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The Western Casewriters Association (WCA) is the Western regional association of business casewriters. Its purpose is to train, develop and support business case writing for research and pedagogical purposes. WCA organizes an annual conference for experienced and new case-writers and academics using cases for teaching, and publishes the *Journal of Case Research and Inquiry*. www.westerncasewriters.org

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JCRI Editorial Policy

Aim and goals

The *Journal of Case Research and Inquiry* (JCRI) is a publication of the Western Casewriters Association (www.westerncasewriters.org). The *Journal of Case Research and Inquiry* publishes peer-reviewed teaching case studies (cases) prepared from primary and secondary research, as well as pedagogical notes and scholarly articles concerned with case research and teaching with cases. The journal publishes one issue per year, and if submissions so merit, may publish additional issues with editorial board approval. Cases, notes, and articles published in the journal are available online, full text, and free of charge at www.jcri.org.

Scope

The journal publishes cases that address significant contemporary and perennial issues faced by organizations and managers in the areas of business and public administration, nonprofit management, social entrepreneurship, and public policy. All cases are necessarily accompanied by instructor manuals (IMs) that are not published but may be provided to the instructors upon request. All cases and IMs are double blind peer-reviewed by at least two reviewers. Cases may be derived from primary field research, secondary research, or a combination of both. JCRI does not accept fictional cases, nor cases, notes, or articles previously published elsewhere. Case authors are required to obtain release forms, when necessary, from the organizations studied.

Pedagogical notes that accompany a given case may also be published; notes may be summaries of industry characteristics and trends, or theoretical or legal analyses useful in the understanding of a case. All notes are blind peer-reviewed by at least two reviewers.

Finally, the journal publishes scholarly articles addressing significant issues related to case research, case writing, and teaching with cases. All articles are blind peer-reviewed by at least two reviewers.

JCRI open source availability policy

Cases, notes, and articles are available online at www.jcri.org at no cost to instructors and students at state and nonprofit educational institutions, who shall be granted the right to reproduce them for educational purposes. The journal shall encourage instructors to include in their course syllabi links to the JCRI website so that students can easily access cases, notes, and articles. For reproductions for commercial purposes in textbooks or elsewhere, authors shall retain all rights.

Submission of manuscripts

Authors should submit manuscripts electronically to editor@jcri.org. All submissions must follow the JCRI submission guidelines available in detail at www.jcri.org. The minimum requirements for submission shall be:

When submitting manuscripts, authors should submit two WORD files, attached to a single email to editor@jcri.org. Each file sent to the journal should be saved with a name that clearly identifies the manuscript short title, type of manuscript, and date. At no place in any document except the Submission Form should authors be identified.

The first WORD file should contain the SUBMISSION FORM and the CASE SYNOPSIS (for cases) or ABSTRACT (for notes or articles). (See submission guidelines). This document contains the information required for contacting the author(s). It is used only by the editor and authorship is not revealed to reviewers. Please do not send PDF files to the journal.

The second WORD file should contain the CASE and INSTRUCTOR'S MANUAL (IM) for cases, or the NOTE or ARTICLE. (See submission guidelines).

In all documents submitted, use a size 12 Calibri font, 1 ½ spaced for text. Use a size 10 Calibri font, single spaced, for Exhibits, Tables, Appendices, Footnotes, Endnotes, Financial Statements, and References. Leave a one-inch margin on the top, bottom, and sides of all pages. Align text with the left except for major titles, and do not "justify" the text. Number (starting with 1) all pages of each document. Do not submit more than two files. Include any charts, graphs, figures, images, or photographs in the manuscript in the approximate place where it should be included. While IMs, notes, and articles may be written in the present tense, by convention all cases should be written in the past tense (e.g., "In 2015, Widgets-R-Us was the global leader in widget manufacturing.")

JCRI is an online publication. Case authors are encouraged to include photos, maps, links to websites, embedded videos and other features that take advantage of the internet.

Review policy

At the editor's discretion, a submission to the journal may be rejected without a full review, particularly if the manuscript does not align well with the aim and scope of the journal.

Otherwise, all submissions shall be blind peer reviewed by at least two qualified reviewers. Authors shall receive the two reviewer's comments, together with a decision (reject, revise and re-submit, accept) by the editor. Unless approved by the editorial board, no cases or papers shall be invited and none published without undergoing the peer review process.

WCA Membership requirement for authors

There shall be no fees to publish in the journal, however the policy of the journal is that at least one author must be a WCA member for the year in which the case is published. To join WCA, please visit www.westerncasewriters.org

WCA conference cases

Authors of cases presented at the WCA conference will be invited and encouraged to submit their work to the journal. However, all submissions (whether presented at a NACRA, WCA, or other conference) will undergo the peer review process. No paper - even a WCA award-winning case - shall be guaranteed publication in the journal.

Content of the journal

Published manuscripts may include CASE STUDIES, NOTES, and ARTICLES, which will be duly identified in different parts of the journal

- ***Case studies*** - The main part of the journal shall contain peer reviewed teaching case studies (cases) by authors who conducted primary research, secondary research, or a combination of both. Cases shall be about real organizations or managers facing issues in business administration, public administration, nonprofit management, or social entrepreneurship.

Cases must be submitted together with complete instructor manuals (IMs). IMs shall not be published in the journal, but shall be peer reviewed together with the case.

- **Notes and exercises** - A second part of the journal shall contain peer reviewed Notes, which can be summaries of literature, theory, or industry descriptions designed to be assigned to students together with cases. Peer reviewed Exercises may be short case-like assignments that provide less context about the organization and its environment than do cases studies but permit some of the learning associated with the case method.
- **Articles** - A third part of the journal may contain peer reviewed scholarly articles which may address issues related to case research, teaching with cases, publishing case studies, and other topics related to case research.

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The journal shall require signed release forms from organizations, which must be collected by case authors for any case to be published that was carried out using primary research. The journal shall not publish a case based on primary research without a signed release form.

Ownership and distribution of Instructor Manuals

Instructor manuals (IMs) shall be archived by the journal for a period of at least three years after publication of a given case. IMs will only be provided to educators who so request them when such instructors are formally affiliated with a College or University.

No fees shall be charged to instructors who receive IMs, nor is membership in the WCA required to receive an IM. Educators seeking an IM should complete a request form on the JCRI website. IMs will then be sent by the journal editor to the requesting instructor with a cc to the case author, who may wish to know who is using his or her case and for what purpose. After the three-year period, inquiries for IMs should be made to the case author.



JCRI Publication Ethics Policy

Approved by the JCRI Editorial Board, March 9, 2017

1. **Board Accountability.** The JCRI Editorial Board shall be responsible for establishing and updating, as needed, the Publication Ethics Policy of the *Journal of Case Research and Inquiry*.
2. **Editor Responsibilities.** The JCRI Editor shall be responsible for the content of the cases, notes, articles, and letters published in the journal. In consultation with the Editorial Board, the Editor shall endeavor to ensure that the content of the journal meets the standards of quality expected by the Western Casewriters Association (WCA) through the application of the blind peer-review process. The Editor shall also be responsible for ensuring that any non-peer reviewed content of the journal is clearly identifiable.
3. **Records.** The JCRI Editor shall keep accurate records of submissions to the journal, reviews, revisions, acceptances, and all other pertinent information to be able to inform the Editorial Board and WCA members of the status of the journal. The Editor shall also maintain a list of qualified reviewers for the journal that is updated based on reviewers' performance (availability, quality of review, and timeliness).
4. **Continuous improvement.** The Editor shall strive for continuous improvement of the quality of the journal and the quality of the published cases, notes and articles in each issue. The Editor shall seek the advice and input of Editorial Board and WCA members on ways to improve the quality, appeal, and usefulness of the journal.
5. **Retractions and Corrections.** The JCRI Editor shall be responsible for the publication of retractions, corrections, or clarification as needed, and shall keep the Editorial Board aware of any issues that might necessitate a retraction, correction, clarification or apology.
6. **Volunteer Basis.** The JCRI Editor, Editorial Board members, and reviewers shall carry out their duties on a volunteer basis, and under no circumstances accept any payment for such duties. Under no circumstances shall potential authors be required to make any payments to the JCRI or its Editor, Editorial Board, or reviewers, nor shall any such payment be accepted.
7. **Quality of the Review Process.** The Editor, in consultation with Editorial Board, shall review and as needed update the journal's editorial policy and guidelines for reviewers in order to ensure that thorough and timely reviews are prepared. The Editor shall also endeavor to ensure that the reviewers selected are qualified to review the submissions sent to them. The Editor shall apply the same review policies, procedures, and standards to submissions by WCA members, JCRI Editorial Board members, and non-WCA members. In addition, the JCRI Editor shall encourage reviewers to comment on the originality of submissions and be attentive to redundant publications or plagiarism. JCRI shall not accept fictional cases, nor cases, notes, or articles previously published elsewhere.

8. ***Decisions and Appeals.*** Decisions to accept or reject cases, notes, and articles shall be based on each paper's importance, originality, clarity, and pedagogical relevance as well as adherence to the submission requirements provided at www.jcri.org. Editorial decisions shall not be affected by the origins of the manuscript, including the institutional affiliation, nationality, ethnicity, political beliefs, race, gender, religion, or sexual orientation of authors. Authors whose submissions to JCRI have been rejected may appeal to the President of the Western Casewriters Association at www.westerncasewriters.org.
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10. ***Support for author rights.*** As per JCRI editorial policy, authors shall maintain full ownership and copyright for all papers published in the journal, with all the associated rights and obligations.
11. ***Case Release Permissions.*** Authors of cases shall be required to reveal the sources of information (primary, secondary or both) and to obtain release forms, when necessary, from the organizations studied, prior to publication of cases. In particular, release forms shall be required when primary data have been used as source of information.



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Case Research

GRAVITY PAYMENTS: SETTING THE WORLD OR ITSELF ON FIRE?, p. 13

By Scott Bryant and Kenman Wong

Dan Price, the founder and CEO of Gravity Payments, Inc., decided to give his employees raises—big raises. He announced that all employees would make a minimum of \$70,000 (phased in over a three-year period). Some were only making \$35,000 at the time, and the change would effectively double their salaries. The employees were ecstatic and Price made national news. In addition, Price decided to reduce his nearly million-dollar salary to just \$70,000 and use a significant portion of the company's anticipated \$2.2 million profit per year to pay for the raises. The case poses questions about pay equity, equality and justice, employee motivation and the impact of internal company decisions on stakeholders.

Key words: compensation, pay equity, pay equality, pay justice, employee motivation

THE GAME: SOUTHWEST TRANE'S REWARDS TO SUCCESS, p. 28

By Michael E. Valdez, Elaine Labach and Gary Treat

This case begins with Mr. Gary Treat (Southwest Trane's owner and CEO) reflecting on his time at Southwest Trane. The case describes Southwest Trane's history, business units, and organizational structure. Then readers are provided an overview of Southwest Trane's implementation of a major employee incentive program based a book by Jack Stack, *The Great Game of Business*. The implementation of the "Great Game" led to a dramatic shift in Southwest Trane's organizational culture as well as considerable financial success. The case ends with the selling of Southwest Trane to The Trane Corporation.

Key words: great game of business, employee motivation, incentives, compensation

HUY FONG FOODS' SRIRACHA: IRWINDALE TURNS UP THE HEAT, p. 47

By Ellen A. Drost, Stephen J.J. McGuire, Kern Kwong, Yang Zhang, Neda Abousaidi, Natsuki Tamekuni, Catherine Gandara, Jackie Shinn, Philip Sanchez and Tommie Gray

In 2016, the city of Irwindale, California filed the second lawsuit in 2 years against Huy Fong Foods. In 2014, the city had sued the first time, had and even considered passing a resolution declaring Huy Fong Foods a “public nuisance.” Huy Fong Foods countersued, claiming that the city had embarked on a campaign of harassment against it. Huy Fong Foods was the manufacturer of Sriracha, the famous hot sauce made from jalapeño peppers. Residents of Irwindale complained to the city that the strong odors of the peppers emanating from the factory constituted pollution, endangered their health, and lowered their quality of life. David Tran, the company founder and CEO, concluded that Irwindale was “openly hostile” to Huy Fong Food’s business interests. Tran was considering the merits and inconveniences of relocating his factory, after having invested more than \$50 million in Irwindale. To make matters more complicated, in August 2017, Huy Fong Foods sued Underwood Ranches, the company that had supplied its chili peppers for over 30 years, for alleged breach of production agreement, breach of contract, and civil theft. According to the lawsuit, Underwood Ranches refused to pay Huy Fong Foods over \$1.4 million in overpayments and to return some \$7 million in equipment. Irwindale had turned up the heat.

Key words: hot sauce, public nuisance, smell pollution, strategy, marketing

GETMA ACADEMY AND GROUP-PRICE DIFFERENTIATION, p. 90

By Karla Borja, Christopher Miller and Christopher Wettengel

A firm engages in group-price differentiation strategy when customers can be classified into groups by their corresponding price-elasticities. Under these circumstances, the firm can set different prices for each group in a cost-efficient manner and it can prevent resale. When these conditions are met, the seller can capture some of the consumer surplus and increase profits. The owners of the Geonganghan Taekwondo Martial Art Academy (GETMA) were experiencing difficulty raising revenues, even though the members were trained by a Chief Master 8th Degree Black Belt with the authority to promote students up to the rank of 3rd Degree Black Belt. Given the high quality of instruction, the school could improve its financial position by changing its price strategy. After reviewing the firm’s competitors in the area and its cost structure, the owners of this Taekwondo Academy were presented with a group-price differentiation plan for their evaluation and approval.

Key words: pricing strategy, group-price differentiation, third-degree price discrimination, Tae Kwon Do, martial arts, market demand, marketing

BHEL HARIDWAR: THE MAKING OF A WORLD-CLASS INDIAN PUBLIC ENTERPRISE, p. 105

By Balvir Talwar and Sat Parshar

India had 298 Central Public Sector Enterprises. BHEL Haridwar was the first and (so far) only one to have achieved world-class quality (over 650 points) on the CII-EXIM Bank Model of Excellence, which was based on the European Foundation for Quality Management model. The CII-EXIM Bank Model comprised multiple criteria and sub-criteria in nine areas: Leadership, Policy & Strategy, People, Partnerships & Resources, Processes, Customer Results, People Results, Society Results, and Key Performance Results, for a potential total of 1,000 points. An organization needed to demonstrate best-in-the-world practices for all criteria and sub-criteria over years to secure 1,000 points – truly difficult to achieve. The CII-EXIM Bank Prize was given when an organization secured 600 points or more, indicating world-class excellence in at least 3 areas. The case describes what BHEL Haridwar did to move from 350 points to over 650 points and earn recognition for its world-class excellence. What lessons could be learned from the BHEL Haridwar's experience that could be applied to other Public Sector Enterprises?

Key words: total quality management, quality, world class excellence, leadership, change management, public enterprise, public sector undertakings, emerging economy

A TURBAN AND A KIRPAN: THE STORY OF A SIKH IN AMERICA, p. 126

By Issam Ghazzawi and Tahil Sharma

Jagjeet Singh, a long-haul truck driver, was driving from Mississippi to Texas when he was pulled over by police officers in Pike County, Mississippi for driving with a flat tire. Mr. Singh, a devout Sikh, wore a turban and carried a kirpan, a small spiritual dagger. The police officers contended that the kirpan was a weapon and demanded that Mr. Singh turn it over. When he tried to explain that it was a sacred religious article, he was laughed at and arrested for refusing to obey a command from an officer of the law. When he returned to Mississippi on March 26, 2013 for his court date in Pike County, four Highway Patrol officers approached him and ordered him to leave the courtroom because the judge did not like his turban. In fact, the judge had said, "*Remove that rag.*" Mr. Singh was forced to wait several hours after he refused to remove his turban, then he was allowed to enter the courtroom to plead guilty and pay a fine. He believed that the turban was an inseparable part of his Sikh religious identity, and that exposing his uncovered head in public would be sacrilegious and shameful. Accordingly, he refused to obey an order based on his religious beliefs, knowing that there could be consequences. The case describes the incident and the follow-up actions by the U.S. Department of Justice.

Key words: human resource management, ethics, justice, training and developing employees, Sikhs, Sikhism, management of diversity, culture challenges.

STAYING FIT WITH PI-YO, p. 146

By Elaine Labach

Elaine Labach, owner of Bayfield Pilates & Yoga Connection (BWC), contemplated how to position her newly developed Pi-Yo classes-- classes combining Pilates and yoga movements. The case study asks students to consider marketing growth strategies, identify a marketing position, select specific segments to be targeted, and develop a marketing plan for the introduction of the new Pi-Yo classes.

Key words: Pilates, yoga, entrepreneurship, small business, marketing, pricing, market segmentation

A SMALL TOWN GYM'S CHALLENGE, p. 162

By Deborah Walker and Elaine Labach

Although Kira and Rayburn's gym was successful, the owners still faced some typical problems that a gym in a small community faced. Membership had steadily increased, but was tapering off. The gym was located in a small market. The gym's market niche was the personal service that the owners gave to gym members. As the gym continued to grow, giving the depth of personal service was becoming more and more time-consuming and difficult to accomplish. The problem grew even larger when Kira had a baby. How could they continue to motivate existing gym members and, at the same time, bring in new members while dealing with the service issue? Would the business be as profitable if the owners offered less service, the way most gyms did? Would the current model of contracting with personal trainers and fitness class instructors allow the gym to grow with the same level of personal service?

Key words: gym, fitness, entrepreneurship, family business, small business, marketing

GEO LISTENING AT THE GLENDALE UNIFIED SCHOOL DISTRICT, p. 188

By Stephen J.J. McGuire, Yang Zhang, Cathy Jin, Manika Tiwari, Niyati Gosalia, Sofyan Dowiri and Venkata Bhamidipati

In Glendale, California, a 15-year old boy killed himself by leaping off the roof of his high school in front of horrified classmates and teachers. The underlying causes of the suicide were not immediately clear, but one classmate attributed it to bullying. In response, in 2013 the Glendale Unified School District (GUSD) hired Geo Listening for a pilot project to monitor the online use of Facebook, Instagram, YouTube, Twitter, and blogs of about 14,000 middle and high school students in an attempt to detect bullying, threats, depression, and substance abuse. Geo Listening, a social media monitoring company that monitored, analyzed and reported adverse social media from publicly available student posts, provided a daily report to school principals. The District justified the project on the grounds of ensuring student safety as well as compliance with Glendale schools' code of conduct. The pilot project was extended, renewed, and remained in place in 2017-18. GUSD had decided that it needed to take action to protect the school children. Was it the district's responsibility to monitor kids' use of social media – on and off school grounds? How much privacy did students have a right to? And even if GUSD could monitor kids' social media behavior, would doing so really keep them safe?

Key words: Geo Listening, Glendale Unified School District, GUSD, social media monitoring, student rights, free speech, 1st Amendment, 4th Amendment, privacy, public schools, bullying

SWOOSHING THE COST OF CAPITAL PRESENTATION, p. 216

By Marco Pagani, Benjamin Anderson and George Whaley

At the student-managed Centurion Fund, Josie presented her financial analysis of Nike, Inc. to Centurion's CEO, CIO, financial analysts, and faculty advisor. This presentation would affect whether or not Josie gets promoted from junior to senior analyst at the Fund. She experienced trouble handling questions about her calculation of the firm's capital structure and Weighted Average Cost of Capital (WACC). She was especially worried about the impact of changes in the lease recognition method on the accuracy of her WACC computations. Readers of the case are asked to make recommendations to improve the calculations. If Josie gets a second chance, what does she need to do to "swoosh" her next presentation at the Centurion Fund?

Key words: Nike, finance, capital structure, Weighted Average Cost of Capital (WACC), lease recognition

Article***GUIDELINES FOR WRITING A MANAGEMENT TEACHING CASE STUDY***, p. 236

By Stephen J.J. McGuire and George L. Whaley

Case study research provides the researcher with a rich learning experience leading to the production of a research paper and pedagogical tool: the case. This note provides guidelines for the preparation of a management teaching case by novices, faculty–student collaborations, and even experienced casewriters. High quality cases address significant issues, provide a comprehensive description of an organization, alternative perspectives on the reasons behind what occurred, are backed up by evidence, and are written in an engaging manner. We propose a typology of eight cases that, in practice, may overlap: Critical incidents, Descriptive illustrations, Problem-identification cases, Decision-focused cases, Application cases, Contextual issues, Live cases, and Multi-media cases. Researchers should focus on organizations and issues that interest them. Some of the many possible issues that casewriters may find interesting include managers and/or entrepreneurs in development, companies that do things differently, companies faced with difficulties, changes, or scandal, and companies regarded as exceptional. We suggest an outline for a case study and finally some outlets for the publication of management teaching case studies.

Key words: case study, case research, management case, teaching case, learning objectives, typology of case studies, casewriter, case journals

Letter from the Editors

This is the third issue of the *Journal of Case Research and Inquiry*. With an acceptance rate of approximately 23%, **JCRI** is now in Cabell's Directory of Publishing Opportunities. **JCRI** has published 21 peer-reviewed teaching case studies prepared from primary and secondary research. Each case has been thoroughly peer-reviewed and is accompanied by a peer-reviewed instructor's manual that is available to qualified instructors upon request. The cases published in **JCRI** address diverse issues in business and society. They include studies of for-profit, nonprofit, and governmental organizations in the United States, Canada, Thailand, Egypt, and India. Instructors will find cases that focus on everything from entrepreneurship and small business management to decisions made in multi-national organizations. The journal has also published five peer-reviewed scholarly articles or notes concerned with case research and teaching with cases. Cases, notes, exercises, and articles published in the journal are available online, full text, and free of charge at www.jcri.org. The editors are available to write to authors' tenure and promotion committees, upon request.

In this volume, we have published seven new teaching cases and one scholarly journal article. We have also included the **JCRI Publication Ethics Policy** which was approved by the **JCRI** Editorial Board, March 9, 2017 at the Western Casewriters Association annual conference.

JCRI is the publication of the Western Casewriters Association (WCA). On the WCA website, <http://www.westerncasewriters.org/>, authors will find a call for cases for the next WCA conference to be held on Thursday, March 8, 2018 at the Sheraton Salt Lake City Hotel, Salt Lake City, Utah. The WCA annual conference is a unique opportunity to engage with other case-writers in a small group format to exchange feedback and polish-up your case, learn about teaching with cases, and enjoy presentations from leading case authors and case educators. The WCA is held in association with the annual meeting of the Western Academy of Management.

We would like to thank the reviewers for their detailed, insightful comments on the case submissions this year. We look forward to receiving well-written cases, notes, and articles for volume 4 in 2018 and urge you to consider the journal for your case research.

Sincerely,

Steve McGuire and Deborah Walker
Editors, *Journal of Case Research and Inquiry*



GRAVITY PAYMENTS: SETTING THE WORLD OR ITSELF ON FIRE?

SCOTT BRYANT

Montana State University

KENMAN WONG

Seattle Pacific University

The Announcement

“Is anyone else freaking out right now? I’m kind of freaking out right now,” Dan Price half-worriedly mused immediately following his enthusiastic announcement of a radical change in his company's compensation policy. After several weeks of sleepless nights during which he was continually haunted by the thought that he should just forget the whole idea, Price, co-founder and CEO of Seattle-based Gravity Payments, announced at an April 2015 employee meeting that he had decided to give many of his employees raises—big raises. He informed all that the company would have a minimum wage of \$70,000, phased in over a three-year period. Starting that very day, every employee would earn a minimum of \$50,000. Since some employees were only making \$35,000 at the time, the \$70k target would eventually double their pay. In addition, Price announced he would reduce his own million-dollar plus salary to just \$70,000 to help fund the wage increases.

The announcement was initially met by shocked silence, and then the packed meeting room erupted into cheers. Gravity employees were ecstatic. The company’s new minimum wage became the top-ranking news story on numerous national Critics called it a misguided socialist experiment that would divert cash from other needs, such as research and development.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Scott Bryant and Kenman Wong. Contact: Scott Bryant, Montana State University, PO Box 173040, (406) 994-6191, Bryant@montana.edu.

Others wondered if higher paid employees would lose their motivation since wage differentials would no longer be commensurate with performance and/or experience. In fact, a few months after the announcement, *The New York Times* reported that two key employees quit, citing concerns about fairness to high performers. Several customers changed providers fearing a future price increase and/or a decreased level of customer service by employees who would no longer work as hard (Cohen 2015).

Amid these concerns, how should Price proceed? Should he press forward with his plan in hopes that a positive response from employees would result in an increased level of productivity that would overcome any potential de-motivating effects? How significant a role, if any, should he continue to give to non-economic concerns about ethics and justice in setting wages? How should he weigh the interests of key stakeholders (i.e., customers) in his decision?

Company Background

Gravity Payments specialized in providing credit card processing services to small and medium sized, independently owned businesses. Credit card transactions were fast, smooth and seamless for consumers. However, behind the scenes lay a lengthy value chain with many organizations (i.e., the merchant's bank, the card issuing bank, and the credit card company) supplying short-term funds, hardware, services and/or technology to allow secure efficient payment and the settling of merchant accounts with a simple swipe of a card. When a customer initiated a credit card transaction with a merchant, the transaction was first processed by a merchant service provider. Standing behind the merchant service provider was another company that actually processed the transactions, handled fees, and provided the card reader. Fees were charged at each phase of the transaction.

Dan Price got his start in the industry while playing in a rock ‘n roll band in high school. While performing, he became acquainted with the owner of a local venue and saw the negative effects on her business of high card processing fees and spotty service. Price put his negotiating skills to use, made a call and secured a better rate on the venue owner’s behalf. He studied the business and realized that most, if not all, small independent businesses were in the same vulnerable position: they had difficulty dealing with an industry dominated by large financial organizations. He also learned that opaque pricing with hidden fees and price changes were not uncommon. This fueled his desire to help smaller merchants get better and fairer prices, prompting him to start a service business. Price offered merchants a clear fee structure as well as a competitive rate to use his services to process credit card transactions, typically saving clients 10% to 15% in fees. The savings added up to about \$1,000 per client per year. Price made money on the small service fees that he charged clients for each transaction.

After moving away to college, Price expanded the range of services but decided that to serve his customer base better, he really needed to move up the value chain. By developing his own technical product for processing transactions, he could do the actual processing in house. Racking up about a \$100,000 in debt via savings, credit cards and diverted student loans, Price and his older brother Lucas (then a 50/50 partner) successfully launched Gravity Payments from his dorm room at Seattle Pacific University in 2004. (It was so named, he said, because it was easy to understand on the phone.) Despite his young age and boyish appearance, he was able to secure a number of early clients from merchants at the Seattle landmark—Pike Place Market (many of whom remained as customers many years later).

From the very beginning, Price’s vision for Gravity was a “disruptive” one. He sought to “blow up” the industry by offering small and medium sized businesses less expensive credit card processing with transparent pricing and extraordinary levels of customer service. Price was emphatic that Gravity’s primary mission was to serve independent businesses by helping them engage their customers and grow. Gravity prioritized the needs of its clients above its own concern for profit.

*We started Gravity Payments because we saw independent businesses being over-charged and underserved by their **credit card processing company**. Our community businesses needed help, guidance, and a trusted ally to make **credit card processing** fair. We exist to support community businesses and help them achieve incredible success.*

*Our mission is to help independent business owners thrive by reducing the cost and headaches associated with accepting credit card payments. Although credit card processing is our core service, we added more low-cost payment solutions to our ever-growing suite of **merchant services**. Our team is consistently looking for the best and most affordable payment processing options to help our clients remain successful and on the cutting-edge of payment solution technology. (Gravitypayments.com 2015)*

Building a Business with Values and Integrity

In 2015, Gravity employed a staff of approximately 120, served 12,000 clients and processed close to \$7 billion in transactions annually. In fiscal year 2014, revenues were \$150 million, growing at 15% per year, with a net profit of \$2.2 million (Keegan 2015).

In addition to the company's core credit card processing business, Gravity administered gift and loyalty programs and had recently begun to offer analytic services to enable business owners to gain more insight into their consumers. The company's unique capital structure (no debt) allowed it to explore some risky ventures such as providing financing to small businesses that filled the gap between a credit card and bank borrowing. As of 2015, Gravity had provided about \$35 million in small business financing. As Dan Price noted:

"We started our company to help our community businesses, because they deserve the same great customer service and low prices that big corporate businesses get. And we've grown our company by earning the trust of each and every one of our valued customers." (Evans 2015)

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[Price](#) himself had won numerous awards including: *Entrepreneur* magazine's Entrepreneur of the Year for 2014 and the 2010 *Small Business Association National Young Entrepreneur of the Year* and had appeared in countless articles including *Forbes*, *CNBC*, and *Bloomberg BusinessWeek* (Gravitypayments.com 2015).

While Gravity had grown to the point where it would attract a tidy sum from a potential buyer, Price did not intend to cash out. In contrast, he said he would like to run Gravity "forever" because his long-term goals were beyond monetary. He stated:

"I have a 40-year goal to be a small part of a change in the way business is done, where it's more about service and helping others than greed and financial engineering" (Evans 2015).

Visitors to Gravity's offices noticed a tech startup culture. Employees, most of whom looked like they were in their 20's, occupied shared worked spaces or cubicles and seemed busily

engaged in their work. The culture at Gravity was described as collegial, high energy and purpose-driven. Management prioritized the personal growth and development of employees. The work environment was casual, but the work was fast paced and demanding and the performance feedback straightforward and unvarnished. Price himself had promised not to punish negative feedback and held regular open forums and kept open door office policies (Glassdoor.com 2015).

Salaries made up a large share of Gravity's total expenses, with technology costs taking a large share as well. This meant that reducing turnover and increasing worker productivity could increase profits.

The Reasons behind the Raise

Price was raised in an Evangelical Christian household in rural Idaho (near Nampa) and was homeschooled until age 12. He explained that this upbringing provided him with a different understanding of business. His parents raised him to be driven by values and to make an impact by bucking conventional ways of doing things. Price stated: *"To me, it's a values thing – I learned those values through Christianity, the Bible and my upbringing"* (Helm 2015). The small businesses he interacted with while growing up had also made a lasting impact. He noted:

"We had an ethos of small business much different than what you see in bigger cities...You should strive to give the most value you possibly can to your clients and to your community while charging a fair amount, or less than a fair amount, because you want to give back... Some might say that's the stupidest business model in the world, but to me it made sense. And it still makes sense today" (Nelson 2015).

Prior to the recent pay increases, there were complaints on Glassdoor.com about the low pay at Gravity, particularly for sales people (Glassdoor.com 2015).

While Gravity grew at a steady clip for its first few years, the company nearly folded during the recession in 2008 after two large customers abruptly closed their doors, wiping out about 20%

of the company's revenue. By tightening the financial reins - partially by freezing salaries - the company survived without layoffs or fee increases and began a healthy cycle of growth soon thereafter. The belt tightening actions began in the recession but continued afterward during the growth cycle.

In 2011, an informal conversation with an early employee named Jason Haley began to sow the seeds for Price's radical minimum wage decision. Haley angrily told Price what the belt-tightening actions really translated to was Gravity ripping off its employees. Although their wages were competitive by market standards, employees (Haley was earning \$35k at the time) couldn't get very far in an expensive city like Seattle (Keegan 2015). Price looked back at that conversation as, at first, very difficult to accept, but seminal for his radical pay plan. Contrite, Price implemented significant raises for the next three years and something surprising happened: profit growth outpaced wage growth through productivity gains of 30-40% (Keegan 2015).

By 2015, the issue of income inequality had become an increasing (and contentious) part of the national conversation. Frequent news stories appeared highlighting lagging wages despite higher corporate profits and worker productivity. Also constantly mentioned were statistics that showed the wage gap between U.S. chief executives of large companies and the average employee was among the highest in the world, reaching a multiple of approximately 350 to 1, this up from 20 to 1 in 1970. By comparison, Switzerland (the country with the second largest ratio), had a ratio of 148 to 1 while Japan's was 67 to 1 and United Kingdom's 84 to 1 (Ferdman 2014). In Seattle (the location of Gravity's headquarters), voters approved legislation to increase the minimum wage eventually to \$15 per hour, which affected many Gravity clients.

Around this same time, Price went on a hike with a friend (not an employee of Gravity) who was well educated and had served several tours in the Armed Forces. She shared her uncertainty about how she was going to adapt to an upcoming rent hike on her salary of less than \$50k. Thinking about his own employees - some of whom earned less than his friend - he

didn't feel right about earning a high CEO salary. Many of his employees had made huge personal sacrifices to provide extraordinary levels of customer service to make Gravity successful, yet could barely afford the cost of living in Seattle. The average rent for a two-bedroom apartment in Seattle at the time was over \$2,100 per month. Price figured employees were paying an average rent of \$1,266, which for the majority of his employees represented over 40% of their salaries. Economists had concluded that over 30% was "unaffordable" (Nelson 2015).

Heading into the office each day simply reinforced his troubled thoughts. Gravity's office was located in the [Ballard](#) neighborhood, which was a rapidly gentrifying area of Seattle. Along with luxurious condominium complexes, renovated homes, and trendy espresso shops, there were many homeless people on the streets near Gravity's office, including some living under a bridge just a few blocks away. This also pricked Dan Price's conscience and sparked in him a desire to find a way to make a difference.

Price thought that most people would have considered him generous (or perhaps, foolish) even if he had had chosen a figure far below \$70k. Price arrived at the company's new minimum wage figure after reading a [Princeton University study](#) (Kahneman & Deaton 2010) that concluded that happiness rises with income, but not past \$75k per year. The part of the study that struck the deepest chord with Price was that incomes short of the threshold could *harm* one's emotional well-being (Aspen Institute blog). Price worried that money troubles would prevent employees from both thriving in their own lives and giving their best service to Gravity's customers. While a positive effect on productivity was a part of the equation, Price stated that paying less than \$70k went against his values, so it was a moral imperative. He said, *"I don't care if I have to stop paying myself or I have to work 20 hours per day. I'm going to do it"* (Keegan 2015). Somewhat skeptical about the broad sweeping consequences of steep government mandated wage increases on small businesses, Price's aim was to set an example of how business leaders could turn the tide of income equality.

After running financial models and consulting with his senior leadership team, Price reached the conclusion that Gravity could change its compensation systems to reach a minimum of \$70k per employee in three years, though not without substantial risk. The raises would not “pay for themselves,” so their sustainability (and that of the entire company) rested upon the growth of the business. Price hoped that 90% of the pay raises would be covered by increased employee productivity, and the other 10% through positive publicity resulting in new clients. Price concluded that if Gravity could recover its profit in 2-3 years, the plan will have been a financial success and will have proven that his concept worked. If profit increased by 4-5 times, he said, Gravity will have “*set the world on fire*” (Evans 2015).

Repercussions

After an initial wave of positive national and even international publicity, some negative consequences for the company began to surface. Sitting down on a paint bucket in his garage for an interview with *The New York Times*, Price pulled out a box of hand-written letters. While most praised his decision, some suggested he was an arrogant fool and that it wouldn't be long before the novelty wore off and employees would start complaining about how much harder they worked than their colleagues who also earned \$70k.

Some members of the national media offered similar sentiments. For instance, radio commentator [Rush Limbaugh](#) (to whom Price listened several hours per day while growing up) said:

“If there are profits, they will go to salaries, not growth of the business, not research and development, none of that...He’s not tying it to performance... That’s why I hope this company is a case study in MBA programs on how socialism does not work, because it’s gonna fail... And —he’s gonna find out—it isn’t gonna take long because once everybody figures out they’re all making the same, not [for] what they do, the slackers are gonna surface. Human nature.”
(Limbaugh 2015)

Contributors to *Entrepreneur* magazine (which had earlier named him its 2014 Entrepreneur of the Year) also offered stinging criticism. One suggested that high pay might even be **counterproductive** to the goal of well-being, hypothesizing that pay that was too far removed from the norm would breed resentment among peers (both co-workers and friends outside the company); it might also generate feelings of guilt, thus diminishing happiness (Tobak 2015). Others suggested he look at the *Bible* and learn a lesson from the adverse reaction of the workers who toiled all day yet received the same wages as those who came later in the [Parable of the Vineyard workers](#) (Mt. 20:1-16) (Cohen 2015).

As a direct result of the new pay policy, two key long-term employees quit. They questioned the fairness of paying less experienced and/or lower performing employees as well as they were paid. One employee who left said,

“Now the people who were just clocking in and out were making the same as me... It shackles high performers to less motivated team members”
(Cohen 2015).

Price himself acknowledged the inherent unfairness of the policy for a seasoned employee who had taken years to earn his or her level of pay (Helm 2015). In fact, after the announcement, he gave more experienced employees small raises and wrote to them apologizing and telling them that he valued them *“more than this program would suggest;”* he promised that Gravity would try to invest more in them too (Helm 2015).

Several of Gravity’s clients were not pleased with the pay decision. Some thought Price was out to make a political statement. Others believed that the new pay levels would result in an eventual increase in fees or that customer service would suffer (Cohen 2015). Although Gravity reached out to clients to let them know that fees would remain the same, several clients switched to other providers.

Price’s plan also stirred the pot with other entrepreneurs in his social network in Seattle. Brian Canlis, co-owner of a high-end restaurant in Seattle, expressed frustration with Price’s decision

to raise employees' pay, saying it was going to make it harder for other employers like himself who were already struggling to adapt to Seattle's \$15 per hour minimum wage target (Cohen 2015).

While being interviewed by *The New York Times*, Price acknowledged he was in the process of renting out his own house and moving to less expensive living quarters in order to "make ends meet" to uphold his commitment to make the plan work. Price also said he sold financial assets to provide Gravity with a \$3 million loan.

Seemingly, non-defensive in his responses, Price said that neither his two former employees nor his critics were necessarily wrong. He said,

"There's no perfect way to do this and no way to handle complex workplace issues that doesn't have any downsides or trade-offs...I came up with the best solution I could" (Cohen 2015).

Moreover, while he agreed that humans had a partially selfish nature, he was placing bets on our more positive side that responded to being treated well. He acknowledged that he was not sure the plan would be successful. Yet if he were to fail, at least he would do so while being true to his values (Evans 2015).

Gravity's average salary at the time of the announcement was \$48k (Cohen 2015). The plan would eventually double the salaries of 30 employees. In addition, smaller immediate increases were given to 40 workers who earned less than \$70k. Those who were earning between \$50-70k received \$5k raises (Keegan 2015). To reach \$70k, \$10k raises would be phased in over the next two years. Over 3 years, the salary plan would cost approximately \$1.8 million. In addition, the company had to hire 10 new employees adding to overall salary and benefit costs. Much of the additional costs would be funded by Price's salary cut. However, unless revenues grew, the rest would need to be covered by profits (\$2.2 million per year in 2014), potentially putting the company in cash-strapped position.

Was the Change Good for Business?

Even though several clients left Gravity, over 4,000 new customers signed up in 2015 (a 55% year-to-year increase in an industry where typical growth was 5% per year). Revenue increased as a result, but new customers might not pay off for at least 12-18 months after sign-up. About two dozen new employees were added to manage growth, handle the media, and respond to employment inquiries, putting more stress on the cash flow needed to meet the compensation goals. Nonetheless, Gravity reported that profits nearly doubled in 2015 and that employee turnover rates sharply declined (Davidson 2016; Murray 2016).

The “fair pay” initiative at Gravity had seemingly resonated with many 20-somethings across the country who felt stuck in low paying jobs; the company received thousands of new employee applications.

Early indicators demonstrated the social impact that Dan Price had intended. As reported in a variety of media outlets, several Gravity employees said that the raises were making real differences in their lives. One new client who switched to Gravity after seeing the story in the news used the \$800 monthly savings on his processing fees to give his 8 employees raises (Cohen 2015). Price said that he had heard from other employers and employees: he believed that thousands if not tens of thousands of employees had received raises as a result of the example set by Gravity.

Even with the potential negative consequences for himself and for the company, Price was committed to the huge salary increases. Some research (Pfeffer 1994; Heymann 2010) indicated that higher pay, particularly for those on the bottom of the pay scale, could lead to lower turnover and higher productivity. Based on his reading of the research, Price concluded that while pay was a motivator, purpose and feeling part of a mission were stronger ones (Evans 2015). To that end, Gravity has long been able to attract highly motivated employees who chose to work at the company – even before the pay increases. After the announcement,

one former Yahoo executive was hired at an 80-85% pay reduction, citing her desire to do something "*fun and meaningful*" (Keegan 2015).

Significant questions remained for Gravity—including whether or not the long-term benefits of the salary increase outweighed the short-term costs and negative feedback.

With all this on his plate, Price had some serious decisions to make. Should he continue with the huge salary increases in hopes that increased productivity would cover costs? Was the decision defensible from an ethics/ justice perspective?

With constraints on the amount of money that could be allocated for salaries, how could the company pay better at the bottom of the pay scale while maintaining salary differentials (and thereby "equity") for higher performing and/or more experienced employees? What indicators should be used to gauge whether or not the plan was sustainable?

And finally, how could Dan Price balance the interests of all stakeholders? Even if the decision did not "pay" (in a direct financial sense) should he continue the policy for the sake of the social value created?



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THE GAME: SOUTHWEST TRANE'S REWARDS TO SUCCESS

**MICHAEL E. VALDEZ,
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GARY TREAT**
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At a senior seminar, business undergraduates had a rare opportunity to be mentored by Gary Treat, a Trane Corporation franchisee owner whose company, under his tenure, raised revenue from \$2 million/year to just under \$30 million/year. To start the seminar, a student asked Mr. Treat why he thought his business had been so successful. Mr. Treat, having recently evaluated his company's performance, took a deep breath and began to explain.

History

Southwest Comfort Sales and Service, Inc., dba Southwest Trane, was formed by Gary Treat as an S-Corporation in September 1989. (See Appendix for a bio of Mr. Treat.) At that time, Gary Treat had purchased the assets of a previous Trane franchise holder, and entered into a Trane Sales Representation Agreement and Trane Service Agreement. Trane was a subsidiary of Ingersoll Rand, a global firm specializing in air conditioning and heating systems and services.

Southwest Trane's first full year in operation as a Trane franchise was fiscal year 1990. Initially, there were 21 employees with the main office in Albuquerque, New Mexico and a small sub-office in El Paso, Texas. The Albuquerque office served northern and central New Mexico. The El Paso office served southern New Mexico and the area around El Paso in Texas.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Michael Valdez, Elaine Labach and Gary Treat. Contact: Michael Valdez, Fort Lewis College, 1000 Rim Drive, Durango, CO 81301, (970) 247-7436, mevaldez@fortlewis.edu

Southwest Trane also conducted business in the state of Chihuahua in Mexico. From 1990 to 2007, Southwest Trane grew to 121 employees and moved to larger facilities in Albuquerque and El Paso. Building Automation Systems (BAS) became a separate unit in 1993. New System Sales (NSS) was handled in both offices.

In 2007, Gary Treat sold Southwest Trane to the Trane Corporation.

Mission, Organizational Structure, and Firm Performance: 1990 – 2007

Southwest Trane's mission in the 1990 to 2007 period was:

"The mission of Southwest Trane is to be our customers' preferred supplier of comfort system equipment and controls, technical service and replacement parts. We will do this while we earn a fair income and contribute to the communities in which we work. Our number one priority is our customers' needs. We meet these needs by knowing our job requirements, meeting them every time and supporting each other to accomplish the mission."

Southwest Trane was engaged in four businesses in each of its two locations, all related to commercial air conditioning:

- **Service** of commercial comfort systems. A large part of Service was covering service agreements on mechanical systems. These agreements resulted in a large amount of pull-through service and contracting.
- **New Systems Sales (NSS)** furnished commercial air conditioning equipment to owners and contractors. Trane equipment was augmented with ancillary products as appropriate.
- **Building Automation Systems (BAS)** subcontracted control installations in both new construction and retrofit markets.
- **Parts Centers** furnished parts wholesale to contractors and self-servicing owners.

Exhibit 1. Trane Commercial Heating and Air Conditioning System

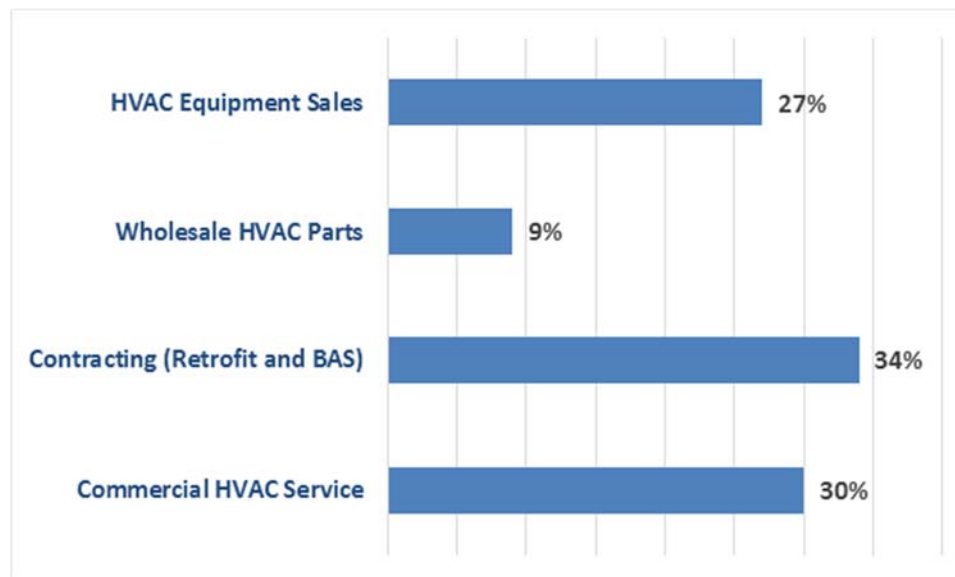
Photos by Michael E. Valdez



Southwest Trane had nine departments and four revenue streams (see Exhibit 2). In addition, to a consolidated income statement, each department had its own monthly income statement.

- Albuquerque (ABQ) Service
- El Paso (ELP) Service
- ABQ New Systems Sales
- ELP New Systems Sales
- ABQ Building Automation Systems
- ELP Building Automation Systems
- ABQ Parts
- ELP Parts
- Consolidated

Exhibit 2. Southwest Trane's Revenue per Product Line



Markets

The markets for Southwest Trane's products and services included government institutions and private industry. The little overlap between these markets allowed for steady revenue growth. In Albuquerque, the company focused on opportunities in government, education, and health care. In El Paso, the company focused on education and government.

Holloman Air Force base, Kirtland Air Force Base, White Sands Missile Range and Ft. Bliss had all benefited from the federal Base Realignment and Closure Commission (BRAC) program. The U.S. federal government had moved operations from other bases to Southwest Trane's area of operation. Ft. Bliss received \$2 billion in construction funds. Driven by Homeland Security issues, Los Alamos and Sandia National Labs also had vigorous building programs.

Intel had built what was at the time the world's largest chip manufacturing facility in Albuquerque. Intel had then attracted ancillary companies to New Mexico. For example, Eclipse Aviation had ramped up to build its line of small commercial jets. New Mexico had been

offering incentives to the movie industry. Culver Studios opened a 550,000 square foot studio complex. The maquiladora (twin plants) program between Mexico and the United States had also contributed to El Paso's manufacturing base. In both Albuquerque and El Paso, the school markets were strong in the 1990 to 2007 period. These markets had experienced growth due to people moving to the area to take advantage of the climate, favorable cost of living, and public and private job growth.

Southwest Trane's growth trend was steady and manageable as illustrated Exhibits 3 and 4.

Exhibit 3. Southwest Trane's Consolidated Revenue (1990 – 2007)

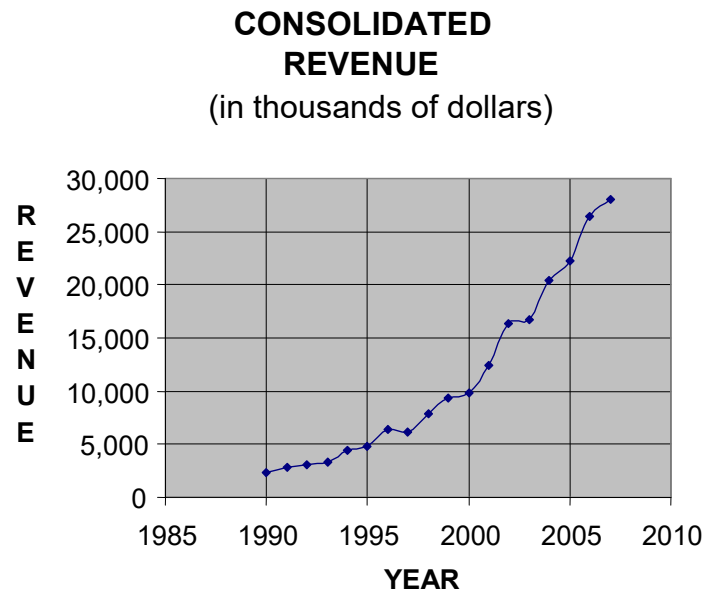
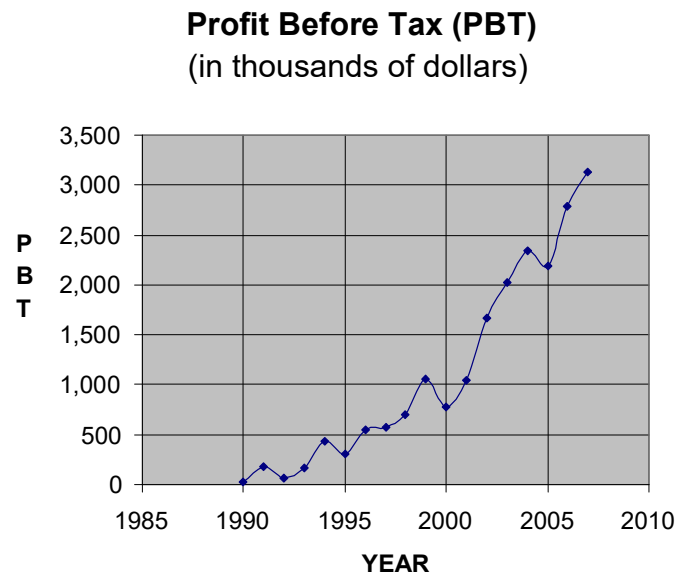


Exhibit 4. Southwest Trane's Profit before Tax (1990 – 2007)



Shared Values

In 1998, Southwest Trane ran a yearlong process in which the employees developed the company's business values based on core people values. All employees participated. The people values revolved around truth, trust, honesty, and mentoring. The Southwest Trane business values developed by the employees were:

- Stay in school.
- Work together (for the benefit of the customer and success of the company)
- Perform like you own the company.
- Take pride in adding value.
- Build lasting relationships by satisfying customers.

