Volume 3, Number 3 Print ISSN: 2574-0385
Online ISSN: 2574-0393

GLOBAL JOURNAL OF BUSINESS PEDAGOGY

The *Global Journal of Business Pedagogy* is owned and published by the Institute for Global Business Research. Editorial content is under the control of the Institute for Global Business Research, a non-profit association of scholars, which is dedicated to the advancement of learning and scholarly research in all areas of business.

The *Global Journal of Business Pedagogy* is owned and published by the Institute for Global Business Research, 1 University Park Drive, Nashville, TN 37204-3951 USA. Those interested in communicating with the *Journal,* should contact the Executive Director of the Institute for Global Business Research at info@igbr.org.

EDITORIAL REVIEW BOARD

Theresa Tiggeman
University of the Incarnate Word

Vinay Sharma
Indian Institute of Technology Roorkee

Tim Holt
Embry-Riddle Aeronautical University

Youngeun Park
Prince Sultan University, Saudi Arabia

TABLE OF CONTENTS

FINANCIAL AID FRAUD IN A NONPROFIT UNIVERSITY: WHERE WERE THE INTERNAL CONTROLS?

James Rasalam, Valdosta State University
Raymond J Elson, Valdosta State University
Casey J Colson, Valdosta State University

CASE DESCRIPTION

The primary subject matter of this case concerns ethical decision making. The case has a difficulty level of four, appropriate for senior level. The case is designed to be taught in one class period of approximately 50 -75 minutes and is expected to require 2-3 hours of outside preparation by students.

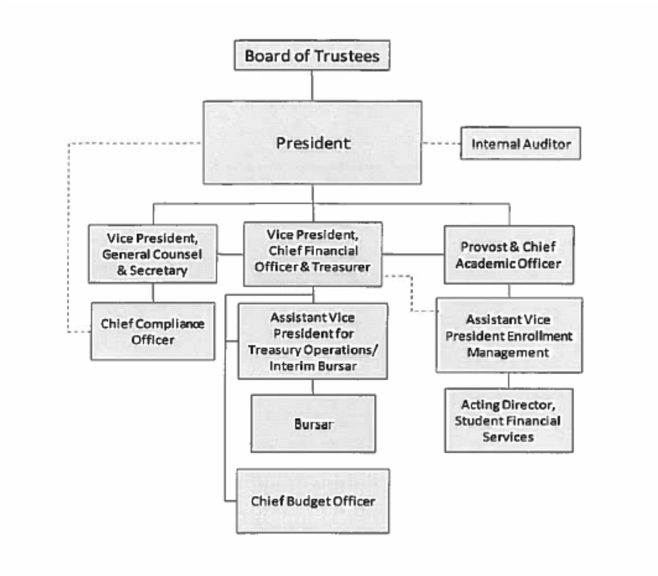
CASE SYNOPSIS

Internal control failures within a nonprofit university's financial aid office resulted in the misappropriation of approximately $1 million in grants over a ten-year period. These grants were earmarked for needs-based students but were diverted by office employees to their own accounts and used for personal expenses. Although the problem was identified and reported to the university's president, no action or public disclosure was made for at least two years. A whistleblower notified an online newspaper of the fraud, and it was subsequently reported to university constituents. The university created an action plan to prevent such an incident from occurring in the future and terminated all employees involved in the fraud. The events described in this case are based on a real-world situation as reported in various newspaper and online sources.

INTRODUCTION

Howard University (the university) was established in 1867 to provide newly emancipated African Americans a space to develop their spiritual and intellectual acumen. Today, the university has an enrollment of approximately 10,300 undergraduate, graduate, and professional students representing all 50 U.S. states, the District of Columbia, and nearly 70 countries. Students pursue more than 120 academic disciplines within the university's 13 schools and colleges. The estimated cost of attendance for an undergraduate living on campus for the 2018-19 academic year was $44,951. The university, a privately-operated non-profit, is governed by a 28-member board of trustees and managed daily by the university president. A partial view of the organizational structure showing the Office of Student Financial Services, which is the focus of this case study, is provided in Figure 1.

Figure 1: Organization Chart (Partial View)



The university is one of five that is congressionally chartered due to its location in the federal district. This means that a portion of the university's annual revenue is generated through funds received from the federal government (Lama, 2017). For the 2017 fiscal year, the university reported unrestricted revenue of $741 million of which 29.5% was from federal appropriations (See Figure 2). These funds are provided to partially support construction, development, improvement, endowment, and maintenance related activities, and for operating the university hospital.

The university's mission is to provide an exceptional educational experience and to attract and employ faculty who are, through their teaching, research and service, committed to the development of distinguished, historically aware, and compassionate graduates and to the discovery of solutions to human problems in the United States and throughout the world (Anonymous, 2018.). It achieves this mission through the four core values of excellence, leadership, service, and truth.

Figure 2: Statement of Activities from the 2017 Single Audit Report

Statements of Activities For Fiscal Years Ended June 30, 2017 (with summarized comparative information for fiscal years ended June 30, 2016 and 2015) (in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2017	Summarized June 30, 2016	Summarized June 30, 2015
Operating						
Revenues and reclassifications:						
Academic services:						
Tuition and fees, net	$ 147,867	$ -	$ -	$ 147,867	$ 155,453	$ 154,068
Grants and contracts	53,763	-	-	53,763	56,379	64,450
Auxiliary services	40,960	-	-	40,960	52,481	53,998
Clinical services:						
Patient service - Hospital, net	231,499	-	-	231,499	228,075	230,915
Patient service - Faculty medical practice, net	12,854	-	-	12,854	27,012	25,401
Patient service - Dental clinic, net	1,972	-	-	1,972	1,594	2,450
Public support:						
Federal appropriation	218,416	3,405	-	221,821	221,821	212,035
Contributions	5,265	7,578	2,896	15,739	10,555	12,442
Endowment transfer	6,954	7,665	509	15,128	14,274	13,718
Operating investment income (loss)	5,270	-	-	5,270	(1,015)	966
Other income	16,290	-	-	16,290	16,447	16,505
Total revenues	**741,110**	**18,648**	**3,405**	**763,163**	**783,076**	**786,948**

Source: https://www2.howard.edu/sites/default/files/HU%20Single%20Audit%20Report%20%28A133%29%20FY2017.pdf

FRAUD WITHIN THE UNIVERSITY

There are past instances in which those associated with the university have experienced lapses in judgment causing them to stray from the stated mission and core values. For example, during the period 2010-2015, an employee benefit plan manager embezzled $420,128 by diverting funds due to retired or retired and deceased employees to a personal bank account. The manager was convicted in 2017, received a one-year prison term, and was required to repay $420,128 in restitution and an additional $420,128 in forfeiture (ABC7, 2017).

Another incident occurred during the 2010-2011 academic year in which a university accountant embezzled $105,000. This involved the accountant submitting thirteen forms that authorized payment from the university to various vendors (Department, 2016). However, the payees were disguised, and the funds were deposited into the accountant's personal bank account and the bank account of an accomplice. The accountant was convicted in 2016, received a one-year prison term with three years of supervised release, and was ordered to pay $57,586 in restitution (ABC7, n.d.).

FINANCIAL AID FRAUD AND ITS AFTERMATH

Yet another example of fraudulent activity occurred within the Office of Financial Aid between the years 2007-2016 and was disclosed to the public in March 2018. A timeline of the events is provided in Figure 3. The university receives grants that are classified as unrestricted funds in its financial report. As noted in Figure 2, this ranges from approximately $53-$65 million for the 2015-17 academic or fiscal years. A portion of these funds provides need-based assistance to low-income students. The need-based assistance equates to an average of $3,000 per student each semester (Harriot, 2018).

The problem was that some Financial Aid Office employees, who were also taking classes at the university, received both a tuition remission and other institutional aid in the form of a need-based university grant. A benefit of working at the University is receiving a substantially discounted rate of tuition, or tuition remission, should an employee choose to enroll in classes. However, some employees were also adding university grants to their personal student accounts. This caused the funds in excess of the tuition expenses to either be deposited into the student employee's bank account or to be paid to them in the form of a check (Howard Newsroom, 2018).

The individuals involved in the scheme worked in either the Office of Student Financial Aid or the Office of the Bursar and were successful in carrying out the fraud for an extended period. The Financial Aid Office management and staff were granted authority to provide financial aid awards to any student account, including their personal student accounts, without any additional approval (Howard Newsroom, 2018). As a result, they were able to make inappropriate aid awards without proper documentation and oversight. Typical of most universities, the Financial Aid Office can provide information relating to scholarships, tuition remissions, university grants, and fellowships, while the Bursar's Office can assist students with refunds, payment due dates, and the removal of financial holds.

The following are two examples of the types of unauthorized benefits received by employees.

- The Associate Director of Financial Aid received a tuition remission to cover all tuition related expenses for the 2014-2015 academic year and received an additional $68,712 in need-based university grants. The highest potential salary for the university's associate director position is $69,253, which means that this employee almost doubled his income as a result of the grant (Harriot, 2018).

- During 2014-2017, a student-employee in the Financial Aid Office allegedly embezzled $429,612, which is an average of over $100,000 per year. This amount includes an annual receipt of a $65,000 need-based university grant. While not attending school and working at the Financial Aid Office, this individual worked on his fashion blog and posted pictures of himself wearing $2,600 fur coats, other expensive outfits, and touting name brand designer bags (Harriot, 2018). The individual stated that he lost a job, which he expected to begin after his law school graduation, due to the public disclosure of the alleged embezzlement. He is currently suing the University, its President, and the whistleblower, for $10 million for breach of a duty and negligence, intentional infliction of emotional distress, and defamation (Elamroussi, 2018).

The Fraud Uncovered

During the 2015-2016 academic year, the President asked the Office of the Controller to review transactions within the university's financial reporting software and to perform procedures to determine if internal controls were effective within the Office of Financial Aid. The Controller's Office noted fraudulent financial aid transactions at the end of 2016 and became concerned about specific control activities related to the awarding and disbursement of university-provided financial aid funds. The university President was notified of these findings and subsequently informed the Board of Trustees (Howard Newsroom, 2018).

An external auditor was hired by the university to determine the extent of the scheme. While testing this transaction, the auditor discovered the fraudulent activity of a student-employee receiving both a tuition remission and a university grant. After further analysis and the completion of testing, it was determined that out of 131 employees or dependents of employees receiving tuition remission, university grants, and refunds, the top 5 most reimbursed individuals received $689,375 in total refunds during a six-year time frame (Howard Newsroom, 2018). These five individuals were part of the group that would be terminated by the university later. Two months after the completion of the external audit, the President informed the Department of Education about the issue.

Then, six months later, a student employee in the Office of Financial Aid discovered the same fraudulent activity and reported the matter to the President. During the meeting, the employee provided supporting documents to substantiate the claim. However, the employee was not comfortable with the direction of the conversation and felt that the President either knew of the fraud or was personally involved. Failing to achieve satisfaction from the meeting with the President, the employee disclosed the fraud to an online newspaper on March 27, 2018. One day later, the President confirmed the embezzlement to the public. After another eleven days, the Office of the President released a report, titled the Preliminary Investigation Report, to the public that described the details of the embezzlement to provide transparency (Veritas, 2018).

A timeline of the financial aid fraud and related events is provided in Figure 3 (located on the following page).

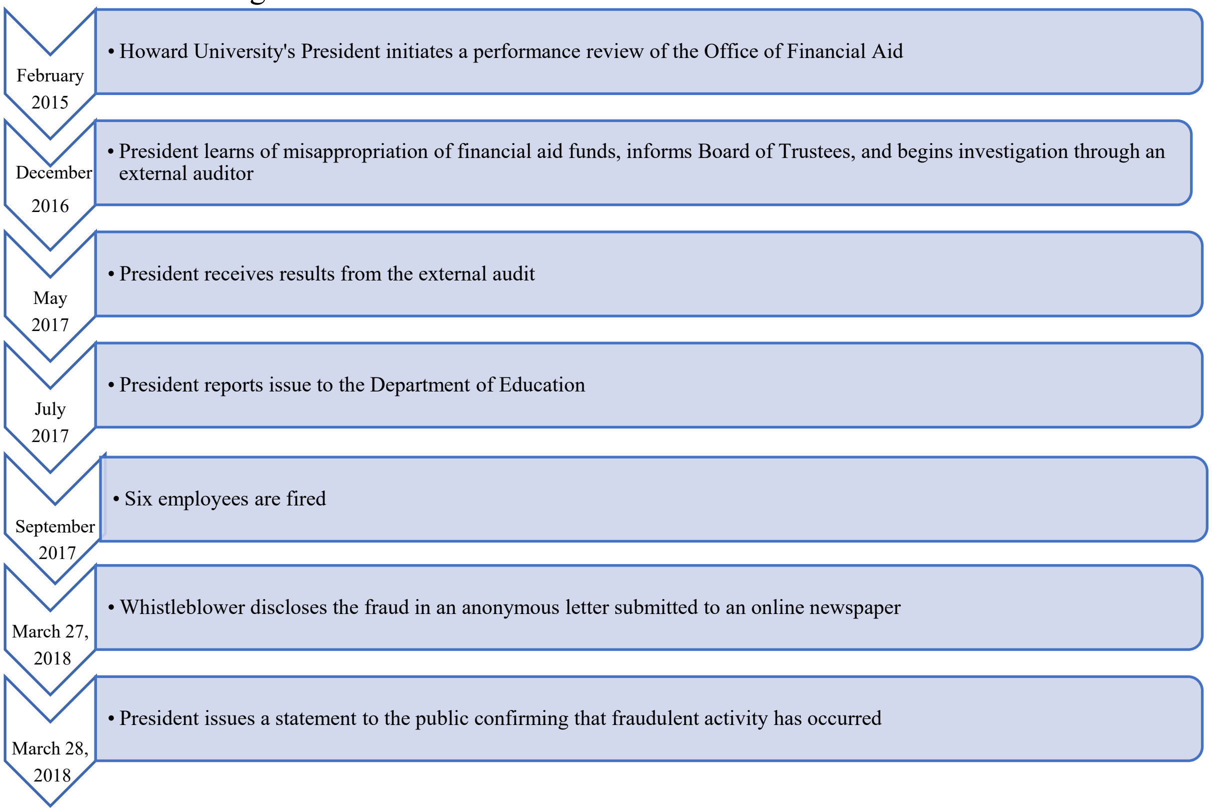
The University and Students’ Response

The President has stated that the justification for not disclosing the fraud to the public at an earlier time is because the intention was to “report on its findings once all of its investigations were completed” (Howard Newsroom, 2018). Additionally, to prevent this type of malfeasance in the future, the university administration developed numerous measures that will strengthen internal controls. These include:

- Creation of an approval process in which unrestricted financial aid will be reviewed and approved by the University Budget Office (a unit within the Chief Financial Officer Division).
- Limiting access to the financial aid accounting software to a few specific individuals at the senior level of management, rather than to everyone working in the Office of Financial Aid.
- Performing an annual reconciliation between the awarded financial aid and the approved financial aid.

After being notified about the fraud from the anonymous online post, the students of the university were unhappy about the administration’s lack of transparency and communication. To protest the situation and other grievances such as an increase in tuition fees and a lack of campus housing, 400 students occupied the administration building for nine days in order to meet with upper management and to make their voices heard (Vera, 2018). This sit-in is also a part of Howard University’s history in that students in 1968 and 1989 used the same tactic in order to force the administration to create solutions for the problems the students had with the university’s management. Meanwhile, the investigation is ongoing.

Figure 3: Financial Aid Fraud Timeline and Related Events



THE CHALLENGE

Assume you are the President of Howard University, and that you are preparing to meet with your leadership team at Howard to discuss with them your thoughts on the following two issues:

1. Why has Howard University experienced the sorts of frauds which have been uncovered?
2. What steps should be taken to reduce the likelihood that additional frauds will occur in the future?

REFERENCES

ABC7. (2017, April). *Former Howard University benefits manager sentenced to prison for embezzling over $400k*. Retrieved July 14, 2018 from wjla.com/news/local/former-howard-university-benefits-manager-sentenced-to-prison-for-embezzling-over-400k

ABC7 (n.d.) *Woman gets one year and a day in prison for embezzlement scheme against Howard University*. Retrieved July 14, 2018 from http://wjla.com/news/local/woman-gets-one-year-and-a-day-in-prison-for-embezzlement-scheme-against-howard-university

Anonymous. (2018). Mission & Core Values. (2018). Retrieved September 16, 2018 from https://www2.howard.edu/about/mission

Department of Justice, United States Attorney's Office, District of Columbia. (2016, September). Retrieved July 14, 2018 from https://www.justice.gov/usao-dc/pr/maryland-woman-pleads-guilty-federal-charge-embezzlement-scheme-against-her-employer

Elamroussi, A. (2018, April). *Alleged Howard U Whistleblower Unmasked. Retrieved July 14, 2018 from https://www.afro.com/accused-financial-aid-embezzler-suing-howard-10-million/*

Harriot, M. (2018, March). *The Finessing of Howard University*. Retrieved July 4, 2018 from https://www.theroot.com/the-finessing-of-howard-university-1824175002

Howard University 1999 Self-Study. (1999). Retrieved July 4, 2018 from http://www.howard.edu/msche/selfstudy/chapter07.pdf

Howard Newsroom Staff. (2018, April). *Howard University Preliminary Investigation Report*. Retrieved July 5, 2018 from https://newsroom.howard.edu/newsroom/static/8196/howard-university-preliminary-investigation-report

Howard University. (2017). Consolidated Financial Statements and Reports and Schedules Required by Government Auditing Standards and the Uniform Guidance for the year ended June 30, 2017. Retrieved September 16, 2018 from https://www2.howard.edu/sites/default/files/HU%20Single%20Audit%20Report%20%28A133%29%20FY2017.pdf

Howard University Founding. (n.d.) Retrieved July 13, 2018 from http://www.americaslibrary.gov/jb/recon/jb_recon_howard_1.html

Lama, R. (2015, April). American University Information. Retrieved July 13, 2018 from http://americanuniiinfo.blogspot.com/2015/04/howard-university-federally-chartered.html

Vera, A. (2018, April). *Howard University students' win with deal on demands continues legacy of protests*. Retrieved July 13, 2018 from https://www.cnn.com/2018/04/07/us/howard-university-past-protests/index.html

Veritas 1867. (2018, March). *President Frederick, Staff Exposed Student Whistleblower in Financial Aid Fraud, Targeted Protestors*. Retrieved July 5, 2018 from https://medium.com/@veritas1867/president-frederick-staff-exposed-student-whistleblower-in-financial-aid-fraud-targeted-60ba3e81d0c9

CYBERSECURITY AND MANAGEMENT'S ETHICAL RESPONSIBILITIES: THE CASE OF EQUIFAX AND UBER

James Rasalam, Valdosta State University
Raymond J. Elson, Valdosta State University

CASE DESCRIPTION

The primary subject matter of this case concerns ethical decision making. The case has a difficulty level of four, appropriate for senior level. The case is designed to be taught in one class period of approximately 50 -75 minutes and is expected to require 2-3 hours of outside preparation by students.

CASE SYNOPSIS

Protecting sensitive customer data and company information has proven to be problematic for some companies. As a result, companies across all industries must be alert to security vulnerabilities that leave them exposed to hackers. This is best illustrated by Equifax, a credit reporting bureau, and Uber, a ride-sharing company, that disclosed data breaches to the public in 2017. These cyber-attacks were far-reaching, with the Equifax breach affecting approximately 145 million customers and the Uber attack affecting 57 million customers and drivers. Management of both companies delayed notifying the public of the data breach on a timely basis and corporate executives may have benefited financially from this inaction. This raises the question as to management's ethical responsibility after experiencing a cyber-attack.

The case study focuses on the actions taken by company management to address the respective data breaches. It does not address steps that could be taken by the companies to reduce cybersecurity risk. Students are asked to use the normative, deontological, and consequentialism ethical theories to assess managements' responses to the cyber-attacks.

INTRODUCTION

When an organizational crisis occurs, management must navigate the tumultuous times by making appropriate business and ethical decisions while often only having a limited amount of information. However, there are examples of when these decisions are questioned by the public, especially when there is a lack of transparency or accountability. Companies are now facing new and evolving risks and those charged with governance are challenged to manage them effectively.

