

CASE 2

David Shorter

J. J. DiStefano and Neil Abramson

David Shorter sat back in his chair and thought about what he should say to Bob Chen when they met in a few minutes. Three weeks ago when David had left for holiday, he had regarded Bob as an up-and-coming member of the James-Williams team. David had seen Bob as a solid performer who wanted a career at James-Williams and who could be developed over time into a manager and perhaps eventually into a partner. David had even thought that Bob could help attract to James-Williams some of the new entrepreneurial Hong Kong companies that were coming to Toronto. Now David heard from Bob's managing partner, Jane Klinck, that Bob was threatening to resign.

David's First Day Back

David thought about the steady stream of people who had been in to see him this first morning back in the office. Jane Klinck was worried and upset. She felt that Bob was acting "crazy" and that there might be some sort of personality conflict between Bob and Mike McLeod. She hoped that David would be able to sort out the problem and find a solution that would keep Bob in the company. Mike McLeod had been in to see David, too. Mike was a fairly new partner who attracted a lot of business to James-Williams. He felt that he had not only been through the proper channels to have Bob assigned to the Softdisk Computer audit, but that he had been extremely patient with Bob. Mike said the other partners were shaking their heads about his behaviour,

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Neil Abramson prepared this case under the supervision of Professor J. J. DiStefano solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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wondering why he was being so patient when it was standard procedure for partners to make such an assignment. Joe Silverman had been in as well. Joe was the tax partner Bob would report to starting in September, just five weeks from now. Joe hotly protested Bob's behaviour: "We can't have staff refusing assignments! Bob is way out of line! The customers must come first and this behaviour sheds a poor light on Bob. If he doesn't take the Softdisk job, he should be fired!"

The New Enterprise Group at James-Williams

David Shorter was the Practice Director of the New Enterprise Group at James-Williams. James-Williams was one of the six largest public accounting firms in Canada with 400 partners practising in 30 Canadian cities. James-Williams was the sole Canadian member of James-Williams International which provided audit, tax, consulting and other services to individuals, private businesses and governments in the Americas, Europe, the Middle East, Africa, Asia and the Pacific.

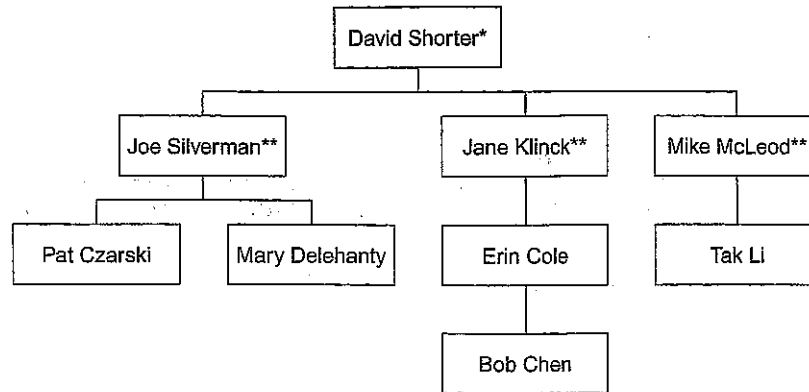
The New Enterprise Group had been set up seven years ago to provide service to smaller growth companies managed by entrepreneurs. David had been the Practice Director for the past four years. James-Williams believed that companies with gross annual revenues of between \$5 and \$100 million were often neglected as potential customers by Canadian public accounting firms because of their small size. Yet these companies had need of a variety of services that could be provided by James-Williams and these companies would pay high fees for their relative size. When these companies had grown beyond gross revenues of \$100 million, their business could be transferred from the New Enterprise Group to the main auditing and consulting services of James-Williams and a solid relationship would exist. This was an important consideration in a mature industry where public accounting firms competed on service, reputation and price. Often, it was a long-term relationship that kept a client with a public accounting firm. These relationships enabled partners of the public accounting firms to have such an intimate knowledge of their clients' activities that they could anticipate problems and become indispensable to their clients' planning process.

The New Enterprise Group provided a range of consulting services geared to the needs of growing entrepreneurial companies. In addition to accounting and auditing services, the partners acted as principal business advisors. Client companies were particularly interested in the subjects of corporate finance and tax consulting, as well as the problems of acquisition and divestiture. Consulting was also available on strategic planning, development of business plans, marketing, human resource management, and information systems.

