CHAPTER 1
MANAGEMENT ACCOUNTANTS:
THEIR VITAL ROLE IN STRATEGIC AND OPERATING DECISIONS

1-1 *Management accounting* measures and reports financial as well as other types of information that assist managers in fulfilling the goals of the organization. *Financial accounting* focuses on external reporting that is guided by generally accepted accounting principles.

1-2 Financial accounting is constrained by generally accepted accounting principles. Management accounting is not restricted to these principles. The result is that:

- management accounting can include assets or liabilities (such as "brand names" developed internally) not recognized under GAAP, and
- management accounting can use asset or liability measurement rules (such as present values or resale prices) not permitted under GAAP.

1-3 Management accountants can help in formulating strategy by providing information about the sources of competitive advantage—for example, the cost, productivity, or efficiency advantage of their company relative to competitors or the premium prices a company can charge relative to the costs of adding features that make its products or services distinctive.

1-4 The business functions in the value chain are:

- *Research and development*—the generation of, and experimentation with, ideas related to new products, services, or processes.
- *Design of products, services, and processes*—the detailed planning and engineering of products, services, or processes.
- *Production*—the coordination and assembly of resources to produce a product or deliver a service.
- *Marketing*—the process of promoting and selling products or services to customers or prospective customers.
- *Distribution*—the mechanism by which products or services are delivered to the customer.
- *Customer service*—the support activities provided to customers.

1-5 *Supply chain* describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers, regardless of whether those activities occur in the same organization or in other organizations. *Cost management* is actions managers undertake to satisfy customers while continuously reducing and controlling costs.

Cost management is most effective when it integrates and coordinates activities across all companies in the supply chain as well as across each business function in an individual company's value chain. Attempts are made to restructure all cost areas to be more cost-effective.

1-6 A successful management accountant requires general business skills (such as understanding the strategy of an organization) and people skills (such as motivating other team members) as well as technical skills (such as using computer software). Accountants also analyze costs throughout the value chain and co-ordinate cost reductions to assure no impairment to the product that customers demand.

1-7 Accountants apply techniques to total quality management (TQM), track customer-response time, and identify bottlenecks in the process of delivering products to customers. They implement new techniques such as customer relationship management (CRM) to integrate people and technology in all business functions to put the appropriate quality of product or service in the customer's hands.

1-8 Planning decisions are made in choosing goals. Control decisions are made when implementing the planning decision(s) and evaluating personnel and operations with respect to the goal(s).

1-9 The three roles management accountants perform are scorekeeping, attention directing, and problem solving.

1-10 The three guidelines are:

(a) The cost/benefit approach that assures the improvement in quality of the data provides a benefit to the managers that exceeds the cost of improvement.
(b) Sensitivity to the balance of information that not only supports decisions to improve profits and motivates honest effort to achieve those profits but also is understandable.
(c) There are different costs to achieve different purposes.

1-11 Technical skill at providing accurate quantitative information is necessary if the accountant is to support the decisions managers must make to improve profits. Accountants are, however, only part of the management team and also require the behavioural skill to function with other team members. Accountants must be able to "market" their recommendations to those with the authority to make change and those with the responsibility to implement change.

1-12 The new controller could reply in one or more of several ways:

(a) Demonstrate to the plant manager how he or she could make better decisions if the plant controller was viewed as a resource rather than a dead weight. In a related way, the plant controller could show how the plant manager's time and resources could be saved by viewing the new plant controller as a team member.
(b) Demonstrate to the plant manager a good knowledge of technical aspects at the plant. This approach may involve doing background reading. It certainly will involve spending much time on the plant floor speaking to plant personnel.
(c) Show the plant manager examples of the new plant controller's past successes in working with line managers in other plants. Examples could include:
  - assistance in preparing the budget,
  - assistance in analyzing problem situations, and
  - assistance in submitting capital budget requests.
(d) Seek assistance from the corporate controller to highlight to the plant manager the importance of many tasks undertaken by the new plant controller. This approach is a last resort but may be necessary in some cases.

1-13 The SMAC is the Society of Management Accountants of Canada. The CMA (Certified Management Accountant) is the professional designation for management accountants and financial executives. It demonstrates that the holder has passed the admission criteria and demonstrated the competency of technical knowledge required by the SMAC and its provincial societies.