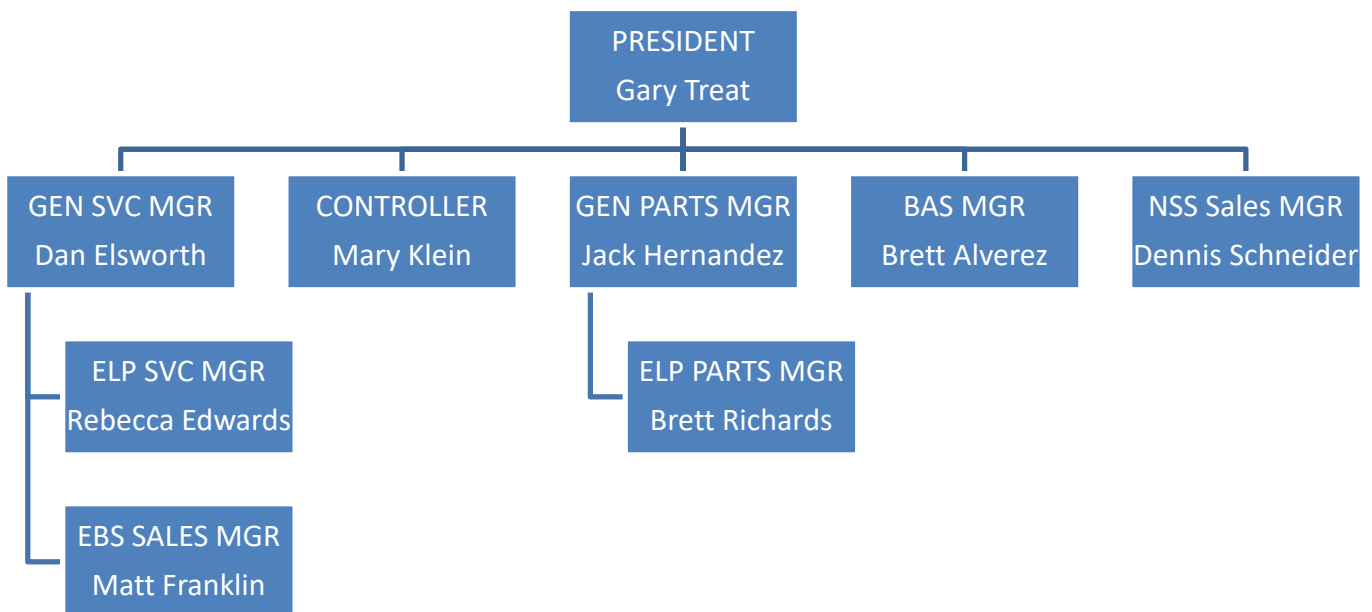
The shared values were kept alive through application meetings during the year and training of new associates.

Leadership Team

The leadership team consisted of the CEO, heads of each department, two sales managers, and a controller.

Exhibit 5. Southwest Trane's Leadership Team

(September 26, 2006)



The leadership team met two times each month. There was a financial meeting early each month and a strategic meeting near the end of the month. Team members rotated establishing the agenda and chairing these meetings.

At financial meetings, reviews consisted of actual verses budget year-to-date revenue and profit by department, operating plan completion, action items from previous meetings and other financial subjects as determined by the chair for that meeting.

At strategic meetings, each person discussed *“What is going well,” “What is not going as well”* and *“I could use help with this.”* These meetings created an atmosphere of mutual problem solving and teamwork. The *“I could use help with this”* question was especially powerful in fostering teamwork. Silos between departments were minimized. A spirit of cooperation permeated Southwest Trane.

Near the end of the fiscal year, longer meetings were held to identify issues and opportunities and develop the next year’s operating plan.

Mr. Treat took was actively responsible for continual learning. He attended workshops, read management books, joined external organizations (e.g., Trane CEO Roundtable and The Executive Committee) and attempted to integrate best practices into Southwest Trane’s operations. He found that participation in outside groups, as well as getting ideas and advice outside of Southwest Trane, was an especially personal motivational tool and allowed Southwest Trane to compare its results with peers. Opportunities to compare results were very motivational to all parties. *“Everyone’s boat rose. Nobody wants to have their peers see them fail,”* he concluded.

Southwest Trane’s Rewards

Mr. Treat used reward systems as a chief motivational tool for his employees, including incentive plans, win-win opportunities, the *“Great Game,”* and the monthly pool contests.

Incentive Plans

Mr. Treat felt there were six keys to making incentive plans successful. First, management needed to develop a compensation program that was in line with the organization’s strategic plan and general organizational objectives.

Second, incentives needed to be simple and clear.

Third, management must never purposely set up any punishments. The setting up of punishments would destroy a leader's credibility.

Fourth, measurement of key success factors was critical. Mr. Treat's experience showed him that if metrics were visible to everyone, performance against those metrics would go up. The metrics covered safety, revenue, gross profit, profit before taxes, number of sales calls, etc. For example, the Southwest Trane's El Paso office had a service revenue problem. In order to address the problem, it implemented a program to measure the number of quotes and sales calls, and it began weekly meetings to review the data. Within a few months, service revenue rose.

Fifth, motivation did not come exclusively from financial opportunity. Mr. Treat felt that most people wanted to contribute. Showing people why their jobs were important to customers, the community, and the company improved performance.

Finally - and most importantly - regular training needed to be integrated into the incentive plan. Training could be used not only to acculturate new employees and keep them abreast of new technology, but also to inform current employees of how resources, tools and strategies were driving the success of the company. For example, a service engineer might not understand the need for completing mandatory paperwork. Therefore, during the trainings, he might ask, "Why are we doing this?" Upon understanding the larger purpose of the forms, he could understand how work helped the company succeed.

Establishing Win-Win Opportunities

Mr. Treat noted the *"importance of setting up the compensation for sales people such that when they do well, Southwest Trane does well. This means not only more financial gain for both, but that the long term goals for Southwest Trane were incented."*

An example of a win-win environment was Southwest Trane realizing that having a service agreement was of high value to the company and also good for customers. With a service agreement, Southwest Trane would get regular income, smooth out seasonality, and most importantly, generate follow-up work. Southwest Trane's sales people were paid much more for a new service agreement than for another type of sale. They were also paid for renewals with the same customer. In addition, sales representatives were paid for time and material work that spun-off the service contract. A service agreement could be viewed as an annuity for the sales people as well as for the company. The system was set up so that both the sales person and Southwest Trane would benefit.

Another example of a win-win environment was Southwest Trane's focus on building automation work. If Southwest Trane sold an automation system, it was likely to get a service agreement, as well as follow-up work. A sales compensation system was established to make it attractive for the sales people to focus on automation, even though it complicated their sales cycle. Mr. Treat remarked:

"Too many companies try to keep too large a piece of the pie. Therefore, the sales do not come in and both the company and the sales people lose. These companies may think they are giving too much away or are fearful that the sales person might earn too much. There can be management ego issues involved. If the system is set up properly, when the sales person earns a lot, the company also gains. We had some high earning sales people, but the company also did much better."

Mr. Treat provided a contrast to his preferred approach to establishing a sales structure from a business trip to Shanghai for a Trane Asian countries meeting. He had been asked to attend the meeting because Southwest Trane had been successful selling systems in Mexico. Asian Trane companies were having challenges selling automation systems. While meeting with sales executives, Mr. Treat learned that sales representatives in the various Asian countries were reluctant to incorporate ongoing service with automation sales because the representatives felt the exposure risk (e.g., potential for something to go wrong) greatly outweighed the rewards.

The Asian companies paid very low commission rates for automation systems, despite the increased exposure and work required of the sales representatives.

The “Great Game”

As a part his continuous improvement, Mr. Treat became an active member in The Executive Committee, an organization that provided training, coaching, workshops, and networking opportunities for executives (now Vistage - <http://www.vistage.com/>). During one of The Executive Committee meetings, he was introduced to the book ***The Great Game of Business*** by Jack Stack. The book described an incentive tool called the “Great Game” where the employees had a stake in the outcome if the company’s performance (revenue and profit) were above average. The “Great Game” seemed to be aligned with Mr. Treat’s fundamental leadership philosophy: share company success with employees. He decided to implement the “Game” at Southwest Trane. Mr. Treat stated,

“If you do more than is expected, the right thing for a business owner, executive, and manager to do is share with those who make it happen.”

Prior to the rollout of the incentive program at Southwest Trane, Mr. Treat worked for nine months with stakeholders to design a Southwestern Trane version of the “Great Game,” including management buy-in, materials and a scorecard. Southwest Trane became a “Great Game” company in 2002. A chief metric for the “Great Game” was profit after tax (PAT). The company “won” the “Game” each year from 2002 to 2007. During the 6 years of the “Game” was implemented, the average bottom-line profit was 64% higher than the average of the previous 12 years.

Southwest Trane’s “Game” incentive program had six basic rules:

- (1) A 5.6% profit after tax target was established;
- (2) A specific revenue target was created at the beginning of the fiscal year;
- (3) Customer satisfaction had to be maintained;
- (4) An employee needed to be eligible to participate at the beginning of the fiscal year;

- (5) An employee needed to be employed at Southwest Trane when the annual financials were released;
- (6) Employees must pass a test.

If the PAT goal and the previous year's revenue were exceeded, each eligible employee received a \$500 bonus. If the PAT goal and budget revenue were exceeded, each eligible employee received a \$1,000 bonus. After that, profit dollars above the target were put into a pool and 25% of the pool was split among the employees, proportional to salary. Exhibit 6 indicates Southwest Trane's Profit after Tax percentage in the 1990-2007 period.

Exhibit 7 provides an example of the potential bonuses awarded for different levels of performance in the "Game."

Exhibit 6. Southwest Trane's Profit after Tax (1990-2007)

YEAR	PROFIT AFTER TAX
1990	0.60%
1991	3.40%
1992	2.10%
1993	2.70%
1994	5.50%
1995	3.50%
1996	4.80%
1997	5.20%
1998	4.90%
1999	6.30%
2000	4.40%
2001	4.60%
2002	6.00%
2003	7.10%
2004	6.80%
2005	5.70%
2006	6.40%
2007	6.20%

Exhibit 7. Southwest Trane's Bonus Schedule for "Game" Results

"WHAT IS IN IT FOR ME"					
Profit After Tax	5.59%	5.60%	5.60%	7%	7%
Revenue	Budgeted Revenue	Same As Previous Year	Budgeted Revenue	Budgeted Revenue	1.14% of Budgeted Revenue
\$/PER	0	\$500	\$1,000	\$2,100	\$2,871

When calculating the bonus derived from the "Game," the sales' team and department managers' were not included. The practice of not including the sales personnel and managers in the "Game" was counter to recommendations. However, Mr. Treat felt that it did not make sense to give more money to those already making more (i.e., sales staff received commissions and managers received bonuses). He felt that it would be better to give more money to those employees making less. In addition, he felt that many of the lower paid employees had a closer connection to customers. Mr. Treat wanted to drive money (incentives) to those closest to the customers. Sales people and managers realized that if Southwest Trane did better, their income would increase. They had no issues with this approach to the "Game."

Even temporary employees were invited to participate in the "Game." For example, one temporary employee in El Paso had an administrative position and was responsible for overseeing office supplies. The temporary employee (like other employees) was given access to invoices and budgets. She found a way to buy office supplies at a reduced price. Within one year's time, her proactiveness saved the company \$15,000.

Participation was voluntary. Employees were ensured that there was no "downside" or risk to them through their participation. For example, participation would not affect their compensation package and/or annual review.

The "Game" offered no guarantee to participants. Mr. Treat would tell his employees that the incentive program was at his discretion. That is, if he felt that any programs were not effective (i.e., customer service was declining or other areas of the business was suffering), the "Game"

could be cancelled at any time. He told employees “*not go out and buy a car counting on any money from the Game.*”

In order to participate in the “Game,” Southwest Trane employees underwent training and had to pass a test at the training’s conclusion. The training was for all employees (i.e., full-time, part-time, temporary, etc.). All employees were educated on profit and loss statements (P&Ls) and income statements (e.g., revenue, cost of sales, and overhead). Another part of the training was fielding questions about how employees could make a difference.

At the beginning of the training sessions, Mr. Treat would ask employees how much profit they thought Southwest Trane made annually as a percentage of total revenue as well as how much money he “took home” every year. The employees’ estimates ranged from 20 to 80% profit margins with most employees assuming Mr. Treat was making millions of dollars annually. At this point, Southwest Trane’s actual financial statements would be presented to the employees. Employees realized that profits were being reinvested into Southwest Trane and that Mr. Treat’s annual income was considerably less than they had assumed. Employees were able to request financial records at any time. Employees came to recognize how much employees really cost well as the role they played in helping Southwest Trane become more efficient.

At the conclusion of training, employees were required to take the test. They were given a scenario and asked to assemble a P&L statement. In addition, employees were asked three questions concerning their personal role in the effectiveness and efficiency of Southwest Trane. Specifically, employees were asked:

- (1) How can **you** help increase revenue?
- (2) How can **you** help decrease cost of goods sold?
- (3) How can **you** help decrease overhead?

The central reason for the test was to get Southwest Trane’s employees engaged. Mr. Treat admitted that it was “*sort of by accident*” that 100’s of ideas were generated on how to

improve Southwest Trane. For example, a receptionist, when answering how she could improve revenue wrote that answering phone calls promptly and professionally was how she could add revenue. An administrative assistant in El Paso, believed that it “was not her job” to assist the sales staff. After the introduction of the “Game” and the employee training, her perception changed. She realized that assisting the sales staff would contribute to winning. The “Game” made employees think of why they did what they did every day. For example, Southwest Trane’s technicians did not like clearing air conditioning units of bird waste. The sessions provided clarity on the advantages (value) to customers of this less-than-attractive part of the technicians’ job.

Employees bought into the “Game” because they saw how they could personally benefit from their participation. Over the six years, every eligible employee had successfully passed the test and participated in the program.

The “Game” aligned with Mr. Treat’s philosophy that people naturally wanted to do well and win. The “Game” was a tool to teach people how to win the game of business, and along the way, receive a personal reward for doing so. The most important component of the “Game” was the training workshops where employees and management discussed how to win.

Revenue and P.A.T. Monthly Pool

Mr. Treat also instituted a type of pool akin to college basketball “March madness” pools. Employees were asked to pick a square on a grid that had Profit after Tax (PAT) on one axis and Revenue (REV) on the other. (See Exhibit 8.) The idea was for this to be fun and to keep the “Game” alive. If an employee correctly guessed the month’s PAT and revenue, he/she would win \$150. When the winning guess included one metric above the target and the other metric below, he/she would win \$100. If the winning guess was that both metrics would be below the target metrics, the employee would win \$50. Results were posted on a board in only percentages because customers and competitors were walking around.

Exhibit 8. Southwest Trane’s Monthly Revenue and Profit after Tax Pool

		Profit After Tax									
		8.0%	7.2%	6.7%	6.4%	6.1%	5.9%	5.6%	5.3%	4.8%	4.0%
Revenue	59.0%	Richard Osborne									
	57.0%										
	56.0%			Anthony Hernandez	Sofia Cronk	Samuel Johnson	Carlos Herrera	Emily Willis			
	55.5%				Daniela Vasquez	Carlos Gomez	Juliana Reyes				
	55.1%			Robert Salazar	Eduardo Diaz	John Clay	Olivia Rennick				
	54.9%					Bill Wilder					
	54.5%				Saranda Ortiz						
	54.0%					Alyson Sabatini					
	53.0%				Matthew Torres						
	51.0%			Mark Sanchez							

Game Committee

A committee of employees from every level of the organization was established to monitor the rules and metrics of the “Game.” The cross-sectional committee was responsible for the posting of monthly success charts as well as maintaining the “Game” bulletin (with success stories, pictures of employees, and recommendations and/or benefits for Southwest Trane). In addition, the committee was tasked with entering participating employees into a regular drawing for a dinner for two. The committee was not found to be effective, and was abandoned.

Winning Advances

Halfway through the first year that the “Game” was conducted at Southwest Trane, Mr. Treat felt that Southwest Trane was heading in the right direction. The numbers were well above expectations. Prior to an all-employee meeting, he walked to a local bank and withdrew 67 \$100 bills. At the meeting, Mr. Treat told his employees that he strongly believed they were going to “win” and wanted to give them an advance. This turned any naysayers into believers.

Keys to Success

The Trane Corporation had been contacting privately owned Trane dealers, distributors, and sales offices in order to bring franchises under ownership of the Trane Corporation; in 2006, Southwest Trane was one of the last privately owned dealerships. Mr. Treat agreed, and the purchase was completed in 2007.

As Gary Treat reflected on the organization he had created and run from 1990 to 2007, he thought about the strategy, structure, shared values, and rewards he had put in place, and whether they would continue under the new management. He wanted Southwest Trane - and all of its employees - to continue to win in the “Great Game” of business.



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Gary Treat's biography is found in on the next page.

Appendix
Short Biography of Gary Treat – Southwest Trane Owner and CEO

Gary Treat received his B.S. in Mechanical Engineering from Washington State University. Following graduation in 1964, he attended a graduate training program at The Trane Company in La Crosse, Wisconsin for 6 months. After attending the Trane program, he was a Trane sales engineer in San Francisco, CA for 4 years. Following San Francisco, Mr. Treat went on a two-year working holiday that included extended stays in Australia and South Africa working for Trane as an application engineer. Upon returning to the United States in 1971, Mr. Treat was a Sales Engineer/Account Executive with Trane in San Diego and San Francisco and, in 1983, moved to San Francisco to become a Sales Manager. In 1989, he purchased the Trane franchise that would become Southwest Trane and remained the CEO until 2007 when he sold the franchise to the Trane Corporation.

Mr. Treat was very active in the community. In 2001, he started a goal program (“Choose Your Future”) at a poorly performing middle school in Albuquerque, New Mexico. The purpose of the program was to improve learning and decrease the dropout rate by helping students realize the importance of school to their long-term success and happiness. This program expanded to Durango, Colorado in 2009. In addition, Mr. Treat lectures frequently at Fort Lewis College in Durango on strategy, employee incentives and motivation as well as a mentor to senior business students.

HUY FONG FOODS' SRIRACHA: IRWINDALE TURNS UP THE HEAT

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California State University, Los Angeles

***“Sriracha may not be welcome in California,
but you’d be welcome with open arms and eager taste buds in Texas.”***

Senator Ted Cruz (R-Texas).¹

In 2016, the city of Irwindale, California filed the second lawsuit in two years against Huy Fong Foods, manufacturer of the famous Sriracha hot sauce. Huy Fong Foods countersued, claiming that the city had embarked on a campaign of harassment against the company. The interests of the company and those of the city appeared to be profoundly incompatible. David Tran, founder and CEO of Huy Fong Foods, concluded that Irwindale was “*openly hostile*” to Huy Fong Foods’ business interests.² Tran was considering the merits and inconveniences of relocating his factory after having invested more than \$50 million in Irwindale. To make matters more complicated, in August 2017, Huy Fong Foods sued Underwood Ranches, the company that had supplied its chili peppers for over 30 years, alleging breach of contract and civil theft. According to the lawsuit, Underwood Ranches refused to return to Huy Fong Foods over \$1.4 million in overpayments and to return \$7 million in equipment.³

Huy Fong Foods was established in 1980 by David Tran, who left Vietnam a year before as a refugee on a ship called the Huey Fong. Eventually, he settled in Los Angeles, where he began to fill bottles of hot sauce by hand. Sales grew quickly and in 1987 Huy Fong Foods opened a processing plant in nearby Rosemead, California.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor’s manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Ellen A. Drost, Stephen McGuire and Kern Kwong. Contact: Ellen A. Drost, California State University, Los Angeles, 5151 State University Drive, Los Angeles, CA 90032, Tel. (323) 343 2965, edrost@calstatela.edu.

By 2012, the Rosemead plant was too small to meet demand, and Huy Fong Foods moved operations to a brand new, custom-designed 650,000 square foot plant in Irwindale, California. The city of Irwindale and the company entered into an agreement that David Tran called “*attractive and irresistible*,” and the city called a “*redevelopment success*.”⁴ In 2017, the company sold more than 35 million bottles of hot sauce, bringing in revenues of \$109.3 million. One could find a bottle of Sriracha in 9% of U.S. households - and if the head of the household were younger than 35 years old, that number jumped to 16%.⁵

Soon after the opening of the plant, residents of Irwindale started to complain about the strong chili odors emanating from the factory. Some claimed the chili caused irritation to their eyes and throats. They claimed that the smells made them cough, made it difficult to breath, and gave them headaches and bloody noses. Others said that because of the odor they had to curtail outside activities severely - especially for their kids. One went so far as to move away to seek relief from the odors. Because of the complaints, the city of Irwindale took legal action against Huy Fong Foods and even considered officially declaring the company a “public nuisance.” Two years later, the city filed a second lawsuit against the company; and this time the company countersued, claiming that the city had engaged in campaign of harassment.

David Tran simply didn’t understand what the fuss was all about. “*I work face to the chili for 34 years, why am I still there? Maybe I should have died already*,” he commented.⁶ The move to Irwindale no longer seemed “*irresistible*.”

Representatives from 12 states and several cities in California courted the company, and invited Tran to relocate, with promises of pro-business environments. The most aggressive suitor was the chili-growing, business-friendly state of Texas. Should David Tran consider moving elsewhere in California or perhaps to Texas? Was there a place where nobody would complain about the smell of chilies? And what about the company’s relationship with Underwood Ranches? Huy Fong Foods demanded that Underwood allow it to take possession of its equipment, but instead Underwood was holding Huy Fong’s equipment hostage.⁷

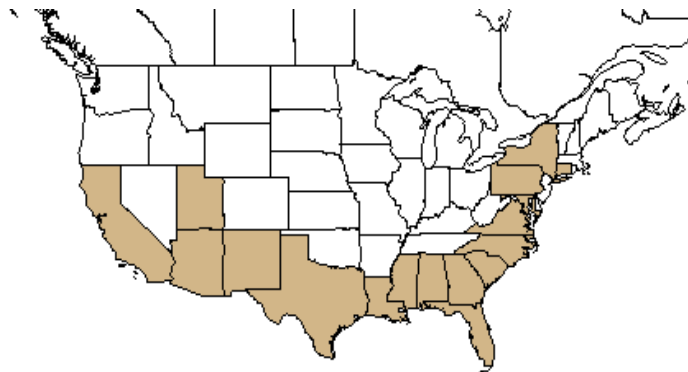
The U.S. Hot Sauce Industry

In 2017, total revenue of the U.S. hot sauce industry was \$1.4 billion. The industry's profit reached \$83.6 million.⁸ Immigrants, especially Asians and Hispanics, had introduced new spicy food choices to the American palate. Strong demand from consumers, restaurants, food services, and grocery stores for spicy products resulted in an expected growth rate of 3.8% annually until at least 2022.⁹ Not only was domestic demand strong, but exports from the U.S. to other countries were increasing more than 4% per year. Inevitably, new competitors (domestic and foreign) would enter the industry as more and more American consumers purchased hot sauce on a regular basis.

In the U.S., hot sauce manufacturers were typically located near pepper suppliers to keep shipping costs low. (See Exhibit 1, Where the Peppers Grow.) While hot sauces were made with many different ingredients such as habanero peppers or wasabi, most had as the main ingredient the *capsicum annum* fruit, which included jalapeños, cayenne peppers, and other chili peppers. Mexico was both a source of fruit and the home of hot sauce manufacturers such as the Jose Cuervo Company, which made Cholula hot sauce for both the Mexican and U.S. markets.

Exhibit 1. Where Peppers Grow: *Capsicum Annum* in the Continental USA

Source: U.S. Department of Agriculture, <https://plants.usda.gov/core/profile?symbol=CAAN4>



The Scoville scale, developed by Wilbur Scoville in 1912, was the industry standard for determining the heat level of different products.¹⁰ The scale was based on the amount of capsaicin in a sauce, the chemical compound found in peppers, producing a burning sensation when consumed by humans.¹¹ Based on the Scoville scale, hot sauce products were classified from mild to medium to hot (See Appendix A).

Mild

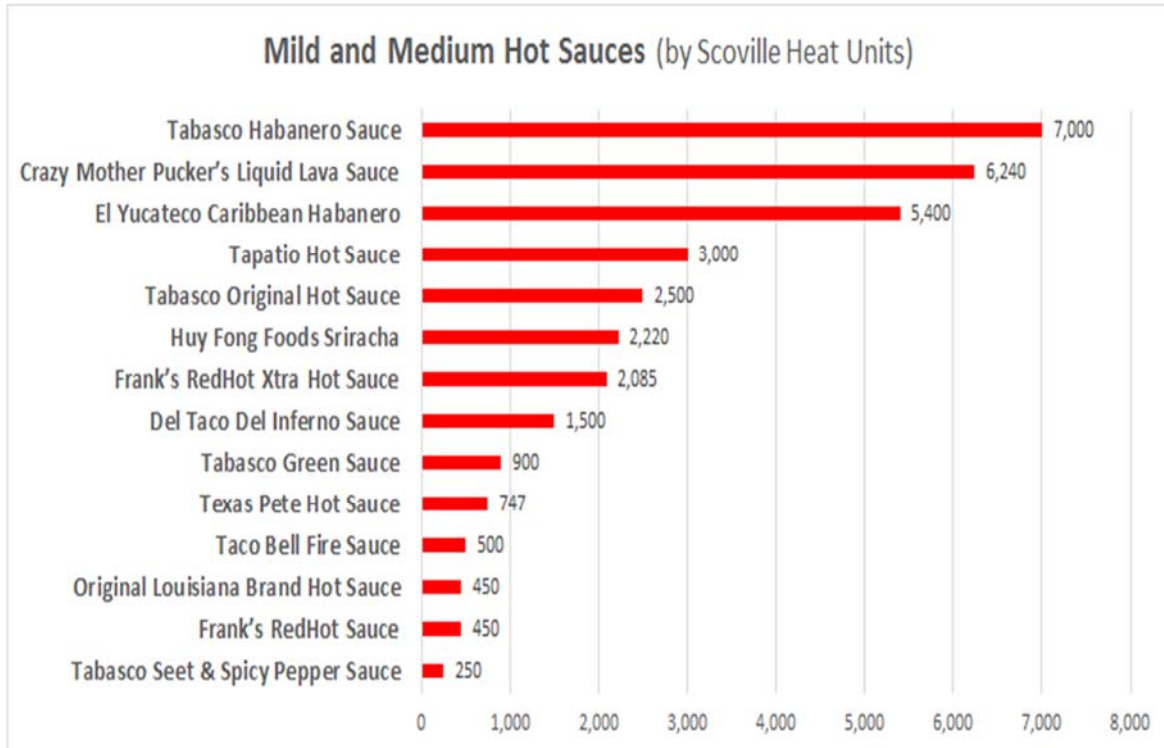
This category included products below 2,500-heat level based on the Scoville scale. Huy Fong Foods estimated its Sriracha sauce had a heat level between 1,000 and 2,500 units. Mild chili-type sauces represented about 58.5% of the total industry revenue. Demand for mild hot sauces had been falling for the past five years but mild was still expected to remain the largest segment of the market.

Medium

This category included products between 2,500 and 7,000 on the Scoville scale, and accounted for 25% of total revenue of the industry. This segment of the market had been growing for the past several years. Tabasco Original Hot Sauce was rated between 2,500 and 5,000 on Scoville scale.¹²

Hot

The hot category included sauces over 7,000 on the Scoville scale. This segment generated about 16.5% of the industry's revenue. Sauces such as Tabasco Habanero Sauce, also by McIlhenny, and Satan's Blood, by Sauce Crafters, Inc., were considered in this category. Although this category had increased its share of revenue in past five years, it was not expected to continue to grow significantly, as it targeted a limited segment of the market.

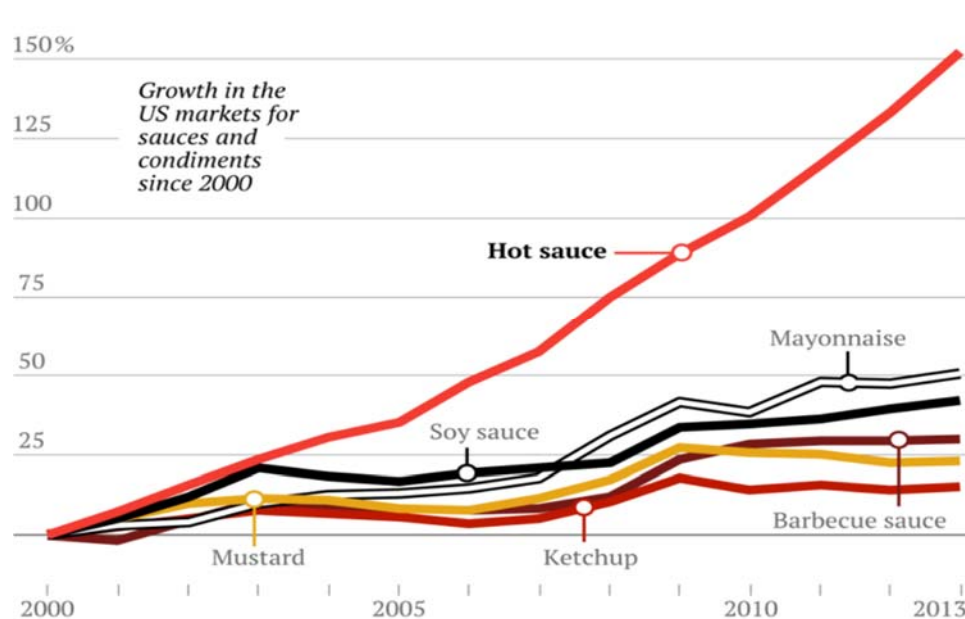
Exhibit 2. Heat Units of Selected Mild and Medium Hot SaucesSource: The Official Scott Roberts Website <http://www.scottrobertsweb.com/>**Competition**

U.S. hot sauce sales had far outpaced sales of other sauces such as mustard, soy sauce, ketchup, mayonnaise, and barbecue sauce (See Exhibit 3). Sales were expected to climb from 2017 to 2022 by 3.9% annually, and the number of firms in the industry was expected to increase.¹³ Total revenue for the industry was \$1.4 billion in 2017, with about 8% of U.S. demand (\$244 million) satisfied by imports. Overall, profit (measured as earnings before interest and taxes) for an average operator was 6.1% in 2017, a marginal increase from the 6.0% in 2012. While the major segment of the U.S. market would remain in the hands of established products such as Tabasco, Frank's RedHot, Texas Pete, Huy Fong Foods' Sriracha, and Tapatio, small firms with niche targets and low profit margins were anticipated to enter the market and eventually decrease the average profit margin. Exhibit 4 provides key ratios for the U.S. hot source industry.

Due to the increase in the number of brands in the U.S. market, and competition from imports, companies attempted to differentiate their products from competitors' to grab consumers' attention. In venues such as The New York City Hot Sauce Expo, held for the first time in 2013, hot sauce makers not only promoted different levels of heat, but also offered unusual tastes such as chipotle, horseradish, mango, or chocolate. New products were expected to fuel increased demand in both the domestic and international markets.

Exhibit 3. U.S. Sauce Market Growth

Source: Quartz (2014), <https://qz.com/171500/the-american-hot-sauce-craze-in-one-mouth-watering-chart/>



Key Success Factors

Industry analysts indicated that several factors explained success, including the following:¹⁴

- **Brand Recognition.** Brand recognition was vital, because many consumers would simply opt for the hot sauce type that they knew best.
- **Customer Loyalty.** Consumers had a high allegiance to one particular brand, and many rarely strayed from a product they already enjoyed.
- **Wide product range.** By offering a wide range of flavors and heat-levels, industry players maximized their chances of appealing to a broad base of buyers.

- **Distribution network.** Access to a large (and ideally growing) base of potential domestic and international customers was critical.
- **Economies of scale.** Large manufacturers were able to use economies of scale to produce and sell large quantities of products at a lower price per product.
- **Reliable inputs.** Reliable contracts with suppliers of key raw materials – particularly fruit - considerably reduced supply volatility.

Exhibit 4. U.S. Hot Sauce Industry Key Ratios

Source: IBISWorld industry report OD4627, January 2017

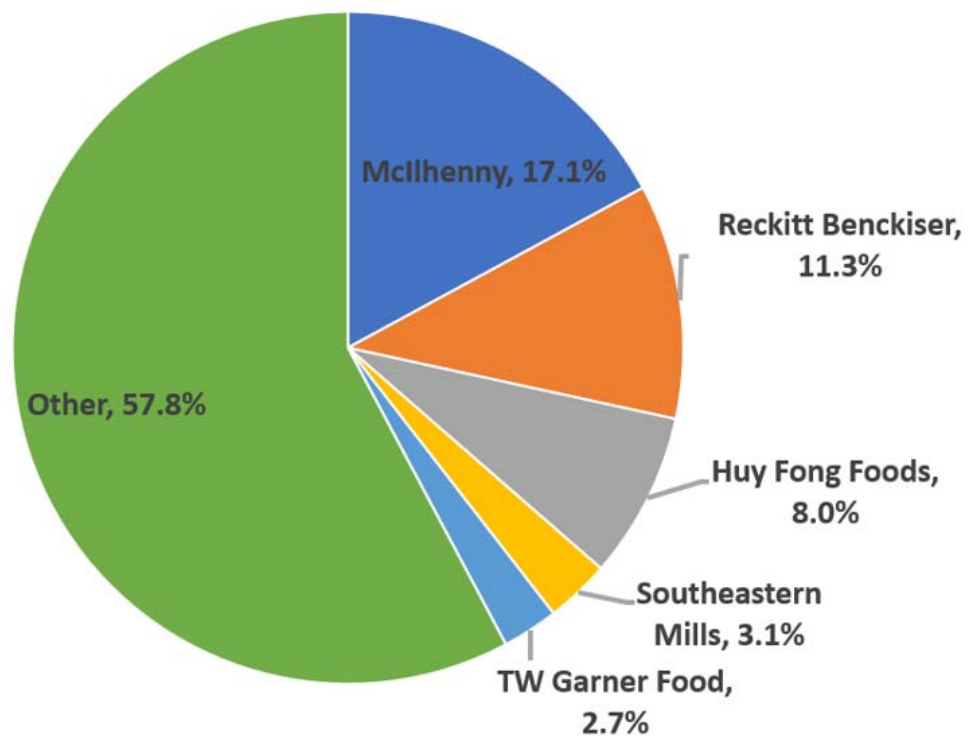
Year	Revenue (\$m)	Enterprises (units)	Employment (units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)	Consumer spending (\$b)
2008	1,080.80	140	2,059	73.1	59	99.6	1,066.70	10,007.20
2009	1,176.70	150	2,125	75.1	59.1	102.8	1,160.70	9,847.00
2010	1,091.80	151	2,040	76.6	57.7	99	1,072.90	10,036.30
2011	1,134.10	163	1,978	81.5	62.1	95.8	1,114.70	10,263.50
2012	1,239.70	175	1,800	89.9	65.7	89.4	1,215.50	10,413.20
2013	1,240.80	184	1,853	102	68.8	93.1	1,207.60	10,565.40
2014	1,256.60	194	1,906	124.2	79.3	97.4	1,211.70	10,868.90
2015	1,273.30	201	1,842	133.2	82.6	103.5	1,222.70	11,214.70
2016	1,314.30	206	1,874	138.1	91.2	109.5	1,267.40	11,518.90
2017	1,369.90	216	1,945	146.5	91	114.2	1,314.40	11,808.40
2018	1,425.80	222	2,002	168.2	99.2	118.2	1,356.80	12,070.80
2019	1,507.90	235	2,097	187.3	99.5	124.8	1,420.10	12,475.80
2020	1,553.70	242	2,147	209.1	109.2	128.3	1,453.80	12,675.90
2021	1,598.90	253	2,210	227	111.1	132.4	1,483.00	12,871.00
2022	1,653.60	262	2,268	254	124.6	136.6	1,524.20	13,119.90

Competitors in the Hot Sauce Industry

The major players in the hot sauce industry were McIlhenny Company, Reckitt Benckiser, Huy Fong Foods, Southeastern Mills, and TW Garner Food. (See Exhibit 5.)

Exhibit 5. Major Market Share in Hot Sauce Production Industry

Source: IBISWorld.com (2017), IBISWorld industry report OD4627



McIlhenny Company, market share 17.1%¹⁵

In the 1860s, Edmund McIlhenny created a hot sauce. When his family and friends responded positively, he started a company in 1868 on Avery Island in Louisiana. McIlhenny sold his first batch of 658 bottles at one dollar a piece to local groceries and labeled the product “Tabasco.”¹⁶ In 1870, McIlhenny patented Tabasco sauce and started to sell it in the U.S. and England.¹⁷ In 2017, manufacturing and packaging of Tabasco was still carried out on Avery Island with its 200 staff, while peppers were sourced from about 2,000 farms in Guatemala,

Honduras, Nicaragua, Panama, Colombia, Peru, Ecuador, Zambia, Zimbabwe, Swaziland and Mozambique.¹⁸ Tabasco was sold in 180 countries; the company claimed that it was the most popular pepper sauce in the world.¹⁹

In 2017, Tabasco sauce came in twelve flavors: original red sauce, green jalapeno sauce, chipotle pepper sauce, buffalo style hot sauce, habanero pepper sauce, garlic pepper sauce, sweet & spicy sauce, sriracha sauce (launched in 2014²⁰), original red miniatures, roasted pepper sauce, family reserve pepper sauce, and raspberry chipotle sauce.²¹ Beside Tabasco sauce, the company created different food products based off Original Tabasco sauce, such as cocktail mixes, marinades, condiments and snacks. The McIlhenny Company had partnered with food manufacturers to bind Tabasco sauces with variety of food products, such as Tabasco-flavored Slim Jims, Cheez-its, Peanuts, and SPAM.

While Tabasco sauce was traditionally sold in small bottles, it was also available in five-gallon, 55-gallon, and 330-gallon containers. Left-over pulp and seeds from the sauce-making process were sold to other vendors. Tabasco sauce was included in MREs (meals ready to eat) issued to overseas U.S. soldiers.

In 2011, the McIlhenny Company changed its advertising agency from Tracy Locke Dallas, which had served the firm for more than 20 years, to Ogilvy West in order to adopt contemporary advertising methods, such as Facebook. In 2012 McIlhenny spent more than \$3 million to introduce its new Tabasco flavor, Buffalo Style, on a campaign initiated by Ogilvy West.²²

The company's Avery Island facility has a production capacity of roughly 700,000 bottles per day. Since Tabasco was well established in the U.S. market, strong export sales had been the key driver of growth over the past five years. Revenues in 2017 were nearly \$235 million. McIlhenny generated an estimated 40% of its annual net sales from exports. In addition to expanding its presence outside of the United States, the company had maintained its share of

the domestic market by introducing new Tabasco varieties and focusing on the food service market.²³

Reckitt Benckiser, market share 11.3%²⁴

Reckitt Benckiser had operations in 60 countries and its products were sold in more than 180 countries worldwide. Frank's RedHot sauce was first produced in 1896. (Durkee Foods, which was acquired by Reckitt Benckiser in 1995, had purchased the brand in 1977.) Reckitt Benckiser produced Frank's RedHot sauce in Springfield, Missouri. Frank's was made in ten flavors, one of which exclusively formulated for food service use. Sales of Frank's RedHot sauce had increased to \$154 million in 2017. Due to Reckitt Benckiser's efficient supply chain, its profit margin was estimated to be 29.2% of total revenue. In addition, the company introduced new flavors and expanded its relationship with several large retail chains, including Sam's Club and Wal-Mart. In 2014, Frank's launched its own sriracha flavor to compete with Huy Fong Foods.

TW Garner Food Company, market share: 2.7%²⁵

The TW Garner Food Company was founded in 1929 and was still run and operated as a small private business in Winston-Salem, NC. In addition to a variety of jams, jellies and other non-industry-relevant sauces, the company produced several flavors of Texas Pete brand hot sauce. Additionally, the company owned the Green Mountain Gringo salsa brand. In late 2013, TW Garner released a new sriracha-style product called Cha! in an effort to capitalize on the partial shutdown of Huy Fong Foods' plant. In 2012, the company began exporting to Canada. TW Garner's hot sauces earned \$37.2 million in 2017.²⁶

Louisiana Brand, market share: 3.1%²⁷

Southeastern Mills acquired the Original Louisiana brand hot pepper sauce in 2015 from Bruce Foods Corp. of New Iberia, Louisiana. The Louisiana brand included the following products: the Original Louisiana brand hot sauce, Louisiana wing sauce, Louisiana peppers, Louisiana gold pepper sauce with Tabasco peppers bold flavors, and Red Rooster Sriracha pepper sauce. Red

Rooster appeared to be a copycat product of Huy Fong Foods' Sriracha sauce. Southeastern Mills' revenue from hot sauces in 2017 reached \$17 million.

Exhibit 6. Financial Performance of the Top 3 Players in the Hot Sauce Industry

Source: IBISWorld industry report. All amounts in millions of \$ U.S.

	McIlhenny		Reckitt Benckiser		Huy Fong Foods	
(\$m)	Revenue	Operating Income	Revenue	Operating Income	Revenue	Operating Income
2012	183.4	43.1	158.2	45.4	50	3
2013	200	43.4	188.2	51	60	4.4
2014	206	44.5	163.1	43.9	80	3.5
2015	211.2	45.4	215.3	62.9	92	6.8
2016	220.7	47.2	160.4	43	101.2	5.6
2017	234.6	50	154.4	40.8	109.3	6.7

Huy Fong Foods

*"I started making hot sauce when I worked in the kitchen in the Vietnamese army. After the war, my wife brought home a bottle of sauce made by an acquaintance of hers. I tasted it and said: I can make something better than this."*²⁸

David Tran

David Tran had started a small family business in Vietnam. His brother grew the peppers, he ground them, and his father-in-law was in charge of washing containers (mostly reused food jars). When Tran's life got more difficult in Vietnam, in 1980 he immigrated to the United States. In 1980, he established Huy Fong Foods and started to sell his hand-made Pepper Saté Sauce door-to-door to Asian restaurants in Chinatown (Los Angeles). In the first month, he made \$1,000 in profit.²⁹

The business grew steadily. Although the company continued to increase production every year, demand was much higher than production capacity. Sales grew, and in 2003 Wal-Mart started to sell Sriracha in Los Angeles and Houston, eventually stocking it in 3,000 stores around the United States.

Suppliers

Huy Fong's sole supplier of peppers for almost 30 years had been the Underwood Ranch in Ventura County, California. Underwood was a family farm that grew jalapeño peppers, blueberries, beets, baby carrots, fennel, artichokes, celery root, turnips, rutabagas, parsnips, and other specialty vegetables. In the late 1980s, Craig Underwood wrote a letter to David Tran, proposing the idea of growing jalapeño for him. The two men had never met. Tran agreed to 50 acres worth of jalapeños for the first year. When Underwood delivered the peppers on time and another supplier did not, Tran increased his orders and eventually Underwood became the factory's sole supplier. Huy Fong Foods agreed to partial pre-payment and a guaranteed minimum fee for the peppers, and every year agreed to purchase more. Because of the Huy Fong Foods' contract, Underwood grew to become one of the largest producers of jalapeños in the country. To control labor costs, Underwood introduced mechanical harvesting of jalapeños, using some of its own equipment and other equipment owned by Huy Fong Foods. The farm was able to compete with suppliers in Mexico.³⁰ In 2015, Underwood grew 2,000 acres of peppers for Huy Fong Foods, who contributed to three quarters of Underwood's revenue. The two parties' agreement each year was partly written, partly oral, and partly established by practice. Craig Underwood remarked:

"We've developed an incredible relationship. As an example of his trust and faith in us, he rarely comes out to the fields. We give him quality and consistency."³¹

Following the 2016 harvest season, the two sides could not reach a production agreement for 2017. In August 2017, Huy Fong Foods sued Underwood for breach of contract, accusing it of refusing to give back \$7 million dollars' worth of equipment and demanding a refund of an overpayment of \$1.4 million.^{32,33}

Marketing

Huy Fong Foods' hot sauces were made from fresh, red jalapeño chili peppers with no water or artificial flavors or colors. Sauces were packaged in clear plastic bottles with the rooster logo and a green cap. (The rooster symbol was selected because David Tran was born in 1945, the year of the rooster.)

While food prices had crept up over the 30 years that the company had been in business, David Tran never boosted the wholesale price of Sriracha. Huy Fong Foods' revenue had grown from \$ 38.5 million in 2000 to \$109.3 million in 2017,³⁴ yet it had done so without the company having spent a penny on advertising. Tran's aversion to spending money to advertise the product was well known, and originated from his experiences in the early days of the company. When he started in Chinatown in 1980, funds were tight; all available cash was used to purchase chili peppers. Tran explained:

"So the reason why we're not advertising, never advertising [was that] we saved all the money because we just try to get chili, make it, package it, and sell it. If we advertise it, we have no product."³⁵

Beginning in 2014, the company offered tours of the factory and provided T-shirts and sample products to visitors. This promotion cost about \$100,000 per year.

All products were sold either to wholesale distributors or directly to large retail stores, such as Wal-Mart. According to David Tran, the company had never employed a sales representative. Huy Fong Foods had 10 distributors, and the company did not tightly control where the product was sold to consumers. *"We don't have a detailed record of where it's being sold,"* Tran commented.³⁶ While most distributors concentrated on a geographic region of the U.S. market, some had made forays into foreign markets. For example, C. Pacific Foods of Norwalk, California (a Huy Fong Foods wholesale distributor) had begun sales of the sauce in Vietnam in 2016. In its first year, C. Pacific Foods sold more than 57,000 bottles of hot sauce in David Tran's home country. Vietnamese customers, unaware of the origin of the product, paid about

\$5.00 for a bottle of Huy Fong Foods Sriracha, five times more than what they paid for locally produced chili pepper sauces; it was a luxury food.

Huy Fong Foods made three main chili products (see Exhibit 7). Chili sauces were made of chili, sugar, salt, garlic, distilled vinegar, potassium sorbate, sodium bisulfite and xanthan gum.³⁷

Chili Garlic Sauce was a blend of coarsely ground chilies and garlic could be complemented everything from a cracker to poultry to soups. This sauce was available in 8 oz., 18oz., and 8.75 lbs. sizes.

Sambal Oelek (Ground Fresh Chili Paste) was made of peppers with no other added flavors such as garlic or spices for a simpler taste. This sauce was available in 8 oz., 18 oz., and 8.5 lbs. sizes.

Sriracha Hot Chili Sauce, Huy Fong Foods' most popular sauce, was made from sun ripened jalapeño peppers which were ground into a smooth paste along with garlic. This sauce could be used in soups, sauces, pastas, pizzas, hot dogs, hamburgers, chow mein or on anything else. Sriracha was available in 17 oz. and 28 oz. bottles. Sriracha grew in popularity among sushi chefs, who for years had been using it in spicy tuna. **Bon Appetit** magazine named Sriracha the ingredient of year in 2010, and **Cooks Illustrated** called it the best tasting hot sauce in 2012.³⁸

Huy Fong Foods' Sriracha had many *very* loyal customers. The first thing one could see in the lobby of the factory was a photo of two astronauts, hovering in zero gravity in the cramped confines of the International Space Station. An arrow superimposed on the photo pointed to a little green plastic cap, the top of a Huy Fong Foods' Sriracha bottle floating in the background. The little green cap was all it took for one fan, who e-mailed Huy Fong Foods to say he had spotted it. Such fan mail was not uncommon.³⁹

Operations

In 1986, Huy Fong Foods moved into his first factory in Rosemead, California, a 68,000 square foot building that previously had been a toy factory for Wham-O, which made Hula Hoops, Frisbees and Slip-n-Slides.⁴⁰ By 2009, however, it was obvious that the Rosemead factory had become too small.

Huy Fong Foods employed 70 full time workers year-round and about 200 during chili seasons when up to 40 truckloads of fresh peppers would arrive each day. Peppers were ground the same day that they arrived at the factory. The chilies were harvested in mid-July through October and were driven from the farm to Huy Fong Foods' facility. After grinding, peppers were stored in large plastic bins for use for the entire year's production of hot sauce.

Based on growing demand for Sriracha chili sauce, the company planned a move to increase capacity significantly. Irwindale, California seemed to be the best choice; building a new factory there would solve all Huy Fong Foods' problems of space for manufacturing, warehousing, and even corporate headquarters.

Exhibit 7. Huy Fong Foods' Sauces

Source: www.HuyFong.com



Irwindale, Sriracha's New Home

Irwindale was a city in the San Gabriel Valley in Los Angeles County, California, about 23 miles from the city of Los Angeles and about 13 miles from Rosemead. Irwindale's population was about 1,500, with approximately 91% Hispanics, 6% Whites, and 2% Asians. The median household income in 2017 was \$45,000, and 12% of Irwindale residents lived below the poverty level.⁴¹ Much of the land (43%) was zoned for industrial sites. The city had about 700 businesses employing 40,000 people. Obviously, the vast majority of employees resided outside the city. The largest employers in 2017 were Ready Pac, the fresh food company (1,700 employees), Charter Communications (970 employees) and several factories including a MillerCoors brewery (750 employees).⁴²

Starting in 2009, David Tran had been scouting for a new location where Huy Fong Foods could increase capacity. He met with representatives from the city of Irwindale, which was pursuing an aggressive development plan. Irwindale invited Huy Fong Foods to relocate to the city, and made it the best offer it could. Craig Furniss, a principal at Seventh Street Development, commented on the logic of the move from Rosemead to Irwindale:

"With many of its employees living in the area, it was important to Huy Fong to stay in the San Gabriel Valley, which has been its home since 1987. Irwindale was one of the few areas able to accommodate and still make financial sense from a development and user perspective."⁴³

The city of Irwindale, in order to attract Huy Fong Foods, offered a 10-year loan of \$15 million dollars for the purchase of 23 acres of land, at a 4.5% interest rate.⁴⁴ The loan required payment of interest only with a balloon payment for the principal at the end of the 10 year period. Huy Fong Foods accepted the loan and purchased the land. In October 2010, Seventh Street Development initiated construction of the new \$40 million corporate headquarters, manufacturing, and warehouse facility. The new facility included 26,000 sq. ft. of office space, 150,000 sq. ft. of manufacturing space, and 480,000 sq. ft. of warehouse space.⁴⁵

As part of the development deal, Huy Fong Foods agreed to contribute \$2.5 million dollars to the city in 10 annual payment of \$250,000 per year in lieu of business license fees and development impact fees related to the construction project, including fair share cost for future traffic improvements.^{46,47}

The shiny new factory opened in 2011 and created close to 200 jobs in Irwindale.⁴⁸ During the chili harvest season, which typically began in late August and lasted through November, the company hired an additional 100 temporary workers.⁴⁹

All parties seemed to benefit from Huy Fong Foods' move to the Irwindale. The new factory produced 3,000 bottles every hour, 24 hours a day, six days a week. In 2017, the factory was working at about 50% of capacity. The city's economic strategic plan called the deal a "*true American success story*,"⁵⁰ in part because of the jobs created but also because the land had sat empty after the departure of a gravel pit and asphalt plant.

Troubles in Irwindale

State Health Department Requires 35-day Hold

By California law, uncooked food products needed to be stored for 35 days after production before shipping to customers.⁵¹ The hold was imposed on the company after moving to Irwindale by the California Health Department because none of its sauces were cooked or roasted. (The Rosemead factory had been "grandfathered" exemption from the requirement.) The storage requirement created unanticipated difficulties and costs for the growing company after the move to Irwindale.

Complaints about the Odor

In mid-September 2012, some residents of Irwindale started to complain about offensive chili odors emanating from Huy Fong Foods' factory. They claimed that the chili odors caused health

problem and had a negative effect on their quality of life. Irwindale residents made the following comments:⁵²

The odor “causes irritation in my throat, eyes and my sinus area. I have experienced headaches in conjunction with these symptoms which I have tried to relieve with Advil.” - Richard Corpis, Irwindale resident

“The odor and fumes cause a severe stinging-type irritation to my eyes, causing them to water and turn red. When I breathe in the fumes I fell as though I’m choking, and I immediately begin to gag. It’s difficult to breathe easily when the odor and fumes are very strong.” - Manuel Ortiz, Irwindale resident

*“Strong odor would make me cough and I felt the immediate need to drink water....I also felt heartburn after inhaling the strong odor.”
- Claudia Gallardo, Irwindale resident*

“Burning sensation in my eyes, nose and chest which would make me feel sick, cough and suffer from heartburn.” - Larry Castro, Irwindale resident

“These odors cause a gagging and choking sensation. Although you can smell the chilies, it’s the fumes that affect me ... which feel like vapors entering in my throat and in my nose when I breathe in. I have the sudden urge to cough, like I need to clear my throat.” - Arthur Tapia, Irwindale resident

Residents also complained about the effect of chili odors on their enjoyment of the outside activities and the use of their properties.

Yolanda Zepeda had to limit her ten year old son’s time for outdoor activities since her son had asthma and the vapors from the facility cause him to cough severely.

Claudia Gallardo stated she had to move her birthday party from her backyard to inside the house and close all the windows to escape the fumes as she and her guests (including children) noticed the chili fumes and started coughing.

