3rd grade level, but they can sing among “theyselves” the lyrics to a rap song.  (Kessler, 2009)

Another Domelights.com user said of an African American woman, “She is a classic example of that exact non-tax paying, no car insurance driving, bad weave wearing black woman who says all whitey’s are racist” (Kessler, 2009).

The founder, whose screen name was “McQ,” claimed never to have made a racist or sexist post on Domelights.com or anywhere else on the Internet.  However, his own postings revealed the following:

Blacks and other minorities frequently don’t have the economic resources that white people have. Consequently, blacks may not be able to keep their vehicles inspected, registered, and roadworthy. Poor minorities are also forced to drive older cars that are more prone to breakdown—further drawing the attention of the police.  (Kessler, 2009)

Philadelphia Police Department

The PPD is one of the largest law enforcement agencies in the nation, with more than 6,000 sworn members and 800 civilian personnel. The primary law enforcement agency responsible for serving the nearly 1.5 million people who reside in Philadelphia, its motto is “Honor, Service and Integrity,” with a portion of its mission statement calling for it to “be the model of excellence in policing by working in partnership with the community and others” (PPD, 2015).

In light of the nature of law enforcement, the department fully recognized that citizens may, on occasion, object to the actions of the police, or feel that police conduct was inappropriate. Because of this, the department had an established procedure for citizens to report their concerns about treatment by department members.

The Lawsuit

The African American officers’ three-count complaint claimed that the PPD engaged in the creation of a hostile work environment on the basis of race, discrimination, and conspiracy to interfere with civil rights when White officers posted racist content in an online forum. The attorney for the Black officers said that the African American officers had been offended by the site for a long time, and that complaints had been lodged with current and past police administrations to no avail (Walters, 2009). The PPD was named in the lawsuit because, even though it had not officially sanctioned the website, it enabled the website contributors and moderators by doing nothing to stop them from posting racist remarks.

Filed as a class-action complaint in federal court, the complaint alleged that a racially hostile employment environment existed within the PPD. The lawsuit indicated that the police department, through custom, practice, and policy, allowed a group of White police officers, including their supervisors, to publish, disseminate, and perpetuate blatantly racist, anti-minority, disgusting, and offensive comments insulting African Americans in general and African American police officers in particular on a website known as Domelights.com. The website was operated and moderated by a
group of White Philadelphia Police officers during both on-duty and off-duty hours. One of the moderators identified himself as “McQ,” and was believed to be an active duty sergeant assigned to Police Headquarters (Walters, 2009).

The suit further stated that the comments made on the website were routinely discussed among White officers in front of African American officers, and that the postings were available for the Internet-browsing public to view. It also stated that the site was linked to other sites throughout the Internet; that hundreds of the comments were made while officers were on-duty, as well as off-duty; and that the various, racially offensive comments were part of the purpose of the site’s intentional creation. Taken altogether, this created a hostile working environment for the more than 2,000 African American law enforcement officers employed by the City of Philadelphia.

The lawsuit also stated that in addition to being racially offensive, the conduct of the police officers, including “McQ,” constituted conduct unbecoming of Philadelphia Police Officers, and was contrary to department policies and regulations applying to all police officers, as law enforcement officials, to avoid engaging in racially offensive speech or conduct in public.

The lawsuit requested payment of compensatory and punitive damages to the Black officers, and an immediate operational ban of the of Domelights.com site.

The Public Reaction

When the lawsuit was announced in the media, many White officers in the PPD considered its claims an invasion of their privacy and First Amendment rights, saying that it was “just like them to play the race card.” Further, they questioned how the PPD, and the City of Philadelphia itself, could be liable for posts on a website with no association, official or otherwise, with the PPD (Kessler, 2009).

On the other hand, numerous members of the community gathered around the African American officers to show their support, with many saying “They need to step up and stop this conduct” (Walters, 2009).

Now it would be left to a judge to determine whether there was merit to the African American officers’ claims.

