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Firing and Conspiring at Existo's Springfield Operation: Parts A & B

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Firing a sales staff which acts in an immoral and illegal manner may appear to be an easy solution, but, as the staff at Existo's finds out, is only the tip of the iceberg of the company's real problems. Students are confronted in this two-part case with two critical decision points:

In Part A one of Existo's customers has in her possession a seemingly fraudulent letter from one of the ex-salesman from the Springfield operation which offered the customer a higher discount than the original contract agreement. Students are asked how to proceed from the CFO's perspective given the firm's core values of putting the customer first and maximizing shareholder wealth, coupled with the possibility of fraud on the part of either/both the ex-salesperson and the customer.

In Part B the CFO decided to stand by the original discount agreement and Steve Krump, the account manager, conveyed the bad news to the customer. The customer had a very negative reaction and threatened to pull her business. Steve notified the CEO and the regional manager who asked Steve to save the account. The three met with the CFO and came to a decision, but the CEO wondered whether their decision will set a bad precedent and if this was the beginning of a much larger problem. Students are asked how to proceed at this point from the CEO's perspective given the facts of the case.

Keywords: Ethics, Fraud, Customer relations, Stakeholder analysis, Control systems

PART A[1]

"Oh yes, and now that we have cleared the air about our little misunderstanding about all of you booking contract extensions as new business, it's time for the last item on my agenda for this meeting. You're all fired! Yes, every single one of you! Don't even bother to empty your offices and pack your things. We'll take care of that for you. Security will now escort you from the building. Leave your employee IDs with them."

The smoke finally cleared from the meeting that the CEO had with the now ex-sales force at Existo's Springfield operation after the CEO launched his major salvo; the entire sales force at Springfield was gone, but not forgotten. Rumblings from this event quickly circulated through the building and Steve Krump, the Account Manager at Existo for that region, knew that this was going to be a very bad day and that these actions did not bode well for the future.

Background

Existo Inc., a software giant, was established in 1976. The Company had a mission that was providing businesses, any size or type, with quality driven software, that would facilitate every aspect of a modern business. Initially, the company started with one product that was developed and tested in an office built in a garage. In 2002, the Company grew to approximately 18,000 employees worldwide and had its corporate headquarters on a 66-acre development. That year, Existo publicly stated that 95 percent of all Fortune 500 companies were its clients.

Existo in 2004 was a $3 billion a year enterprise with an annual revenue of $1.5 billion which was derived from its sales of hundreds of software products (i.e. database management, development tools, emulation/web tools, network management, operating systems, and small business application) for all phases of everyday business. The Company also possessed the ISO 9000 certification, one of the most prestigious certifications in the world. To obtain and maintain this certification, the Company had to pass an annual audit conducted by an outside enterprise, with the main purpose of proving standardization of internal procedures that ranged across all Company functions and processes. This certification was important when conducting business overseas, especially in Europe, as companies there would not engage in business relations with a company that did not possess this certification.

Existo implemented a new business model in 2000, which increased its profits by allowing customers to “subscribe” its software on a monthly basis as opposed to a strict yearly lease. This development permitted smaller businesses to have the ability to utilize software without having to assume a significant financial burden in licensing products. Once this was established, it opened up a new area of revenue for the Company, as well as a new avenue for product software developments in the future.

Existo’s Structure

The Company originally was headed by a board of directors, heavily derived from a vast range of professional focuses or areas of expertise. After a new company was acquired in 1990, the founder of Existo declared that the CEO of the acquired company would be the new CEO of Existo. This essentially established a “Tag Team” of executive leadership, which made the company very adaptable to modern business changes, and bridged the old way of thinking to a new approach to leadership. While the new CEO had the majority of all duties associated with running the firm, the founder continued to infuse his experience and vision at all times. It was an effective relationship that carried on for many years until the founder formally retired in 1998 (See Appendix A for the Organization Chart).

New Core Values

Although the Company had grown in the past with both earnings and new product developments, Existo had its share of problems surrounding its financial statements as well as the popular proxy battle. The latter incident occurred when a Florida billionaire tried to replace four members of the board. Ultimately, the reigning board won the proxy battle with a 75 percent vote in their favor. At the same time, the Security and Exchange Commission (SEC) commenced investigations on the methods Existo used to book business and recognize revenue. Existo, however, was found not guilty of any wrongdoing.

