

## **A CHILLING DISCOVERY AT FAMILY FROZEN FOODS, INC.**

John Leaptrott  
J. Michael McDonald  
Russell Kent

Georgia Southern University

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*This case deals with the challenges faced by a new C.E.O. in assuming control of a company with a long established management team who had a very close relationship with the previous C.E.O. Ruth Davis, the C.E.O. of Family Foods, has inherited the entire business after the unexpected death of her father, the founder and C.E.O. Upon taking over the company and getting to know the situation facing her, she discovers a pattern of behaviors, decisions, and issues related to that management team that does not reflect an organizational culture that is as professional as what she'd like to see. The organizational culture is particularly troubling for her in two important ways. First, the members of the management team don't seem to be showing her the respect that she feels she deserves. More importantly, she is concerned about a potentially unethical relationship between the management team and a key vendor. She wonders what she should do about the relationship between the company's purchasing agent and that vendor which may have resulted in a significant additional cost to the company.*

*This case is intended for an undergraduate or graduate course in Small Business Management, Business Strategy, Business Ethics, or Principles of Management. Key topics for discussion include ethics, codes of conduct, organizational controls, organizational culture, and change.*

### **COMPANY HISTORY**

Ruth Davis sat on her lanai reflecting on the challenges of the past week. Ruth is the sole shareholder and chief executive officer of Family Frozen Foods, Inc. The company's primary business activity was purchasing fresh produce from growers, processing and freezing the produce, packaging the frozen produce and selling it to food wholesalers and medium and large grocery store chains in the Southern United States. While she had been involved in this family business for much of her adult life,

she had only been in the role of C.E.O. for less than 3 months following the death of her father who founded the company. Joseph Davis had started the company 36 years ago. He brought Ruth into the business as a part time employee while she was in high school. Following high school, Ruth attended one of the larger state universities where she received her B. B. A. in marketing and a M. B. A. degree. After she completed her business education, Mr. Davis assigned her to an entry level position in the sales department. Ruth's duties in this position initially included making phone sales to customers in areas that were not represented by the sales force. After three years of performing successfully in that role she was assigned by her father to a sales territory that included the town where the company was located. Ruth made regular visits to customers and potential customers in the territory promoting the company's products and handling problems that would occasionally arise with orders. After performing successfully in this role for five years, Mr. Davis (age 66) promoted her to the position of sales manager last year after the retirement of James Lovett, one of the original employees in the company. At that time she was 33 years old. Her role as sales manager was a particularly important one since her father's primary interest was in operations and not sales. One advantage of the organizational arrangement was that Ruth was given substantial autonomy in her management of the sales function.

Many years ago Mr. Davis had assembled a team of long term employees that assisted him in the operational aspects of the business. The team included Bill Hempphan (age 65), operations manager, who was hired in the second year of company operations, Jim Vader (63), purchasing manager who was hired three years after Mr. Hempphan and Tom Edgewater (63), the company's controller who joined the company about the same time as Mr. Vader. These three men were not only trusted key employees, but were also considered to be close friends of Mr. Davis. Together with Mr. Davis, they regularly played golf together, went fishing together and gathered together with their families to celebrate major holidays. James Lovett was included in these group activities both before and after retirement. While Ruth was included in most of the family related activities prior to her leaving home to pursue her University degrees, she was not regularly included in social activities with the rest of the management team since she returned to the company. She attributed her regular exclusion from these activities to the gender and generation differences between herself and her father and his contemporaries.

All of the management team had known her since she was an infant and frequently shared stories about their observations about her childhood when meeting with her. Consequently, she was frustrated because she felt that she was not given the respect that an executive with both a B.B.A. and M.B.A. should receive and would forever



be viewed as “Daddy’s little girl” by her father’s contemporaries. However, she experienced a certain sense of relief when not invited to participate in the golf and fishing activities. She did not really enjoy these outdoor activities, was often bored with the degree that reminiscing dominated the conversation and felt uncomfortable with the language that certain individuals used away from the office.

Ruth occasionally found the business relationship with the management team awkward as well. Mr. Davis did include her in management meetings when she was initially promoted to sales manager. However, after she introduced a list of her ideas for organizational changes at a meeting that was met with dismissive comments by the rest of the team, Mr. Davis met with her separately and did not include her in subsequent management meetings.