References


Please Don’t Touch Me: A Time for Feedback?

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Introduction

Alicia froze. What was happening? She felt uncomfortable and all she could think about was that arm around her shoulders. What was Kevin saying? She had stopped paying attention to their conversation about scheduling a meeting. Within seconds, she ducked under his arm and made her escape. They weren’t close friends. He didn’t appear to be anything but friendly, but Alicia found it very intrusive. Frankly, she was shocked that he had even touched her. The incident distracted her all afternoon. Should she report him? Tell him to stop? What should she do?

Background

For 15 years, Alicia Jones had worked as a supervisor for Midwest Products. She was 50 years old and had extensive experience, first as a production assistant, and then moving into roles in supervision. She even could tell a story or two of sexual harassment experienced early in her career. But she hadn’t faced this sort of behavior in years.

Kevin Killian, 52, was recently hired as a supervisor from a competitor, and seemed to be fitting in well. He had about 25 years’ experience from a couple of other companies. He was married with four sons, and had lived in the area for years. Alicia liked him and thought he’d be a good addition to the group. She had heard a member of his team, Lars Johnson, speak highly of him. A few weeks after he was hired, Alicia walked into Kevin’s office to get his input on some meeting times. Alicia made small talk, “Hi Kevin. How have you been doing?” Kevin replied, “I have been made to feel very welcome, thanks.” Alicia raised the topic that brought her to his office. “Say, Kevin, we need to set some times for management meetings. Do these times work for you?” He looked over her notes and stated that they did. As they chatted, Kevin casually laid his arm across her shoulders. It made Alicia very uncomfortable.

A couple of weeks later, it happened again. She thought, “He must know that touching people at work isn’t appropriate. Doesn’t he? Has he never been in a sexual harassment training program?”

A day or two later, Alicia stopped by his office to drop some items off and Kevin was not there. She enjoyed a few minutes chatting with Kevin’s assistant, Monica Tabesh, whom she had known a long time. Alicia asked Monica how things were going with her new boss. Monica responded, “He’s a
thoughtful guy. Seems to know what he’s doing.” Alicia decided to take the opportunity to tell Monica about Kevin putting his arm around her shoulders and see what she thought. Monica instantly replied, “He does that to me too. I hate that! . . . I’ve taken to making sure there’s a desk between us.”

Alicia went back to her office still thinking about the situation. She typed “sexual harassment” into her computer search bar and found the following on the Equal Employment Opportunity website:

*It is unlawful to harass a person (an applicant or employee) because of that person’s sex.*

*Harassment can include “sexual harassment” or unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. Harassment does not have to be of a sexual nature, however, and can include offensive remarks about a person’s sex. For example, it is illegal to harass a woman by making offensive comments about women in general.*

*Both victim and the harasser can be either a woman or a man, and the victim and harasser can be the same sex.*

*Although the law doesn’t prohibit simple teasing, offhand comments, or isolated incidents that are not very serious, harassment is illegal when it is so frequent or severe that it creates a hostile or offensive work environment or when it results in an adverse employment decision (such as the victim being fired or demoted).*

*The harasser can be the victim’s supervisor, a supervisor in another area, a co-worker, or someone who is not an employee of the employer, such as a client or customer (EEOC, 1990).*

She looked in Midwest Products’ employee manual and found that the company policy used similar language, and that it mirrored text she later found on the Society for Human Resource Management website that stated:

*If an employee believes that he or she has been subject to sexual harassment or any unwelcome sexual attention, he or she may address the situation directly and immediately to the harasser, if possible. If the inappropriate conduct does not cease, or if the employee is unable to or uncomfortable with addressing the alleged harasser directly, he or she should report the incident to his or her own supervisor or manager, or to the human resource (HR) director.*

*It is important to report any and all concerns of sexual harassment or inappropriate sexual conduct to the HR director or a supervisor/manager as soon as possible. Management must be made aware of the situation so that it can conduct an immediate and impartial investigation and take appropriate action to remediate or prevent the prohibited conduct from continuing.* (Society for Human Resource Management, 2014)

*Alicia’s Questions*
Alicia thought of herself as both courageous and in a position to be able to do something about this before it went too far. But what should she do? Is this sexual harassment? Should she talk to Kevin about his actions? Give him feedback? How?