1-14 The SMAC sets standards of ethical conduct for management accountants. The four areas in which standards of ethical conduct exist for management accounts are:

1) Mastery of specific intellectual skill acquired by education and training.
2) Acceptance of duties to society (i.e., protection of the public) as a whole in addition to duties to the employer or client.
3) An outlook that is essentially objective.
4) A high standard in the conduct and performance of personal service.

1-15 Steps to take when established written policies provide insufficient guidance are:

(a) discuss problem with the immediate superior (except when it appears that the superior is involved).
(b) clarify relevant concepts by confidential discussion with an objective advisor.

If (a) and (b) and other avenues do not resolve the situation, resignation from the organization should be considered.

1-16 (10 min.) Cost, management, and financial accounting.

1. Financial accountants wait until a transaction occurs, classify it according to GAAP, then estimate its financial value in full compliance with accounting standards to communicate the information to external parties in a standardized way. Management accountants use financial accounting information to classify the estimates of financial value using a variety of techniques. The classification is intended to filter relevant costs to inform an internal decision maker.

2. All accountants are members of a profession and are bound by professional duty to act with integrity. Their duty is to report estimates that do not materially misstate the economic value of the company.

1-17 (10 min.) Strategy.

1. Managers can look at the external parties upon whom the company depends, such as customers, suppliers, financing, the existence of substitute products, and assess what resources are critical before making a decision.

2. Strategy requires managers to examine how the company and its goals fit with the external environment over which the company has no control. Strategic decisions are made for the long-term guidance and co-ordination of activities. Operating decisions are made with a focus on internal strengths and weaknesses. Operating decisions are made in the short term to achieve expected performance levels.

1-18 (15 min.) Value chain, supply chain, and key success factors.

Change in Management Accounting	Link
a.	Total value-chain analysis
b.	Key success factors (quality) or Total value-chain analysis
c.	Dual external/internal focus
d.	Continuous improvement
e.	Customer satisfaction is priority one

1-19 (15 min.) Value chain and classification of costs, computer company.

Cost Item	Value Chain Business Function
a.	Production
b.	Distribution
c.	Design
d.	Research and development
e.	Customer service
f.	Design (or Research and development)
g.	Marketing
h.	Production

1-20 (15 min.) Value chain and classification of costs, fast food restaurant.

Cost Item	Value Chain Business Function
a.	Production
b.	Distribution
c.	Marketing
d.	Marketing
e.	Marketing
f.	Production
g.	Design
h.	Customer service

1-21 (10-15 min.) Planning and control decisions.

Action	Decision
a.	Planning
b.	Control
c.	Control
d.	Planning
e.	Planning

1-22 (15 min.) Problem solving, scorekeeping, and attention directing.

Because the accountant's duties are often not sharply defined, some of these answers might be challenged.

a. Scorekeeping
b. Attention directing
c. Scorekeeping
d. Problem solving
e. Attention directing
f. Attention directing
g. Problem solving
h. Scorekeeping, depending on the extent of the report
i. This question is intentionally vague. The give-and-take of the budgetary process usually encompasses all three functions, but it emphasizes scorekeeping the least. The main function is attention directing, but problem solving is also involved.
j. Problem solving

1-23 (10 min.) Problem solving, scorekeeping, and attention directing.

Report Statement	Purpose
a	Problem solving
b	Scorekeeping
c	Attention directing and scorekeeping
d	Scorekeeping
e	Scorekeeping

1-24 (15 min.) Management accounting guidelines.

1. Cost-benefit approach
2. Behavioural and technical considerations
3. Behavioural and technical considerations
4. Different costs for different purposes
5. Behavioural and technical considerations
6. Cost-benefit approach

1-25 (10-15 min.) Professional ethics and reporting divisional performance.

1. Stevenson's ethical responsibilities are well summarized in the SMAC's "Code of Professional Ethics" (Exhibit 1-7 of text).

   The key area related to Stevenson's current dilemma is integrity. Stevenson should refuse to book the $200,000 of sales until the goods are shipped. Both financial accounting and management accounting principles maintain that sales are not complete until the title is transferred to the buyer.

2. Stevenson should refuse to follow Jonas' orders. If Jonas persists, the incident should be reported to the corporate controller. Support for line management should be wholehearted, but it should not require unethical conduct.

1-26 (15 min.) Planning and control decisions.

The plan or budget communicates the financial goals the organization will achieve while control arises from feedback on how well the plan has been achieved and reasons why the plan has not been achieved.