When Mr. Davis unexpectedly died of a heart attack earlier in the year, the management team took the loss particularly hard. Ruth, as the only child, inherited all the stock of the company and assumed the role of C.E.O. While Ruth felt she was generally recognized as the new leader of the company by the middle and lower tiers of the management hierarchy, she also felt that she did not receive the respect and recognition of authority she deserved from the members of the management team. Occasionally, these men would respond to Ruth’s instructions by telling her that her instructions were not in line with what her father would have suggested.

However, she felt it was in the best interest of the company to retain these men because of their wealth of experience, and proven past performance. In addition, she had not yet found a suitable replacement for herself as sales manager and was continuing to shoulder those duties in addition to the daily duties of company president. She felt overwhelmed by the time and effort the simultaneous performance of these two roles required and consequently was content to postpone dealing with management team relationship issues until she hired a sales manager and felt more comfortable in her role as company president.

### **THE TRADE SHOW**

This particularly stressful week started after she returned from the annual American Frozen Food Institute industry trade show. Ruth regularly attended these shows since assuming the position as sales manager. Prior to Ruth attending the trade show, her father would occasionally attend but he did so for primarily social reasons. He would usually join vendors and industry colleagues for lunches and dinners that were often followed by late evenings in various cabarets. Ruth remembered from her early years at the company that her father returned from one AFFI trade show in Las Vegas and unexpectedly announced that he had purchased 5 new forklifts while at the show.

Ruth's activities at the trade show were much different from those of her father. Ruth's business professors had repeatedly stressed the usefulness of trade show attendance as an aid in scanning the task and societal environments. She regularly attended conference sessions on industry trends, current and pending government regulations and business management. In addition, she spent consider time analyzing vendor displays and talking to both vendors and customers she would encounter.

Because of what she deemed as the educational value of the shows, she regularly offered invitations to the other employees of the sales department to attend. Surprisingly few sales department employees ever accepted the invitation. The usual exception was Gus Eagleton(31). Gus had also received encouragement from his business school professors to use trade show attendance as a way to more quickly make industry contacts and gain industry experience and knowledge. He had actually started his career with one of the company's competitors. He had met Ruth at a social networking event at the trade show two years ago. When he had seen a sales position for Family Frozen Foods, Inc. advertised on the trade association website he sent his resume directly to Ruth. Attendance at last year's trade show had been a great opportunity for Ruth to mentor Gus and to become familiar with his capabilities. After attending a second trade show with Gus and having many opportunities to talk to him at length about company matters, she was convinced that he had the potential to one day step in a managerial role with the company and that he had a much greater commitment to the company than his peers in the sales department who always had offered excuses for their lack of attendance at the trade shows.

By chance, while attending the trade show opening banquet, Ruth and Gus were seated with two individuals from competing frozen food firms that she had met at previous trade shows. After catching up on events related to their own families over the past year, the conversation turned to developments in the industry. The main topic of conversation was measures each of their companies had taken to maintain profit margins in the current period of higher produce prices and sluggish consumer demand. One of the competitors volunteered that two years ago their purchasing agent had negotiated a much higher quantity discount from Westchester Packaging, Inc., their primary packaging supplier, by giving them a high quantity annual order instead of ordering smaller quantities. Using this approach, Westchester Packaging, Inc. had been able to drop the cost of the plastic bags used to package their frozen vegetables from \$60 per thousand bags to \$30 per thousand bags. The other competitor offered that their purchasing agent had also negotiated a similar discount with their packaging supplier at about the same time. Ruth was unaware of whether her company had a similar arrangement. Since their sole packaging supplier was Westchester Packaging, Inc. and their salesman was a neighbor and close friend of



Jim Vader, their purchasing agent, she was confident that he had negotiated equal or better terms for their packaging. However, she made a mental note to check on their discount structure when she returned from the trade show.

### **THE DISCOVERY**

The morning of the first day back from the show Ruth spent the morning reviewing her accumulation of mail, e-mail and voicemail. After lunch, she dropped in to Jim Vader's office to educate herself as to the terms they had been getting from Westchester Packaging. Jim immediately became defensive when asked about the subject.

