

DMBA 610<sup>1</sup>  
Knowledge Integration Exam

Spring 2015

Please read all instructions carefully before you begin.

- 1) Use the provided Student Exam Answer Sheet. Include your responses to all questions in the column, "Your Response" next to the appropriate question. This ONE Exam Answer Sheet document should be saved with your last name and "final," -- e.g. "Smithfinal"-- and posted in your Assignment Folder no later than **11:59 PM (ET), Sunday, April 12<sup>th</sup>, 2015**. **This exam also must be submitted to Turnitin.com** It is recommended that you submit your exam to Turnitin.com at least 24 hours before the deadline to allow you sufficient time to address any issues identified in the Originality Report prior to posting your exam in your Assignment Folder.

Please note: The exam questions are already included on the Answer Sheet. If this exam content is recognized as non-original by Turnitin, it will be ignored in analyzing your Turnitin report. Do not include any repeat of the exam case content on your Answer Sheet. Only place your answers and references on the Answer Sheet.

- 2) **No extensions may be granted on this assignment; be sure to submit it on time and check to make sure that the document you submitted is readable and what you intended to submit.**

**NOTE: This is an individual assignment. Any discussion or collaboration regarding the assignment constitutes a violation of [UMUC's Academic Dishonesty and Plagiarism Policy](#).** If you have any questions about the assignment, you should direct them to your instructor. Don't wait until the last minute to read the assignment and clarify any questions you might have. If you wait until the night before the exam is due, your instructor might not be available to answer your questions at that exact moment.

- 3) Be sure to base your discussion of these issues on the theories and principles in the reading you have done throughout this seminar. **This is not a research project.** The purpose of the assignment is to demonstrate your knowledge of and ability to apply the principles and theories discussed in the course materials. **Do not consult sources outside of the exam content and/ or the assigned DMBA 610 course materials. Using sources that are not course materials may result in point deductions.**

- **Course materials** include the exam content and all required and recommended reading and multimedia and any additional professor's lectures and introductions in LEO.
- Course materials do not include any websites that are not in the exam and/ or other course materials in LEO.

- 4) Your exam should contain specific references to the text book and other course materials. Be sure to use proper APA formatted citations and references, and indicate direct quotations by using quotation marks and proper page citation. Your final Answer Sheet document **includes ONE reference list at the end of the document** with all of the references you used in your responses. The reference list is required but will not count toward the allowed number of words. In addition to the reference list, you should also provide in text source citation for direct quotation or paraphrasing of course materials.

- 5) **You must address all questions.** Your answers should be limited to the number of words indicated for each question. Failure to adhere to length parameters for each question will result in deduction of points. There is a stated maximum word count for each of the questions (Question 1 = 1,500 words maximum, Question 2 = 1,000 words maximum, Question 3 = 750 words maximum and Question 4 = 500 words maximum). Some of the subsections also have additional stated maximum word limits (e.g., 100 words maximum). If a subsection does not have a stated word maximum, it is your discretion to use a word count that you feel sufficiently answers the question while continuing to adhere to the overall maximum word limits for each question. It is advisable to use the word count feature to check your word counts.
- 6) **Point Allocation:** 80% of your grade will be based on the quality of the content of your responses to the questions. The points allocated to each question are indicated. In addition, 20% of your grade will be based on the quality of your attention to graduate level grammar, organization, punctuation, usage, spelling, and APA citation requirements.

**Grading Criteria:**

**CONTENT - 80 points**

**FORM - 20 points** (Graduate level structure, grammar, spelling, punctuation, word usage and adherence to APA citation style)

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**SUMMARY** - Do not post a separate document for each question. Use the provided Student Exam Answer Sheet. Include your responses to all questions in the column, "Your Response" next to the appropriate question. Your Answer Sheet includes **ONE** reference list at the end of the document with all of the references you used in your responses. The reference list is required but will not count toward the allowed number of words. In addition to the reference list, you also should cite sources within your text where appropriate.

This entire exam is fictional. Any references to any real entities or events are only creative illustrations integrated into imaginary case patterns to provide educational context and concept application to this fictional business exam.

**END OF INSTRUCTIONS**

**Question I:**

**BUSINESS ASSOCIATIONS –**

**1,500 maximum word limit total for all parts (worth 25 points)**

**CASE:**

Shakira Nguyen is a lifelong physical fitness and music lover! She is 34 years old and she is ready to make her entrepreneurial dreams come true! At age 18 she graduated from high school and she married her childhood sweetheart, Fred Adeyemi. Shakira and Fred had six children during their marriage and Shakira

also earned two college degrees (one was an MBA from UMUC). Sharkira and Fred divorced after 14 years and she moved back in with her parents.

Recently, Shakira has been recording herself working out while singing songs from her favorite musical artists and performers (such as Elvis Presley, One Direction, Tech N9ne and Judy Garland). She has been placing her recordings on her YouTube channel. She makes the recordings in her room in the basement of her parents' house where she currently lives in the town of Not, Missouri in the USA.

Shakira spends about 18 hours each day working on her fitness and music recordings and posting them on various Internet websites (YouTube, Facebook, Instagram, etc.). She also sends an average of 125 tweets a day (via Twitter) where she updates what she calls her *"worldwide audience of devoted fans"* which she has named *"Large Monsters"* (i.e., each individual fan is called a *"large monster"*). She tweets almost everything she does (what she eats, how long she naps, etc.) Shakira also takes an average of 200 "selfies" each day (pictures she takes of herself and posts on various Internet websites).