Equifax, the credit reporting company, and Uber, the ride-sharing company, were criticized for the way in which management responded to data breaches that resulted in the exposure of millions of customers' records to hackers. Although those charged with governance may have fulfilled their legal responsibilities, this may not be true from an ethical perspective. A look at each data breach and managements' actions might help to shed some light on whether the ethical responsibilities were satisfied.

EQUIFAX

Credit Reporting Regulations

Credit reporting companies are those that gather credit information from numerous sources, which is then sold to customers. These companies must follow the regulations provided in the Fair Credit Reporting Act (FCRA), the goal of which is to promote the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. The FCRA also includes provisions that allow consumers to seek damages from violators, even if it is a credit reporting bureau.

Company Information

The Retail Credit Company (RCC) was founded in 1899 and was renamed Equifax in 1976. RCC began its operations by gathering customers' information, such as recording the length of time a customer took to make a payment after a purchase had been made. This information is helpful to businesses in determining the creditworthiness of customers and in estimating the allowance for doubtful accounts within the balance sheet. RCC received this information from individual merchants for free, but after compiling the data, could sell the information back to all the merchants for a profit. However, over time, RCC increased the scope and amount of data collected per customer to include customers' personal information, even if it was a rumor and inaccurate, within its publications. This caused the Federal Trade Commission to investigate the RCC.

Equifax is now a publicly traded, global information solutions company that uses unique data, innovative analytics, technology and industry expertise to power organizations and individuals around the world by transforming knowledge into insights that help make more informed business and personal decisions.

The company employs approximately 10,400 employees worldwide and collects and maintains data on more than 820 million consumers and 91 million businesses.

The Data Breach and Management's Response

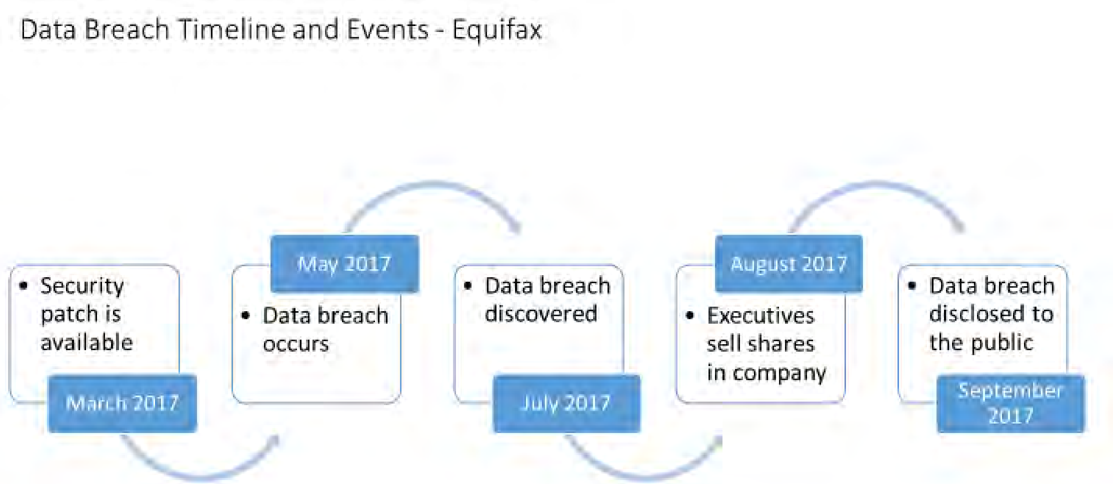
Equifax's management discovered a data breach had occurred in its system on July 29, 2017 that affected approximately 145.5 million Americans citizens, 700,000 United Kingdom residents, and 8,000 Canadian citizens. The company disclosed the breach to the public on September 7, 2017. In its disclosure, the company noted that the breach was caused by hackers who exploited a vulnerability within its software. The public disclosure resulted in the stock price plummeting by 34.85% to $92.98 by September 15, 2017.

The data breach occurred over a two-month period beginning on May 13, 2017 until its discovery on July 29, 2017. The hackers were able to access consumer information such as names, social security numbers, birth dates, addresses, driver's license numbers, and credit card information. Two months prior to the breach, on March 8, 2017, Equifax's management and the management of other companies were informed by the Computer Emergency Readiness Team of the Department of Homeland Security that there was a need to patch a data storage software vulnerability. This was extremely important since the failure to address this specific vulnerability was analogous to leaving the backdoor to one's house wide open for thieves to easily enter.

Equifax management sent the notice to the information technology department, but the patch was never implemented. From the moment this patch was made available in March, until the breach was discovered in July, Equifax's information security department had been periodically inspecting the system using prescribed protocols, such as running scans. Bottom line, however, Equifax failed to detect the vulnerability that had not been fixed by the information technology department and failed (for six weeks) to detect the unauthorized access by the hackers.

The Chief Executive Officer (CEO) noted that the reason for the forty-day delay in notifying the public was to determine the scope of the attack, which required time. This was accomplished through an independent investigation conducted by cybersecurity forensic consulting firms. After the scope had been determined, the firms advised that once the knowledge of the breach was made public, other hackers would also be notified of the possibility of gaining access to the system and may attempt to do so. To prevent this situation, Equifax took additional time to reinforce the system. Also, Equifax's management notified the Federal Bureau of Investigation of the breach.

The following diagram provides a timeline of the data breach and subsequent actions:



After the breach was discovered, but before it was disclosed to the public, four senior executives, including the Chief Financial Officer, cumulatively sold company shares valued at $1.8 million. These executives were allegedly not aware of the existing data breach at the time of the sale transactions. A special committee of independent directors supported by independent counsel was created to determine the legitimacy of these transactions. The committee reviewed supporting documents and conducted interviews to gather corroborative evidence. It exonerated the executives from any wrongdoings and concluded that the transactions were properly approved, followed company policy, and were not insider trading.

However, in a separate action, the chief information officer sold shares valued at approximately $1 million prior to Equifax notifying the public about the data breach. Executive management and the board of directors deemed this transaction as inappropriate and notified the Securities and Exchange Commission and the United States Justice Department.

UBER

Company Background

The company presently known as Uber was originally called UberCab when it was founded in San Francisco, California in 2009. The premise behind the company's business model is to allow a customer to request a car using a smartphone app, which uses the phone's GPS to send the closest driver to the customer's location. The idea for this service came about from the need to quickly find a ride given the limited number of taxi cabs in the area. The San Francisco Municipal Transit Authority (SFMTA) had a maximum limit to the total number of taxi drivers allowed in the city. Even if demand exceeded supply, no more than 1,500 licenses to operate taxis within the city would be awarded.

Due to the nature of the ride-hailing service, UberCab caused turmoil with the taxi industry, government regulators, and its own drivers. The taxi drivers and regulators were concerned that UberCab did not pay the same license fees as similar companies. SFMTA and the California Public Utilities Commission sent "a cease-and-desist letter" to UberCab's CEO, who subsequently changed the company's name to Uber by removing the word Cab. Thereafter, Uber continued to provide services in San Francisco and then began a global expansion.

Uber operates on a simple mission: to bring transportation to everyone, everywhere. It does so through an organization that spans approximately 78 countries and 600+ cities worldwide. All of this is achieved with over 16,000 employees as of 2017. The company reported having 75 million riders and 3 million drivers with 4 billion trips completed worldwide in 2017. It averages approximately 15 million trips completed each day.

Uber, a private company, is currently governed by an 11-person board of directors. They are supported by a 16-person executive management team, each delegated with the authority to manage various aspects of the organization.

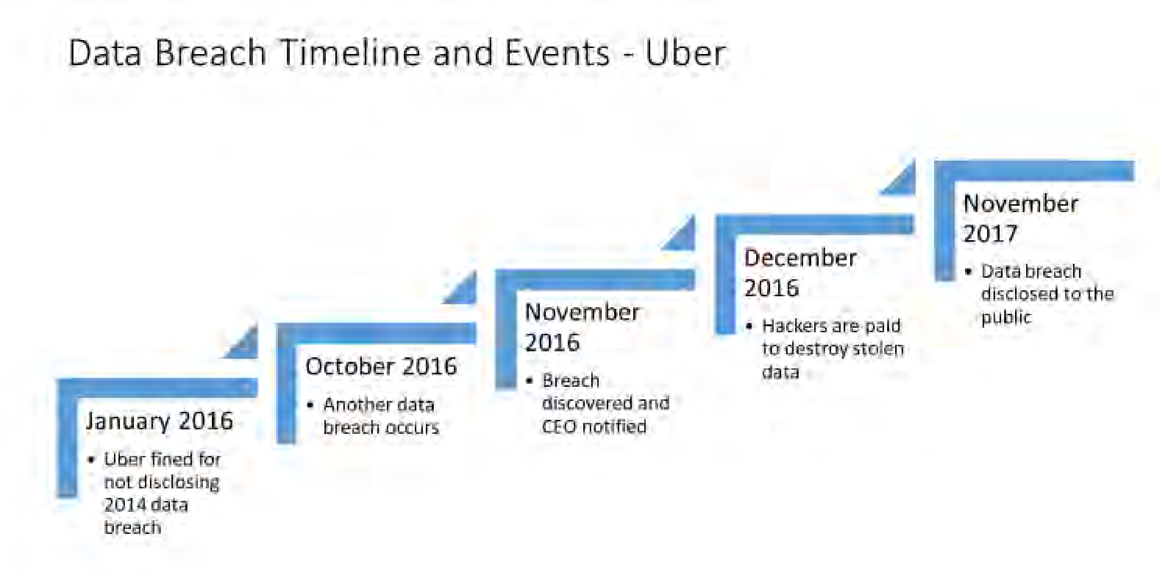
The Data Breach and Management's Response

Uber's management discovered a data breach had occurred in its system that affected approximately 57 million customers and 600,000 Uber drivers. The breach was caused when two hackers identified codes that included Uber employees' usernames and passwords within a database owned and secured by a third-party organization. Uber personnel had erroneously entered this security information that could then be used to access the company's database.

Uber utilized a program called "bug bounty," which is a common practice in the technology industry, to detect and correct vulnerabilities in its information system. This program works by allowing hackers, external to the company, to attempt finding vulnerabilities within the entity's system. Then, after showing the system weaknesses to the company's management, hackers can be paid up to $10,000 for their findings. However, in this case, one of the hackers demanded a $100,000 payment after gaining access to the system and retrieving over 57 million records. The hacker also threatened to publicly disclose the stolen information if the payment was not received. Uber's management paid the hacker $100,000 and decided to have the hacker sign a non-disclosure agreement, which stated that the hacker would keep the information private and destroy the data. It is worth noting that the payment was made despite the Federal Bureau of Investigation's 2016 warning to companies not to make such payments to hackers.

This breach occurred in October 2016 and was disclosed to the public in November 2017, which is over a year later. However, the company's CEO was notified of the data breach in November 2016. Information obtained in the breach included phone numbers, email addresses, and names of Uber customers, and the license numbers for many of the company's drivers. After realizing the breach had occurred, Uber's CEO and management chose not to disclose the data breach to the public, regulators, nor to its own board of directors. Prior to this, the company had experienced a data breach in 2014 and was fined $20,000 by the State of New York in January 2016 for failing to disclose the matter in a timely manner.

The following diagram provides a timeline of the data breach and its aftermath:



The board was not aware of the data breach until it began to lose confidence in the chief security officer's (CSO) performance. It hired a law firm to investigate the CSO; the breach was discovered during this process and subsequently disclosed to the public. The CSO and legal director of security and law enforcement were both fired, while the CEO resigned and became a member of the board of directors.

DISCUSSION QUESTIONS

Students should be able to:

1. Use the normative, deontological, and consequentialism ethical theories to evaluate managements' responses to the respective cyberattacks.
   [**Note to Students**: The table provided in Appendix A should be used to formulate responses Information on ethical theories can be found in the ethics chapter of an auditing textbook or on the Internet. One suggestion is https://owlcation.com]

2. Comment on which organization responded to the cyber-attacks in a more ethical manner (based on Appendix A).

		Evaluation of Management's Ethical Response	
Ethical Theories	**Brief Summary of the Theory**	**Equifax**	**Uber**
(a) Normative or virtue-based (Aristotle)	Emphasizes the importance of developing good habits of mind and character. These are often formed when young and includes wisdom, courage, honesty, temperance, and justice.		
(b) Deontological or duty-based (Kant)	The morality of an action should be based on whether the action itself is right or wrong under a series of rules For instance, we should always treat people with dignity.		
(c) Consequentialism	Moral conduct is determined solely by a cost-benefit analysis of an action's consequences. Therefore, an action is morally right if the consequences of that action are more favorable than unfavorable.		

Appendix A

REFERENCES

A summary of your rights under the Fair Credit Reporting Act. Retrieved from https://www.consumer.ftc.gov/articles/pdf-0096-fair-credit-reporting-act.pdf

Anonymous, (2018, April 12). Uber agrees to 20 years of cybersecurity audits after FTC raises concerns. Retrieved December 22, 2018 from https://lifars.com/2018/04/uber-agrees-20-years-cybersecurity

Auchard, E. (2017, October 11). *British MP asks why Equifax delayed notifying UK data hack victims*. Retrieved February 22, 2018 from https://finance.yahoo.com/news/british-mp-asks-why-equifax-164424428.html

Blystone, D. (2018, February 16). *The Story of Uber*. Retrieved April 3, 2018 from https://www.investopedia.com/articles/personal-finance/111015/story-uber.asp

Bosa, D., & A. Balakrishnan (2017, December 1). *3 top Uber managers resign amid backlash from data breach and Waymo lawsuit revelations*. Retrieved April 3, 2018 from https://www.cnbc.com/2017/12/01/3-top-uber-mangers-resign-after-data-breach-lawsuit-hearing.html.

Cowley, S. (2018, March 14). *Ex-Equifax Executive Charged with Insider trading tied to '17 breach*. Retrieved April 10, 2018 from https://www.nytimes.com/2018/03/14/business/equifax-executive-insider-trading.html

2017, November 3. *Equifax Board Releases Findings of Special Committee Regarding Stock Sale by Executives*. Retrieved February 27, 2018 from https://investor.equifax.com/news-and-events/news/2017/11-03-2017-124511096

Equifax. Retrieved February 22, 2018 from https://www.equifax.com/about-equifax/*Fair Credit Reporting Act*. 15 U.S.C. § 1681 et seq.

Federal Trade Commission. (2017, January 19). *Uber Agrees to Pay $20 Million to Settle FTC Charges That It Recruited Prospective Drivers with Exaggerated Earnings Claims*. Retrieved March 31, 2018 from https://www.ftc.gov/news-events/press-releases/2017/01/uber-agrees-pay-20-million-settle-ftc-charges-it-recruited

Hartmans, A. (2018, January 18). *Travis Kalanick's final months as Uber CEO reportedly included squirming on the floor 'on his hands and knees' and offering the driver he yelled at $200,000*. Retrieved March 31, 2018 from http://www.businessinsider.com/how-travis-kalanick-behaved-in-final-months-as-uber-ceo-report-2018-1

Hendry, E. (2017, October 3). *How the Equifax hack happened, according to its CEO*. Retrieved February 22, 2018 from https://www.pbs.org/newshour/nation/equifax-hack-happened-according-ceo

Isaac, M., Benner, K., & S. Frenkel (November 21, 2017). *Uber Hid 2016 Breach, Paying Hackers to Delete Stolen Data*. Retrieved April 3, 2018 from https://www.nytimes.com/2017/11/21/technology/uber-hack.html

Kolhatkar, S. (2018, April 9). At Uber, a new C.E.O. Shifts Gears. Retrieved April 27, 2018. https://www.newyorker.com/magazine/2018/04/09/at-uber-a-new-ceo-shifts-gears

Larson, S. (2017, November 17). *Uber's massive hack: What we know*. Retrieved April 1, 2018 from http://money.cnn.com/2017/11/22/technology/uber-hack-consequences-cover-up/index.html

Larson, S. (2017, November 22). *Uber paid hackers $100,000 after they stole data on 57 million users*. Retrieved February 22, 2018 from http://money.cnn.com/2017/11/21/technology/uber-hacked-2016/index.html?iid=EL

McCrank, J. (2017, October 10). *Equifax says 15.2 million UK records exposed in cyber breach*. Retrieved February 22, 2018 from https://www.reuters.com/article/us-equifax-cyber/equifax-says-15-2-million-uk-records-exposed-in-cyber-breach-idUSKBN1CF2JU.

Moyer, L. (2017, November 3). *Equifax special committee says executive stock sales were in the clear*. Retrieved April 27, 2018 from https://www.cnbc.com/2017/11/03/equifax-special-committee-says-executive-stock-sales-were-in-the-clear.html.

Newcomer, E. (2017, November 21). *Uber Paid Hackers to Delete Stolen Data on 57 Million People*. Retrieved April 1, 2018 from https://www.bloomberg.com/news/articles/2017-11-21/uber-concealed-cyberattack-that-exposed-57-million-people-s-data

Osborne, C. (2016, January 7). *Uber fined $20K in data breach, 'god view' probe*. Retrieved April 3, 2018 from https://www.cnet.com/news/uber-fined-20k-in-surveillance-data-breach-probe

Perlroth, N. & M. Isaac (2018, January 12). *Inside Uber's $100,000 Payment to a Hacker and the Fallout*. Retrieved April 3, 2018 from https://www.nytimes.com/2018/01/12/technology/uber-hacker-payment-100000.html

Popken, B. (2017, September 15). *Equifax Execs Resign; Security Head, Mauldin, Was Music Major*. Retrieved February 27, 2018 from https://www.nbcnews.com/business/consumer/requifax-executives-step-down-scrutiny-intensifies-credit-bureaus-n801706

Puzzanghera, J. (2017, September 26). *Equifax CEO steps down after data breach; he'll still get $18-million pension*. Retrieved April 27, 2018 from http://www.latimes.com/business/la-fi-equifax-ceo-20170926-story.html.
Rainone, C. (2014, July 9). *Uber: What you need to know about the car service app*. Retrieved March 31, 2018 from https://www.nbclosangeles.com/news/tech/Uber-Ride-Sharing-Taxi-surge-pricing-cab-booking-266414691.html.
Reese, K. (2006, March 11). *Equifax*. Retrieved February 5, 2018 from http://www.georgiaencyclopedia.org/articles/business-economy/equifax.
Roberts, C. (2018, March 28). *Lawsuit: SF let Uber and Lyft kill taxi cabs, and stuck credit union with the bill*. Retrieved March 31, 2018 from https://sf.curbed.com/2018/3/28/17174108/san-francisco-sfmta-taxis-cabs-uber-lyfe-industry-credit-union
Tysiac, K. (2018, February 21). *SEC publishes new requirements for cybersecurity disclosures*. Retrieved April 1, 2018 from https://www.aicpa.org/content/jofa-home/news/2018/feb/sec-cybersecurity-disclosures-201818424.html
What is a credit reporting company? (2017, May 25). Retrieved February 5, 2018 from https://www.consumerfinance.gov/ask-cfpb/what-is-a-credit-reporting-company-en-1251/

COFFEE-INFUSED COKE? YES PLEASE!

Ahmed Maamoun, University of Minnesota Duluth

CASE DESCRIPTION

The subject of coffee on its own boasts many different avenues for study and discussion. But when coffee is combined with the multi-national beverage corporation Coke, topics and options to approach a case become innumerable. Instructors will have plenty of opportunities to engage students and boost participation. This case is ideal for a junior or senior class on branding, marketing strategy, retailing, green marketing, or principles of marketing. It is designed to stimulate discussion about marketing and growth strategies, globalization, merges and acquisitions, positioning, and retail footprint. This case is an excellent vehicle for demonstrating how a single growth decision by a major player can send shockwaves through an entire industry. The case is designed to be taught in a 60-75 minute class, and is expected to require 3 hours of outside preparation by students.

CASE SYNOPSIS

Coffee is a majestic beverage that can quite possibly connect the world together. The Coca-Cola Company is the world's largest beverage corporation, offering over 500 brands to consumers in 200 countries. However, Coca-Cola has not had a hot drink in its product mix, nor has it had a major retail footprint. With the growth in coffee and hot beverages, the company felt that the timing was right for it to make a thoughtful and significant investment in that category. In August 2018, Coca-Cola paid £3.9 or $5.1 billion to buy the U.K.-based coffee company, Costa, giving Coke its entry into the hot drink market. The obvious objective is to tap into the coffee market – mostly with the aim of debuting new products, as sales of carbonated soft drinks (CSD) are down while coffee is up.