The New Enterprise Group was organized as a collegial system of partners who managed their own clients and activities within the performance objectives established by James-Williams, and under the general supervision of the Practice Director, who was also a partner (see Exhibit 1). Staff members below the partner level were organized on the staff system. A staff usually consisted of one or two senior staff accountants and several intermediate or junior staff accountants under a manager. A partner would have one, two or three managers and several staff reporting to him/her.

Most of the staff were either chartered accountants or in the process of becoming chartered accountants. Usually, staff would be hired out of business school as junior

EXHIBIT 1 James-Williams: The New Enterprise Group Organizational Chart (reporting relationships prior to Bob Chen's reassignment to tax)



* Practice Director ** Other Partners

staff accountants and would work on staff over a two-year period while they studied for their chartered accountant examinations. At the beginning of their second year, they were promoted to intermediate staff accountants at which level they remained until they passed the chartered accountant exams. At the beginning of their third year they wrote their exams, and, if they passed, they were promoted to senior staff accountants. If they did not pass, which was fairly common, they would have another year to prepare for a final chance at the exams.

The normal promotion process at James-Williams was for staff to remain as senior staff accountants for two years while they developed a consulting specialty of their choice. Then they might be promoted to manager and supervise six to nine staff. Most partners were selected from the ranks of the managers after they had been with the firm for ten to eleven years.

Bob Chen's Background with New Enterprise Group

Bob Chen was born in Hong Kong and came to Toronto as a high school student for Grade 13. He graduated with a Bachelor of Commerce from Queen's University in Kingston. At Queen's he achieved an overall grade point average of 75 percent¹ and was the treasurer of the Chinese Students' Society. He was recruited for James-Williams in the spring of his final year at Queen's, and began as a junior staff accountant at the New Enterprise Group in the following September.

Bob was seen as quiet and soft-spoken. One of his managers described him as "shy and accommodating. He does what he is asked to do and a bit more. Casual requests get immediate results." He was also a very private person whose politeness often meant not saying exactly what he wanted out of a situation or from another person. His civility may have masked from his colleagues his strongly felt desire for success and strongly held views about his possible contribution to the firm.

Bob was well liked by the people around him, most of whom viewed him as Westernized. Some partners and staff thought that Bob "was fairly outgoing for an Oriental" and had much better oral communications skills than previous staff from Hong Kong hired by the firm. His colleagues believed that Bob had good potential with James-Williams and hoped he would stay with the firm.

Previous Contacts between David and Bob

Two years after joining the firm, Bob wrote his chartered accountant examinations and in the following December learned the good news that he had passed. He was transferred as an audit senior to Jane Klinck, because the partner Bob had previously reported to was leaving the company. Bob was to report to Erin Cole who was the manager working under Jane.

Early in the new year, David Shorter followed his usual custom of having one-on-one meetings with staff who had passed their examinations and been promoted to senior staff accountant positions. The purpose of the meetings was not only to congratulate them on their success, but also to begin to identify their interests in professional specialization so that David could plan appropriate assignments for them within the New Enterprise Group. New assignments were usually announced after the annual performance appraisal in May, and were effective by September.

When he met with Bob in January, David was pleased with Bob's success because he had thought that Bob was a solid, but average performer and might not pass his examination the first time he wrote it. Now David decided that Bob might have higher potential within the New Enterprise Group and suggested that Bob might like to work to build a practice around attracting entrepreneurial Hong Kong-based companies to use the New Enterprise Group's services. David explained, "One of our goals is to build up our business with Hong Kong companies. Up to now, we haven't had much success because most Hong Kong money has been invested in real estate. Now, however, Hong Kong money is being invested in businesses which are in the New Enterprise Group's target market."

To be able to attract a Hong Kong practice, Bob would have to build up his auditing skills for another year, because audit was the initial function which brought companies to the New Enterprise Group and stimulated their interest in other consulting services. David remembered that he had two goals in suggesting further auditing experience for Bob. First, the New Enterprise Group had a shortage of senior auditors for this year. Second, he felt that Bob was a "keeper" who could have a long and mutually valuable future with the firm. Bob's auditing skills needed strengthening since he had done very little auditing in his first two years. David had seen previous staff with similar limitations fail as both managers and partners, because without auditing experience they could not understand the practical nature of most business problems. David noted, "Without more seasoning, he would not be as valuable to us. He would get weeded out as a technician."