Larry Castro, Manuel Ortiz and Claudia Gallardo experienced irritation in their eyes and throats while running, so they could not run outdoors as often as they would have liked to.

Forty-eight Irwindale residents who lived within a mile of Huy Fong Foods' factory were asked if they detected odors, and if they had experienced any symptoms as a result of those odors⁵³. Fifteen percent of the people interviewed detected a strong odor, 48% detected a subtle odor, and 37% did not detect any odor. Six people reported experiencing symptoms as a result of those odors, while 42 people did not experience any. The most common symptoms were coughing and burning of the throat, eyes, nose, and chest. (See Exhibits 8 and 9.)

Some residents, such as Maria, John, and Isabella, claimed that they even liked the smell that came from the factory and it actually made them hungry. Maria had smile on her face and said, *"The smell makes me want to eat some chips and salsa!"*

Other residents who were chatting outside the house shouted, *"The smell is goood!"*

Exhibit 8. Can You Detect an Odor from the Factory?

Source: Case authors' interviews of 48 Irwindale residents within a mile of the Huy Fong Foods factory

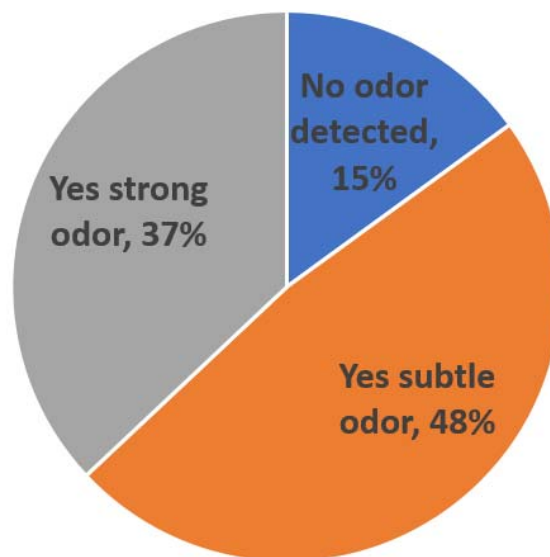
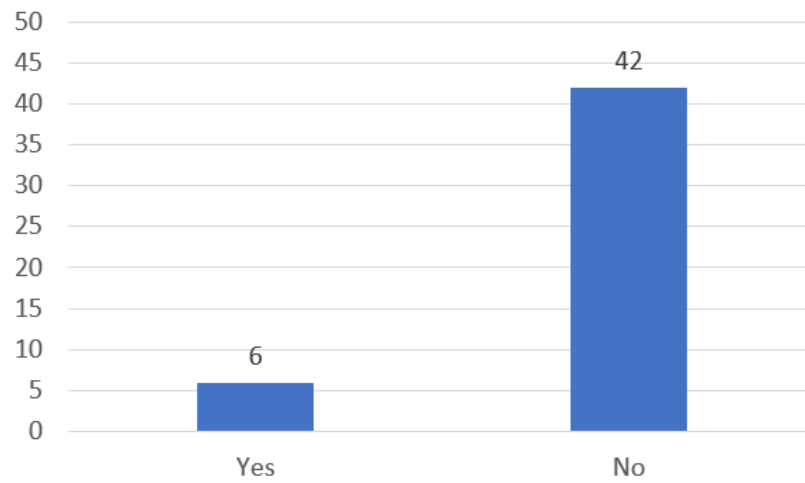


Exhibit 9. Symptoms Experienced from Huy Fong Foods' Factory Odor

Source: Case authors' interviews of 48 Irwindale residents within a mile of the Huy Fong Foods factory



On the other hand, some people experienced health and lifestyle changes that they attributed to the odors coming from the factory. Irwindale resident Yvonne, who lived on lower Azusa Canyon Road, said,

“My father-in-law used to visit my place until he experienced coughing about two months ago. He already has emphysema and heart problems, so he cannot visit us anymore. Now, I’m visiting him instead. Recently, I’ve been receiving so many phone calls from realtors asking to sell the house. I’m living here for 14 years and this is my first house, so I don’t want to sell it. However, I feel my property’s value is going down because of the odor from the factory.”

Residents suffering from asthma seemed to experience the most difficulty. Anita, a resident on Fortin Street (a half mile from the factory), explained that one night she could not stop coughing and was forced to use an inhaler. Another resident, Juana, mentioned that although she was not able to smell any odors from her house, the young girl living next door to her was adversely affected by the odors. The girl could not go outside without her asthma flaring up.

Mario, who was walking his dog, explained that the smell was unpleasant to him and that his throat burned sometimes, but did not notice it was related to the factory until his father had brought it to his attention.

Although Jesus had had some difficulties, he did not want the factory to relocate because the community was receiving money and he felt that the facility provided a nice view. Jesus remarked:

"I used to work for the company that sold salt to the Huy Fong Foods factory in Rosemead. I needed glasses and a mask every time I delivered the salt to the facility because my eyes and nose burned. Sometimes I woke up during the night because of the strong smell from the factory. I cannot leave the window open when I go sleep."

None of the people interviewed by case authors had reported any odors or physical symptoms to the city.

Irwindale's Urges Huy Fong Foods to Resolve the Odor Issue

Irwindale's Community Development Director, Gustavo Romo, contacted Huy Fong Foods and asked the company to address the complaints. He also hired Soil, Water, Air Protection Enterprise (SWAPE), a Santa Monica consulting company with local experience with odor mitigation in surrounding jurisdictions. SWAPE was invited to attend a meeting with Huy Fong Foods and city staff on October 1, 2013 in order to provide an expert evaluation of the odor problem.

First Meeting with the City, October 1, 2013. The City Manager, the City Engineer, and Mr. Romo held the first meeting with Huy Fong Foods' representatives David Tran, Donna Lam, and Adam Holliday and representatives of SWAPE on October 1, 2013. One resident who had complained was also present at the meeting. After a tour of the Huy Fong Foods factory, the SWAPE consultant concluded that the current pleated carbon filtration system was totally inadequate and provided little to no protection against odors and irritating oils produced

through the hot sauce making process. The SWAPE consultant also indicated that odors and oils from the factory would go up in the atmosphere to a height of about 250 feet during the day when the sun was out. But when the temperature dropped, the same odors and oils would only go up about 25 to 30 feet, where they would be subjected to the local breeze and winds. As a result, residents would experience the worst of the odors and associated problems during the evening and early morning hours. At the end of the meeting, SWAPE suggested two solutions to address and solve the odor issue:

- (1) Huy Fong Foods needed to purchase and install a Regenerative Thermal Oxidizer.
- (2) Huy Fong Foods needed to purchase and install a larger external carbon filtration system.

At the meeting, Huy Fong Foods' representatives positively responded to the city's request for a plan to address the odor problem. Huy Fong Foods committed to doing everything possible to resolve the issue, and would even consider hiring SWAPE or another consultant to explore different solutions. The recommended oxidizer and filtration system were later estimated to cost about \$600,000.⁵⁴

A Change in Plans, October 3. On October 3, 2013, Huy Fong Foods informed the City that it had decided to not hire SWAPE or any other consultant. Instead, it would refer the odor issue to the California Air Quality Management District (AQMD). The city emphasized the urgency of the issue, and asked Huy Fong Foods to reconsider SWAPE's recommendations. On the same day, the city hand-delivered a Notice of Violation to Huy Fong Foods. The city advised Huy Fong Foods to take immediate action to develop a plan with short- and long-term solutions to the odor issue. Huy Fong Foods' representative, Ms. Lam, contacted Mr. Romo to confirm the company's commitment to solving the problem and scheduled a follow-up meeting for the next day.

Second Meeting with the City, October 4. Huy Fong Foods representatives had their second meeting with city officials, City Manager Mr. Davidson and Mr. Romo. The city indicated that it

expected a plan to address the odor problem by October 9. The company assured the city that it would hire a consultant.

On October 8, Mr. Tran sent a letter to the city mentioning Huy Fong Foods' commitment to solving the odor problem, however no formal action plan was submitted to the city.

Third meeting with the City, October 16. The City Manager and an attorney for the city had a third meeting with Huy Fong Foods' representatives to discuss the odor issue. At this meeting, David Tran claimed that based on his and his employees' evaluation, there was no odor problem at Huy Fong Foods' facility and that any complaints that made it into the press would simply help him to sell more hot sauce. Tran had decided that corrective action was not necessary. City staff had now met Huy Fong Foods representatives on three different occasions to discuss the need for immediate action. The city concluded that Huy Fong had taken no steps to correct the problem, nor had it submitted an action plan to do so.

City Council Meeting, October 23. At the next City Council meeting, resident Dena Zepeda submitted a signed petition from 18 different household who had experienced symptoms such as eye and throat irritation and headaches because of the chili odors emanating from Huy Fong Foods facility. After the meeting, Huy Fong Foods was informed of the petition and complaints.

Lawsuit and Injunction, October 28. Irwindale filed a lawsuit against Huy Fong Foods and asked for a preliminary injunction immediately prohibiting Huy Fong Foods from operating or using its facility. This was no trivial matter: stopping operations during "grinding season" could jeopardize an entire year's production of hot sauce, and result in a loss of at least \$10 million.

Injunction Denied, October 31. Judge Robert H. O'Brien denied Irwindale's request to temporarily prohibit Huy Fong Foods from operating and set a hearing for November 22 to determine whether the factory needed to be shut down during the company's attempt to fix

the odor problem. As a result, Huy Fong Foods was able to finish processing the 2013 crop of peppers to be used in the whole year's production of sauces.

Partial Shutdown, November 26. In the Nov. 22 hearing, the judge had ordered the partial shutdown of the plant starting Nov. 26 to facilitate expert determination of the cause and possible solutions to the odor. Since Huy Fong Foods had already ground the season's peppers, the shutdown and inspection occurred after the pepper grinding was completed.

The South Coast Air Quality Management District (AQMD) of the state of California was asked to conduct testing for pollutants at the factory. Mr. Mohsen Nazemi, AQMD deputy executive director, reported that AQMD inspectors took air samples from inside the plant in the weeks during the mixing process of the hot sauce. Nazemi noted that a carbon filtration system could mitigate the odors, but since the grinding season had already passed, it remained unclear if the odor problem had been resolved. He concluded:

"We think that a similar type of technology can be used, [but] because they are not doing any grinding, we didn't have the opportunity to measure what type of pollutants are coming off. We believe it might be similar to the mixing operation."

The South Coast Air Quality Management District was unable to find evidence of an air quality violation that would be harmful, nor was there any evidence that the air quality in the city was getting worse (see Exhibit 10).⁵⁵

Second Public Hearing, February 26, 2014. At a second public hearing, the Irwindale City Council heard testimony from several residents who complained about the strong chili odors coming from the Huy Fong Foods factory, as well as from more than a dozen factory employees who implored the council to keep the factory open.

Factory Open to Public, February 27. The day after the second public hearing, David Tran opened the doors of his factory to tours by the public for the first time in 30 years, in order to

build positive relations with the community and gather public opinion about the odors emanating from factory. The tour ended with a free mini bottle of Sriracha, as well as a request to fill out a smell survey.⁵⁶

Exhibit 10. Irwindale Air Quality History by Year

Source: <http://www.homefacts.com>, City of Irwindale

Year	Good	Moderate	Unhealthy
2010	95.38%	4.62%	0.00%
2011	93.73%	6.18%	0.09%
2012	87.78%	12.22%	0.00%
2013	97.25%	2.75%	0.00%
2014	89.07%	10.92%	0.00%
2015	88.93%	10.50%	0.56%
2016	86.17%	13.05%	0.78%
2017	96.92%	3.08%	0.00%

Public Nuisance? On April 9, 2014, the Irwindale City Council met once again on the odor issue. The Council had already determined that the odor emanating from the facility could cause health problem for residents. The Council also determined that Huy Fong Foods had violated its contract with the City of Irwindale.⁵⁷ It was therefore reviewing a motion to officially declare Huy Fong Foods a public nuisance.⁵⁸ (See Exhibit 11 for a definition of Public Nuisance.)

Exhibit 11. Public Nuisance

Source: California Penal Code 370 PC

California defined Public Nuisance as:

“Anything which is injurious to health, or is indecent, or offensive to the senses, or an obstruction to the free use of property, so as to interfere with the comfortable enjoyment of life or property by an entire community or neighborhood, or by any considerable number of persons, or unlawfully obstructs the free passage or use, in the customary manner, of any navigable lake, or river, bay, stream, canal, or basin, or any public park, square, street, or highway.”

In addition to the conclusions of the consulting firm SWAPE that harmful odor levels were found in multiple areas around the city, the Council had the results of a survey of Irwindale residents. Forty percent of residents said that they could identify the smell from the Huy Fong Foods factory, and 16% of them found it harmful.

Nonetheless, the South Coast Air Quality Management District could not find enough evidence of a harmful odor in order to justify issuing a violation. Data provided by AQMD showed that about two-thirds of the 61 complaints had come from just four households in a city of 1,400 residents. Some of the most intensive complaints were from Irwindale City Councilman Hector Ortiz's son, Manuel Ortiz, according to court records.⁵⁹

A map of the neighborhoods surrounding the factory is provided in Exhibit 12, with the letter F indicating the Huy Fong Foods factory and most of the complaints coming from the neighborhood with the letter N.

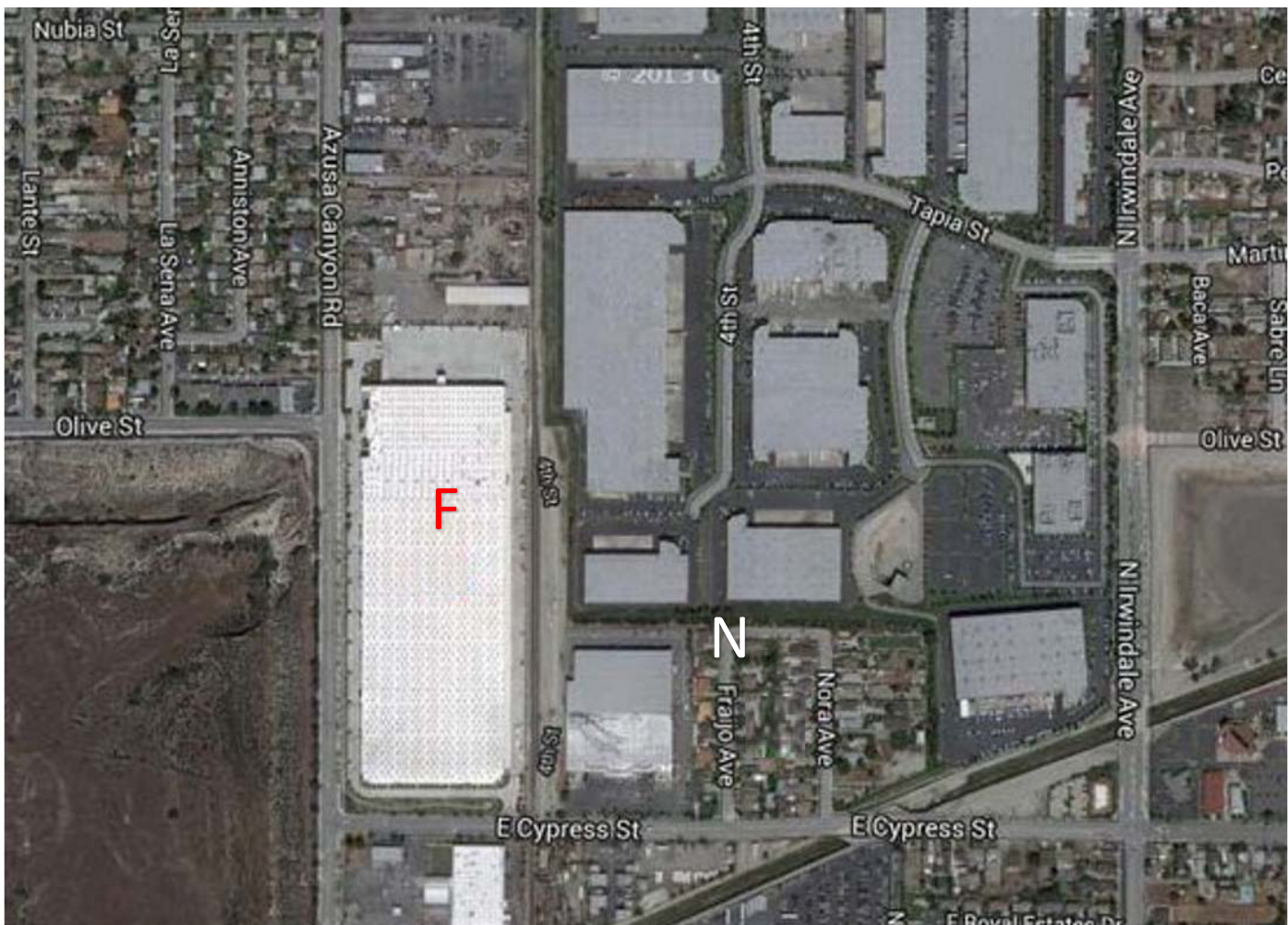
At the April 9 public hearing, new testimony came from local politicians pledging support for Huy Fong Foods. A statement from State Senator Ed Hernandez (D-West Covina) read:

*"I ask that the city of Irwindale reject this inflammatory and unnecessary public nuisance designation and work constructively with Huy Fong Foods to resolve these issues. If not, I'm certain there are a number of cities right here in the San Gabriel Valley who would be happy to have a business like Huy Fong Foods in their community."*⁶⁰

Before the vote to declare – or not – the company all public nuisance, Huy Fong Foods' attorney, John Tate, told the council that Huy Fong Foods would prepare – within 10 days – a timeline to mitigate the odors emanating from the factory. Tate mentioned that the company would be able to fix the odor problem on or before June 1, 2014, before the next chili grinding season (late August).

Exhibit 12. Locations of Complaining Households in Irwindale

Source: <http://www.occonnect.com/community/viewtopic.php?t=21596>, Orange County Forums

***Tran Considers Relocation***

David Tran began to consider relocating the factory. Politicians and business leaders in and outside of California offered to host Huy Fong Foods. Tran invited them to tour the factory to see if the odor would be acceptable in their community or not.

A member of the U.S. House of Representatives, Tony Cardenas, visited the hot sauce factory and invited David Tran to relocate the factory to his district in the San Fernando Valley:

"Why move thousands of miles, when you can keep jobs in California, the state you founded your successful company in?"⁶¹ There are lots of places in SoCal, and Tran provides more than 200 jobs making a nationally and internationally recognized product."⁶²

A coalition of Texas lawmakers visited the factory to present their case for relocation to the Lone Star State. Texas, Rep. Jason Villalba said:

"As a long-time fan of Sriracha, I am deeply troubled that one of the fastest growing and universally beloved condiments in the world - made right here in the USA - could face such blatant obstructionism by a local city government."⁶³

Texas was aggressively recruiting California companies. Texas had more than \$500 million dollars in an enterprise fund to create incentives for relocating business that would create employment. (See Appendix B for a description of California's and Texas' Incentive Plans for businesses.) *"Sriracha may not be welcome in California, but you'd be welcome with open arms and eager taste buds in Texas,"* Senator Ted Cruz (R-Texas) posted on Twitter.⁶⁴ One member of the Texas delegation, Texas state Senator Carlos Uresti, impressed by both the factory and David Tran, expressed his amazement with Irwindale's behavior:

"It's a fascinating company. You have to step back and scratch your head and wonder why his company is being treated the way it is."⁶⁵

David Tran decided that he wanted to reduce the leverage the city had over the factory. In 2013, Huy Fong Foods took out a loan from the East West Bank and repaid in full the outstanding balance on Irwindale's loan of \$15 million for the land purchase. This action deprived the city of more than \$650,000 in interest earnings per year. There was also one fewer reason to remain in the city.

Irwindale Drops Lawsuit and Tables Public Nuisance Resolution, May 28

Both parties agreed to mediation, and the Office of the Governor of California stepped in to help the parties agree on a solution to the dispute. On May 28, 2014, the Irwindale City Council dropped the lawsuit against Huy Fong Foods and tabled the resolution declaring the factory a

public nuisance. City officials noted that Huy Fong Foods had finally made a specific written commitment to solving the smell issue, and City Council members unanimously voted for a motion to dismiss the matter. Glad to put the matter behind him, Irwindale Mayor Mark Breceda concluded:

“We’re almost sorry that this has gone on so long. We’re looking forward to being partners for a very long time.”⁶⁶

John Tate, attorney for Huy Fong Foods, mentioned that the council’s decision was not a result of any legal settlement. *“Management met with the mayor, and they had a frank discussion which resulted in a willingness to work together,”⁶⁷* Tate said. City officials said that they would visit the Huy Fong Foods facility at the beginning of the pepper’s harvesting season in the fall. David Tran mentioned that he had made some changes to their filtration system at the Huy Fong Foods plant, and he promised in a letter to the council to fix whatever odor issues the city had identified. Tran’s son-in-law and Huy Fong’s Director of Operations, Adam Holliday, concluded:

“We are obviously happy with the decision the city made to drop the lawsuit and will continue to make a quality product for everyone to enjoy. We feel confident that the system we have is adequate and we believe that the troubles with the city are over.”⁶⁸

To all parties, it seemed that the matter had been put to rest, but had the relationship between the city and the company been irreparably damaged? For the next two years, Huy Fong Foods continued to grind peppers and make more and more Sriracha sauce without complaints or incidents.

Back in Court: Suit and Countersuit

In May 2016, two years after the city of Irwindale had dropped its lawsuit against Huy Fong Foods and suspended its resolution declaring the factory a public nuisance, the city filed another lawsuit against the company. The city claimed that Huy Fong Foods had failed to make

the payments to the city it had agreed to in the development deal; the total amount owed was \$427,086.⁶⁹ A journalist for the magazine *Munchies* put it succinctly:

“Clearly, the city of Irwindale is not as excited as the rest of the world about Sriracha being the biggest thing to happen to hot sauces since the chili pepper.”⁷⁰

David Tran released the following statement:

“From the beginning, I offered to contribute \$250,000 per year for 10 years for the benefit of the Irwindale community through the city of Irwindale. But because we had this odor issue where all five of the City Council members unanimously declared us a public nuisance, without real basis, I feel that Huy Fong Foods is being treated unfairly, so I stop the contributions.”⁷¹

The city’s lawsuit noted that Huy Fong Foods had made payments on time from 2012 to 2014, but had failed to make additional payments after that date. The city sent the company a notice of default in May 2015.⁷² Company and city representatives met and agreed to defer the fourth payment (without late fee or interest) and combine it with the fifth payment by November 23, 2015. The city then informed the company that the sixth payment would be due in January 2017 and all remaining payments would be due in January of each year until the full \$2.5 million had been paid.⁷³

In August 2015, Huy Fong Foods delivered a letter to the city saying that it would make no further “contributions” until the city organized a meeting between the company and the complaining residents. The city replied that the payments were not contributions, but instead requirements of the company’s operating agreement.⁷⁴ It also wrote that it was open to organizing a meeting between the company and the general public, but that the odor complaints from 2014 were no longer an issue. Irwindale city Attorney Fred Galante explained that although the city wanted to avoid another lawsuit, it had little choice:

“We [The city of Irwindale] tried to talk to them and we sent them written communication asking them to pay, but they have made it very clear that they will not pay. They hold negative feelings about the lawsuit we were forced to file a couple of years ago.”⁷⁵

In July 2016, Huy Fong Foods filed a countersuit against the city of Irwindale, alleging that the city had embarked on a “campaign of harassment” against the hot sauce maker, demanding a return of the \$750,000 in fees that, according to the company, it had voluntarily paid to the city. The company also claimed that the fees the city claimed were invalid,⁷⁶ and that Huy Fong Foods’ contributions were entirely voluntary. The lawsuit claimed:

“In the summer of 2014, information was published revealing that [the city] had embarked on a long campaign to impose expensive and unnecessary odor abatement measures on Huy Fong Foods and even to shut down its manufacturing facility. After falling victim to this campaign of harassment at the hands of [the city] ... Huy Fong Foods decided not to make further contributions to a city openly hostile to its business interests.”⁷⁷

Moving Forward

David Tran was not convinced that the city had truly put to rest the odor issue. What if residents once again complained? Irwindale City Councilmember Albert Ambriz had remarked,

“I still feel there’s enough verbal and documentary evidence to constitute this as a public nuisance.”⁷⁸

Would the problems resurface with the next pepper grinding season? Perhaps some other complaints would surface. Clearly, the honeymoon between Irwindale and Huy Fong Foods was over. Did it make sense for the company to remain in a city where it did not feel welcome? Should David Tran re-consider moving elsewhere in California, or perhaps to Texas? And, to make matters more complicated, Tran also had to deal with his lawsuit against Underwood Ranches, his chili pepper supplier for over 30 years. How would this supply-chain problem affect his California-based hot sauce company?

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Appendix A

The Scoville Heat Scale

Source: www.chilliworld.com**Scoville Heat Units Chili Pepper / Hot Sauce**

16,000,000	Pure capsaicin and Dihydrocapsaicin
9,100,000	Nordihydrocapsaicin
8,600,000	Homodihydrocapsaicin and Homocapsaicin
5,300,000	Police grade Pepper spray
4,000,000	Mad Dog 44 Magnum Pepper Extract, from Ashley Food Company, Inc.
2,000,000	Common Pepper spray
1,000,000	Cool Million Pepper Extract, from the Poison Pepper Co.
1,000,000	1 Million Scoville Pepper Extract, from Ashley Food Company, Inc.
800,000	Satan's Blood, from Sauce Crafters Inc.
700,000	The Slap Heard Around the World, from Tijuana Flats
600 - 900,000	Blair's 2 A.M., from Gardner Resources, Inc.
550,000	Blair's Mega Death Sauce, from Gardner Resources, Inc.
400 - 500,000	Spontaneous Combustion Powder, from Southwest Specialty Foods Inc.
350,000	Marie Sharp's Belizean Heat, from Marie Sharp's Fine Foods, Ltd.
283,000	Blair's Possible Side Effects, from Gardner Resources, Inc.
250,000	Vicious Viper, from CaJohns Fiery Foods
234,000	Da' Bomb Ground Zero, from Original Juan Specialty Foods
225,000	Not Cool Chocolate Habanero from Bahama Specialty Foods, Inc.
125,000	Crazy Jerry's Mustard Gas
100 - 350,000	Habanero (<i>Capsicum chinense</i> Jacquin)
100 - 325,000	Scotch bonnet (<i>Capsicum chinense</i>)
75,000	Chile-Today Red Amazon Powder
30 -50,000	Lottie's Original Barbados Red Hot
30 - 50,000	Tabasco pepper (<i>Capsicum frutescens</i>)
15 – 30,000	Lottie's Traditional Barbados Yellow
7,000 - 8,000	TABASCO® brand Habanero Pepper Sauce
5,000 - 10,000	Chipotle, a Jalapeño pepper that has been smoked.
2,500 - 5,000	Original TABASCO® brand Pepper Sauce
2,085	FRANK'S® REDHOT® XTRA Hot, from Reckitt Benckiser Inc.
1,000 - 2,500	Sriracha hot Sauce
1,500 - 2,500	TABASCO® brand Chipotle Pepper Sauce
1,200 - 2,400	TABASCO® brand Garlic Pepper Sauce
747	Texas Pete®, from T.W. Garner Food Co.
600 - 1,200	TABASCO® brand Green Pepper Sauce
450	FRANK'S® REDHOT® Original
100 - 600	TABASCO® brand SWEET & Spicy Pepper Sauce
100 - 500	Pimento
0	Sweet Bell pepper

Appendix B California vs. Texas in Fight to Attract and Retain Businesses

According to Spectrum, there were 1,669 California disinvestment events, worth more than \$70.5 million, from 2008 to 2015.⁷⁹ During that period, roughly 9,000 California companies moved their headquarters to out-of-state locations, including Toyota USA, Chevron, and Nestlé USA.⁸⁰ Many of the firms that left California established themselves in Texas (see Exhibits 12 and 13).

The California Competes Tax Credit program was an income tax credit available to businesses who wanted to come, stay, or grow in California. For fiscal year 2017-18, California was accepting applications for up to \$230.4 million dollars in tax credits.

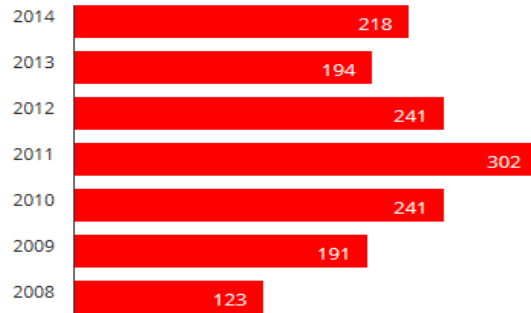
Although Texas gave up more than \$500 million from its Enterprise Fund and hundreds of millions of dollars in local property tax breaks to attract businesses, some Texas legislators had started to question why Texas paid so much to companies that accounted for a tiny fraction of the state's job growth. The policy group Good Jobs First found that the gain of jobs from reallocation to Texas amounted to about 0.03% each year. A similar study by the Public Policy Institute of California found that even when California was losing jobs to other states, those losses amounted to less than 0.1% of total jobs.

California's system was different from Texas' program in some key points. The California Competes program was structured as a tax credit rather than an upfront cash grants. This feature gave California more leverage if companies couldn't come through on their end of agreement. "*We're not writing a check,*" said Will Koch, a Deputy Director who oversaw the program in Gov. Jerry Brown's Office of Business and Economic Development.⁸¹

Exhibit 13. California and Texas Business Gains and Losses

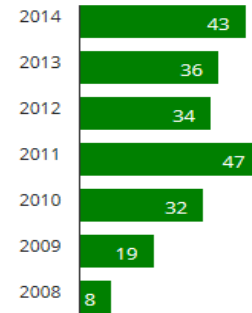
Source: Dallas News, <http://interactives.dallasnews.com/2015/ca-biz-relocation/>

Calif. business losses by year



1,510 total businesses lost

Texas business gains by year



219 total businesses gained

Exhibit 14. California vs. Texas

Source: *Forbes* Best for Business, Nov. 2016, www.forbes.com

	California	Texas
Gross State Product	\$ 2,459 Billion	\$ 1,587 Billion
Population	39,250,000	27,862,600
Cost of Doing Business	12.4 % > Nat'l avg.	10% < Nat'l avg.
Forbes Rank, Best States for Business	# 30	# 4
Forbes Rank, Business Costs	# 43	# 4
Forbes Rank, Labor Supply	# 18	# 8
Forbes Rank, Regulatory Environment	# 25	# 45

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GETMA ACADEMY AND GROUP-PRICE DIFFERENTIATION

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Chief Master Kiera Lee and Senior Master Ryan Lee had studied and taught Taekwondo for more than 35 years combined. They were both highly respected members of the American Taekwondo Association (ATA). Chief Master Lee was an 8th Degree Black Belt, a senior ranking member of the ATA, and a trainer of all forms of combat weapons. Senior Master Lee was a 7th Degree Black Belt and a senior ranking tournament coordinator and judge. He was a coach and advisor to the US Olympic Taekwondo team. Together, the Lees owned Geonganghan (Healthy) Taekwondo Martial Art (GETMA) Academy in Tampa, Florida. Initially the school was located in a strip mall, but five years later, it re-located to a new free-standing building in an industrial park in the Tampa Bay area. Since opening in the new location, the academy was thriving in terms of number of students, but revenues were below expectations.

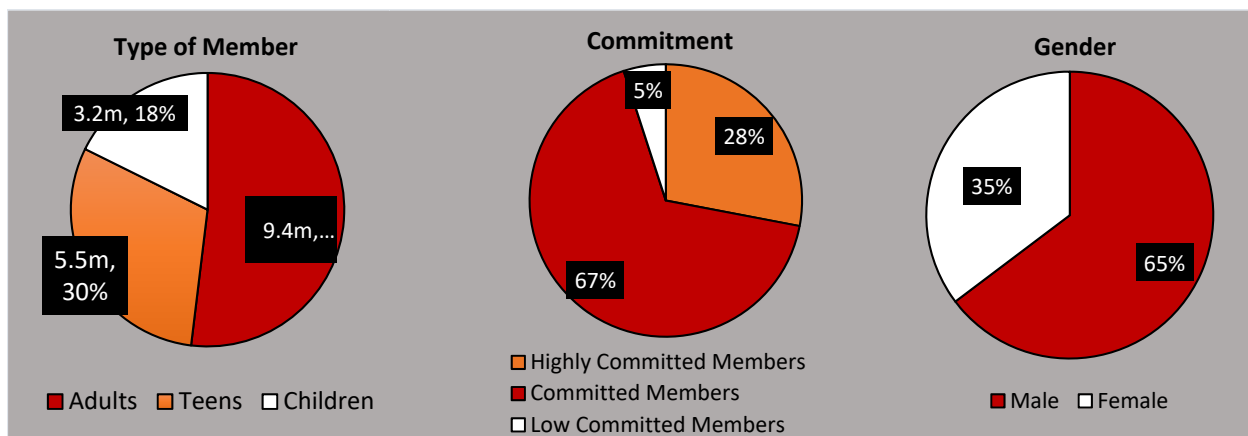
The Lees were concerned about the long-term viability of the school, and wanted to know how to improve the financial outlook of their business. Senior Master Lee approached Mark Polatz, a dedicated and committed member of the GETMA family, who recently completed an MBA degree, to discuss the school's financial position. After reviewing all pertinent information, Polatz prepared a business report for the Lees' evaluation and approval.

The Martial Arts Industry

In 2015, the martial arts industry was thriving in the U.S. Instruction of karate, kendo, judo, jiu jitsu, taekwondo, and mixed martial arts (MMA) was a \$4 billion-a-year revenue industry, with average annual growth of 5.3% in the period 2011–2015 (Diment 2016). It was estimated that the industry would continue growing at a conservative rate of 4% over the next 5 years.

Figure 1. Martial Art Industry Demographics

Source: Authors' Calculations Using Data from Moore (2011) and Diment (2016).



Note: Highly committed member = students attending at least three times per week. Committed member = students attending at least two times per week. Low commitment member = student attending less than two time per week.

The demand for martial arts instruction was driven by two main factors: income and preference. As the U.S. economy recovered from the 2008–2009 recession, families experienced more disposable income for recreation and sports. At the same time, several MMA fights reached more than 1.8 million viewers, corroborating the increasing popularity of this type of sport (Holland 2017).¹ In 2015, more than 18 million Americans studied martial arts, and over half of those students were adults (Figure 1). From this group, 28% studied martial arts “every chance they get” and were committed members of a school, eager to earn

¹ Other factors explaining the market demand for martial arts are related to interest in cultural exchange, mental control, physical fitness, and self-defence (Ko and Pastore 2005).

Black Belt ranks. The remaining 72% were members that participated about twice a week, and viewed martial arts schools as another form of gym or sport club. More specifically, Kim et al. (2009) and Ko and Pastore (2005) found that long-term members of martial art schools were interested in the expertise and quality of instruction, while new customers were concerned about flexible payments, reasonable membership fees, and flexible refunds and cancellations.

Considered a highly competitive industry, more than 67,200 martial arts studios and schools operated in the U.S. (Dimint 2016). There were low barriers to entry, since capital costs were low, specialized equipment was marginal, and a qualified labor force was reasonably available. Most of these businesses were small schools serving local markets, and those with highly ranked trainers fostered a group of loyal students. This was the case in Tampa, Florida, where well-known trainers in MMA and Taekwondo opened Martial Arts studios (see Appendix D).

Geonganghan (Healthy) Taekwondo Martial Arts Academy

Senior Master Lee reached out to Mark Polatz, a committed GETMA Academy student with a business background, to assist him with business alternatives to achieve long-term financial sustainability of the school. Polatz set out to evaluate all aspects of the operation, including competitors near the Tampa Bay area, revenues, and cost structure. Due to the loyalty observed among a group of GETMA students, Polatz believed that prices could be safely raised without significantly affecting student retention rates. The problem was to determine a new set of prices under this highly competitive environment. The means of resolving the dilemma was to verify the different groups of students attending martial arts schools, and estimate their demand structures and price-elasticities per group.

The GETMA Academy had two types of students: affiliated and unaffiliated members. An affiliated member had studied for more than two years, and attended classes at least three times per week. An unaffiliated member was new to martial arts training, or attended classes irregularly (Figure 2 provides information about GETMA Academy members.) Polatz noticed

that unaffiliated members (those in Groupon and Basic memberships) were more fluctuating throughout the year than affiliated members (Advanced, Leader, and Heritage memberships). For instance, the number of students in Groupon dropped from 25 in January to six in March, and increased to 12 in May, while the Leader group was steady throughout the year at around 10 students (see Figure 2). In addition, he found that 80% of the students under Advanced membership were affiliated members. That is, the GETMA Academy had a ratio of 73% of affiliated-to-total members, a value significantly above the industry's ratio of 28% (Figure 1), and above the taekwondo schools' ratio of 50% (Kim et al. 2009).

Polatz conjectured that affiliated members displayed less price-elastic demand, that is, they were less sensitive toward price changes than were unaffiliated members. Affiliated members recognized and valued the high quality of instruction. However, GETMA Academy offered similar prices for all types of members (see Figure 2). There were two available choices: (1) \$95 and the right to attend a maximum of two classes per week (except Groupon students, who paid \$60 for the first month), or (2) \$120 and the right to attend any day of the week. The GETMA Academy was open six days a week. About 90% of the unaffiliated members chose option (1), 80% of the Advanced members chose option (2), and 100% of Leader and Heritage members chose option (2); verifying the high proportion of affiliated members in the school.

GETMA Academy financials were in good order (see Appendix A). The monthly number of students was almost at the full capacity of 130. There were no full-time employees, and thus, most costs were deemed as fixed costs, such as mortgage, utilities, insurance, and franchise fees. Appendix B compares ratios between the industry and the GETMA Academy. The school showed some advantages regarding variable costs (Industry wages = 34%, GETMA wages = 17.1%), but it also displayed higher fixed costs than those observed in the industry. Polatz considered that GETMA's costs and marketing strategy were in line with the industry's figures; thus, the analysis should focus on pricing.

Figure 2. GETMA Affiliated and Nonaffiliated Members

Source: Owners' Information

	Price	Jan-15	Mar-15	May-15	Jul-15	Sep-15	Dec-15	2015 Average
Groupon	\$60.00	25	6	12	11	10	5	15
Basic Membership	\$102.00	18	20	16	24	12	14	18
Advanced Membership	\$116.00	70	70	70	74	74	70	71
Leader Membership	\$120.00	10	10	10	11	10	12	11
Heritage Membership	\$120.00	5	5	5	5	6	6	5
Total Member Count		128	111	113	125	112	107	120

Note: Selective months in 2015. Price = average monthly membership fee per group. For example, 90% of Basic members paid \$100, while 10% paid \$125. Customers under "Groupon" and "Basic" memberships were considered unaffiliated members. "Advanced", "Leader", and "Heritage" memberships were affiliated members. Groupon's price included only one month; afterward, the member paid the Basic membership fee.

Group-Price Differentiation Strategy

A "reservation price" was the maximum dollar value each consumer was willing to pay for a product or service. In most cases, consumers paid market value, which was below their reservation price, producing a consumer surplus. Ideally, a firm would estimate the reservation price for each of its customers and charge a price just below that value, capturing most of the consumer surplus. GETMA might not be able to determine each customer's reservation price, but it could engage in *group-price differentiation*, also known as *third-degree price discrimination*. That is, customers could be divided into two or more groups according to their price-elasticities. Then, the academy could set different prices for each group using a costly-efficient procedure. This strategy worked when a firm could identify groups with different reservation prices, and could prevent resale of the product or service.

Polatz's first step was to estimate the demand for martial arts training in the Tampa Bay area. Information from a sample of 10 martial art schools near the area delivered the following conclusions:²

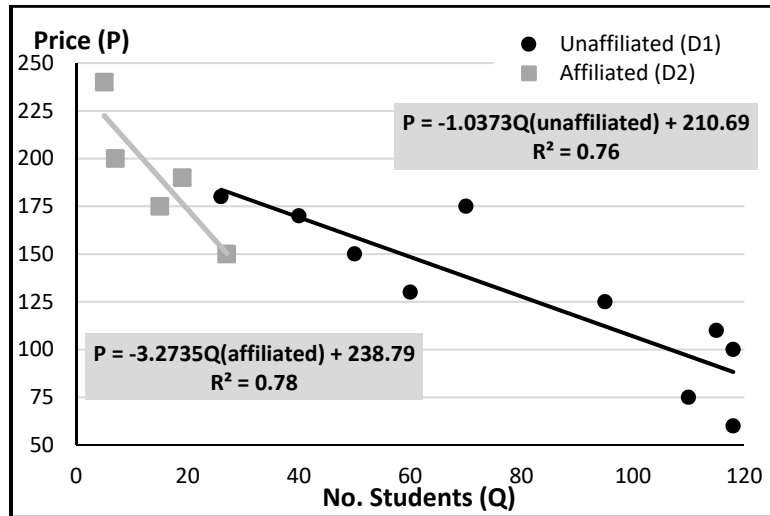
- (1) Out of the 10 schools surveyed, eight did not provide a list of printed or online prices. Prices were provided verbally, which implied that schools in the area were using some form of price-differentiation, bundle-pricing, optional-price strategies, or a combination.
- (2) On average, 62% of members in these schools were classified as "unaffiliated members." They were training for fewer than two years, or attended classes less than twice a week.
- (3) On average, 38% of members in these schools were classified as "affiliated members." That is, each was a highly committed student, with more than two years attending classes regularly, and with a sense of allegiance to the school.
- (4) In the case of the GETMA Academy, 73% of school members were considered affiliated members, a value significantly higher than enjoyed by competitors.

Using information from the 10 schools, Polatz calculated the demand equations corresponding to this area. Figure 3 provides the unaffiliated (D1) and affiliated (D2) demand curves and the corresponding equations.

² Appendix C provides detailed information about the data collected from the 10 martial arts schools in the Tampa Bay area. Several calls and visits were conducted to determine current prices per member and numbers of students. Some of the schools in the area were: Gracie PAC MMA (<http://www.gracietampasouth.com/>), Martial Arts Advantage (<http://martialartsadvantage.com/>), World Taekwondo USA (<http://www.worldtaekwondousa.com/>), Tampa Muay Thai (<http://www.tampamuaythai.com/kmt/>), Kowkabany's Family Martial Arts (<http://teamkowkabany.com/>), and Taekwondo Center South Tampa (<http://www.southtampataekwondo.com/>).

Figure 3. Affiliated and Unaffiliated Demand Curves

Source: Authors' Calculations Based on Information in Appendix C



Note: Demand equations were calculated using regression analysis in Excel. R^2 values close to one provide evidence of good fitness of the equation.

Before making inferences about the results in Figure 3, Polatz knew that some limitations about the information needed to be addressed. Some martial arts schools and studios did not provide a printed or online list of prices; and the “entrance membership” fees, or an unaffiliated member price were provided by phone. In most cases, affiliated members’ fees were unavailable; thus, this information was obtained from former students, and not directly from the schools. In spite of these constraints, Figure 3 showed a clear difference in members’ sensitivity toward prices.

Using the demand equations found in Figure 3 and the GETMA Academy’s financial records, Polatz calculated the optimal prices in each of these market segments. Figure 4(a) shows that, on average, GETMA could maximize profits by setting a price of \$113.86 for unaffiliated members. Similarly, Figure 4(b) provides an optimal price of \$127.91 for affiliated members. Given these results, the GETMA Academy had an opportunity to increase prices in both groups without significantly affecting the number of memberships, thus, increasing profits.

After calculating optimal prices, Polatz was ready to present a final report to Chief Master Lee and Senior Master Lee. Polatz knew that the suggested monthly price for the unaffiliated group must be in the range of \$102 (current price for Basic membership) and \$114 (optimal price based on market demand D1.) Similarly, the monthly fee for the affiliated group must be in the range of \$116 (current price for Advanced membership) and \$128 (optimal price based on market demand D2). Polatz suggested a price of \$110 for Basic membership, and \$125 for Advanced membership (about 8% increase in both cases). The promotional price for Groupon should be kept at \$60 and Leader and Heritage membership prices should be increased to the same price as Advanced membership.³

³ Polatz did not calculate the demand curves for these groups. Thus, he recommended no changes in the prices of Groupon. He assumed that Leader and Heritage students were even less price-sensitive than Advanced students; and thus, the price could be raised to \$125.

Figure 4. Group-Price Differentiation and Optimal Prices

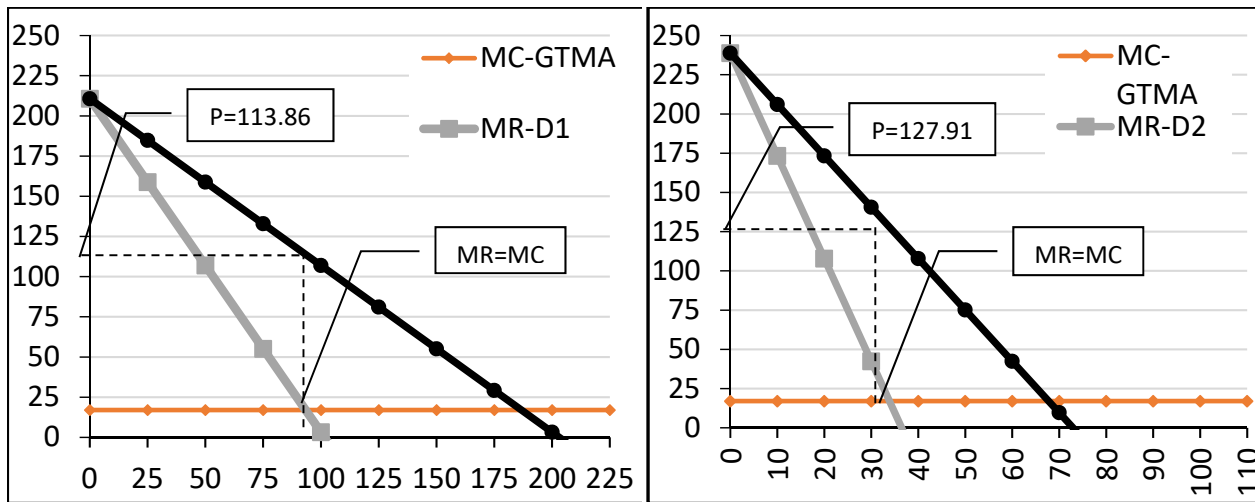


Figure 4(a)

Figure 4(b)

<p>TR = P(unaffiliated) x Q $TR = (-1.0373Q + 210.69)Q$ $= -1.0373Q^2 + 210.69Q$ $MR = \partial TR / \partial Q = -2.075Q + 210.69$ $MC = 17.04$ Maximizing Profit Condition: MR = MC $-2.075Q + 210.69 = 17.04$ Optimal Q = 93 Optimal Price—unaffiliated members = \$113.86</p>	<p>TR = P(affiliated) x Q $TR = (-3.2735Q + 238.79)Q$ $= -3.2735Q^2 + 238.79Q$ $MR = \partial TR / \partial Q = -6.547Q + 238.79$ $MC = 17.04$ Maximizing Profit Condition: MR = MC $-6.547Q + 238.79 = 17.04$ Optimal Q = 34 Optimal Price—affiliated members = \$127.91</p>
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Note: $P(\text{unaffiliated}) = -1.0373Q(\text{unaffiliated}) + 210.69$ and $P(\text{affiliated}) = -3.2735Q(\text{affiliated}) + 238.79$ came from Figure 3. Terms: Total Revenue (TR) = Price*members (Q); marginal revenue (MR) = first derivative of TR with respect to Q; marginal cost (MC) = change in total costs/change in number of students (see MC calculations in Appendix A).

Under this new set of prices, annual profits would increase from the current \$17,748 to a healthier \$28,055, taking the ratio of profits-to-revenue from 9.3 to 14% (Figure 5).

Figure 5. Suggested Pricing List and Profits

Source: Other Revenues and Total Costs Come from Appendix A and Owners' Information

	Current Prices			Polatz Recommendation		
	Price	No.	TR	Price	No.	TR
Groupon	60	15	910	60	15	910
Basic Membership	102	18	1,785	110	18	1,925
Advanced Membership	116	71	8,246	125	71	8,885
Leader Membership	120	11	1,260	125	11	1,313
Heritage Membership	120	5	640	125	5	667
Annual Figures						
Membership revenues	154,088			164,395		
Other revenues	36,219			36,219		
Total Revenues	190,307			200,614		
Total Costs	172,559			172,559		
Total Profits	17,748			28,055		
Profits-to-revenue	9.3%			14.0%		

Note: The suggested increase in prices was based on the optimal results found in Figure 4. For instance, the optimal price for unaffiliated members is \$113.86 and Polatz suggested a price of \$110. The number of students was the monthly average of students per group from Figure 2.

Conclusion

The GETMA Academy's prices were below the calculated market demand capacity, and the recommended prices by Polatz were conservative. He expected no changes in the current number of members. He recognized that this assumption might not hold given the proximity of alternative martial arts school in the area, but trusted that the GETMA Academy had a closely devoted group of members, who were able to recognize the higher quality of instruction. Polatz was also concerned about the sample size in constructing the demand equations.



Karla Borja is an Associate Professor of Economics in the School of Business at the University of Tampa, in Tampa, Florida. Dr. Borja is an active scholar currently exploring economic development issues in the region of Latin America. Dr. Borja is also consulting small businesses in the Tampa Bay area. From her collaboration with the business community, she has published several case studies on game theory and asymmetric information, screening devices in the labor market, and optimal pricing strategy. For detailed information on Dr. Borja's publications, go to her webpage at <http://www.ut.edu/KarlaBorja/>.



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Christopher Wettengel earned his Bachelor's degree in Business Administration with a major in Hotel & Restaurant Management from the University of Denver in 1993. He spent over 16 years as a manager in the restaurant business before starting his own business. After several years developing and managing his own business, he returned to work for Robert Half International as a Recruiting Manager. Today Christopher is a Regional Director of Recruiting for Goodwin Recruiting. Christopher earned his MBA from the University of Tampa in 2018.

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Appendix A
GETMA Financial Statements – 2015

Revenues (Sales)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Groupon	1,500	1,020	360	1,680	720	480	660	480	600	1,920	1,200	300
Basic Membership	1,836	1,530	2,040	1,224	1,632	2,856	2,448	2,652	1,224	1,020	1,530	1,428
Advanced Membership	8,120	8,352	8,120	8,004	8,120	8,584	8,584	8,352	8,584	8,120	7,888	8,120
Leader Membership	1,200	1,200	1,200	1,200	1,200	1,320	1,320	1,320	1,200	1,200	1,320	1,440
Heritage Membership	600	600	600	600	600	600	600	600	720	720	720	720
Equipment/clothing	950	865	650	650	725	950	975	850	675	700	650	550
Testing Fees	-	2,725	-	2,725	-	2,725	-	2,978	-	2,951	-	2,725
Special Events/Seminars	-	1,200	-	1,200	-	1,600	1,800	1,600	-	1,200	-	1,600
Total Revenue	14,206	17,492	12,970	17,283	12,997	19,115	16,387	18,832	13,003	17,831	13,308	16,883
Expenses	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Masters' wages	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Part-time trainer wages	767	610	420	681	570	767	750	680	465	688	646	390
ATA Fees	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750
Supplies	50	50	50	50	50	50	50	50	50	50	50	50
Maintainance	250	250	250	900	250	2,550	250	250	375	250	250	250
Car & transport	625	625	625	625	625	625	625	625	625	625	625	625
Advertising	600	-	-	560	-	-	600	-	-	-	-	640
Mortgage	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650	3,650
Telephone/Internet	65	65	65	65	65	65	65	65	65	65	65	65
Utilities	375	358	360	362	459	572	675	724	710	624	424	325
Insurance	1,652	1,652	1,652	1,652	1,652	1,652	1,652	1,652	1,652	1,652	1,652	1,652
Taxes (real estate, etc.)	2,439	2,840	2,292	2,917	2,346	3,014	2,355	3,034	2,342	2,928	2,402	2,807
Interest	27	22	19	21	23	19	17	13	23	26	24	27
Total Costs	14,350	13,972	13,233	15,333	13,540	16,814	14,539	14,593	13,806	14,408	13,638	14,331
Net Profits	(144)	3,520	(263)	1,950	(543)	2,301	1,848	4,238	(803)	3,423	(330)	2,552
No. Students	128	119	111	124	113	126	125	122	112	128	120	107

Note: Total Cost (TC) = Fixed costs (FC) + Variable Costs (VC); VC = Part-time trainer wages. Thus, $TC = 13,135 + 17.04Q$, Q = number of students. The values in this equation represented the monthly average of FC and VC. MC = change in total costs per change in Q, or $MC = 17.04$. Source: Information provided by the owners of GETMA.