Costa Coffee has almost 4,000 stores (approximately 2,500 in England and 1,500 in Europe, Asia, and Africa). Additionally, the company owns and operates 8,000-plus fresh espresso-based vending machines, called Costa Express (mostly in Europe). The U.S. is the largest coffee market in the world, and Americans drink 450 million cups of coffee daily. Costa does not have any stores in the U.S., and the brand is not known to American consumers. However, the surprise acquisition has sent shockwaves throughout the global coffee industry. Costa's sale to Coca-Cola could be viewed as a direct challenge to the dominance of Starbucks in the global arena that includes the U.S. Costa has more U.K. stores than Starbucks and has been growing globally at a phenomenal rate. Add Coca-Cola's might and reach to the equation, and we may see fierce "Coffee Wars" soon. The coffee battle has just begun because of Coke's unquenched thirst for staying the number 1 beverage company in the world. Coffee-infused Coke sold all over the globe (including the United States) is almost a reality at this point.

CASE BODY

THE COCA-COLA COMPANY

The Coca-Cola Company, created in Georgia in 1886, is the world's largest beverage corporation, offering over 500 brands to consumers in 200 countries. Until the 1960s, the company offered one beverage, Coke, and aimed it at the entire soft drink market. Today, the beverage behemoth offers hundreds of products to market segments based on diverse consumer preferences for flavors, calories, and caffeine content. Although the company has diversified its product lines, Coke remains the industry leader. A sample of the different products, brands, and flavors offered by Coca-Cola in the U.S. market is shown in Table 1.

Table 1. Coca-Cola Product Portfolio

Flavor/type	Brand Name
Cola	Coca-Cola (Coke)
Diet/sugar-free cola	Diet Coke/Coca-Cola Light Tab Coca-Cola Zero Sugar Coca-Cola Life
Caffeine-free cola	Caffeine Free Coca-Cola
Cherry-flavored cola	Coca-Cola Cherry
"Pepper" style	Mr. Pibb Pibb Xtra
Orange	Fanta Minute Maid Simply Orange Royal Tru Orange
Lemon-lime	Sprite Lemon & Paeroa
Other citrus flavors	Mello Yello Vault Fresca Lift Lilt
Ginger ale	Seagram's Ginger Ale
Root beer	Barq's
Cream soda	Barq's Red Creme Soda
Juices	Minute Maid Fruitopia Simply Orange
Iced tea	Gold Peak Tea Fuze
Sports drinks	Powerade Aquarius Vitamin Water
Energy drinks	Full Throttle NOS Relentless Burn
Bottled water	Dasani Kinley Smartwater

Source: Coca-Cola Website (https://www.coca-colaproductfacts.com/en/products/)

In the last decade, Coke's market share has risen from 17.3% to 17.8%, while its main rival's, Pepsi, has dropped from 10.3% to 8.4%, according to trade publication *Beverage Digest*. Diet Coke and Diet Pepsi have both lost ground, but Diet Coke is still far ahead (Beverage Digest, 2019). Coke and Pepsi have fought over the past decade to win market share from one another, as overall sales dropped. As summarized in Table 2, Coca-Cola had a net revenue of $35.4 billion in 2018. That's a 15% drop in revenues from the previous year. Profits suffered as well and plummeted by a whopping $5 billion or 80%.

Table 2. Coca-Cola's Rank, Revenues, and Profits (2016-2018)

YEAR	RANK	REVENUES ($M)	PROFITS ($M)	ASSETS ($M)	EMPLOYEES
2018	87	35,410	1,248	87,896	61,800
2017	64	41,863	6,527	87,270	100,300
2016	62	44,294	7,351	90,093	123,200

Source: Fortune Magazine (www.fortune.com/fortune500/coca-cola/)

It's a tough time for carbonated soft drinks (CSD) sellers. Soft drinks sales have been in decline as soda consumption is at a 32-year low. Coke and Pepsi have both posted negative yearly sales changes for the last 15 years. And there is no salvation with the use of the word "Diet." Health experts have for years rejected the perception that diet soda is a healthy alternative. The long-term outlook is that the diet market will continue to get smaller. Today, consumers are distancing themselves not just from sugar-sweetened drinks but also artificial sweeteners themselves. Besides emerging consumers' health consciousness, Coca-Cola has also been dealing with the mounting threats of soda taxes and warning labels. San Francisco, for instance, has passed a law to add a warning label to CSD products. The label reads: "WARNING: Drinking beverages with added sugar(s) contributes to obesity, diabetes, and tooth decay. This is a message from the City and County of San Francisco" (Steinmetz, 2015). Also, when Philadelphia levied a tax on sugary drinks and soda in 2017 (1.5 cents per ounce tax), sales of those beverages fell by approximately 50% in the first year (Sorto, 2019). In brief, the two top players in beverages, Coke and Pepsi, battle for a shrinking market as customers are turning away from sugary drinks and hollow calories, and cities are imposing detrimental soda taxes.

THE COSTA ACQUISITION

Although Coca-Cola has been in business for 130-plus years and offers hundreds of products and brands to billions of customers around the globe, the company has never had a hot drink in its product mix. This changed overnight when the U.S. cola titan announced purchasing Costa Coffee on August 31, 2018, in a surprise acquisition. Coca-Cola paid a hefty £3.9 billion or $5.1 billion to purchase the British coffee company; a price that analysts argue was on the high side. Why was Coke willing to overpay to have instant access to a global coffee platform? It was because soda sales were down, and coffee consumption was on the rise (Mulier, 2018). Coca-Cola's profits had dropped from almost $9 billion in 2013 to $1.2 billion in 2018, so expanding into the more profitable and promising hot beverage industry had become more of a necessity than a luxury at that point.

The deal closed in January 2019, when European Union regulators and the Chinese government approved the acquisition. Whitbread stated it will use proceeds from the sale of the coffee business to plug a £350m pension black hole, pay off debt, return cash to shareholders, and expand its other big brand, Premier Inn hotels. Coca-Cola did not waste any time, and announced it is launching a full line of ready-to-drink (RTD) Costa products in the coming months. The global

RTD tea and coffee market size is expected to reach $135 billion by 2024, rising at a market growth of 8.4% (Arthur, 2019). Costa cold coffee and tea cans and bottles will be available wherever Coke is sold, such as at supermarkets, discount stores, vending machines, restaurants, airports, and sporting events. Although the possibilities are endless for Coca-Cola and Costa, only time will tell if Costa is a good fit. Many stakeholders are anxious to see how the acquisition turns out.

WHY COFFEE? AND WHY NOW?

That's the five-billion-dollar question! Let's start with the easier question, which is why now? Coffee is a huge business with multiple formats and categories. It is one of the fastest-growing beverage categories in the world, at 6%. Coca-Cola doesn't have a strong, global portfolio in this thriving category. CSD sales are down and coffee sales are on the rise. Coke executives had been striving to answer the question: "What areas of the beverage market do we not serve?" The unanimous answer was probably: "Coffee is a glaring hole". The number one soda maker in the world felt the urgency to diversify away from a market under increasing pressure from governments and health-conscious consumers. The timing seems perfect to get into hot beverages now. Why Costa in particular? There are a number of good reasons that made Coca-Cola lavishly spend for the deal:

- The purchase of Costa Coffee provides Coca-Cola with instant access to almost 4,000 stores in three continents. The deal also comes with a large coffee vending business of 8,000-plus Costa Express machines that are located in supermarkets, convenience stores, movie theaters, offices, and other places. Coke has virtually no experience running brick-and-mortar retail formats. Building on Costa's vast expertise and rich history is arguably the safest way to enter this unchartered territory and add a huge retail footprint overnight.

- Costa has 459 stores in China, with plans to increase its store count in the country to roughly 1,200 by 2022. The growing middle class in China is essentially driving the global economy as never before. The sheer size of the market brings a multitude of opportunities.

- Venturing into the growing RTD cold coffee with a strong global brand is another reason for the acquisition. The cola hulk already has experience in selling bottled and canned coffee in a few markets, such as Georgia coffee in Japan. The well-established Costa brand along with Coca-Cola's might and glamour could be unstoppable. Coke's distribution network is massive, and its marketing expertise and global reach add a new dimension to Costa's offerings. With Coke's 130 years of unparalleled expertise and vast distribution network, Costa could be in every supermarket, convenience store, restaurant, and vending machine that offers Coca-Cola products on the planet. This looks like a lucrative opportunity even for the largest beverage conglomerate in the world.

- Supplementing Coca-Cola's offerings in the B2B market is a possible motive for the acquisition. Currently, restaurants, hotels, and cafeterias around the world buy Coca-Cola products (CSD, energy drinks, ice tea, juices, water, etc.) to serve to patrons. Adding a well-known and prestigious coffee roaster to the mix fortifies Coca-Cola's offerings to this significant market segment and transforms the company into a total beverage conglomerate.

COCA-COLA'S EXPANSION STRATEGY

The Ansoff Matrix (Figure 1) is a marketing planning model that helps a company determine its product and market growth strategy. According to the Ansoff Matrix, there are four generic growth options: (1) Market penetration: by pushing existing products in its current market segments (i.e., increasing share); (2) Market development: by developing new markets for the existing products; (3) Product development: by developing new products for the existing markets; (4) Diversification: by developing new products for new markets. It's noteworthy that any strategy requires long-term commitment and the allocation of resources that could be irreversible, hence the importance of the decision.

Figure 1: The Ansoff Matrix

Market Penetration: Coca-Cola could pursue Market Penetration or a growth opportunity directed toward existing customers using the company's present products. Such a strategy would involve either attracting new consumers from the current target market who don't buy Coke or devising approaches that make current customers buy more. Coca-Cola could potentially increase market penetration by having its products in more stores or supplying existing stores with more CSD products and helping those stores drive greater sales through promotional activities. The argument in favor of this approach is that Coke is a market leader with massive marketing and distribution capabilities. However, in the long run, this may not be the best way to create a sustainable competitive advantage. The existing markets may become saturated and sales will drop as Pepsi increases marketing efforts and governments impose soda taxes.

Market Development: Another growth strategy is Market Development" or using the current product in new markets. This is virtually unrealistic as Coca-Cola is already in 200 countries. The soda giant is present most everywhere there is a refrigerator or a vending machine. There is little room for expansion.

Product Development: The third growth strategy, Product Development, involves developing new products that appeal to existing markets. Selling RTD coffee and tea to existing customers would be an example of a product development strategy. The value proposition is that Coke can take advantage of its existing relationships with supermarkets and grocery stores in addition to leveraging the positive attitude customers have towards the Costa brand.

***Diversification*:** Diversification, the final growth strategy, would involve Coca-Cola marketing new products or services in new markets. This category can also be sub-divided into related and unrelated diversification. Related diversification is development beyond the present product market but still within the broad confines of the industry, building on existing competencies. For example, Coca-Cola opening more Costa coffee shops to serve customers outside of current markets would be related diversification. As another example, Coke could consider a complementary business, such as roasting coffee beans or selling coffee pods.

Although the Ansoff Matrix suggests that four growth strategies are possible, the two realistic options, and those that Coke is considering, are product development and related diversification. Neither market penetration nor market development advance the company toward realizing its goal of expanding away from CSD.

"COLA WARS" SPILLOVER

In the late 1800s the Coca-Cola Company (Coke) and PepsiCo (Pepsi), the world's largest cola brands, were founded in Georgia and North Carolina respectively. Since then, they have been engaged in "Cola Wars," an ultimate rivalry where the two players have come to represent much more than just two beverages. The two titans compete fiercely with each other within multiple segments of the soft drink industry all over the world. When one launches a successful product or product line extension, it's not uncommon for the other to follow with a similar competing variety of that item. The term "Cola Wars" was coined in the early 1980s to describe Coke and Pepsi's herculean sales, advertising, and marketing tactics against each other to develop and maintain market share.

Coca-Cola's competition with Pepsi is global. As with many corporations, there is frequent confrontation with competitors in nation after nation. The world's great rivalries and duopolies, for instance, Ford and Toyota, Boeing and Air Bus, Caterpillar and Komatsu, FedEx and UPS, MasterCard and Visa, and—perhaps most iconic of all—Coca-Cola and Pepsi, seem somewhat enigmatic. If a firm moves into a nation that is not currently served by its rivals, those rivals invariably follow to prevent their competitor from gaining an advantage. A few weeks before the Costa acquisition, Pepsi announced that it is purchasing the Israeli do-it-yourself carbonation company, SodaStream. The company manufactures a device that carbonates water by adding carbon dioxide from a pressurized cylinder to create soda water. SodaStream has taken advantage of the growing market for seltzer beverages and has managed to grow its customer base from 4.5 million in 2012 to 12.5 million customers. Seltzers do not have sugar and are calorie-free, hence they are healthier than the traditional soda drinks. Additionally, do-it-yourself carbonated drinks can be tailored to individual tastes with different fruits and flavors added to the water. This product appeals to consumers who are considering healthier, more environmentally friendly types of cold beverages.

Entering into the hot beverage market is very possible for Pepsi as well. After all, soda is down, and coffee is up. These two iconic companies wouldn't have thrived for 130 years if they didn't listen to their customers and gave their customers what they wanted. The beverage war continues. What will happen next?

POSSIBLE "COFFEE WAR"

Starbucks became an innovator by introducing the modern coffeehouse to American culture. It started with one store in Seattle in 1971, but it distinguished itself by a commitment to quality and as "a third place" apart from work and home. By 2018 it had more than 25,000 outlets in 75 countries. As Starbucks grew into a global coffee hulk, it inspired a generation of coffee entrepreneurs to open their own coffee shops. Starbucks has been infamous for saturating neighborhoods and tenaciously driving local coffee shops and smaller chains out of business. Many independent coffeehouses, nevertheless, have competed successfully through excellent attention to customers and providing unique beverages, atmospheres, or services to complement local tastes and preferences.

Today Starbucks is hands down the largest coffee chain in the world. Other leading chains include Dunkin Donuts (11,300 outlets), Tim Horton's (4,600 outlets), Costa Coffee (3,900 outlets), Ediya Coffee (1,500 outlets), and Doutor Coffee (1,200 outlets). It's noteworthy that McDonald's has been selling a large amount of coffee and is endeavoring to be seen as a destination for premium coffee.

To rival and outgrow Starbucks will not be a small feat for Costa. Starbucks has spread its arms around all four corners of the globe and has the first-mover advantage in many markets. The Seattle-based company is doing well in the Chinese market that it entered in 1999, with 3,600 stores in 2018, and it plans to open to a store every 15 hours to reach 6,000 stores across 230 cities by the end of 2022 (Klein, 2018). The iconic American brands Coke and Starbucks are recognized around the globe. According to rankings by the international brand consultancy firm, Interbrand (2018), Coca-Cola is the fifth most valuable brand in the world, with brand equity of $66 billion. Starbucks came in 57th with approximately $10 billion. Regardless of Starbuck's expertise and reach, Coca-Cola is likely to remain the most widely distributed American product globally as it serves two billion drinks to customers in 200 countries daily. And if Costa is to be sold where Coke is, then Starbucks has a problem on their hands.

WHAT'S NEXT?

American coffee culture has gone through several waves of acceptance. Coffee became an important part of American beverage consumption in the late nineteenth century, and James Folger started focusing his advertising on the importance of the taste of mountain-grown coffee. Demand for coffee grew consistently in the U.S., especially after World War II. This was the "First Wave" of coffee culture. In the late '60s, Alfred Peet opened a coffee shop in Berkeley, California, selling small-batch, hand-roasted coffee beans. He sold premium coffee, and the demand for his gourmet coffee grew quickly. Peet is considered the "godfather of gourmet coffee," and the demand he built can be traced to the development of Starbuck's Coffee in Seattle, which considered Peet its mentor. Peet taught the founders of Starbucks everything about gourmet coffee and even allowed them to copy his store layout and processes when they opened their first store in 1971. In the 1980s, even as coffee sales were declining, sales of specialty coffee was growing rapidly. Starbuck's rode this wave and built an empire selling gourmet coffee. This growth in the acceptance of premium-priced specialty coffee by American consumers is known as the "Second Wave." The "Third Wave" refers to the view of coffee as a culinary item. As consumer demand for craft products (notably in the brewery industry) grew, consumers began focusing on previously esoteric issues like the source of the coffee beans and the differences in flavors across different types, origins, and roasts of coffee.

The popularity of coffee in the U.S. derives from more than coffee's stimulating qualities. Its attractiveness encompasses social and cultural dimensions. Most millennials have a lifestyle that includes drinking specialty coffee and spending time at coffeehouses (reading, browsing the Internet, or socializing). Although citing the example of the millennial who spent $20,000 on coffee is an extreme case, her argument could shed some light on the significance of coffee shops in the lives of this important demographic. The young woman in the article felt no remorse spending a small fortune on her favorite beverage at coffee shops as it gave her "her security, comfort, and routine" (McClear, 2019). Coffee shops maintain a reputation as social meeting places, but depending on their location and clientele, they may also be places for study, relaxation, or to simply grab a quick snack or drink. By acquiring Costa, Coca-Cola has added a retail footprint in many parts of the world. Coca-Cola currently has 107 million fans on Facebook, making it one of the most popular brands on social media. There is no doubt Coca-Cola will bring the Costa brand to the U.S. It makes sense to expand this footprint to the biggest coffee market in the world. Retail shops are important for sales, of course, but they're also vital in building a brand, so that brand can have even more success beyond its own stores, like in direct consumption channels and home offerings. Bringing the fresh espresso-based system, Costa Express, to the U.S. opens a stream of revenue possibilities. Imagine a Costa Express next to a Coca-Cola vending machine in key places. Pushing these systems all over the country seems imminent. The company even thinks that Americans are ready for coffee infused Coke (Wiener-Bronner, 2019). However, before selling the product in the U.S., the soda giant is releasing Coca-Cola Coffee in more than 25 markets around the world by the end of 2019. Coffee-infused Coke is likely to be a reality in the United States as early of 2020.

REFERENCES

Arthur, Rachel (2019, April 24). Coca-Cola gears up for RTD Costa coffee product launch. Retrieved from https://www.beveragedaily.com/Article/2019/04/24/Coca-Cola-gears-up-for-RTD-Costa-coffee-product-launch?

Beverage Digest (2019, March 1). Full-Year 2018 U.S. CSD Results at Retail.