1. Annual financial statements communicate what was achieved. The annual report is a standardized control report on financial performance. It is feedback on what the organization accomplished.
2. Internal periodic reports of financial performance are control reports.
3. The report of losses suffered from a storm is a financial report that is a control report. Externally the insurer will use the report to estimate the amounts it will reimburse Softmoc according to the insurance contract. Internally the managers will use the report to modify their plan and generate the most appropriate response to an unanticipated event.

   The actual event will also initiate review of the adequacy of the insurance coverage relative to its cost. These new data will be used in subsequent plans for future insurance coverage and its cost.
4. Weekly reports of the total quantity of particular shoes sold are feedback. They are control reports internally because a comparison can be made with the plan to determine if the plan was achieved and if not, why not. They are control reports for the supplier for the same reasons.
5. Studies of new business development opportunities communicate planned costs and revenue.

1-27 (15-20 min.) Planning and control, feedback.

1. **Planning** is choosing goals, predicting results under various ways of achieving those goals, and then deciding how to attain the desired goals. One goal of DSN is to increase operating income. Increasing revenues potentially is one way to achieve this if the increase in revenues exceeds any associated increase in costs. DSN expects daily circulation to increase from 140,000 per day in April to 200,000 per day in May. This budgeted circulation gain is expected to increase from 4,200,000 in April to a budgeted 6,200,000 in May.

   Control covers both the action that implements the planning decision and the performance evaluation of the personnel and operations. At DSN, the price drop would be announced to its sales force and probably to customers. Requirement 2 illustrates a performance report for May 2009.

2.

	Actual Results	**Budgeted Amounts**	**Variance**
Newspapers sold	6,820,000	6,200,000	620,000 favourable
Price per paper	\$0.70	\$0.70	\$0.00
Newspaper revenue	\$4,774,000	\$4,340,000	\$434,000 favourable

3. Actions Campbell might take based on the \$434,000 favourable variance for circulation revenue include:

   (a) Change predictions. DSN underestimated the daily circulation gain by 20,000 copies per day. It might examine the procedures it uses to estimate the response of circulation to price changes.
   (b) Change operations. DSN might now change its advertising rates to reflect that circulation in May is 62% above that of April. This gives advertisers a much larger audience they can reach with each advertisement in the DSN.

1-28 (15 min.) Planning and control decisions; Internet company.

1. **Planning decisions**
   a. Decision to raise monthly subscription fee
   c. Decision to upgrade content of online services
   e. Decision to decrease monthly subscription fee

   Control decisions
   b. Decision to inform existing subscribers about the rate of increase—an implementation part of control decisions
   d. Dismissed the VP of Marketing—performance evaluation and feedback aspect of control decisions

1-28 (cont'd)

2. Planning decisions at WebInfo.com focus on organizational goals, predicting results under various alternative ways of achieving those goals, and then deciding how to attain the desired goal, for example:

   (a) WebInfo.com could have the objective of revenue growth to gain critical mass.
   (b) It could have the objective of increasing operating income.

Many Internet companies in their formative years make revenue growth (and subscriber growth) their primary goal.

Control focuses on deciding on, and taking actions that implement, the planning decision, and deciding on performance evaluation and the related feedback that will help future decision making. For example, WebInfo.com will

   (a) communicate the new rates to advertisers.
   (b) communicate the new price to marketing representatives.

1-29 (20 min.) Strategic decisions and management accounting.

1. The strategies the companies are following in each case are:
   a. Low-price strategy
   c. Differentiated-product strategy
   a. Low-price strategy
   c. Differentiated-product strategy

2. Examples of information the management accountant can provide for each strategic decision follow.

   a. Cost to manufacture and sell the cell phone
      Productivity, efficiency, and cost advantages relative to competition
      Prices of competitive cell phones
      Sensitivity of target customers to price and quality
      The production capacity of Major Phones and its competitors

   b. Cost to develop, produce, and sell new software
      Premium price that customers would be willing to pay due to product uniqueness
      Price of basic software
      Price of closest competitive software
      Cash needed to develop, produce, and sell new software

1-29 (cont'd)

c. Cost of producing the "store-brand" lip gloss
Productivity, efficiency, and cost advantages relative to competition
Prices of competitive products
Sensitivity of target customers to price and quality
How the market for lip gloss is growing

d. Cost to produce and sell new line of gourmet bologna
Premium price that customers would be willing to pay due to product uniqueness
Price of basic meat product
Price of closest competitive product

1-30 (15 min.) Management accounting guidelines.