**Appendix B
Industry and GETMA Financial Ratios**

	Industry Ratios	KFMA Ratios
Profits-to-revenues	13.9%	9.3%
Wages-to-revenues	34.0%	17.1%
Rent+Utility-to-revenues	11.7%	26.2%
Marketing-to-revenues	2.5%	1.5%
Insurance-to-revenue	10.0%	10.4%

Notes: Industry = "Martial Art Studios in the US". This industry included establishments that offer instruction in martial arts, such as karate, kendo, judo, jiu jitsu, taekwondo, and mixed martial arts, among others in the U.S. Source: Diment (2016) and author’s calculations from data in Appendix 1.

**Appendix C
Prices and Quantities from Martial Art Schools in the Tampa Bay Area**

Unaffiliated (D1)			Affiliated (D2)		
School	Price	No. Students	School	Price	No. Students
A	60	118	A	150	27
B	75	110	B	175	15
C	100	118	C	190	19
D	110	115	D	200	7
E	125	95	E	240	5
F	130	60			
G	150	50			
H	175	70			
I	170	40			
J	180	26			

Note: Data were collected from 10 martial arts schools in the Tampa Bay area. These schools were chosen based on proximity (20 miles radius from GETMA.) The 10 schools represent about 80% of all martial arts schools and academies near GETMA. Information was collected from schools’ owners, employees, or students. Some schools did not provide the number of members per month, thus, the authors calculated an approximate number based on the weekly schedule and average number of students per class. Some of the schools in the area were: Gracie PAC MMA (<http://www.gracietampasouth.com/>), Martial Arts Advantage (<http://martialartsadvantage.com/>), World Taekwondo USA (<http://www.worldtaekwondousa.com/>), Tampa Muay Thai (<http://www.tampamuaythai.com/kmt/>), Kowkabany’s Family Martial Arts (<http://teamkowkabany.com/>), and Tae Kwon Do Center South Tampa (<http://www.southtampataekwondo.com/>).

Appendix D

Some of the Leading Martial Arts Schools in Tampa, FL



Master Arroyo is a UFC veteran and was a semifinalist on the Ultimate Fighter Season 6 on Spike TV. He has been training for over 12 years. Master Arroyo won Abu Dhabi Combat Club East Coast US Trials in December 2014 and competed in the Olympics of Jiu Jitsu in Brazil 2015. He was also featured in the UFC Undisputed 2009 video game for Xbox and PlayStation.



MATT ARROYO'S
GRACIE TAMPA
SOUTH MMA

Master Arroyo teaches seminars all across the country and has co-wrote a book with Master Rob Kahn called the "BJJ Manifesto." They also produced a DVD Instructional series called the No Gi Library. Source: <http://www.gracietampasouth.com/>

Chief Master Laura Kowkabany and Sr. Master David Kowkabany are nationally recognized as one of the best husband and wife teaching teams in the country! Together, they have 75 years of martial arts training, and over 55 years experience in teaching children and adults.



In 2013, Chief Master Laura Kowkabany earned the title of Senior Master her current rank of 8th Degree Black Belt. After 40 years of training, she has been inducted into the ATA Hall of Fame. Senior Master

David Kowkabany is a State Champion in Weapons, and currently holds the position of international judge. In 2011, he earned his 7th Degree Black Belt, and in 2012, his current title of Senior Master. Source: <http://teamkowkabany.com/about-us/>



Kwan Jang-Nim Gerhard Brunner was born in Munich, Germany and has been practicing Tae-Kwon-Do for 37 years. He is currently a 7th Dan black belt and has been teaching for over 30 years. Master Brunner has gained international recognition and numerous awards throughout the years, including the Hall of Fame Award for Outstanding Traditional Leadership. After establishing nine schools in Germany he opened the first Traditional Tae-Kwon-Do Center in Tampa, Florida in 1997.

Source: [http://www.southtampataekwondo.com/about/master-](http://www.southtampataekwondo.com/about/master-brunner)



[brunner](#)

BHEL HARIDWAR: THE MAKING OF A WORLD-CLASS INDIAN PUBLIC ENTERPRISE

BALVIR TALWAR

Bharat Heavy Electricals Limited

SAT PARASHAR

University of California, San Diego

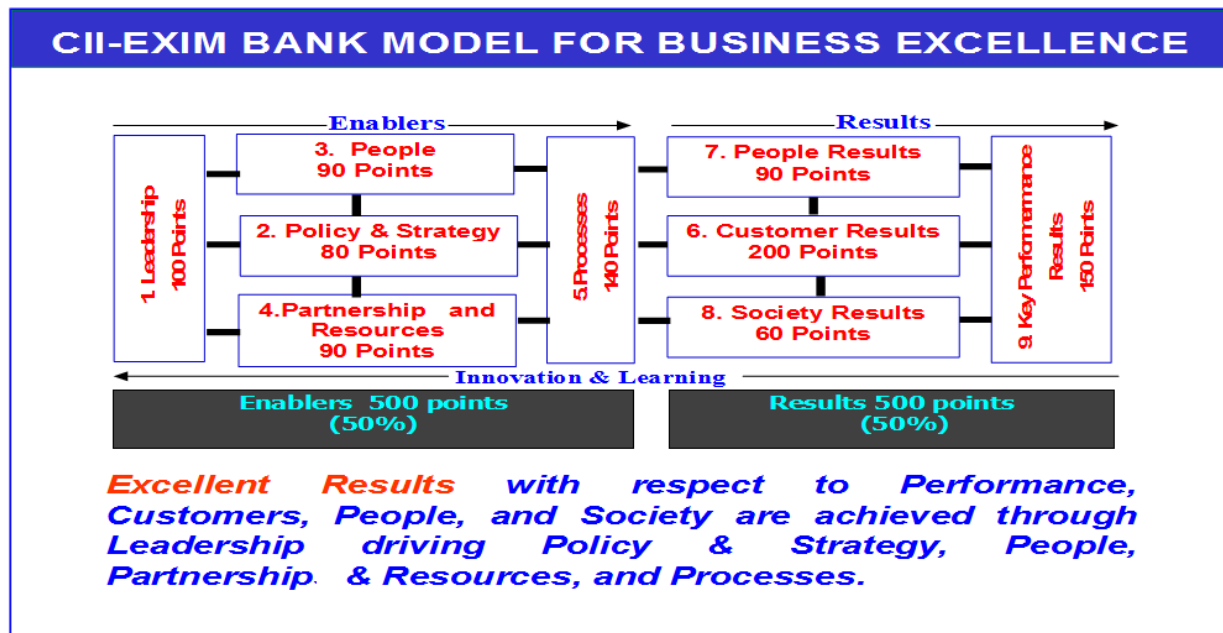
The Confederation of Indian industry and Export-Import Bank of India's (CII-EXIM Bank) Model of Excellence, based on the European Foundation for Quality Management's (EFQM) model, was launched in India in 1994. The CII-EXIM Bank Model comprised multiple criteria and sub-criteria in nine areas: Leadership, Policy & Strategy, People, Partnership & Resources, Processes, Customer Results, People Results, Society Results, and Key Performance Results for a potential total of 1,000 points. Exhibit 1 shows the CII- EXIM Bank Model for Business Excellence.

An organization needed to demonstrate best-in-the-world practices for all criteria and sub-criteria over the years to secure 1,000 points – truly difficult to achieve. The CII-EXIM Bank Prize was given when an organization secured 600 points or more, indicating world-class excellence in some areas. India had 298 Central Public Sector Enterprises. BHEL Haridwar was the first Indian Central Public Sector Enterprise to have broken the ceiling. BHEL Haridwar went from 350 points to over 600 points. What lessons could be learned from the BHEL Haridwar's experience that could be applied to other Public Sector Enterprises?

Bharat Heavy Electricals Ltd.

Established in 1964, Bharat Heavy Electricals Limited (BHEL), an Indian Public Sector Undertaking¹ was India's largest engineering and manufacturing company. It was engaged in the design, manufacture, supply, construction, and commissioning of power equipment. It provided a wide range of products and services for companies in the Power, Transmission, Transportation, Energy, and Defence industries. BHEL's operations were organized around three business sectors: Power, Industry, and International Operations. All BHEL units acted in an integrated manner to deliver the products and services needed for the timely commissioning of a power plant. Orders in all three business sectors were executed across India and abroad through a network of 17 manufacturing units, 4 regional offices, 8 service centers and 15 business offices.

Exhibit 1. CII- EXIM Bank Model of Business Excellence



Appendix A provides the organization chart of BHEL during the period of the events in this case study. The Jhansi unit, Bhopal unit and the Haridwar unit can be found in the organization chart under Operating Units.

The Balance Sheet and Profit and Loss Statement of BHEL for the year 2006-07, the year BHEL won the CII-EXIM Bank Prize, can be found in Appendices B and C. BHEL's gross revenue had increased from INR 145.3 Billion to INR 187.4 Billion and its operating profit had jumped from INR 25.6 Billion to INR 37.4 Billion. BHEL had become a consistently profit-making enterprise.²

S.K. Jain Joins the Haridwar Unit

Mr. S.K. Jain joined BHEL Haridwar as Executive Director in 2000. Mr. Jain was a veteran of BHEL and had spent most of his time in BHEL's Bhopal unit. The Inter-Unit Total Quality (TQ) Assessment and Confederation of Indian Industry Feedback Report of year 2000 had put the Haridwar unit in the TQ score band of 350 – 400 points. Mr. Jain called a meeting of all department coordinators on March 30, 2001. The timing of the meeting surprised everyone, as typically all efforts in the last weeks of the Indian financial year (April- March) were spent on completing annual targets. Soon after the meeting, the TQM group was reorganized and merged with the Quality function.

The TQ action plan, prepared with involvement of all departments, was unveiled by Mr. Jain during a TQ Council meeting in July 2001. (The TQ Council was BHEL Haridwar's top decision making body for quality.) During the meeting, Mr. Jain asked, *"What TQ score shall we achieve, if our action plans get completed on schedule?"* One member of the Council replied: *"Maybe around 450 points."* Immediately, Mr Jain asked, *"With this rate of improvement, when will we become world-class? What is the roadmap for a TQ Score of 650 plus?"*

It was a shock for many. Moving BHEL Haridwar from the 350- 400 band to 650+ didn't appear doable. No Indian Public Sector Enterprise had done it. But Mr. Jain insisted on a roadmap for TQ Score of 650 plus. Interestingly, this insistence changed the unit's approach towards business excellence. It fired up everybody and created a focus on becoming world-class.

Roadmap for the TQ Score 650+ Challenge

The roadmap for TQ Score 650+ was challenging. Starting from the basics, the criteria and sub-criteria linkages of the CII-EXIM model were plotted on a sheet of paper and Opportunities for Improvements for each sub-criterion were written in the designated area. Some of the concerns that emerged were:

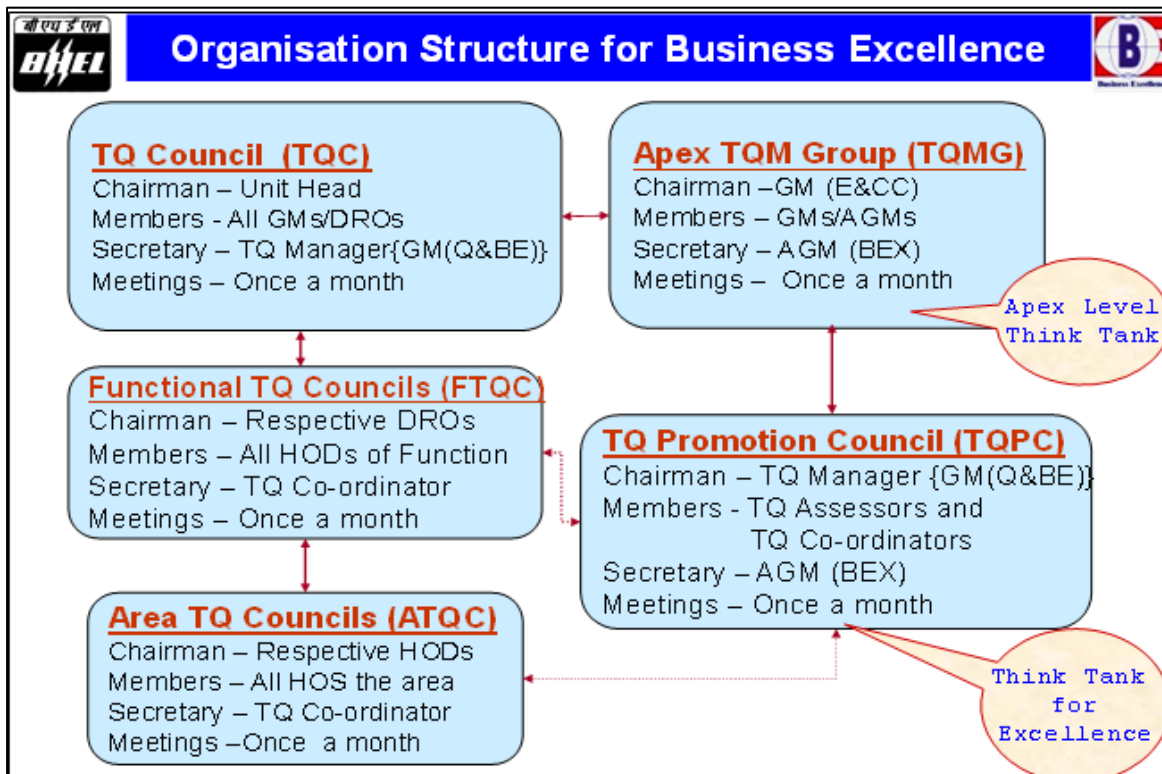
- (1) Lack of understanding of the CII-EXIM model among employees.
- (2) Lack of personal and visible involvement of top management.
- (3) Absence of targets for most parameters.
- (4) Large scope to develop non-financial indicators.
- (5) Transition needed from production to market orientation.
- (6) Lack of systematic approach for measurement, learning and improvement.

The synthesis of the above concerns led to the following action points:

- (1) Familiarize top management with the TQ Model.
- (2) Develop an organizational structure that enabled business excellence.
- (3) Complete a few cycles of P-D-C-A (Plan-Do-Check-Act).

To familiarize top management with the TQ Model and its scoring mechanism, three workshops steered by Mr. Jain were organized during October-November 2001 at a nearby tourist destination, Rishikesh. This was the first time that a retreat had been held away from the unit. An organizational structure was designed. The structure consisted of two think tanks (Apex TQM Group and TQ Promotion Council) and a three-level hierarchy (TQ Council, Functional TQ Councils and Area TQ Councils). See Exhibit 2. At the retreat, it was also decided to identify young, energetic executives to be TQ Coordinators and members of TQ Promotion Council. These people would also be trained as TQ Assessors.

Exhibit 2. BHEL Haridwar's Organization for Business Excellence



Mr. Jain usually discussed a new idea with the core team, and then brainstormed in an open session of about 70 to 80 executives (comprising of top management and TQ Coordinators) to develop the implementation strategy. Though Mr. Jain was considered aggressive by employees, in these sessions he was very receptive to new ideas. The sessions normally started after lunch and ended late in the evening. Everyone enjoyed the discussions. Several new initiatives evolved as a result. *"Grahak Safal = Hum Safal"* (Customer Success = Our Success) was one such key initiative.

The two main initiatives emerged from these sessions were the Quality through Measurement (QTM) program and the Annual Top Management Summit. These two initiatives became the life-line of the TQ movement.

The Annual Top Management Summit

The Annual Top Management Summit steered by Mr Jain began in June, 2002 at Tehri (about 150 kilometers from Haridwar, in the Himalayas). In the summit, BHEL's mission was translated into the unit's Business Policy. The discussions focused on strategies for long term existence of the unit which resulted in the following policy:

"In-line with the Company Vision, Mission and Values, we dedicate ourselves to sustained growth with increasing Positive Economic Value Addition and Customer Focussed Business Leadership."

CSFs to get positive economic value and a customer focus were identified, with different managers directly reporting to Mr. Jain as CSF Champions. Action points for each CSF were also identified. Then the CSF Champions formed cross-functional teams to assist in finalizing the action plans for each CSF.

In subsequent Annual Top Management Summits, the achievements of the CSFs in the previous year were reviewed and new CSFs (with their respective CSF champions) were identified. Some CSFs continued over several years, are shown in Exhibit 3.

The typical agenda of the summit included the review of the business scenario, CSFs achievements, Balanced Scorecards, and results of the Stakeholders' Survey (Customers, Employees, Vendors, Internal Customers, Internal Suppliers). This was followed by identification of new CSFs and their champions, and formulation of new Balanced Score Card measures. In May 2004, the Business Policy was revised to include "Welfare of Society."

The results of the prestigious Haridwar Excellence Award Rolling Trophy (HEART) for the best performing department were also declared at the summit. The Business Excellence Group organized the event and kept a track of progress made at various levels throughout the year.

Exhibit 3. Critical Success Factors (CSF)

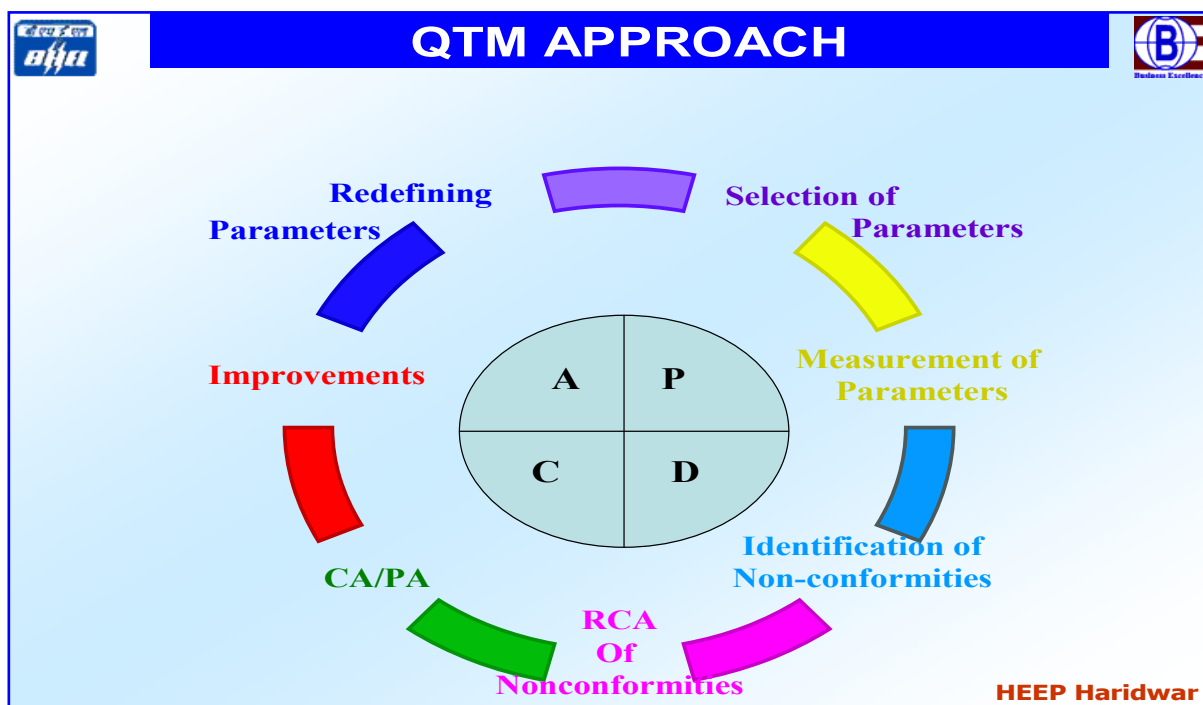
Focus Areas	CSF 2004-05	CSF 2005-06	CSF 2006-07
Improvement in Customer Response, Quality, Delivery and Work Culture	<ul style="list-style-type: none"> • Effective implementation of BOSS and integration with Project Management • Making QTM, Root Cause Analysis (RCA), Critical to Quality (CTQ) a way of Life • Strengthening of Internal Customer concept 	<ul style="list-style-type: none"> • Focus on customer commitment through implementation of BOSS • Making QTM, Visual Mgmt and 5-S a way of life • Improvement in Internal Customer-Internal Supplier Satisfaction Index by 20% 	<ul style="list-style-type: none"> • To make QTM, Visual Management, 5S, BOSS & IC-IS a way of life • Completion of supplies for Commissioning Projects for 2006-07 (End year of X Five-year Plan)
Technology & Capability Building	<ul style="list-style-type: none"> • Technology up-gradation 	<ul style="list-style-type: none"> • Introduction of 300 MW sets and preparedness for 800 MW sets • Capacity building for 5250 MW manufacturing through implementation of modernization plan 	<ul style="list-style-type: none"> • Introduction of 300 MW sets and preparedness for 800 MW sets • Capacity building for 5250 MW manufacturing through implementation of modernization plan
Knowledge Management	<ul style="list-style-type: none"> • Knowledge and Intellectual Property Management 	<ul style="list-style-type: none"> • Knowledge and Intellectual Property Management 	<ul style="list-style-type: none"> • Knowledge and Intellectual Property Management
Benchmarking	<ul style="list-style-type: none"> • Benchmarking 	<ul style="list-style-type: none"> • Benchmarking 	<ul style="list-style-type: none"> • Process Mapping and Benchmarking
Overall Equipment Effectiveness (OEE)	<ul style="list-style-type: none"> • Deployment of OEE concept on identified 110 m/c tools • Selective Tie-up for Maintenance & Services 	<ul style="list-style-type: none"> • Stabilization of OEE on the ongoing 110 machine tools and deployment on 30 new machine tools 	<ul style="list-style-type: none"> • Improvement in Overall Effectiveness of Equipment on the 141 machine tools from 52% to 60%
Employees Engagement	<ul style="list-style-type: none"> • Implementation of new incentive scheme 	<ul style="list-style-type: none"> • Focused drive for all round productivity improvement through employee involvement 	<ul style="list-style-type: none"> • Focused drive for all round productivity improvement through employee involvement
CSR	<ul style="list-style-type: none"> • Contribution to welfare of society 	<ul style="list-style-type: none"> • Contribution to welfare of society 	<ul style="list-style-type: none"> • Contribution to welfare of society
Strategic Sourcing and Material Cost Reduction	<ul style="list-style-type: none"> • Improvement in Procurement process with focus on establishment of Product material Directory (PMD) and MOU with Vendors • Strategic Outsourcing of Processes, components & assemblies • Saving in direct material cost by 5% 	<ul style="list-style-type: none"> • Strategic Outsourcing of Processes, Components & Assemblies • Net saving in direct material and Brought Out Items (BOI) by Rs.15 Crore 	<ul style="list-style-type: none"> • Strategic Outsourcing of Processes, Components & Assemblies • Reduction in Non Conformance reports (NCRs) in processing of Vendor / Contractors Bills to less than 10% • Net saving in direct material and BOI by Rs.30 Crore through Reverse Auction and developing new vendors

The Quality through Measurement (QTM) Initiative

Quality through Measurement was the other major initiative taken at BHEL Haridwar for which copyright was also obtained. QTM© was based on the philosophy: *What gets measured gets done. If the wrong things are measured, the wrong things get done.*

The selection of the right parameters for measurement was critical. In QTM, characteristics for measurement were identified based on impact on the customer. Results were defined as fractions. The Quality Index was the ratio of the number of non-conformances observed to the total number of opportunities available. The Quality Index value varied from zero to one (zero being 100% conformance). Data were reported through an on-line system which calculated the Quality Index in real time. Poor QIs were analysed for their root causes. Exhibit 4 provides a schematic presentation of QTM Approach that was adopted at the unit.

Exhibit 4. BHEL Haridwar's QTM Approach

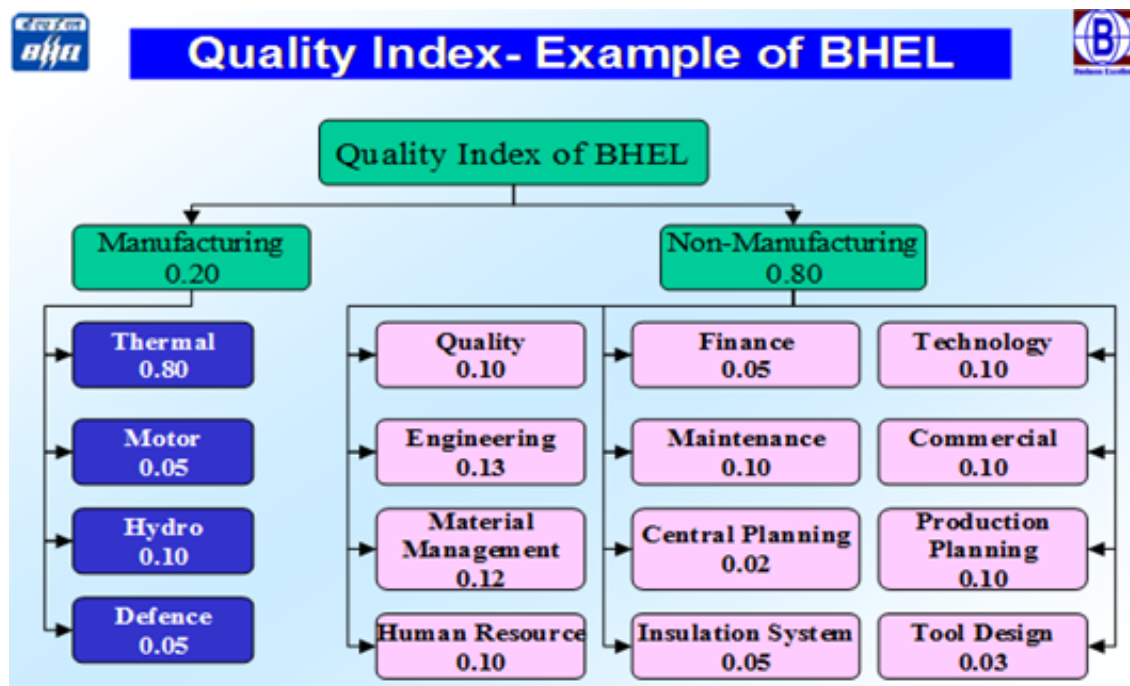


Some of the unique features of the BHEL Haridwar's QTM were:

- **Dynamic System:** QTM was an online dynamic system with the sole objective of providing triggers for improvement. The matrix for each product / process was reviewed every year and the characteristics that had stabilized - and thus had little scope for improvement - were deleted and a new set of characteristics were included.
- **Weights:** not all processes and characteristics had equal criticality from the customer and product performance point of view. Thus, different weights, varying from zero to one, were assigned to each product/ assembly/ component/ process/ characteristic in the manufacturing area and to each function/ section/ area/ process/ characteristic in the non-manufacturing areas. The aspects/ characteristics having a higher effect on product performance or customers were assigned higher weights.
- **Methodology for Measurement:** A five-column QTM matrix was developed for each product/ function. Measurements were done at the elemental level of characteristics and a Quality Index was generated. Quality indices for process/ component/ assembly/ product or process/ area/ section/ function were calculated with the help of a mathematical equation developed for each sub-assembly, assembly, product, shop and at unit level, using respective weights assigned at each stage. An online system was put in place across the unit to capture and process the data.
- **Reporting and Root Cause Analysis (RCA):** Once the measurement of a characteristic was entered, the web-based reporting system calculated the quality index and updated the indices of all related higher level of aspects like process/ component/ assembly/ product or process/ area/ section/ function in the QTM matrix on a real time basis. The QTM reporting systems provided triggers for improvement to 29 RCA committees constituted across the unit to identify root causes using why-why analysis. These committees generated corrective

(or preventive) measures, which eventually led to improvement in quality. Exhibit 5 provides an example of BHEL's Quality Index.

Exhibit 5. BHEL's Quality Index

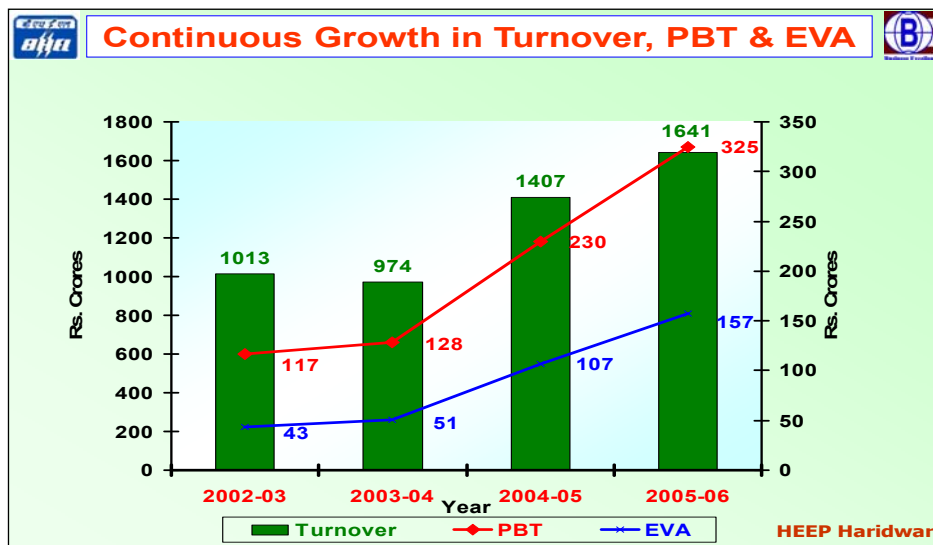


BHEL Haridwar

BHEL Haridwar was one of the major manufacturing units of BHEL. The Head of the Haridwar unit reported directly to the company Managing Director and was a member of Management Committee. BHEL Haridwar followed corporate policies on Human Resource Management, Finance, etc. The main product was high-rated thermal sets (210MW and above). The 210, 250 and 500 MW thermal sets constituted about 65% of total thermal coal based power plants and 71% of total generation by coal based thermal sets in the country. BHEL Haridwar's share in the total installed capacity of the nation had continuously grown over the years. To enable achievement of the government of India's Five Year Plan targets on power capacity addition, BHEL Haridwar concentrated on manufacturing steam turbines and turbo generators. In 2005-

06, the unit achieved an all-time high turnover of 16.41 Billion INR and set an ambitious target to cross 20.00 Billion INR in 2006-07. This spectacular growth was achieved despite stiff international competition from major players like Siemens, GE, Alstom, SEPCO (China), LMZ (Russia) and Dongfang (China). Exhibit 6 shows the financial performance of BHEL Haridwar, during 2002-06, while BHEL Haridwar was working towards a high quality score, its financial performance also significantly improved.

Exhibit 6. Select Financials of BHEL Haridwar
(100 Crore = 1 Billion)



The Quest for Excellence at BHEL

The quest for excellence had been a focus of BHEL since its inception. Most of the manufacturing units and other entities had been accredited to Quality Management Systems (ISO 9001 in 2008), Environmental Management Systems (ISO 14001 in 2004) and Occupational Health & Safety Management Systems (OHSAS 18001 in 2007). Participative management had been practiced through a Joint Committee comprising Functional Directors, Heads of Units and National leaders of employee unions, chaired by the Chairman and Managing Director. Its replica at the unit level was the Plant Council and at Shop level was Shop Council. In each of

these committees at shop, unit and company level the number of members from worker unions and management side were equal. These committees had been working cordially since their inception in 1975, with no industrial relations problems.

During the 1970's, BHEL became the first Public Sector Enterprise in India to draw up corporate plans under the leadership of Mr. V. Krishnamurthy. The Suggestion Scheme was launched in 1976. Many years before the launch of ISO 9000 systems, a quality manual was launched in 1978. In 1982, BHEL became the pioneer in launching Quality Circles in India, initially at BHEL Hyderabad followed by Haridwar and other units. The founding secretary and president of Quality Circle Foundation of India also worked for BHEL. In 1994, when the Confederation of Indian Industry (CII) launched the CII-EXIM Bank Award for Business Excellence based on EFQM Model of Europe, BHEL was among the first to accept the challenge. Mid and senior level executives from quality and other functions from five major units (Haridwar, Bhopal, Hyderabad, Trichy, EDN Bangalore), Power Sector Regions and Corporate were trained by EFQM and CII experts as TQ assessors. BHEL started Inter- unit TQ Assessment with the help of these trained assessors under the guidance of CII experts initially at 5 major units, followed steadily by other manufacturing units.

During the period of this case study (2000 to 2006) BHEL was a "Navaratna"³ (PSU with certain degree of autonomy). The government of India later conferred 'Maharatna'⁴ status on BHEL in February 2013, thus giving even greater administrative and financial autonomy.

The Continued Quest for Business Excellence at BHEL Haridwar

The excellence initiatives at BHEL Haridwar were implemented leveraging the participative style of management and a supportive work culture with active involvement of workers, supervisors and management. To give a boost to innovative thinking among employees, the suggestion scheme was revised in 1986. A pre-evaluation award for a suggestion was introduced, which greatly increased the number of suggestions from workers. To further motivate employees,

beginning in 1987, competitions for creativity enhancement (Suggestions, Productivity projects, Quality circle, Safety) were organized and awards given at the Republic Day⁵ and Independence Day⁶ celebrations every year. Workers were encouraged to participate in National competitions. As a result, employees won national recognition, including the prestigious government awards, the “Prime Minister’s Shram Award” and the “Rashtriya Vishwakarma Puraskar” award. A large number of workers participated in Quality Circle case study presentations at unit, inter-unit, regional, national and International levels. The improvement and participative culture helped the unit achieve ISO 9001 certification in 1993, followed by a TQ pilot movement in 1995 that was extended to the whole plant in 1997.

In 1997, the first CII-EXIM score was very low. This was due to a failure to capture non-financial data on employee and customer satisfaction, etc. BHEL Haridwar experienced a cultural change in the year 1998. The then Unit Head, Mr H.W. Bhatnagar (later Chairman of the BHEL Board), noticed that about 80% of employees were not wearing uniforms. Instead of issuing a memo, he started wearing the uniform every day himself. After about a month, he asked his direct reports to wear the uniform. This had a remarkable effect: about 70% of employees were wearing the uniform within 2 months, and almost everyone was wearing it within 4 months.

A big boost to excellence came in 1999, when Mr. Bhatnagar invited a CII Senior Counsellor, Ms. Sarita Nagpal, to guide BHEL on its path toward excellence. After a plant visit, it was concluded to implement 5-S. The 5-S consisted of five Japanese words: *seiri (sorting)*, *seiton (systematic arrangement)*, *seiso (spic and span)*, *seiketsu (standardization)*, and *shitsuke (self-discipline)*. Ms Nagpal deputized Mr. Snehil Kumar, another CII Counsellor, to provide hands-on support. Mr. Snehil visited Haridwar 14 times during the first year to facilitate 5-S implementation. Each visit typically consisted of visits to the shop-floor and offices to get a feel of 5-S implementation, on-the-spot guidance, 5-S training, and feedback to management in a meeting chaired by Mr. Bhatnagar. During the period, in-house faculty members were developed and the entire workforce was given 5-S awareness training.

Initially, some of the departments - especially people in the Administrative Buildings - were not cooperating in 5-S implementation. They thought that it was for production shops and did not apply to them. A breakthrough was achieved when Mr. Bhatnagar visited one of the Sales department offices. The employees gathered anxiously to see what would happen. The Sales department demanded additional filing cabinets to store documents. Mr. Bhatnagar readily agreed to provide the filing cabinets after the implementation of 5-S. There were piles of files on almost each table. Mr. Snehil took a file and asked about each sheet: was it necessary or not? Everyone present watched curiously. Almost 40% of the papers in the file were not necessary. Then Mr. Bhatnagar asked everyone present to complete the sorting in the next two days. Eventually, it was found that there were 4 surplus filing cabinets. Word of the incident spread across the unit like wild fire. Truckloads of unnecessary papers were discarded. Regular 5-S audits were conducted by internal departmental teams almost daily in different areas for about a year. On several occasions, Mr. Bhatnagar himself conducted the 5-S audits and once focused on the cleanliness of toilets. The 5-S concept didn't remain limited to the plant and offices; it was implemented in unit's schools and hospital too. A case study of 5-S implementation in the BHEL Hospital was presented at a training program of senior government officials as well. In 2000, Mr. Bhatnagar got promoted to the BHEL Board and moved to Delhi. His replacement was Mr. S.K. Jain.

The practice of inter-unit learning also helped BHEL Haridwar. Inter-unit learning led to sharing of best practices among units and generated healthy competition among them. Initially the Bhopal unit was considered the best. Then, the Trichy unit took several initiatives and enhanced its TQ score. The BHEL Haridwar team visited Trichy for a week to learn its best practices.

As part of the focus to achieve a TQ score of 600+, besides the two main initiatives launched in 2001, other initiatives were also begun under Mr. Jain, including:

- **Annual Unit Balanced Score Cards** (A & B) focused on financial, stakeholders, internal processes and strategic capability. While the unit Balanced Score Card (A) cascaded from

the Corporate Balanced Score Card; the unit Balanced Score Card (B) was derived from improvement initiatives and CSFs at the Annual Top Management Summit.

- **Functional Pole Star Statements** defined functional visions and long term objectives. An X-matrix was used to in-build the Functional Pole Star and cascade the unit Balanced Score Card (A&B) in the functional / departmental / sectional score cards and ultimately in the e-Map of all executives.
- **Three Inter- unit TQM Workshops** were organized to share best practices among BHEL sister units and identify challenges for the Corporation as a whole.
- Initiatives to motivate employees included the **Improvement Projects Reward Scheme (IMPRESS®)**, in which the award amount for each project was increased to five time of highest award in the suggestion scheme. The IMPRESS scheme eventually got implemented across the company.
- Vendor partnership building initiatives like long-term Memoranda of Understandings (MOUs), Business to Business (B2B) portal, Product Material Directories (PMD) for various products were undertaken.
- Process improvement was achieved through benchmarking and process mapping, a plant-level performance index, QTM, HEART, stakeholder surveys, etc.

After his promotion, Mr. Jain continued to visit BHEL Haridwar to facilitate the excellence journey. His visits brought a fresh dose of enthusiasm among team members. In 2005, when the unit had already achieved a TQ Score of 550+, the onward journey became very tough and a feeling started growing that achieving a TQ Score 600+ was not feasible. At this stage, Mr. Jain personally mentored members of the core team to work toward difficult milestone with enthusiasm. BHEL Haridwar finally received the coveted prize in 2006. Exhibit 7 captures that moment for which S. K. Jain and his team worked relentlessly for 6 years.

Exhibit 7. Mr. S. K. Jain and BHEL Haridwar Team Receiving the CII- EXIM Bank Prize

Note: Mr. S.K. Jain (5th from left) and the BHEL Haridwar Team receiving the CII-EXIM Bank Prize on Nov. 16, 2006 at Bangalore, India.

Conclusion

BHEL had a continuing culture of business excellence, but it needed Mr. S.K. Jain to push it forward BHEL Haridwar demonstrated that it was indeed possible to become a world-class enterprise even in the public sector in an emerging market.



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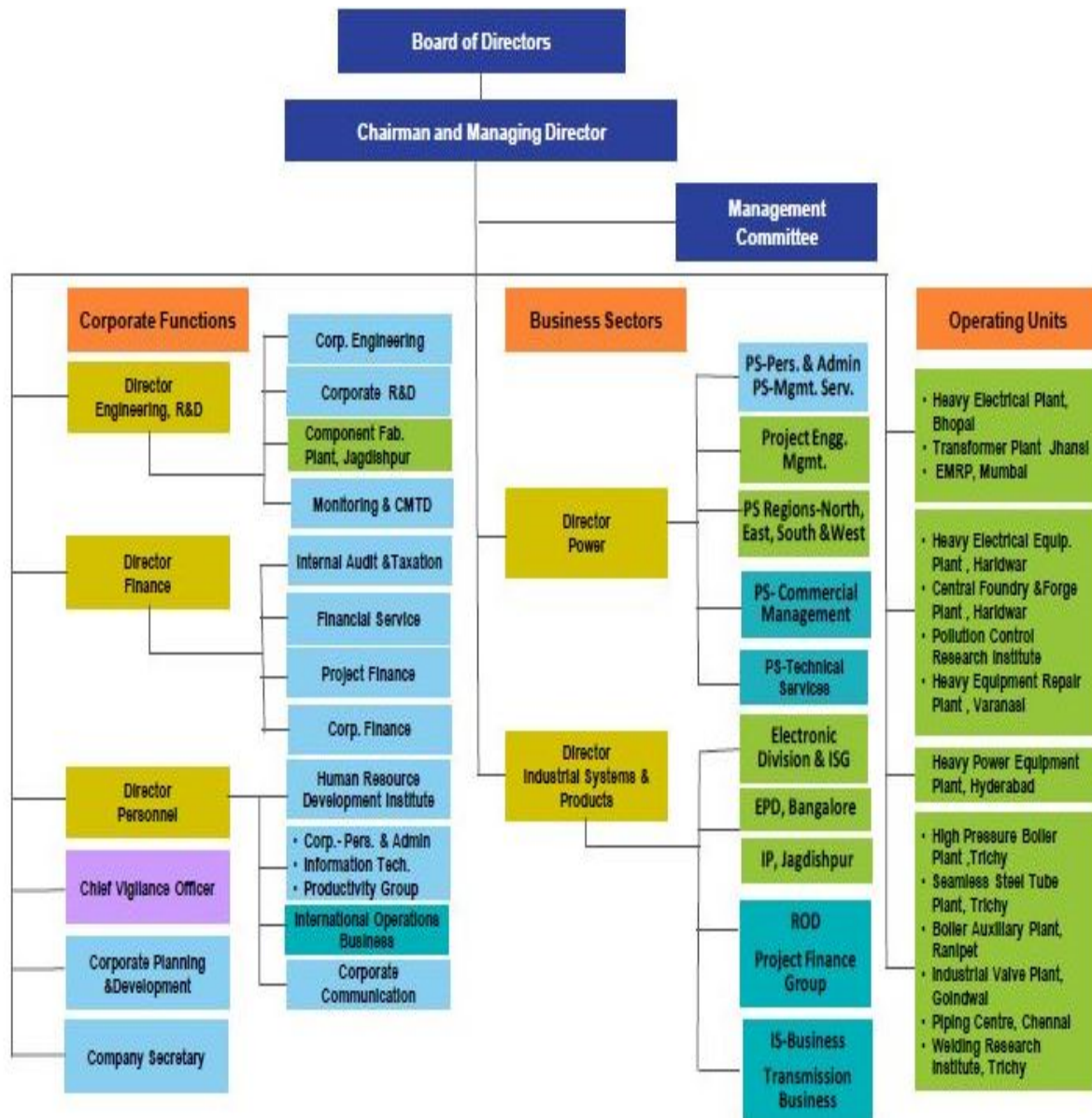
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Acknowledgements

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Appendix A BHEL Organization Chart, Year 1999-2000

Source: BHEL Documents



Appendix B
Balance Sheet of BHEL (2006-2007)

Source: BHEL Annual Report, 2006-07. 100 Crore = 1 Billion

Balance Sheet		(Rs. in Crores)			
as at March 31, 2007					
	Schedule	AS AT 31.3.2007		AS AT 31.3.2006	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	244.76		244.78	
Reserves & Surplus	2	8543.50	8788.26	7056.62	7301.38
Loans Funds					
Secured Loans	3	0.00		500.00	
Unsecured Loans	4	89.33	89.33	58.24	558.24
Total			8877.59	7850.62	
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block		4135.05		3822.06	
Less: Depreciation/Amortisation to-date		3117.05		2852.78	
		1018.00		969.30	
Add : Lease Adjustment Account		-29.26		12.98	
Net Block	5	988.74		982.28	
Capital Work-in-Progress	6	302.54	1291.28	184.57	1168.85
Investments	7		8.29		8.29
Deferred Tax Assets (Refer note no. 22 of Schedule 19)			935.16		673.72
Current Assets, Loans and Advances					
Current Assets					
Inventories	8	4217.67		3744.37	
Sundry Debtors		9695.82		7168.07	
Cash & Bank Balances		5808.91		4133.97	
Other current assets		199.70		84.50	
Loans and advances	9	1140.87		1199.87	
		21062.97		16330.78	
Less:					
Current Liabilities & Provisions					
Current Liabilities	10	11897.87		8807.74	
Provisions	11	2522.24		1512.28	
		14420.11		10320.02	
Net current assets			6642.86	6010.76	
Total			8877.59	7850.62	

Appendix C

Profit and Loss Statement of BHEL (2006-2007)

Source: BHEL Annual Report, 2006-2007. 100 Crore = 1 Billion

Profit & Loss Account for the year ended March 31, 2007		(Rs. in Crores)	
	Schedule	For the year ended 31.03.2007	For the year ended 31.03.2006
EARNINGS			
Turnover (Gross)	12	18738.95	14525.49
Less Excise Duty & Service Tax		1501.42	1151.46
Turnover (Net)		17237.53	13374.03
Other income	12A	823.56	546.92
Accretion (Decretion) to Work-in-progress & Finished Goods	13	181.19	388.01
		18242.28	14306.96
OUTGOINGS			
Consumption of Material, Erection and Engineering Expenses	14	10181.86	8146.52
Employees' remuneration & benefits	15	2368.95	1878.51
Other expenses of manufacture, Administration, selling and distribution	16	1496.11	1170.05
Provisions	17	171.86	282.75
Interest & other borrowing costs	18	43.33	58.75
Depreciation and amortisation	5	272.97	245.93
Less: Cost of jobs done for internal use		28.36	38.38
		14506.72	11746.13
Profit before prior period items		3735.56	2560.83
Add: Prior period items (Net)	18A	0.51	3.52
Profit before tax		3736.07	2564.35
Less: Provision for taxation	18B	1321.37	885.19
Profit after tax		2414.70	1679.16
Add: Balance of profit brought forward from last year		219.06	237.64
Foreign project reserve written back		1.45	6.93
Profit available for appropriation		2635.21	1923.73
Less: Appropriation-			
-Bonds Redemption Reserve		0.00	100.00
-General Reserve		1500.00	1200.00
-Dividend (Incl. Interim Dividend Rs.305.95 Crores, Prev. year Rs.305.95 Crores)		599.66	354.90
-Corporate Dividend tax (incl. Rs.42.91Crores on interim dividend, Prev. year Rs. 42.91 Crores)		92.83	49.77
		2192.49	1704.67
Balance carried to Balance Sheet		442.72	219.06
Basic and Diluted Earning per share (in Rs.)		98.66	68.60

Endnotes

1. In India, Public Sector Enterprises (PSE) are also known as Public Sector Undertakings (PSU).
2. For financial information on BHEL, see [http://www.bhel.com/financial information/](http://www.bhel.com/financial_information/)
3. The Navratna class of Indian Public Sector Enterprises signifies a certain degree of financial and administrative autonomy given to the enterprise.
4. The Maharatna class of Indian Public Sector Enterprises signify degree of financial and administrative autonomy given to an enterprise that is greater than given to a Navratna.
5. Republic Day (of India) is January 26.
6. Independence Day (of India) is August 15.

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BHEL Annual Reports, 1999-2000, 2006-07.

A TURBAN AND A KIRPAN: THE STORY OF A SIKH IN AMERICA

ISSAM GHAZZAWI
University of La Verne

TAHIL SHARMA
University of Southern California

“Diversity can and has meant the creation of religious ghettos with little traffic between or among them. Today diversity is a given, but pluralism is not a given; it is an achievement. Mere diversity without real encounter and relationship will yield increasing tensions in our societies... Pluralism is not just tolerance, but the active seeking of understanding across lines of difference.”

- Diana L. Eck, Harvard University

*“When there is liberty,
you expect a higher degree of freedom and not human rights abuse.”*

- Auliq Ice

A Day in the Life of a Long Haul Truck Driver

“Have a safe trip, my dear Jag!” These were the only words he remembered hearing from his wife before leaving home in California in early January for a chicken delivery to Mississippi. A week later, he was handcuffed and on his way to a Mississippi police station under suspicion of being a terrorist. It was January 16, 2013 and Jagjeet Singh, 49, a long-haul truck driver and a devoted Sikh, was leaving to Texas after dropping off a truckload shipment in Mississippi. He wore a turban on his head and kirpan on his belt. The trip to Texas was long, but Jagjeet was used to living on the road.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Issam Ghazzawi and Tahil Sharma. Contact: Issam Ghazzawi, College of Business and Public Management, University of La Verne, 1950 Third Street, La Verne, CA 91750, tel. (909) 448-4412, ighazzawi@laverne.edu

To him, the job was a life of solitude and strangers. Being away from the family was very difficult, but the desire to support his family was always stronger than the challenges that he faced on the road. This, at times, meant living out of his truck without knowing where and how long the next delivery would take. Like other long-haul truck drivers, Jagjeet grew accustomed to meeting dockworkers, truck stop employees, and other drivers, as opposed to people he knew. Over the years, he has learned how to enjoy the experience.

Jagjeet knew how to adapt to the loneliness of the long drive by listening on his truck's CD player to his favorite hymns in the form of kirtan (please refer to Appendix A for more explanations), a traditional Sikh style of call-and-response chanting. A sudden thumping that sounded like a flat tire on the Interstate 55 North in Pike County, Mississippi interrupted the sound of the kirtan and was followed by the sirens of a police car. Jagjeet was pulled over by a police officer for driving with a flat tire and was instructed to report to Osyka weigh station (ACLU 2013; Christie 2013; Kemp 2013; Weaver 2013).

The Mississippi Highway Patrol Officers and the Kirpan

As he was instructed, Mr. Singh drove to the station. When he arrived, *"He was subjected to a series of degrading remarks and events because of his minority faith and ethnicity"* (Weaver 2013: 1).

As a devout Sikh, he wore a turban and carried a kirpan, a small spiritual dagger sheathed at his waistband. (See Exhibit 1 for an image of a Kirpan). As an article of faith, the kirpan was worn to remind Sikhs of their obligations to justice and by no means was a weapon (Weaver 2013). A kirpan was designed as a religious symbol for a Sikh much as were the nine-pointed star for the Baha'is, the Wheel of Dharma for Buddhists, the cross for Christians, the Om for Hindus, the six-pointed star of David for Jews, the star and crescent for Muslims, the Torii Gate for Shinto believers, the Yin and Yang (Taiji) for Taoists, etc. (Religious Symbols n.d.).

When the police officers searched Mr. Singh at the Osyka weigh station, they found the kirpan. Contending that the kirpan was a weapon, the officers demanded that Mr. Singh hand it over. Jagjeet Singh tried to explain that the kirpan was a sacred religious article. He showed the officers videos stored on his cell phone and on YouTube about the Sikh religion. Nonetheless, the officers laughed at him. One declared, “*All Sikhs are depraved and terrorists*” (Weaver 2013: 2). The officers forced Mr. Singh to circle his own truck with his hands on his turban while they searched the vehicle (Atwood 2013). Finally, they arrested him, alleging that he had refused to obey an officer's lawful command to hand over an illegal weapon (Atwood 2013; Christie 2013; Kemp 2013). A Department of Transportation (DOT) spokesperson confirmed the arrest but did not comment any further on the incident (Kemp 2013).

