

Role-Play Exercise: Xylon Aviation

Directions for Instructor

1. Print copies of the role-play exercise pages (one copy of “Background” for each student in the class; one set of the roles for every five students in the class).
2. Develop teams of five students (there are five unique roles in Xylon Aviation).
3. Have each student read the “Background” as an introduction to the exercise.
4. Assign each student a role to play and provide the specific role description.
5. Indicate the desired outcome of the process (e.g., press conference, written and/or oral presentation, short-term plan, long-term plan, employee meeting, etc.) and create feedback mechanisms appropriate for the desired outcome.
6. Teams will need at least forty-five minutes to review, discuss, and prepare.
7. Link the key issues to course training and learning objectives.

Key Issues

Cost-cutting | Manipulation of financials | Employee turnover

Background

Xylon Aviation, Inc. is a publicly held corporation that has been in business since 1970. Their main product is helicopters and helicopter components. Current annual revenues are \$1.4 billion. Approximately 75 percent of their business comes from governments, while the remainder is from commercial customers. While Xylon has been profitable for many years, economic constraints and a decline in demand have kept revenue growth flat for the past five years. Last year the company lost revenue.

With the earnings report coming up, it is estimated that Xylon will come up \$15 million short of projected earnings. Part of this revenue shortfall has to do with the delayed delivery of a massive order to Turkey. A malfunction had been discovered in the components, requiring Xylon to fix the entire order and causing a major delay.

Management knows that if Xylon misses earnings for the second year in a row, its stock will take a free fall. Investors have already expressed their discontent. Also, many of Xylon's most loyal customers through the years have dropped Xylon in exchange for its main competitor. In addition to the drop in value the shortfall would cause, managers would not receive their bonuses, and stock options that are expiring within the year will become worthless if the stock drops too much. The board of directors has also made it clear that if things do not pick up, many higher-level employees will lose their jobs.

The situation will also have a negative impact on lower-level employees. More than 20 percent of the company's stock is owned by employees through the company's 401K plan. Poor financial performance would cause employees to lose a significant investment and likely decrease employee morale.

The CEO has met with top management over the past week to discuss solutions. Most agree that the only way to make up for the revenue shortfall at this stage is to make cuts in other areas. Three solutions have seemed to gain the most favor: get rid of the employee donation matching program that Xylon has had for the past decade, reach into the pension fund, or take money from reserves and report it as profit. The CEO has called a final meeting this afternoon. In the meantime, managers are tasked with discussing possible solutions that can be implemented in the short-term, mid-term, and long-term.

Yasmin, Chief Executive Officer

You are trying to prepare yourself for this meeting with the executive team. For the past week, you have been talking with your team about possible solutions to the budget shortfall. Some of the suggestions made you uncomfortable as they could be perceived as deceptive, but you are certain that the managers were kidding when they made the suggestions.

You know that solving the current problem is only half the battle. The economy is not looking any brighter and competition is fierce. Even if you avert this crisis, your team will have to come up with some more ideas on how to make the firm sustainable once again.

You are very comfortable with your team and have known most of the executives for many years. In fact, some have been here longer than you have. They had always pulled together in the past. You are proud to point out that the company has never engaged in unethical or illegal behavior under your watch. However, you have become concerned about some of the pressures being placed on executives, especially since their bonuses depend on meeting earnings expectations. You would have to forgo your own \$2 million bonus if the shortfall is allowed to occur. Your jobs may well be at stake. Two members of the board have never seemed to like you and would be glad to replace you with someone else.

Out of all of the solutions proposed by the executive team, you feel like getting rid of the employee-matching program for charities is the best bet. It makes you uncomfortable, especially since the employees had already given their contributions to the local United Way with the understanding their contributions would be matched. But you know you could come up with at least \$7 million if the company did not have to match employee contributions. That would cover nearly half of the shortfall. You know this is a significant amount of money since Xylon is one of the biggest contributors to the United Way in that region, but you know that if you do not find money to make up for this shortfall, everyone at the company will suffer. You owe more loyalty to employees and making sure they are cared for. Still, you wish there was another way. You hope that somebody else in the meeting might have a better, more ethical solution that would not be damaging to employee morale.

Myron, Chief Financial Officer

You are the chief financial officer of Xylon Aviation. These past few years have been very hard on you and have taken their toll on your health. Personally, you stand to lose \$500,000 in bonuses and possibly your job if Xylon cannot come up with some viable solutions quickly. You also know that failure to meet expectations and the resultant drop in stock could make the stock options that are set to expire this year virtually worthless.

You have been with Xylon for 12 years. The first few years were great. You started as an internal auditor and quickly worked your way up. Although industry best practices stress ethics and honesty, you quickly learned from the previous CFO that there are ways to make results look better without it necessarily being illegal. In fact, finance executives do this all the time.

This is the second year of struggling revenues, and you have a lot of friends at the firm, both among upper management and among employees. The impact of this shortfall would have a devastating impact on everybody. Last year you fired one of your executives for massaging the books, making it appear as if the revenue were only \$3 million short of expectations rather than \$7 million. You neglected to mention this to the CEO. After all, neither of you had knowledge about what the executive had done until after the audit was signed off on, so you do not see this as a violation of the Sarbanes-Oxley Act because the revenues were accurate to the best of your knowledge. Still, you didn't want to burden the CEO with this information—and issue a restatement that would put the firm in greater jeopardy.