Shakira is convinced that she will be very rich and very famous in the near future. Her business role model, Oprah Winfrey, said as the Duke University commencement speaker in 2009, *"it is really fantastic to have your own jet, and anybody who says it isn't is lying to you. That jet thing is really good."* (Leonard, 2009) Based on this advice, Shakira has made it one of her goals to own a jet one day.

Shakira does make money from advertising on her various websites (on average about \$150.00 USD per month). She also has her own personal brand website/ blog and she pays for the domain name and website fees to maintain it each month (with her business income, money from her parents and some of her child support income for her six children).

She is excited about her future wealth as she hopes to move out of her parents' home (where she lives in their basement with her six children and four dogs).

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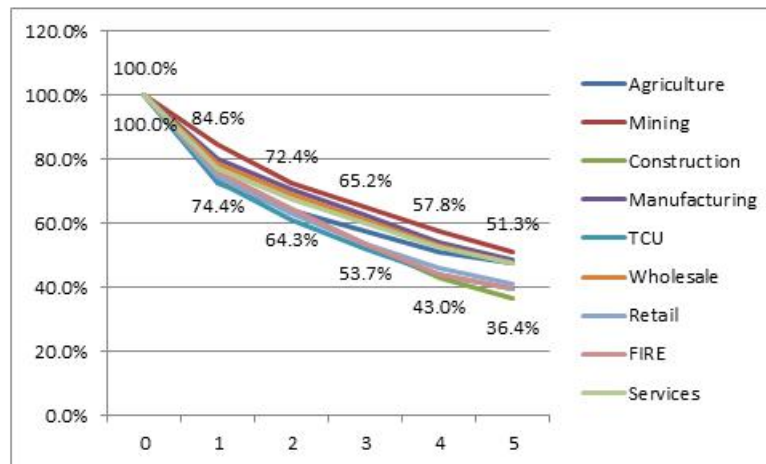
#### **YOUR ROLE:**

**Shakira is the cousin of your friend from undergraduate school.** Your friend asks you to help Shakira. As you are an expert about business (due to being in the DMBA degree program), you agree to help.

Shakira sets up a Skype session with you so that you are able to see her engage in physical fitness while singing (she calls her signature physical fitness exercise the "Tweak"). Shakira plans to name her business, **"SquareFit!"** Shakira has a few business concerns. She tells you that she knows that she has several multimillion dollar ideas and she must protect them from *"thieves and haters."*

She explains that she knows she needs her business to be *"legit"* (meaning legitimate) and that she is going to be the CEO (*"like Oprah,"* she says). Shakira tells you that she does not need any *"crooked lawyer"* as she has already found several websites she is going to use to *"get the paper right"* (meaning to file the correct legal forms to establish her business) such as LegalZoom, Rocket Lawyer, Nolo and MyCorporation.com. She also knows that it is not easy for a startup business to survive.

### Five Year Survival Rates for Startups by Industry Sector



Source: Created from data from the Census Bureau's Business Dynamics Statistics

(Jorden, 2014)

So, you locate the Custom Text from DMBA 610 and tell her that the two of you should go through the comparison chart on pp. 766 and come up with your "best" and "second best" forms from a business perspective (before her going to one of the online websites to file forms to start the business).

Note the following issues as you evaluate the comparison chart in your custom text:

1. Shakira's parents, Moshe Schwartz and Shinju Tanaka-Schwartz, have invested \$250 in her business (paying for her website, her computer, her mobile phone, her internet service, etc.) and they have stated that *"they will all get rich together."* Her mother has already created a reality television show concept starring the entire family that she is very excited about (she refers to herself as the *"mama-ger"* for Shakira, meaning that she is both her mother and her business manager). They have not mentioned any limited liability concerns but they have mentioned that *they "deserve at least 50% of the ownership because they brought Shakira into the world";*
2. All of Shakira's six children have appeared on her business Internet postings (as background singers, dancers, fitness models and as assistants). Her oldest child, aged 13, is nicknamed "Syrup Boo-Boo" and actually receives more "likes" and views online (when she is in a video) than Shakira does. Her father, Shakira's ex-husband, Fred Adeyemi, has already stated that "Syrup Boo-Boo" is a star and that he is her "business manager." Fred has previously contributed \$50 to the business costs and he has told Shakira that he is glad to be *"a partner"* with her in *"getting paid"* off of the success of their daughter. He also wants to shield his personal assets (net worth of approximately \$200) from liability;
3. Shakira will invest only \$10 cash at this time for her business as she has no income other than the money she receives from her parents and for child support (from Fred). She demands limited liability. Specifically she said, *"You better fix the business papers so that I am not paying for any business bills or lawsuits. The Kardashians are sued all the time and I know it will happen to me too!"* Shakira has intellectual property (songs, dances, fitness poses, slogans, logos, etc.) that she intends to transfer to the company as an asset (the valuation of this is to be determined);

4. Shakira will be working full time for the business, but this is a “side business” for her parents and her ex-husband Fred (as they will not be leaving their full time jobs at this time); and
5. Shakira’s oldest daughter, “Syrup Boo-Boo,” is a U.S. citizen and Shakira and her parents are all permanent residents (green card holders), but you do not yet know the citizenship status of Shakira’s ex-husband, Fred Adeyemi.

**QUESTIONS TO ANSWER** (each one is labeled on your Answer Sheet as 1A, 1B, 1C, 1D)

Prepare your response for Shakira. Support each item with principles and theories from the readings:

- A) What are the primary considerations for the entrepreneur in choice of a legal form? (100 word limit)
- B) What are the advantages and disadvantages of each form in terms of the specific constraints and objectives?
- C) Which one form would you choose and why? Which form would be your “second-best” recommendation and why?
- D) Why is it valuable to have a *legally astute* management team making the decision about the choice of business entity, rather than leaving these decisions to the lawyers?