Heather Weaver, Senior Staff Attorney of the American Civil Liberties Union (ACLU) filed a complaint on behalf of Mr. Singh on September 25, 2013. Weaver (2013: 1) stated:

“Our Constitution’s guarantees of religious freedom and equal protection under the law means that law enforcement officers must put aside their personal prejudices and strive to treat all members of the public - regardless of race, ethnicity, national origin, or faith - with respect. Unfortunately, Mississippi Department of Transportation (“DOT”) officers stationed in Pike County appear not to be aware of their obligations. Earlier this year during what should have been a routine traffic stop, DOT officers harassed and humiliated Jagjeet Singh, a practicing Sikh because of his religious beliefs.”

Exhibit 1. A Sikh Kirpan

Source: Images provided by Mr. Tahil Sharma and used with his permission



Bear Atwood, a lawyer for the Mississippi office of the ACLU (quoted in Kemp 2015: 8) said,

“The officers’ shameful treatment of Mr. Singh was an abuse of their authority and a betrayal of the public’s trust that law enforcement officials will carry out their duties free from prejudice.”

The Judge and the Turban

Mr. Singh returned to the Pike County Court in Mississippi on March 26, 2013 as he was ordered to do for the charge of refusing to obey a command. According to ACLU attorney Bear Atwood:

“Mr. Singh’s ordeal did not end with the MDOT. When he returned to Mississippi on March 26, 2013, for his court date at the Pike County Justice Court, he once again suffered humiliation, harassment, and discrimination because of his religious beliefs.”

Waiting for his attorney in the back of the courtroom, he was stunned when four Highway Patrol officers approached him and ordered him to leave the courtroom. The officers stated that Judge Aubrey Rimes had ordered them to eject Mr. Singh from the courtroom because he did not like Mr. Singh’s turban. Moreover, they told Mr. Singh that Judge Rimes would punish him if he failed to remove his headdress (Atwood 2013; Goldman 2013).

Judge Rimes went further and referred to the turban that Mr. Singh wore as a “rag” by asking him - in his exact words - to “remove that rag” (Atwood 2013). Like all Sikhs, Mr. Singh believed that the turban was an inseparable part of his Sikh religious identity. “A man cannot be considered a Sikh if he does not wear the turban (see Exhibit 2) and that unwrapping his turban and exposing his ‘naked’ head in public is sacrilegious and shameful (Atwood 2013).

Accordingly, he refused to obey an order based on his religious beliefs, knowing there could be consequences.

Exhibit 2: A Sikh Man in Turban

Source: Images from Raghbir Singh, Jathedar the religious head of the Walnut, CA Sikh Temple.

Picture credit: Mr. Tahil Sharma. The images were used with both Mr. Singh's and Mr. Sharma's permission.



As a result of his refusal to remove the turban, Mr. Singh was forced to wait several hours before he was allowed into the courtroom to plead guilty and pay a fine (ACLU 2015; Kemp 2013; Goldman 2013). On September 28, 2013, the attorney Bear Atwood of the Mississippi office of the American Civil Liberties Union told ABC's Good Morning America:

"This is a disgrace and a clear infringement of religious rights...He [Mr. Singh] was treated disgracefully by the Department of Transportation. Then he came back to Mississippi for his court date and was treated very badly by a judge whose behavior was despicable" (Goldman 2013).

Sikhism

A way of life and philosophy, Sikhism was founded over 500 years ago. The religion preached a message of devotion and remembrance of God at all times, truthful living, equality of mankind, social justice and denouncement of superstitions and blind rituals (Sikhs.org). In the Punjabi language, the word “Sikh” meant “disciple.” Accordingly, Sikhs were the disciples of God who followed the writings and teachings of ten Sikh gurus (Sikh.org; Singh 2016a). According to Raghbir Singh, the Jathedar (religious head) of the Shri Guru Singh Sabha Gurudwara in Walnut, California:

“Our responsibility as Sikhs is to see the Light of God within all people, regardless of who they are, what they do, and where they come from; Sikhism tells us to love and serve all people, no matter who they are on the outside or the inside” (Singh 2016a).

The Birth of Sikhism: Guru Nanak

It was the year 1469 in the village of Talwandi, located in what is now Kasur, Pakistan, where an orthodox Hindu boy named Nanak was (McLeod, n.d.). He was born into a Khatri-caste family that worked in commerce within a bustling community of Hindus and Muslims (for more information on the Khatri, refer to Appendix B). The boy was destined for greatness in his life (Cole & Sambhi 1998).

Nanak: The Teacher

In his individual journey for knowledge, Nanak often sought solidarity to reflect on his own contemplations; he grew dissatisfied with the formal faith traditions of a society that made people poor and defenseless (Kaur Singh 2011).

Because of his formal studies and debates with a number of clerics and scholars on faith and philosophy, Nanak received his own epiphany of the Divine. After having gone to bathe at the Bain River, members of his village were shocked to find his clothes lying on the bank, without him in sight. Having assumed that he had drowned, the villagers mourned the loss of Nanak,

but to their surprise, he re-appeared as a transformed and enlightened man three days later (Teece 2005: 5).

Guru Nanak spoke words of wisdom, exclaiming, *“Na koi hindu na musalman.”* No one was either Hindu or Muslim, but merely a Sikh: a “student” or “disciple” to the divine, referred to as the Great Teacher, or Waheguru. Nanak argued that devotion to Waheguru measured beyond all material forms of riches and power; even *“kings and emperors”* could not compare to *“an ant filled with the love of God”* (Ramakrishnan 2009: 213).

Guru Nanak promoted the existence of a single God, contemplated by and existing within all living beings in different ways, as expressed in the first line of the Guru Granth Sahib, the religious scriptures of the Sikh faith:

“God is only One. His Name is True. He is the Creator. He is Without Fear. He is inimical to none. He is Eternal. He is beyond births and deaths. He is self-illuminated. He is realized by the kindness of the True Guru. Repeat his Name. He was true in the beginning. He was true when the ages began. He is true even today. Nanak says that He will even be true in the future” (Kaur Arneja n.d.: xii).

The Guru’s Three Principles of Living

The guru established three principles of living that were universal in practice and significant in action. These principles were eternal devotion and reverence to a single God, *“Naam japo,”* a life of honesty and truth through contentment, honesty, and hard work, *“Kirat karo,”* and sharing one’s wealth and services to those in need, *“Wand kay shako”* (Kaur Singh 2011).

Sikhism shared ideas of imageless monotheism and inward devotion from Islam and the ideas of material detachment and pluralistic approaches to the divine from Hinduism (Kaur Singh 2011). What made Sikhism so different was the promotion of absolute equality between all human beings, nullifying the ideas of caste, the promotion of religious diversity and pluralism that denounced ritualism and the emphasis on social justice for impoverished communities,

underrepresented religious minorities, and women (Kaur Singh 2011; Ramakrishnan 2009; Singh 2016a; 2016b).

Sikh Baptism and Code of Conduct

Baptism into Sikh orthodoxy as an *amritdhari* - one who has received ambrosial nectar - was a decree made by the tenth guru on *Vaisakhi* (the festival of the harvest) in 1699 to confirm people's dedication to the faith and the cause of defending humanity (Cole and Sambhi 1998; Jhutti-Johal 2011; Kaur Singh 2011). Five volunteers who swore to risk their lives to defend the faith and the meek were the first orthodox Sikhs now known as the *Panj piare*, or the five Beloved ones (BBC 2009-b). Baptism through the drinking of sweet water, stirred by a double edged sword, was representative of one's willingness to fight against injustice and for the faith, represented by the sword (Whiting & Whiting 1991), while maintaining purity and humility like water and the sweetness and saintliness of sugar that is combined to create *amrit* (nectar) consumed during baptism (Whiting & Whiting 1991).

Following Baptism, Sikhs adhered to a code of conduct and dress code. Recognized most prominently as the Five Ks, they were five articles worn by a baptized Sikh for which their identity and appearance made them stand out.

1) The Kes, or uncut hair, remained a central and natural symbol of holiness and strength. Keeping it unshorn indicated acceptance of God's gift in its natural form. Uncut hair was kept on all parts of the body, including body hair, eyebrows, and beard, although making sure it was kept clean and proper. The *dastar* (turban) was worn by men and some women to cover their long hair. Most women keep their hair uncovered except when entering a *gurdwara* (temple) when all people covered their heads (Barooah 2012).

2) The Kara, a bangle made of steel or iron, represented restraint and gentility. Round, it was representative of the eternity of God. As a circle, it has no beginning or end. It was most commonly made of steel or iron as a reminder that the Almighty watched over all the actions of

an individual. The use of steel was also representative of equality among all and the individual bonds we hold with the Divine (Markoe 2014).

3) The Kanga, or wooden comb, represented cleanliness and order, reminding people that they must take care of themselves while they take care of those in need. This differentiated Sikhs from those who renounce the world as ascetics in traditions like Hinduism and refrained from all forms of attachment, even washing the body or hair (Kaur Singh 2011).

4) The Kachera, or loose pair of boxer shorts, represented chastity and the sacredness of love that you show to a significant other. In fending off warriors of the Mughal Empire, Sikh warriors wore this kind of undergarment when they rode horses into battle (Kaur Singh 2011).

5) The Kirpan, or ceremonial dagger, was the literal and metaphorical representation of being a saint-soldier, or a *sant sipahi*. The dagger represented defending righteousness and the meek, and the struggle against injustice. Made in any length, it was always kept in its sheath. It was blunt, thus promoting all methods of nonviolence and peace in resolving issues before using any form of physical defense (BBC 2009a; Kaur Singh 2011).

A Change in Tradition

The second development that changed the Sikh tradition took place when Guru Gobind Singh was on his deathbed. After having lost his father, Guru Tegh Bahadur, and his 4 sons to martyrdom (Raju 2011), he named the Guru Granth Sahib, the Sikh scriptures, to be his successor (Kaur Singh 2011). The revolutionary idea of seeking all guidance from a single book allowed all Sikhs to interpret scriptures for themselves. Since the establishment of the Guru Granth Sahib as the Eternal Guru, Sikh temples had become gathering places for communities of Sikhs around the world. Congregations gathered in a *gurdwara* (dwellings of God) in which a central throne (*takht*) was where Sikhs paid obeisance to the scriptures as the incarnate wisdom of the Divine (Nesbitt & Kaur 1999). The protocol for entering a Sikh place of worship borrowed from Indian cultural and religious practices, namely:

- (1) Having your head covered and shoes removed, showing respect to the religious space,
- (2) Having everyone seated on the floor, representative of the equality we share as servants in the sight of God, and
- (3) *Prashad*, or a blessed pudding made of wheat flour, water, sugar, and butter that is given to whomever comes in the presence of the Guru Granth Sahib (Nesbitt and Kaur 1999).

Exhibit 3. An Image of the Golden Temple: Amritsar, India

Picture credit: Harleen Kaur. Used with her permission.



Centuries of tradition enshrined in prayer and service continued to resound in the halls and sanctuaries of all *gurdwaras*. *Gurdwaras* were open to all people from any religious or secular adherence, generally twenty-four hours a day. They served free meals (*langar*) to all people who came to the temple (Kaur Singh 2011). All people sat on the floor and food was cooked and served by volunteers. Only vegetarian food was served so that no person would be offended and everyone could sit together to share a meal without breaking any form of dietary restrictions (Jhutti-Johal 2011).

Sikhs in North America

While most Sikhs still resided in India, Sikhism in the United States had a long history. As the sixth largest faith tradition in the world (Worldatlas.com, n.d.; see also Appendix C), at over 28 million people, at least 200,000 Sikhs lived in the United States (Hackett 2012). Most U.S. Sikhs entered the workforce in forestry, agriculture, railroad construction, and in textile mills (Mann et al. 2008; also see The Pluralism Project, n.d.). According to Oxford Sikhs (n.d.), at least 800,000 Sikhs lived in Canada. Sikhs started immigrating to the United States in 1897. The majority lived in the eastern states (mostly in New York) or in the western states (mostly in California).

Thousands of Sikh laborers worked for the Western Pacific Railways to create approximately 700 miles of road between Salt Lake City and Oakland that now serves as a major part of Interstate 80 (Hill 2014) and the emerging prominence of agriculture in Northern California (Singh Kang n.d.). The Sikh community flourished in the United States and established places of worship, such as the first *gurdwara* in Stockton, CA in 1912 (Seth & Seth 2006).

What was Going on?

In the aftermath of the September 11th terrorist attack in 2001, Americans of Arab, Muslim and South Asian descent endured a level of discrimination that was unprecedented. In a study by Humm (2003) of almost a thousand New Yorkers surveyed by the City Commission on Human Rights, some 69 percent said they felt subjected to discrimination or harassment due to their race. Iyer (2015: 1) found:

“While the level of anti-Muslim sentiment increased precipitously in the months after 9/11, it has not subsided in the 14 years since. The aforementioned sentiment was created through an environment that was fed with discriminatory policies and practices, xenophobic rhetoric, and biased media representations [...] that created a new reality that many members of these communities (Muslim and non-Muslim) contend with daily.”

Of the 80,000 charges filed nationwide with the Equal Employment Opportunity Commission (EEOC), religious discrimination accounted for only about three percent. This number increased from 1,500 in 1995 to 2,500 in 2002 (Morahan 2015). On the other hand, allegations of discrimination based on national origin, which comprised 11 percent of all charges filed, had also been on the rise. About 7,000 charges alleging discrimination based on national origin were made in 1995 compared to 9,000 in 2002.

The U.S. Department of Justice (DOJ) intervened and investigated Jagjeet Singh's case. According to Pike County Administrator Andrew Alford, the DOJ offered to close its federal investigation if Pike County revised its nondiscrimination policy and implemented sensitivity training (Kemp 2015). As the story unfolded, the Pike County Board of Supervisors faced a major HR challenge in dealing with the changing dynamics of the society the County was supposed to serve. The County had to ensure full compliance with all civil rights laws and equal opportunity laws. It also needed to address the adequacy of the training given to police officers and even the judge in dealing with a diverse public.



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Appendix A Explanations of the term “Kirtan”

Kirtan or *kirtana* is a call-and-response chanting performed in devotional traditions. It is a succession of two distinct phrases usually played by different musicians, where the second phrase is heard as a direct commentary on or response to the first (Nye 1995).

In Sanskrit, *Kirtana* means “praise or eulogy” (MacDonnell 2004). A person performing *kirtana* is known as a *kirtankara* or, colloquially, a *kirtaneera*. *Kirtana* practice involves chanting hymns or mantras to the accompaniment of instruments such as the harmonium, tablas, two-headed mridanga or pakhawaj drum and hand cymbals. It is a major practice in Vaisnava devotionalism, Sikhism, the Sant traditions and some forms of Buddhism, as well as other religious groups. *Kirtana* is sometimes accompanied by story-telling and acting. Texts typically cover religious, mythological or social subjects (Varadpande 1992).

The Sikh tradition of *kirtana* was started by Guru Nanak at Kartarpur in the early 16th century and was strengthened by his successors, particularly Guru Arjan. *Kirtana* continues to be performed at the Golden Temple and other historical *gurdwaras* (Novetzke 2003). According to Novetzke (2003: 221), “*Kirtan is vital to Sikh religious practice, for example when the songs of the gurus are sung with precision and reverence, accompanied by a set melody.*”

Appendix B The Khatri

Sources: Peoplegroupindia.com (n.d.) and Encyclopedia Britannica, <http://www.britannica.com/topic/Kshatriya>

The Khatri are a trading and mercantile community who originated in Punjab and spread to the many states in which they now live. About 2.5 million people, they live in Punjab, Delhi, Haryana, Uttar Pradesh, Gujarat, Jammu and Kashmir, Maharashtra, Himachal Pradesh, Bihar, Tamil Nadu, Rajasthan, Madhya Pradesh and Chandigarh.

One legend states that Parashurama (Rama, 6th incarnation of Vishnu) wanted to massacre the Kshatriyas and caused every Kshatriya woman to miscarry. However, some women escaped and took refuge in Brahmin (highest priestly caste) houses. The Brahmin declared them to be Brahmin and even ate with them to show Parashurama that the Kshatriya women were from their caste, and thus saved them. Accordingly, the children born of these women became the Khatri.

Appendix C

The World Largest Religions

Source: World Atlas.com (n.d.)

South Asia, East Asia, and the Middle East were the birthplaces of the world's largest religions. Abrahamic religions combine to claim over half of the global populace. The world's largest religions generally fall in one of two major subgroups. These are (1) Abrahamic religions (Islam, Christianity, Judaism, Baha'i, etc.) and (2) Indian religions (Hinduism, Buddhism, Sikhism, Jainism, etc.). Based on Pew Research Institute and other international demographic databases, the below listed religions are the world largest as measured by the number of adherents.

1. Christianity (2.22 billion followers)

Christianity began over two thousand years ago, and is a faith based on the life and teachings of Jesus Christ. From its humble beginnings as a tiny sub-group evolved from Judaism, Christianity has grown to become the most popular religion in the world, with followers all across the globe. Christians believe in the existence of one God who sent his only son, Jesus Christ, to save humanity from their iniquity and Hell. Followers believe that Christ's sacrifice on the cross (Crucifixion), his death, and his resurrection were all carried out to grant eternal life and forgiveness to all of those who accept Christ as their personal savior. In our modern society, Christianity plays an important and powerful role, not only in terms of religious rituals, but also on a much wider scale. In some degree, it even does so in terms of shaping social and political policies of Christian-dominant nations.

2. Islam (1.605 billion followers)

Islam began in Mecca in the Seventh Century. Followers of Islam believe there is only one God (Allah) whose words were written down and took form in the holy book of the Qur'an, which still serves as the central spiritual text in the faith. One of the historical figures central to understanding the Muslim tradition is the Prophet Muhammad, who lived from 570 to 632 CE. Followers of Islam believe that this man was God's ultimate prophet. Islamic religious law not only lays out the Five Pillars of Islam, but also imposes rules and regulations on almost every aspect of a follower's life. There are two major factions of Muslims, namely Sunni (the largest globally including 80% of all Muslims) and Shia (15% of all Muslims), along with Ibadi, Ahmadi, and many other denominations.

3. Hinduism (1.05 billion followers)

The majority of Hindus reside in such Southern Asian countries as India, Nepal, and Indonesia. In the nation of India alone, an estimated 80% of the population identify themselves as Hindus. Although not a lot is known about the founding of Hinduism, the faith is widely thought to have developed over a span of some 4,000 years. Due to its status as an ancient belief system, Hinduism is deeply entrenched within Indian society. In recent years, many of the practices of Hinduism have become increasingly popular in the West as well. Examples of this include participation in yoga, as well as interests in information pertaining to the body's chakra system

(energy points located throughout the human body that can be used for healing and improving health, both spiritually and physically).

4. Buddhism (488 million followers)

Buddhism was founded in India about 2,500 years ago, and is based on the teachings of Buddha, alternatively known as Gautama Buddha or Siddhārtha Gautama. The religion includes two main branches. Namely, these are Theravada Buddhism and Mahayana Buddhism. In the country of Tibet, followers subscribe to a form of Buddhism known as Vajrayana, while Zen Buddhism is more commonly practiced in Japan. The main tenets of the Buddhist belief system include nonviolence, moral purity, and ethical behavior. Meditation, karma, and nonviolence all play major roles in Buddhists' daily lives. Without a doubt, the most recognized figure in the Buddhist world is Tenzin Gyatso, who is best known as the 14th, and current, Dalai Lama. This former monk is not only Tibet's spiritual leader, but also an outspoken peace activist.

5. Shintoism (104 million followers)

Shintoism is based in Japan. Its beginnings are thought to date to the Eighth Century. Followers believe in the existence of many gods, and the word Shinto itself translates into the "way of the gods." About 80% of Japanese citizens subscribe to Shintoism, with that country alone serving as a home to over 80 thousand Shinto shrines. One unique feature of the faith is that believers are not required to publicly declare their allegiance to the religion. The concepts of impurity and purification play major roles in Shintoism and its rites, which are known as Harae. These are performed on a regular basis with an aim to purify believers of sin, guilt, disease, and even bad luck.

6. Daoism (93 million followers)

Daoism originated in China about two thousand years ago. Also referred to as Taoism, this religion is associated with a belief in the occult and the metaphysical. The majority of Daoist followers live in such Asian countries as China, Japan, South Korea, and Vietnam. A man named Laozi is considered to have been the first philosopher of the religion, and it is he who was thought to have written the Daodejing, a text central to the faith. In terms of political issues, Daoists are generally regarded as being somewhat libertarians, with a preference for governments that shy away from political interference and the imposition of regulations and economic restrictions. Diet plays an important role in Daoist philosophy, especially as in regard to one's all around wellbeing. In keeping with this belief system, practices such as fasting and Veganism (abstaining from animal products) are encouraged.

7. Sikhism (28 million followers)

In terms of world religions, Sikhism is a relatively new faith. It began in India, and is based on the teachings of Guru Nanak and his Ten Successors. Historically, Sikhs have played major roles in regional politics and had significant influence during the Partition of India in 1947. Central to the Sikh faith are the core tenets of *sewa* and *simran*, which relate to community service and the remembrance of God, respectively. Although the majority of Sikh believers continue to

reside in northern India, over the years a great many followers have moved to diverse countries including Canada, the United States, South Africa, Australia, and the United Kingdom.

8. Judaism (13.9 million followers)

Judaism has a long and storied history, and one that can trace its beginnings to around the Eighth Century BC. This monotheistic religion originated in the Middle East and is made up of three main branches: Orthodox Judaism, Conservative Judaism, and Reform Judaism (ranked from most to least conservatively traditional). Although each of these is rooted in a common belief system, they differ on elements related to scriptural interpretation and specific practices. The synagogues, each presided over by a rabbi, serve as centers for Jewish worship and religious services. These are also used as a form of community centers. Therein, followers have opportunities to gather on a regular basis in order to socialize, celebrate, study the Torah, and learn about the Mitzvot (commandments of the faith).

9. Muism/Sinism/Shingyo (10 million followers)

Muism (which is also known as Sinism, Shingyo, or Korean shamanism) is a religion closely tied to traditional Korean culture and history. The faith can trace its roots all the way back to prehistory. In recent years, Muism has experienced a resurgence within South Korea. Even within the totalitarian regime of North Korea, it has been estimated that some 16 % of the population continue to subscribe to the Muism belief system. Among the key components of the religion include the existence of ghosts, spirits, and gods, and these are believed to inhabit the spirit world. The spiritual leaders in Muism, known as "Mudangs," are typically females whose function is to serve as intermediaries between the gods and human beings.

10. Cao Dai (6.7 million followers)

Cao Dai is a belief system that originated in Vietnam in 1926, and is regarded as a distinctly nationalist Vietnamese religion. The faith was founded by Ngo Van Chieu, a former administrator who believed that he had received a message from the deity revered as the "Supreme Being" during an extraordinary experience he had at a séance. Cao Dai draws elements from other major world religions, including Christianity, Buddhism, Hinduism, Judaism, Islam, and Taoism. The religion's full name translates to "The Great Faith for the Third Universal Redemption." Devotees believe in the existence of one Supreme Being, regardless of whatever label or name (i.e. God or Allah) other religions have chosen to impose on this central deity. Practitioners of Cao Dai place a great deal of stress on universal concepts, such as justice, love, peace, and tolerance.

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STAYING FIT WITH PI-YO: THE BAYFIELD PILATES CONNECTION ADDS PI-YO CLASSES

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Elaine Labach was reflecting on a very exciting weekend. Labach had just completed her Pi-Yo certification course and was contemplating how she could bring the Pilates-yoga combination to her Pilates studio, Bayfield Pilates Connection (BPC), located in Bayfield, Colorado. She wanted to start her Pi-Yo classes in June and she knew she had to develop a new marketing plan. She knew she had to make these marketing decisions soon.

Bayfield Pilates Connection Overview

Elaine Labach was first introduced to Pilates through a friend in summer of 2012. She was inspired by the fitness levels of Pilates practitioners. Labach was drawn to Pilates because of its unique capacity to help clients safely build strength and flexibility while simultaneously increasing awareness of the mind-body-spirit. Business-minded by nature, she was also impressed with the business outlook for the industry. The U.S. Pilates and Yoga Industry was in a growth stage with competition at moderate levels. It was projected that from 2016 to 2021, industry revenue would increase at an average annual rate of 4.2% (IBISWorld). Further, recent improvements in economic conditions and per capita disposable income were expected to continue. The industry would benefit from rising demand from the baby-boomer generation. With these opportunities in mind, Labach decided to open her own Pilates studio.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Elaine Labach, Simon Walls and Mika Kusar. Contact: Elaine Labach, Fort Lewis College, 1000 Rim Drive, Durango, CO 81301, Tel. (970) 247-7093, labach_e@fortlewis.edu.

In 2013, Labach opened the doors to her new business, Bayfield Pilates Connection (BPC), in Bayfield, Colorado where she lived. Her goal was to help clients gain self-confidence and achieve noticeable results from their workouts in a dance studio inspired environment. Initially, she rented space in a strip mall and offered lunch and evening Pilates classes. She also conducted private sessions several times a week – in the mornings for non-working moms and in the evenings. Gradually, she added a part-time yoga instructor and yoga classes. Although yoga classes accommodated customer demand, they required greater attention to scheduling the facility, since only one class could be offered at a time. With the addition of the yoga classes and the growth in customers, BPC quickly outgrew its rented studio space. In March 2014, Labach purchased a new, larger studio two miles away and renamed it Bayfield Wellness Connection (BWC) to reflect the addition of yoga classes. Upon purchasing the new facility, Labach received an additional \$40,000 funding from a local lender to cover her start-up costs at her new location. Conservatively, Labach estimated that her new studio would net an annual profit of \$20,000 the first year, and steadily increase every year. She planned to repay the start-up financing within five years.

Bayfield Pilates Classes and Services

BWC strove to increase physical strength, flexibility and conditioning, as well as to give students a sense of wellness as they learned to celebrate their bodies. Having completed a 500-hour classical Pilates trainer course, Labach was certified by the Pilates Method Alliance and was the sole Pilates instructor. She offered classical Pilates mat and equipment sessions and classes. A typical Pilates class included 10-15 students. In addition to classes, BWC offered private sessions where up to three clients could work with the instructor. Studio equipment included three reformers, four tower systems, three Wunda chairs and one Cadillac. (See Exhibit 1.)

Exhibit 1. Pilates Equipment

Source: Bayfield Pilates Connection website



The Cadillac



The Towers



The Reformer



The Wunda Chair

Note: A reformer was one of the most popular pieces of Pilates equipment and consisted of a platform that moved back and forth along a carriage, with resistance provided by body weight and springs. The tower system consisted of two metal poles that had a variety of springs and a wooden bar. The Cadillac included a single four-poster bed with springs, wooden bars, and hanging trapezes, which were used to work out the entire body against various spring tensions and positions, and the Wunda chair was a traditional piece of equipment, also known as the Pilates chair, or a box with one side that acted like a large pedal.

The classical Pilates equipment classes offered unique and customized fitness activity with five levels of progression; each level built on the skills mastered in the previous level. Clients progressed at their own speed and would advance to the next level when they felt comfortable and confident that they had mastered the previous level's strength, skill, and coordination requirements. Levels became increasingly difficult as clients progressed, demanding greater strength and flexibility in order to master the series of poses in each level. For someone in good physical condition, it took 6-9 months on average to master each level.

A typical equipment class was one hour in length and built on skills needed to master a specific level. The class began with a five- to ten-minute warm-up, which promoted breathing and footwork, followed by exercises designed to engage the body's core muscle groups. The warm-up exercises incorporated breathing and footwork to encourage clients to connect with their bodies and feel more confident in the equipment. Classes incorporated classical Pilates flow, or a series of movements that were linked together in a routine using the equipment. Restorative yoga classes were taught by a part-time instructor. Restorative yoga involved gentle movement for extended periods of time and focused on centering the breath and the body. Three

additional types of yoga classes were offered: a “Yoga Basic Class” for beginners; a “Yoga for All Class” for students at all levels; and a “Yoga Intensive Class” for experienced practitioners. Although class size varied each week, the studio could fit 15 students; average class size was 10.

The larger studio Labach purchased in 2014 allowed for flexibility in adding different classes and accommodating customer demand. The décor was spacious and comfortable with soft lighting to enhance a student’s ability to feel calm and focused while in class. The studio also offered full-height mirrors, changing area/restrooms, and a small lounge. (See Exhibit 2). BWC’s new studio could accommodate up to four clients per equipment class and up to fifteen for mat classes (Pilates and yoga). The equipment class size was capped by the available equipment. Equipment classes were offered at \$30 while mat classes were offered at \$10 each. Additional discounts were available. (See Exhibit 3.) Clients could enroll in any class online, by phone or in person.

Exhibit 2. Studio Layout

Source: Bayfield Pilates Connection

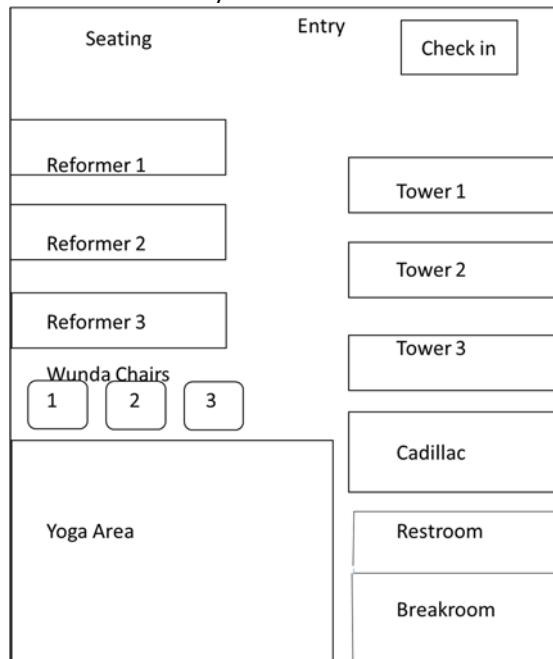


Exhibit 3. BWC Pricing

Source: Bayfield Pilates Connection

New Client Specials		
30 min Pilates Private Intro		\$30
Pilates Sampler (6 classes, each 1 hour)	2 privates, 2 equipment, 2 mats	\$200
Yoga Classes		
1 Class		\$12
10 Classes	(seniors, students, teachers)	\$60
10 Classes		\$80
Yoga Intensive		\$15
Pilates a la Carte		
Private Session	1 private sessions	\$75
	5 private sessions	\$350 (save \$25)
Semi-private Session	2 persons	\$35
	3 persons	\$30
Pilates Equipment Classes		
1 Class		\$30
5 Classes		\$125 (save \$25)
10 Classes		\$250 (save \$60)
10+1 Private		\$315 (save \$60)
Pilates Mat Classes		
1 Class		\$12
5 Classes		\$50 (save \$10)
10 Classes		\$100 (save \$20)
10+1 Private		\$165 (save \$30)
Pilates Monthly Membership		
	Pay a set amount monthly with auto-pay convenience and receive \$65 private rate.	
4 Mat Class		\$38 (save \$10/mo.)
4 Equipment Classes		\$110 (save \$10/mo.)
4 Mat + 4 Equipment		\$158 (save \$10/mo.)
Exchanges gladly; no refunds. Payment required on non-emergency cancellations less than 24 hours.		

Bayfield Pilates Connection's Target Market

Prior to the addition of yoga classes and the studio's relocation, Labach had been providing instruction to 40 clients. With the addition of yoga clients and the studio's relocation, the BWC grew to approximately 75 clients. Twenty of the 75 clients were students currently enrolled in a variety of Pilates equipment classes that ranged from level 1 to level 5 and the remaining clients were enrolled in the various yoga classes. Approximately 75 percent of BWC revenue came from private lessons on Pilates equipment.

Upon opening her first studio, Labach identified her target market as women between the ages of 25 and 65, but soon learned that the demographics for yoga classes were somewhat different from those for Pilates. Although both were predominately female and interested in holistic approaches to fitness, the yoga demographic tended to be larger; Labach thought this was because there was no equipment version of yoga and mat classes were relatively inexpensive. Labach also surmised another difference in demographics and stated, *“It seems that yoga clients were primarily interested in managing stress while Pilates clients were interested in working out specific muscle groups”* (Labach, personal communication 2014).

According to data from the Yoga Alliance, the vast majority - 72.0% - of yoga practitioners in the U.S. was female (Yoga Alliance 2016). Although women were still the predominant gender among yoga practitioners, the gender division had decreased from 2012 when women accounted for 82.2% of yoga practitioners. The narrowing divide was largely due to efforts among yoga and Pilates studios to diversify their offerings to attract male clientele (Gregoire 2013).

In 2016, individuals aged 18 to 34 were expected to comprise the largest share of Pilates and yoga revenue, with 48.9% (Yoga Industry Snapshot 2016). Individuals aged 35 to 54 were anticipated to be the second-largest source of industry revenue, contributing 32%. However, this segment might account for an even greater share of yoga participants, since approximately 60% of yoga participants were aged 35 and over. Lastly, individuals aged 55 and older were expected to account for 19.1% of Pilates and yoga revenue (Yoga Industry Snapshot 2016).

BYPC's clients ranged in age from 18 to 60 years old, although the majority of clients were women in their mid-40's to early 50's. BWC's students started equipment classes for a variety of reasons, from weight loss to increased fitness levels to preventing injuries and forming new friendships. Among the students at BWC, there was no typical starting fitness level. Some women had been active and fit their entire lives, whereas other were just starting their fitness journey. The progressive equipment program allowed all students to feel comfortable,

confident, and challenged in their workouts while maintaining a sense of community in the class. The majority of BWC's students lived in Bayfield.

A New Fitness Opportunity: Pi-Yo

Elaine Labach was concerned that her students believed that BWC did not offer the opportunity to help them progress and for this reason would drop out of BWC fitness classes. She saw this trend as an opportunity to introduce yoga as a complement to BWC's equipment and mat classes. Pi-Yo was a total-body fitness system designed to work the entire body by combining the practices of Pilates and yoga, created by Chalene Johnson, the founder of the Turbo Kick system (Andricks n.d.). Labach believed that a Pi-Yo program could be tailored to focus on building upper body and core strength as well as enhancing meditation, confidence, and focus. The increased strength, flexibility, and focus would allow students to build the necessary strength to progress further along the equipment program and feel more confident when attempting difficult positions. Additionally, Labach hoped that the program would bring in new business and help decrease attrition.

Classes

Labach's vision for the BWC yoga program was to build on the atmosphere she had created with the Pilates equipment and mat classes. Initially, she planned to offer a free class to introduce the program into the studio. Labach was uncertain whether she should create a progressive yoga and Pi-Yo class to mimic the progression experience with the equipment levels or whether one common Pi-Yo class would be sufficient. She anticipated the majority of clients who joined the Pi-Yo classes would have reached at least level 2 in the equipment classes, but the fitness range of the interested students could vary widely. Labach wanted to ensure her new program provided maximum results for all clients.

Costs and Pricing

The BWC studio could accommodate ten clients for Pi-Yo in each class. Additional accessory equipment would need to be purchased to include a compressible ball, and a theraban.⁴ Labach estimated these costs would total \$50 per mat space, or \$500 total. Labach would use her current part-time employee who was certified in yoga to teach some of the classes. Labach paid \$1500 a month for all overhead costs (rent, insurance, utilities, etc.) and did not expect these to change if she added Pi-Yo classes.

Labach struggled with how to price the new Pi-Yo class. She wanted the price to be comparable to the current equipment and mat classes but was uncertain of the appropriate price point. Labach recognized that, initially, the majority of her Pi-Yo clients could be Pilates equipment clients, so she wanted to ensure that the price for the Pi-Yo classes was affordable for these students.

Market and Competition

There were three other businesses in the Bayfield area that offered Pilates and yoga instruction. BPC's primary competitors were Komasta Pilates and Momentum Fitness, both of which had good reputations for mat Pilates and different type of fitness offerings. Although neither offered Pilates equipment or Pi-Yo classes, Momentum Fitness was large, with several locations and it could fund more expensive promotional campaigns (yoga classes were offered at \$10 each). Komasta Pilates offered professional dance and Pilates mat classes at \$10 each. The library in Bayfield also offered weekly yoga classes on a donation basis. None of the competitors in Bayfield offered a progressive program where either Pilates or yoga was offered in levels.

⁴ A theraband was a latex band or tube used to provide resistance for low-impact strength workouts.

The Bayfield Market

Labach's new location was in the heart of Bayfield and offered convenient access right off of a busy county road. Bayfield, Colorado was in La Plata County. Although Bayfield itself had a population of just 2,478, the population of a seven-mile radius of the rural city was approximately 8,779. This area ("Greater Bayfield") included communities such as Gem Village, Forest Lakes (a large rural subdivision) and the Vallecito Lake community (Exhibit 4).

Exhibit 4. Map of the Greater Bayfield Area

Source: mapquest.com



La Plata County had a population of 53,182 according to 2015 U.S. Census estimates. The median age of the Greater Bayfield Area was higher than that of the city of Bayfield, La Plata County, and the state of Colorado (Exhibit 5).

Exhibit 5. 2015 Population by Age Estimates

Source: U.S. Census

	Bayfield, CO		Greater Bayfield Area		La Plata County		Colorado	
		% of Total		% of Total		% of Total		% of Total
Age Under 20 Years	790	31.9%	2,037	23.2%	12,498	23.5%	1,383,073	26.2%
Age 20-34 Years	567	22.9%	1,212	13.8%	11,062	20.8%	1,161,359	22.0%
Age 35-44 Years	305	12.3%	1,212	13.8%	6,807	12.8%	717,931	13.6%
Age 45-54 Years	300	12.1%	1,449	16.5%	7,392	13.9%	717,931	13.6%
Age 55-64 Years	357	14.4%	1,607	18.3%	8,243	15.5%	654,584	12.4%
Age 65 Years and Older	156	6.3%	1,273	14.5%	7,233	13.6%	649,305	12.3%
Total Population	2,478	100.0%	8,779	100.0%	53,182	100.0%	5,278,906	100.0%
Median Age	32.2		44.1		38.8		36.3	

Labach noted that based on average daily travel counts at all of Bayfield’s key intersections, 2010 daily traffic counts were up an average of 20% compared to 2006. This was consistent with population growth. The population of Bayfield increased 18% between 2010 and 2015 according to U.S. Census estimates. The population of the entire Greater Bayfield area and La Plata County grew at much more modest rates of 5% and 6%, respectively. Moderate population growth was expected to continue through 2035 for Bayfield, Greater Bayfield, and La Plata County. The 2015 median income for the Greater Bayfield area was \$32,398 compared to that of La Plata County (\$31,822) and Colorado (\$32,217).

Many of the Greater Bayfield area residents were seasonal, with a second home typically for summer-time retreats. The Greater Bayfield area was also popular for relocation (Exhibit 6). Many of those full-time Greater Bayfield residents who were working commuted to surrounding areas (Exhibit 7).

Exhibit 6. 2014 Migration Data

Source: U.S. Census

	Greater Bayfield Area			La Plata County, Colorado			Colorado		
	Total Population	% of Population	% of Those in Different House 1 Year Ago	Total Population	% of Population	% of Those in Different House 1 Year Ago	Total Population	% of Population	% of Those in Different House 1 Year Ago
Total:	8,658			52,452			5,214,280		
Same House 1 Year Ago	7,380	85%		41,361	79%		4,214,564	81%	
Different House in U.S. 1 Year Ago	1,272	15%		10,967	21%		964,277	18%	
Different House 1 Year Ago - Same City	72	1%	6%	2,397	5%	22%	323,473	6%	34%
Different House 1 Year Ago - Same County, Different City	617	7%	49%	3,565	7%	33%	175,109	3%	18%
Different House 1 Year Ago - Different County, Same State	111	1%	9%	1,388	3%	13%	254,901	5%	26%
Different House 1 Year Ago - Different State - Northeast	2	0%	0%	204	0%	2%	19,125	0%	2%
Different House 1 Year Ago - Different State - Midwest	130	2%	10%	541	1%	5%	46,967	1%	5%
Different House 1 Year Ago - Different State - South	196	2%	15%	1,040	2%	9%	71,233	1%	7%
Different House 1 Year Ago - Different State - West	144	2%	11%	1,832	3%	17%	73,469	1%	8%
Abroad 1 Year Ago	6	0%	0%	124	0%	1%	35,439	1%	4%

Exhibit 7. 2015 Workplace Commute Times

Source: U.S. Census

	Greater Bayfield		La Plata County, Colorado		Colorado	
	Total	% of Workforce	Total	% of Workforce	Total	% of Workforce
Total Workforce:	4,261		25,581		2,432,720	
<15 minutes	697	16.4%	9,407	36.8%	670,660	27.6%
15 - 19 minutes	667	15.7%	4,622	18.1%	388,235	16.0%
20 - 34 minutes	2,093	49.1%	8,429	33.0%	868,054	35.7%
35 - 59 minutes	472	11.1%	1,980	7.7%	341,730	14.0%
>60 minutes	332	7.8%	1,143	4.5%	164,041	6.7%

Labach felt that the introduction of Pi-Yo and the development of a marketing plan for the program was a good opportunity to refine her target markets. She wanted to include women between the ages of 25 and 65, especially recently divorced and new move-ins to the Bayfield area. According to 2015 U.S. Census estimates, there were 534 women ages 25-65 who were divorced, separated, or widowed residing in the Greater Bayfield area (US Census 2015). Elaine also wanted to include those involved with other sports/athletics, those who wanted to lose a few pounds, those trying to get back to their pre-baby size, and senior citizens. Data from the U.S. Census estimated that there were 100 women ages 15-50 who gave birth in 2014. Data

retrieved from Business Decision database estimates that households in Greater Bayfield spent on average \$96.16 for recreation lessons in 2015 and spent a total of \$978,437 for recreation lessons in 2015 (Synergos Technologies 2015). The average amount spent per household on membership fees for social, recreation, and civic clubs was an estimated \$160.78 for a total of \$1.6 million for the region.

Marketing Strategy

Labach knew that Pi-Yo would be a great benefit to her current Pilates clients, but the classes would also be an opportunity for marketing growth strategies to bring new students into the studio who might also want to try Pilates or yoga classes. She had to consider how she could segment the marketplace, which segments she would target and in what order, and how she should position the new Pi-Yo classes. Labach could cross-market the Pi-Yo classes as a complement to the current Pilates or yoga program or promote Pi-Yo as a new fitness class that stood on its own, with the intent of attracting new clients to BWC. Both positioning alternatives - attracting new clients and cross marketing to existing clients – presented challenges. Labach’s ultimate goal was to offer Pilates and Pi-Yo classes as complements to one another.

Labach knew that her promotional strategy for the Pi-Yo classes would be critical to its success. The challenge would be two-fold: first, she had to both sell and educate potential clients on what Pi-Yo was and why it would be beneficial to them; second, she had to attract others to her Pi-Yo classes to build enrollment.

Historically, Labach had tried marketing her Pilates classes in the local newspaper. She found print advertising ineffective for her Pilates classes but wondered whether it would be effective for Pi-Yo. She also relied on her website name via Google search that would ensure Bayfield Pilates would be a top search result for potential clients searching for Pilates classes in Bayfield.

Labach also set up a Facebook page and began marketing via social media. Facebook had over one billion users and was used as a networking strategy to build brand exposure. At first, she ran a contest to get enough Likes to run Google analytics. She soon realized that “likes” were not engagement, because many people who initially liked her Facebook page never returned. She started posting weekly content that related to the principle and proper positioning of Pilates as well as asking simple questions to encourage participation. She used paid advertising to promote various content to monitor its effect on visits. She limited her direct sales approach on Facebook to once a month where she would post new services or news coverage or awards. (Costs for selected advertising are shown in Exhibit 8.)

Exhibit 8. Select Advertising Costs

Advertising Medium	Cost
Print Advertising: <i>Pine River Times</i>	\$300 for 1/8 page ad; 6 spots
Facebook Ads	\$5-10 per ad
Direct Mail flyers (100)	\$150

Labach also was considering “teaser” classes for beginning Pilates students who could explore level 1 classes without a long-term commitment. Introductory classes would only be 30 minutes long, offered during lunchtime, and be half the price of a regular equipment class.

As a way to spark interest with her current clients, Labach considered offering sample Pi-Yo classes as part of her current Pilates mat classes. She wondered if she could also offer discounted class fees at select, non-popular class times. Labach’s promotional budget and time was limited, and she wanted to tailor her advertising plan to maximize BPC’s reach to those clients who would value non-traditional exercise.

Decision Time

Labach had many decisions to make in a very short period. She had to develop marketing growth strategies. She had to segment the marketplace, which segments she would target and in what order, and how she should position the new Pi-Yo classes. She had to select an appropriate price point and a promotional strategy to ensure success of the Pi-Yo program. Once clients started the Pi-Yo classes, Labach knew the results of the program would speak for themselves; however, she needed a strategic marketing plan to maximize her potential to fill the classes.



Elaine Labach is an Associate Professor of Management and the Associate Dean in the School of Business Administration at Fort Lewis College. She joined the college in 2008. Dr. Labach has led students on Study Abroad programs to Spain and Costa Rica. Prior to joining Fort Lewis, Dr. Labach has had a previous career in the insurance and pharmaceutical industries, working for Eli Lilly and Company, Progressive Insurance and Cardinal Health in operations and sales management. Dr. Labach is ex-officio President of the Western Casewriters Association.



Simon Walls is an Associate Professor of Marketing in the School of Business Administration at Fort Lewis College. His interests center on consumer information processing and psychology of the consumer-firm bond within the relationship marketing paradigm. Dr. Walls' teaching lends itself to street-smart, hands-on, practical marketing strategies, marketing research, and implementation of strategic marketing plans that engage profitable, long-term, mutually beneficial, meaningful relationships for both the consumer and the firm. He has owned and operated several small businesses, including a marketing and business consulting firm. Dr. Walls was born and raised in London, England, and has lived in South Africa. He has been a professor in residence at numerous foreign institutions, including E.T.E.A. in Spain, Universidad Libre de Costa Rica (ULICORI) and Groupe Sup de Co. in France. Dr. Walls is the past recipient of the American Marketing Association Golden Apple Award for Teaching Excellence and a member of several professional marketing associations.



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A SMALL TOWN GYM'S CHALLENGE

DEBORAH WALKER

ELAINE LABACH

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In 2012 Kira and Rayburn, owners of Momentum 24/7 Fitness and Weight Loss Center in Bayfield, Colorado, were reviewing the results of their recent customer-community marketing program, a spin-off of the popular TV series, *The Biggest Loser*. They, of course, were elated at the individual weight and fat loss successes from the program. However, they were also hoping for some positive outcomes for their business as well.

Kira had opened the small gym about 2 years before on shoestring budget. Starting at 1,000 square feet, the gym gradually expanded to its current size of 3,500 square feet. When Kira opened the gym, she was owner, operator, manager, trainer and instructor. Rayburn joined the gym after about a year as co-owner.

Although they were successful, they still faced problems that a gym in a small community faced. The gym was located in a small market. Along with offering 24-hour access 7 days per week, the gym's market niche seemed to be the personal service the owners gave to its members. As the gym continued to grow, giving the depth of personal service that gym members were used to receiving was becoming more and more difficult to accomplish.

Furthermore, Kira and Rayburn had recently had their first child, Rayburn Junior (affectionately known as RJ). Splitting her time between the gym and motherhood was starting to take its toll on Kira. Kira and Rayburn were finding it difficult to pull in enough income to support their growing family. Rayburn wanted to start his own business as a housing developer. He and his

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Deborah Walker and Elaine Labach. Contact: Deborah Walker, Fort Lewis College, 1000 Rim Drive, Durango, CO 81301, Tel. (970) 247-7624, email Walker_d@fortlewis.edu

brother owned a piece of land in the nearby community of Ignacio, Colorado and they were anxious to start developing it into a neighborhood.

How could Kira continue to *motivate* existing members and, at the same time, bring in new members while dealing with the service issue? Would the business be as profitable if she offered less service and simply sold access and programs the way most other gyms did? Would her current model of contracting with personal trainers and fitness class instructors allow the business to grow while providing the personal service she was known for providing?

Exhibit 1. Momentum 24/7 Fitness Logo



The Industry

Americans had increasingly become health conscious over the past several years. According to the International Health, Racquet & Sports club Association, 12-16% of the population belonged to a gym. Health and fitness clubs were used primarily by adults in the 20 to 64 age bracket (www.ibisworld.com). As baby boomers aged, they became more worried about their health, which translated into memberships in health and fitness clubs. Memberships had increased from 36.3 million in 2002 to 48.3 million in 2017 (www.ibisworld.com).

Although the economic recession that began in December 2007 had had an impact on demand for memberships, other industries were hit much harder than the health and fitness club

industry. Discretionary income and leisure time were important indicators of how the industry would perform; as the economy improved, so too would the industry (www.ibisworld.com).

Demand for gym, health and fitness club services was determined by a number of factors, including “household disposable income, consumer confidence, leisure time availability, participation in recreation and sports, seasonal conditions, attitudes towards health and fitness and the cost of services relative to other recreation options” (www.ibisworld.com, p. 15). Key factors for overall success included “easy access for clients, effective product promotion, economies of scale, provision of appropriate facilities, having a good technical knowledge of the product, and business expertise of operators” (www.ibisworld.com, p. 20).

According to the Bureau of Labor Analysis, the leisure and hospitality industry (of which the health and fitness club industry was a part) had one of the highest employee quit rates as compared to other industries. The percentage of employees who quit during a given month for all private industries was 1.8%, while the leisure and hospitality industry’s quit rate was 3.2% during the time the gym had started to experience personnel issues. The only industry with a higher quit rate was the accommodation and food services industry with a rate of 3.4% (Bureau of Labor Statistics). Therefore, finding and training workers was an issue in this industry generally.

The Town

Bayfield was a “bedroom community” to the larger and better-known tourist town of Durango, Colorado. Durango was a small resort/ski city of 17,834 residents with a per capita income of \$30,272 (U.S. Census Bureau 2014 data). As the county seat and home to a small liberal arts college, Durango had become the governmental, retail, and cultural “hub city” of southwestern Colorado. People flocked to the city for a variety of reasons. The area provided abundant opportunities for biking, skiing, hiking, white water rafting, kayaking, hunting, and fishing.

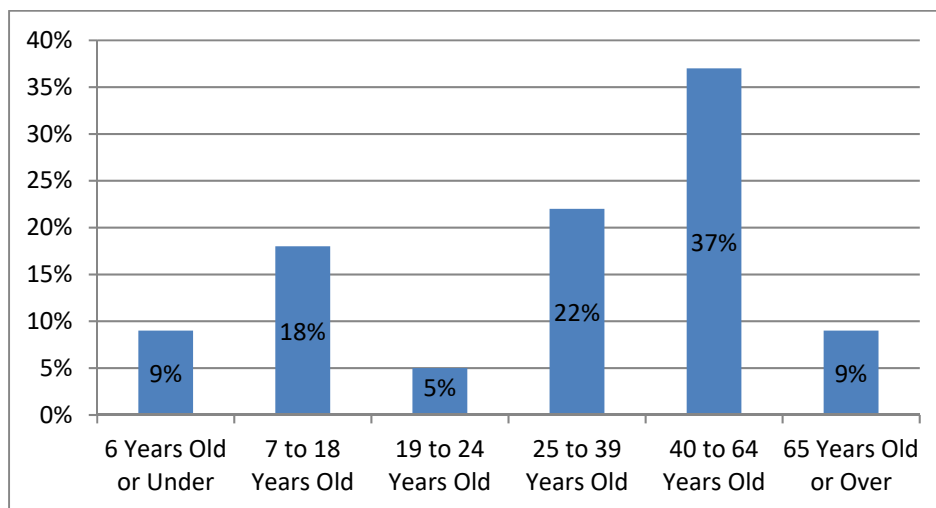
Bayfield was located about 20 miles from Durango. Incorporated in 1906, Bayfield was home to approximately 2,533 residents (2014 data) with a per capita income of \$27,633 (2013 data) (U.S. Census Bureau). The residents of Bayfield took pride in living in a small town atmosphere and in the long-standing sense of community that Bayfield was known for. According to the town’s web site (www.bayfieldgov.org):

Bayfield is a safe, livable community, with a small town feel striving to become a multigenerational, diverse community that maintains its values while progressively pursuing ongoing sustainability of economic resources, natural resource stewardship and livability. We are committed to the promotion of a vibrant business community balanced by recreational and educational opportunities in order to foster a unique and complete community for future generations.