You have an executive meeting scheduled for this afternoon. As the chief financial officer, everyone will look toward you to come up with a solution. You know that many executives have bent the rules in the past when under pressure. You would prefer not to, but you don't see any other alternative. You plan to present the following options:

1. Because Xylon is a self-insured corporation, it could borrow \$15 million from the insurance reserves and only slightly over-expose its corporate liability.
2. The pension fund is over-funded, and you could gather at least \$10 million from the pension fund. However, you know this will anger retirees and those who about to retire.
3. The firm's most popular product, the TX Helicopter, has been selling well since it was launched a couple of months ago. You know the firm has an emergency reserve fund for this program to cover unforeseen development and technical costs. Xylon could take the \$15 million for the reserve account and report it as profit.

Ling, Human Resources Manager

You have been with Xylon Aviation for ten years. For the most part, you have enjoyed your job. However, the last few years have been almost a constant headache. The company has experienced a freefall in demand, forcing the company to try and cut back on costs. Unfortunately, you feel that many of the cuts have been in HR. While the company has tried not to lay off too many workers, they have established a policy of not filling needed positions when employees depart for other jobs. Instead, the company has made the remaining employees pick up the slack.

Although this job has always been demanding, the average employee is working approximately 60 hours a week. Since employees at Xylon are paid on salary, they get no additional compensation for these extra hours worked. You don't think it would be an issue if the company improved employee benefits or offered them other incentives for working harder, but if anything, the company has cut back on benefits. The benefits packages of new hires to the company are significantly less robust than when you started.

The stress has gotten to your employees, and absenteeism has risen—which in turn has led employees to also take over the jobs of those out sick. You know of one employee who basically takes on the responsibilities of three different jobs! Employee morale is sinking to an incredible low. You have brought this fact up in nearly every meeting for the past year, but you always hear the same answer. The company does not have the money to hire more employees.

You also hold a grudge against CFO Myron. You feel like he does not appreciate your efforts or the well-being of employees. All he seems to care about is costs. Yet you firmly believe that an organization is only as good as its employees. Burned-out employees lead to lower quality products, which you know will cause the company to sink even faster. And although you like Yasmin as a person, you feel she is an ineffective CEO.

You know about the options the CFO has proposed and have enough experience to realize that some of his propositions may be legally questionable. However, you would rather take actions that might be ethically or legally questionable than doing anything more to cut employee benefits. Any cuts to the pension plan will likely be the last straw for many Xylon employees. You also blame the company's financial condition on upper management and do not feel employees should suffer for management's mistakes. You view your first commitment as being to your employees. You have therefore decided to oppose any solution that will lower employee morale further.

Stephen, Executive Vice President of Technical Operations

You are responsible for engineering, manufacturing, and the supply chain. You pride yourself in your extensive technical knowledge of helicopters, making you the go-to person whenever anyone in the organization has a technical question. You have been with Xylon for 20 years and plan on retiring within the next five years.

The losses at the company have been very concerning, and the massive product delay of helicopters to Turkey has exacerbated the problems—and seems to highlight your role in the problems as well. As an expert in the field in charge of engineering, you are expected to ensure that products not only meet the deadline but that they are of the highest quality. You believe a combination of rushed deadlines and faulty parts are the reasons for the delays, but you feel that everyone has thrust the blame on you.

Still, as the executive VP, it is your responsibility to fix any problems. You implemented some solutions to the helicopter issue that should have fixed the problem and allowed Xylon to ship the products only a few weeks later. However, your solution only partially fixed the problem, making it necessary to install new components in nearly every helicopter in the order. As a result, your blood pressure has risen significantly, and at your last check-up, your doctor warned you to avoid large amounts of stress. You know this is not going to happen.

Yesterday, the CFO called an emergency meeting where you learned about the shortfall. You are very worried because you own significant stock options in the firm that could be rendered virtually worthless if the stock price falls too low. You have also heard rumors that the CEO is considering taking money from the employee pension fund to make up for the shortfall. You believe this is highly unethical and will do anything you can to oppose this idea. After all, the company owes you this pension due to your many years of back-breaking work.

Yasmin, the CEO, has asked all executives to come up with ideas to handle the budget shortfall. You have come up with the following options:

- Although most of the helicopters have been delivered to the company's Turkish customers, there are still helicopters left in the order that need repairs. You know if you could just make the numbers for this year, the company will bounce back. If you could convince your Turkish customers that the remaining helicopters have been fixed, you could have them shipped out early and claim the revenue as accounts receivable before the year ended. After all, the chances that the faulty components will fail are remote, and even if they do you don't think this will have much of an impact on the operation of the helicopters in flight.
- Your supplier of helicopter turbines has just delivered \$17.5 million worth of helicopter turbines. You could log the turbines as inventory and simply forget to have it logged in accounts payable, at least for the time being. You could say you discovered your mistake after the shortfall is taken care of.

Kaitlin, Legal Council

You are fairly new to the company compared to everyone else, but you have enjoyed your position so far. You love corporate law, and your hire by such a large company as Xylon has made you ecstatic. You just moved into a new corner office with great views of the city.

You just came back from a two-week vacation. You have been called to an executive staff meeting to discuss important issues. You missed the last meeting because of your vacation. You heard some rumors that the company is experiencing a shortfall, but this does not concern you much. You are sure the CEO will address any issues.

Yesterday you were contacted by an organization that gives awards to firms that have demonstrated ethical behavior. You are excited to learn that Xylon Aviation is a finalist for an award for having such a well-funded pension plan. For three years in a row, Xylon has had sufficient funding for the pension plan, and it is considered to be one of the best pension plans in the region. You think this is significant because you know many employees have been feeling down recently due to longer work hours. You think this award will demonstrate just how much the company is concerned about their well-being and provide some much-needed morale.

A week ago, you were also contacted by a national publication that wants to do a four-page feature on Xylon Aviation. You know this will provide the organization with great publicity, especially considering the increased competition from Xylon's biggest competitor. You know your organization has nothing to hide.

You cannot wait to share your exciting news with the other executives during the meeting.