Buzby, Jean and Haley, Stephen (2007, June 1). Coffee Consumption Over the Last Century. Retrieved from https://www.ers.usda.gov/amber-waves/2007/june/coffee-consumption-over-the-last-century/

Diamond, Michael (2017, September 6). McDonald's, the Fast-Food Icon, Takes Aim at Specialty Coffee. Retrieved from http://www.app.com/story/money/business/consumer/2017/09/06/mcdonalds-coffee-cappuccino-mccafe/636793001/

Hale, Kori (2018, September 27). Coca-Cola Dipping Into the Cannabis Infused Drink Market. Retrieved from https://www.forbes.com/sites/korihale/2018/09/27/coca-cola-dipping-into-the-cannabis-infused-drink-market/#60a71f5d5e0e

Interbrand (2018). Best Global Brands 2018 Rankings. Retrieved from https://www.interbrand.com/best-brands/best-global-brands/2018/ranking/

Klein, Danny (2018, May). Starbucks' China Goals: A New Store Every 15 Hours for 5 Years. Retrieved from https://www.qsrmagazine.com/fast-food/starbucks-china-goals-new-store-every-15-hours-5-years

McGrath, Maggie (2018, January 29). Coffee Meets Soda: Keurig And Dr Pepper Snapple Merge To Create Beverage Behemoth. Retrieved from https://www.forbes.com/sites/maggiemcgrath/2018/01/29/coffee-meets-soda-keurig-and-dr-pepper-snapple-merge-to-create-beverage-behemoth/#13187af43531

Mulier, Thomas (2018, August 31). Coke Makes $5.1 Billion Bet on Coffee Market With Costa Deal. Retrieved from https://www.bloomberg.com/news/articles/2018-08-31/coca-cola-to-buy-u-k-s-costa-coffee-chain-for-5-1-billion

National Coffee Association (2017, March 25). Daily Coffee Consumption Up Sharply. Retrieved from http://www.ncausa.org/Portals/56/PDFs/Communication/NCA_NCDT2017.pdf?ver=2017-03-29-115235-727

Olshan, Jeremy (2013, February 20). America's Coffee Cup Is Half Full. Retrieved from http://www.marketwatch.com/story/americas-coffee-cup-is-half-full-2013-02-20

Perez, Marvin (2013, March 22). Coffee Consumption Increase in U.S., Association Survey Shows. Retrieved from http://www.bloomberg.com/news/2013-03-22/coffee-consumption-increases-in-u-s-association-survey-shows.html

Ritschel, Chelsea (2019, May 2). Coca-Cola is Launching a Version for Mixing with Liquor. Retrieved from https://www.independent.co.uk/life-style/food-and-drink/coca-cola-signature-mixers-alcohol-liquor-spirits-dark-rum-vodka-a8896876.html

Smith, Oliver (2017, October 1). Mapped: The countries that drink the most coffee. Retrieved from https://www.telegraph.co.uk/travel/maps-and-graphics/countries-that-drink-the-most-coffee/

Sorto, Gabrielle (2019, May 15). Sugary drink sales plummeted in Philadelphia after soda tax. Retrieved from https://www.cnn.com/2019/05/15/health/philadelphia-soda-tax-sales-decrease/index.html

Steinmetz, Katy (2015, June 10). San Francisco Approves Warning Label for Sugary Drink Ads. Retrieved from http://time.com/3915485/san-francisco-soda-warning-label/

Wiener-Bronner, Danielle (2019, May 30). Coca-Cola thinks Americans are finally ready for Coke with coffee. Retrieved from https://www.cnn.com/2019/05/30/business/coke-with-coffee/index.html

MAGNUS YOUTH LEAGUE – A CASE STUDY FOR SOCIAL RESPONSIBILITY AND APPLICATION OF STAKEHOLDER THEORY

Jackie Marr, West Texas A&M University
Andrea Finchum, West Texas A&M University
Melissa White, West Texas A&M University

CASE DESCRIPTION

This case is well-suited to an introductory-level management class where curriculum includes concepts of stakeholder theory and corporate social responsibility. In addition, this case would be relevant for public administration courses or first year graduate students pursuing a Master of Public Administration degree since it addresses nonprofit organizations and social responsibility. The primary subject matter for this case concerns identifying stakeholders, their various needs and expectations from a nonprofit organization, and the application of social responsibility in the nonprofit sector. Secondary issues include nonprofit funding and volunteer recruitment. This case imposes the Corporate Social Responsibility (CSR) framework onto a nonprofit scenario, highlighting the need to deliver multiple outcomes for the varied stakeholder group expectations.

This case has a difficulty level of three-four (junior-senior level) and is designed to be taught in less than two class hours with less than two hours of outside preparation time by students.

CASE SYNOPSIS

There is a growing demand for organizations to conduct their business in an ethical manner. Many corporations fall short of this mission, but there is a growing demand for the application of Corporate Social Responsibility (CSR) to their core business practices. Many believe that CSR can only be applied to the for-profit sector, but in reality, is applies to all forms of organizations including government entities, service providers, for-profit and nonprofit organizations. Recognition of stakeholders is key in developing business strategies that aspire to adopt CSR principles.

Students will be presented with background information on Magnus Youth League, a nonprofit which offers a variety of youth sports programs for the Malheur County in Oregon. Bernie Macgruber, the new Executive Director for Magnus, faces the daunting task of revitalizing this nonprofit to deliver much needed direction and mentoring for the youth in this community.

INTRODUCTION

Bernie Macgruber leaned back in the rickety chair and propped his feet up onto the ancient wooden desk, hands clasped behind his head. "What a mess," he said aloud. The sun was just setting outside the window next to him, and he was beyond tired. When he had driven up to the Magnus Youth League office this morning and saw the line of parents and kids stretching out the front door and around the block, his first thought was that business was good. He was even a little excited. Obviously, there would be no shortage of kids to participate in the flag football program beginning next month! That impression changed when he approached the group and entered the small and very crowded office space. Two clerks behind the counter were talking with parents and writing on their clipboards. Two others moved between the front counter and the piles of dilapidated helmets, shoulder pads, and jerseys that lined the back wall. Their frustration was obvious as they called out to each other across the chatter in the tiny room.

This was Bernie's first day as Executive Director of Magnus Youth League, a program offering a variety of sports programs for kids aged 5-12 in Ontario, Oregon and neighboring communities. He knew from the Magnus advisory board that parents and coaches were frustrated, too. Certainly, the parents he'd seen this morning had not been happy, waiting in line out in the hot sun. No wonder Magnus' support had been on the decline. It was clear to Bernie that things needed to change, and fast.

MAGNUS YOUTH LEAGUE

Founded in 2003, Magnus Youth League (Magnus) had garnered substantial community support over the last decade, largely due to the variety of youth sports training programs offered and effective community relationships with schools and area benefactors. Magnus served the communities in Malheur County, Oregon which includes the towns of Ontario, Nyssa, Vale and several others. The total population in Magnus' service area is approximately 20,000 residents, served by a dozen elementary schools. Malheur County is the most impoverished county in Oregon with an overall poverty rate of 25.2%. Ontario, the largest city in Malheur County, has a poverty rate of 35.2% (Poverty Rate, 2019).

Perhaps because the poverty rate is so high, the children in these small, largely agricultural communities are a source of concern, not only at the state and federal level but for large companies in the area and also for area benefactors. Nonprofit organizations such as Magnus, with a focus on developing skills and opportunities for Malheur County children, have been able to source operational funding from government grant programs and from private donations consistently over the last decade, although the availability of funds as of late has been considerably more constrained.

"Magnus" in Latin means "great." When Magnus Youth League was founded in 2003, its purpose was to develop greatness in the impoverished Malheur County youth. Magnus sports programs emphasize not only the development of athletic skills, but also character qualities like teamwork, integrity, and perseverance. The Magnus mission statement is simple: "Preparing Malheur youth for greatness in sports and in life."

Magnus ran four sports programs per year: football, baseball, basketball, and volleyball. The football program was co-ed, but enrolled primarily the boys. Volleyball was restricted to the girls. The baseball and basketball programs included both girl and boy teams. The Magnus teams competed against each other and with other youth teams across the Oregon/Idaho Treasure Valley area. Most of the coaches were farmers. They were good folks and great with the kids, but it was hard for them to make it to morning games because that's when they're tending crops. Usually, a parent could stand in for them, but not always. Children were transported to practices and games by their parents.

The Magnus advisory board had informed Bernie that funding had dwindled over the last several years. The organization continued to receive a state-funded grant which was enough to cover salaries and related overhead, and parents paid a modest enrollment fee of $25 per child per sports program which had so far been enough to cover the office lease and utilities expenses. There had been precious little money to devote to new sports equipment in the last ten years. Even the team jerseys were returned at the end of each season to be reused.

Bernie reports to the Magnus advisory board, and they will determine whether or not he will continue in his Executive Director role after this probationary year. The eight-member Magnus advisory board included three prominent local farmers and the Ontario city mayor and the Malheur County fire chief. The other board members were high-level managers from large agribusiness companies in the area with expertise in finance, accounting and law. Their vision for Magnus Youth League was ambitious. These were important people in the Malheur County community, and they wanted the image and reputation for the Magnus program to be elevated to match other teams in the area, namely those in Boise, Idaho where communities had substantially more money to contribute. They had made it very clear to Bernie that he would be held accountable for major program improvements and team records that could stand up against other Treasure Valley teams. Bernie was starting to feel like he would have to be able to pull a rabbit out of the proverbial hat to satisfy them.

STAKEHOLDER THEORY

R. Edward Freeman first introduced the stakeholder theory in 1984. This concept shifts an organization's main objective of making money for its shareholders to a broader purpose of developing and fostering business relationships with those who have a "stake" or interest in the company and its overall success (Freeman, 1984). The stakeholders of an organization include employees, customers, suppliers, investors, and communities.

The stakeholder theory is based on the assumption that organizations want to conduct business with morals and values (Freeman, Wicks, & Parmar, 2004). This implies that leadership has an ethical component in every organizational decision made, especially when it involves managing stakeholder relationships (Harrison, Freeman, & Sá de Abreu, 2015). Stakeholder relationships should be fostered in a positive, effective manner by an organization. As a result, this will ultimately lead to economic value for an organization because the needs of the stakeholders were taken into consideration (Freeman, Wicks, Parmar, 2004).

The stakeholder theory provides leaders with tools to create value for the organization and its stakeholders (Freeman, et al., 2012). The two questions leaders need to ask themselves are: (1) What is the purpose of the organization? and (2) What responsibility does the organization have to its stakeholders? (Freeman, 1994) Regardless of the answers to these two questions, organizations must take into account the legitimate interests of individuals and groups that can or have the potential to affect their business (Donaldson and Preston, 1994; Freeman, 1994).

Stakeholders can be divided into two classifications: primary and secondary. Primary stakeholders are those who interact with an organization on a daily basis, such as employees, customers, and shareholders. This category also includes regulatory and governmental agencies as companies must comply with the laws generated by these groups. Primary stakeholders are essential to an organization's viability and include employees, customers, investors, and suppliers (Ferrell, Thorne, & Ferrell, 2016). Individuals and groups who do not engage in business transactions on a daily basis with an organization are considered secondary stakeholders (Clarkson, 1995). The media and special interest groups are two common types of secondary stakeholders (Ferrell, Thorne, & Ferrell, 2016).

The stakeholder theory also states that salience is given to a stakeholder based on one or more of the following three attributes: power, legitimacy, and urgency (Mitchell, et al., 1997). Power is defined by Pfeffer as, "a relationship among social actors which one social actor (A), can get another social actor (B) to do something that B would not have otherwise done" (Pfeffer, 1981). In other words, it is the extent that a stakeholder can influence an organization to get their desired outcome(s). According to Suchman, legitimacy is, "A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995). Urgency can be defined as, "the degree to which stakeholder claims call for immediate attention" (Mitchell, et al., 1997). This means that urgent stakeholders have an important time sensitive claim that can be critical to the organization. The more of these three attributes a stakeholder possesses, the more significant and influential they are to an organization (Ferrell, Thorne, & Ferrell, 2016).

Since nonprofits are an important part of our society, especially when it comes to their economic impact on the communities they serve, it is important to look at how the stakeholder theory can apply to these organizations as well (Shea, et al., 2012). Just as for-profit organizations align their values and goals with their various stakeholders, nonprofits also tend to the different interests and diverse expectations of a myriad of stakeholders (Wellens & Jegers, 2014). Stakeholders of a nonprofit can include government, beneficiaries, private donors, board members, management, volunteers, and non-managerial staff members (Wellens & Jegers, 2014). For nonprofits to succeed, they must efficiently and effectively produce financial and social outcomes by utilizing their numerous stakeholders' knowledge, resources, and interests (Kaplan, 2001; Kushner & Poole, 1996; McHargue, 2003; Mottner & Ford, 2005; Ostrander, 2007; Seok-Eun, 2005; Speckbacher, 2003). It is important for a nonprofit to recognize that stakeholders will have different expected outcomes and, thus, a nonprofit will need to be able to deliver varied results for each of its stakeholder groups.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate social responsibility is a concept that became relevant to the business world after World War II (Carroll, 2015). The United States was evolving, and several social movements were making their mark on corporate America. Civil, women's, and consumer's rights, in addition to employee's safety and pressure for environmental protection emerged, which resulted in increasing demands on businesses (Carroll, 2015). Before these social movements, businesses believed they were only responsible for economic success for themselves and their shareholders. A byproduct of the social movements was society's growing expectations that forced businesses to accept more responsibility for their various stakeholders' needs and concerns.

There have been countless definitions of corporate social responsibility. In 1962, Milton Friedman stated in his book, *Capitalism and Freedom*, "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" [p. 133]. Another approach was presented by Keith Davis who defined CSR as, "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks" (Davis, 1973). After varying views and debates as to the exact meaning of corporate social responsibility, Archie Carroll went on to define CSR as, "...the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979). The thought process behind this widely accepted definition of CSR was the following:

1. Businesses' economic and legal expectations were required by society;
2. Society expected businesses to be ethically responsible; and
3. Society desired businesses to have a discretionary/philanthropic responsibility (Carroll, 2015).

Economic responsibility is a requirement by society and the most basic social responsibility. With this economic and financial responsibility, an organization must make a profit of the goods and services sold to end-users. In turn, this should produce a return on the investment made by the owners and shareholders of the organization (Ferrell, Thorne, & Ferrell, 2016). The legal system is the basis of society's expectations as to the way an organization should conduct itself (Ferrell, Thorne, & Ferrell, 2016). Consequently, an organization needs to abide by the regulations and laws set by regulatory and governmental agencies as it conducts business in an effort to meet its economic responsibilities.

Society expects organizations to conduct themselves in an ethical manner. This means doing what is right even when the business is not required to do so by law. For example, if an organization wants to conduct business in an ethical manner, it will take care of its employees by offering competitive wages, health benefits, safe working conditions, and appropriate job training.

Discretionary and philanthropic activities that are desired by society refer to endeavors a company fulfills beyond its economic, legal and ethical responsibilities. Organizations exercising their discretionary/philanthropic responsibilities are going to help people and communities in need; this responsibility supports human well-being and goodwill (Ferrell, Thorne, & Ferrell, 2016). Donations of money, employees' time, and/or other resources are just a few examples of how organizations can demonstrate their discretionary/philanthropic responsibilities to society (Ferrell, Thorne, & Ferrell, 2016).

Today, all types of stakeholders, including employees, consumers, shareholders, financial institutions, as well as other stakeholder groups, are demanding companies operate in a socially responsible manner (Sprinkle & Maines, 2010). In response, companies desiring to be socially responsible must consider and focus on their various stakeholders' concerns and well-being by implementing CSR in their daily operations and long-term goals. The concept of social responsibility can be applied to any form or size of business. Small and large businesses, sole proprietorships, nonprofit organizations, and even government agencies can incorporate social responsibility into their everyday business practices (Ferrell, Thorne, & Ferrell, 2016).

The implementation of strategic corporate social responsibility initiatives has numerous beneficial business implications. To start, companies view CSR as a key element to their overall long-term success and financial viability (Isaksson, Kiessling, & Harvey, 2014). Today's customers have accessibility to more information than they have ever had before. Consequently, customers have a lot of power; they are demanding companies to include corporate social responsibility as the foundation of their business activities (Isaksson, Kiessling, & Harvey, 2014). Continuing with a company's CSR efforts and its customers, social responsibility can contribute to customers having positive thoughts and attitudes about the company; enhance a customer's identification of the company; and may actually persuade customers to purchase a company's merchandise and/or services (Lichtenstein, Drumwright, & Braig, 2004; Dutton, Dukerich, & Harquail 1994). In addition, many companies believe that their investment in CSR not only increases employee motivation, but helps with the recruitment and retainment of top talent (Sprinkle & Maines, 2010; Dizik, 2009). This investment ultimately leads to cost savings since the company will not have to spend money on the recruitment, hiring, and training of new employees. Social responsibility can be instrumental to a company's risk management efforts, which inevitably assists in protecting its reputation and brand image (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Furthermore, companies who focus on environmental and sustainability aspects of CSR may actually save money due to a potential decrease in production costs (Sprinkle & Maines, 2010). While all of these are potential benefits of adopting a CSR perspective, some businesses who incorporate CSR into their core business practices do so simply because they want to do business better and be a good global citizen (Sprinkle & Maines, 2010).

Businesses are integrating corporate social responsibility practices in various ways to accommodate stakeholders' interests, concerns, and desires. That said, most do not consider nonprofits as having to integrate social responsibility principles into their daily operations. The reason for this is when for-profit organizations achieve their discretionary and philanthropic responsibilities, nonprofits are usually the recipients of their resource donations (Coombs & Holladay, 2012). Since social responsibility can be applied to any type of organization, nonprofits should also be striving to align their business practices with social responsibility concepts. Nonprofits are exactly like for-profit businesses because they have: employees they should treat fairly; a necessity to find steady sources of income (i.e. corporate donations, donations from individuals, grants, fundraisers, etc.); end-users who receive and benefit from their products and/or services; and countless stakeholders who can impact the way they operate their organization (Waters & Ott, 2014).

The most basic and simplistic way for companies to establish a CSR program is for them to give of their resources (i.e. money, products, and/or services) to local and national nonprofits as well as community organizations (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010; Ferrell, Thorne, & Ferrell, 2016). In addition, companies can establish volunteer programs. One way these programs work is for employees to spend company-supported time to serve local nonprofits and community agencies (Ferrell, Thorne, & Ferrell, 2016). Another way these programs can be established is for companies to allow employees to take time off from work (paid or unpaid) to perform volunteer activities (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Companies are aware their greatest assets are their employees. Therefore, corporate social responsibility involves taking care of employees' overall well-being and safety. Many employers provide health and wellness support through educational programs, on-site health clinics, and fitness centers (Isaksson, Kiessling, & Harvey, 2014). Companies also protect their employees by providing safe working conditions. Furthermore, employers are vigilant about potential hazards and dangers the employees may encounter while performing their jobs (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Finally, CSR initiatives include environmental and sustainability issues. Companies that are cognizant of their environmental footprint are participating in "green" practices, such as reducing packaging material, recycling, and conserving water and energy, to protect our Earth for future generations (Sprinkle & Maines, 2010). Above all else, for an organization's successful implementation of CSR, it needs to be strategic and align with the company's goals and objectives (Isaksson, Kiessling, & Harvey, 2014).

THE ISSUES

After just one day on the job, Bernie could see a whole host of problems that would need to be addressed. He rummaged around in a desk drawer for a notepad and pen to make some notes.

It was hard to believe that his office was operating on paper records, without the benefit of computer technology. They were getting the job done, but not efficiently. The office was far too small and very rundown. Also, all of the sports equipment was old. Bernie has realized immediately that Magnus was in dire need of safer helmets and shoulder pads for the pending football season. He wondered what kind of shape the rest of the gear was in.

More concerning to Bernie than the facilities and equipment, though, was staffing. His crew simply wasn't working well together. Their frustration was rubbing off on the parents and coaches, and that would be bad for business. Bernie's thoughts turned to the coaches. They were another issue, all to them themselves. It was hard to recruit coaches because they were generally local farmers, and they knew the commitment would interfere with their farming responsibilities. Other parents would usually pitch in to help, but they didn't have the training or knowledge to coach well. Something would have to be done about this.

Bernie looked over his notes, tapping his pen on the desk. The staffing and coaching issues would need to be addressed, as would the facility and equipment issues, but the kids were the primary concern. All these other issues were necessary to serve that mission, but they would require additional funding. Bernie had his work cut out for him.

REFERENCES

Carroll, A. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. The Academy of Management Review, 4(4), 497-505.

Carroll, A. (2015). Corporate social responsibility. Organizational Dynamics, 44(2), 87-96.

Clarkson, M. B. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. Academy of Management Review, 20(1), 92–117.

Coombs, W.T., & Holladay, S.J. (2012). Managing corporate social responsibility: A Communication approach. Chichester, UK: Wiley-Blackwell.

Davis, K. (1973). The case for and against business assumption of social responsibilities. Academy of Management Journal, 16(2), 312—323.

Dizik, A. (2009, November 19). Education for executives: Teaching the golden rules. The Wall Street Journal, p. B8.

Donaldson, T., L. Preston (1995). The stakeholder theory of the corporation—Concepts, evidence, and implications. Acad. Management Rev. 20(1) 65–91.

Dutton, J., Dukerich, J., & Harquail, C. (1994). Organizational Images and Member Identification. Administrative Science Quarterly, 39(2), 239-263.

Ferrell, O. C., Thorne, D. M., & Ferrell, L. (2016). *Business and society: A strategic approach to social responsibility & ethics* (5th ed.). Boston: Chicago Business Press.

Freeman, R.E. (1984). Strategic management: A stakeholder approach. Boston, Pitman Publishing Inc.

Freeman, R. E. (1994). The politics of stakeholder theory. Bus. Ethics Quart. 4(4) 409–421.