The town had taken on a new dimension when people working in Durango began moving to Bayfield to escape the high real estate prices common in a Colorado resort/ski town. These “city” folks had to blend in with the long-time residents, many of whom descended from the original homesteaders of the area. Long-time Bayfield residents were still involved in farming and ranching, and appreciated that way of life. Furthermore, Bayfield had a wide range of age groups (see Exhibit 2). These town characteristics made for a diverse market for Kira and Rayburn.

Exhibit 2. Bayfield, Colorado Breakdown of Population by Age

Source: U.S. Census Bureau



The Competition

When Momentum 24/7 first opened its doors, there were no other fitness facilities in Bayfield.⁵ However, a CrossFit facility opened its doors in Bayfield just after - and not far from - Momentum 24/7. Momentum 24/7's other competition came from two community fitness centers, one in nearby Ignacio, Colorado (about 10 miles away) and the other in Durango, Colorado. (See Appendix B for a map of the area). Both centers were full service facilities subsidized by city taxpayers (Durango) and the Southern Ute Indian tribe (Ignacio), allowing them to charge below market rates. Furthermore, several private fitness facilities were located in Durango (including one that was open 24/7). See Exhibit 3 for a comparison of local fitness facilities.

The Momentum 24/7 Owners

After spending many years coaching clients across the country in other gyms, Kira returned to her hometown of Bayfield, Colorado to open Momentum 24/7, which was her second entrepreneurial adventure. Her passion was helping clients improve their lives through exercise and nutrition. She was a former US Marine Corps officer and US Army Master Fitness Trainer. Before starting her own gym, she taught fitness and nutrition for 13 years, often being in charge of classes and fitness programs at other gyms. She was a certified Strength and Conditioning Specialist and held a B.S. in Kinesiology. Kira also was certified in sports nutrition, group exercise, Pilates, post-rehab training, and massage therapy.

⁵ Momentum 24/7 opened in a space previously occupied by a small fitness facility that had only offered individualized training. This operation had closed its doors only a few months before Momentum 24/7 began operations.

Exhibit 3. Fitness Facilities Competing with Momentum 24/7

Sources: web sites of individual gyms.

Name of Facility	Facilities and Programs	Prices
Sun Ute Community Center	Located in Ignacio. Fitness Classes, Personal Training, Cardiovascular Equipment, Weight Training Equipment, Nutrition Programs, Gymnasium, Basketball Court, Volleyball Court, Climbing Wall, Sauna, Hot Tub, Pool, Indoor Track, Recreational Activities.	Single (Monthly) Membership: One month: \$30/month Personal Training: Fees varied by trainer.
Durango Community Recreation Center	Located in Durango. Fitness Classes, Personal Training, Cardiovascular Equipment, Weight Training Equipment, Gymnasium, Basketball Court, Volleyball Court, Indoor Soccer, Racquetball Courts, Climbing Wall, Pool, Hot Tub, Indoor Track, Recreational Activities.	Single (Monthly) Membership: One month: \$30/month Annual: \$26.67/month Personal Training: Fees varied by trainer.
Anytime Fitness	Located in Durango. Fitness Classes, Personal Training, Tanning, Cardiovascular Equipment, Weight Training Equipment, Wellness Program.	Single (Monthly): Only provided on site when a potential client visits the gym. Membership: Only provided on site. Personal Training: Only provided on site.
Core Value Fitness Center	Located in Durango. Fitness Classes, Personal Training, Cardiovascular Equipment, Weight Training Equipment, Weight Loss Program, Massage, Fitness and Active Wear.	Single (Monthly) Membership: One month: \$155/month With 6 Month Membership: \$100/month Personal Training: \$55/hr.
Durango Sports Club	Located in Durango. Fitness Classes, Personal Training, Massage Therapy, Cardiovascular Equipment, Weight Training Equipment, Fitness and Martial Arts Classes, Physical Therapy, Racquetball and Handball Courts, Basketball Court, Jacuzzi, Steam Rooms, Sauna, Pool, Small Climbing Wall, Nutrition Counseling.	Single (Monthly) Membership: Billed - \$59/month Electronic Funds Transfer - \$52/month Personal Training: Fees varied by trainer.
Fitness Solutions 24/7	Located in Durango. Personal Training, Cardiovascular Equipment, Weight Training Equipment, Nutrition Counseling.	Single (Monthly) Membership One month: \$60 With 6 Month Membership: \$55/month With Year Membership: \$50/month Personal Training: Fees varied by trainer.
CrossFit	Two locations, one in Bayfield and one in Durango. Short—20 minutes or less—Intense Classes that sometimes used equipment, Personal Training, Nutrition Information.	Durango Location/Bayfield Location: Single (Monthly) Contracts: One Month: \$140 With 6 Month Contract: \$107/month With Year Contract: \$99/month Personal Training: \$60/hr.

Kira's philosophy on fitness and life was simple – make it fun! She believed that if what a client was doing was not fun, the client would not continue to do it and would always have an internal struggle to stay motivated. *“With the right coaching,”* she explained, *“anyone can reach their goals while actually having fun doing it!”* She specialized in training clients for weight loss, rehabilitation, and sport-specific athletic performance.

Exhibit 4. Kira and Rayburn Gosney

Source: <http://momentum24-7.com/>



Rayburn joined Kira as co-owner of Momentum 24/7 when the couple decided to get married. He was a certified personal trainer and class instructor (through the International Sports Medicine Association). Rayburn worked with all levels of clients to increase their strength, flexibility and endurance. He also served the role of equipment/facility manager at the gym. He had the ability and know-how to remodel the gym when it expanded and to fix the equipment when it broke down.

Rayburn was a third generation resident of the Bayfield, Colorado area. Both Kira and Rayburn had graduated from the local high school and their family names were recognized in the area. Although they were not high school sweethearts, Kira admitted to having a crush on Rayburn when they were in high school. However, after graduation, Rayburn married someone else and

Kira left the area to join the Marines. When Kira returned to the area, then in her mid-30s, her brother-in-law said, *“I want to introduce you to a friend of mine.”* The friend turned out to be Rayburn, since divorced and still living in the area. It was not long before the two of them were dating steadily. Both Kira and Rayburn had watched their entrepreneurial parents succeed as they were growing up in Bayfield and often worked in their respective family property management businesses.

And the Baby Made Three

It was both a surprise and a blessing when Kira found out she was going to have a baby boy. When RJ was born in early 2012, the gym was doing well but the special one-on-one service that Kira and Rayburn provided their clients was getting even harder to do with another member of the family to care for.

Exhibit 5. Kira and Rayburn Junior (RJ) Gosney

Source: Kira Gosney



Kira's Business Strategy

Kira had also owned a different type of fitness facility before opening Momentum 24/7 and had managed several fitness facilities. She operated her previous business adventure in Denver, Colorado. Self-described as an “outdoor fitness company,” she offered boot-camp style classes in a park. Kira was the business. She advertised, organized and taught the class. As the class became very popular, she decided to add more classes in more locations. This meant that she would have to contract with other instructors to teach the classes. As she added classes and locations, it became difficult for her to continue teaching the classes she normally taught herself, as well as organizing all the other instructors and classes. It got to the point where the management of the business became overwhelming. As she put it, *“I lost my love and passion for the business and decided I would never own my own business again.”* She ended the business and went back to managing fitness programs in a large gym.

When she returned to Bayfield, Kira did not intend to open a gym. However, when she did not find a job she liked in the area and discovered that Bayfield did not have a gym, she started thinking about becoming an entrepreneur again. Furthermore, her parents owned a small shopping mall in Bayfield where a personal training operation had recently closed its doors. The space was available and Kira decided to jump in to the fitness business once again. As she explained, *“It just seemed right and I wanted to get back to helping people achieve their fitness goals. I missed that personal interaction.”* When she first started the business, her overall strategy was simply to increase membership until she was profitable enough to make a living from the business, but still enjoy the overall experience of managing and operating the gym.

Kira was surprised how quickly the gym's membership numbers grew. She explained, *“I thought it would be hard to reach 100 memberships in one year and I had that number in three months!”* Over time, she began to think on a larger scale and her overall business strategy changed; especially when she started having the same problems she had had with her previous business. Her plan included eventually finding a property to purchase in Bayfield and moving

the gym to the new location. Once the gym was in a profitable enough position, she would sell the gym equipment, name, etc. but maintain ownership of the building so that she could earn rental income. Her long-term plan included repeating this same scenario in other small towns around southwest Colorado until she eventually had enough rental income to retire.

Momentum 24/7 - The Personal Service Niche

When a member joined, Kira and Rayburn got to know her on an individual basis and provided her with a personal training session and a specifically designed nutritional plan. When members walked through the door, they were greeted by someone who knew their first names and what they were trying to accomplish. This created a comfortable and familiar atmosphere at the gym.

Exhibit 6. Bayfield, Colorado Heritage Days 5k

Source: <http://momentum24-7.com/>



As Kira explained, *“It’s all about bringing people together.”* As members worked out together in classes or while training, they grew to know each other. This provided another reason to continue going to the gym. Kira facilitated this by asking members if they wanted to join her and other members on local 5k walks/runs or by simply introducing members to each other.

She also paired members for training and contests – even when the members had not yet met one another. This facilitated the social aspect of the gym, making it not only a place to work out, but also a place to go where a member could obtain moral support from other members. The gym became a social and emotional part of many of the members’ lives, which made them associate exercise with good and happy feelings of belonging to a social network. As some members explained:

“I think Bayfield was definitely in need of a gym. I have seen the overall attitude regarding health and fitness evolve over the years in Bayfield and I think the gym has played an important role in that.” Ashleigh Tarkington, member since 2010.
“Momentum changed the way I viewed being healthy and working out. I made the best of friends and in return have an amazing support group and that made my lifestyle change easier.” Melissa Rose, member since 2010.

“The personalized training I received from Kira at Momentum supported the success of my weight loss and fitness goals. Her professionalism and dedication to create a plan that would work for me allowed me the freedom to commit to my goals and see them through.” Dawn Calahan, member since 2010.

“You must believe in yourself, mentally and physically. That’s what I have learned from joining Momentum. Kira and the people I have met at the gym have given me the confidence to continue my workouts and reach my fitness goals.” Koel Phelps, member since 2011.

Operations

Momentum 24/7 Fitness and Weight Loss Center was located in a small shopping mall, central to those who lived in Bayfield. The mall was in a high traffic location with ample parking and easy access. With 3,500 square feet of space, it was a full service gym, offering cardio machines as well as a large variety of weight machines – including circuit-training equipment. It also had a room for fitness classes and member workouts. Along with personal training, Kira and

Rayburn offered nutrition and diet information to their clients. Day care was available during the summer months for \$3.00 per hour. There was also a massage therapist located in the same shopping mall who offered discounted rates to gym members.

Industry data indicated the greatest growth in new members for most gyms happened during the first three months of the year, with more than 30% of new members signing up during this time (www.ibisworld.com, p. 6). Momentum 24/7 managed to avoid seasonality of membership growth from affecting its cash flow by collecting automatic monthly payments that were set up when clients signed up for a 12-month contract. The owners managed most of the daily operations, unless the work required a specialist (such as website design and social media operations). The owners managed all billing, collections and the confidentiality of member's records.

Exhibit 7. Cardio Equipment at Momentum 24/7

Source: <http://momentum24-7.com/>



Facilities. Members could access the Momentum 24/7 facility 24 hours a day including holidays and weekends. The door was equipped with a keyless entry system. Members could enter by putting in their private access code.

Providing appropriate equipment and maintaining it was essential to attract and retain customers. The facilities were designed to maximize social interaction that naturally happened as people exercised or took classes together. The facilities were also equipped with several TVs and a sound system. Upbeat music played throughout the day. There was a security system in operation 24/7 that provided peace of mind for members who wanted to work out during off hours. (See Appendix A for a layout of the facilities.)

Variety of Programs. To attract and retain members, Momentum 24/7 offered programs that appealed to a variety of skill levels and ages. At designated times, classes were taught by professionally qualified trainers (the owners or contractors). Class options included belly dancing, kickboxing, Pilates, spinning, and Zumba. Special workout classes were also available for different skill levels, such as beginners or advanced high-endurance strength training. Individuals could also choose to work out on their own. Many members took advantage of the weight training and cardiovascular equipment offered in the gym. While the class schedule changed every few months, it had followed a pattern of morning and evening classes with mid-day time slots available for personal training appointments. There were no classes or personal training appointments scheduled on the weekends, even though members could still access the gym and work out on their own.

Knowledgeable, Caring and Attentive Staff. During the week (9-5 or by appointment), Kira, Rayburn and/or another staff member were there to greet existing members or sign up new members. Although the contract workers at the gym did not have set schedules, while they were there to train clients they could sign up new members and do other tasks in between their training sessions.

Having skilled and certified staff members who were knowledgeable, caring, and attentive created a safe and positive environment. The staff could demonstrate the proper and safe use of various types of equipment. In addition to the owners, Momentum 24/7 had two part-time

trainers who were qualified to demonstrate various pieces of equipment. Three more contracted staff members also taught classes at the gym. The owners were always looking for trainers and instructors who were positive, caring, non-judgmental, and encouraging, who motivated current members, especially those members who were not fully committed to a healthier lifestyle.

In the traditional health club model, 50% of income went to personnel costs. With more gyms having 24/7 access, the new trend was to have very small staffs. This allowed smaller gyms to be profitable. Therefore, in many cases the owners of a gym were the only staff on the payroll (<http://www.ihrsa.org/media-center/2012/1/11/top-health-club-trends-for-2012.html>).

Momentum 24/7 was a typical example of this new trend that relied on part-time contract labor to reduce labor costs. This did present problems for the gym. It was difficult to find contract workers who would act on behalf of the owners as responsible agents. As Kira explained,

“All I can do is try to find people who will continue offering great personal service. But as in any business, nobody will take care of the customers like the owner. It’s a struggle finding people who care about what is going on in the gym as much as I do and furthermore, when I do find good people, I have a hard time keeping them. In fact, it really is impossible to find the kind of people I want.”

Kira also mentioned another problem with contract workers, *“I can’t have set schedules for them like regular employees have.”*⁶

The owners paid the two part-time trainers on a contract basis. The trainers could sign up new members and demonstrate the equipment. The trainers received part of the personal training

⁶ The government requires that firms use employees (and therefore pay payroll taxes and offer particular benefits) instead of contract workers unless certain criteria are met. Both state and federal laws apply to misclassification of employees, making it increasingly difficult for firms to justify hiring contract workers over regular employees. The law presumes a person who provides work is an employee, and the burden of proof to establish otherwise falls on the employer. As just one example, under the Colorado Independent Contractor law (2009), for a worker to be classified as an independent contractor, the worker must actually and customarily perform the same service for others and the employer can have no control over how the person performs the work.

fee when a member decided to sign up for individual training sessions above what was included in their membership.

Other individual contractors conducted specialty classes and were paid directly by the participants (\$4 for members and \$6 for non-members). This provided an incentive for the contract workers to generate class participants in order to create enough profit potential for the contract workers to conduct the class.

Financials

Exhibit 8 indicates typical monthly revenue and expenses for Momentum 24/7, excluding taxes or equipment expenses (which in some months were substantial). Most of the equipment that Kira and Rayburn bought for the gym was not new. Kira spent many hours on the internet looking for used gym equipment for sale in nearby cities. Equipment was added to the gym as Kira found a “great buy.”

Exhibit 8. Typical Before Tax Revenue and Expenses – Monthly

Source: Momentum 24/7

Revenue	
Memberships and Training	\$18,000
Merchandise Sales	\$100
Expenses	
Rent	\$3,500
Insurance	\$300
Utilities/Phone	\$350
Marketing	\$250
Website	\$29
Office Supplies	\$50
Equipment Parts	\$200
Contracted Staff Payments	\$2,550
Net Income	\$10,671

The Business Model: Individual Choice

Momentum 24/7's service concept was best described as a process of transforming a group of individuals who started out as total strangers into a fun-loving and physically fit group of friends. The fitness center was designed and operated to create a user-driven atmosphere that was open 24/7 so members could work out on their own, with a friend, or attend any number of classes. Members could choose to train in groups of two (or even three). In general, after 2-3 times investigating different classes and options, most members settled into a fitness routine that met their individual preferences and schedule.

The traditional gym model was to make as much money as possible through personal training; but Momentum 24/7 tried a new strategy of "give a lot away" in time and information in hopes that it would come back in referrals.

Customer Profile and Memberships

Momentum 24/7 had 450 members, with the majority being female (60%) with an average age of 40 years old. Most members resided within 10 miles of the gym. Some of Momentum 24/7's clientele worked in Durango during the week and used the facility very early in the morning or in the evening hours and on weekends, without driving about 40 miles (to and from) Durango. The majority of new members opted for a 12-month membership, although a minority opted for the month-to-month rates. Since the gym could be accessed 24/7, members could work out at their convenience. The peak use time at the gym was between 4:00 and 7:00 in the evening. The slowest time was between 1 o'clock and 4 o'clock in the afternoon.

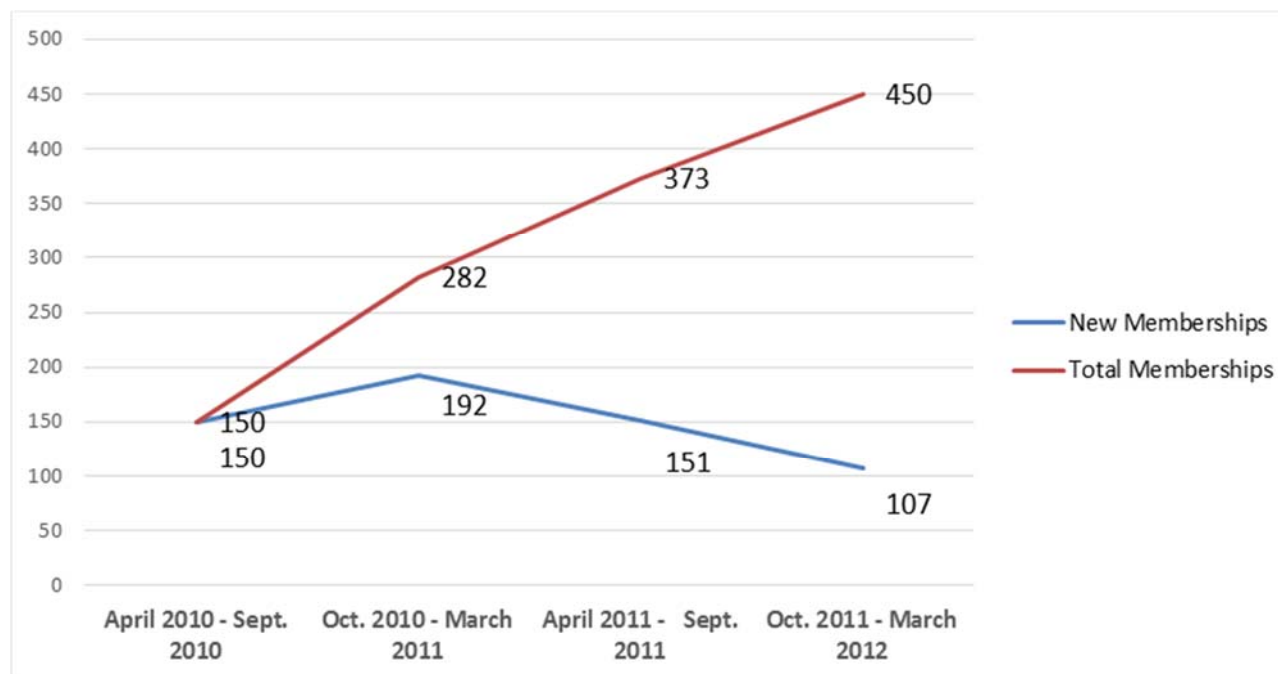
One of Momentum 24/7's marketing tools was its satisfied members, many of whom had gotten great results from joining the gym. Community members saw their friends transform their bodies and lifestyles after joining. Kira and Rayburn thought this was where Momentum 24/7's concept was different from other gyms. Typically, to obtain the service and nutritional information provided at a gym, a client would have to pay a personal trainer \$50 to \$70 per

hour. However, this was not the case at Momentum 24/7. The importance of word-of-mouth to the gym was evidenced by the high number of first time members who decided to join primarily on the recommendation of a friend. The owners monitored member satisfaction by listening to member feedback (verbal) and making adjustments when possible.

As membership grew (see Exhibit 9), it became more difficult to provide the high level of personal service that members were used to getting from Kira. Yet for the business to continue to thrive, memberships needed to increase. Was growth for the business limited? If so, had the owners already reached the limit? At that time (April 2012) membership was 450. On average (over the course of a year), according to Kira, there were 25 new members and about 10 cancellations per month.

Exhibit 9. Momentum 24/7 Membership Data

Source: Momentum 24/7. Total memberships at the end of each six month period shown.



Pricing

Momentum 24/7 charged a monthly membership plus a one-time initiation fee. The initiation fee included classes, setup with the client’s 24-hour access code, and two personal training sessions with body fat testing and nutritional consultation. If a client signed up with a friend, the initiation fee was reduced by 50%. If a client’s referral signed up for a new membership, the client received a free training session or a t-shirt or water bottle. Whenever the owners were on the premises, they always offered help and information at no extra cost to clients.

Clients could purchase personal training at an extra charge, with plans tailored to a client’s goals. Plans included written workouts to do on the days the client was not with the trainer, nutrition coaching including meal plans, before and after photos, and monthly body fat testing and measurements. A training session lasted one hour. (See Exhibit 10 for membership and personal training rates.)

Exhibit 10. Membership Pricing At Momentum 24/7

Source: Momentum 24/7

Membership Rates	Single	Couple	Family
Month-to-Month	\$44/month \$74 initiation fee	\$84/month \$94 initiation fee	Add \$20 per month per person and \$30 initiation fee.
12-month	\$34/month \$54 initiation fee	\$64/month \$74 initiation fee	Add \$15 per month per person and \$25 initiation fee.
One Year Prepaid	\$390	\$760	
Personal Training Rates			
One-on-One Training	\$45/session (single sessions).	\$200 for 5 sessions (\$40 per session).	\$350 for 10 sessions (\$35 per session).
“Buddy” Training – Two or More Clients at the Same Time	\$25/session (per person).		

Promotion and Marketing

The marketing for Momentum 24/7 consisted of ads in the local newspaper, the company website, presence on a social networking site, and word of mouth. A special form of marketing was the contests that Kira and Rayburn held from time to time.

First Contest. The first contest, held in their first year of operation, gave prizes to those members who attended the gym more often and/or lost the most body fat over a 10-week period. Knowing that a key element to any contest was the creation of teams that competed against other teams, Kira organized the contest such that pairs competed.

This strategy accomplished two important goals: it facilitated the social atmosphere that the owners wanted to create and it brought in new members. If a current member did not have a partner, there was a chance he or she would recruit a friend in order to compete in the contest. The contest was successful for the business in that members increased their attendance, membership increased, and, as an example of the accomplishments of the members, the contestants of the fat loss portion of the contest lost a total of 815 pounds.

The Win-To-Lose Contest. In the second year of business, the owners decided to have another contest. The contest was conducted over an eight-week period with teams of three people competing for a prize for the team with the biggest overall weight and body fat loss. Team members did not have to be members of Momentum 24/7. However, again, there was an incentive for current members to recruit new members for the gym. Each team member contributed \$20 to join the contest – all of which created a pool of money for the winning teams (minimizing the monetary cost of the contest for Momentum 24/7). Teams were required to weigh in each week, and various community partners supported the teams with healthy food options at local restaurants and a weekly update in the local newspaper. Weekly winners received prizes donated from local businesses. See Exhibit 11.

Exhibit 11. Community Members Involved in Momentum 24/7's Contest

Source: Momentum 24/7

Business	Involvement in the Contest
Brenda's Café	A local café: created a special menu of healthy entrees for contestants.
Pine River Times	The local newspaper: Provided weekly updates on team status and pictures of the winners.
Salon del Sol	A nearby full service salon: Provided gift certificates for hair and nail services and hair care products.
Glow's Salon	A nearby nails and hair salon: Provided gift certificates for hair and nail services.
Raw Synergy	A local wellness center: Provided gift certificates for wellness services.
Back Porch BBQ	A local restaurant: Provided gift certificates for meals.

Working with the local community generated a very large “buzz” about the contest and the gym. It was a win-win situation for all involved. The gym benefited from the donated prizes, while the local businesses promoted their products and services. The local newspaper listed the prizes donated each week. The overall results of the program are shown in Exhibit 12.

Exhibit 12. Results of the Win-To-Lose Contest

Source: Momentum 24/7

Total Number of Participants (23 Teams)	Total Amount of Pounds Lost	Total Amount of Body Fat Lost	New Memberships because of the Contest
69	1,015	6% on Average	18

Having contestants compete in teams not only lead to an increase in memberships, but it also might have taken some of the pressure off the owners. Team members supported each other and worked out together. Kira and Rayburn thought that although the contest added work

(weigh-ins, recording results, etc.), the team camaraderie had the effect of decreasing the personal service needs of individual clients.

The Great Pumpkin Chase. Another promotional event that Kira and Rayburn decided to add in the second year of operation was a 5k walk/run (see Appendix C). They partnered with a local bar, the Billy Goat Saloon, to organize and operate the event. They decided to hold the event around Halloween in an attempt to make it family-oriented and fun. People were encouraged to wear costumes and to bring their children and dogs to the race. Some of the proceeds from the race were donated to the local animal shelter, the La Plata County Humane Society. One of the trainers at the gym, who wore a large pumpkin costume, led the run/walk. The run/walk attracted about 40 participants and provided exposure for the gym.

Exhibit 13. The Great Pumpkin Chase

Source: <http://momentum24-7.com/>



Even after all of their promotional efforts, Kira and Rayburn’s overall problem still existed. How would they accommodate new members and continue to provide time and energy-consuming personal service to each client? Continuing to grow might mean a change to their business plan. What modifications could they make to be sure that their business not only remained successful but became even more profitable?



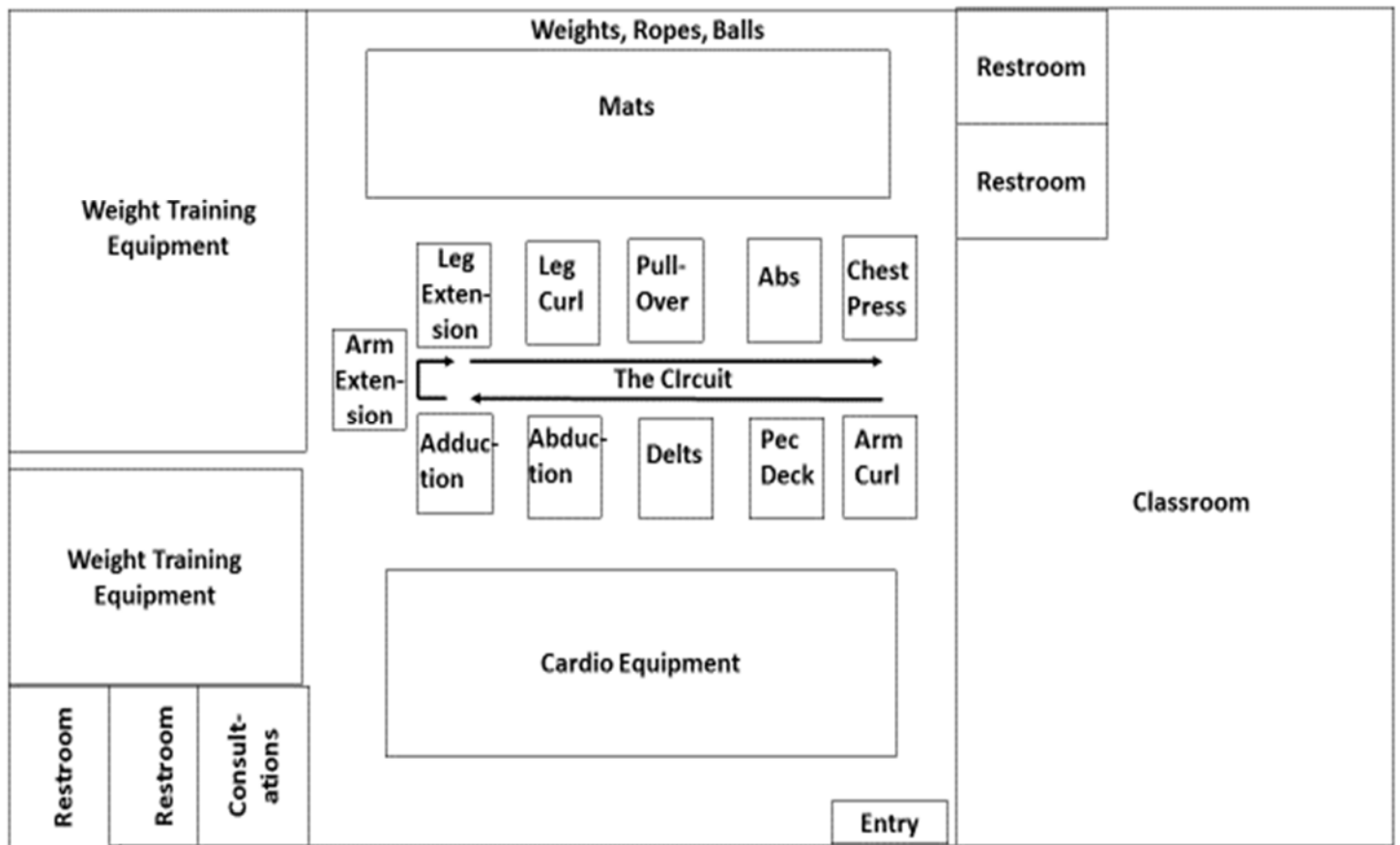
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She is a native of Colorado and loves spending time in the mountains. An avid animal lover, she often fosters for the La Plata County Humane Society.



Elaine Labach is an Associate Professor of Management and the Associate Dean in the School of Business Administration at Fort Lewis College. She joined the college in 2008. Dr. Labach has led students on Study Abroad programs to Spain and Costa Rica. Prior to joining Fort Lewis, Dr. Labach has had a previous career in the insurance and pharmaceutical industries, working for Eli Lilly and Company, Progressive Insurance and Cardinal Health in operations and sales management. Dr. Labach is ex-officio President of the Western Casewriters Association.

Appendix A
 Facility Layout of Momentum 24/7



Appendix B

Regional Map of Bayfield, Durango and Ignacio, Colorado

Source: <http://www.coloradodirectory.com/maps/durango.html>

Appendix C
Flyer for the Great Pumpkin Chase
Source: Momentum 24/7

Dress the family, friends and dogs in their Halloween best and join us!

Raising funds for:

La Plata County Humane Society

Momentum 24/7 Fitness & The Billy Goat Saloon Present the

Costume 5K and 1 mile

Great Pumpkin Chase

Saturday, October 26 • 10:00 a.m.
(Reg. starts at 8:30 a.m.)

480 Wolverine Dr., Bayfield, Colorado

Register before October 21st and save!

Register at the links below:
momentum24-7.com or facebook.com/momentum247

5K
\$25 per adult before Oct. 21 and \$35 after Oct. 21. (Fee includes T-shirt and goodie bag)

\$10 per child under 13 before Oct. 21 and \$15 after Oct. 21.
(Fee includes a pumpkin water bottle)

1 Mile
\$10 per adult, kids are free. (Fee includes a water bottle for each participant)

Strollers and pets are FREE!
*Have questions?
Call Kira (720)231-4313*



GEO LISTENING AT THE GLENDALE UNIFIED SCHOOL DISTRICT

**STEPHEN J.J. MCGUIRE, YANG ZHANG, CATHY JIN, MANIKA TIWARI,
NIYATI GOSALIA, SOFYAN DOWIRI & VENKATA BHAMIDIPATI**
California State University, Los Angeles

A 15-year old boy killed himself by leaping off the roof of his high school in Glendale, California in front of horrified classmates and teachers. *“We saw the body on the floor and it was just all blood, everywhere,”* one 11th grader said. *“Everyone was traumatized. They were crying. It was horrible — I didn’t even want to look — so I just turned around”* (CBS LA 2012). The underlying causes of the suicide were not immediately clear. A friend who had witnessed the jump attributed it to bullying: *“He definitely was bullied and he didn’t want to go to school”* (CBS LA 2012). The parents later sued the school district, claiming that the boy had been bullied and school officials had turned a blind eye to the bullying (Corrigan 2013).

In 2013, the Glendale Unified School District (GUSD) hired Geo Listening for a pilot project to monitor the online communications (Facebook, Instagram, YouTube, Twitter, and blogs) of about 14,000 middle and high school students in an attempt to detect bullying, threats, depression, and substance abuse. The District justified the project on the grounds of ensuring student safety as well as compliance with GUSD schools’ code of conduct (Shade & Singh 2016). The pilot project was extended, renewed, and remained in place in 2017-18. GUSD had decided that it needed to take action to protect the school children. But was it the district’s responsibility to monitor kids’ use of social media – on and off school grounds? How much privacy did students have a right to? And even if GUSD could monitor kids’ social media behavior, would that really keep them safe?

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor’s manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2017 by Stephen McGuire. Contact: Stephen McGuire, California State University, Los Angeles, 5151 State University Drive, STF 706, Los Angeles, CA 90032, (323) 343 2897, steve@mcguire.net

Aftermath of the Suicide at Crescenta Valley High School

Crescenta Valley High School was one of 31 schools in the Glendale Unified School District. A substitute teacher at Crescenta Valley the day of the suicide asked the question that was on the minds of all the teachers in Glendale: *“How do you know? How do you know that something like this could happen?”* Implied of course was that if only the teachers and administrators had known, they could have prevented the jump.

In the immediate aftermath of the tragedy, the Glendale Unified School District (GUSD) put the school on lockdown, notified all parents, and provided counseling for students, teachers and staff. Everyone at the school was affected by the suicide. One teacher needed counseling because he kept hearing the thud of the body every time he closed his eyes. A candlelight vigil was held to remember the young man. Teachers and counselors worked together to help – as best as possible – the Glendale community get past the tragedy.

GUSD was convinced that it needed to do something that would allow it to detect and act on problems of bullying and other potential causes of suicide and other problems that school kids faced. When GUSD hired Geo Listening, some were against the idea, but few teachers were among them. Another high school teacher said,

“Because so much more is expected of teachers and schools, we have to have some technology to help us. We are responsible for kids in a more parental way than in the past. Even if we don’t know about a situation, we are expected to know and intervene. It is extremely invasive, but it is a necessary evil.”

Trouble at School: Bullying, Substance Abuse and Suicide

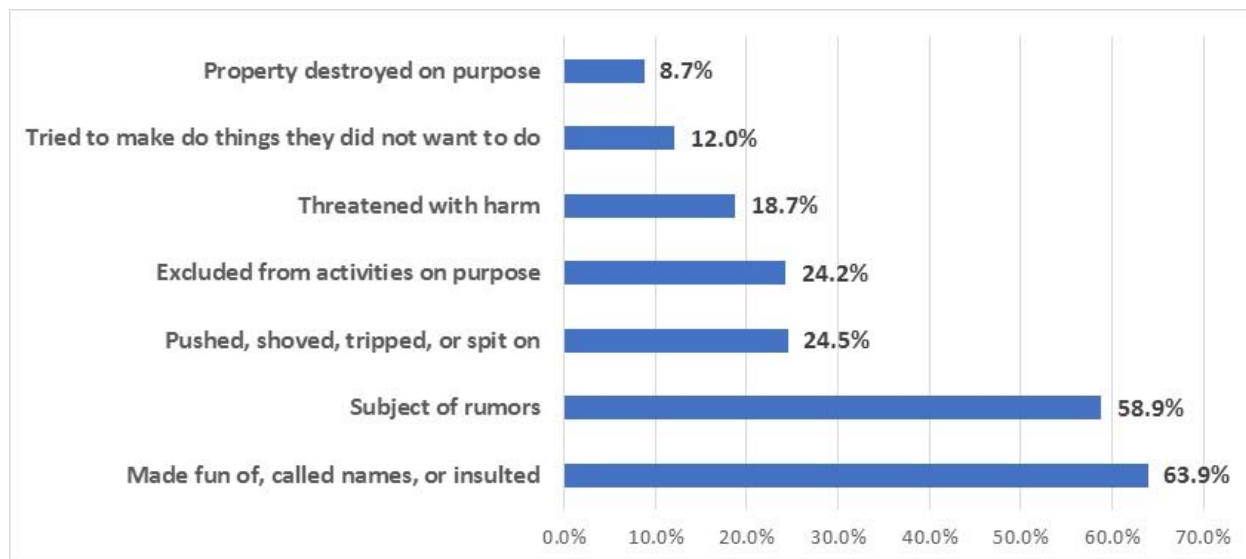
Bullying

Over 13 million American kids were bullied at school, online, on the bus, at home, through their cell phones, and on the streets of their towns, making bullying the most common form of violence young people faced in the United States. Three million students were absent each

month because they felt unsafe at school, 77% of students were bullied mentally, verbally or physically and nearly 42% of kids had been bullied online (1 in 4 more than once). Bullying had increased from 6% of kids aged 12 to 18 in 2009 to 16% in 2011. Exhibit 1 shows for those who were victims of bullying, the different ways that they were bullied (NCES n.d.).

Exhibit 1. Bullying by Types

Source: National Center for Education Statistics (NCES)



Students who reported being bullied indicated that it most commonly happened in a hallway or stairwell of the school, likely out of sight of a teacher or any adult, or in the classroom. But bullying was also frequent outside on school grounds and in the cafeteria. (See Exhibit 2.) Some kids were much more likely to be bullied than others. One study revealed that nearly 9 out of 10 lesbian, gay, bisexual and transgender (LGBT) students experienced harassment (Campus Safety 2008). 95% of teens who used social media had witnessed mean or cruel behavior toward other teens on the sites they visited. Of those who saw such behavior online, 66% said that they had seen others “join in” the cruel behavior (Chen 2017: 5).

Exhibit 2. Bullying by Sex, Sector, and Level

Source: U.S. Department of Education 2017

	Bullied (%)	Percentage among students who reported being bullied						
		In a classroom	In a hallway or stairwell	In a bathroom/locker room	Cafeteria at school	Outside on school ground	School bus	Online or by text
Sex								
Male	18.8	35.1	41.8	14.0	22.8	23.6	13.8	6.1
Female	22.8	32.4	41.6	5.6	21.7	15.8	6.8	15.9
Sector								
Public	21.3	34.0	41.1	9.6	22.3	18.8	10.4	11.2
Private	15.3	41.6	36.8	(missing)	28.4	26.1	(missing)	21.3
Level								
Primary	21.8	43.9	29.6	(missing)	22.6	26.8	(missing)	(missing)
Middle	25.9	36.0	44.2	13.6	24.4	22.6	12.5	9.1
High	18.9	31.4	40.7	7.7	20.7	14.9	8.2	13.6
Other	14.3	29.7	37.9	(missing)	33.5	25.9	(missing)	(missing)

Alcohol, Cigarettes, and Drugs

GUSD was highly concerned about school kids' abuse of alcohol, cigarettes, and drugs. Alcohol was the most commonly used drug in America by teenagers (PAMF 2015). About half of junior high and senior high school students drank alcohol on a monthly basis, and 14% of teens had been intoxicated at least once in the past year. Nearly 8% of teens who drank reported that they had had five or more alcoholic drinks (Medicine.net n.d.).

In America, nearly 9 out of 10 cigarette smokers first tried smoking before the age of 18 (CDCP 2017) and many Glendale students were lighting up their first cigarettes. Approximately 4.7 million middle and high school students were tobacco users (HHS 2017). About 5% of California kids aged 12 to 17 years used tobacco, a rate lower than found in other parts of the country (average 7.4%), but still of great concern to parents and educators (CDCP 2017, See Exhibit 3).

Exhibit 3. Tobacco use among students in 2016

Source: Centers for Disease Control and Prevention (CDCP 2017)

Tobacco Product	Middle School Students	High School Students
Any tobacco product	7.2%	20.2%
Electronic cigarettes	4.3%	11.3%
Cigarettes	2.2%	8.0%
Cigars	2.2%	7.7%
Smokeless tobacco	2.2%	5.8%
Hookahs	2.0%	4.8%
Pipe tobacco	0.7%	1.4%
Bidis	0.3%	0.5%

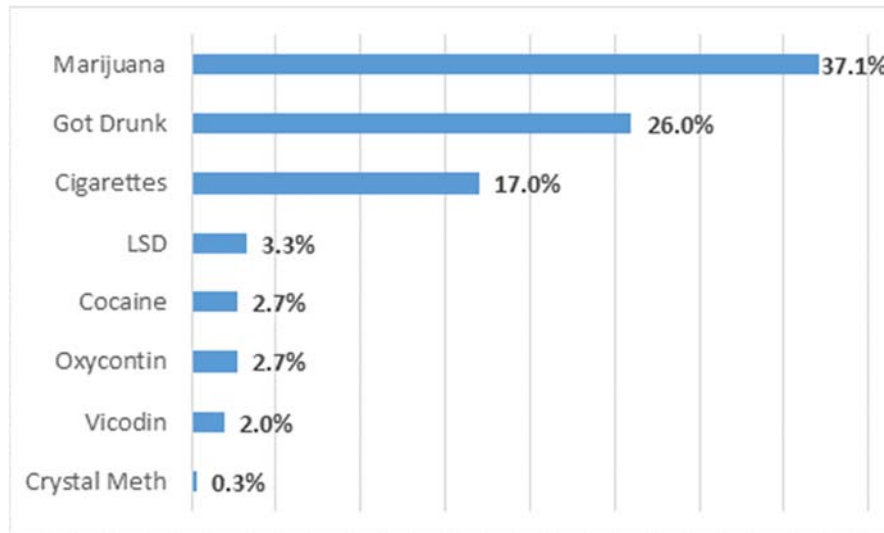
Recreational use of marijuana was no longer unlawful in California starting 2018. Some educators were concerned that teens seemed to have become quite tolerant of marijuana use; only 14% of teenagers thought that marijuana presented a “great risk.” 37.1% of high school seniors reported that they had used marijuana at least once, as had 10.1% of eighth graders (Kaplan 2017).

What was clearly on the rise nationwide was vaping (Kaplan 2017). Vaping could be used for nicotine, marijuana, hashish, or other substances. Young people seemed to think, incorrectly, that taking nicotine by vaping was not dangerous while smoking cigarettes was.

Exhibit 4 shows U.S. high schools seniors’ use of cigarettes, alcohol leading to intoxication, and drugs in 2017 (Kaplan 2017).

Exhibit 4. Substance Abuse by % U.S. High School Seniors, 2017

Source: Kaplan (2017)



There was, however, a positive trend in youth use of cigarettes, alcohol, and drugs. Other than marijuana, *“the rates of drug use among teenagers in our country are the lowest they’ve ever been,”* noted Dr. Nora Volkow of the National Institute on Drug Abuse (Kaplan 2017). In 2017, about 1/3 of kids had used some kind of illicit drug, down from the 43% of 20 years ago. 17% of students reported that they had smoked cigarettes at least once, down from 58%. 26% said they had gotten drunk, once again much lower than the 46% reported in the 1990s (Kaplan 2017).

Youth Suicide

Suicide was the second leading cause of death of American youth aged 12 to 18; unintentional injury was the first (PRP n.d.). The suicide rates of U.S. adolescent boys and girls had been steadily rising since 2007 (Holmes 2017). The suicide rate for girls ages 15 to 19 doubled from 2007 to 2015, when it reached its highest point in 40 years. The suicide rate for boys ages 15 to 19 increased by 30% over the same time period (Holmes 2017; TeenHelp 2017; KidsData.org n.d.) (See Exhibits 5 and 6). Researchers found that suicide among LGBT youth was significantly higher than in the general population, and LGBT teens were among those with the highest rates of suicide attempts (Shapiro 2008). In Los Angeles County, where Glendale was located, the

youth suicide rate was about 6 per 100,000, well below the overall U.S. rate, but still frighteningly high.

Exhibit 5. U.S. Teen Suicide Statistics by Age for 2014

Source: TeenHelp (2017)

Age	Death No.
13	132 deaths – 3.17 per 100,000
14	179 deaths – 4.23 per 100,000
15	244 deaths – 5.86 per 100,000
16	313 deaths – 7.51 per 100,000
17	359 deaths – 8.58 per 100,000
18	441 deaths – 10.44 per 100,000
Total	1,668 deaths – 6.63 per 100,000

Exhibit 6. Youth Suicide Rate

Source: KidsData.org (n.d.)



Note: Number of suicides per 100,000 youth ages 15-24.

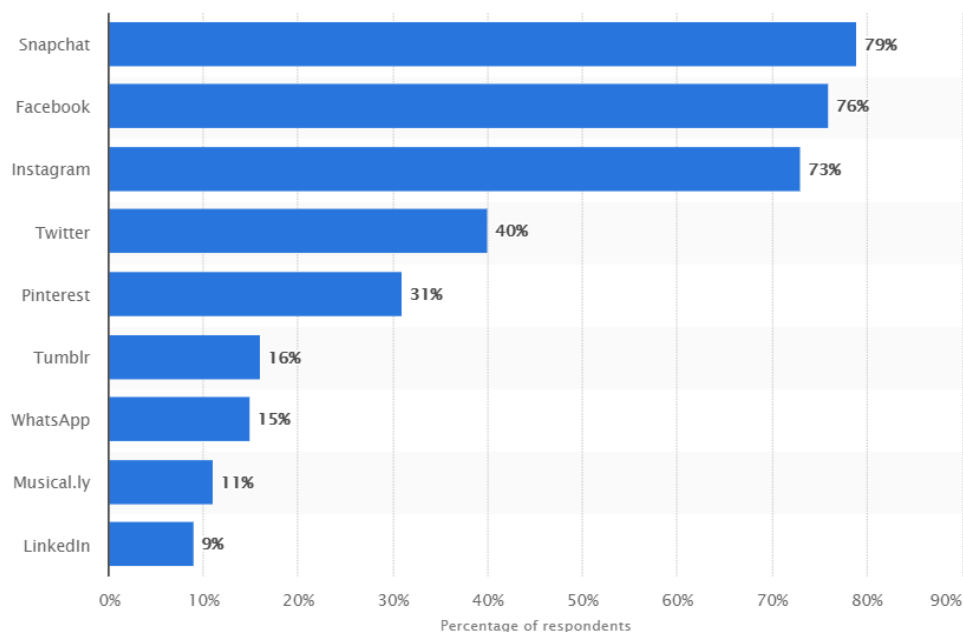
Social Media and School Troubles

American school kids were very comfortable using the internet. In 2015, more than 75% of U.S. teens had access to a smartphone, and more than 50% logged onto social media accounts several times a day. The most popular sites for teens were Snapchat, Facebook, Instagram, and

Twitter. In February 2017, 79% of teen internet users went to Snapchat, 76% to Facebook, and 73% used Instagram (Carollo 2015). Ninety-three percent of U.S. teens aged 15-17 had mobile access to the internet through a phone, tablet or other device, and spent nearly 200 minutes per day on it (Statista 2017). Exhibit 7 shows the use of social media by students. The booming of social media use had been blamed for increasing troubles at school. Students communicated with each other via mobile devices even when they were in the same classroom, cafeteria or playground. Among the apps available to kids, some were anonymous. As the *Huffington Post* noted, anonymous apps could be easily abused:

“These apps allow kids to provide anonymous, unsolicited, and unmoderated feedback to other users. Anonymous apps are notorious hubs for cyberbullying because kids feel emboldened to say things they wouldn’t normally. [...] Some teens may use it to send anonymous messages with their schoolyard crushes, but more often it’s used to transmit all the mean things teens would never say to a friend’s face” (HuffPost 2017).

Exhibit 7. Leading social media sites used by teenagers as of February 2017



Glendale Unified School District and Geo Listening

The Glendale Unified School District was based in Glendale, California, just 9 miles from downtown Los Angeles. The school district served the city of Glendale, portions of the city of La Cañada Flintridge, and the unincorporated communities of Montrose and La Crescenta. GUSD was comprised of 31 schools serving more than 26,000 students in transitional kindergarten through 12th grade (GUSD.net).

After the Crescenta Valley High tragedy, GUSD was determined to take action. In January 2013, the District hired Geo Listening to run a pilot program to monitor public online activity of students at the Crescenta Valley High, Glendale High, and Hoover High schools. Chris Frydrych, CEO and Founder of Geo Listening, said,

“We wanted to create a pervasive and proactive service, so that school personnel would have more timely information to more effectively intervene on behalf of students.”

In the pilot, Geo Listening monitored and analyzed students’ public social media posts and identified cases where students were in danger of harming themselves or others. After collecting information from students’ posts on social media platforms such as Facebook, Instagram, YouTube and Twitter, Geo Listening prepared a report for the school district (Grieg 2013).

In October 2013, after the successful pilot test, GUSD paid Geo Listening \$40,500 to monitor posts made by about 13,000 middle school and high school students at eight GUSD schools for the next school year. The agreement was extended and renewed, and was in place for the 2017-18 school year. Dr. Richard Sheehan, GUSD Superintendent of the school district, said:

“With modern technology, unfortunately we have to stay a step ahead of the kids. The whole purpose is student safety. Basically, [the service] just monitors for keywords where if a student is considering harming themselves, harming someone else” (PSR 2017).

Geo Listening monitored both on and off campus social posts. Analysts were alerted to key words that suggested suicidal thoughts, bullying, vandalism and even the use of obscenities. Geo Listening provided GUSD officials with a daily report that categorized posts by their frequency in categories of cyber-bullying, harm, hate, despair, substance abuse, vandalism and truancy – or posts they thought violated the district schools' student codes of conduct. (See Appendix A for code of conduct and Appendix B for policy on use of technology). Postings were flagged for negative content: counter to the school code of conduct, evidence of violent threats to other students or the school, cyberbullying, or self-harm. According to Geo Listening CEO Frydrych, the daily reports submitted to the schools consisted of screen captures of flagged posts *“along with details of whether they were made on or off campus, the time and date, the user’s name, if available, and a description of why the post caught the attention of analysts”* (Ceasar 2013). Geo Listening employed a small full-time staff and, said Frydrych, a global team of contract workers who only worked half-days since *“the content they read is so dark and heavy”* (Frydrych, quoted in Martinez 2013).

Scott Anderle, GUSD’s Assistant Director for Student Services, received a 15 page report every day, which he sorted through searching for students who might be at risk. Every time Mr. Anderle received a report, he determined if he needed to take immediate action or instead refer the matter to the relevant school principal (for example, a post about drinking). When he found one that caused concern, he made sure the student was called to a one-on-one meeting with the appropriate administrator.

“What I’m looking for is students who either say they’re going to hurt themselves, commit suicide, or hurt others, threaten the school, going to bring a gun to school – that type of thing. We’ve actually prevented a number – is it a huge number, no – but a number of incidents where kids were either thinking about killing themselves or doing something bad to the school” (Carollo 2015).