But Bob had other ideas; he indicated to David that now that he had his CA designation, he wanted to develop a specialization in tax. He was open to the idea of developing a Hong Kong practice, but in the meantime he wanted an assignment that would teach him tax. David told Bob that he didn't believe Bob was ready for a tax assignment, because tax was a practical discipline that needed the ability to find creative tax solutions

to business problems. Without a firm grounding in audit, staff had a tendency to quote tax regulations, rather than use the tax regulations to the advantage of their clients. "I didn't think he was ready and believed that his chargeable activity time would fall. I was under pressure to keep up the chargeable activity time of all staff." David thought that by the end of the interview he had convinced Bob of the soundness of his argument and that Bob had agreed to defer his request for a tax position.

In May, Jane conducted Bob's annual performance appraisal during which time Bob repeated his request for an assignment in tax. Her reply was similar to David's earlier commentary. Jane told Bob that she thought he needed another year of auditing work. "He had one year of decent audit work with me, but his junior year had not been enlightening in the area of audit. I thought he agreed that his junior year had not been productive in the area of audit." Jane asked David to review the performance appraisal because Bob had only been transferred to her in December. When David met with Bob in June, Bob again asked for an assignment in tax. David said no, reiterating his earlier argument that Bob needed more auditing experience. He added that Jane supported this recommendation. It was both David's and Jane's opinion that Bob was only now doing his first and second comprehensive audits. Bob seemed to accept this judgement, though he did not appear to be satisfied by it.

Over the next month, Bob requested and received two more interviews with David to request a tax assignment. David was pleased to talk with Bob because he felt that Bob's concern showed he was highly interested in his career and also highly committed to James-Williams. At the first meeting, David offered the compromise that if Bob would continue as an auditor for a year, then David would send Bob on a comprehensive three-year tax training program that was a much prized opportunity among tax consultants. "I offered to send him on this expensive course fully funded by the firm if he would agree to wait another year for a tax assignment." Bob seemed initially to agree but then asked for another meeting. At the second meeting, David finally agreed to assign Bob to a tax partner, Joe Silverman, to work in tax starting in September. "I told him that even though he could make the move into tax in September, he'd have to do some audits during his first year in tax. The firm needed to take advantage of his auditing skills as a senior. It would also keep his activities time up." Bob agreed to the conditions and David left for holiday shortly after.

Events Occurring during David Shorter's Absence

David Shorter left the New Enterprise Group to attend a Partner Development Program and for holidays at the beginning of July. During this time, Mike McLeod realized his upcoming need for a senior auditor for an important account, the Softdisk Computer Company. Softdisk's year-end required that the audit had to be done in September and October. The audit would fully occupy the time of the senior auditor during those two months. In order to make preparations for the job, the senior auditor had to be assigned to the audit by the end of July at the latest. It was more desirable for the senior auditor to be in place by July 13 in order to attend the client's physical inventory being conducted on that date. This would also provide an opportunity for the client and senior auditor to meet each other and work together prior to the actual audit.

Mike found that Bob Chen was the only senior auditor in the New Enterprise Group who might be available in September and October. Policy in the New Enterprise Group was to use internal staff as senior auditors whenever possible because the cost for hours of internal staff was less than if an auditor had to be "rented" from another division of James-Williams. Also, it would be easier for Mike to manage someone from inside the New Enterprise Group.

Since the actual audit work was to be conducted in the fall, Bob would be "officially" working for Joe Silverman in tax. Mike approached Joe Silverman and his manager, Pat Czarski, to see whether he could use Bob Chen for the audit. Joe and Pat told him that Bob was to be assigned to Joe's other manager, Mary Delehanty, who was away on holiday. But Joe and Pat thought it was a very good idea to assign Bob to the audit. The arrangements for Bob to be transferred to Joe had only been made in June and there was no tax work available for him. Further, with Mary on holiday, it was unlikely that she could find tax work for Bob to do in September and the Softdisk audit would keep Bob's billable hours at an acceptable level until they could use his services effectively.