1. Cost-benefit approach
2. Behavioural and technical considerations
3. Different costs for different purposes
4. Cost-benefit approach
5. Behavioural and technical considerations
6. Cost-benefit approach
7. Behavioural and technical considerations
8. Different costs for different purposes
9. Behavioural and technical considerations

1-31 (15 min.) Role of controller; role of chief financial officer.

1.

Activity	Controller	CFO
Managing accounts payable	X	
Communicating with investors		X
Strategic review of different lines of businesses		X
Budgeting funds for a plant upgrade	X	
Managing the company's short-term		X
investments		X
Negotiating fees with auditors	X	
Assessing profitability of various products	X	
Evaluating the costs and benefits of a new product design		

1-31 (cont'd)

2. As CFO, Perez will be interacting much more with the senior management of the company, the board of directors, and the external financial community. Any experience he can get with these aspects will help him in his new role as CFO. George Perez can be better positioned for his new role as CFO by participating in strategy discussions with senior management, by preparing the external investor communications and press releases under the guidance of the current CFO, by attending courses that focus on the interaction and negotiations between the various business functions and, either formally or on the job, getting training in issues related to investments and corporate finance.

1-32 (30-40 min.) Governance and end-of-year actions.

1. The possible motivations for the snack foods division president wanting to take end-of-year actions include:

   (a) Management incentives. Gourmet Foods may have a division bonus scheme based on one-year reported division earnings. Efforts to front-end revenue into the current year or transfer costs into the next year can increase this bonus.
   (b) Promotion opportunities and job security. Top management of Gourmet Foods likely will view those division managers that deliver high reported earnings growth rates as being the best prospects for promotion. Division managers who deliver "unwelcome surprises" may be viewed as less capable.
   (c) Retain division autonomy. If top management of Gourmet Foods adopts a "management by exception" approach, divisions that report sharp reductions in their earnings growth rates may attract a sizable increase in top management oversight.

2. Several of the "end-of-year actions" clearly are in conflict with these requirements and should be viewed as unacceptable by Taylor:

   (b) The fiscal year-end should be closed on midnight of December 31. "Extending" the close falsely reports next year's sales as this year's sales.
   (c) Altering shipping dates is falsification of the accounting reports.
   (f) Advertisements run in December should be charged to the current year. The advertising agency is facilitating falsification of the accounting records of Gourmet Foods as well as falsifying its own records.

   The other "end-of-year actions" occur in many organizations and may fall into the "grey" to "acceptable" area. However, much depends on the circumstances surrounding each one:

1-32 (cont'd)

(a) If the independent contractor does not do maintenance work in December, there is no transaction regarding maintenance to record. The responsibility for ensuring packaging equipment is well maintained is that of the plant manager. The division controller probably can do little more than observe the absence of a December maintenance charge.

(d) In many organizations sales are heavily concentrated in the final weeks of the fiscal year end. If the double bonus is approved by the division marketing manager, the division controller can do little more than observe the extra bonus paid in December.

(e) If advertising is reduced in December, the advertising cost in December will be reduced. There is no record falsification here.

(g) Much depends on the means of "persuading" carriers to accept the merchandise. For example, if an under-the-table payment is involved, it is clearly unethical. If, however, the carrier receives no extra consideration and willingly agrees to accept the assignment, the transaction appears ethical.

Each of the (a), (d), (e) and (g) "end-of-year actions" may well disadvantage Gourmet Foods in the long-run. The divisional controller is well advised to raise this issue in meetings with the division president. However, if Gourmet Foods has a rigid set of line/staff distinctions, the division president is the one who bears primary responsibility for justifying division actions to senior corporate officers.

3. If Taylor believes that Ryan wants her to engage in unethical behaviour, she should first directly raise her concerns with Ryan. If Ryan is unwilling to change his request, Taylor should discuss her concerns with the Corporate Controller of Gourmet Foods. She could also initiate a confidential discussion with a SMAC adviser, other impartial adviser, or her own lawyer. Taylor also may well ask for a transfer from the snack foods division if she perceives Ryan is unwilling to listen to pressure brought by the Corporate Controller, CFO, or even President of Gourmet Foods. In the extreme, she may want to resign if the corporate culture of Gourmet Foods is to reward division managers who take "end-of-year actions" that Taylor views as unethical and possibly illegal.