Geo Listening’s employees and their computers scoured public posts made by students and alerted GUSD administrators when they found something that needed the school’s attention (Ramasastry 2013). The company trawled the web for social-media postings of Glendale

students aged 13 and up. There was also an anonymous report button in a mobile app that students or parents could use to call something to Geo Listening's attention. In the 2013-14 school year, Geo Listening provided GUSD with 20 reports referring to despair or potential suicide, 4 reports related to self-harm or cutting, 150 reports about bullying, 340 about substance abuse, and 382, the majority, about students being vulgar or profane (Corrigan 2014). Mary Boger, former GUSD president, remarked that given the information received from Geo Listening, the money (\$40,500) was "*well spent.*"

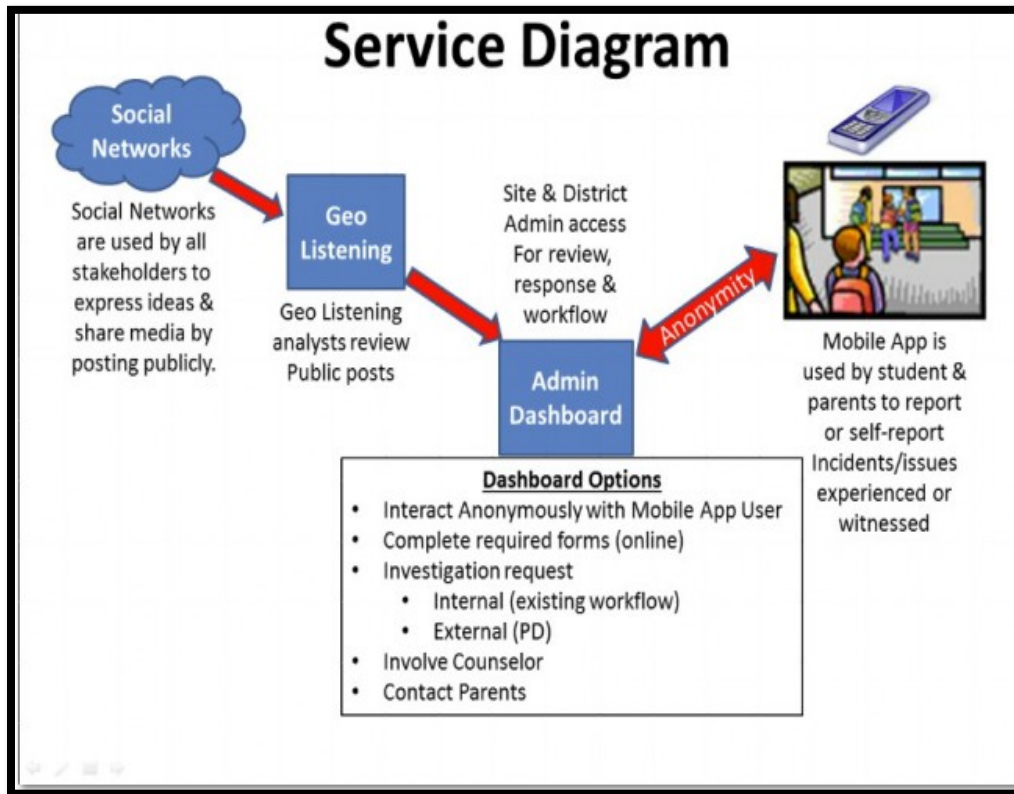
In order to be in compliance with the Family Education Rights and Privacy Act (FERPA), GUSD could not provide Geo Listening with any information about its students. Nor could GUSD provide any feedback to Geo Listening about any student detected by Geo Listening's monitoring. Geo Listening, therefore, did not "track" a student's progress, nor did it, according to CEO Frydrych, continue to watch a student who had previously been identified in its own reports (Carollo 2015). As Geo Listening never had access to a list of GUSD students, it used "*deductive reasoning*" to link public accounts to students who were in Glendale (Shade & Singh 2016). Exhibit 8 summarizes Geo Listening's model.

Geo Listening CEO Frydrych said,

"You'll never hear me say that we can prevent school shootings and violence and suicide, but we firmly believe that if you can disrupt anyone's bad day, it can be better the next day. Or at least it resets the clock" (Carollo 2015).

Exhibit 8. Geo Listening's Service Model

Source: Geo Listening brochure,
<https://geolistening.com/wp-content/uploads/2014/08/Geo-Listening-8-13-14-WEB.pdf>



Reactions to the Monitoring Program

There were different reactions to the monitoring program by students, parents, community members, and public officials. Most reactions seemed to be positive; the school was proactively trying to keep its students safe. Some parents wondered if the money spent on monitoring should instead go to educational programs (Chen 2017). Other negative reactions were generally of four types:

- 1) GUSD was violating students' right to free speech.
- 2) GUSD was violating students' right to privacy.
- 3) GUSD was monitoring without consent.
- 4) GUSD was on a slippery slope ...

Right to Free Speech

Lawyers looked to the U.S. Supreme court case *Tinker v. Des Moines Independent School District* to clarify what rights students had to free speech on campus. The court in *Tinker* concluded that public school officials could discipline a student whose speech caused “*a material and substantial interference with the learning environment and orderly work of the school*” (Sheridan 2015: 57). Regarding off-campus speech and use of the internet, things were less clear. There were few legal precedents. According to one legal scholar:

“It is unclear whether schools may legally surveil students’ internet posts in order to protect the school population from a substantial disruption to its educational goals” (Mendola 2015: 171).

Others noted that the very act of monitoring students’ online speech could have the effect of curtailing free speech,

“As students would know that their posts were monitored and consequently could choose not to express their thoughts on the internet” (Shade and Singh 2016: 179).

It was generally agreed that schools could curtail students’ free speech online – or punish them for the speech – when (a) the speech had already caused a serious disruption to student learning or the operation of the school, or (b) a disruption was reasonably anticipated (Sheridan 2015). For example, if there were an online posting or tweet about a bomb or threat of violence, the school could act right away to curtail a student’s speech. On the other hand, a student’s right should be protected to make off-campus postings about the school, a teacher, or a principal as long as these postings did not seriously disrupt learning or school operations.

The gathering of public information found online did not violate free-speech protections, noted Peter Scheer of the First Amendment Coalition, a California nonprofit, but disciplining students for posts made outside of school could infringe on their free-speech rights (Sheridan 2015). Nonetheless, in situations where students wrote about hurting themselves, threatened to harm others or used hate speech toward a particular person, intervention for student safety would be considered reasonable (Sheridan 2015).

Right to Privacy

The 4th Amendment to the U.S. Constitution guaranteed the right to freedom from unreasonable searches and seizures without a court-ordered warrant issued for probable cause of a crime having been committed.

GUSD and Geo Listening were adamant that the only social media posts they monitored were the “public” posts of students. Students could make private posts, and these would not be detected. Therefore, the argument was, the information was public. *“This is not an invasion of privacy,”* GUSD school board member Christine Walters said. *“This is just taking public information and using it for our students’ well-being”* (Corrigan 2014).

Geo Listening likewise claimed that it did not violate anyone’s privacy rights because it only monitored public accounts or received an anonymous heads-up from someone who wanted to report a post or behavior. By policy, Geo Listening allowed any student attending a school where it was monitoring to request the information it had collected on the student, and to amend that information (Carollo 2015).

In spite of Facebook CEO Mark Zuckerberg’s famous – or perhaps infamous – comment that *“Privacy is dead”* (Kirkpatrick 2010), an American had a right to privacy when society recognized that right as reasonable per the 4th Amendment (Sheridan 2015).

Americans, of course, could voluntarily give up their rights to privacy. *“What a person knowingly exposes to the public is not subject to Fourth Amendment protection”* (Sheridan 2015: 70). For example, on Facebook one could set and change settings from ‘private’ to ‘available to friends only’ to ‘available to friends of friends’ to ‘open to the public.’ A message posted on a Facebook page with ‘open to the public’ settings would not be entitled to 4th Amendment privacy protection. But in some cases even postings made only to ‘Friends’ could be accessed, for example:

“Where the user’s Facebook privacy settings allow viewership by ‘friends,’ the government may also access the user’s messages through a cooperating third party who is a ‘friend’ without violating the Fourth Amendment” (Sheridan 2015: 70).

What was a reasonable expectation of privacy online? Many people – not only teens but adults also – did not read carefully the consent forms they clicked, and some never verified privacy settings. Many believed they were acting and speaking privately when their posts could readily be accessed by strangers.

Consent to Being Monitored

In 2013, a junior at Hoover High School in Glendale was scrolling through Facebook when he found an article posted by a friend of his. The article said that a private company hired by GUSD had been monitoring students’ online activity for more than a year. *“I heard rumors that GUSD was doing a little bit of monitoring – but nothing as official as this,”* the student said. *“Our principal hasn’t said anything about it”* (Ceasar 2013). The school district in 2013 had neither sought nor received consent from either students or their parents – nor had anybody informed parents of the monitoring. GUSD did not believe that consent was required. Under federal law, parental consent was required for anyone to gather information on an internet user aged 13 or younger, according to the Children’s Online Privacy Protection Act (FTC.gov n.d.). CEO Frydrych told CNN that only students ages 13 or older were part of Geo Listening’s sweep — otherwise parental permission would be required (Martinez 2013). How Geo Listening tuned out somebody under age 13 was not made clear.

Parents were surprised to learn that their children’s posts were being monitored, and from some there was an outcry about the violation (Corrigan 2015). Some school children objected to the monitoring, while others seemed not to mind. One student wrote on Twitter, *“What else does GUSD want to do, put cameras in our rooms?”* Another student wrote: *“GUSD should be smarter and start spending money on educational purposes rather than trying to stalk students”* (Corrigan 2013). A high school sophomore did not object to the Geo Listening program, and

commented that it was students' "*choice if they want to make [their accounts] public or private*" (Corrigan 2013).

The American Civil Liberties Union (ACLU) warned students that schools could see what students posted online, but the schools were supposed to tell parents that monitoring was going on (see Exhibit 9).

Exhibit 9. ACLU Notice to Students about Social Media Activity

Source: ACLU, <https://www.aclunc.org/our-work/know-your-rights/student-social-media-rights>

Can my school search for my social media activity without telling me?

SOMETIMES. If your school starts a social media monitoring program, your school district must let you and your parents know, allow you to see the information it has collected about your social media activity, and delete it when you leave the district or turn 18.

If your school does not have a monitoring program, you do not have the right to know what information teachers and officials find through their own searching on social media. Remember, anything you post publicly can be seen by anybody, including police officers, teachers, officials, and other students.

The Slippery Slope

Finally, some argued that GUSD was on a slippery slope toward an Orwellian state where the government – not the parents – watched everything students did, spying on them even when they were away from school. Brendan Hamme, an ACLU attorney, said,

“The district is walking a fine line with its social media surveillance. The program is sweeping and far afield of what is necessary to ensure student safety” (Ortiz 2013).

While Geo Listening was monitoring posts about student safety, it was also collecting complaints about schools and principals and teachers, and compliance with school rules. At what point was the public school infringing on the rights of parents to monitor and discipline their children? Parents, schools, and even the police had different roles and responsibilities. One scholar concluded that purely off-campus speech by students, when it raised concerns, *“is more appropriately handled by parents and possibly law enforcement”* than by schools (Sheridan 2015: 75).

In practical terms, many parents were unable to monitor what their children did and said online, and school children were far more sophisticated internet users than their parents were. *“Parents [...] are not able to effectively listen to the conversation where it's happening now,”* Frydrych said (Martinez 2013).

A Glendale grandfather, at a school board meeting, spoke out against Big Brother spying on kids and warned the school board of the slippery slope it was on. He called to his grandchildren to protest the Geo Listening programs (YouTube). Chris Frydrych, CEO of Geo Listening, replied, *“Honestly, we’re not spying on kids. Can we focus back on the problem: The problem is we’re not listening effectively . . . and we’re shifting that”* (Martinez 2013).

Students mocked the effort on Twitter, saying that GUSD officials *“would not even understand what I tweet most of the time, they should hire a high school slang analyst”* (#shoutout2GUSD).

Geo Listening publicized its ability to read and understand the special slang that teens used on social media. Hate, for example, could be spelled “h8.” For example, Frydrych’s firm learned how youths inhaled drugs such as liquid hashish through vaporizers (or “vapes”) which were devices like smokeless electronic cigarettes. Were it not for Geo Listening, a Glendale teacher would not have known that a student was inhaling hashish in class because of the lack of smoke.

According to Yalda T. Uhls, a researcher at the Children’s Digital Media Center at UCLA, and a parent of two, *“Students could lose trust in adults once they find out their posts are being tracked”* (Corrigan 2013). While she admired the effort to prevent cyberbullying, she was concerned that schools might be going too far.

A junior at Hoover High said,

“We all know social media is not a private place, not really a safe place. But it’s not the same as being in school. It’s students’ expression of their own thoughts and feelings to their friends. For the school to intrude in that area, I understand they can do it, but I don’t think it’s right” (Ortiz 2013).

“We should be monitoring GUSD instead,” one Twitter user wrote after an instructor was arrested on charges of sexual abuse (Sengupta 2013).

Others were truly concerned that the environment of learning would be destroyed if students lost trust in their schools. ACLU’s Brendan Hamme concluded,

“We believe that social media monitoring does not foster a hospitable school environment. It breeds an environment of distrust between youth and teachers and administrators. And there are far more efficacious ways of getting to the cause of the issue than spying on students” (Carollo 2015).

When polled, 98% of students indicated that they wanted teachers to intervene when they saw online evidence that somebody was being bullied or needed assistance (American SPCC 2017).

A Hoover High School boy remarked, *“I don’t mind being monitored and neither does my*

mother.” A female classmate of his added, “If there was a red flag [...] I would want somebody to come in” (Ramasastry 2013).

Legislators in the state capital took notice of the Geo Listening monitoring program and citizens’ reactions to it. It was not long before the State considered regulation.

The State of California’s Response to Geo Listening

In January 2014, California Assembly Member Mike Gatto, a Democrat from Glendale, introduced a bill that was signed into law by California Governor Jerry Brown in 2014. The new law (see Appendix C) required a school district to notify parents before it monitored social media posts, and prohibited schools and 3rd parties from keeping student information for more than a year or sharing it with outside parties. The law, however, did not require the school district to obtain consent from parents. Nonetheless, California had the most comprehensive law in the nation on the topic (Carollo 2015). Geo Listening, which cooperated with the writing of the law, was also the entity that would be controlled by it.

“The specificity of the legislation makes it clear that Geo Listening’s form of contract was the target. The bill [...] echoed the general phrasing and outcry around student data privacy, by specifying that vendors are not allowed to use the data for any other purposes than those specifically stated in the contract and for the contracted period” (Burch, LaFave & Smith 2017: 28).

The law required that before monitoring students’ social media activity, a school needed to inform students and their parents, allow for comments in meeting open to the public, and only collect information that was directly related to the safety of the school and school children. In addition, schools and 3rd party vendors needed to be sure that all information was destroyed within a year of a student leaving school or turning 18 (Burch, LaFave & Smith 2017). Because there was no way to know accurately who had left school or turned 18, in practice it meant that no information could be kept for more than a year. Third parties were also prohibited from sharing the collected data with any other party, and certainly could not sell it (Carollo 2015).

Should GUSD Monitor Students' Use of Social Media?

Dick Sheehan, the school district's superintendent, said that GUSD's decision to hire Geo Listening to monitor school kids' use of social media was about "*making sure kids are protected*" (Siner 2013). Critics said that the Geo Listening monitoring program had a chilling effect on free speech and was an invasion of privacy (Siner 2013), was done without parents' or students' consent, and put GUSD on a slippery slope toward an Orwellian future.

The Glendale Unified School District justified its monitoring project on the grounds of student safety and compliance with Glendale schools' code of conduct. Was it the district's responsibility to monitor kids' use of social media? Where did schools' responsibilities infringe upon parents'? And what about students' expectations of free speech and privacy, especially when they were off campus? Finally, even if GUSD could monitor students, would doing so really keep them safe?

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Appendix A

Excerpts from Standards of Student Conduct

Source: CRESCENTA VALLEY HIGH SCHOOL PARENT/GUARDIAN & STUDENT POLICIES AND PROCEDURES HANDBOOK, <https://www.gusd.net/cms/lib/CA01000648/Centricity/Domain/132/2017-2018%20Parent%20and%20Student%20Handbook.pdf>

Students enrolling at Crescenta Valley High School may rightfully expect a school climate which gives them the opportunity to learn. To achieve this goal, appropriate conditions must be maintained in the classrooms, on the campus at all school sponsored functions. Students are expected to exercise self-discipline and display acceptable forms of behavior while at school, on their way to school, on their way from school, and at school sponsored events. An atmosphere of reasonable, firm, and positive discipline can help develop acceptable behavior, concern for others, and mutual respect. In order to ensure the safety of students on our campus, students chosen at random will be wanded with a metal detector. On regular occasions, trained drug dogs will randomly check classrooms, locker areas and student parking for drugs, alcohol, or gun powder. Student conduct at CVHS is expected to conform to district and school rules and regulations. [...]

Bullying

Bullying is defined as any severe or pervasive physical or verbal act or conduct that includes sexual harassment, hate violence, intentional harassment, threats, or intimidation, or communication made in writing or through means of an electronic/Internet/web-based related act directed against school district personnel or pupils, committed by a pupil or group of pupils that has the effect or can reasonably be predicted to have the effect of one or more of the following:

- Placing a reasonable pupil or pupils in fear of harm to that pupil's or those pupils' person or property.
- Causing a reasonable pupil to experience a substantially detrimental effect on his or her physical or mental health.
- Causing a reasonable pupil to experience substantial interference with his or her academic performance.
- Causing a reasonable pupil to experience substantial interference with his or her ability to participate in or benefit from the services, activities, or privileges provided by a school.

Cyberbullying includes the transmission of harassing communications, direct threats, or other harmful texts, sounds, video, or images on the Internet, social media, or any technologies including, but not limited to, using a telephone, computer, or any wireless device. Cyberbullying also includes breaking into another person's electronic account and assuming that person's identity in order to damage that person's reputation. [...] Students are encouraged to notify school staff when they are being bullied or suspect that another student is being victimized. [...]

Dress Code Policy

This dress policy has been developed to make sure that all students are provided with a safe learning environment. The law allows schools to regulate the dress of students and to ban those items that are disruptive or detrimental to the learning process. Attire may also be banned if it is sexually suggestive or obscene, related to gang activity, advocates the use of drugs, alcohol or tobacco or is dangerous or unsafe. [...]

Drugs

It is illegal for any student to possess for sale, obtain for use, or be under the influence of alcohol, illegal drugs, or substances. Note: GUSD Student Support Services authorizes and funds random drug dog searches at CVHS. Breathalyzers are also used randomly or as needed at school functions. Students who attend any school sponsored event may be randomly tested before, during or after entry.

Appendix A, cont.
Excerpts from Standards of Student Conduct

Cell Phones

Students shall be permitted to have in their possession a cell phone on campus during the school day, while attending school-sponsored activities, or while under the supervision and control of a school District employee. Cell phones may be used in the event of a school-related emergency as determined by the principal. Although such devices may be brought onto a school campus, they are to be turned off and students are prohibited from using them during instructional time (i.e. in the classroom, during an assembly, etc.) unless given permission by a teacher and/or administrator. [...]

Fighting

Fighting is prohibited at school and at any school sponsored event. [...]

General Personal Abuse

Personal abuse toward other students and toward school staff include, but are not limited to, the following:

- Disobedience and discourtesy.
- Abusive language: making reference to another person in less than dignified terms including profanity and obscenity.
- Sexual harassment.
- Threats to individuals or their property.

[...]

Smoking

Possession of tobacco in any form (e.g., cigarettes, chewing tobacco, cigars, e-cigs, vapes, etc.) and other related items (e.g., lighters/matches) on campus is illegal, and such items may be confiscated by any school officials. Smoking is not permitted on any part of the campus or sidewalks around the perimeter of the school or across the street from CVHS (within 1000 feet from school). Smoking or possession of tobacco products is also not permitted at any school-sponsored off-campus activities. [...]

Weapons

In order to help provide a safe school environment, the Glendale Unified School District has approved the random use of metal detectors to search individuals on campus and at school activities. The possession of any knives, including Swiss-army type pocket knives, stun guns, firearms, pepper spray or any other type of weapon is prohibited by law.

Appendix B

Glendale Unified School District Board Policy on Student Use of Technology

The Board of Education recognizes that technology provides staff and students ways to access the most current and extensive sources of information. Technology also enables students to practice skills and to develop reasoning and problem-solving abilities. In addition, the use of electronic resources, such as the Internet and e-mail, foster workplace skills that may be transferable to new technologies.

The Board of Education intends that technological resources provided by the district be used in a safe and responsible manner in support of the instructional program and for the advancement of student learning. All students using these resources shall receive instruction in their proper and appropriate use. Teachers, administrators, and/or library media specialists are expected to review the technological resources and online sites that will be used in the classroom or assigned to students in order to ensure that they are appropriate for the intended purpose and the age of the students.

Before using on-line services, the students and parent/guardian shall sign an Electronic Information Services Acceptable Use Agreement indicating that the student understands and agrees to abide by specified user obligations and responsibilities.

The district reserves the right to monitor student use of technology within the jurisdiction of the district without advance notice or consent. Students shall be informed that their use of district technology, including, but not limited to, computer files, email, text messages, instant messaging, and other electronic communications, is not private and may be accessed by the district for the purpose of ensuring proper use. Students have no reasonable expectation of privacy in use of the district technology. Students' personally owned devices shall not be searched except in cases where there is a reasonable suspicion, based on specific and objective facts, that the search will uncover evidence of a violation of law, district policy, or school rules.

The Superintendent or designee may gather and maintain information pertaining directly to school safety or student safety from the social media activity of any district student in accordance with Education Code 49073.6 and BP/AR 5125 - Student Records.

Whenever a student is found to have violated Board policy or the district's Acceptable Use Agreement, the principal or designee may cancel or limit a student's user privileges or increase supervision of the student's use of the district's equipment and other technological resources, as appropriate. Inappropriate use also may result in disciplinary action and/or legal action in accordance with law and Board policy.

The Superintendent or designee shall ensure that all district computers with Internet access have a technology protection measure that protects against access to visual depictions that are obscene, child pornography, or harmful to minors and that the operation of such measures is enforced.

The Superintendent or designee shall implement rules and procedures designed to restrict students' access to harmful or inappropriate matter on the Internet and to ensure that students do not engage in unauthorized or unlawful online activities. Harmful matter includes matter, taken as a whole, which to the average person, applying contemporary statewide standards, appeals to the prurient interest and is matter which depicts or describes, in a patently offensive way, sexual conduct and which lacks serious literary, artistic, political, or scientific value for minors.

Appendix B, cont.
Glendale Unified School District Board Policy on Student Use of Technology

The district's Acceptable Use Agreement shall establish expectations for appropriate student conduct when using the Internet or other forms of electronic communication, including, but not limited to, prohibitions against:

1. Accessing, posting, submitting, publishing, or displaying harmful or inappropriate matter that is threatening, obscene, disruptive, or sexually explicit, or that could be construed as harassment or disparagement of others based on their race/ethnicity, national origin, sex, gender, sexual orientation, age, disability, religion, or political beliefs.
2. Intentionally uploading, downloading, or creating computer viruses and/or maliciously attempting to harm or destroy district equipment or materials or manipulate the data of any other user, including so-called "hacking."
3. Distributing personal identification information, including the name, address, telephone number, Social Security number, or other personally identifiable information, of another student, staff member, or other person with the intent to threaten, intimidate, harass, or ridicule that person.

The Superintendent or designee shall provide age-appropriate instruction regarding safe and appropriate behavior on social networking sites, chat rooms, and other Internet services. Such instruction shall include, but not be limited to, the dangers of posting one's own personal identification information online, misrepresentation by online predators, how to report inappropriate or offensive content or threats, behaviors that constitute cyberbullying, and how to respond when subjected to cyberbullying.

Legal References: Education Code 51006; 51007; 60011; 60013; 60017.1; 60044,
Penal Code 632
United States Code, Title 20, 6801-7005
Policy Adopted: 10/01/1996
Policy Amended: 08/14/2001; 10/15/2002; 04/11/2017
(Formerly BP 6165)

Appendix C**California Education Code, Title II, Div. 4, Part 27, Ch. 6.5, Article 5, Section 49073.6**

Effective Jan. 1, 2015

The law requires a school that considers a program to gather any information from social media of any enrolled pupil to first notify pupils and their parents or guardians about the proposed program, and to provide an opportunity for public comment at a public meeting before the adoption of the program. The law requires a school to, among other things, gather and maintain only information that pertains directly to school safety or to pupil safety, provide a pupil with access to any information about the pupil obtained from social media, and destroy the information gathered from social media and maintained in its records, and prohibits a 3rd party from using the information for purposes other than to satisfy the terms of the contract, selling or sharing the information with any person or entity.

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SWOOSHING THE COST OF CAPITAL PRESENTATION

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Josie had rarely experienced such a mix of emotions since starting at Central West University. She was simultaneously nervous and excited because she was about to make her first presentation as a junior analyst with the Centurion Fund, a student-managed investment fund with total assets of \$69,879. Josie was an avid runner who identified with the “swooshing” symbol in Nike’s “Just Do It” slogan. She seized the opportunity to combine her passions for finance and running in her presentation.

The presentation was one part of the Fund’s assessment of whether or not it made financial sense for the Centurion Fund to invest in Nike stock. Josie focused on the Weighted Average Cost of Capital (WACC) computation, a necessary step for a future full-fledged valuation of Nike. With her heart racing, she started her presentation.

Her presentation was moving along better than expected until she arrived at the slide containing her computation of Nike’s WACC. At this point, the junior analyst sensed that her presentation was not going very well because the faculty advisor, Dr. Ivanieva, and others raised questions about her calculations of WACC.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 3, 2017, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright 2017 © by Marco Pagani, Benjamin Anderson and George L. Whaley. Contact: Marco Pagani, Lucas College and Graduate School of Business, San José State University, One Washington Square, San Jose, CA, 95192-0066, tel. (408) 924-3477, marco.pagani@sjsu.edu

One student questioned her choice of capital structure weights and her computation of the cost of debt capital. Dr. Ivanieva focused on the extensive use of Nike leases and asked,

“Did you consider Nike’s operating leases in your WACC computation and are you aware that all U.S. firms would be required to implement a new accounting recognition method for leases by the end of the fiscal year 2018?”

This question made Josie worry even more about the accuracy of her WACC computations, her future in the Centurion Fund process, and her reputation. She answered the questions as best as she could and concluded her presentation, disappointed.

Did she deserve another chance?

The presentation was an important step in the education and screening of junior analysts. Josie knew she could have done a better job, but remained committed to the Fund and to improving her understanding of Finance. She wanted to redo her calculations. She hoped for a second chance. If given one, she would try to give a flawless presentation.

Centurion Fund

Background and Purpose

The Centurion Fund was a student-managed fund that started in September 2014 thanks to a generous gift of \$50,000 from Nellie and Albert Noland, two alumni of the College of Business at Central West University. The fund was started with the goal of providing Central West University students with an opportunity for experiential learning by managing an actual investment fund. The fund focused on investing in equity securities included in the S&P 500 index. The portfolio had outperformed its benchmark both over the last year (26.71% vs. 21.12%) and since inception (39.49% vs. 30.21%). Such performance was outstanding, especially considering that the fund held, on average, more than 10% of its assets in cash. Finance students managed the portfolio with oversight from a faculty advisor and an

independent administrator at the University who executed all final trades. The Centurion Fund had three student executives: Chief Executive Officer (CEO), a Chief Investment Officer (CIO), and a Chief Analyst. These three students, together with the faculty advisor, formed the board of directors (BOD) who voted on the final investment decisions, which were subsequently executed by the independent administrator.

Selection Process and Structure

The fund mainly relied on the work of twelve senior analysts, usually students in their senior year of college, who each covered one S&P 500 sector. Dr. Ivanieva selected the senior analysts with help from the Fund's board members at the beginning of each semester. Applicants were typically from the junior analyst pool. If selected as a senior analyst, a student would automatically be enrolled in a business course called, "Student-Managed Investment Fund." As part of the course, each senior analyst was required to perform an extensive valuation and pitch for two stocks, in addition to mid-term and final examinations. The senior analysts relied on the research support from junior analysts, who were interested in learning about investments and aimed at becoming senior analysts themselves. On average, a senior analyst would rely on three junior analysts, who were often students in their junior year who had successfully completed at least one finance course. After completing the "Student-Managed Investment Fund" course with at least a grade of B+, a senior analyst could apply for a board position: CEO, CIO, and Chief Analyst. Top-performing students usually held these prestigious volunteer positions during their last semester before graduation. Such curricular and co-curricular paths would ensure that students had opportunities to acquire hands-on experience in portfolio management and business valuation. Hence, a Central West University student interested in investments as a career had three semesters as a junior analyst, senior analyst or board member to gain valuable experience with the Centurion Fund.

Performance Expectations

Junior analysts were required to analyze a stock from the S&P 500 universe. Analysts completed the four tasks indicated below and presented their findings to other junior analysts, senior analysts, and the fund's executives:

- Brief company description
- Stock return analysis
- Financial analysis following the Du Pont model (Brigham & Daves 2016)
- Computation of the WACC

Following their presentations, junior analysts supported senior analysts who produced an in-depth analysis of the firm's industry and competitors, intrinsic and relative valuation, and technical price analysis. Senior analysts presented their findings in the form of a stock pitch to the other analysts and the full board of directors.

Josie's First Presentation

Josie enjoyed participating in half-marathons three or four times a year. Running was the best way for her to manage the daily stress of college. During an average week, she ran 32 miles and her apparel needed to be both high performance and comfortable. She had been a loyal Nike customer for more than a decade and she was an especially strong devotee of Nike's running shoes. The "swooshing" symbol in Nike's "Just Do It" slogan gave her additional inspiration for her running. She bought a new pair of shoes every three months in order to support her competitive running endeavors. Josie knew that running took careful preparation. Similarly, she tried to prepare her first junior analyst presentation. This presentation was a great opportunity to assess whether it made financial sense for the Centurion Fund to invest in the stock of her favorite company, Nike.

Josie performed her WACC estimation using the balance sheet and income statement for Nike's fiscal year ending May 31, 2017 (see Exhibits 5 and 6 in Appendix B), and market data as of August 6, 2017 retrieved from Bloomberg Professional Service (2017). Josie computed the values of equity and debt by selecting the book value of total equity, short-term debt, and long-term debt. She then computed Nike's enterprise value by adding the three aforementioned items together and subtracting the cash balance. Since the firm displayed a negative net debt balance, the weight of the equity in the capital structure represented 123.70% of the enterprise value. She selected the beta, expected market return using the values displayed by Bloomberg, and chose the yield of the 1-year U.S. T-bill as the risk-free rate. She employed the CAPM model and computed a cost of equity of 10.21%. The junior analyst computed the pre-tax cost of debt as the ratio of the interest expenses divided by the total debt. Then, she estimated a post-tax cost of debt of 1.96% and finally calculated a 12.16% WACC. Exhibit 1 summarizes her calculations. See Appendix A for definitions of concepts and formulas.

Exhibit 1. Nike WACC Data and Computation

Source: Bloomberg Professionals Service (2017) and junior analyst's computations. Millions of U.S. dollars.

Equity	\$12,407
ST Debt	\$331
LT Debt	\$3,471
Cash & Equivalents	\$6,179
Interest Expenses	\$86
Regression Beta	1.06
Expected Market Return	9.70%
Risk-free Rate (1-Year T-bill)	1.23%
Effective Tax Rate	13.22%
Net Debt	(\$2,377)
Equity	\$12,407
Enterprise Value	\$10,030
Net Debt Weight	-23.70%
Equity Weight	123.70%
Pre-tax Cost of Debt	2.26%
Post-tax Cost of Debt	1.96%
Cost of Equity (CAPM)	10.21%
WACC	12.16%

The audience at her first presentation had questioned her choice of equity and debt values. Moreover, they had pointed out that she had not considered the potential impact of operating leases. Josie felt that she needed to learn more about the new accounting treatment and the impact on financial statements of operating leases. The Centurion Fund's CEO had asked questions about her method for the estimation of the pre-tax cost of debt. (Note: Items that are boldfaced in Exhibit 1 are those items that potentially needed revision due to questions about Josie's computations).

After thinking about the first presentation, Josie seriously doubted that her choice of using the interest expenses listed in the income statement to determine the pre-tax cost of debt was the soundest approach. Her senior analyst had interrogated her on her choice of the risk-free rate for the computation of the cost of equity. The audience questions suggested that she needed to rethink her methodology and parameter choices. WACC was such a key component for a firm since it represented the discount rate for its corporate valuation and the cost of capital was the parameter against which its profitability would be judged.

Nike's Product and Leasing Background

Founded in 1964 in Portland, Oregon, Nike was a relatively young member of the Fortune 500. The firm was originally founded as Blue Ribbon Sports in order to distribute shoes under the brand that eventually became known as Asics. Nike's original co-founder, Bill Bowerman, began experimenting with new ways to give athletes an edge. Bowerman's "waffle-inspired" lightweight design gave special traction to track runners. He patented this unique design and began to establish Nike as an innovative sports brand (Nike 2014). In 1971, the company renamed itself after the Greek winged goddess of victory and officially become Nike, Inc. (O'Reilly 2014).

Nike established itself as a major sports brand not only through innovative products, but also through distinctive marketing campaigns and strategic product endorsement. The original Nike “swoosh” was designed early on in the company’s life by a Portland State University student (O’Reilly 2014). Nike bolstered its brand with advertising slogans such as “Just Do It” in 1988 (O’Reilly 2014). An example of this iconic branding is provided in Exhibit 2.

Exhibit 2. Nike Advertising Swoosh Symbol and Slogan

Source: <http://brandchannel.com/wp-content/uploads/2013/07/Nike-JustDolt-560.jpg>



Nike, like many other apparel companies, manufactured nearly all of its products overseas through independent contractors. Thus, currency fluctuations, disruptions in international trade, or international impacts on foreign contractors had the potential to harm the company’s profitability in the short term. Further, given the capital-intensive nature but rapid rate of change of the business, Nike rarely purchased plant, property, and equipment outright. Instead, Nike typically leased plant, property, and equipment in order to finance its operations and remain flexible in changing market conditions. Altogether, this resulted in Nike having operating lease obligations of over \$2 billion (Nike 2017).

Nike had historically relied on significant amounts of operating leases. Changes in how leases were accounted for could substantially affect the amount of debt the company reported. Operating leases provided more flexibility than fully owned assets. For instance, if Nike leased

rather than purchased stores and market dynamics changed, it could terminate a store lease and move to a different location. Terminating leases was more time and cost efficient than selling assets. Exhibit 8 in Appendix B shows the operating lease cash commitments of Nike for the fiscal years 2013 to 2017. Operating lease commitments were substantially larger than the total debt amount listed in the financial statements for every year of the period. For instance, in fiscal years 2014 and 2015, total cash commitments from operating leases represented more than double the total amount of Nike's balance sheet debt.

Nike was not the only company in the industry that made extensive use of operating leases. Exhibit 9 in Appendix B lists the cash commitments for operating leases and total debt for Nike's competitors: specifically, the industry group of all firms headquartered in developed nations classified by Bloomberg Professional Services (2017) as part of the Industry Apparel, Footwear & Accessory Design. All players in the industry used operating leases and their total cash commitments were significantly larger than their reported balance sheet debt.

Changes in Accounting for Leasing Standards

Nike's total future cash commitments amounted to several billions of U.S. dollars (Nike 2017). Hence, Nike was proactive and monitored the process of proposal, approval, and implementation of new lease accounting standards.

Under new accounting guidelines, corporations had to classify leases as either a finance lease or an operating lease. For each type of lease, the corporation reported the same total expenses as in existing guidelines. However, the corporation had to split the expense into interest expense and amortization expense. In addition, and more importantly, corporations had to report an asset and a lease liability, equal to the present value of all expected lease payments, for all leases with an impact of more than 12 months (FASB 2016 b). The new accounting standards had the goal of clear and transparent reporting of the future lease payments and their impact on the current financial situation of the corporation. For companies in asset-intensive industries that had relied on off-balance sheet financing, such as Nike, the new guidelines could

result in a dramatic change to the debt reported on a balance sheet. An article in the *Wall Street Journal* estimated that reported liabilities across all industries could increase by upwards of \$2 trillion (Rapoport 2016).

Preparation for Josie's Second Presentation

Hoping for a second chance, Josie worked on her second presentation. Mindful of the upcoming change in financial reporting standards for operating leases because of Dr. Ivanieva's questions, Josie retrieved from Nike's 2017 annual report the accounting and financial information related to leases (Nike 2017). Exhibit 3 presents the information about Nike's capital and operating leases.

Exhibit 3. Nike, Inc. Capital and Operating Leases

Source: Nike's 2017 Annual Report (Nike 2017)

Type of Commitment	Cash Payments Due During each year Ending May 31 (Millions)						Total
	2018	2019	2020	2021	2022	Thereafter	
Capital Leases	\$34	\$32	\$28	\$25	\$26	\$225	\$370
Operating Leases	\$537	\$509	\$438	\$399	\$350	\$1,672	\$3,905

Josie was eager to understand how such leases could be integrated in the capital structure of Nike and how they would affect the WACC calculation. She knew from previous accounting and finance courses that capital leases, consistent with current U.S. Generally Accepted Accounting Principles (GAAP), were already capitalized onto Nike's current balance sheet. However, only the current annual cost of Nike's operating leases appeared as rent expense on the income statement. All future obligations under the leases were not reported on the balance sheet but were instead treated as off-balance sheet items and reported only in the notes. Josie noticed that Nike's commitments related to operating leases were substantially higher than the commitments recorded as capital leases. In fact, the total commitments for operating leases were 10.6 times larger than the amount capitalized as capital leases. She also realized that Nike

detailed only the operating lease obligations for the following five years. All payments after 2022 were instead displayed as a cumulative sum. Josie realized that she would need to assume a specific pattern of annual payments for the cumulative amount. One option available to her was to assume constant annual payments equal to the amount listed for the last detailed year of 2022 (Damodaran 2002).

During Josie's first presentation, the audience had challenged her choices related to Nike's capital structure and her computation of the firm's debt. In particular, the questions focused on her choices of weights for the firm's capital structure and the cost of debt capital. Dr. Ivanieva asked about the pending change in lease regulations. Specifically, did this accounting change dramatically increase the amount of debt reported on the balance sheet? Josie decided to investigate the debt issued by Nike and collected information about both the short-term and long-term debt. The short-term borrowing was comprised of commercial paper with a nominal value of \$325 million and a coupon of 0.86% (see Exhibit 4).

Exhibit 4. Nike, Inc. Short-Term and Long-Term Debt

Source: Nike's 2017 Annual Report and Bloomberg Professional Service (2017). Dollars and Yen in millions.

Balance Sheet Debt									
Type	Interest Rate or Coupon	Maturity	Principal Amount (Millions)	Currency	Interest PMTs	Count Day Convention	Credit Rating S&P/Moody's	Settlement Date	yield-to-maturity YTM
Commercial paper	0.86%		325	USD			A-1+/P-1		
Current Portion LT Debt			6	USD					
US Corporate Notes and Bonds	2.25%	05/01/2023	500	USD	Semi-Annual	30/360	AA-/A1	8/9/2017	2.19583%
	2.38%	11/01/2026	1000	USD	Semi-Annual	30/360	AA-/A1	8/9/2017	2.83779%
	3.63%	05/01/2043	500	USD	Semi-Annual	30/360	AA-/A1	8/9/2017	3.72181%
	3.88%	11/01/2045	1000	USD	Semi-Annual	30/360	AA-/A1	8/9/2017	3.69332%
	3.38%	11/01/2046	500	USD	Semi-Annual	30/360	AA-/A1	8/9/2017	3.67330%
Japanese Yen Notes	2.60%	11/20/2020	9000	JPN	Quarterly	Actual/365	AA-/A1	8/9/2017	0.1%
	2.00%	11/20/2020	4000	JPN	Quarterly	Actual/365	AA-/A1	8/9/2017	0.1%

Nike's long-term debt included both U.S. dollar and Japanese yen fixed-income securities with maturities ranging from three years to almost thirty years and with nominal values totaling respectively \$3.5 billion and ¥13 billion. The debt instruments were rated AA-/A1 by S&P and Moody's rating services (Bloomberg Professional Service 2017). The junior analyst knew that she needed to estimate the value of Nike's debt using the appropriate yield-to-maturity, count-day conventions, settlement dates, and, for the yen-denominated securities, the JPN/US exchange rate of 109.0704. Exhibit 7 in Appendix B provides further information about yield for several types and rating classes of debt securities.

Conclusion

Josie decided to attend Central West University in part because she had been attracted by the possibility of becoming an analyst for the prestigious Centurion Fund. Her short-run goal was getting selected as a senior analyst. If she were selected, she would enroll in the “Student-Managed Investment Fund” course related to the Centurion Fund, and she might be able to convince the board of directors to add Nike to the fund’s portfolio. Participating in the Centurion Fund was a step toward a financial analyst job in the financial services industry after graduation. As a volunteer junior analyst, she understood that demonstrating her ability to analyze Nike’s capital structure and accurately compute its WACC were necessary first steps to collaborating with a senior analyst on a future Nike stock pitch. She was disappointed by the results of her initial presentation, but motivated to improve and to gain the praise of her fellow students and the faculty advisor.

Did Josie’s concerns, questions, decisions, and preparation for her second presentation cover what was needed to “just do it” and to swoosh the next presentation, if given the chance to make one?

After her initial presentation to the Centurion Fund stakeholders, Josie understood that she had to perform a more in-depth analysis of Nike’s capital structure and a more appropriate computation of the firm’s WACC parameters. Ultimately, Josie believed that she needed to make a reasonable estimate for Nike’s WACC. She practiced what to do and say if given another chance to present the Nike scenario. She also felt that she needed to determine whether her measures of the components of the Nike capital structure were flawed. Josie felt that she needed to grasp the changes concerning the new accounting recognition method for leases and determine the impact on firms for present and potential investors.

Assuming that Josie is given a second chance, what should she present to the Centurion Fund?



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Appendix A

Definitions

a) *Gross Debt* = *ST Debt* + *LT Debt*

b) *Net Debt* = *Gross Debt* – *Cash & Equivalent*

c) *Market Capitalization* = *Common Stock Price* × *Number of Common Equity Shares*

d) *Enterprise Value (EV)* = *Net Debt* + *Market Capitalization*

The *EV* is a measure of the net investment necessary for investors to acquire all outstanding debt and equity securities.

e) $w_D = \frac{\text{Net Debt}}{EV}$; $w_E = \frac{\text{Market Capitalization}}{EV}$;

f) $r_E = r_{RF} + \beta \times (r_M - r_{RF})$ is the required rate of return for an equity security and is estimated using the Capital Asset Pricing Model (CAPM). The parameter r_{RF} is the risk-free rate of return, β is a measure of market risk, and r_M is the required rate of return on the market index.

g) $WACC = w_D r_D (1 - T) + w_E r_E$

r_D is the current required (pre-tax) rate of return on debt capital and T is the forecasted corporate income tax rate.

Appendix B

Exhibit 5. Balance Sheet - NIKE Inc. (NKE US) – Standardized

Source: Bloomberg Professional Service (2017)

In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Current/LTM
12 Months Ending	05/31/2013	05/31/2014	05/31/2015	05/31/2016	05/31/2017	8/6/2017
Total Assets						
+ Cash, Cash Equivalents & ST Invest.	5,965.0	5,142.0	5,924.0	5,457.0	6,179.0	
+ Accounts Receivable	3,117.0	3,434.0	3,358.0	3,241.0	3,677.0	
+ Inventories	3,484.0	3,947.0	4,337.0	4,838.0	5,055.0	
+ Other ST Assets	1,064.0	1,173.0	1,968.0	1,489.0	1,150.0	
Total Current Assets	13,630.0	13,696.0	15,587.0	15,025.0	16,061.0	
+ Property, Plant & Equip, Net	2,452.0	2,834.0	3,011.0	3,520.0	3,989.0	
+ Property, Plant & Equip	5,500.0	6,220.0	6,352.0	7,038.0	7,958.0	
- Accumulated Depreciation	3,048.0	3,386.0	3,341.0	3,518.0	3,969.0	
+ Other LT Assets	1,463.0	2,064.0	2,999.0	2,834.0	3,209.0	
Total Noncurrent Assets	3,915.0	4,898.0	6,010.0	6,354.0	7,198.0	
Total Assets	17,545.0	18,594.0	21,597.0	21,379.0	23,259.0	
Liabilities & Shareholders' Equity						
+ Payables & Accruals	3,755.0	4,769.0	5,989.0	5,152.0	4,975.0	
+ ST Debt	155.0	174.0	181.0	45.0	331.0	
+ ST Borrowings	98.0	167.0	74.0	1.0	325.0	
+ Current Portion of LT Debt	57.0	7.0	107.0	44.0	6.0	
+ Other ST Liabilities	52.0	84.0	162.0	161.0	168.0	
Total Current Liabilities	3,962.0	5,027.0	6,332.0	5,358.0	5,474.0	
+ LT Debt	1,210.0	1,199.0	1,079.0	1,993.0	3,471.0	
+ Other LT Liabilities (accruals and misc. LT liab.)	1,292.0	1,544.0	1,479.0	1,770.0	1,907.0	
Total Noncurrent Liabilities	2,502.0	2,743.0	2,558.0	3,763.0	5,378.0	
Total Liabilities	6,464.0	7,770.0	8,890.0	9,121.0	10,852.0	
+ Preferred Equity	0.0	0.0	0.0	0.0	0.0	
+ Share Capital & APIC	5,187.0	5,868.0	6,776.0	7,789.0	8,641.0	
+ Common Stock	3.0	3.0	3.0	3.0	3.0	
+ Additional Paid in Capital	5,184.0	5,865.0	6,773.0	7,786.0	8,638.0	
+ Retained Earnings	5,620.0	4,871.0	4,685.0	4,151.0	3,979.0	
+ Other Equity	274.0	85.0	1,246.0	318.0	-213.0	
Total Equity	11,081.0	10,824.0	12,707.0	12,258.0	12,407.0	
Total Liabilities & Equity	17,545.0	18,594.0	21,597.0	21,379.0	23,259.0	
Reference Items						
Number of Employees	48,000.0	56,500.0	62,600.0	70,700.0	74,400.0	
Market Capitalization	55,124.0	66,911.7	87,131.2	92,880.0	87,062.6	98,089.7

Exhibit 6. Income Statement - NIKE Inc. (NIKE US) – Standardized

Source: Bloomberg Professional Service (2017)

In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
12 Months Ending	05/31/2013	05/31/2014	05/31/2015	05/31/2016	05/31/2017
	3	4	5	6	7
Revenue	25,313.0	27,799.0	30,601.0	32,376.0	34,350.0
- Cost of Goods & Services	14,279.0	15,353.0	16,534.0	17,405.0	19,038.0
Gross Profit	11,034.0	12,446.0	14,067.0	14,971.0	15,312.0
- Operating Expenses (Selling, General & Admin)	7,796.0	8,766.0	9,892.0	10,469.0	10,563.0
Operating Income (Loss)	3,238.0	3,680.0	4,175.0	4,502.0	4,749.0
- Non-Operating (Income) Loss	-18.0	136.0	-30.0	-121.0	-137.0
+ Interest Expense, Net	-3.0	33.0	28.0	19.0	59.0
+ Interest Expense	23.0	38.0	34.0	31.0	86.0
- Interest Income	26.0	5.0	6.0	12.0	27.0
+ Other Non-Op (Income) Loss	-15.0	103.0	-58.0	-140.0	-196.0
Pretax Income (Loss), GAAP	3,256.0	3,544.0	4,205.0	4,623.0	4,886.0
- Income Tax Expense (Benefit)	805.0	851.0	932.0	863.0	646.0
Income (Loss) from Cont. Ops	2,451.0	2,693.0	3,273.0	3,760.0	4,240.0
- Net Extraordinary Losses (Gains)	-21.0	0.0	0.0	0.0	0.0
Net Income, GAAP	2,472.0	2,693.0	3,273.0	3,760.0	4,240.0
- Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Income Avail to Common, GAAP	2,472.0	2,693.0	3,273.0	3,760.0	4,240.0
Basic Weighted Avg. Shares	1,794.6	1,766.8	1,723.4	1,697.9	1,657.8
Diluted Weighted Avg. Shares	1,832.8	1,811.6	1,768.8	1,742.5	1,692.0
Basic EPS, GAAP	1.38	1.53	1.90	2.21	2.56
Diluted EPS, GAAP	1.35	1.49	1.85	2.16	2.51
Reference Items					
Accounting Standard	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
EBITDA	3,676.0	4,198.0	4,781.0	5,151.0	5,455.0
EBITDA Margin (T12M)	14.52	15.10	15.62	15.91	15.88
EBITA	3,238.0	3,680.0	4,175.0	4,502.0	4,749.0
EBIT	3,238.0	3,680.0	4,175.0	4,502.0	4,749.0
Effective Tax Rate	24.72%	24.01%	22.16%	18.67%	13.22%
Sales per Employee	527,354.17	492,017.70	488,833.87	457,934.94	461,693.55
Dividends per Share	0.41	0.47	0.54	0.62	0.70
Total Cash Common Dividends	726.8	821.6	930.6	1,052.7	1,160.5
Depreciation Expense	438.0	518.0	606.0	649.0	706.0

Exhibit 7. Yield Curves for Selected Fixed-Income Securities and Credit Ratings

Source: Bloomberg Professional Service (2017)

Type/Rating	Yield Curve 08/06/2017								
	3M	1Y	2Y	3Y	5Y	10Y	15Y	20Y	30Y
US Sovereign	1.135	1.227	1.373	1.524	1.836	2.293	2.463	2.642	2.865
JPY Sovereign		-0.112	-0.106	-0.08	-0.058	0.065	0.28	0.578	0.873
US Corporate AA+, AA, AA-	1.273	1.424	1.653	1.863	2.242	3.004	3.434	3.683	3.844
JPY Corporate AA+, AA, AA-	0.029	0.061	0.084	0.096	0.147	0.31	0.546	0.767	0.957
EUR Corporate AA+, AA, AA-	-0.455	-0.278	-0.184	-0.073	0.227	0.979	1.666	1.804	1.9
US Corporate A+, A, A-	1.406	1.579	1.814	2.037	2.413	3.152	3.687	3.914	3.908
EUR Corporate A+, A, A-	-0.371	-0.21	-0.113	0	0.317	1.148	1.615	1.843	1.959
US Corporate BB+, BB, BB-	2.165	2.458	2.938	3.358	4.039	5.213	5.961	6.352	6.38
EUR Corporate BBB+, BBB, BBB-	-0.198	-0.1	-0.029	0.1	0.455	1.298	1.735	1.923	2.023

Exhibit 8. Nike's Historical Operating Leases Commitments and Total Balance Sheet Debt

Source: Bloomberg Professional Service (2017)

NIKE Operating Leases Cash Payments Due During the year Ending May 31 (Millions)									
FY	1	2	3	4	5	Thereafter	Total Operating Leases Cash Commitments	Total Debt (ST + LT Debt)	Ratio (Operating Leases/Debt)
2013	\$403	\$340	\$304	\$272	\$225	\$816	\$2,360	\$1,365	1.73
2014	\$427	\$399	\$366	\$311	\$251	\$1,050	\$2,804	\$1,373	2.04
2015	\$447	\$423	\$371	\$311	\$268	\$1,154	\$2,974	\$1,260	2.36
2016	\$491	\$453	\$395	\$347	\$301	\$1,244	\$3,231	\$2,038	1.59
2017	\$537	\$509	\$436	\$399	\$350	\$1,672	\$3,905	\$3,802	1.03

Exhibit 9. Industry Operating Leases Cash Commitments and Total Balance Sheet Debt

Source: Bloomberg Professional Service (2017)

Bloomberg Sub-industry - Apparel, Footwear & Accessory Design - Fiscal Year 2017 (USD Millions)										
Company	Stock Ticker	Operating Leases Cash Commitments						Total Operating Leases Cash Commitments	Total Debt (ST+LT Debt)	Ratio (Operating Leases/Debt)
		Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter			
Nike	NKE US	\$537.0	\$509.0	\$438.0	\$399.0	\$350.0	\$1,672.0	\$3,905.0	\$3,802.0	1.03
Skechers	SKX US	\$191.3	\$179.9	\$156.9	\$143.3	\$141.2	\$557.3	\$1,369.9	\$74.1	18.49
Adidas	ADS GR	\$725.6	\$1,359.5				\$551.6	\$2,636.7	\$2,251.8	1.17
Puma	PUM GR	\$131.1	\$282.1				\$123.7	\$536.9	\$40.4	13.29
Columbia Sportswear	COLM US	\$61.7	\$56.7	\$46.7	\$39.2	\$33.6	\$111.8	\$349.7	\$0.0	NA
Under Armour	UAA US	\$114.9	\$127.5	\$136.0	\$133.1	\$122.8	\$788.2	\$1,422.5	\$954.7	1.49
Tod's	TOD IM	\$104.9	\$88.9	\$66.4	\$56.5	\$45.6	\$123.0	\$485.3	\$274.6	1.77
Geox	GEO IM	\$80.9	\$168.1				\$77.9	\$326.9	\$96.5	3.39
Steven Madden	SHOO US	\$41.3	\$37.8	\$35.2	\$33.7	\$29.2	\$71.0	\$248.2	\$0.0	NA

Appendix C

Historical Background to the Change in Accounting Standards for Leasing

In 2008, The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly remarked on the issues relating to the accounting for leases when they drafted an initial memorandum of understanding for accounting standard convergence (Financial Accounting Standards Board [FASB] 2008). Under extant accounting standards, corporations classified leases as either a capital lease or an operating lease. Leases were classified according to a set of four criteria: if the lease met a single one of these criteria, then it would be classified as a capital lease, otherwise it would be classified as an operating lease. Capital leases required capitalization of a leased asset and a lease liability that equaled the present value of the lease payments. Operating leases, meanwhile, were simply expensed (typically, as 'rent expense') when incurred (FASB, n.d.). Accordingly, companies who wanted to avoid increasing their liabilities while gaining use of assets negotiated their leases to avoid the aforementioned criteria. Accordingly, some companies tried to arrange transactions such that the lease was identified as an operating lease, even if the companies were getting substantially all of the risks and rewards of ownership of the asset and had a large series of contractual future payments. This arrangement was often referred to as "off-balance sheet financing."