*Ruth: Hello Jim. I just returned from the AFFI show. In talking with some people there I learned that the packaging companies are offering some pretty aggressive quantity discounts. What kind of deal are we getting from your friend John Chatham?*

*Jim: Why are you sticking your nose into my area of responsibility?*

*Ruth: I simply want to know how much we are paying for our packaging.*

*Jim: Are you saying that you don't trust me?*

*Ruth: No. I am not saying that at all. I just want to know how much we are paying for our packaging.*

*Jim: Look, your Dad would never do what you are doing. I have been purchasing agent and buying packaging from John since you were a little girl. He is friend of mine and was a friend of your father. Don't you have anything better to do than waste my time and question my judgment? If you aren't happy with the way I run my shop, get someone else to run it.*

*Ruth: I don't want to get someone else. You have been here a long time and have done a great job. I am just relaying some information I received at the show. Do me a favor and ask John about discounts the next time you see him.*

Ruth was completely caught off guard by Jim's reaction. While packaging expense totaled about \$400,000 per year, it was a relatively small portion of the company's operating expenses. Not wanting to risk another confronta-

tion with Jim, Ruth decided that she would meet with Tom Edgewater, the company's controller, about packaging expense.

*Ruth: Hello Tom. Do you have any recent invoices from Westchester Packaging? I am interested in how they are billing us.*

*Tom: I'll be happy to pull that file. I am sure they are treating us right. John is great guy and we have all known him for years. He is like a brother not only to me but to Jim and Bill as well. Since Jim bought that big new house in our neighborhood and now lives much closer, he has all three of us over to his house for dinner all the time and has even taken us to Alaska fishing the last two summers.*

*Ruth: I knew you all went to Alaska, but I didn't know he paid for everything.*

*Tom: I told you he was a great guy. Here is the file; don't forget to bring that file back when you are finished with it.*

That evening Ruth examined the invoices for the past three years. The company had ordered a fairly consistent amount of packaging each year for the past five years. The invoices reflected consistent pricing at \$60 per thousand bags over that period of time. Based on the information she received about discounts offered to her competition, Ruth calculated that they had been overcharged about \$200,000 per year.

### **THE DECISION**

While the amount of the overcharge was clear, Ruth was uncertain as to her future course of action. She was now very suspicious of Jim's ethical standards and wondered if he had become too cozy with other vendors. On the other hand, she assumed that Jim, Bill and Tom would be very protective of each other if she would try to institute much change. They were all at or near retirement age, had been well compensated and presumably had amassed a sizeable amount in retirement funds and were now financially independent. Consequently, she felt that threats of termination or sanctions would be met with resentment or resignations.

As she sat on the lanai reflecting on the events of the last few days, she pondered her alternatives:



1. Do nothing. The company would continue to accept the pricing structure as is and avoid conflict with the management team.
2. Force Jim to request competing quotes for future packaging orders. This would almost certainly result in conflict with Jim and possibly his resignation. This would also likely result in conflict with Tom and Bill and possibly cause their resignation as well.
3. Replace Jim with a new purchasing agent. She would likely alienate Bill and Tom in the process and probably have to replace them as well.

Ruth knew that her decision was extremely important because it would have an impact on not only the short term performance of the company, but would also form the foundations of the organizational culture of the company in the future. She had learned from graduate school that making very important decisions too quickly and intuitively often resulted in decisions were influenced more by emotion than logic. However, she wondered what a logic-based decision process would entail in this circumstance. She would certainly welcome guidance, but was uncertain where to seek that guidance. The company had long-standing relationships with both a regional CPA firm and the second largest law firm in the state. Unfortunately, she had not met the partners at these firms that handled the company's account prior to her father's death and was not that familiar with them. She was familiar with the vice president of the bank that provided working capital financing to the company, but was uncomfortable sharing information about such unpleasant matters with him. Similarly, she felt the matter was too sensitive to discuss with others in the industry, within the company or her friends and relatives.

Uncertain what to do and where to go to get guidance, her thoughts centered on answering the same difficult and somewhat emotional questions: What do I want this company to be like in the future? What alternative with respect to retention of the management team members is in the best interest of the company? Was he aware of the situation with Westchester Packaging? Am I being fair to these managers? Will they ever take me seriously? Can I trust them in the future? What would her father have done?