With this approval, Mike approached Bob on July 10. He asked Bob to take the Softdisk audit and provided Bob with information on the company. In particular, Mike wanted Bob to know that the Softdisk audit would fit in with Bob's career path in tax. The audit would include international multi-jurisdictional tax issues, tax problems concerning research and development being done in Quebec, and a high-technology emphasis much valued by staff who worked in the New Enterprise Group. The tax issues were so complex and interesting that the audit had been supervised last year by a tax partner who was now in New York. Mike reassured Bob that this partner would be available for consultation if Bob had problems. Further, once Bob had done the audit, he would have first call on any further, special tax work which might be required by Softdisk. Mike suggested that Bob should contact Dominick Sousa, a manager in the New Enterprise Group who had acted as senior auditor for Softdisk last year, to confirm these details.

Mike also noted that because the prior year's work with Softdisk had been a first audit by James-Williams, extra efforts had been taken. Therefore Bob would benefit from a better planning package being in place and a high client commitment for the second year. In addition, two James-Williams staff members from last year's audit would be carried over to Bob's team, further strengthening the continuity. Finally, Mike assured Bob that Mike and Tak Li would also be available to assist as needed. Altogether, he sought to assure Bob that taking on this audit would be consistent with his professed career objectives.

It was Mike's impression that Bob had agreed to do the Softdisk audit once he had confirmed the information Mike had given him with "due diligence." "He didn't refuse. Basically, he did not say yes, but he said 'Yes, I'll consider it and will talk to the people'. I was led to believe that he would seriously consider it and I got the impression he would do it. I thought we had a reasonable exchange and that we were both being open with each other." Bob agreed to attend the physical inventory conducted on July 13. The key contact at Softdisk was also of Chinese origin, liked Bob and was pleased to have him for the audit.

Then Mike heard from Pat Czarski and from his own manager, Tak Li, that Bob had told them privately that he did not intend to do the audit. Given that Mike had thought

the matter settled, he was shocked by this turn of events. He was especially surprised because Bob's attendance at the physical inventory sent a clear signal to Mike of Bob's acceptance of the assignment. Over the next week when Mike saw Bob in the office corridor or in the washroom, he checked if Bob was planning to do the audit and got the impression that Bob was still agreeable to the arrangements made earlier. But then he would hear more secondhand reports from Pat and Tak that Bob was not planning to do the audit. So Mike decided to be more direct. "I guess that I precipitated a crisis from Bob's perspective. I said, 'Don't BS me. Tell me up front. What are you going to do instead?' We had frequent contact in the hallways. I would ask him if he had a chance to talk to Dominick Sousa. But Bob wouldn't say anything about it." At this point, Mike decided that Bob was not being straight with him. He asked Pat and Tak to act as agents to see how Bob was reacting to the Softdisk project. "They would report one day that he was committed. Then the next day he had thought about it and wasn't committed any more."

This situation frustrated Mike immensely. His parents had lived in Hong Kong while Mike was growing up. His sister still lived there. "I have a better than average knowledge of cultural differences between Canadians and people from Hong Kong. I thought I was being effective." Mike decided an open discussion was necessary and wondered if Bob had not understood what a developmental opportunity the Softdisk audit was for furthering his professed career interest in tax consulting. Mike needed a fast and firm resolution to the problem because an auditor had to be in place by the end of July. If Bob would not do the job, then Mike would have to borrow a senior auditor from another James-Williams office, and the time pressure to brief such a replacement adequately would be extreme.

Mike decided to call a meeting with Bob, Pat, and Tak for July 20. "I didn't want a fight but I wasn't going to take any BS. Tak and Pat weren't getting the same story that I was. Bob was telling them 'no' and me 'maybe'. I wanted to get all four of us in a room and finally get some straight answers. I was going to tell Bob, 'You want to be a tax consultant. Well, here is the opportunity'."

On July 19, Bob met with Jane and asked for her help. Jane had supported Bob at partners' meetings and he felt she was an ally. Bob told Jane that he wanted to refuse the Softdisk job. He said he was concerned that the amount of planning time required for the Softdisk audit would interfere with a complex audit he was currently doing with a film company. He was afraid he might have to take leave from the film company audit. Jane asked if scheduling was his only concern. "Bob told me there was a bigger problem than scheduling. He didn't want to do the audit. He said he couldn't work for Mike but he wouldn't say why." Jane told Bob that he was crazy and not to do anything rash.

On July 20, Mike, Pat, Tak and Bob met for three hours. Most of the discussion centred around Mike's re-emphasizing how the Softdisk job fit with Bob's career goals in tax consulting. "I kept dragging Bob back to the career goals he said he had and showing him that if he was serious about tax then this was an opportunity. I answered all of his objections. Pat, Tak and I left the meeting once again thinking that Bob had agreed to do the job."