1-33 (30-40 min.) Governance and earnings management.

1. The possible motivations for Harvest Day Corporation's CEO to "manage" earnings include
   (a) Manage the stock price. Harvest Day's CEO wants to meet the forecasted earnings number of $1.34 per share because the CEO believes that the stock price will drop if actual earnings fall short of the forecast.

1-33 (cont'd)

(b) Job security. The CEO may be concerned that the Board of Directors may have a poor view of him if he delivers "unwelcome surprises." Depending on how much the stock falls, they may even consider dismissing him.

(c) Management incentives. The bonuses of top management and the CEO may be based on earnings. If earnings decrease, smaller or no bonuses may be paid. If top management and the CEO have stock options, the value of these options will be adversely affected if the stock price falls.

2. Several of the "end-of-year actions" clearly are in conflict with these requirements and should be viewed as unacceptable:

(a) Subscriptions cancelled in December should be recorded in December itself and not delayed until January.

(c) Subscription revenue received in December in advance for magazines that will be sent out in January is a liability. Showing it as revenue falsely reports next year's revenue as this year's revenue.

(d) Office supplies purchased in December should be recorded as an expense of the current year and not as an expense of the next year.

(e) Booking advertising revenues that relate to January in December falsely reports next year's revenue as this year's revenue.

The other "end-of-year actions" occur in many organizations and may fall into the "grey" to "acceptable" area. However, much depends on the circumstances surrounding each one:

(b) If the software on office computers is not updated until January, there is no transaction or expense to record in December. The responsibility for ensuring that the software is updated is that of the chief information technology officer. The controller can do little more than observe the absence of a December software update and question whether this will have an adverse long-term impact on Harvest Day.

(f) If building repairs are not done in December, there is no transaction to record in December. There is no record falsification here. The decision regarding when to do building repairs is made by the operations manager.

(g) Many companies switch their amortization policy from one method to another. Harvest Day could argue that straight-line amortization better represents the decrease in the economic value of the asset compared to the declining-balance method. Straight-line amortization may also be more in line with what its competitors do. If, however, Harvest Day changes to straight-line amortization with the sole purpose of reducing expenses to meet its earnings goal, such behaviour would be unacceptable. The standards of ethical behaviour require

1-33 (cont'd)

management accountants to communicate information fairly and objectively, and to carry out duties ethically.

3. Harvest Day's controller should directly raise his/her concerns with the CEO. If the CEO refuses to change his request, the Controller should raise these issues with the Audit Committee and the Board of Directors. The Controller could also initiate a confidential discussion with an SMAC adviser, other impartial adviser, or his/her own attorney. In the extreme, the Controller may want to resign if the corporate culture of Harvest Day is to reward executives who take "end of fiscal year actions" that the Controller views as unethical and possibly illegal. It was precisely actions along the lines of (a), (c), (d), and (e) that caused Betty Vinson, an accountant at WorldCom, to be indicted for falsifying WorldCom's books and misleading investors.

1-34 (30-40 min.) Responding to allegations of fraud.

Maple Ridge Finance Corp. has several issues to consider:

Issue 1: Are the allegations true that "last year's reported earnings for the bond-trading division are fictitious"?

Issue 2: Is the head of bond trading promoting a culture where illegal behaviour is acceptable?

Issue 3: How to handle any adverse publicity, even if issues 1 and 2 are found to be groundless.

The "anonymous letter" itself should be examined first. Is it from a person who has written many prior letters alleging similar illegal behaviour? If these prior letters have been investigated and found to be groundless, then the Board may decide not to pursue the matter further unless pressed to by an outside party. Corporations get a variety of "crank" letters (many, apparently, from the same source), most of which have no foundation. It is typically not possible to conduct a detailed investigation of every such letter that a company receives.

Issue 1

The letter asserts that "the head of bond trading has been inventing bond trades that are supposed to be highly profitable. They are not." Several groups could assist in any investigation of the allegation.

1-34 (cont'd)

(a) Internal and external auditors. You need to assess the validity of the letter's allegation that "the auditors don't understand the complexity of today's bond-trading operations." If you believe this applies to the internal auditors, then you should approach your external auditors. Show them the allegations and ask them to assign qualified auditors to investigate the charge.