References


English-Only Controversy at City Market Co-op

Paul E. Olsen, Saint Michael's College  
Peter T. Kelly, Saint Michael's College

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Introduction

“I was furious,” Meredith O’Neill, City Market’s Director of Human Resources, exclaimed when she learned about the public airing of a grievance filed over an English-only language controversy at her Burlington, Vermont, grocery store. O’Neill thought the issue had been resolved at an earlier meeting between employees and Sam Novak, a City Market department manager, when she received a grievance from the United Electrical Workers (UE) union claiming Novak continually told employees they had to speak English at work. The employees, immigrants from Africa, had gone to the UE and the Vermont Workers’ Center, a labor rights group, with their complaint about the alleged new work rule. The controversy quickly went viral with messages and online petitions criticizing City Market on Facebook. Labor and immigrant rights activists planned a public protest of the “English-only” policy.

O’Neill was left wondering how to respond to the employee and public relations kerfuffle. “No one gave us any notice of the grievance and it was out in the community immediately,” she said, noting that the UE had posted the complaint on its Facebook page. “We went from being the best co-op in the country to being horrible . . . we were discriminating. It spread like wildfire.”

Sam Novak’s practice of constantly encouraging his staff to speak English at work was perceived by some employees and their union as an “English-only” mandate. O’Neill had to decide how to address Novak and his insistence on encouraging English speaking at work. If Novak was wrong, should O’Neill recommend he be disciplined by Pat Burns, his immediate supervisor and City Market’s General Manager? More importantly, what should City Market’s Personnel Handbook and union contract say about language use at work?

City Market, Onion River Co-op

City Market, Onion River Co-op, known as City Market, was the only grocery store located in downtown Burlington. The store had 12,000 square feet of retail space and sold organic and conventional produce, beer and wine, prepared foods, deli meats and cheeses, bakery items, dairy products, frozen foods, household cleaning products, pet food, and health and beauty supplies. The store also had a hot and cold buffet and an indoor seating area for approximately 40 customers to eat breakfast, lunch, or dinner. The store was open seven day a week from 7:00 a.m. to 11:00 p.m. O’Neill and Novak reported to General Manager Pat Burns.
Formerly known as The Onion River Cooperative, City Market maintained its cooperative status and had more than 10,000 dues-paying members (City Market, 2014). City Market’s “Global Ends” mission was to be central to a healthy and thriving community, where:

- Consumers have local access to progressive social, environmental, and healthful choices;
- Residents enjoy an enhanced quality of life;
- The local food system is strengthened;
- The cooperative model is supported; and
- The market’s owners have a sense of pride in their cooperative (City Market, 2015).

City Market membership cost $15 per year, and members received an annual patronage refund check based on store purchases. The average refund check in 2014 was $93. Although member-based, City Market was also open to the public. In fact, 35% of sales were made to nonmembers. Store sales in 2014 were $38 million (City Market, 2014). The store had 32 managers and 183 non-management employees. Non-management employees were members of the UE, a union committed to “rank-and-file control and aggressive struggle” (United Electrical Workers, 2015). “Our slogan is ‘The Members Run This Union,’” the UE said.

Although City Market’s Personnel Handbook and union contract were silent on the issue of language at work, both included a nondiscrimination policy that complied with federal and state antidiscrimination laws and prohibited discrimination on the basis of race, religion, national origin, sex, or sexual orientation. They also prescribed a progressive disciplinary process that included coaching, oral warning, written warning, suspension, and termination for poor work performance or policy violation. The store offered its employees a variety of benefits including health and dental insurance, short- and long-term disability insurance, life insurance, Flexible Spending Accounts, a 401(k) plan, an Employee Assistance Program, and store discounts.