Meanwhile, Joe Silverman had heard about the situation and started to have doubts about the desirability of Bob joining his tax group in the fall. Since he had never worked with Bob, he approached Jane and asked for more information. Joe said the

grapevine was giving him a poor impression of Bob. In Joe's view, not only was it out of line for staff to refuse assignments from partners, but also the clients' interests were the number one concern of the firm. Yet Bob did not seem to be acknowledging either of these values. If Bob would not do the Softdisk audit, then Joe thought Bob should be forced out.

Jane agreed with Joe. She was shocked by Bob's behaviour and felt, as Bob's key backer in partners' meetings, very unhappy to be caught in the middle. She called Bob into her office and told him that both Mike and Joe were furious. She told Bob that his behaviour had put him in a bad position with Joe, who was to be Bob's new managing partner. Joe was very client-oriented and was unlikely to give Bob the benefit of the doubt, because he had never seen Bob's hard work first-hand. "I told him that it didn't seem to be the right time for taking a stand. He said he believed it was a serious enough problem to resist. He was willing to leave the firm rather than work with Mike on the audit. I was shocked. I thought he enjoyed working for the firm and that he saw himself as having a good long-term career here. I don't know if he had a personal problem about working with Mike. I've talked to Mike and he doesn't know either."

On Sunday night, July 22, Bob phoned Pat to say that he would not do the Softdisk audit. Pat informed Mike who washed his hands of the matter and obtained another senior auditor from the Richmond Hill office of James-Williams.

On the morning of July 23, Bob came to see Jane. He said he would have to resign because he could not work for Mike. He also said he realized he had ruined his relationships with the partners and could not expect good performance appraisals even if he did do the audit. Jane told him he was crazy to throw away his career at James-Williams. Jane thought that maybe he was right about getting a poor performance appraisal because Joe "was fit to be tied," but she suggested that Bob wait and talk to David who was returning from holiday the next day. Perhaps David could transfer Bob since David had a high opinion of Bob's worth to the company.

David's Decision

David Shorter returned from vacation on July 23. His first day back he met with Jane Klinck and Mike McLeod who briefed him about the trouble with Bob. He also met with Joe Silverman who came to express his outrage about Bob's behaviour.

On July 24, David sat at his desk thinking. Bob would be here in a few minutes. David had some decisions to make. He knew that Bob was threatening to resign rather than do the Softdisk audit. He knew that both Mike and Joe were furious, but if Bob worked hard in the future, he did not think that Joe would give Bob poor performance appraisals. He knew that Jane had a high opinion of Bob and could not understand what was causing Bob to act this way.

David knew he had to make a decision that balanced the needs of all the people involved. On the one hand, Bob had offended some fairly important partners with whom David had to work and maintain good relationships. David was under no illusion that he could tell these partners what to do or think. They were all partners together, and they decided together. Besides, David agreed with them that it was inappropriate to let an employee with the capacity and the time to do a job refuse it. The Softdisk job

also looked like a good opportunity for someone who wanted to specialize in tax. David did not know why Bob had turned it down.

On the other hand, Bob was a valuable employee given his skills and his potential for helping the New Enterprise Group attract business from Hong Kong investors. In addition to his knowledge, as reflected by his passing the uniform CA exam on his first attempt, he spoke and wrote Chinese fluently, skills relevant to James-Williams's stated goal of attracting Hong Kong business. That objective was one reason why the James-Williams office had been opened in Hong Kong. Yet the office had not done well and was now closed, so David was uncertain of the importance of Bob to the Canadian strategy.

There was the possibility of a transfer. The "Tower" (James-Williams's main group in Toronto) had been requesting that seniors interested in specializing in tax be transferred to them because they anticipated a future demand for tax specialists. Maybe that was what Bob was hoping for. David suspected that some of Bob's friends had been transferred to the Tower without any audit responsibilities and that Bob had been comparing notes with them.

David was sure of one thing. He did not want to offend the other partners in the New Enterprise Group. Perhaps he could persuade Bob to stay, and do the job, and then start tax work. Bob was an emotional kind of guy. Maybe David could get him to see reason.

Note

1. In Canada the grade point system follows the British model. At Queen's a 75 average is a B+ and is considered evidence of high achievement.
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