Emanating from the SEC investigations in 2002, Existo established a new set of guiding principles, which were geared toward the customer. These core values were quickly adopted and implemented by the employees. This had a significant impact on the way business was conducted, and more importantly helped to avoid customer crises. The number one core value was to always "put the customer first in every interaction." If a disagreement did occur, the customer would always have the benefit of the outcome. This value's purpose was for customer service and retention. However, almost as significant was the fifth value, which clearly stated that each and every employee would adhere to all of the core values, "with the goal of maximizing shareholder value." (See Table 1)

Table 1
Core Values for Existo Inc.

We aspire to be a clear leader in the software markets in which we choose to focus by building enduring customer partnerships that deliver tangible value. To this end, we will:

- Put our customers first in every interaction.
- Build a success-oriented culture to attract and retain the best talent.
- Exhibit a passion for quality and innovation in all that we do.
- Work as a team, focusing our collective resources on our market goals.

We will do all of this with the goal of maximizing shareholder value.

The Customer Relationship Organization

The Customer Relationship Organization (CRO), which was comprised of 650 employees, had as its main function to enforce the core values and aid in bridging the business interaction between the Company and its customers. Putting the customer first in every interaction was how the CRO pursued business day to day. The CRO was divided into segments based upon specific locations or territories. A Divisional Quality Manager (DQM) ran each segment. Each DQM had a number of Customer Relationship Managers (CRMs), who worked directly with a particular client. Within each area, there was the Sales Organization attached to the same territory. The Sales Organization did business without regard to the CRO's mandate. This resulted in the CRO having to clean up any mess caused by any part of the Company, but especially the Sales Organization.

The Firing

The Sales Organization of Springfield, Massachusetts, booked many deals as "New Deals" when they were just term extensions of prior existing products and agreements. They conducted business in this manner because they were able to increase their commissions on new products as opposed to just term extensions. In addition, they wrote letters to customers, offering them extra additions to the contracts that were not endorsed by Existo's upper level management.

When the Vice President of CRO, Jane Worth, told the CEO, Tom Aikens, of this, he went to Springfield and held a meeting with all sales personnel. After verifying that the group was indeed booking extensions as new deals, he fired the entire sales force at the conclusion of the meeting. This left the CRO with the major task of discovering and resolving all the questionable deals made by the sales force and building up the Company's relationship with the customers affected by these agreements.

The Letter

AXA Insurance in Springfield, Massachusetts, was a large insurance company that was a customer of Existo and used a significant amount of their software. AXA had a history of small problems associated with paying some invoices but nothing to cause them to leave Existo. Tina Moore, the Contracts Administrator at AXA, was prepared to pay their licensing fee due in three weeks. AXA allocated the funds necessary for the payment and it was well within their budget. Tina called Steve Krump, the Account Manager at Existo, and told him she was anxious to pay their licensing fee somewhat early. She wanted to determine what she had to do to expedite payment. Steve informed her that she just needed to indicate whether the payment was going to be made via check or wire, so that he could notify the banks accordingly. They agreed on a payment arrangement, and then she mentioned a letter that she possessed which would affect the total amount of the licensing fee. She requested of Steve a revised invoice so she would be able to forward the appropriate documentation to her payables department. Steve asked who authorized the letter and she gave him the name.

Steve knew the name well, since it was a sales executive who had been let go along with the rest of the sales force in the CEO's purge three months prior. Steve asked Tina to fax him the letter. She faxed him the letter immediately and asked him to call her back after he reviewed it. Steve received the letter and reviewed it himself before bringing it to the attention of his superiors. He noticed that there were some unclear elements to the letter. First, it was not on Existo Inc. letterhead. Secondly, it was never countersigned by anyone in authority at Existo, as was the standard procedure for exceptions. He quickly made a copy and brought it to his manager, Diana Hood, who further reviewed it.

The letter extended a credit to the customer in the amount of $252,640, to be placed against their licensing fee of $2,095,355. According to the letter, this credit was to be issued if the customer claimed to have canceled a certain line of products that were under the license agreement. Being that Existo did not countersign the letter, the initial contract for the license was subsequently pulled and reviewed. In addition, the Human Resources Department checked the executive's signature on the letter and verified that the signature did not match up to his signature on file.

The CFO's (Lori Blake) initial reaction was to adhere to the only documentation in which both companies signed, which was the original contract. The contract clearly stipulated a credit to be issued, which differed from the amount contained in the letter. Allowing the false document to take precedent over the original contract, however, not only violated the fifth company core value (maximizing stockholder wealth) but also would be legitimizing an illegal and unethical sales practice. Sticking to the letter of the original contract, however, might aggravate the customer and was in violation of the company's first core value (putting the customer first in every interaction). The CFO thought, "This could turn into a lose-lose situation!"