**Burlington, Vermont**

Burlington was located in northwestern Vermont on the shore of Lake Champlain and was home to a number of colleges, including the University of Vermont. The population of Chittenden County, home of Burlington and its outlying communities, was approximately 160,500. Burlington’s population was 42,200 (U.S. Department of Commerce, 2015). Census data showed Burlington was 88.9% White, 3.9% Black, 3.6% Asian, and 2.7% Hispanic or Latino. Just under 10% of households in Burlington included at least one foreign-born person and 11.2% of households spoke a language other than English at home (U.S. Department of Commerce, 2015).

**The Controversy**

With more than six different languages, including Swahili and Arabic, spoken by employees from a variety of countries, including the Congo, a frustrated Sam Novak encouraged a group of African employees in his department to speak English at work. “English, English, English,” he regularly said. Novak’s suggestion was based in part on employee complaints regarding how some employees talked about each other in other languages, and because he believed English would help these foreign-speaking employees professionally. “The manager wanted them to learn English so they can move up and advance,” O’Neill said. “If you become more fluent in English, you’ll have opportunities to have other jobs that pay more. We weren’t forcing people to speak English.”
Community Response

Response to City Market’s English-only controversy and the UE’s union grievance was swift. The United Electrical Workers (2013) discussed the issue in its monthly newsletter. “Employees have been directed to speak English multiple times a day every day for almost a month,” the UE said. “The Union believes that employees should be allowed to speak whatever language they wish, and management should stop harassing these workers.” The Vermont Workers’ Center notified the press of the controversy. Furthermore, Vermont’s Peace & Justice Center and the Vermont Change Committee, a group committed to racial justice, planned a protest at City Market. The controversy was covered in the Burlington Free Press newspaper; in Seven Days, Vermont’s alternative weekly newspaper; and on WPTZ, the state’s NBC affiliate.

O’Neill’s Dilemma

With a group of upset employees, a union grievance, and a public backlash, Meredith O’Neill had to move fast. O’Neill knew that the Equal Employment Opportunity Commission permitted English-only rules if they were required for workplace safety, efficiency, or customer service. However, in light of City Market’s nondiscrimination policy, how should she handle the controversy? The Personnel Handbook and union contract were silent on the issue of language at work. Should she develop and recommend a policy? More immediately, should Sam Novak be permitted to establish HR policies at the departmental level? If not, how should O’Neill handle Novak?

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Sylvia’s Hallmark Shop

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Introduction

As the Christmas shopping season approached, Sylvia Wright, owner of a local Hallmark card shop wondered if she too would join a growing list of 24 Hallmark stores in Indiana that had ceased operation in 2015 (Feichtner, 2015). News of the closings had evoked a range of emotions from Sylvia. She was not surprised, but rather disappointed and saddened that the trend seemed to continue at an unabated pace. Hallmark shops had been shutting their doors by the dozens over the last ten years (Banks, 2013), but the recent closings in Indiana had hit too close to home for her. Many owners, pressed by the downturn in the economy and expired leases, voiced that it was simply time to retire (Banks, 2013; Xia, 2011).

For Sylvia, retirement was the last thing on her mind. Sylvia’s shop was located in a popular shopping district that included several national retailers such as Walmart and a soon-to-open Kohl’s. The property management company had recently indicated rents would rise next year. Her shop had operated at its current location for almost 20 years, and the lease was up for renewal soon. Sylvia was determined not to become 25th on the list. Her shop was currently profitable, and she hoped to keep it that way. With a decision deadline looming, Sylvia remembered past decisions she had made and wondered if a SWOT (strengths, weaknesses, opportunities, and threats) analysis could once again help her make tough decisions.