(Maximum Limit: 1500 words total for all parts).

**END OF QUESTION I**

**Question II:**

**DUTIES OF CORPORATE OFFICERS AND DIRECTORS –**

**1,000 maximum word limit total for all parts (worth 25 points)**

**CASE:**

While you are still working on the business formation issues above in Question I, Shakira contacts you again.

Shakira says, “It wasn’t so long ago that I earned my MBA. But, I wasn’t really paying attention in my classes. I did my best but I was so busy with my family that I could barely stay awake when I was working on the class assignments. It was also kind of boring. I just wanted the degree as a piece of paper so that I would be better positioned for future jobs if I ever needed to work full time. I don’t remember what they taught us about all that “business jargon stuff” like job titles.

I think that I want to be CEO of “SquareFit!” because Oprah is CEO of her business. But, I have been thinking. What does that mean? Let’s say that someone sues my company, “SquareFit!” for one million dollars. Am I going to have to pay them that money because I am CEO? What does it mean to be “Executive Officer” of a business? As the “Chief Executive Officer” it sounds like I am

*the number one person in charge of the business. Is that right? What are the responsibilities of the other officers? What am I really agreeing to by being an "officer" of the business?*

*I really just want a cool title and don't want to be bothered with any hassle about the business or money issues like bills and lawsuits. "*

**QUESTIONS TO ANSWER** (labeled on your Answer Sheet as answer 2A)

**YOUR ROLE:**

Shakira wants to know:

- A) **What are the duties and obligations of a corporate officer?** (100 word limit)

#####

After your response, Shakira asks if there is anything "higher or more powerful" than the CEO job title (she specifically says, "***Who can fire the CEO? That is what I want to be instead, I think.***") You tell her that if she selects some forms of business organization, there could be a Board of Directors that would have the power to fire (or hire) a CEO. The Chairperson of the Board of Directors would be the leader of this entity.

**QUESTIONS TO ANSWER** (labeled on your Answer Sheet as answer 2B)

**YOUR ROLE:**

Shakira asks you:

- B) **For the director of a company, what are their obligations? Who are they loyal to? Are they an agent of any entity?**

#####

After you respond, Shakira says to you she'll think about these issues but that she has a personal issue that she wants your advice about. Her parents had upgraded their basement about 24 months ago in preparation for her and her children moving back in with them. One renovation that they did was to install wood appearance flooring to all of the basement areas where Shakira and her children sleep and live. Her parents wanted to install real hardwood flooring but it was too expensive so they installed much cheaper flooring that looked like wood but was actually laminate (plastic).

Shockingly, Shakira saw on her Twitter feed that the company her parents used, Lumber Liquidators, was accused on a television report on the show 60 Minutes of selling "*Chinese-made laminate flooring [that] is tainted with formaldehyde.*" (White, 2015)

In fact, on March 23<sup>rd</sup>, 2015, a Senator in the US federal government stated:

*"The federal government must step in to investigate whether this product is dangerous and if a recall or other disciplinary action must be taken," he said. Schumer asked the Consumer Product Safety*

*Commission to initiate an investigation about formaldehyde in the company's laminate flooring, following a 60 Minutes report that said high levels of the chemical were found in Chinese-made laminates. The senator wants the CPSC, along with the CDC and EPA, to test and determine if the levels of formaldehyde in the products are dangerous.” (White, 2015)*

Shakira is furious and frightened. She is also very angry that Lumber Liquidators has sent out a test kit to customers (including her parents) so that they are able to test the formaldehyde levels in the basement. (Dipietro, 2015) She states that testing how much formaldehyde is in their home will not make her any safer and that she does not “trust” the kit.

She yells out, *“Do these greedy business executives have no heart? How can a Lumber Liquidators’ executive know about a defective product with toxic levels of cancer causing chemicals- that is illegal to sell in the US-and keep quiet about it instead of alerting the public and saving lives? My children and I are in danger every second in our home!”*

She asks you if you can pull out your business books (from DMBA 610) and help her again.

**QUESTIONS TO ANSWER** (labeled on your Answer Sheet as

answer 2C)

**YOUR ROLE:**

Shakira wants to know:

- C) As you will be a future corporate officer (with your UMUC MBA degree), when would you issue a recall of a product? When you had conclusive evidence it would injure or kill people? Or, when you had conclusive evidence that it had already injured or killed people? Support your response with an explanation of the decision making process that you would personally apply.

#####

After your response, Shakira tells you that she has one more personal issue to discuss with you. She really trusts your judgment!

She shares that her oldest son (10 years old) wants to play the sport of American tackle football. She is scared to let him play as she read that boys aged 10-19 who play football suffer traumatic brain injuries. (Dwyre, 2014) An article she read stated that, *“helmets and equipment did little to temper the risk of concussion and that there was little scientific evidence to support claims from manufacturers that their gear improves safety. In addition, after suffering one concussion, a player is more likely to experience another.”* (Kounang, 2013)

### Playing rough

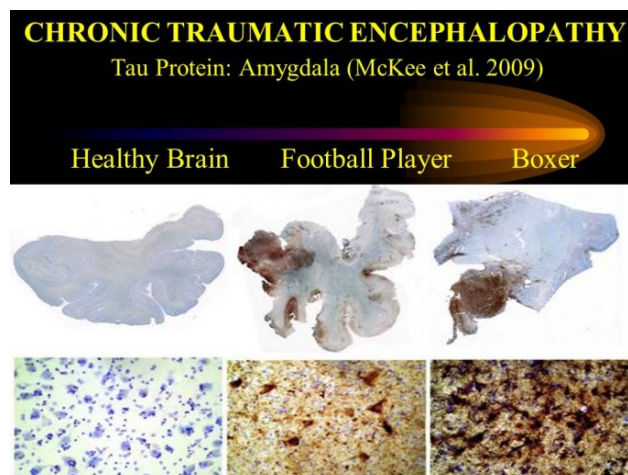
Five most common sports or activities resulting in emergency room visits for non-fatal traumatic brain injuries. Reported from a probability sample of hospitals in the U.S., 2001-2009.