Freeman, R. Edward, Rusconi, G., Signori, S., & Strudler, A. (2012). Stakeholder Theory(ies): Ethical Ideas and Managerial Action. *Journal of Business Ethics*, *109*(1), 1–2. https://doi-org.databases.wtamu.edu/10.1007/s10551-012-1374-7.

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder Theory and "The Corporate Objective Revisited ". *Organization Science*, *15*(3), 364–369. https://doi-org.databases.wtamu.edu/10.1287/orsc.1040.0066.

Friedman, M. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962.

Harrison, Jeffrey S, Freeman, R. Edward & Sá de Abreu, Mônica Cavalcanti. (2015). Stakeholder Theory As an Ethical Approach to Effective Management: Applying the theory to multiple contexts. Revista Brasileira De Gestão De Negócios, 17(55), 858-869.

Isaksson, Kiessling, & Harvey. (2014). Corporate social responsibility: Why bother? Organizational Dynamics, 43(1), 64-72.

Kaplan, R. S. (2001). Strategic Performance Measurement and Management in Nonprofit Organizations. Nonprofit Management & Leadership, 11(3), 353-370.

Kushner, R. J., & Poole, P. P. (1996). Exploring Structure-Effectiveness Relationships in Nonprofit Arts Organizations. Nonprofit Management & Leadership, 7(2), 119-136.

Lichtenstein, D., Drumwright, M., & Braig, B. (2004). The Effect of Corporate Social Responsibility on Customer Donations to Corporate-Supported Nonprofits. Journal of Marketing, 68(4), 16-32.

Malheur County Agriculture. (n.d.). http://www.cropinfo.net/about/malheurCountyAgriculture.php

McHargue, S. K. (2003). Learning for Performance in Nonprofit Organizations. Advances in Developing Human Resources, 5(2), 196.

Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Towards a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review, 22(4), 853–886.

Mottner, S., & Ford, J. B. (2005). Measuring Nonprofit Marketing Strategy Performance: The Case of Museum Stores. Journal of Business Research, 58(6), 829-840.

Ontario Surrounding Communities. (2019). In Town Square Publications. Retrieved from https://townsquarepublications.com/surrounding-communities-of-ontario-oregon/

Ostrander, S. A. (2007). The Growth of Donor Control: Revisiting the Social Relations of Philanthropy. Nonprofit and Voluntary Sector Quarterly, 36(2), 356-372.

Pfeffer, J. (1981). Power in organizations. Marshfield, MA: Pitman.

Poverty in Malheur County, Oregon. (2019). In WelfareInfo.org 2019. Retrieved from https://www.welfareinfo.org/poverty-rate/oregon/malheur-county.

Shea, M., Hamilton, Robert D., Blau, Gary, Kumaraswamy, Arun, & Mudambi, Ram. (2012). The Formation, Performance, and Strategic Decisions of Nonprofits, ProQuest Dissertations and Theses.

Seok-Eun, K. (2005). Balancing Competing Accountability Requirements: Challenges in Performance Improvement of the Nonprofit Human Services Agency. Public Performance & Management Review, 29(2), 145-163.

Sprinkle, Geoffrey & Maines, Laureen. (2010). The benefits and costs of corporate social responsibility. Business Horizons, 53(5), 445-453.

Speckbacher, G. (2003). The Economics of Performance Management in Nonprofit Organizations. Nonprofit Management & Leadership, 13(3), 267-281.

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. Academy of Management Review, 20(3), 571–610.

Waters, R.D. and Ott, H.K. (2014). Corporate Social Responsibility and the Nonprofit Sector: Assessing the Thoughts and Practices Across Three Nonprofit Subsectors. Public Relations Journal, 8(3).

Wellens, Lore & Jegers, Marc. (2014). Effective governance in nonprofit organizations: A literature based multiple stakeholder approach. European Management Journal,32(2), 223-243.

SIESMILES BRAND WINE

D.K. "Skip" Smith, Baze University
Carlos Aimar, University of San Isidro-P.Marin Buenos Aires, Argentina
Juan F. Ruedin, CEO, Altos de Tinogasta, Tinogasta, Argentina

CASE DESCRIPTION

This case offers students the opportunity to play the role of a consultant who has been charged by the CEO of a vineyard in Argentina to develop opportunities for achieving (within the next 12 months) revenues of US$1.5 million for a newly created brand of wine. The primary learning objective is for students to analyze the situation and then apply a systematic approach (one such process is described in detail in the instructors' note) to develop the recommendation that they (as a consultant) will make to the CEO. Assuming instructors decide to utilize the systematic process described in detail in the instructors' note, they will want (before assigning this case study) to present that "7-step process" to students. Having done that, assessment of student analyses and recommendations is easy; it will be based on how well each student has completed each step in that systematic process. The case is based on data collected by one of the authors in Argentina. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a one hour and a half class session, and is likely to require at least a couple hours of preparation by students.

CASE SYNOPSIS

Mr. Juan F. Ruedin is CEO of Altos de Tinogasta-La Aguadita S.A., a farming/real estate company located on 3000 hectares in the town of Tinogasta, Province of Catamarca, in Argentina. The business model Altos de Tinogasta (hence, AT) is using, and the results the company has achieved so far, are as indicated below:

1. *The 3000 hectares have been planted in two crops: olives and grapes. The first harvests were in 2013.*

2. *Of the 208 parcels planted in grapes, so far 142 (that is, 68%) have been sold. Of the 338 parcels planted in olives, so far 230 (that is, 68%) have been sold. The trend in sales has varied considerably: After a very strong performance in 2010 (a total of 93 parcels were sold that year), only 29 parcels were sold in 2011. Subsequently, however, sales of plots have varied considerably: in 2012, 2013, 2014 and 2015, sales of plots planted in grapes were 19, 18, 16 and 10 respectively; in 2012, 2013, 2014 and 2015, sales of plots planted in olives were 24, 69, 33, and 13 respectively. The bottom line is that over the last five years, total revenues generated from the sale of plots have (with the exception of revenues for 2016) been on a downward trend; the exact plot-related revenues over this period are as indicated below:*

2013: $1,429,828
2014: $988,173
2015: $524,961
2016: $753,116
2017: $344,257

3. *AT is very eager to increase its revenues. In particular, the company is eager to increase the amount of revenue generated by sales of wine, from almost nothing in 2013 (the first year AT harvested grapes) to approximately US$1.5 million for the newly-introduced Seismiles brand in the next 12 months. Achieving wine-related sales of USS1.5 million for the newly-introduced Seismiles brand in the next 12 months would be a very substantial increase in AT's wine-related revenues of approximately US$754,000 in 2017.*

4. *Mr. Ruedin has invited Professor Carlos Aimar to develop (within 30 days) a set of alternatives for achieving the above objective, that is, that over the next 12 months, AT's Seismiles brand should generate at least US$1.5 million of wine-related revenue.*

Additional data and information in the case include:

1. *Regarding Argentina: Historical overview, a sample of recent demographic statistics from the World Bank, (and for benchmarking purposes, comparable statistics for the United States), plus information on the economy of Argentina.*
2. *Regarding the industry: A selection of facts and figures regarding both the global wine industry and the wine industry in Argentina.*
3. *Regarding the company's wine-related activities: Business model, current marketing strategy, current performance, and numerous factors impacting that performance.*
4. *Additional information: Information on the purchase and consumption-related behaviors for wine and wine-related products and services for the market AT has targeted; also, information about AT's competitors.*

THE SITUATION

Sensing that his meeting with Mr. Juan F. Ruedin, CEO of Altos de Tinogasta-La Aguadita S.A. (hence, AT) was ending, Professor Carlos Aimar gathered up his notes. Although he might, later on, need specific information from those notes, Aimar knew he would have no trouble remembering the challenge CEO Ruedin had given him, that is, to identify (within the next 30 days) a set of alternatives for (over the next 12 months) generating sales of at least US$1.5million for AT's newly-introduced Seismiles brand of wine. Until the first harvest at in 2013, the only "products" AT had been selling were: 1) 5000 and 2500 square meter parcels of land owned by AT and planted in olives; and 2) 2,500 square meter parcels of land owned by AT and planted in grapes. Over the last several years, revenues generated by the sales of plots planted in olives or grapes generated the following amounts of revenue for AT:

2010:	$1,042,478
2011:	$320,585
2012:	$624,946
2013:	$1,429,828
2014:	$988,173
2015:	$344, 257
2016:	$753,116
2017:	$344,257

Now that grapes and olives are being harvested from the plots, revenues generated by wine and olive oil are becoming more important to AT; hence CEO Ruedin's interest in generating (within the next 12 months) sales of $1.5 million for AT's newly-introduced Seismiles brand wines. Because his teaching schedule was already quite intense, Prof. Aimar knew that taking on this assignment meant that for the next 30 days, he would be very very busy.

THE COUNTRY

At 2.78 million square kilometers (larger than India, approximately 1/3 as large as Brazil), Argentina is South America's second largest (by land mass) country. The country is 3,500 kilometers long (2,170 miles), and 1,400 kilometers (868 miles) wide at its widest point. While the climate ranges from tropical in the north to sub-Antarctic in the far south, most of Argentina lies in the temperate zone. Similarly, while the landscapes range from jungles to glaciers, a significant portion of Argentina consists of fertile alluvial plains covered in grasses and known as "pampas." In the west (that is, in the rain-shadow created by the Andes mountains), these grasslands are quite dry. In eastern Argentina, however, the pampa receives adequate rainfall, is one of the best agricultural areas in the world, and is intensively farmed (soybeans, wheat, corn, sunflower and other grains) and ranched. Other parts of the country support a wide variety of additional agricultural activities, including the growing of fruits (including grapes for wine), tobacco, sugar cane, and vegetables. Patagonia (the southern quarter of the country) has a cool, wet climate, and supports some agriculture plus a large sheep-raising industry. Given all the above, it is no surprise that the production and processing of agricultural commodities accounts for a substantial portion of total economic activity in Argentina.

Institutionally, and as indicated in Appendix 1, Argentina is composed of 23 provinces and the Buenos Aires Federal District. Since 1995, the president and vice-president are elected for 4-year terms and can be re-elected once. The bicameral national congress has 72 senators (three from each of the above areas) serving 6-year terms. The lower house has 257 deputies, proportionately elected and serving 4-year terms. Because greater Buenos Aires makes up more than 40% of Argentina's total population, the city's influence on the lower house is very large. There is a federal judiciary system, and a nine-person supreme court.

In addition to the federal institutions, there are provincial institutions. In Argentina, each province has a governor, a legislature, and a judicial system. Across the country, the major political parties are the Justicialist Party (Peronists), the Radical Civic Union (UCR), the FAP (Frente Amplio Progresista); and the PRO (Propuesta Republicana).

THE PEOPLE

Prior to the arrival of the first Europeans, the area which has become Argentina was lightly populated. Starting in 1506 and continuing for the next 300 years, most of the immigrants coming to Argentina were Spanish. While African slaves were brought to Argentina in the 17th and 18th centuries, they were very susceptible to a variety of problems which disproportionately impacted the poor (wars, yellow fever and other epidemics, terrible living conditions for the poorest members of society, etc.), and relatively few of them survived. Beginning in the late 19th century and continuing on through the first third of the 20th, 3.5 million new immigrants arrived in Argentina, mostly from Spain and Italy. However, many other nationalities are represented in Argentina's population of approximately 44 million people, including the Welsh (primarily in Patagonia), the British, the French, the German, the Swiss, various Eastern Europeans, and Chileans. American Indian peoples make up about 2.4% of the population. 92% of the population is Catholic (2% is Jewish, and 2% Protestant); yet, at slightly less than 1%, Argentina has one of South America's lowest population growth rates. A few additional statistical characteristics of Argentine and its people, together with (for benchmarking purposes) comparable figures for the United States) are as indicated below:

	ARGENTINA	U.S.
Fertility rate (births per woman):	2.26	1.87
literacy rates (adult males and females:	98.1%	--
Life expectancy at birth (years):	77.3	80
Infant mortality rate (per 000 live births):	**9.8**	5.8
School life expectancy	17 years	17 years
% of population living in urban areas:	92.0%	82%
% of population who are internet users:	70.2%	76.2%
% of population, access to improved water	99.1%	99.2%
% of roads paved:	29.0%	65%
% of urban population, access to sanitation:	96.2%	100%
Energy consumption per capita (kwh)	2784	11975

Source: CIA World Fact Book

THE ECONOMY (OVERVIEW)

With a nominal 2016 Gross Domestic Product (GDP) of $619.9 billion (2016 Purchase Power Parity-based GDP is $889.5 billion) and its current population of approximately 44 million people, Argentina had (in 2016) a nominal GDP per capita of approximately US$ 14,020. On a Purchasing Power Parity (PPP) basis, 2016 GDP per capita of approximately US$20,400 is the highest in Latin America. Historically, a very substantial portion of this economic activity has been based on agriculture and/or ranching plus related (for example, food and/or meat processing) activities. Estimates from 2017, however, indicate that over 60% of Argentina's GNP is now services-related:

SECTOR	PERCENTAGE OF GDP FOR THIS SECTOR
Agriculture(a)	10.9%
Industry(b)	28.2%
Services	60.9%
TOTAL	100.0%

(a) Primary ag-related products include sunflower seeds, lemons, soybeans, grapes, corn, tobacco, peanuts, tea, wheat, and livestock
(b) Major manufacturing industries in Argentina include: food processing, motor vehicles, consumer durables, textiles, chemicals and petrochemicals, printing, metallurgy, and steel.

Source: CIA World Fact Book

With 2016 exports of $57.78 billion and 2016 imports of $53.24 billion, it is clear that Argentina is heavily involved in international trade. In 2016, Argentina's main export trading partners included: Brazil (15.5%), China (7.6%), and Vietnam (4.4%); principle exports included soybeans and derivatives, petroleum and gas, vehicles, corn, and wheat. Regarding imports, in 2016 Argentina's major import trade partners included: Brazil (24.3%), China (18.7%), the United States (12.5%), and Germany (5.5%); principle imports included machinery, motor vehicles, petroleum and natural gas, organic chemicals, and plastics.

Source: CIA World Fact Book

One could easily believe that a country so richly endowed in natural and human resources should be extremely prosperous. At the beginning of the 20th century, this was true; at that time, Argentina's Gross Domestic Product (GDP) per capita was the highest in the world. However, due to a long history of inconsistent (and sometimes inappropriate) economic, political, and social policies, Argentina's economy began to deteriorate; despite this, up until 1962 the GDP per capita for Argentina was still higher than the GDP per capita for Austria, Italy, Japan and of its former colonial master, Spain. By the decade of the 1990s, however, Argentina's economy was crumbling, and in 2002, Argentina was unable to meet its debt obligations. The debt and debt service levels for Argentina in 2000 suggest the magnitude of the problem Argentina faced; those figures were as indicated below:

Total debt:	U.S. $154.9 billion
Short term debt:	U.S. $28.3 billion
Debt service as a % of exports:	142%

The declaration of bankruptcy in 2002 ushered in a very traumatic period for Argentina and its people. Unemployment rose to 25%, and the Argentine peso (that is, the local currency) lost 70% of its value. As early as 2003, however, based in large part on huge increases in the export of agricultural commodities, Argentina was on its way to economic recovery. Over the period 2003-2011, growth in GDP exceeded (except in 2008) 7% annually. During this period, over 5 million new jobs were created, and by the 4th quarter of 2011, the unemployment rate had fallen to less than 7%. Starting in 2012, however, due in part to internal economic and political developments and in part to challenges associated with continuing global economic uncertainties, Argentina entered a period of fiscal and financial austerity. Elaborative comments here include:

1)In July 2014, a ruling from a New York court ordered the country to pay the remaining holders of the bonds defaulted in 2001 (by then were mostly American Vulture funds) before it paid any of its exchange bondholders. The Argentine government refused, causing the country to default on its debt again.

2) In December 2015 the government announced the elimination of export retentions (that is, restrictions) for wheat, maize and meat and reduced withholding taxes on soybeans to 30%, at a cost of 23,604 million pesos. This led to large increases (over the next two weeks, to consumers in Argentina) in the prices of many staple products, including oil (price increased by 51%), flour (price increased by 110%), chicken (price increased by 90%), noodles (price increased by 78%), and meat (price increased by 50%).

3) the extremely high inflation rate continues to strangle the less-privileged segment of the urban and rural population. While inflation was 40% in 2016 and fell to 27% in 2017, economists expect the rate for 2018 will continue to be quite high (i.e.37%). Other vulnerabilities include an unemployment rate close to 9% (and expected to be in two digits in the next two years), as well as the sharp rise in the current-account deficit, which is likely (thanks to an over-valued currency) to be around 3% to 4% of GDP in 2017-2018. Forecasts from the International Monetary Fund (IMF) show GDP growth backsliding in 2018 (decelerating to 2.5% from 0.75% this year); clearly any halting of the cyclical upswing in the global economy would set the country back.

Regarding characteristics of the economic situation in Argentina at the start of the New Year (that is, 2018), observations which can be made include:

1) While the government denies this, the real rate of inflation experienced by consumers in Argentina in 2017 was estimated to be 26.9%.
2) Historically inflation and the fiscal deficit are chronic problems in Argentina. The current Administration is better than the previous one, but not enough better to solve the country's problems. After two years, President Macri's administration has decided to reach an agreement with the IMF. Regarding this agreement, the IMF indicates that "The IMF's Executive Board has approved financing for Argentina in the form of a three-year Stand-By Arrangement for US$50 billion. Argentina is immediately eligible to access the initial installment of the loan, worth US $15 billion. The money will be used to support the government's economic priorities, which include strengthening the Argentine economy and protecting the living standards of the Argentine people. At the core of the government's economic plan is a rebalancing of the fiscal position. The Argentine authorities intend to accelerate the pace at which they reduce the federal government's deficit. This measure will ultimately lessen the government's financing needs and put public debt on a downward path. The plan also aims to lower inflation, which eats into the foundation of Argentina's economic prosperity and is borne directly by society's most vulnerable. In addition, the plan will put in place measures to offer opportunity and support to the less well-off members of Argentine society. The authorities have committed to ensuring that spending on social assistance, as a share of GDP, will not decline during the next three years."

GLOBAL WINE INDUSTRY FACTS & FIGURES

A few facts and figures regarding the global wine industry include:

GLOBAL WINE PRODUCTION: TOP 10 COUNTRIES

Country	Production (000 of Liters 2015)	% of world production (2015)
Italy	4,950,000	17.43%
France	4,750,000	16.73%
Spain	3,720,000	13.10%
United States	2,975,600	10.48%
Argentina	1,430,000	4.72%
Chile	1,290,000	4.54%
Australia	1,190,000	4.19%
South Africa	1,120,000	3.94%
China	1,100,000	3.87%
Germany	890,000	3.13%
Total Global Production	28,395,900	100.0%

Source: www.wineinstitute.org

GLOBAL WINE CONSUMPTION: TOP 10 COUNTRIES

Country	Consumption (000 of Liters 2015)	% of world consumption (2015)
United States	3,318,900	13.43%
France	2,720,000	11.01%
Italy	2,050,000	8.30%
Germany	2,050,000	8.30%
China	1,600,000	6.48%
United Kingdom	1,290,000	5.22%
Argentina	1,030,000	4.17%
Spain	1,000,000	4.05%
Russia	890,000	3.60%
Australia	540,000	2.19%
Total Global Consumption	24,707,701	100.0%

Source: www.wineinstitute.org

A few additional comments which can be made about the global wine industry include:

1) Over the period 2013-2015, global wine consumption decreased very slightly (less than 1%). Over that same period, however, changes in wine consumption in several markets which had been viewed as "high potential" decreased substantially: for example, wine consumption in China decreased 8.42% and wine consumption in Russia decreased 14.42%. Over the same period, wine consumption in the U.S. increased 6.46% and wine consumption in Canada (at 522,000 thousand liters, Canada is the 11th largest consuming country) increased by 4.82%.
2) While the U.S. is the world's biggest consumer of wine, average consumption of wine per head in the U.S. is approximately 1/6th the level of average consumption per head in France. If average levels of wine consumption in the U.S. approached the average level of wine consumption in France, the size of the U.S. market would increase enormously.
3) In 2017 Millennials represent over 1/3 of all consumers of wine. They prefer sweet wines and tend not to be brand-loyal; rather, they tend to be willing to explore new sensations.