Changing Channels at Hallmark

On her drive to work that morning, Sylvia thought back to several turning points in her relationship with Hallmark over the years. She recalled that in the mid-1990s, like most other retailers in Hallmark’s traditional channels, she had hit a wall in terms of sales growth. Hallmark’s retail presence across the United States was largely represented by corporate stores, independently owned Hallmark card shops, and placement in several drug store chains. Overall, Hallmark continued to lose market share to its major competitors, American Greeting Corporation and Gibson Greeting, Inc. Neither competitor depended on the specialty store card shop retail format, but rather focused instead on mass merchandising and supermarket channels (Hallmark Cards, Inc., 2007).

The Hallmark brand was virtually absent from the growing mass merchandiser (i.e., discount) retail format. For the industry, more than half of all greeting cards sold in the 1970s were in specialty stores like Sylvia’s, but by the 1990s, this channel was down to about 30% (Hallmark Cards, Inc., 2007).
Walmart accounted for approximately 20% of the overall market for greeting cards in 2000 (VanAuken, 2008). Hallmark did own a second product line, Ambassador, which was sold in discount retailers. Although the Ambassador brand provided solid sales growth, profit margins were on the decline and Hallmark did not see the Ambassador brand as the answer to its retailing woes (VanAuken, 2008).

As the traditional channels struggled with maturity in terms of their life cycle, executives within Hallmark choose to follow the course prescribed by most marketing experts: they found a new way to help existing shops compete, and they changed the channel structure by including new retail formats. The Gold Crown program, which allowed customers to earn and redeem points for free merchandise, was introduced to the independently owned Hallmark card shops. The program also provided exclusive products, discounts, and promotional support to shop owners. Hallmark then launched the Expressions brand through mass merchandisers and supermarkets, allowing the company to reach the much-coveted growth segment of time-starved consumers who craved one-stop shopping experiences (Hallmark Cards, Inc., 2007).

Hallmark’s decision to sell down market was unpopular among many of the owners of the independent Hallmark shops, although Hallmark claimed the impact on the independent shops was minimal (VanAuken, 2008). Though Sylvia was quite impressed with the Gold Crown program, she remembered that she, too, was angered to find herself suddenly competing against her own brand. The independently owned Hallmark shops had played a vital role in building the Hallmark brand. Even though she and fellow owners felt betrayed, there was little they could do to stop the inclusion of the mass channel. With the implementation of the Gold Crown program and the change in the channel structure, Hallmark did, in fact, see a market share increase of four percent (Hallmark Cards, Inc., 2007).

For Sylvia, the digital age was more disruptive to her shop than the one-stop shoppers. Facebook posts, tweets, text messages, and e-greeting cards now competed with traditional greeting cards (Xia, 2011). The digital age not only represented a technological shift, but also a generational shift in terms of consumer behavior (Banks, 2013). Replaced by social media, sending traditional greeting cards was no longer the norm. Price increases for traditional cards, as well as increased postage prices hastened the decline. She also found herself competing directly with Hallmark Corporate when it expanded its online presence by offering more e-greeting cards, as well as online sales via Shop.Hallmark.com in the gifts, traditional cards, and decorative ornaments categories for consumers who chose not to visit a brick-and-mortar location.

Overall, the digital age was not advantageous for Hallmark. In the past five years, Hallmark slashed its worldwide workforce in half (Olson, 2015). Corporate and independently owned Hallmark card shops continued to close with only 2,250 operating in 2015 (Hallmark, 2015) down from a peak of over 10,000 in the early 1990s (Hallmark Cards, Inc., 2007). Hallmark continued its expansion outside traditional channels by adding department stores such as Kohl’s, with J.C. Penney predicted to follow in 2015 (Halkias, 2015).

**Sylvia Wright’s Decision**

Sylvia Wright knew that she needed to make a decision about her shop soon. She enjoyed her work and loved her customers, but she also knew she could not overly rely on Hallmark greeting card sales to drive traffic and profits in her shop. While Hallmark products still comprised the majority of her sales revenue, its percentage had been decreasing over the last few years. She needed to focus more
on specialty gifts, along with decorative and accessory items. However, she had invested heavily in the fixtures Hallmark required independent shop owners to purchase . . . fixtures that can only be used to display and hold Hallmark products. Sylvia had always felt she was a loyal and dedicated partner to Hallmark, but as she gazed across the parking lot from the front window of her shop, she wondered if Hallmark felt the same about her today. She knew it was time to revisit her old business plan. In light of her current situation and need to make an informed decision, Sylvia walked to her office at the rear of the store and began work on a SWOT analysis.