Percent of total 10- to 14-year-old boys	Percent of total 10- to 14-year-old girls
Football 20.7%	Bicycling 12.2%
Bicycling 19.1%	Basketball 11.1%
Basketball 9.2%	Soccer 11%
Baseball 7%	Horseback riding 7.7%
Skateboarding 6%	Playground 6.2%

Source: Centers for Disease Control and Prevention, Morbidity and Mortality Weekly Report, Oct. 7, 2011, Volume 60, No. 39.

(Thrun, 2013)

She has read about professional football players having brain disease (the degenerative brain condition chronic traumatic encephalopathy or CTE). She saw a documentary, *League of Denial*, and also read that, "76 of 79 Deceased NFL Players Found to Have Brain Disease." (Breslow, 2014) She was scared when she learned, "It is estimated that 30 percent of all football players will suffer from CTE, Alzheimer's or Dementia due to the head trauma associated with football." (Brewer, 2015)



("NFL: Frontline Report On Concussions Raises Serious Questions About NFL's Credibility," 2013)

**Desperate, she looked online to see what other parents did when their children wanted to play football.**

One article entitled, "Why I Let My 9-Year-Old Son Play Tackle Football," stated:

*"Instead of meeting up in someone's front yard to play-fight or wrestle, today's boys are more likely to go on scheduled play dates, where multiple adults keep careful watch, and where no physical contact is ever, ever allowed. Similar rules are in place at school for obvious reasons. [...] Football, in many ways, is good preparation for life – a life that is nowhere near as soft and kind as those springy, pinch-proof, eternally smiling park ponies.*

*The sport has taught him not to quit when times get hard. He has learned to stick with his team and to*



*support them, even when they make inevitable mistakes.” (Henderson, 2014)*

A physician parent in Denver also wrote an article about letting his son play football because, *“He is a better person because he plays football.”* (Thrun, 2013)

Yet, other parents have decided that they will not let their sons play football because the *“risks outweigh the rewards.”* (Hoffman, 2015) Some parents who are themselves professional athletes will not let their children play football. LeBron James, professional basketball player, told ESPN:

*“[H]e does not let his sons, LeBron Jr. and Bryce Maximus, play football.*

*When asked whether the reason for his decision was the health dangers related to football, James replied, “Yes.” “Only basketball, baseball and soccer are allowed in my house, [...]*

*“It’s a safety thing. As a parent you protect your kids as much as possible. I don’t think I’m the only one that’s not allowing his kids to play football, it’s just that I’m LeBron James and it gets put in the headlines for no reason.” [...]James, who in the past has called football his first love, remains a huge NFL and college football fan.*

*He said on Thursday that before he concentrated on basketball, football provided a possible avenue for him to escape the inner city.*

*“I needed a way out,” he said. “My kids don’t need a way out. They’re all right. I needed a way out when I was a kid. I tried to do whatever it took to get out. That’s my excuse.” (Broussard, 2014)*

Shakira states that she learned about the \$765 million USD settlement in a multidistrict litigation regarding concussions with the American National Football League and that it is a “clear sign” that the sport is unsafe. She found out that, *“The NFL—which is tax-exempt—reported about \$9.5 billion in revenue [in 2012 and] Commissioner Roger Goodell has said he wants league revenues to grow to \$25 billion within the next 15 years.”* The \$765 million settlement is less than 0.5% of the NFL’s annual revenue. (Diamond, 2013)

As of March 10<sup>th</sup>, 2015, a settlement was agreed to:

*“The National Football League (NFL) and NFL Properties LLC, have agreed to settle lawsuits filed by former players who sustained concussive injuries while playing in the league. Retired players from the National Football League, American Football League, and NFL Europe claim the organization failed to take reasonable action to advise them of the chronic risks of brain injury and ignored player safety.*

*These lawsuits allege that players have suffered injuries including chronic traumatic encephalopathy (CTE), which is a degenerative disease of the brain that is often associated with repetitive trauma to the brain. The CTE diagnosis is typically confirmed after death. Other serious injuries include neuro cognitive impairment— which effects memory, attention, or learning— Alzheimers Disease, Parkinsons Disease, and Amyotrophic Lateral Schlerosis (ALS).*

*Retired NFL players, legal representatives of incapacitated or deceased players, and families of deceased players may be eligible to receive benefits from this settlement. Registration will be required and can be done on the website [www.nflconcussionsettlement.com](http://www.nflconcussionsettlement.com).”*

(Chamberlain, 2015)

Shakira states that even professional players like Chris Borland (formerly a San Francisco 49ers linebacker) are refusing to continue to play citing the safety risks.