ARGENTINA WINE INDUSTRY FACTS & FIGURES

Comments which can be made about the wine industry in Argentina include:

1) As indicated above, wine production in Argentina (1,430,000 liters in 2015) far exceeds the consumption of wine in Argentina (1,030,000 liters in 2015). In other words, relative to the supply, demand for wine in Argentina is quite small. In the past, excess supply has been exported; for the export business to thrive, however, the foreign exchange situation and inflation and export regulations must all be attractive to exporters. The export market can be made very difficult by economic and/or political instability; recently, Argentina has been experiencing both economic and political instability.
2) Of the 380 wineries in Argentina which export, most export very little; the top ten exporting wineries in Argentina account for 56% of overseas sales. Industry experts indicate that exporting unbranded wine from Argentina is a very low-margin business.
3) Competition in the domestic wine market in Argentina is very intense. There are several well-established companies with strong, unique, and positive reputations.
4) Because AT only started producing wine in 2013, its original brand is neither well-known nor blessed with a strong, unique, and positive reputation. To create brand equity in the domestic market, AT needs to invest in brand building and brand promotion for its newly-introduced Seismiles brand. Because AT is a relatively new company, however, financial resources available for brand building and brand promotion are limited.
5) AT is already producing more wine than it is selling. As more of AT's land planted in grapes comes into production, the gap between what AT is producing and what AT is selling is likely to increase.
6) In Argentina, beer consumption has been increasing dramatically (10 liters of beer per capita in 1990, 43 liters of beer per capita in 2010) while wine consumption has fallen equally dramatically (60 liters of wine per capita in 1990, 28 liters of wine per capita in 2010).
7) Wines from Argentina have received the highest accolades from the wine industry. The International Wine Challenge, the world`s biggest wine competition, has awarded Argentina wines more than 10 gold medals, 50 silver medals and 70 bronze medals. Furthermore, hundreds of Decanter World Wine Awards have been bestowed upon Argentina wines, including two gold medals. In the 2009 Concours Mondial de Bruxelles, six Argentine wines received the best possible rate of approval. Red Velvet Malbec, the country`s flagship wine, has become Argentina`s premier red wine. The Malbec variety grows in an extensive area that spreads from Northern Argentina in the Cafayate area to Rio Negro in the South, with a Concentration in high-altitude regions like Catamarca. For additional information and a map of the wine producing regions in Argentina, see Appendix 2.
8) As an example of a wine industry investor's perspective, Michael Rolland from France (Winemaker & International Consultant) indicates that "Investors are arriving to Argentina and that is a good thing for everyone. Argentina has everything. It`s a country both rich and large with lots of space and no overcrowding. There are great opportunities throughout the country. In every region diverse economic activities are under development, and wine is one of them. Winemakers find great freedom working in Argentina. You can choose to grow Cabernet –it may or may not work- but no agency will tell you what you should or should not grow. You can choose to use 60% Malbec or 20%; there are no regulations that will tell you what to do, allowing winemakers to adjust to market needs much better than

in other countries. This is one of the great benefits of producing wines in Argentina: unimaginable freedom. However, there is more. Argentina has relatively low operating cost; a fantastic geography, including the Andes and an optimal climate. Other attributes include its amicable people, great food (including excellent meat), and its world-renowned Tango music. Another key factor is its human resources. There are people with lots of experience and knowledge in the wine industry as well as new generation of highly trained agronomists, winemakers and professionals from other related fields that are hard workers and eager to learn. Industry opportunities, the local people, climate, and even the food are all factors drawing investors to the country. The public sector also knows that a safe financial environment is a top priority for investors; Argentina is making great strides to ensure investors have what they need."

9) Argentina offers excellent natural resources to grow high quality wines at attractive prices, given relatively low production costs, compared to the traditional markets like Italy, France and Spain. Land prices in wine producing areas go from 5% to 20% of the cost of land in Napa Valley or Bordeaux, and are lower than those of neighbouring Chile. This is a competitive advantage that allows Argentina to satisfy global consumption needs in an international economy where wine drinkers are focusing on quality at attractive prices more than ever before.
10) For the last four years, the wine market in Argentina has been totally over-supplied. Internal demand has been scarce and exports have been practically nil, because the internal prices were increasing in dollars due to inflation while the exchange rate did not change.
11) Industry experts forecast increased global demand for both High quality/High price and Low quality/Low Price wines.
12) Wine industry data indicates that in Argentina, 53% of wine is consumed "straight," 29% is consumed with ice, 21% is consumed with soda, 12% is consumed with carbonation, 4% is consumed with juice, and 1% with an energizer.
13) The wine industry in Argentina is concentrating. Finca la Anita owner Manuel Mas says that "the Market has no ability to sustain such a large quantity of boutique wineries; it will certainly concentrate." Banks are playing an important role in mergers and acquisitions, because the banks have loans to nearly all producers of wine in Argentina.

COMPETITION

The major players producing wine in Argentina include:

1.PEÑAFLOR GROUP. share of the wine market is 30%. It owns 6150 hectares of fine vineyards, located in the following major Argentinean production sites: Mendoza, San Juan, Salta, Catamarca and Patagonia. Main Brands include: Trapiche, Finca Las Moras, Bodega el Esteco, Suter, Andean, Bodega Santa Ana, Bodega La Rosa, and Bodega Michel Torino. The group is ranked among the first 5 worldwide wine producers (Euromonitor 2014); it won 422 awards in prestigious international competitions in 2013. Annual sales for the group exceed 400 million dollars, and annual exports from Argentina exceed 137 million dollars. Peñaflor exports to over 90 countries worldwide; with a 17% volume share. In 1995, the owners of Grupo Penaflor (Miguens – Bemberg Group) sold its Quilmes Beer subsidiary to Ambev Group, so as to focus on

Grupo Penaflor's interest in the wine industry. In November 2015Grupo Peñaflor – controlled by the Terold Investment Fund-- bought the Navarro Correa winery, owned by Diageo.

2.FECOVITA. The Federation of Argentine Winemaking Cooperatives is a second-degree cooperative associating 29 cooperatives made up of over 5000 wine-growers and producers. Main brands are: Toro, Estancia Mendoza, Canciller Resero, and Barcelona. They have a total of 25,000 hectáres of production, and a 26% share of the wine market. They also export to over 20 countries. Its products include varietal wines, generic wines in bottles and multi-laminated packages, concentrated musts and bulk.

3.RPB (Baggio). Currently, millions of liters of this producer's varied wines are aimed at exportations. Their main brands are: Bodega Privada, Ricordi, Vina Mayor, and El Supremo. RPB's share of the wine market in Argentina is 9%.

4.MOLINOS RIO DE LA PLATA. Molinos' current share of the wine market is 5%. The main brands are: Nieto Senetiner, Benjamin, Emilia, Don Nicanor, Cadus, Vendimiario, and Frau. In November 2015 Molinos bought the winery Ruca Malen, with its brands Ruca Malen, Killien and Yauquen.

5.ESMERALDA (Catena Zapata). The company has a 4% share of the wine market in Argentina. Main brands are: Catena, Nicasia, and Esmeralda. In July 2018, two wines from Catena's Adriana Vineyard were the first South American Wines Awarded 100 Points from Robert Parker`s "The Wine Advocate."

6.Additional major producers of wine in Argentina include: Balbo (Grupo Familia Falasco), Compañía Andina S.A (Cepas Argentinas), Bodegas Lopez, Bodega Familia Zuccardi, Bodegas Bianchi, Bodega Chandon, and LVMH.

THE COMPANY: BUSINESS MODEL, CURRENT MARKETING STRATEGY, AND PERFORMANCE TO DATE

Regarding the business model: The founders of AT designed a business model known as "Productive Real Estate." Characteristics of this business model include:

- The model offers investors the possibility to own not only productive farmland land but also a share of (in the case of land planted in olives) the oil factory or (in the case of land planted in grapes) the wine cellar. The model also allows owners to have input on any and all future decisions (for example, sales and/or purchases of land and/or products produced on the land, placement and/or payments of mortgages, etc.). The only restriction on the land is that it must continue to be used either for growing olives and the production of olive oil or the growing of grapes and the production of wine.
- The model offers investors a share of assets like machinery, oil and wine manufacturing facilities, and other fixed assets, in proportion to the number of parcels acquired.
- The model entrusts the management of all operations (farming, processing of crops, etc.) to Altos de Tinogasta (AT); the founders have selected well-known engineers (with specialized training in vineyards and olive grove management) to manage the operation.

Since the beginning AT has been structured as a production/operation driven organization; the main priorities have always been:

Earthmoving operations (that is, movement of soil and land preparation)
Construction of irrigation systems
Creation of plantations (that is, planting of olive trees and grapevines)

Regarding the marketing strategy which AT has developed for its newly-introduced Seismiles brand, information regarding key variables includes:

TARGET MARKET: Members of the ABC1 socio-economic groups

PRODUCT: Various red and white wines, as indicated below:
Red Wines: Malbec, Cabernet Sauvignon, Syrah, Tempranillo
White Wines: Torrontes, Chardonnay
Regarding the above wines: A well-known and well-regarded individual (Santiago Palero from Mendoza) has been hired to fill the role of Seismiles' enologist (that is, the individual who, for wines, manages the fermentation and aging process).

PRICE**:** On wines selling at US$10.00 or less per bottle, AT makes little or no profit. On wines selling at US$12.00 per bottle, AT makes a profit of US$1.20 per bottle. On higher priced wines, AT enjoys higher profit margins.

PROMOTION**:** To date, AT has done very little promotion of its newly-introduced Seismiles brand.

PLACE (Distribution): In Argentina, there are two primary channels of distribution for wine: 1) Supermarkets, and 2) Self-service shops. 70% of the wines sold through supermarkets are priced between $8 and $20 per bottle; two-thirds of the remaining 30% are sold at less than US$8 per bottle. As for wine sales through self-service shops: a bit more than 70% are priced at less than US$8 per bottle with two-thirds of the remaining 30% priced between $8 and $10 per bottle

Regarding the wine-related revenues generated to date by the company: As indicated earlier, AT made its first harvest in 2013; wine-related revenues that year were almost zero. By 2017, however, AT's wine-related revenues had increased to approximately US$754,000 which was generated as indicated below:

ACTIVITY	REVENUES
AT's equipment uses surplus capacity to press grapes for others (223,000 liters):	$555,000
AT sells 85% of wine it produced (72,000 liters) as semi-finished (2.50/liter)	$134,000
AT sells 15% of wine it produced (12,000 liters) at average price of 5.30/liter	$65,000
TOTAL WINE-RELATED 2017 REVENUES	$754,000

To continue to grow and prosper, CEO Ruedin believes that AT needs (within the next 12 months) to increase sales of its newly-introduced Seismiles brand to approximately US$1.5 million per year.

FOR WINE AND WINE-RELATED PRODUCTS AND SERVICES: PURCHASE AND CONSUMPTION BEHAVIORS OF MEMBERS OF THE ABC1 SOCIO-ECONOMIC CATEGORIES IN ARGENTINA

Over the last several years, Prof. Aimar has been (using primarily qualitative research-based approaches) working to learn more about the purchase and consumption-related behaviors of members of the ABC1 socio-economic categories in Argentina. Regarding wine purchase and consumption-related attitudes and behaviors for members of these categories, the data he has collected lead Prof. Aimar to believe that:

1. For the subset of all members of the above socio-economic groups who perceive themselves to be "wine experts," **the first things which come to mind**, when thinking about the purchase and/or consumption of wine and/or wine-related products and services, include: Image-related value (status, prestige, socialization) and symbolic value (seduction, innovation). Individuals in this category care about the brand, are not particularly sensitive to price, and are inclined to patronize the brand with dominant social representation. They are wine connoisseurs and are on the lookout for wine-related news and are willing to pay expensive prices for wine.
2. For the subset of all members of the above socio-economic groups who perceive themselves to be "wine experts," **their earliest memories** regarding the purchase and/or consumption of wine and/or wine-related products and services include learning about (and sampling) local wines differentiated by the location of the vineyard.
3. Regarding the **experiences of members** of the above socio-economic groups who perceive themselves to be "wine experts" and within the context of the purchase and/or consumption of wine and/or wine-related products and services, their comments include the observation that "the immense, colourful breath-taking scenery of the Andes is captured (and then revealed) through the intense colour, the fresh aromas and the structure (of the wines)."
4. Regarding **pivotal experiences** for members of the above socio-economic groups who perceive themselves to be "wine experts" and relating to the purchase and/or consumption of wine and/or wine-related products and services, their comments include:

    a. Their desire to maximize pleasure, prestige, and other factors associated with their well-being. A critical issue for ABC1 consumers in this subset is information. These types of shoppers are also very sociable and they like to share what they know about their most valued brands. Social media can help them fulfil their objectives, because they not only allow these individuals to find information they require but also allow them to share that information with their circle of contacts.

    b. Their desire to avoid psychological and/or physical risk.

5. Regarding **ideal experiences** with wine and/or wine-related products and services, for members of the above socio-economic groups who perceive themselves to be "wine experts", their comments indicate that seeing (in person, on their first visit) real vineyards and real equipment (in other words, not just pieces of advertising or promotion) was a very positive and memorable experience.
6. Regarding **issues which prevented** members of the above socio-economic groups who perceive themselves to be "wine experts" from having an ideal experience with wine and/or wine-related products and services, their comments includefears that new brands and products might not meet their pleasure, prestige, and/or other "well-being" related needs.
7. Regarding the **concerns** of members of the above socio-economic groups who perceive themselves to be "wine experts" at this time in their life, not only about wine and wine-related products and/or services but also in general, they are inclined to limit their expertise to a set of wineries and brands. In this sense they are quite conservative. They do not like to experiment with new brands or to relax the ritual around wine, i.e. they do not want to reduce the time spent drinking their wine. In this segment grows the penetration of economic wines in bottle, as well as high-end wines. It is probable that they reserve the first ones for a home consumption and the second ones are taken to meetings or to entertain visitors. Therefore, one would think that the conservative expert has a ritual posture and structured in front of others, but "relaxes" inside.
8. It seems worth noting that while the occasions for consumption of beer are quite varied, wine seems to be relegated to the table (with food) and special occasions. What has been lost today in the hands of beer are mostly "occasions".
9. Regarding the issues which members of the above socio-economic groups who perceive themselves to be "wine experts" were **happiest about**, not only as regards wine and wine-related products and services but also in general, their comments include being pleased with their commitments to spiritual issues and to attitudes and behaviors designed to reduce stress. Several members also indicated that they were happy with the development and education of their families. AT's business model (that is, opportunities to purchase plots of grapes and then enjoy the products produced from those plots) offers small investors and consumers the chance to enjoy having their own branded wine, in the beautiful (and relaxed) scenery of the Andean mountains.
10. Regarding the **objectives** the subset of members of the above socio-economic groups who perceive themselves to be "wine experts" are currently trying to achieve, not only as regards wine and/or wine-related products and services but also in general, respondents indicated that they are trying to maintain their standard of living and that they believe that investing in "green" business opportunities might be one way to achieve that objective.
11. For the subset of the above socio-economic groups who perceive themselves to be "wine experts," regarding the question of the **one thing they would (if they had a magic wand) change** about the purchase and/or consumption of wine and/or wine-related products and/or services: comments included a desire to change the long-range plan of the country, so as to increase the probability that more benefits would be realized from Argentina's abundant natural and human resources.

THE CHALLENGE

Assume you are Prof. Carlos Aimar. What alternatives will you identify to the challenge posed by CEO Ruedin, that is, to achieve the objective of generating, within the next 12 months, sales of US$1.5 million for the newly-introduced Seismiles brand?

APPENDIX 1: MAP SHOWING THE PROVINCES OF ARGENTINA

APPENDIX 2: WINE PRODUCING PROVINCES IN ARGENTINA

OVERVIEW. The Argentine Republic has the largest number of vineyards in South America (more than 200,000 hectares, according to the 2001 census). The region suitable for the cultivation of the vine extends along the Cordillera de los Andes, from 22 ° to 42 ° south latitude. The great latitudinal amplitude combined with the topography of the Andean valleys, condition large ecological variations that allow the cultivation of a wide variety of grape varieties. In general, these are areas with well-marked winters, hot summers and good sunshine. Low rainfall forces artificial irrigation from rivers or underground water, thus creating numerous “true oasis” environments. In these oases, slopes oscillate between values close to 2% in the piedmont regions up to around 0.2% in the flatter regions; there are practically no vineyards on the slopes of the mountains. The altitude varies between 450 m and 1,800 m above sea level.

REGION IN WHICH AT IS LOCATED

The region of the Calchaquíes Valleys, which extends into the two provinces of Salta and Catamarca, is located in the extreme northwest of the country, at 25 ° south latitude and at an average altitude of 1,500 meters. The average annual temperature is 15 ° C and the large temperature range - which can reach 18 ° C - promotes the aromatic and color development of the vine. The annual precipitation ranges between 150 and 400 mm.; rains are more frequent in spring and summer. Pedemontane soils are stony and sandy-loam soils. The region includes more than 4,000 hectares of vineyards; the towns of Cafayate, Chilecito, and Tinogasta are all significant centers of wine production. The Torrontés white variety is the most widespread variety. Also, among the reds Malbec, Syrah and Cabernet Sauvignon acquire traits of remarkable typicality. The vine cultivars are irrigated by the traditional "a mantle" system, a layer of surface water that moves through the furrows.

Map of the main Argentine Viticulture Provinces


N
O
E
S
BRASIL
40°
Salta y
Catamarca
La Rioja
San Juan
URUGUAY
CHILE
Cordillera
de los
Andes
Mendoza
Río Negro y
Neuquén
20°

COMMERCIAL LEASE TENANT CASH OUTFLOW FORECASTING USING MULTIPLE METHODOLOGIES

Dennis Zocco, University of San Diego

CASE DESCRIPTION

The primary subject matter of this case is cash flow forecasting in the context of commercial real estate finance decision-making. Secondary issues examined include the financial analysis necessary when deciding on the appropriate lease type among Gross, Modified Gross, and Net commercial lease choices, the use of consumer and producer price indexes in generating tenant lease-based cash outflow forecasts, forecasting using the linear regression, historical mean, and Monte Carlo simulation methodologies, and the role of risk aversion in decision-making under uncertainty. The case has a difficulty level of four, appropriate for senior level courses, and five, appropriate for first year graduate students. The case is designed to be taught in either an entrepreneurial finance course, a real estate finance or commercial property management course, or an introductory forecasting course. The case can be taught in one class hour with two hours of outside preparation using an exclusively class discussion approach with forecasting results provided to the student or three class hours with five hours of outside preparation with students collecting data and forecasting tenant lease cash outflows. In addition to instructor notes, two versions of a financial model are available on request of the author as case supplements for instructors: a Master version, which provides completed forecast setups, recent data, and forecast results, and a Data-Entry version which is the Master version without the data and forecast results.

CASE SYNOPSIS

A young, recently-graduated financial analyst receives her first assignment from her startup company's CFO: develop a recommendation, with justification, on the appropriate lease type—Gross Lease, Modified Gross Lease, or Net Lease—that the company should accept in signing a new five-year lease for office space. The space location and size have already been decided. The only decision left is which lease type to accept. The analyst takes a tenant cash outflow forecasting approach to her assignment and uses three methodologies—linear regression, historical mean, and Monte Carlo simulation—to forecast the projected future cash outflows associated with each lease type. The analyst's plan is to use the appropriate ex-ante lease-related expense data to develop forecasts of the cash outflow for each lease type under each forecasting methodology, analyze her company's forecasted cash outflows in both current and present value dollars, and then make her lease type recommendation based upon her analysis.

THE SITUATION

Early Monday morning, you're sitting at your cubicle desk when you receive a call from your company's CFO requesting a short meeting, immediately. You have been with the company for only two months, but they have been exciting months for you. The company is a young, fast-growing startup, founded only eleven months earlier. At graduation, you were hired into a financial analyst position and so far have been assigned to lend a helping hand to marketing, design, purchasing, and even programming—all interesting assignments but none related to your major—finance. You had spoken to the company CFO only twice, the first time in person during your interview process and the second on a phone call when she offered you the position.