References


Bolstering the Booster Club

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Introduction

Dennis Chandler, the incoming president of the Blue Line Hockey Booster Club (BLC) faced a challenging situation. The club’s ability to carry out its mission to provide financial and spirit-based support for the university’s Division 1 hockey team had seriously weakened due to a dangerous membership decline. Unfortunately, the BLC board was reflective of the general BLC membership: mostly “old timers” who had supported the team for over 20 years. Not much had changed since the BLC’s inception—it was just easier to keep doing what had always been done. However, Dennis knew that in order to remain relevant, the BLC must attract younger members, including the students on campus, who were avid hockey fans. To rejuvenate the BLC, Dennis needed fresh ideas on how to restructure the membership levels and associated benefits (i.e., product) and effectively communicate with a new generation of hockey fans.

What Is a Booster Club and Who Gives?

Many public universities have not received full financial support from their state governments to maintain smaller athletic programs. Hence, many have looked to outside sources, such as individual boosters, or booster clubs, to help fund their team activities (McClung, 2010). According to the NCAA web site, boosters have played “a role in providing student-athletes with a positive experience through their enthusiastic efforts.” In addition, they have supported teams and athletics departments through “donations of time and financial resources which help student-athletes succeed on and off the playing field” (“Role of boosters,” n.d.). Four potential motives for giving to athletic support groups have been identified as philanthropic (giving to provide scholarships), social (giving so that games can be attended with family and friends), success (of the athletic program), and benefits (such as parking and priority points for tickets that are tied to donations) (Billing, Hoh & Smith, 1985). Dennis knew part of the challenge was ensuring that membership in the BLC effectively responded to these motives, and that the benefits were clearly communicated to current and potential new members.

BLC Membership Structure

The BLC offered several membership levels with various associated benefits. These benefits centered mostly on access to the team and coaches for special events, including meet-the-team events and “Chalk Talk” sessions with the coaching staff, where the team’s strategy against an upcoming opponent or a previous week’s game strategy was reviewed. Chalk Talk sessions were catered with
hot and cold finger foods and soft drinks. Non-BLC members could also attend Chalk Talks for $10. BLC members also received reduced admission charges for to other team-related events, including the Parents Weekend Breakfast, the Senior Breakfast, and the End-of-the-Year Awards Banquet. The BLC hosted a catered hospitality room for members before a handful of home games, but new members referred to it as the “hostility room” as long-time BLC members rarely interacted with newer members. Outside of membership dues, the BLC also raised money for the team through the sale of 50/50 raffle tickets at home games and an occasional raffle for a signed jersey. The table below lists membership levels and benefits. At the start of the 2014 season, the BLC had 28 members: 2 Brown, 10 Gold, 8 Silver, and 8 Platinum.

<table>
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<th>Level/Benefit</th>
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<th>Silver</th>
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<td>Y (2)</td>
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Other Booster Clubs

A review of booster clubs on campus and around the league indicated where the BLC was lagging behind. Other booster clubs had anywhere from two to six different membership levels that ranged in price from $25 to $1,000. The women’s basketball team reported having 42 boosters, while the men’s baseball team reported having close to 200. According to sources at those organizations, the number one benefit for members included some sort of communication or interaction with the coaches or players.

In a review of 14 other D1 hockey collegiate booster clubs, it was noted that several booster clubs included a student membership, and most had clearer distinctions between individual and family membership levels and benefits. These were two items Dennis strongly believed were needed for the BLC. Additional benefits offered by other booster clubs included premium parking passes, membership apparel, concession coupons, car decals, and appreciation plaques.