*"San Francisco 49ers' linebacker Chris Borland shocked the football community by announcing his retirement from the National Football League. Borland, only 24, cited the risk of repeated head trauma as his main reason for leaving the game after only one year in the league.*

*Borland [told ESPN](#) earlier Tuesday he would go back to school and possibly start a sports management career." (Chemi & Golden, 2015)*

*"I just don't want to get in a situation where I'm negotiating my health for money, and who knows how many hits is too many," the 24-year-old told ESPN's "Outside the Lines."*

*The evidence is strong. Scientists who have examined the brains of 79 former NFL players after death found telltale signs of a degenerative brain disease, chronic traumatic encephalopathy, in 76 of them, or 96%.*

*And nearly 80% of those who played just at the college and high school level tested positive for CTE, though the results are skewed by the fact that specimens are more likely to come to the brain bank in Bedford, Mass., from players who showed signs of the disease in life — depression, mood disorders, confusion and dementia, to name a few." (Stingl, 2015)*

#### **QUESTIONS TO ANSWER** (labeled on your Answer Sheet as answer 2D, 2E, 2F)

##### **YOUR ROLE:**

Shakira angrily cries to you, "How can you support these selfish business people as an MBA student? All they care about is money. They don't care about human lives at all! Do they care more about their company than they do the entire community of people at risk of concussive injury? It wasn't like this when I was in school for my MBA! People used to have morals and care about each other!

Wait a minute – Do you think that selling my fitness and music video content may potentially be a problem? Obviously, I am just a business person like the NFL executives. It is legal for people to access my online fitness and music content but are there any other issues I should be aware of (e.g., just because I can sell it, should I)? If someone watches one of my fitness and music videos online and injures themselves while practicing my moves, would I be liable?

I just need "**SquareFit!**" to make more money and achieve my personal financial goals. After I get my private plane I am going to start a charitable foundation and help young people be more like me and succeed in life (it is so important to give back).

If I don't take the opportunity to make money showing fitness and singing online, someone else will. Isn't the saying, "He who has the gold makes the rules?" I deserve to be rich. Just like the adults in the NFL make their own choice to accept the risk of playing in the league, don't my online viewers accept the risk of following along with my fitness and singing routine? I am not making anyone do what I am doing. Adults are responsible for their own decisions. Someone will make money off of online fitness and music video content. Why not me? Why should I feel personally guilty for what happens to an adult if they choose to do physically risky moves and are hurt?"

Answer the following:

- D) You are listening to the passion in Shakira's voice and you start to wonder, is this concussive injury example a "right v. right" type of dilemma as described by Badaracco (2002)? Why or why not? Explain.
- E) You determine that you are proud to be earning your MBA (and it is helping you assist Shakira)! You want to be able to persuade her that businesses (and their leaders) are a positive socially responsible part of modern society. So, **you assume the role of the head of the NFL (the National Football League Commissioner).** Analyze the concussive injury issues using Badaracco's "right v. right" framework from his *Defining Moments* video (2002). Be sure to support your views with ethical theory and principles, and include all steps and tests in your response.
- F) **Is it ethical:**
- For parents to decide to, or not to, have their minor children (under age 18) take part in American tackle football?
  - Is the decision by the NFL to pay \$765 million USD to settle the concussive injury litigation ethical?
  - How about the decision by the NFL to continue utilization of a business model (e.g., more football games earning over \$9.5 billion dollars in tax free revenue per year) that will most likely create additional concussive injury victims; is it ethical?
  - Is it ethical for a professional player to sign a contract to play the sport for four years and then leave after one only one year (e.g., Chris Borland)?
  - Is it ethical for Shakira to place video content of physical fitness and singing video content online in her "**SquareFit!**" business if a child or adult could access it and be injured following along?

Analyze at least one of these above decisions using Bagley's Ethical Leader's Decision Tree (Bagley & Savage, 2010, p. 27)

(Maximum Limit: 1,000 words total for all parts)

**END OF QUESTION II**

**Question III:**

**INTERNATIONAL BUSINESS RELATIONSHIPS –**

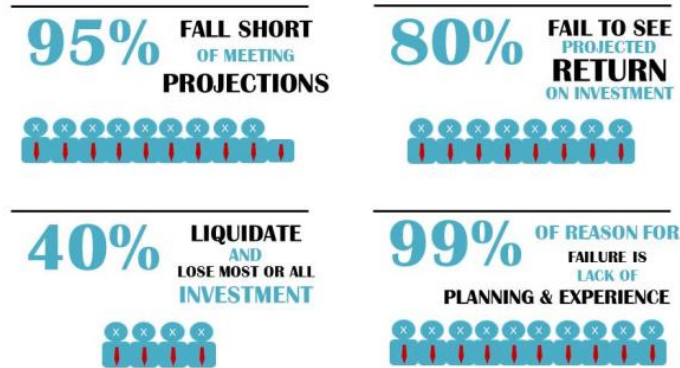
**750 maximum word limit total for all parts (worth 15 points)**

**CASE:**

A few days later you hear from Shakira again. She is very excited as she has potentially big news about another business opportunity!

Shakira was on an online forum (Reddit) and social media platform (Twitter) and realized that instead of the start-up risk of her **“SquareFit!”** online business that it would be *“cheaper and easier”* to instead open a franchise of an existing business, CrossFit (a fitness business).

### FAILURE RATES OF STARTUPS



Data from various sources including Harvard Business School, University of Tennessee Research, StatistaBrain.com, and others.

("Top Reasons Why Start Ups Fail - Club Z! Franchising," 2014)

She said it is just amazing how much *“good fortune”* is coming her way! She shared with you this “amazing statistic” that franchise search consultants shared with her:



Franchises have a 90% + success rate. Most people can't even predict that they can keep their jobs with a 90% certainty.