PART B

The Blowup

The contractual credit amount to be offered to AXA Insurance, determined by Existo's Finance Department and the CFO, was $175,000; not the $252,640 as indicated in the follow-up letter. Steve was instructed by the CFO to contact the customer and inform them of the discrepancy and Existo's decision.

Steve called Tina and informed her of the Company's position. She was upset and at the end of the conversation, yelled

> *"I have a bona fide agreement with you people and if you don't live up to it, then you can go to hell! We'll take our business elsewhere! You'd better honor that letter or there will be problems. I'll take this to the top if I have to."*

After Steve tried to explain further, Tina shouted that she was wasting her time and slammed down the phone. Steve sat stunned. He decided to send out an email to Michael Gross, the acting Regional Manager. The following was the email:

> *Good Afternoon Mike,*
>
> *I recently left you a voice mail, as I was informed that you were out of town. An issue surfaced with respect to AXA Insurance. I know that you are very busy with the weight of all of the "Springfield" issues, but I'm hoping you could give this your immediate attention. $2,095,355 is due in March, and the customer is very anxious to pay it. The customer has supplied me with a letter from a former Existo employee. This employee, proposed a credit to the tune of $252,640, to be placed against the previous dollar amount due in March, with the stipulation that the customer cancel a variety of products.*
>
> *I brought the letter to the attention of my chain of command. Upon review, the letter differentiated from the contract with respect to some key points.*

1. The letter sent from our employee to the customer was never countersigned by our organization.
2. The letter sent also did not reference that it was to supersede Section 14 (A) of the original contract effective 9/30.
3. The calculations on the letter do not match up to the calculations provided by the contract originally signed. The contract stipulates a credit limit of $175,000.

The reasons referenced above are why Finance felt the original contract terms would prevail. As you could imagine, the customer did not respond well to me at all when I had followed back up with her on the result of our decision. She had mentioned a few harsh (very harsh at times) words towards Existo, and the way we conduct our business. In all honesty, I haven't heard this tone from a customer in all my experience.

Kathi, the CRM, has been involved with this and understands the nature of the letter. She is aware of what it was purported to do, and can empathize more with the customer because of her working relationship with her. In any event, we in Finance are awaiting your recommendation on this issue. We are not trying to collect on this, as it is not due yet. Please let me know if you need any additional information.

Thanks for your time.

Regards,
Steve Krump
Account Manager
Finance
Existo Inc.
tel (xxx) xxx-xxxx
fax (xxx) xxx-xxxx