BLC members indicated via a membership survey that the Chalk Talks and e-newsletter were the most valuable benefits offered, while all other benefits were less valued. The newest BLC members suggested new benefits such as BLC merchandise or wearables, better access to or discounts for authentic hockey jerseys or wearables, and premium seating options as potential items to consider.

Student Membership?
Dennis firmly believed that the university’s student population (approximately 25,000) would be the easiest and most accessible new target audience for BLC membership. Primary research conducted on campus indicated that hockey was the student’s favorite sport to watch, and that 82% of the students had attended at least one game in the past year. The student seating section of the arena historically sold out (2,000 seats out of 3,700). While students attended games for free, they had to stand in line, sometimes for hours and in inclement weather, to get a seat.

Sixty-five percent of students indicated in a campus survey that they had never heard of the BLC, despite the BLC’s physical presence at each game. Secret shopper research indicated that the current BLC “booth” or table set up and operated near the front entrance of the arena before the game lacked a consistent, engaged staff and visual identity. Before and during the game, when most 50/50 raffles took place, BLC members stood only near entrance doors soliciting fan participation, and in most cases, did not actively move around the stands or near the concession areas to engage with fans. Finally, BLC members did not regularly wear BLC-branded merchandise (with the exception of a circular button for their shirt or jacket), so they were difficult to distinguish from other fans.

Primary research also suggested some good news: students were willing to pay for membership in the BLC as long as the benefits were “real,” preferably in the form of “stuff” like food or merchandise, or anything that they could own as a badge of honor in support of the hockey team. The students wanted something to enhance their fan experience. This was, of course, different from what the older, traditional, BLC members wanted. They preferred insider access to the team and coaches, and high-quality touch points such as tickets to the season-ending awards banquet, senior breakfast, and meet-the-team events.

The Challenge

Dennis understood that raising the visibility of the BLC would potentially raise student awareness and interest in joining the BLC. He needed an attractive product to offer and the BLC needed to update its communication strategies. Dennis needed to advise the BLC leadership team about how to restructure current membership levels and benefits, raise overall awareness of the BLC, and increase membership. His recommendations also had to strike a balance between attracting new, younger members without alienating the current, older ones.

References


WTF? McDonald’s Minion Unhappy Meal

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Introduction

“What the f@#k?” may well have been what McDonald’s Director of Social Media, Rick Wion, likely thought when he learned that customers were complaining that one of the talking Minion toys distributed in the company’s popular Happy Meals was using some colorful language. Specifically, customers said McDonald’s Caveman Minion toy said, “What the f@#k?” in one of its recorded phrases. With thousands of YouTube videos and Facebook posts, the toy’s alleged foul language went viral. Wion and executives at McDonald’s Oak Brook, Illinois headquarters quickly had to decide what, if anything, to do about the controversial Happy Meal children’s toy.

McDonald’s Corporation

Ray Kroc founded McDonald’s in 1955 (Love, 1986). The company’s mission was “to be our customers’ favorite place and way to eat and drink” (McDonald’s, 2015). The company also touted its commitment to business ethics and social responsibility. “Sound ethics is good business,” the company’s values statement said. “At McDonald’s we hold ourselves and conduct our business to high standards of fairness, honesty, and integrity. We are individually accountable and collectively responsible” (McDonald’s, 2014). In light of this pledge, Rick Wion wondered how McDonald’s should respond to the Happy Meal cursing Minion kerfuffle.