When you arrive at her office, she directs you to a seat in front of her desk. She says:

> *Due to the fast growth of our company, we now need more space. We are not going to renew our current lease at the end of this month. Instead, we are ready to sign a new lease for 10,000 square feet of office space for a term of five years in the Upper West Side of New York City. The development is owned by Rochester Industrial Logistics, otherwise known as RIL, a medium–sized industrial park company with commercial space developments across the northeastern U.S.*

She hands you a sheet of paper showing the following information.

Table 1
Lease Type Characteristics

Lease Type	Included in Monthly Lease Payment	Lease Expenses Paid by Tenant	Annual Lease Price per Square Foot	Annual Price Increase for each Year of the Lease
Gross Lease	Rent plus Janitorial Services, Fuels & Utilities; Building Maintenance & Repairs; Insurance; Property Taxes	None	$72.00	3.5%
Modified Gross Lease	Rent plus Building Maintenance & Repairs; Insurance; Property Taxes	Janitorial Services; Fuels & Utilities	$64.00	3.5%
Net Lease	Rent	Janitorial Services, Fuels & Utilities; Building Maintenance & Repairs; Insurance; Property Taxes	$50.00	3.5%

She continues,

> *We have agreements with RIL on all lease terms, including those on that sheet. However, RIL is willing to provide us with either a Gross lease, a Modified Gross lease, or a Net lease, our choice. I want you to perform a financial analysis of the three lease types and, based on your analysis, recommend to me which lease type you believe is best for our company. As the CFO of our company, I have a responsibility to manage our company's cash very efficiently. This lease is a five-year commitment of cash outflows, so it's important that we choose the best lease type for the company. In general, our company founders are by their nature risk-takers, as am I, but for our company to be successful, and even more critically, to survive, we need to be intelligent about our risk-taking. Our company's weighted average cost of capital is 12 percent. I would like your lease type recommendation with supporting rationale in a few days. Good luck with this project.*

She stands and reaches across the table to shake your hand. You stand, shake her hand, and leave the office.

ANALYZING THE COMMERCIAL LEASE TYPES

Back at your desk, you are excited about your new assignment. You begin planning your approach. Since the company's CFO stressed the importance of her responsibility to manage the company's cash very efficiently, you decide that the company's lease-related cash flow will be a key element in developing your recommendation. Since all three lease types are for a space (location and square feet) already selected, cash inflows from the use of the space will be the same regardless of the lease type. Therefore, there is no need to include cash inflow in your lease cash flow analysis, only cash outflow. You decide to develop forecasts of your company's cash outflow, in both current and present value dollars, for each of the three lease types.

Lease-related cash outflow has two elements: the rent payments and, except for the all-inclusive Gross lease, the expense payments. The rent and annual percentage rent increases for each lease type have already been agreed upon. Rent payments are contractual and can be projected with certainty over the five-year lease term. The Modified Gross and Net leases require the tenant to directly pay for actual lease-related expenses in addition to the rent. Therein lies the tenant's cash outflow risk. The lease-related expenses over the term of the lease cannot be known with certainty; they are risky and can only be forecasted.

Under a Gross lease (first year annual lease price: $72 per sf), the rent payment is all-inclusive for the tenant, that is, the tenant makes one payment each month to cover the base rent and all lease-related expenses. The landlord pays for all lease-related expenses from that rent payment. As those expenses are to be paid in the future, the landlord assumes the risk of uncertain future lease-related expenses and, in particular, that the actual lease expenses in any month, and over the term of the lease, may be greater than the anticipated expenses built into that month's lease payment.

A Modified Gross lease (first year annual lease price: $64 per sf) includes in the monthly rent payment three of the five lease-related expense categories—Building Maintenance & Repairs, Insurance, and Property Taxes—which the landlord pays from the monthly rent payment. The tenant assumes the responsibility, and risk, for directly paying the uncertain Janitorial and Fuels & Utilities expense categories throughout the term of the lease. The landlord's risk is reduced, relative to the Gross lease, by having the responsibility for paying only three rather than all five of the lease-related expenses from the lease payment.

A Net lease (first year annual lease price: $50 per sf) includes no expenses. The tenant makes the rent payment and also assumes the responsibility, and risk, for directly paying all five of the uncertain future lease-related expenses. The landlord has no responsibility for paying any lease-related expenses.

Based upon the structure of each lease type, your forecasted tenant cash outflow will be a combination of the projected certain rent payments and the forecasted risky expense payments.

TENANT CASH OUTFLOW FORECASTING

Your understanding of forecasting methods is that no one methodology is perfect; each has its advantages and disadvantages, often on a situational basis. You are concerned that relying on just one methodology to support your lease type recommendation might not be the best approach (Ghysels & Marcellino, 2018.) Therefore, you decide to use three forecasting methodologies: 1) linear regression, (2) historical mean, and 3) Monte Carlo simulation (Bates & Granger, 1969; Khalaf & Saunders, 2017).

You take the next few hours to research the available price data for the lease-related expense categories. Your research results are shown in Tables 2 and 3 below. Table 2 shows the Federal Reserve Bank of St. Louis monthly Producer and Consumer Price Indexes for the expense categories of Janitorial, Fuels & Utilities, Building Maintenance & Repairs, and Insurance. Annual commercial property tax rates are provided by the New York City Department of Finance.

Table 2
Lease-Related Expenses Data Descriptions and Sources

Data	Time Series	Source	Download Location
Producer Price Index by Industry: Janitorial Services, Index Dec 2003=100, Monthly, Not Seasonally Adjusted	12/1/1994 to present	St. Louis Fed	https://fred.stlouisfed.org/series/PCU5617256172
Consumer Price Index for All Urban Consumers: Fuels and utilities, Index 1982-1984=100, Monthly, Not Seasonally Adjusted	10/1/2008 to present	St. Louis Fed	https://fred.stlouisfed.org/series/CUUR0000SAH2
Producer Price Index by Industry: Nonresidential Building Maintenance and Repair, Index Apr 2009=100, Monthly, Not Seasonally Adjusted	4/1/2009 to present	St. Louis Fed	https://fred.stlouisfed.org/series/PCU2381MR2381MR
Consumer Price Index for All Urban Consumers: Tenants' and household insurance, Index Dec 1997=100, Monthly, Not Seasonally Adjusted	10/1/2008 to present	St. Louis Fed	https://fred.stlouisfed.org/series/CUUR0000SEHD
New York Property Tax Rate Per $100 of Assessed Value; Class 4 (Commercial Property), Annual	1981 to present	New York City Department of Finance	https://www1.nyc.gov/site/finance/taxes/property-tax-rates.page

You decide that your five-year expense forecasts will be based upon ten years (120 months) of ex-ante (historical) monthly price index data for all lease-related expenses except the New York City commercial property taxes, which will be based upon twenty years of annual tax rate data. However, the ex-ante lease-related expense data from your sources are price indexes and tax rates. Your expense forecasts need to be in dollars—actually, current and present value dollars. Therefore, you will need to determine a Month 1 expense starting point for your forecasts. You realize that from the lease information provided by your CFO (Table 1), you can infer RIL's representation of the lease-related Year 1 annual total expenses per square foot. You can then use the expense percent allocations you discovered in your research (Table 3) to find RIL's best estimate of the individual expenses.

Table 3 Average Annual Lease-Related Expenses Percent Allocation per square foot for a 10,000 Commercial Office Space Property (All Commerical Buildings, New York City)			
Janitorial	13.83%	Insurance	6.36%
Fuels & Utilities	20.69%	Commercial Property Taxes	36.96%
Building Maintenance & Repairs	22.15%	Total	100.00%

You also discovered in your research that commercial property landlords normally add an 8% risk premium to the lease-related expenses included in the rent payment to mitigate the risk to the landlord of underestimating future expenses. You assume RIL has included that risk premium in the rent schedule presented to your company (Table 1.) For the lease types in which all (Gross lease) or some (Modified Gross lease) expenses are included in the rent payment, that risk premium results in your company paying 8% more than the landlord's best estimate of the future lease-related expenses.

THE LEASE TYPE RECOMMENDATION

In arriving at your lease type recommendation, your plan is to consider not only the relative levels of forecasted cash outflows for the different lease types, but also the riskiness of those cash outflows. The five-year term of the lease is more than five times longer than your company has been in existence, a significant future commitment of cash outflow, a portion of which is uncertain with the Modified Gross and Net leases. You remember that your CFO stated she and the founders are risk-takers but "for our company to be successful, and even more critically, to survive, we need to be intelligent about our risk-taking." A clear message to you that the risks inherent in each lease type need to be carefully considered.

You have only a few days to collect your data, run the forecasts, analyze the results, and consider an acceptable cash outflow risk in light of your perception of a company-acceptable degree of risk aversion (Charness, Gneezy & Imas, 2013.) Ultimately, your judgment will be the deciding factor in arriving at your final lease type recommendation (Eroglu & Croxton, 2010; Fildes & Goodwin, 2007a; Fildes & Goodwin, 2007b; Sanders et al., 2005.)

THE CHALLENGE

Assume you are the young, recently-graduated financial analyst. Please indicate the lease type recommendation you will make and your supporting rationale for that recommendation.

REFERENCES

Bates, J. M., & Granger, C. W. (1969). The combination of forecasts. *Journal of the Operational Research Society*, *20*(4), 451-468.

Charness, G., Gneezy, U., & Imas, A. (2013). Experimental methods: Eliciting risk preferences. Journal of Economic Behavior & Organization, 87, 43-51.

Eroglu, Cuneyt, and Keely L. Croxton (2010). Biases in Judgmental Adjustments of Statistical Forecasts: The Role of Individual Differences. *International Journal of Forecasting* 26 (1): 116–33.

Fildes, Robert, and Paul Goodwin (2007a). Against Your Better Judgment? How Organizations Can Improve Their Use of Management Judgment in Forecasting. *Interfaces* 37 (6): 570–76.

Fildes, Robert, and Paul Goodwin (2007b). Good and Bad Judgment in Forecasting: Lessons from Four Companies. *Foresight: The International Journal of Applied Forecasting*, no. 8: 5–10.

Ghysels, E., & Marcellino, M. (2018). *Applied Economic Forecasting Using Time Series Methods* (pp. 3-55; 173-184). Oxford University Press.

Khalaf, L., & Saunders, C. J. (2017). Monte Carlo forecast evaluation with persistent data. *International Journal of Forecasting*, 33(1), 1-10.

Sanders, Nada, Paul Goodwin, Dilek Önkal, Mustafa Sinan Gönül, Nigel Harvey, Anthony Lee, and Lucy Kjolso (2005). When and How Should Statistical Forecasts Be Judgmentally Adjusted? *Foresight: The International Journal of Applied Forecasting* 1 (1): 5–23.

SUSTAINABILITY AND INTEGRATED REPORTING FOR SCHOKOTASTIK COMPANY – A CASE EXPLORING ETHICAL ISSUES

Marianne L. James, California State University, Los Angeles

CASE DESCRIPTION

The primary subject manner of this case involves ethical issues in the context of sustainability and integrated reporting. The case explores sustainability-related reporting issues and presents an ethical dilemma faced by a junior accounting professional who is a member of the sustainability reporting team of a privately-held growing company. Secondarily, the case provides an opportunity for students to gain knowledge and understanding of the global importance of sustainability and integrated reporting, the availability of reporting guidelines, and related issues that may arise.

The case has a difficulty level of four to five and can be taught in about 30 minutes. The case can be assigned as a group or as an individual project. Approximately two hours of outside preparation are necessary for students to fully address all questions in a group setting. The case can be used in an upper division or graduate accounting ethics course focusing primarily on ethical aspects, an international accounting course focusing on sustainability reporting issues, or another graduate business course focusing on corporate responsibility aspects. This case may enhance students' knowledge and understanding of sustainability-related reporting issues and potential ethical considerations that may arise; it also may enhance students' technical, communication, analytical, and research skills.

CASE SYNOPSIS

Sustainability and integrated reporting, which combines sustainability-related information with financial results, represent globally important trends. Diverse stakeholders expect that organizations of all types and sizes operate in a responsible manner and that they report reliable information about their effect on the environment, the availability of scarce resources, their employees, and the community in which they operate. Reporting of sustainability-related information continues to accelerate and is mandatory in an increasing number of nations. Reporting guidelines such as those developed by the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the U.S.-based Sustainability Standards Board (SASB) provide the necessary foundation for high quality comparable reporting that is useful to decision makers.

This teaching case explores sustainability and integrated reporting in the context of a U.S. based privately-held fictitious company that manufactures European-style chocolate products. The case scenario includes information regarding the organization's sustainability-related priorities, its goals and achievements, and presents a sustainability reporting related ethical dilemma faced by a junior member of the sustainability reporting team. The objective of the case is to spark students' interest in sustainability-related reporting issues, to consider related standards and guidelines, and to explore ethical considerations. The assignments consist of case-specific as well *as research questions which are largely independent providing flexibility for instructors utilizing the case.*

This case can be utilized in an accounting ethics or professional ethics course, an international accounting course, or in another upper division business course. The case is suitable for courses taught in traditional, blended, or online learning environments. Use of this case may enhance students' sustainability and corporate disclosure related knowledge; their awareness of related ethical considerations and professional ethics guidelines; and may enhance their analytical, research, and communication skills.

THE CASE*

Karina Schuester recently graduated with a masters' degree in accounting from a well-known state university in California. While a junior in college, she envisioned her future working as an auditor or consultant in a global accounting firm. After extensive networking with professionals, she realized that such a career would not provide her with the work-life-balance that she envisioned; yet, she was looking forward to a career that required continuous professional and intellectual growth opportunities and an innovative environment, while working with highly ethical associates.

During her first semester in graduate school, Karina enrolled in an International Accounting course, which in addition to extensive discussions of International Financial Reporting Standards (IFRS), also included discussions of corporate social responsibility (CSR) reporting, often referred to as sustainability reporting. Karina learned that a continually increasing number of companies of all types and sizes and across many industries, are formally reporting their sustainability-related activities to their stakeholders. She further learned that this reflects a global trend embraced by a growing number of countries and stock exchanges, some requiring mandatory reporting and in some instances integration of sustainability information with financial reports.

Karina's interest in this topic motivated her to write her course research project on sustainability and integrated reporting. During her research, Karina learned that in some countries, integrated reporting, which entails combining and integrating information related to sustainability with traditionally reported financial information, is required (Ernst & Young, 2015). The related research and her analysis further heightened her interest in this reporting area. She decided that she wants to work for an employer that provides her with opportunities to further enhance her understanding of sustainability and/or integrated reporting, as well as financial reporting, and ultimately enable her to participate in sustainability-related analysis and reporting.

While she was happy with her decision, she decided to further enhance her future opportunities. During her last year in graduate school, she prepared for and successfully passed all parts of the Certified Public Accountant (CPA) examination. She also planned to sit for the Certified Management Accounting (CMA) examination soon after graduation. During her junior year in college, she had joined the American Institute of CPAs (AICPA) and the Institute of Management Accountants (IMA) as a student member.

Karina's Career Search

Karina started searching for a potential future employer that fits her career objectives. Her thorough research, which included review of companies' financial statements as well as any published reports relating to sustainability, resulted in her interviewing with six firms. During each interview she expressed her interest in sustainability-related analysis and reporting. She received four attractive offers to join the financial reporting team at each company. She pondered the advantages of each offer.

One of the offers she strongly considered was from "Schokotastik," a privately-held small/mid-size company that specializes in the production and distribution of high-quality chocolate products. During her meeting with Schokotastik's Chief Financial Officer (CFO), Robert Conner, she expressed her desire to be involved with sustainability reporting; Robert appreciated Karina's enthusiasm and indicated to her that if she joined Schokotastik's financial accounting department, she would eventually have the opportunity to work closely with the company's sustainability officer. Robert also showed Karina the company's forthcoming sustainability report that set forth the company's sustainability-related achievements as well as future sustainability targets. Karina was impressed by the apparently strong commitment of the company to sourcing, producing, and distributing its products in a continually enhanced sustainable manner. This positive impression was further strengthened after Karina met the founder of the Company, Emelia Meisner. Karina seriously considered Schokotastik's offer. She received samples of the company's products to take home to enjoy.

Karina grew up in Europe, enjoying European-style chocolate such as "Kinderschokolade" and "Nutella," produced by the well-known Italian company Ferrero; and Lindor Truffles, produced by Lindt and Spruengli, a company known for its exceptionally creamy and delicious chocolate products. So far, she had been unable to find a U.S. based brand of chocolate that she enjoys quite as much as the chocolate she was accustomed to while living in Europe. After tasting Schokotastik's chocolate, she decided that she had finally found chocolate as enjoyable as the brands she enjoyed while she was growing up in Europe. More importantly to her career aspirations, she believed that Schokotastik would become a very important and successful company in the specialty food industry in the U.S. that will continue to distinguish itself through its excellent products and responsible operations. Karina was excited about the opportunity to contribute to their goals and accepted the offer to join the company as a staff accountant.

Sustainability Goals and Achievements at Schokotastik

Schokotastik founder and Chief Executive Officer (CEO), Emelia Meisner has a strong commitment to sustainability. This extends into her private, as well as her corporate life. She began her career working for a large multi-national company operating primarily in the food and beverage industry. Seven years ago, she realized her life-long dream to start her own company and to sustainably produce highest quality specialty food products. As a connoisseur of fine chocolate, her aspiration was to start a company that would eventually be able to compete with industry leaders, such as Hershey and Mars. She believed that even though there are several major U.S. based companies and a number of well-known European companies in the industry, Schokotastik would be able to compete effectively by focusing on her company's core mission, which is "to produce high-quality delicious chocolates in the U.S., using sustainable materials and processes and support the local community."

After overcoming initial struggles and with the support of several private investors who believed in her company's vision, Emilia was able to establish a niche with steadily increasing market share. The company's effective marketing and distribution strategy, which includes a focus on the company's commitment to sustainability, has resulted in steadily increasing sales and profitability. Two of its bestselling chocolates are "White Chocolate Infinity," which is described as white chocolate with a center covered with colorful sprinkles and surrounded by a milk chocolate shell; and "Black Forest Chocolate Rush" which is described as milk chocolate with cherry and kirsch in the center, surrounded by a white chocolate shell and covered by caramelized hazelnut pieces.

Encouraged by the success of its high quality chocolates, eight months ago, the company launched a new product line – a selection of high-quality cookies. One of the differentiating characteristics of these cookies is that they are simple and delicious with a small number of all-natural ingredients. All of the cookies include premium chocolate and more than half include hazelnuts or almonds. Promotion of the cookies emphasizes the small number of natural ingredients and the company's adherence to a high level of sustainable practices and animal welfare.

The company recently began exploring potential opportunities to market its products at large membership-based chains. One promising avenue the company explored is selling selected products during high-demand seasons at weekly "roadshows" at Costco.

The company's private investors were especially attracted by the CEO's promises to implement and commit to high levels of sustainability. While since its inception, the company prominently focuses on sustainability in all its promotional campaigns, it also includes information about its sustainability-related programs in its formal financial reports. Initially, the company reported on major sustainability goals, but has recently started to include a six-page section on sustainability with its annual report.

Karina's Experience Working for Schokotastik

Karina started working with great enthusiasm. She felt comfortable with her workspace and most importantly, the professionals she worked with. She immediately established positive rapport with her immediate supervisor, Jack Neumann, the company's controller. She had the opportunity to gain knowledge about the entire internal and external reporting processes and after a few months at Schokotastik, she felt that she had contributed to the accounting and reporting function. She has become an engaged member of the financial reporting team.

In anticipation of future financing opportunities needed for continuing expansion, the company's board of directors decided to have its financial statements audited by an external financial auditor. At the beginning of the current year, which is also the beginning of the company's fiscal period, Karina started assisting with the financial statement audit, functioning as primary contact person for the auditors. As part of this role, she assisted with the retrieval of needed documentation and prepared requested schedules and reports. During this process, she retrieved documentation related to long-term purchase commitments for raw materials, such as cocoa, eggs, butter, and nuts, which are key ingredients for the company's products.

In March, Karina learned that she will be working with the sustainability manager, Margaret Barton. She was delighted about this opportunity and sent an email to Ms. Barton, who was at a conference, requesting a meeting to discuss her new responsibilities. A few days later, she met with Margaret. Karina immediately liked Margaret, and she discovered that they share similar attitudes concerning the importance of sustainability with respect to responsible interactions with nature, the environment, and with people; as well as the humane treatment of animals.