(b) Independent third party. This could be another audit firm or, say, a partner at a law firm.

It is important that any investigation be done competently and be done by parties perceived by others as being credible. If the investigation reports the allegation to be groundless, it is essential that subsequent events do not reveal fraud previously undiscovered.

Issue 2
Even if no evidence of fraudulent trades is found, Maple Ridge needs to ensure that employees have respect for all laws governing their behaviour. A culture of "whatever it takes with no questions asked" is inviting illegal behaviour. (It also invites unethical behaviour, although there would likely be strong differences as to the definition of ethical behaviour). Irrespective of whether they adopt a formal Code of Ethics, Maple Ridge should publicly put on the record, to all its employees, the need to have all behaviour comply with the law.

Issue 3
Most corporations have a policy of not publicly responding to anonymous letters. It would require special circumstances to depart from this policy. An example would be a television commentator citing the letter on a widely viewed program. In this context, Maple Ridge probably would have to publicly respond that they were investigating the allegation.

Pros of Maple Ridge having a formal Code of Ethics
(a) Signals commitment of senior management to ethics.
(b) Promotes public trust in the creditability of the company and its employees.
(c) Signals the managerial professionalism of its employees.
(d) Provides guidance to employees as to how difficult problems are to be handled. If adhered to, employees will avoid many actions that are unethical or appear to be unethical.
(e) Drafting of the policy (and its redrafting in the light of ambiguities) can assist management in anticipating and preparing for ethical issues not yet encountered.

1-34 (cont'd)

Cons of Maple Ridge having a formal Code of Ethics

(a) Can give appearance that all issues have been covered. Issues not covered may appear to be "acceptable" even when they are not.

(b) Can constrain the entrepreneurial activities of employees. Forces people to always "behave by the book."

(c) Cost of developing code can be "high" if it consumes a lot of employee time.

1-35 (40 min.) Global company, ethical challenges with bribery.

1. It is clear that bribes are illegal according to domestic laws. It is not clear from the case whether bribes are illegal in Vartan. However, knowledgeable people in global business would attest to the fact that it is virtually impossible to find any country in the world that specifically sanctions bribery. The major point, however, that deserves discussion is: Should ZenTel engage in any unethical activities even if they are not illegal?

   It is difficult to make a generalization about all shareholders of the company. It is, however, safe to assume that not all shareholders would want to keep their investment in a company that is engaged in unethical and/or illegal activities. There is historical evidence to substantiate this point: When apartheid laws were in effect in South Africa, many investors divested shares of companies doing business in South Africa.

   Apart from the ethical issues, it should also be noted that bribery can be very costly in some parts of the world. Bribes may not generate revenues sufficient enough to offset their cost.

2. Apparently Hank thinks that local culture and common practice are one and the same. This, in fact, is not the case. There are many common practices in developing countries that are against the native culture.

   Specifically, bribery often leads to decisions that are not made on the basis of the merits of the alternative selected. This results in misallocation of meager resources of the developing country. Misallocation of resources has adverse effects on the economy of a country and the living standard of its population. The negative impact is intensified in developing countries because they can least afford the misallocation of resources.

   As it applies to local common practice, multinational companies make some small allowances but draw a hard line against paying the $1 million "commission."

1-35 (cont'd)

3. ZenTel might have an articulated corporate policy against such payments to get the message across that regardless of laws, the top management would not tolerate any bribery payments made by its employees. A strong and consistent message from the top often has a noticeable effect on the corporate culture and employee behaviour.

4. If this contract is of great importance to ZenTel's global strategy, it is likely that this kind of issue will come up again as ZenTel expands into very diverse cultures, and the company should tackle it head on and make a policy decision against offering bribes. Steve Cheng should discuss the situation with the top management at ZenTel and re-affirm his goal to get the Vartan contract by legal means. He could seek the help of the Canadian commercial attaché in Vartan to continue a dialogue with Vartan's deputy minister of communications. He could propose other creative, legal changes to the ZenTel's bid, even at the cost of reducing the profitability of the current project. Concessions such as training programs, schools, and other public works projects may be legal, get the attention of the Vartan government, and raise ZenTel's profile both at home and abroad. In the worst case, if the Vartan government does not agree to any of the creative, legal "extras" that ZenTel can provide in order to win the contract, Cheng should report this to ZenTel's management and be willing to walk away from the Vartan project.