The fast-food giant served hamburgers, including its Big Mac and Quarter Pounder; chicken sandwiches and Chicken McNuggets; Filet-O-Fish sandwiches; French fries; soft drinks, coffee, and milkshakes; salads; desserts, including ice cream and fruit pies; breakfast items, including McMuffin sandwiches; and Happy Meals for kids. McDonald’s had more than 36,000 restaurants and served approximately 69 million people daily (McDonald’s, 2015). In fiscal year 2013, the company’s net income was $5.58 billion; in 2014 it decreased 15% to $4.75 billion (McDonald’s, 2015). The company’s stock price on July 8, 2015 was $95.65 per share. Ritzer (2010) explained McDonald’s reputation as a global icon as this way:

The restaurants themselves are depicted as spick-and-span, the food is said to be fresh and nutritious, the employees are shown to be young and eager, the managers appear gentle and caring, and the dining experience itself seems fun-filled. Through their purchases, people
In spite of its reputation, Rick Wion knew McDonald’s practice of including cross-promotional collectible toys in Happy Meals was controversial, albeit effective. Schlosser (2002) noted that the practice doubled or tripled weekly sales of kid’s meals: “The chains often distribute numerous versions of a toy, encouraging repeat visits by small children and adult collectors who hope to obtain complete sets” (p. 47). Marketing success didn’t silence critics. McDonald’s executives knew that marketing fast food to children via premium toys had been associated with childhood obesity, eating disorders, and problems with dental health (Quilliam & Rifon, 2008). In response to the link, San Francisco and Santa Clara County, both in California, passed laws prohibiting the distribution of toys with meals marketed to kids (McAlister & Cornwell, 2012).

McDonald’s success with simple toys in Happy Meals made the company one of the biggest toy distributors in the world (Schlosser, 2002; Guenette, 2013). That title also came with occasional problems, including a 2014 recall over choking concerns linked to its Happy Meal Hello Kitty Birthday Lollipop Toy (Consumer, 2014). Over the years, McDonald’s cross-promotional Happy Meal toys included Teenie Beanie Babies, Smurfs, Spiderman, SpongeBob, Power Rangers, Barbie, Hot Wheels, and the Minions from the popular Despicable Me movie franchise.

**The Happy Meal Minion Controversy**

Minions were described as “small, yellow, cylindrical creatures who have one or two eyes” and who love eating bananas (Despicable, n.d.). The Minions Tim, Bob, Mark, Phil, Dave, Jerry, and Stuart were first introduced to the public, along with their evil master Gru, in the 2010 animated movie Despicable Me. A sequel, Despicable Me 2, was released in 2013. Minions, a prequel, came out in 2015. The IMDb (2015) movie database described Minions as an animated film where, “Minions Stuart, Kevin, and Bob are recruited by Scarlett Overkill, a super-villain who, alongside her inventor husband Herb, hatches a plot to take over the world.” As of September 2015, the Minions movie grossed more than $331 million in the U.S. (IMDb, 2015). Tied to the release of Minions, McDonald’s distributed Minion toys in its Happy Meals in July 2015. The company offered one of twelve different talking Minion toys in each Happy Meal. The Happy Meal box included Minion-related games and activities for children, while the meal included a hamburger, cheeseburger, or Chicken McNuggets; milk or apple juice; kids-sized French fries; and apple slices or Yoplait Go-GURT strawberry yogurt for dessert.

Shortly after the promotion began, customers complained that the Caveman Minion toy said, “What the f@#k” in one of its four recorded declarations. More than 3000 videos of the controversial Minion were posted on YouTube (e.g., Paul B’s (2015) “Is this McDonald’s Minion toy swearing?”), and more than 1000 public Facebook posts were made about the toy, so McDonald’s executives were well aware of the controversy. In fact, Rick Wion (2015) discussed the importance of tracking social media. “Monitoring social media is an absolute essential for any company to understand what people are saying about your brand and your industry,” he wrote. The cursing Minion also received press coverage with stories in the Detroit Free Press, Pittsburgh Post-Gazette, and reports on CNN Money and a number of local television newscasts.

**Moving Forward**
Rick Wion and other McDonald’s executives were faced with a decision. Should they publically respond, or do nothing and just hope the WTF controversy would go away? Should they pull the toy or keep it in their restaurants until all of them were distributed as planned? Finally, what impact, if any, was the controversial toy likely to have on the company’s reputation and bottom line?

References