(Franchise Quest, 2012)

Shakira said, *“Wow! 90% of franchises succeed! Thank goodness I learned about this before starting a new business*

with ***“SquareFit!”*** *It was way too risky whereas a franchise is almost guaranteed!*” She shared with you that she found out that by owning a CrossFit business she will earn “\$35,000 per month in revenue or \$420,000 per year.” (Bruin, 2012)

She has decided that she will open a CrossFit franchise in Budva, Montenegro in three weeks. Shakira said that she had never heard of this country before but she looked on Wikipedia and it does exist. She said that she found an “expert guru” on Twitter who had “proven success secrets” to make her rich (he is the one who told her about CrossFit and Montenegro). The expert guru said that Montenegro only became a modern fully independent nation in 2006. He told her that a “*newer nation*” would have less CrossFit franchise competition. She told you that she realized that if she opened a franchise in a location without other competitors that she would control that entire geographic region and, in her words, “*make bank.*”

Shakira is giddy with excitement!

Again, Shakira repeated that she wished she had paid more attention in her MBA classes but that it doesn’t matter. She has you to help “*refresh her memory!*”

Her plan is to start a new business that she will own 100% of (nothing to her parents or her ex-husband). She says that this is “*her time to shine*” and that “*it takes money to make money*” so she is eager to pay the \$3,000 franchise fee to CrossFit as soon as possible! She said her new Twitter expert will be “*helping her with everything!*”

**QUESTIONS TO ANSWER** (labeled on your Answer Sheet as answer 3A, 3B, 3C, 3D, 3E, 3F, 3G)

**YOUR ROLE:**

Answer the following:

- A) Shakira wants your business advice regarding how she should protect herself from risks in the event of a dispute in regards to the Montenegrin location of her CrossFit franchise. What do you advise her? (100 word limit)
- B) Shakira admits that she has never been to any CrossFit location and she has never been to Montenegro. She says she has been “visualizing success” as her Twitter expert guru told her to! Yet, Shakira admits that she is uneasy about the political situation in Montenegro (based on simply her “feelings” and no facts). She is concerned that her franchise business assets could be the subject of expropriation or losses due to any future civil unrest. What advice would you give her to address this possibility (even if it is remote and improbable)? (100 word limit)
- C) What specific types of provisions do you recommend should be written into the CrossFit Montenegro location franchise contracts to limit any legal disputes that might arise between the US based franchisee company and the local vendors, banks and clients in Montenegro?
- D) How would these provisions favor the interests of Shakira’s company?
- E) If Shakira follows your advice and includes the provisions you recommend in part (A) in the contracts, does that mean the company will never have to go to court in another country or become familiar with any foreign laws in connection with the business deals in Montenegro?
- F) What could happen if the provisions you specified in part (A) were not part of the contract?
- G) Shakira believes that she can strike a great deal with a company in Uruguay that her uncle owns which

supplies retail stores and fitness gyms with fixtures and furnishings (lights, chairs, tables, counters, weights, etc.). Yet, she says her uncle will insist on her company paying for all of the items upfront prior to delivery of anything to the store location (it would all be shipped to Montenegro from Uruguay after it was paid for in full by Shakira).

Shakira says that there is “no problem” as her Twitter expert guru told her he found someone on Craigslist who says they will pick up the delivery and install everything for her (he said the only requirement is that they have to be paid in Bitcoin currency).

[NOTE: “Bitcoin is a new currency that was created in 2009 by an unknown person using the alias Satoshi Nakamoto. Transactions are made with no middle men – meaning, no banks! There are no transaction fees and no need to give your real name. [...]In addition, international payments are easy and cheap because bitcoins are not tied to any country or subject to regulation.”] (“What is Bitcoin? - CNNMoney,” n.d.)

What would you advise Shakira to do to protect her interests (to avoid the risk of paying upfront and then the fixtures and furniture never being delivered to Montenegro)? What about ensuring that the delivered items are properly installed in the CrossFit location in Montenegro?

(150 word limit)

(Limit: 750 words maximum total for all parts)

**END OF QUESTION III**

#### Question IV:

##### Critical Thinking Review:-

500 maximum word limit total for all parts (worth 15 points)

##### CASE:

Ten days after the last discussion, Shakira sent you the following email:

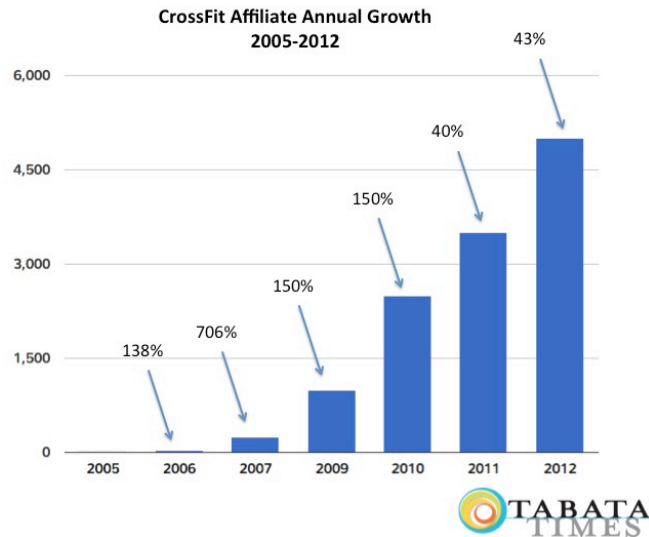
“Hey Best Friend,

Crazy times! HELP!! I knew that opening the CrossFit franchise would be cheaper, easier and faster than building up a totally new business for my “SquareFit!” fitness and music videos. Yet, now, after ten days of working around the clock, everything is a mess. I have worked on this business idea forever and now I found this ESPN article that states:

*“CrossFit affiliates in every nook and cranny of the planet. Zambia. Namibia. Iceland. Cyprus. Lebanon. Israel. Malta. Morocco. South Korea. Thailand. Tasmania. United Arab Emirates. Bahrain. New Zealand. Australia. Virtually every country in South and Central America. Every country in Europe. They're even in places you can't possibly have heard of, like Rarotonga (South Pacific) and Khabarovsk Krai (remote eastern Russia). And, of course, they form a virtual blanket over the entire*

United States.