Karina familiarized herself with Schokotastik's updated sustainability priorities and learned the following:

Schokotastik reports on the following priority sustainability goals and achievements related to its manufacturing processes:

1) Fully traceable cocoa
2) Fully traceable nuts
3) All eggs derived from cage free chickens, with at least 60% organic sourcing by 2022
4) 100% natural refined sugars
5) Zero or near zero workplace injuries
6) 40% reduction in water use between 2015 and 2025
7) 90% of waste recycled by 2025
8) 30% decrease in CO_2 emissions between 2015 and 2025
9) 0% food safety related incidents
10) Donations of 2% of its products to support community events

Margaret informed Karina that her major responsibilities during the first few weeks would involve gathering of information on the company's achievements thus far and its progress toward the articulation of future goals. This included reviewing reports received from various departments, communicating with department representatives to gather additional information as needed, and summarizing the findings in both narrative and graphic format. Karina started working on compiling the information received from other Departments; and asked Department heads for additional information as needed for her report to Margaret.

One of the facts Karina noticed while reviewing Schokotastik's key sustainability goals was that a number of issues that she personally perceives of high priority were not included in the company's goals. For example, she noticed that investment in renewable energy and empowering women was not included in the company's primary sustainability-related goals. Karina asked Margaret, why these were not part of Schokotastik's sustainability goals. Margaret explained that the stated sustainability goals were initial (stage I) goals, which would later be expanded to include other important goals. Stage I goals focused on environmental and product safety issues. During stage II, additional broad goals would include a focus on community engagement; investment in renewable energy; and employee-focused perspectives, such as gender representation, and expanded employee wellness programs.

Karina's Review of the Recent Report

During her review of the most recent report, Karina noticed that it indicates that by 2022, all eggs used in the company's manufacturing processes will be sourced from cage-free chickens. She suddenly realized that as part of her work with the external auditors a few months ago, she had reviewed a new four-year purchase contract with a vendor who offered quite favorable terms and who will supply about 18% of the company's projected needs for fresh eggs for the next four years. She recalled the name of the company and to her surprise, she discovered that the vendor currently houses its chickens exclusively in cages. Karina strongly opposes what she considers an inhumane practice.

That same afternoon, she brought this to Margaret's attention. Margaret promised to check into this apparent discrepancy. A few days later, Karina asked Margaret whether she was able to find out more about the situation and Margaret told her not to be concerned about this. The sourcing/purchasing department has promised to "look into this issue." Karina was not satisfied with the answer, but did not know how to resolve the issue. She continued her work, with a degree of distraction. She respects and likes Margaret and wished that she could leave this issue for

Margaret to address. However, she felt that she has an ethical responsibility to address this discrepancy herself.

Meeting of the Board of Directors

One week later, Schokotastik's members of the board of directors met for their regular quarterly meeting. One of the items on the agenda was for Margaret to provide an update on the company's progress toward meeting the sustainability-related goals. Margaret invited Karina to attend, both for the experience and to take notes relevant to sustainability. Karina naturally was excited about this opportunity and looked forward to her participation.

On Tuesday morning, the board meeting commenced punctually. The President, CEO, CFO, and Chief Operating Officer (COO) provided updates on operational and financial achievements and on future strategies and initiatives. The distribution manager, proudly reported that "Roadshows" have been scheduled at 14 different Costco locations starting late November through the beginning of December, a season which traditionally shows sharply increasing sales of chocolate products. During the "Roadshows," company representatives will promote and sell an assortment of the company's most popular products. The company hopes that Costco will eventually carry some of its products on a regular basis.

The CEO reported that he has received a very promising inquiry from a well-known venture capital investor with a reputation for investing only in socially responsible companies. The amount discussed would allow the company to expand its manufacturing facility and its product lines, as well as enhance its marketing and distribution budgets. The board members tentatively authorized the expansion, contingent on the company reaching a beneficial agreement with the potential new investor. The board members also voted to voluntarily adopt and comply with financial reporting rules consistent with public company Generally Acceptable Accounting Principles (GAAP) and to continue to include sustainability-related information in their annual report.

In her role as sustainability director, Margaret provided board members and company executives with an update on their progress towards achieving the company's sustainability goals. Margaret included some highlights of recent achievements and closed with the statement that she was confident that all sustainability-related goals will either be met or exceeded.

After the Board Meeting

After the board meeting, Karina silently walked back to Margaret's office. Margaret asked Karina to sit down and said: "I can see that you are troubled by my report to the board of directors." Karina responded: "I don't understand why you did not mention that we are not going to meet the target of sourcing 100% of eggs from cage-free chickens." Margaret responded that she discussed this with the COO prior to the meeting and that he strongly recommended that she not bring up this point. He also promised to review the long-term purchase agreements and, if necessary, will void the contracts. Karina responded: "but there are steep penalties, if we rescind the contract; shouldn't we disclose this in our annual report?" Margaret responded that the board tends to deal with broad issues and strategies and not day-to-day operations, nor small details. She asked Karina not to worry about this.

The Challenge

Pretend that you are in Karina's position.

1. Identify the accounting/reporting issues that Karina should consider.
2. Explore the ethical issues that Karina faces and briefly describe the potential solutions to the ethical dilemma.
3. As an accountant, what ethical guidelines or standards should Karina consider? Please cite the guidelines and relate specific guidance to the issue Karina faces.
4. If you were in Karina's position, what would you do?
5. Consider your answer to question 4 and describe the possible implications of your decision for (a) the company and (b) for Karina.

Author's Note:
*The case deals with a fictitious company; any similarities with real companies, individuals, and situations are purely coincidental.

A CHAIRMAN'S DILEMMA: SELECTING A POST - ACQUISITION HEADQUARTERS

JoAnne O. Martinez, Pace University
Julia Eisenberg, Pace University
Alan Eisner, Pace University

CASE DESCRIPTION

The primary subject matter of this case concerns strategic management. Secondary issues examined include: Top Management Team (TMT), corporate strategy, geographical dispersion, mergers and acquisitions, organizational design, organizational change, and Resource Based View (RBV). The case has a difficulty level appropriate for advanced undergraduate and all graduate levels. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

The case focuses on analyzing EatUp, which was a privately held, business to business (B2B), high margin, craft food producer with two sites. After 20 years of private ownership it was cash strapped and in need of capital improvements. It was sold to EQFunds, a private equity firm whose goal was to increase value and to sell the company in about 5 years for a profit.

At the time of sale to EQFunds, EatUp had five Top Management Team (TMT) members, only two of which remained after the change in ownership. EQFunds immediately appointed five new TMT members including a Chairman. None of them lived near either of EatUp's sites. The new Chairman was faced with increasing the value of the company with a geographically dispersed TMT and an existing headquarters (HQ) site that was physically unattractive and of inadequate size to house the infrastructure required for the new growth strategy. His goal of increasing the value of the company necessitated larger office space for the required staff and a convenient location for the TMT to meet. He made an executive decision to search for a new HQ. The Chairman undertook a search for a new HQ, with five possible locations considered. He also pondered his alternatives to get the five remote TMT members to work from the same HQ. Where should the Chairman place the new HQ? How does the Chairman accommodate and manage his remote TMT to create the most synergy and value?

The identity of the company, TMT members and the private equity firm have been changed in the case as a condition of use by the Chairman. One of the co-authors had first-hand experience with TMT and the Chairman of this company as well as its records and data.

INTRODUCTION

Cash strapped EatUp was bought by EQFunds, a private equity firm with the intent of creating value and selling it for a profit in about 5 years. The new Top Management Team (TMT) put in place by EQFunds were geographically dispersed with no new members living anywhere near EatUp's existing locations and none being expected to relocate. The new Chairman strongly believed that telecommuting was not an option for executive personnel. He had to decide whether to retain the existing headquarters (HQ) site or establish a new one where the TMT would work face-to-face and how to accommodate the TMT who would not relocate for this venture. His self-imposed deadline for decision and full implementation was within 12 months 2015.

BACKGROUND

Founded in the 1980's, EatUp was a middle market[1] B2B premium food manufacturer headquartered in a major city in the Western United States. The company's approximately 300 employees produced a wide variety of pure, healthy, premium and custom-crafted products for national food service purveyors. The HQ's five-acre site also housed the company's plant and administrative offices with approximately 125 employees. The company's other site, located in the Southeast United States (Eastern site), housed about an equal number of employees, with the balance being remote sales employees.

Early expansion: Spreading out to the East

Over a ten-year period, the company grew steadily first selling to local customers and later spreading throughout the Western US and subsequently to the Eastern US and Canada. Expansion was a positive sign but to sustain it, the company needed more capacity. To accommodate its growth, the company acquired a plant in Southeast US in the 1990's. The company HQ remained at the Western site. Although its products were selling well at high margins, the company was managed inefficiently, suffering from a cash shortage and in need of capital to update its plants. It sought new investors.

COMPANY SALE

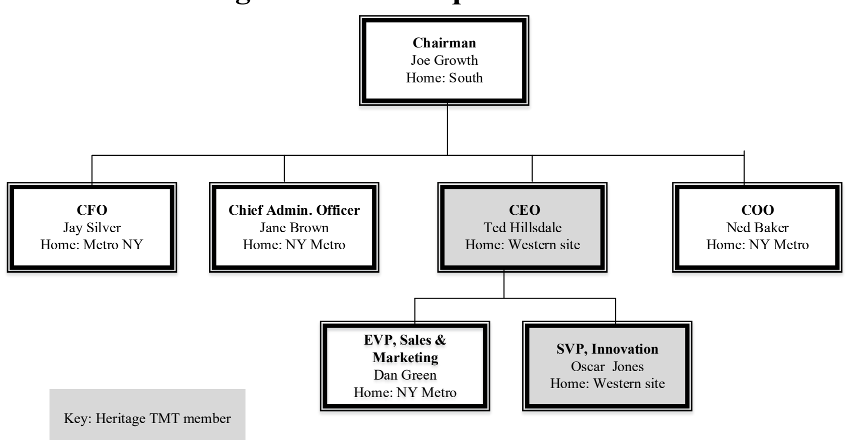
The company was sold to EQFunds, a private equity firm based in New York City. Its objective was to closely manage EatUp by creating value through efficiency, growth, and acquisitions and to sell it in about five years for a profit. EQFunds' immediate priority was to appoint a proven TMT that would create value by closely managing EatUp, growing its business organically and through acquisitions, and realizing efficiencies.

Upon sale to EQFunds, only two TMT members remained with the company. EQFunds immediately appointed a new Chairman, Joe Growth (pseudonym) and four other TMT members

[1]. The middle market is defined by Deloitte as US-based companies acquired through buyout transactions between $25 million and $1 billion.

(2 heritage + chairman + 4 new = 7 TMT members). All were either known to EQFunds or were highly recommended by the new Chairman. Four of the five including the Chairman knew each other from a previous industry venture where they had created exceptional increases in value. In the previous venture, the Chairman and the TMT quadrupled the value of a company in less than 3 years. They firmly believed this type of value creation in such a short period of time was only possible when they worked together in a face-to-face environment. None resided anywhere near EatUp's sites and expected near 100% travel. None would be required, nor would they agree to relocate since the hold period for EatUp was five years or less. All had substantial equity in EatUp and were in total agreement on the amount of travel required. As one said, "I will be anywhere from Monday through Friday and weekends if needed." None of the new TMT members except the Chairman had young children. Chairman Growth realized that it was not uncommon for Private Equity (PE) firms to hire a top executive that commutes from a remote home location to the HQ but having almost the entire TMT remote was quite unusual. Figure 1 depicts the post-acquisition TMT with the heritage players shaded. Addressing the geographic dispersion of the TMT became a priority of Chairman Growth.

Figure 1: Post Acquisition TMT



POST PURCHASE: TOP PRIORITIES

With the new TMT appointed, the Chairman could now decide where the HQ should be located and how to maximize collaboration of the largely remote TMT. His previous venture with three of the TMT members resulted in unprecedented value creation and profitability when they interacted face-to-face. Post purchase, Ted Hillsdale (the former majority owner/CEO) and another TMT member from the heritage company stayed in the original HQ location. None of the five new TMT members lived near either of the two plants: four lived in the New York Metro area and one was in southern Florida.

Under the new Chairman, Joe Growth, now Hillsdale's boss, EatUp became even more passionate about safety, financial visibility, sustainability, growth, procedures and efficiency. This required close management of the organization and its operations and close collaboration of the TMT. It also required additional staff and resources, which required extra office space. Finding an optimal HQ location and maximizing TMT collaboration became Chairman Growth's top priorities.

HQ location

Joe Growth decided that existing space at the Western HQ site was barely adequate to house the existing administrative staff and had extremely limited meeting space. He knew it could not accommodate the additional resources needed to fulfill the new ownership's goals of growing the company both organically as well as through acquisitions to achieve its exit strategy. Additionally, the plant's productive capabilities could not be compromised by ceding any more space from production to administration. Mr. Growth also faced the crucial issue of how the largely (five of seven) remotely located TMT members would maximize their collaborative efforts to manage the company.

TMT collaboration

Due to the limited meeting space at the plants, the geographically dispersed executives worked from home offices with monthly scheduled meetings at the Western and Eastern sites or nearby hotels. Chairman Growth quickly realized this was not an ideal situation for aggressively realizing its strategy for several reasons. First, important cross-functional TMT interactions were not as robust or as frequent as he wanted or as he had experienced in the previous venture. Working remotely, interactions were somewhat cross-functional, but the TMT seemed to be spending too much time on task-oriented transactions. The company was improving rapidly but Mr. Growth, as well as the new TMT members, realized it could be exponential if the team were working physically together. All recognized the value they were creating, while far above any standards, was not as high as they knew they were capable of in a face-to-face environment. All wanted to interact in-person. Second, day-to-day supervision of subordinates was sub-optimal with the TMT finding that in-person supervision was highly preferable to remote supervision. Third, the ability to attract the level of talent needed to grow the company was hindered by the lack of space as well as the unattractiveness of the plant administrative space and its location. Finally, the travel expenditures became quite high without getting enough in-person collaboration to satisfy the chairman or the TMT members. It was clear that this arrangement could not support the types of activities required for growth and acquisitions in an aggressive time frame. To help in his decision-making process, the Chairman examined his options summarized in Table 1.

Table 1 SELECTING A POST ACQUISITION HEADQUARTERS Top Management Team Work Options		
TMT Options	**Option Description**	**Potential Option Issues**
Work Remotely	**Work from home offices meeting together monthly**	Experience shows value creation in TMT interactions that are not possible with remote working and limited when only meeting monthly
Rotate Work Locations	**Rotate meeting weekly at or nearby the 2 sites**	There are high costs and some value creating interactions through this option but rotating sites does not provide a stable work base
Office Rental Space	**Co. rents space at Regus or similar at a TBD site**	Costly option with no guaranteed availability of conference space, contiguous offices or use after hours
New HQ Site	**Company finds suitable space for its HQ**	TMT would be required to be present a designated amount of time weekly; non-production staff functions transferred to the new HQ

HQ search

Chairman Growth made an executive decision to identify a new HQ office for the TMT, so it would have a regular "home" in which to work together. He wanted the TMT members to travel efficiently to minimize travel time and inconvenience and prevent frequent travel fatigue and maximize the value of time spent together. The new HQ would need to satisfy the criteria listed in Table 2.

Table 2 SELECTING A POST ACQUISITION HEADQUARTERS Headquarters Location Key Criteria
•Accessible transportation (e.g., major airport, public transportation)
•Access to high-level talent recruitment pool
•Reasonable commuting time with multiple direct fights for remote TMT members
•Proximity to reasonably priced quality housing for remote TMT members
•Easily accessible and attractive for customers, acquisition due diligence players and eventual buyers
•Lease with attractive termination provision (in the event a new buyer did not want it)
•Proximity to nearby quality hotels

Given the constraints listed in Table 2, a search was commenced for the new HQ location. The cities of the Western and Eastern sites were examined. Particular attention was given to the NY Metro area and a major city in Florida where EatUp's industry had a strong presence, quite distant from the Eastern plant. The industry presence in FL was an added plus since there was no significant industry presence in the existing HQ location.

Once the new alternative sites were identified as possibilities, the question of corporate and individual tax rates was raised. The heritage HQ site had nationally average corporate and individual tax rates. Whether the alternative sites would be better or worse for the company as well as the TMT members (who had significant equity and therefore taxation burden upon exit strategy) were examined. The cost estimates are listed in Table 3 with a ranking of the potential sites' corporate and personal income tax rates. The New York Metro area was attractive since four of the TMT members lived there and there was a robust labor pool to fill the positions that would be relocated from the existing HQ. None of the existing HQ personnel was to be relocated to the new HQ but would be provided severance. However, the company's industry was in the West and the South with a strong presence in the Southern Florida city and New York had unfavorable tax issues.

Table 3
SELECTING A POST ACQUISITION HEADQUARTERS
Cost Estimates

Cost Category	Western site	Major city near Eastern site	NYC (Manhattan)	NY Metro (Tri-State Area of NY- NJ - CT)	Major Southern FL City
HQ Moving Costs	$10,000	$10,000	$10,000	$10,000	$10,000
HQ Furnishing Costs	$100,000	$100,000	$100,000	$100,000	$50,000
Rent / Sqft	$23	$23	$50	$40	$37
Annual Rent For 10K Sq. ft.	$230,000	$230,000	$500,000	$400,000	$370,000
Related Costs at 5% of rent	$11,500	$11,500	$25,000	$20,000	$18,500
Corporate tax rank from 1 (lowest) to 5 (highest)	2	1 (tie)	4	3	1 (tie)

Selecting new HQ location: Remote TMT member options

As part of the search for the new HQ site, Joe Growth pondered how the five remote TMT members would manage the company if New York was not selected for the new HQ. It was decided that the five new TMT members would be required to be at the new HQ office at least three full days a week, unless they were travelling for company business. This was acceptable to all.

To address high costs associated with frequent travel, Chairman Growth considered several options for the five remote TMT members. The two TMT members with offices in the Western plant would remain there: they would travel to the new HQ as needed. However, some other non-production staff departments reporting into TMT members would be relocated to the new HQ site. None of the existing employees would relocate; they would be replaced with local talent.

Options for housing the five remote TMT members at the new HQ site came down to two alternatives: stay in hotels or company rented apartments. Although the apartments would only be used three nights or so a week, the overall costs would be less than hotels for the TMT members commuting. Chairman Growth estimated annual costs for the various HQ location options, which are listed in Table 4.

Table 4
SELECTING A POST ACQUISITION HEADQUARTERS
Travel Costs

Total TMT HQ Est. Travel Costs	Western Site	Eastern Site City	NYC (Manhattan)	NY Metro	South FL City
Hotel option	351K	300K	165K	162K	279K
Apartment or additional residence option	351K	300K	174K	162K	352K

Chairman Growth now had to make multiple decisions related to where to place the HQ. He needed to figure out how to accommodate the remote TMT members' priorities while also selecting an option that would be most optimal for the company as a whole and in line with their strategy. Table 5 shows the Chairman's decision regarding the alternative sites' fit to his criterion. "Yes" meant it fit and "no" meant it did not fit.

Table 5
SELECTING A POST ACQUISITION HEADQUARTERS
Priority Items and Alternative Sites

Priority Item	Western site	Major city near Eastern site	NYC (Manhattan)	NY Metro (Tri-State Area of NY-	Major Southern FL City
•Accessible transportation (e.g., major airport, public transportation)	no	no	yes	yes	yes
•Access to high-level talent recruitment pool	no	no	yes	yes	yes
•Reasonable commuting time with multiple direct fights for remote TMT members	no	yes	yes	yes	yes
•Proximity to reasonably priced quality housing for remote TMT members	yes	yes	yes	yes	yes
•Easily accessible and attractive for customers, acquisition due diligence players and eventual buyers	no	no	yes	yes	yes
•Lease with attractive termination provision (in the event a new buyer did not want it)	yes	yes	yes	yes	yes
•Proximity to nearby quality hotels	yes	yes	yes	yes	yes

While cost was a consideration, the fit of the HQ site was the primary driver for Chairman Growth. As a middle market company, the difference in expense between the sites was not substantive to EatUp. Taxation rates were more of a concern than the cost of the HQ itself.