The weaknesses of the extant lease accounting and the issue of off-balance sheet financing was additionally identified as a major cause for concern since 2005 when the SEC first issued a report reviewing discoveries following the passage of the Sarbanes-Oxley Act of 2002 (United States Securities and Exchange Commission [SEC] 2005). Specifically, the SEC estimated that approximately \$1.25 trillion of future lease payments were currently unrecorded on corporate balance sheets (SEC 2005). The SEC recommended that the FASB undertake a project to reconsider accounting standards that would bring these previously unrecorded assets and liabilities onto the balance sheet. Accordingly, in 2006, the FASB began work to reconsider accounting for leases in coordination with the IASB. From 2006 until the final new lease accounting guidance was announced in 2016, the FASB and IASB issued three documents for public comment and received in response over 1,700 comment letters from a variety of stakeholders (FASB 2016a). Due to the major impact on corporate balance sheets, the new accounting standard was controversial. As such, the FASB and IASB attempted to address these corporate concerns by filers by meeting with and getting input from a huge array of stakeholders. An excerpt from the press release in which the new guidance was announced demonstrated the exhaustive process:

Throughout the project, the FASB and the IASB also conducted extensive outreach with diverse groups of stakeholders. That outreach included more than 200 meetings with preparers and users of financial statements; 15 public round tables, with more than 180 representatives and organizations; 15 preparer workshops attended by representatives from more than 90 organizations; and 14 meetings with preparers. The FASB and the IASB also met with more than 500 users of financial statements covering a broad range of industries (FASB 2016a).

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GUIDELINES FOR WRITING A MANAGEMENT TEACHING CASE STUDY

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***“Cases are to management students what cadavers are to medical students,
the opportunity to practice on the real thing harmlessly”***

(Mauffette-Leenders et al. 1997: 4)

A case study is a form of research that provides a rich learning experience for the researcher that can result in the production of a robust pedagogical tool. These guidelines are intended for novice casewriters of management teaching cases. We propose a typology of 8 teaching cases, discuss what constitutes a “good” teaching case, and suggest an outline for the case and instructor’s manual. Throughout, we provide examples of cases we or other casewriters have published. Lastly, we provide a list of journals that can be publication outlets for teaching cases.

Case studies are a mainstream method of both researching and teaching management. The goal of the management teaching case is to provide a rich description of a real organization that focuses the reader’s attention on an issue or dilemma that the organization faces and elicits critical thinking and analysis from the learner (Eisenhardt 1989; Yin 2003; Naumes & Naumes 2006; Eisenhardt & Graebner 2007; Taylor & Søndergaard 2017).

The graduate business schools at Harvard, University of Virginia (Darden), University of Navarra (IESE Business School), HEC Montreal, and the University of Western Ontario (Ivey) are well known for their commitment to the case method and their extensive case libraries. Teaching case studies are also used in nursing, information systems, education, sociology, public administration, and other disciplines. Additionally, teaching cases are used in professional training outside academia (Giulioni & Voloshin 2014).

Management researchers have been preparing cases for over 100 years, starting with the decision to use the “laboratory method” of teaching in 1909 by the first Dean of the Harvard Business School, Edwin F. Gray (Corey 1988; Gurd 2001). The purpose of the case method is to stimulate discussion in the service of thinking (Christiansen 1991 as cited in Lundberg & Winn 2005). Case research is the means by which materials are generated to for the discussion. In addition, case research is one way to stay abreast of what is going on in the field. As Flyvbjerg (2006: 219) so aptly pointed out:

“[A] scientific discipline without a large number of thoroughly executed case studies is a discipline without systematic production of exemplars, and a discipline without exemplars is an ineffective one.”

Michael Porter of Harvard observed why doing case research is so important for management:

“We need to keep this balance between rigorous methodology-based academic work and case research – in-depth, clinical, longitudinal case research. We have to maintain this balance. Without this balance, we will never make progress in this field. [...] I trained as an economist. I spent the first six or seven years of my career writing articles for journals, such as The Review of Economics and Statistics. So, I did the rigorous methodology stuff. Indeed, I continue to do that. But, what I’ve come to believe is that you can’t understand the subject that we all study [Management] without doing both types of research” (Porter 2006: 2).

Kaplan (1998) argued that the case is a critical means of discovery and dissemination of new managerial practice. For example, the balanced scorecard resulted from case study interviews at companies including *Analog Devices* (Kaplan 1990); scholarly articles and books followed the case research. One of the reasons that the case study is so valuable to the researcher (and to

the discipline) is that it is a means by which one gains and shares context-dependent knowledge, and context-dependent knowledge is required to allow one to progress from “*rule-based beginners to virtuoso experts*” (Flyvbjerg 2006: 222). Moreover,

“Common to all experts ... is that they operate on the basis of intimate knowledge of several thousand concrete cases in their areas of expertise. Context-dependent knowledge and experience are at the very heart of expert activity. Such knowledge and expertise also lie at the center of the case study as a research and teaching method. [...] It is only because of experience with cases that one can at all move from being a beginner to being an expert” (Flyvbjerg 2006: 224).

What Is A Case Study?

According to Robert Yin,

“A case study is an empirical inquiry that investigates a phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin 1994: 13).

A management case is a written description of a real situation involving real people in a real organization (whether for-profit, nonprofit, or governmental). Thus, the unit of analysis is usually the organization, and the study describes an issue, problem, or challenge – whether already solved or yet to be solved. The case describes a given situation as fully as possible by approaching it from different perspectives, using both qualitative and quantitative data); in other words, a research design that relies on “*perceptual triangulation*” (Bonoma 1985: 2003).

When is case research an appropriate methodology?

Different research strategies serve different purposes. In **experimental research**, for example, one attempts to “control for” extraneous variables by standardizing conditions – in other words, minimize the impact of context on a relatively small number of variables. In **survey research**, although samples can be large and much data are collected, context is not very rich or informative (Yin 1994). The **case study** is a useful research approach when one intends to

explore the *context* in which something is happening. In case research, the sample size is one. However, when examined as a set, case studies can overcome the issue of sample size and generalizability in theory building (Eisenhardt & Graebner 2007; Taylor & Søndergaard 2017).

As a research paper, a case addresses one or more research questions which are sometimes, but not always, made explicit in the write up (Eisenhardt 1989; Yin 2003; Naumes & Naumes 2006; Eisenhardt & Graebner 2007; Taylor & Søndergaard 2017). The researcher can use the case study for theory discovery (describing novel or ignored phenomena), theory refinement (illustrating how theory applies and under what circumstances), or theory refutation (disconfirming an established theory in a particular situation where it does not apply) (Keating 1995). In addition, the case study can be a pedagogical tool, which we discuss next.

Two Major Components of a Teaching Case

Some cases are researched explicitly for the purpose of teaching management, so the final product of the research is a **teaching case study** and its accompanying **instructor's manual** (also called a "teaching note"). The case study tells the story and is published, while the IM provides instructors with ideas on how to teach with the case.

What Constitutes a "Good" Teaching Case?

In our experience, the best predictor of the quality of a classroom case *discussion* is the degree to which students have prepared the case and actively participate. If a case is inherently interesting to its intended audience, then students are more likely to read it, prepare it, and discuss it. Therefore, cases are "good" when students find them worthy of preparation and participation. The following are characteristics of cases worthy of thorough preparation:

- **Reality.** Since cases are packaged simulations of the real world, authenticity is important for engagement. Cases describe a real situation (Lundberg et al. 2001) and it is important that the reader is not suspicious that the situation has been fictionalized. Cases, "*although*

not perfect replicas of management realities, are as close to reality as a textual representation can get” (Mesny 2013: 60). For example, in the case *MegaToys Woos Wal-Mart* (McGuire et al. 2010), the Woo brothers received a \$63 million Easter basket order from Wal-Mart. The Woos had heard stories about other suppliers having difficulty keeping Wal-Mart satisfied. Charlie was convinced that Wal-Mart provided the company with its best opportunity for profitable growth. Peter, while excited about the possibility, wondered if it was good for MegaToys to become increasingly dependent on Wal-Mart. The case provides a realistic look at what goes on in a family business.

- **Significance.** The good case study addresses underlying issues that are important in theoretical or policy or practical terms (Yin 1994). Some cases describe exemplary practices or unique ways of doing things; others present a comparison between two alternative ways of dealing with a given problem. For example, the *Project Kaisei* case compares the use of traditional and social entrepreneurship in the same small firm seeking to save the Pacific Ocean from environmental disaster (Whaley & Perry 2012). Others cases describe *unusual* businesses, such as the private for-profit autopsy firm that was having difficulties selling franchises: *1-800-Autopsy* (McGuire & Avramchuk n.d.). If the issues in the case have unusual personal, group, organizational, or societal impact, students tend to be engaged.
- **Comprehensiveness.** The case should include a rich description of the context in which the organization is embedded and the people act. An exemplary case provides enough information to permit analysis and arriving at some sort of conclusion, if not a decision. Casewriters use multiple sources of information to achieve comprehensiveness, such as archival data on the company and the industry, reports in the press, interviews with managers, employees, ex-employees or former suppliers, survey data on customers, customer reviews on social media, and much more. Per Lynn (1999), a case has to have enough information to allow for a thorough analysis. The *dusitD2 Hotel Constance Pasadena* case (Zhang et al. n.d.) asks the reader to conclude whether buying a dusitD2 franchise was a good idea for a hotel in California, especially considering that the dusitD2

brand was unknown outside of Thailand. The case provides a full description of the hotel industry, boutique hotels, and the franchise agreements of DusitD2 and alternative franchise choices (Marriott, Aloft, etc.). The case also provides detail about the hotel's customers and the city of Pasadena – all of this to allow critical thinking that really takes into account context.

- **Alternative Perspectives.** Although case issues are often seen through the eyes of an individual decision-maker, they can also be described from other perspectives (Yin 1994). The finance case *Painting by (Financial) Numbers: The Acquisition of Valspar by Sherwin-Williams* was written from the perspective of “the average stockholder” when there were two sets of stockholders with different things at stake in the merger/acquisition (Pagani et al. 2017). In a good case, rival explanations are permitted, even encouraged. Alternative perspectives allow the student to see how well different theories explain what has happened, what actions should be taken, and by whom (Gini 1985). *Slastyona Confectionary* (McGuire 2008a, b) was written as two companion cases. The *Slastyona A* case describes in great detail the implementation of a new compensation system in a Russian chocolate company. The *Slastyona B* case provides, in the exact words of the General Manager, a viewpoint on the change process as it unfolded. Read as companions, they provide very different perspectives on what actually occurred, who did what, and why things worked or failed.
- **Backed up by Evidence.** A case is a story backed up by evidence. The evidence needs to be presented in a neutral way so that the casewriter's biases are kept – to the extent possible – out of the text. Casewriters should be aware that journal reviewers are highly critical of submissions where information needed to analyze the case is not provided in the case itself, in other words, the case lacks evidence needed for a thorough analysis.
- **Reasonably complex** (Lundberg et al. 2001); complexity – along with some ambiguity - may be essential to the process of learning how to make high quality decisions. Complexity and

ambiguity may lead to cognitive conflict, which can lead a student to consider (or better yet, generate) alternative interpretations and/or alternative courses of action that can result in higher quality decisions (Pearce 2002).

- **Emotionally rich.** Some cases more readily lead to an emotional response by the reader than others do. For example, the **Geo Listening** case begins with a tragedy: “A 15-year old boy killed himself by leaping off the roof of his high school in Glendale, California in front of horrified classmates and teachers” (McGuire et al. 2017). Emotion is an integral part of ethical and policy decision-making, and “emotional case content stimulates retention of cases and facilitates transfer of ethical decision-making principles demonstrated in cases” to other situations (Thiel et al. 2013: 265). The case **Mylan and the EpiPen** tends to generate strong emotional reactions in students about the high price of healthcare product (Peters et al. 2017). Casewriters can describe the reactions of different case characters to a situation, the relations between different characters, power dynamics (Thiel et al. 2013), trust or affect (like or dislike) for one another.
- **Composed in an engaging manner.** Emotionally rich cases are important to get the reader interested, but it takes a well-written case to keep the reader engaged from start to finish. Good writing is important, and effective storytelling is a valuable skill. Learning is stifled when students find cases boring. **The Turban and the Kirpan** case (Ghazzawi & Sharma 2017: 126) begins in such a way that few readers can resist going on to find out what happened:

“Have a safe trip, my dear Jag!” These were the only words he remembered hearing from his wife before leaving home in California in early January for a chicken delivery to Mississippi. A week later, he was handcuffed and on his way to a Mississippi police station under suspicion of being a terrorist.”

Types of Teaching Case Studies

Scholars have proposed different typologies of cases (for example, Lundberg et al. 2001; Lynn 1999; Swiercz 2000, Yin 2003) based upon the type of information included in the case, how the information is structured, the research objective, and what the casewriter intended for students to do with the case. Often the final version of a case contains elements of more than one type. Reynolds (1978: 129) pointed out:

“Certain types of case facilitate certain methods of teaching while defeating others. The determining factors are not merely the length of the case or the number of quantified facts, but the amount of mental effort the case requires ...”

Case researchers have called for more variety in the types of management cases written in order to meet different learning objectives (Lundberg et al. 2001; Mesny 2013).

“[W]e need to extend the variety of situations and contexts depicted in management cases to better reflect the business and management world. It is as important to have cases about failures as it is about successes; cases about “big” decisions as well as the mundane; those dealing with non-decision as much as decisions; and dark-side cases as much as best practice cases. [...] We need more cases whose characters are individuals being managed rather than managers ... newly appointed managers, rather than cases about top executives” (Mesny 2013: 62-63).

A broad range of types of cases might be attractive to potential casewriters. For example, the *Case Research Journal* publishes special issues with themes such as “Family Business,” “Social Entrepreneurship,” or “Spanish language cases with English translation” that seek in part to attract new casewriters with unique interests. Alternatively, researchers with an interest in multimedia, social media or virtual reality might be attracted to the possibilities of an online journal. We have observed that short cases are gaining in popularity because they take advantage of many readers’ short attention spans, cost less to print, and can be taught in a 50-75 minute class. While there is no definitive typology, and many cases fit simultaneously in more than one type, we believe that the following 8 types of management teaching cases include most of the variation we have seen:

1) **Critical incidents.** These short, compact case can be descriptive or decisional but what they have in common is brevity (1 to 4 pages), focus on one event or issue, and little context. Critical incidents are typically published at the end of a textbook chapter or in specialized journals such as the *Journal of Critical Incidents* (JCI), the *International Journal of Instructional Cases*, or the *Harvard Business Review*. JCI, for example, publishes critical incidents that do not exceed three single-spaced pages:

“...Each incident tells a story about an event, an experience, a blunder, or a success. Unlike long cases, these incidents provide only essential historical details and limited situation development. Instead, each incident provides a focal point that stimulates students to arrive at a course of action or analysis.” (JCI 2016).

The 3 ½ page ethical decision case ***Does this Milkshake Taste Funny?*** (Cousins & Benitz 1998) can be read in the classroom and discussed for many hours. An instructor can use the case to apply Kohlberg’s stage of moral development (Lawrence 2009) and/or other ethical or decision-making frameworks. This ***Milkshake*** case is a critical incident, a decision-focused case, an application case, and a contextual issue case.

Tompkins and Lacey (2015) provide superb guidelines for instructors to organize student-written international critical incidents from interviews with classmates. Similarly, Meyer and Shannon (2010) suggest that case writing uniquely facilitates reflection-in-action for education students learning what works in a given situation. Increasingly, case teaching venues exist outside academia. The quick pace of corporate training requires learning activities as short as 30 minutes, such as mini-case studies or critical incidents (Giulioni & Voloshin 2014).

2) **Descriptive Illustrations.** These cases describe actions that have been taken by an organization. Some are purely descriptive seeking to inform the reader about an organization (its history, milestones, and approaches to business) and the policies the organization has adopted. Some are intended to be “memorable examples” (Swiercz 2000: 3) of a well-known organization, whether positive or negative, typical of its industry or counter-intuitive. For

example, *The RADIT Program at St. Joseph Hospital* case (Vega & McGuire 2007) describes how an emergency department was re-organized to speed up the flow of patients, increase patient satisfaction, and improve health outcomes. Managers at other hospitals can consider adopting the RADIT approach. Other types of descriptive Illustrations document the effectiveness of leaders' plans or styles and ask students what to endorse or reject. One interesting example is the *Turnaround at Hammerhead* case (Whaley & Walker 2012), in which the reader is asked to evaluate the leadership style of a former CEO who has returned to a technology company in crisis.

Descriptive illustrations do not require a decision. Their main purpose is to get students to exercise critical thinking and analysis and to expose them to companies, policies, and managerial practices.

3) *Problem-identification cases.* The primary purpose of problem-identification cases is to get students to prioritize information and identify, define, or re-define a problem. In these cases, the real problem is not made obvious to the reader. Sometimes these cases provide a “data dump” requiring students to sift through and determine what is really important and what is not (Lundberg 2001). Other times, the case has a “presenting problem” that may not be the real problem at all. For example, in the *Norge Electronics Portugal* case (McGuire 2007), the first paragraph provides a dilemma that, upon analysis, is clearly not the underlying issue. Students need to figure out what is – and what is not – the most important problem. Cases about technology companies sometimes fall into the problem-identification category because readers may assume that the technology, rather than management, is the primary issue. For example, what looked on the surface to be a straightforward selection of the best strategic technology turned out to be a short-term cash flow issue in the *Turning the Lights Up or Down at UVM* case (Whaley 2007).

Instructors sometimes use problem-identification cases as decision-focused cases (that is, they require students to come up with an answer), but spend considerable class time discussing

what the real problem is. The syllabus instructions for preparation of a case in an MBA class read something like the following:

*Begin your paper with a statement of the **main problem**. Your problem statement should not be an exhaustive list of everything that is wrong. Rather, it should be one or two central issues around which all else is organized. You will have to a) combine related problems, and b) establish priorities. You will not be able to address everything in your case analysis. Analyze the problem you identified (and not some other problem). Organize the facts into a coherent whole as if you were presenting evidence to persuade a skeptic. Clearly state any assumptions that you've made. Provide evidence from the case to support your analysis: use quotes, numbers, and facts. Analyze the problem using a conceptual model from the readings or lectures. Draw a conclusion and provide specific recommendations for action. What should be done next? Some cases call for a specific decision or specific actions that need to be taken, while others do not. However, most cases at least call for an explanation of "what you would have done" in the situation (adapted from Newman 1998).*

Problem-identification cases are more popular in decision science and management classes with a strong emphasis on problem-solving. The myriad of tools covered in these classes (i.e., Forced Field, Fishbone, Decision Matrices, PERT, and CPM) help students to identify key problems. Given that one of the main benefits of the case method is that it can help students learn to distinguish between significant and trivial information (Swiercz 2000), we hope that more casewriters will write cases that require students to identify the problem before trying to solve it.

4) Decision-focused cases. Decision-focused cases require the reader to make a decision or advise a protagonist about what decision to make. Decision-focused cases are preferred by some journals. The *Case Research Journal* (CRJ) publishes cases with non-subtle decisions, the decision that needs to be taken is often stated explicitly in the first page of the case.

CRJ "publishes outstanding teaching cases drawn from research in real organizations, dealing with important issues in all administration-related disciplines. The CRJ specializes in decision-focused cases based on original primary research [...]. Exceptional cases that are analytical or descriptive rather than decision-focused will be considered when a decision focus is not practicable" (NACRA 2017).

When assigned a decision-focused case, the reader considers himself/ herself in the role of protagonist, arrives at a decision, justifies the decision in relation to alternatives, and predicts the consequences of implementing the decision. Although the decision-focused case is the most common type of management teaching case, it has received strong criticism. When management education programs send the message that every situation requires a decision, students may not develop an appreciation for situations where decisions cannot be made (Lundberg et al. 2001). Bridgman (2010: 311) noted that the decision-focused cases used in business ethics courses under-emphasize the social, political, and economic factors which shape managerial decisions “[... including] *structural features of capitalism and the role of government in regulating the market.*” Presenting students with repeated, discrete problems and asking them to make decisions reinforces the presumption that all problems can and should be solved.

“Because problems are presumed to be solvable, anything loosely referred to as a problem will seem to demand a solution, thus undervaluing the real frequency of paradoxes or dilemmas as well as situations simply not amenable to change. Coping and experimentation will also tend to be underappreciated. The repeated making of discrete decisions underplays how problems may be imbedded in larger systemic issues, or serially linked, or how they may cause subsequent problems” (Lundberg et al. 2001: 455).

Some casewriters conclude their decision-focused cases with a list of recommendations or perhaps alternative paths to follow. Rather than achieving the desired goal of expanding critical thinking skills, instructors have found that many students limit their recommendations only to that list. Therefore, some case journals have suggested concluding with open-ended questions or management challenges for students to address in their own way.

5) Application cases. The pedagogical goal of the application case is for students to apply a concept, theory, typology, calculation, or model and determine how well the theory fits the data provided in the case. (Occasionally, an exceptional student proposes a brand new theory to fit the exemplar.) Application cases are used for students to determine if a given theory or a conceptual framework is applicable to a real-life example. Is the theory useful in understanding

what is going on in practice? Does one theory fit the data better than a rival theory? The *New Bedford Whaling Museum* case (McGuire & Kretman 2012) describes the leadership of strategic change at the museum by an executive director over several years, as she navigated challenges and crises along the way. Among other uses, the case is ideal for seeing how well one or more theories of leading change fit one complex exemplar.

6) Contextual Issue Cases. These cases are used to explore the context around an (often) ethical and/or legal issue, such as company policy/ culture and public policy/ national culture (Lundberg et al. 2001; Swiercz 2000). While contextual issue cases may require a decision, their main purpose is to examine an issue from many different points of view and appreciate the complexity of a situation. In the *Wal-Mart Supercenter Rosemead* case (McGuire et al. 2012), members of a small city protested the opening of a Wal-Mart. The case juxtaposes residents' complaints with the pro-business perspectives of city officials and Wal-Mart representatives. The reader is asked to conclude whether, after looking the issues from different perspectives, Wal-Mart is good for that community.

So-called "dark side" cases fall into this category; they describe an ethical problem or tragedy that occurred and – rather than asking for a decision – ask students to *"analyze the interplay of political and economic factors and organizational relationships and to suggest how this tragedy might have been prevented"* (Bridgman 2011: 318). A famous example is the *Folole Muliaga* case which describes the death of a New Zealand woman after the electric company cut off power to her house for nonpayment of bills (Bridgman 2010).

In a contextual issue case, readers are required to juxtapose the demands of a real situation, the requirements of law, and their own personal and cultural values. What is the best business solution to the problem in the case? What are the legal requirements? What is the ethical response? What are the tradeoffs between compliance and organizational outcomes?

7) Live cases. The live case is the type that is closest to the original Harvard Business School format. In a live case, some information is written but much is not – instead it is provided orally by a company representative in a field visit or as a guest speaker in a classroom. Live cases can be any of the above types of cases (critical incidents, descriptive illustrations, etc.), but the student experience of the case is quite different because of the interaction with the protagonist, and the case is different every time it is presented. A variation of the live case is the so-called “living” case. In a living case, students interact with company representatives only *after* they have made their case recommendations. The interaction therefore serves as an epilogue covering the actions the company actually took. Sometimes the discussion becomes a participative post-mortem concerning what could have been done better.

8) Cases in video, multi-media, and new formats. The format of a case study is only limited by our imagination. Technology has made it feasible to use video cases for teaching that lend realism to the classroom and engage students at different cognitive levels (Naumes & Naumes 2006). For example, the PBS Frontline report *Is Wal-Mart Good for America?* (PBS 2014) can be used as a case study. In the class prior to the discussion of the *Sriracha* case (Drost et al. 2017), instructors can show the movie “*Sriracha*” (Hammond 2014).

We have found that multimedia cases can be expensive to produce at a professional level, require instructional design and technical media expertise, and can blur the traditional intellectual property boundaries associated with written cases. Nonetheless, a novice casewriter with expertise in multimedia but without case experience might find the multimedia case an interesting choice. Online journals are eager to publish well-prepared multimedia cases. A case published online can embed links to videos, databases, industry reports, and just about anything else the casewriter wants to make available to the reader. George Whaley asks casewriters to ponder two questions related to learning technology:

“How different really are computer simulation cases and cases based on video game technology?” and “Can you imagine the increased richness of the

multimedia case experience for students and faculty alike when virtual reality and learning robotics become commonplace?”

Attention to different learning styles may be an opportunity to engage students with cases and simulations (Saunders 1997). Once again, it is only our imagination that limits us. What about the comic book (graphic novel) as a learning platform applicable to management teaching cases? George Whaley is working on one of the first graphic novel case studies. He has discovered that the advantages and disadvantages of multimedia cases also apply to graphic novel cases: instruction design skills (storyboarding) and graphic artist skills are essential. Nonetheless, effective storytelling remains the core skill for the graphic novel and other nontraditional platforms.

Getting Started

Case researchers should begin by selecting an organization and/or issue that interests them. As obvious as it may sound, over and over again we find that good research is produced when the researcher is **enthusiastic** about the project. A good way to begin research is to collect publicly available information on the industry, organization, and its competitors. The organization's own website is a useful source. Library databases can be sources of academic and practitioner articles on companies, as are newspapers and business magazines such as *Red Herring, INC, Fast Company, The Economist, Bloomberg BusinessWeek, and Fortune*.

Some casewriters became passionate about a topic simply because the opportunity arose, per serendipity (Naumes & Naumes 2006). Friends, work colleagues, alumni, research contacts, and sometimes students can suggest interesting case situations.

Data Collection

The two main approaches to data collection are primary (“hands on”) and secondary (“hands-off”). Primary data are typically collected on-site. Casewriters visit the organization, collect

documents and financial statements, interview managers and employees, observe meetings, and possibly collect survey data. When primary data are confirmed through triangulation, rather than only CEO interviews, the resulting description can be rich. In the *Sriracha* case, the city of Irwindale nearly declared the hot sauce company a public nuisance because of the powerful jalapeño odors coming from the factory (Drost et al. 2017). The casewriters used direct quotes from the company CEO, the official minutes of meetings of the Irwindale city council, and also interviewed 48 neighbors living within “smelling distance” of the factory.

Secondary data can include newspaper articles, trade journal reports, TV programs or movies, press releases, industry reports, company (and rival) websites, third party reviews or ratings, and much more.

“Hands-off” case studies are prepared using publicly available information with a minimum of personal contact with the organization. The “hands off” approach is appropriate when the organization being researched is inaccessible or the topic is both controversial and also widely reported. For example, the case *Hooters of America: Fighting the Breastaurant Wars* (McGuire & O’Brien 2016) was prepared with minimal contact with Hooters; customers and employees were interviewed, but not senior managers. Because of the well-reported scandals and lawsuits at Hooters, publicly available information was abundant. Likewise, secondary public information was plentiful for the *Monsanto* case (Whaley 2016).

Disguises

All case research is concerned with real people in real organizations, and case researchers strive to be as accurate and impartial as possible. Occasionally, it is necessary to disguise the name of the organization, people, or financial data. When organizations are concerned about revealing financial information, there are ways to disguise it (i.e., multiplying or using a constant factor) while maintaining the integrity of financial relationships. An organization might request a disguise because of its concern about its public image. Nonetheless, casewriters should avoid disguises except when absolutely necessary. There is one exception: while the names of senior

people in the organization are not disguised, increasingly the names of customers or lower-level employees are omitted or disguised in order to protect their privacy. Do note that disguising a case is not a proper substitute for obtaining a publication waiver (“case release”).

Issues

Typically, researchers embark on case research because they are captivated by a specific **research question**. It often occurs, however, that once research is underway, a multitude of other issues are uncovered. No case can cover all issues, so the researcher needs to focus on what is critical and interesting to a reader while providing rich context. Some issues that may be interesting to case researchers include:

- **Managers and entrepreneurs in development.** These cases describe the situation of a junior manager or entrepreneur who has overcome obstacles and is learning to deal with significant issues, such as growth, resource constraints, lawsuits, turning an un-motivated workforce into a motivated workforce, going international, etc.
- **Companies that do Things Differently.** These cases describe companies that use new or modern methods of management, or go against prevailing norms or habits. They might address new business models or emerging markets where challenges are quite different than they would be in established markets.
- **Companies Faced with Difficulties, Changes, or Scandal.** These cases describe organizations involved in difficulties or challenges, such as overcoming bankruptcy, lawsuits, downsizing, product obsolescence, changes, or scandal.
- **Companies Recognized as Exceptional.** These cases describe organizations that have been reported as exceptional or have received public recognition. (Sometimes researchers discover that such organizations are less exceptional than it first appears.) There are published lists of exceptional companies such as the following:

- Most Admired Companies (*Fortune Magazine*)
- America's Best Companies for Minorities
- Best Places to Work
- Fastest Growing (*INC Magazine*)
- Best Places to Work for Hispanics (*Hispanic Business*)
- Best Companies for Latinas
- Best Small Companies (*Forbes Magazine*)
- Best Employee-Owned Companies

Organizations can be exceptional and interesting case subjects because of their negative actions or reputation. Past scandals associated with the savings and loans industry, environmental disasters in the oil industry, and ethical breakdowns in the financial services industry come to mind. The *Monsanto* case (Whaley 2016) was in part inspired by what a Harris poll revealed: Monsanto was considered the least ethical company in the world (Kiser 2010; Campbell & Matthews 2015; Kano & Gonzales 2015). A negative reputation – potentially – can spur a company to turn negative perceptions into positive actions.

Case Releases

When information in the case was obtained exclusively from publicly available sources, casewriters do not seek a release from the case organization authorizing publication. When information is obtained from primary sources (interviews, company documents, observations on-site, etc.), a signed publication waiver or release is necessary. Most journals will not publish a case without a signed release. Typically, a senior manager in the organization is given a draft of the case study and asked to approve it; managers sometimes request that a given paragraph or statement be deleted or re-worded before they give permission. A sample release form is provided in Appendix. Since the IM is not published, a publication waiver is not sought for it.

Learning Objectives

Learning objectives (LOs) indicate what a student may learn by preparing and discussing the case. The casewriter must include the LOs in the IM; in fact, the IM is built around them.

Teaching cases are geared toward the learner-centric approach and focus on learning goals (rather than teaching goals). There is some evidence that the use of case studies can help students improve their critical thinking, decision-making skills, and tolerance of ambiguity (Banning 2003; Pearce 2002), discern the essential elements of a situation, analyze and interpret data, use insights to inform action, and see how theory applies in practice (Ambrosini, Bowman & Collier 2010; Merseth 1991; Wasserman 1994). Cases can to some extent provide a classroom substitute for direct experience (Garvin 2007; Mauffette-Leenders et al. 1997).

Dooley and Skinner (1977) identified eight generic educational objectives of a teaching case on a spectrum from the lowest levels - acquire knowledge - to the highest – develop mature judgement and wisdom. The highest objective is achieved through cases that present a complex, realistic, unstructured situation with many different types of information, including irrelevant facts and contradictory opinions of case characters. Lundberg et al. (2001) proposed three broad learning objectives: (1) Acquiring, differentiating, and using ideas and information; (2) Issue identification and differentiation; and (3) Action formulation and implementation.

Casewriters are expected to design a lesson around 2 to 6 learning objectives per case. This is a rule of thumb only, but a large number of LOs can lead to a cumbersome, unfocused learning experience, while a small number suggests that the IM overlooks pertinent issues. Learning objectives should ideally be expressed in line with Bloom's taxonomy of educational objectives, from the lowest to the highest levels: remember, understand, apply, analyze, evaluate, and finally create / recommend (Anderson et al. 2001). The learning objectives are the centerpiece of the instructor's manual. LOs should be linked to the discussion questions that are typically expected in the IM. Exhibit 1 provides one case's learning objectives and discussion questions.

Exhibit 1. Sample Learning Objections and Discussion QuestionsCase: *dusitD2 Hotel Constance Pasadena* (Zhang et al. n.d.)

Bloom Level	Learning Objective	Discussion Questions
4 Analyze, 5 Evaluate	LO1. Prepare an analysis of the hotel industry using Porter's 5 forces, and determine its attractiveness to an investor.	(1) Analyze the hotel environment in the U.S. and particularly in Pasadena, CA. How attractive is the industry?
4 Analyze, 5 Evaluate	LO2. Analyze the marketing mix using the 5Ps model. Draw conclusions and recommend changes.	(2) Analyze dusitD2 Hotel Constance Pasadena's marketing mix.
2 Understand	LO3. Explain the advantages and disadvantages of a franchise (hotel).	(3) To a property owner, what are the advantages and disadvantages of a hotel franchise?
5 Evaluate	LO4. Evaluate alternative franchises against a set of criteria, in the context of a business opportunity.	(4) Was dusitD2 a good franchise for Singpoli to choose?
		(5) Identify potential franchisors (including dusitD2) that Singpoli might consider. Next, identify the most relevant criteria for evaluating a franchisor and franchise agreement (e.g., initial franchise fee, booking system, etc.). Finally, using information from the case, assess each one the franchise opportunities on your criteria and select the best franchisor for Singpoli in Pasadena.
5 Evaluate 6 Create	LO5. Demonstrate the ability to formulate logical choices to take advantage of a business opportunity, and evaluate choices against decision criteria.	(6) Formulate at least 3 choices that Singpoli could have made after it decided to open a hotel in Pasadena. Devise decision criteria for the choices, and evaluate the choices against your decision criteria. What would have been the best choice?

The Case Study Project Outline

The outline is a tool for keeping organized the moving parts of the case writing process. When co-authors are involved, the outline is important as a planning, accountability, and implementation tool. The outline should be prepared after some, but not all, research has been conducted. It describes the structure and sequence of the information that will be included in the case. The content of the case is divided into relevant sections, with headings to

organize the flow of the story. There are many formats that can be used, depending on the type of case and the target journal, but the following outline guidelines may be helpful:

I. Basic Information

a. **Title** – The case should have a title that is distinctive and informative. Other than the key words in a google search, what makes your case stand out? Sometimes it is appropriate to use only the name of the organization. Often, it is better to use the name of the organization and an indication of the subject of the case study. A catchy title helps to get the case noticed but if it is “too cute,” it can trivialize the story. For example:

- Company ABC: HR Policies (Perhaps too brief and sterile)
- Company ABC: HR Policies for Part-time Employees (Topical, distinctive, informative)
- Company ABC: HR Policies for the Emerging Indigenous and Contingent Workforce (Catchy and distinctive, but confusing)

b. **Authors** – The authors of the case, their university or professional affiliations, any advisors or mentors, etc. If the case is co-authored, it is important to get agreement regarding the sequence of author names. A concern for novice casewriter might be, should my name go first, second, or third in the list of co-authors? Contribution, status, resources, and relationships are factors to consider and early agreement on the order of names can prevent problems later. Each case needs a designated corresponding author to submit the case and correspond with the journal editor.

c. **Research Question** – The main intellectual focus of the case research. For example in the **Denny’s** case (McGuire, Mahdavian & Yavari 2015):

After racial discrimination scandals and lawsuits costing Denny’s \$54.4 million, the restaurant chain rolled out a diversity program including industry-leading racial sensitivity training. Did the program work? Did Denny’s commitment to managing diversity “fix” the discrimination problem? Did the program provide Denny’s with a competitive business advantage?

d. **Brief Purpose Statement** – The purpose of the study and any delimitations or caveats. Standard wording is preferred, and many journals have boilerplate language. For example:

Company ABC: HR Policies for Part-time Employees

This case was prepared by Anna Alexander, Burton Bell, and Clayton Conk under the direction of Professor DD of Big University. It has been prepared based upon information provided by ABC managers and employees as well as publicly available information. The case is intended to serve as a basis of class discussion rather than to illustrate effective or ineffective management.

II. Organization

a. *The organization* – its full legal name (or names) and/or that part of the organization that is addressed in the case. Since it is not always true that the organization is the unit of analysis of a management case study, it is important to be clear about what is. For a discussion of the importance of the unit of analysis, how to select it, and its relationship to the case context, see Taylor and Søndergaard (2017).

b. *Protagonists* – Typically cases are written around real people. Occasionally, the viewpoint in a case will not be an individual (i.e., average stockholder in a financial case or an average customer in a marketing case). While the case probably will have a main protagonist, casewriters should try to include views of multiple case characters. Case journals prefer direct quotes over paraphrasing case characters' comments.

c. *Organization chart* - useful, but not always required.

d. *Timeline of events* - Effective, complex stories have a pace and sequence of events that are important. When a protagonist has multiple reflections about events or a large number of events, decisions, and people are involved, it helps to place the events in chronological order. The casewriter might eventually include the timeline as an Exhibit in the case. The ***New Bedford Whaling Museum*** case (McGuire & Kretman 2012) describes a change leadership over several years. The case includes a timeline of the most important events to make it easier for the reader to follow their sequence.

III. Opening Situation/Introduction

Most cases begin with a brief description of the protagonist and the dilemma that the company faced; this is intended to focus the reader's attention, and has been called "*the hook*" (Naumes & Naumes 2006) or "*the grabber – the piece that is going to make people want to read more*" (Vega 2003:64). The opening situation can be an overview of the organization and what it has achieved. It can be a *vignette* – a brief story that summarizes the problem faced or decision that needs to be made. It can include a secondary issue or "red herring," in other words, a real or pseudo problem that good students will discover not to be the issue at all (Naumes & Naumes 2006). Generally, the opening situation is one or two paragraphs long. Rule of thumb: one page in a regular case and one-half page in a critical incident. If readers need to flip the page while reading the introduction, they may sense complexity or lose interest in reading further. The casewriter must decide if students will need to identify the problem, or if the problem will be stated plainly. The opening situation is an ideal location to point out what the student needs to do with the case (analyze something, compare two alternatives, etc.) and pay attention to as he/she reads further.

Management teaching cases are written in the past tense because the events have already occurred. (The IM can be in any appropriate tense.) There are a few exceptions to the past tense rule, such as when using a direct quote, in a table or figure, or in the verbs that discuss exhibits.

IV. Background

This section usually provides historical and background information on the organization, including (if applicable) stories, myths and facts related to its founding and growth. In complex cases, the company background, management background, and product/service background are separate sections with major headings to facilitate reading. If the reader needs to understand new technology, rare diseases, legal cases, special languages or other novel items then a brief section explaining them can be helpful. For example, a brief section on genetically modified organisms was included in the *Monsanto* case (Whaley 2016). It may be necessary to

provide definitions of terms. If the technical explanation within the body of the case becomes lengthy or is primarily for the benefit of the detail-oriented reader, then placing it in appendix or in a separate technical note is a more effective approach.

V. Business Strategy and Sector of Activity / Industry

Although not all cases require an explicit description of strategy, readers do need a sufficient understanding of the organization's purpose. The "industry" in which the organization competes is relevant context. It may be appropriate to prepare charts or tables with information on competitors or the industry. Sometimes it is unclear in what industry the company is classified. Dun & Bradstreet or industry classification codes (SIC) can help (NAICS 2012). Casewriters can begin by looking up the industry and major competitors in databases such as FACTIVA, IBISWorld, and Hoovers.com.

VI. Issues /Conceptual Frameworks

Each issue addressed by the case should be described briefly in the outline. Here is where the casewriters can draw upon theories, frameworks, or legislation to help organize the material in the case. If the casewriter's intent is to apply a theory or law, then the reader will need sufficient (but not excessive or misleading) information to be able to do so.

VII. Conclusions

This section is sometimes called the Management Challenge or the Decision-Focus. The purpose is to tell the reader what decisions need to be taken, what alternatives to consider, or what items to evaluate from the vantage point of the protagonist. The conclusion can be a reiteration of the major points described in the case, it can be the natural continuation of the issues, the protagonists' alternatives, or a series of questions to the reader. Often, the conclusion brings the reader back to the "hook" or "grabber" in the opening situation.

VIII. Appendices

Readers prefer that charts, graphs, financial reports, and other illustrations are placed in the body of the case and IM close to where the information is discussed. Appendices should contain information needed to analyze the case that does not fit in the body of the document. For example, if a certain legal issue is addressed, the relevant laws can be summarized in an appendix. Results of employee surveys, photos of products, company forms, balance sheets or profit and loss statements, or other descriptive information may also be relevant. As previously noted, technical discussions that do not fit in the Background section are sometimes moved to an appendix.

IX. Instructor's Manual

An instructor's manual (IM) accompanies a teaching case; it provides an analysis of the case within the limits of the learning objectives. It is typically written for the novice instructor. We have found that the quality of IMs varies considerably. Some are scholarly, others are quite simple, and each journal has different requirements. Journals typically do not publish IMs, but instead provide them to qualified instructors upon request. (Oddly enough, a few journals do publish IMs. Casewriters may want to avoid these journals since IMs can – and will be – accessed by students.) As a practical tip to casewriters who use cases in their retention, tenure, and promotion (RTP) package, we suggest erring on the side of scholarship. RTP committees sometimes assess the scholarly contribution of case research by looking at the IM. The minimum IM requirements include a synopsis of the case, learning objectives, a brief description of concepts or theories that apply, discussion questions with answers, and references.

a. *Case Synopsis.* The case synopsis is to a case what an abstract is to a paper. It should be brief. It summarizes the story and the main concepts that can be learned from the case. In some journals or conference proceedings, the synopsis is published on the cover page or in the table of contents. When the synopsis is used in this manner, the length should not exceed 125 words.

- b. Learning Objectives.** As previously discussed, the IM typically has 2 to 6 learning objectives: what can be learned through reading, analysis, preparation, and discussion of the case.
- c. Concepts, Theories, Laws.** Casewriters should provide a brief description of the concepts, theories, frameworks or laws that can be used to understand the case. Often, this takes the form of a brief literature review. As previously mentioned, RTP committees judge scholarly contributions to the field by examining IMs.
- d. Case Discussion Questions.** The completed IM contains a set of specific case questions with the casewriters' answers. Discussion questions should flow logically from the learning objectives, of course. In the answers to discussion questions, it is improper to introduce information that was not in the case. Casewriters need to double check that the questions really can be answered with the information provided. Some journals prefer specific answers to the questions, others like alternatives or pros and cons, and still others ask for sample "A" level and "C" level student answers. (Some instructors find that such answers help them grade case analyses.) When real student answers are included in the IM, journals ask authors to cite the students in order to avoid intellectual property issues.
- e. Epilogue.** Students are often eager to know "what really happened" at the end of a case discussion. Lundberg and Winn (2005: 270) noted, perhaps tongue in cheek: *"Having an epilogue to share enhances both case believability and, importantly, instructor credibility."* If instructors who adopt the case have access to company representatives, it is always interesting to invite them to class. Sometimes students are surprised to find the companies actually considered their outside-the-box proposals. This actually happened in both authors' MBA classes. In one of them, the company CEO said, *"That is why we hire people like you from grad school with fresh ideas."* When representatives are not able to visit the classroom, videoconferencing is a good way to provide a living case experience.

X. References

Journals require separate case and IM references. References are the basis for citations in the manuscript. Therefore, authors need to make sure that all citations in the case and IM are included in the references.

Submitting a Case Study for Publication

Cases can be submitted to (1) Peer-reviewed journals of case studies, (2) Peer-reviewed journals that include cases alongside other research, (3) Books of cases, (4) Textbooks that include cases, and (5) Case libraries, such as those at Harvard, IESE, Darden, HEC Montreal Centre de Cas, Ivey, and CaseNet. Like other academic work, often the first place where researchers present a case is a conference. Case conferences allow casewriters to get feedback and improve their cases before submitting them to a journal. Some universities and case organizations provide student travel stipends, new faculty travel grants, and scholarships that support case writing activities.

Casewriters then submit their cases for peer review and typically obtain suggestions from reviewers. After revisions (sometimes several rounds), cases can be accepted for publication. Sometimes, book authors notice what cases have been presented at conferences and invite casewriters to include a version of a case in their textbooks. For example, the author of a leading strategy textbook requested the *American Apparel* case after it was presented at a NACRA conference (Grant et al. 2010). The case was included in the textbook and used by MBA students worldwide.

Management case journals do not accept fictional or fictionalized cases. Several journals do not accept cases unless they have been tested in class. Nearly all require both the case and IM. Some prefer non-subtle decision-focused cases, while others accept all 8 of types of cases. Many do not accept disguised cases, and those that do require a justification for the disguise.

Casewriters should be interested in the target audience of the journal, the size of its readership, the turnaround time from submission to publication, the reputation of the journal and the academic “credit” authors will receive for publishing in a journal. Academic credit is based on how an institution considers cases. We cannot speak for each school, but most business schools give faculty academic credit for peer-reviewed journals that are listed in Cabell’s or other accepted directories. If a case is only “desk reviewed” by a textbook author or journal editor, it is not peer-reviewed. Institutions tend to provide more academic credit when the journal is peer-reviewed and its acceptance rate is low.

Some scholarly journals include cases that fit with their research focus alongside articles. For example, journals in healthcare management, international management, and entrepreneurship will publish cases.

Exhibit 2 provides a partial list of journals that publish management teaching cases.

Exhibit 2. Teaching Case Journals

JOURNAL	ORGANIZATION	PREFERENCE	WEBSITE
<i>Asian Case Research Journal</i>	National Univ. Singapore	Asian organizations	http://www.worldscinet.com/acri
<i>Asian Journal of Management Cases</i>	Lahore University of Management Sciences	Asian organizations	http://ajc.sagepub.com
<i>Business Case Journal</i> (BCJ)	Society for Case Research	Case + IM	http://www.sfcr.org
<i>Case Research Journal</i> (CRJ)	NACRA – North American Case Research Association	Decision cases Case + IM	http://www.nacra.net
<i>Emerald Emerging Markets Case Study Collection</i>	Emerald	Case + IM	http://www.emeraldgrouppublishing.com/products/case_studies/eemcs.htm
<i>IMA Educational Case Journal</i>	IMA Institute of Management Accountants	Accounting and Finance Case + IM	https://www.imanet.org
<i>IMT Case Journal</i>	Institute of Mgmt. Technology (India)		http://imtci.ac.in/
<i>International Journal of Case Studies in Management</i> (IJCSM)	Ecole des Hautes Etudes Commerciales (HEC) Montréal	Case + IM	http://www.hec.ca/en/case_centre/ijcsm/index.html
<i>International Journal of Instructional Cases</i>		Concise (4 pages) cases + IM	http://www.ijcases.com/
<i>International Journal of Teaching and Case Studies</i>	Inderscience Publishers		http://www.inderscience.com/ihome.php?icode=ijtcs
<i>Journal of Applied Case Research</i> (JACR)	Southwest Case Research Association	Case + IM	http://swcra.net/journal-of-applied-case-research/
<i>Journal of Business Cases and Applications</i>	AABRI - Academic and Business Research Institute		http://aabri.com/jbca.html
<i>Journal of Case Research and Inquiry</i> (JCRI)	Western Casewriters Association	Case + IM	http://www.icri.org
<i>Journal of Case Studies</i> (JCS)	Society for Case Research	Case + IM	http://www.sfcr.org
<i>Journal of Critical Incidents</i>	Society for Case Research	Cases 3-pages or smaller; CI + IM	https://www.sfcr.org/ici/
<i>Journal of Finance Case Research</i> (JFCR)	Institute of Finance Case Research	Finance cases	http://www.jfcr.org/jfcr.html
<i>Journal of Information Technology Education: Discussion Cases</i> (JITE: DC)	Informing Science Institute	Information Systems cases	https://www.informingscience.org/Publications
<i>Journal of the International Academy for Case Studies</i>	International Academy of Case Studies (Allied Academies)	Case + IM	http://www.alliedacademies.org
<i>Southeast Case Research Journal</i>	Southeast Case Research Association	Case + IM	https://secra1.wordpress.com/secra-journal/
<i>The CASE Journal</i>	The CASE Association	Case + IM	http://www.emeraldgrouppublishing.com/products/journals/journals.htm?id=tcj
<i>Wine Business Case Research Journal</i>	Wine Business Institute, Sonoma State University	Decision cases, wine industry Case + IM	https://wbcrj.scholasticahq.com/

Summary

Case study research provides a rich learning experience leading to the production of a scholarly paper and a pedagogical tool. High quality cases address significant issues, provide a comprehensive description of an organization, include alternative perspectives on the reasons behind what has occurred, are backed up by evidence, and are written in an engaging manner. Researchers can prepare 8 types of cases: Critical incidents, Descriptive Illustrations, Problem-identification cases, Decision-focused cases, Application cases, Contextual issue cases, Live cases, and Multi-media cases. Case studies can, of course, be of more than one type simultaneously. While all management case research deals with real organizations, some cases are prepared through primary research at the organization (interviews, obtaining documents, observation), others with a “hands-off” approach (only publicly available information), and most are completed with a combination of primary and secondary research.

Researchers should focus on organizations and issues that interest them. Some of the many possible issues that might capture the attention of management casewriters include managers and/or entrepreneurs in development, companies that do things differently, companies faced with difficulties, changes, or scandal, and companies regarded as exceptional.

Finally, we suggested an outline for a case study project and indicated possible outlets for the publication of the management teaching case study.

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**George Whaley**

is Editor of the *Business Case Journal*.

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Appendix

CASE STUDY RELEASE FORM

Case Study: Title of Case

Name of Company authorizes the authors and faculty advisors (listed below) of XYZ University to submit to a case research conference a draft version of the case study attached to this release form, under the provision that changes, edits, and deletions marked in pen on the attached copy(ies) be made prior to submission.

Conference Proceedings. If the case study is accepted at the conference, a one-page abstract of the case will be published in the conference proceedings.

Submission to Journal or Book. After the conference, the authors intend to edit and revise the case study for eventual publication in a journal or book, at which time the authors will provide **Name of Company** with the revised version for review and approval.

The authors acknowledge the right of **Name of Company** to review and approve the final version of the case study prior to its publication in a journal or book, and will, at the time of submission for publication, request an additional, signed release form.

Name of Person
Name of Company

Address

Signed:

Date:

Names, Addresses, emails, telephones

Date:

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