*[...]Last October, CrossFit announced it had reached 8,000 affiliates. Three-and-a-half months later, the company hit 9,000. And four-and-a-half months after that, just a few weeks ago, came the 10,000th affiliate for the \$40 million, privately held company.” (Fainaru-Wada, 2014)*



("How Fast is CrossFit Growing? The Chart - Tabata Times," n.d.)

What?!

I was given the secret idea by my Twitter expert guru to open the CrossFit franchise in a remote location and now I discover that 10,000 franchise affiliates are around in places that I have never even heard of?!

I was so angry about all of this that I sent an email to CrossFit to tell them I want my \$3,000 bitcoin back!

Here's the deal- I was lucky and found a guy on Twitter (my expert guru with the proven secrets to success that I told you about earlier). He had a secret connection to the fastest and easiest way to gain a CrossFit franchise in Montenegro. I sent him payment of \$3,000 Bitcoin currency (I used the home equity line of credit that my parents have for payment). Now the bank is saying that 1 bitcoin equals 250.66 US dollars and that my parents owe \$751,966 USD!

This is ridiculous!

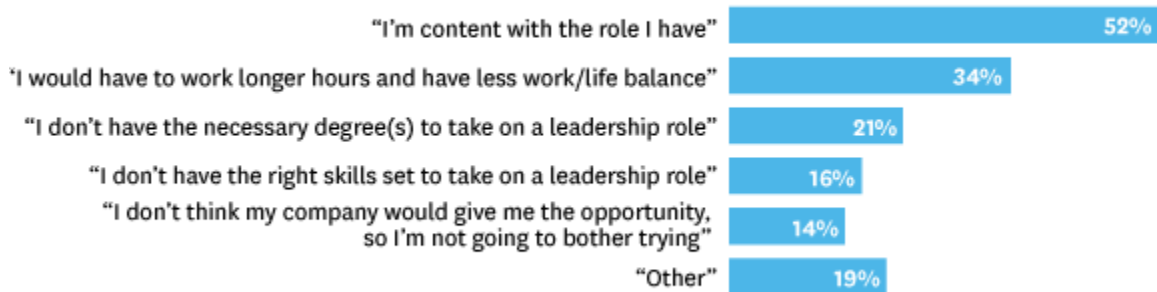
Also, the CrossFit representative is saying that they are not responsible for any of this or for refunding the \$3000 bitcoin / \$751,966 USD! It is entirely their fault!!! Clearly, their poor management of my Twitter expert guru is the problem. He did his best (and he was so nice to me). They must be trying to scam him and me! I do remember from my MBA program that managers are responsible for their employees!

The lack of competent managers is because most workers don't want to be the boss (they don't have the leadership talent and skills that I do)! In fact, according to Harvard Business Review, only 34% of American workers said they aspire to leadership positions in their companies and just 7% strive for C-level

management roles. The main reasons are summarized in this chart:

#### WHY U.S. WORKERS AREN'T ASPIRING TO LEADERSHIP POSITIONS

Two-thirds of surveyed workers don't want to climb the corporate ladder for these reasons:



NOTE: ANSWERS WERE FROM A PRESELECTED LIST, AND RESPONDENTS COULD CHOOSE MULTIPLE ANSWERS.

SOURCE CAREERBUILDER

HBR.ORG

(Goddard, 2014)

I also found this online article in Inc. that exposes the dishonest and deceptive business practices of CrossFit!

#### ***"CrossFit Doesn't Want Your Money***

*Why Greg Glassman chooses to make less money than he could--but is still on track to produce \$100 million in revenue this year.*

*The company gets a trickle of royalties from Reebok, which started selling CrossFit-branded gear in 2010, and some more from tickets and registration fees to its annual CrossFit Games tournament. But the two primary sources of revenue, are education and licensing fees. CrossFit runs at least 15 seminars a weekend, hosted at existing CrossFit boxes, where the company's red-shirted training staff (most of them box owners themselves) explain the CrossFit philosophy, demonstrate the nine fundamental movements (variations of squats and power lifts), and show how to design a WOD and teach CrossFit to beginners. Attendees must also complete Fran, one of CrossFit's most grueling workout routines. Tuition is \$1,000, and passing the standardized test on the last day allows you to become a Level 1 Certified Trainer, which lets you open a box and teach CrossFit professionally. Then there is licensing: Once a trainer opens a box, he or she must pay CrossFit an annual fee, now \$3,000, to advertise the box as a CrossFit gym and to teach the methodology.*

*Glassman explicitly limits his company's scope to these two businesses, calling it his "least rents" approach (the opposite of what economists call "rent-seeking" behavior)." (Helm, n.d.)*

*Least rents approach? What does that even mean? Scam!!*

The rude and insulting email that I received back from them is below. I thought my nephew was the biggest idiot I knew, but I was wrong. This is the worst company in the history of the galaxy. They are delusional and deceptive. They are lying about not knowing my Twitter expert guru. How dare they? If they did not know him and give him the secret method to open the franchise faster than anywhere else, how would he be able to post that on the internet? Right? If he was not telling the truth Twitter would not let him put that information online. He also had several positive ratings and reviews online. I did my homework on him



before I sent him the money!