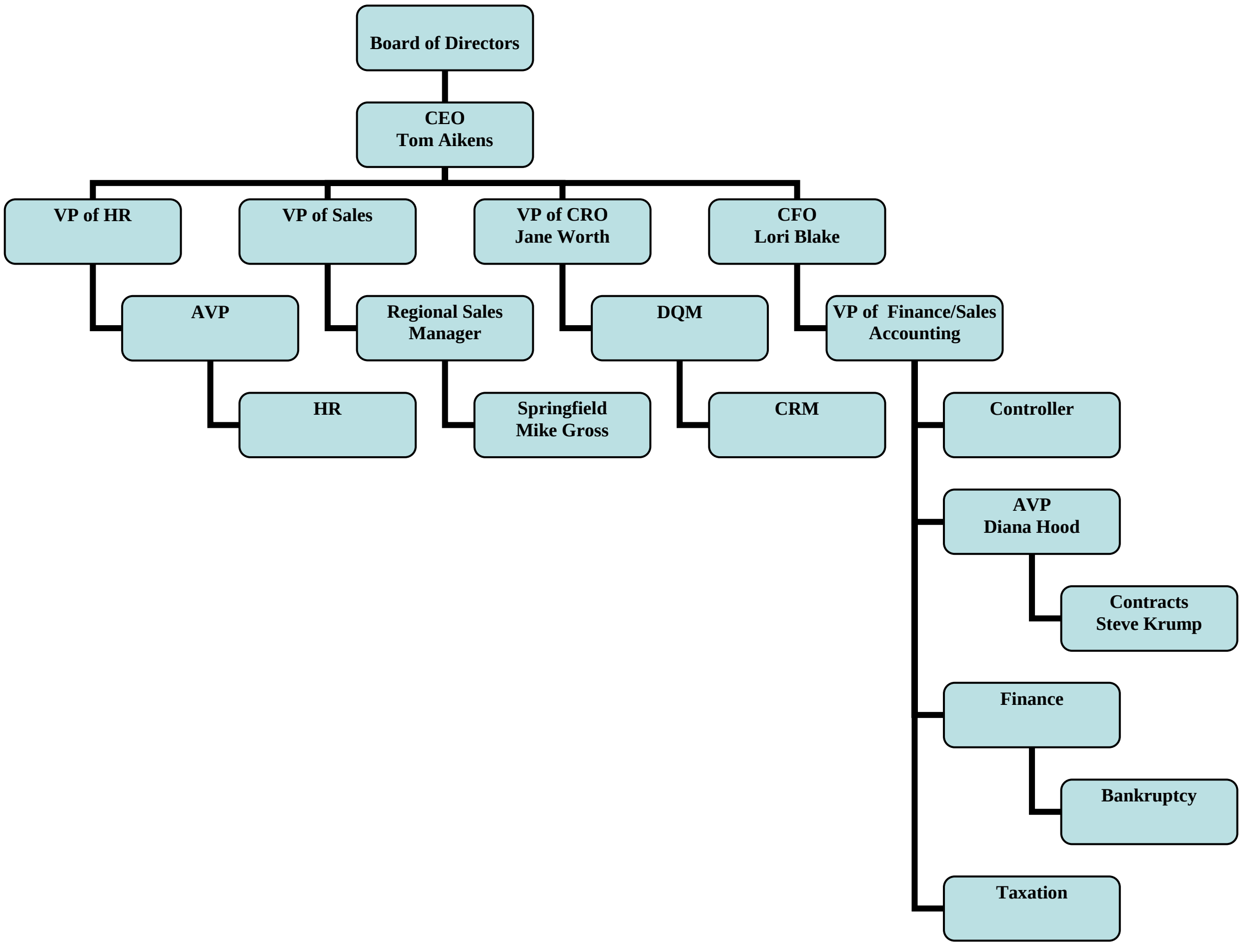
Michael called Steve and told him he didn't want to risk losing AXA. He asked Steve to do whatever was needed to keep the customer happy. Steve said that this could be fraud and it may have to go to the Legal Department. Michael asked Steve to try to prevent that from happening. Steve said he would see what he could do.

Tom Aikens, President and CEO of Existo, was kept apprised of the AXA matter by the CFO. He asked Steve to compile all the information, including CRO's input. Steve submitted his findings a week later, which were the same as in his email to Michael. Tom met with Steve and the CFO. He said

"Ok. On one hand, we have this AXA matter. But perhaps more importantly are we setting a precedent? Is this just the tip of the iceberg, or is this incident the last in the wake of the sales scandal that occurred within Springfield. What are your recommendations"?

APPENDIX A

Existo (2002) partial organizational chart



APPENDIX B

Existo's product line

Security Software

Spam, unsolicited email, and viruses, strain resources and reduce employee productivity. eSecure content manager from Existo is comprehensive software that defends against business and network threats.

Enterprise Management

DATAM allows you to manage your critical databases, from DB2 in a mainframe environment to Oracle on NT. DATAM's suites provide performance management, administration, and backup that reduces the complexity of managing large databases.

Storage
Your organization's data must be protected to avoid business and legal problems from occurring. Costs and operational complexity can be so burdensome. INTELLISTORE solutions protect and manage your data in an efficient manner.

Business Intelligence
Information is a valuable asset for every organization. However, volume, formats, and locations of data make it difficult for your staff to quickly access and use that information. SMARTPATH solutions refine data, allowing your staff to recognize patterns and trends that are not obvious. Using a browser-based approach, identification of successful critical factors and repetition of those factors for future use are the highlights of this unique software.

Application Life Cycle
Applications are needed for all business operations. COMBINE solutions allow for quality, speed, and accuracy in each phase of application development from initiation to implementation.

Application Development and Maintenance
Your organization's information infrastructure is the core of any management information system. EDGE database management solutions provide multiple users with reliable and quick access to data across a variety of platforms. Also, EDGE reporting helps users generate their own reports, freeing up your information technology professionals to focus on application development.

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For a detailed teaching note, please contact either Barry Armandi or Herbert Sherman.

[1] All incidents are true. Names have been disguised to provide confidentiality.