He warned me that people who lack the capacity to truly “*be rich*” would be “*dream killers*” and try to talk me out of working with him (out of jealousy and their own fear of being wealthy). He was so right because CrossFit is acting like they never heard of him! Really? Unbelievable! Again, he warned me not to contact CrossFit directly as they might lie and claim not to know him (in order to not make other franchisees jealous of the awesome deal that I got from my expert guru).

Franchise companies like this are destroying America with their ridiculous and unprofessional business practices! First, business lie about their secret franchise agreements and then they lie about everything else! According to my uncle, this is how World War I started!

You study business issues in your DMBA program so please help me one more time and look at this forwarded note below (from CrossFit). I want you to help me prepare to sue them! I also will be obtaining a restraining order against them and going to the media with this (in addition to the governor of Missouri, Twitter and my parents).

----- Forwarded message -----

From: **Affiliates**<affiliatesRUS@crossfit#1.com >

Date: Thur, Mar 26, 2015 at 1:01 PM

Subject: Your inquiry

To: [Shakira.Is.Awesome@aol.com](mailto:Shakira.Is.Awesome@aol.com)

Ms. Shakira Nguyen,

Our firm is in receipt of your inquiry about “the franchise in Montenegro” (as per your communication).

First, there are no CrossFit franchises. There are only CrossFit affiliates.

Secondly, there is only one method for becoming a CrossFit affiliate and it is outlined on our site at: <http://www.crossfit.com/how-to-affiliate>

Note that our website FAQ section (at <http://www.crossfit.com/cf-info/faq.html#Affiliates0>) provides the following information:

**“10.1. What is included in being a CrossFit Affiliate?”**

- Legal use of the CrossFit name, logo, and promotional materials.
- Access to a private discussion board for affiliates.
- Promotion from the main site and Community page.
- Support from HQ and the larger community through affiliate conference calls, seminars, and in-house business opportunities.

**10.2. What is the cost of affiliation?**

As of 1 January 2011, affiliation costs \$3000 annually.

**10.12. Do I need to own a gym?**

No. You will, however, need one physical location. We do not license mobile affiliates. There is no fixed way of opening a CrossFit affiliate. We see the whole spectrum from

people working out of their garages, basements, backyards, and other people's gyms or facilities to people renting and renovating spaces or even building something from scratch. Mostly, it depends on the scope of your resources and ambitions. Many have been very successful starting small, establishing a clientele and cash flow, and then growing into larger spaces.

**10.15. Can there be more than one affiliate in one town, city, state, neighborhood?**

Yes. We do not limit the number of affiliates in any given area. Almost any town or city has enough people to support numerous prosperous CrossFit gyms. We think of our business as the training business, which is relationship based. Lower volume, higher quality, higher margin. It is our belief that the more affiliates there are in one area, the more public awareness there will be of CrossFit and the better it is for everyone. In the best examples of this we have seen affiliates work together, pooling resources, ideas, and outreach capabilities, to increase traffic (and fun) for all involved.

**10.19. How should I select a name for my gym?**

Basic guidelines are as follows: no continents, countries, provinces, regions, states, counties, large cities, religious references, movie names, celebrity names, personal names, trademarked names, government agencies, or names that are already taken. As long as no one else has it or has applied for it, and it's a name we will license, you'll be good to go.

**10.24. If I want to train people not for profit do I still have to affiliate?**

Yes. By affiliating you are licensing the CrossFit name and making it legal to use that name; whether you make money from your endeavors or not you still have to affiliate.

**10.30. Is this a franchise?**

No. CrossFitters are united around constantly varied, functional movement executed at high intensity. Our affiliates are a confederation of legitimate fitness practitioners pooling reliable resources."

Thus, we are clarifying that we have no relationship with "the guy on Twitter" who you sent \$3,000 in bitcoin currency (approximately \$751,966.26 USD as per the most recent currency convertor at 1 Bitcoin = 250.66 US Dollars).

We encourage you to contact your local law enforcement department for assistance.

We thank you for your interest in CrossFit!

Sincerely,

CrossFit Affiliate Liaison

#####

**QUESTIONS TO ANSWER** (labeled on your Answer Sheet as answer 4A, 4B, 4C, 4D, 4E)

**YOUR ROLE:**

Read the entire business related email above (from Shakira to you, including the forwarded content) and provide a

brief analysis of it using these critical thinking questions from Browne & Keeley (2012).

[NOTE: DO NOT USE THE EMAIL FOR ANYTHING OTHER THAN CRITICAL THINKING ANALYSIS. DO NOT USE THE EMAIL CONTENT IN RELATIONSHIP TO ANY OTHER QUESTIONS ON THE EXAM. YOU DO NOT KNOW WHAT WILL HAPPEN IN THE FUTURE AND SHOULD NOT SPECULATE.]

- A) What is the issue?
- B) What type of issue is this?
- C) What is the author's conclusion?
- D) What are the author's reasons for the conclusion?
- E) Identify at least two reasoning fallacies in the memo by type and explain why they are reasoning fallacies in this context.

(Limit: 500 words maximum total for all parts)

**END of Question IV**

**END OF EXAM**

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