

# The Building Break: AW Technologies

*Vahagan S. Asatryan*

Redeemer University College

*Thomas Henshell*

President, Nuway Software

*Jantina Ellens*

Redeemer University College

*Peter Frieswick*

Redeemer University College

Teaching notes for this case can be found at [CBFA.org](http://CBFA.org).

## INTRODUCTION

Austen Walsh, president of AW Technologies, shifted in his chair and his knee knocked against his employee's again. He whispered another apology and inwardly sighed. He had put off leasing more office space but knew he needed to do something and soon. Times were changing, new trends in consumer demand for solutions provided by AW Technologies looked promising, and market uncertainty coming out of the recession was receding. Market conditions were promising new opportunities and new markets, so Austen found himself spending significant amount of time on exploring these new business horizons.

Awkward silence in the room interrupted his thoughts. The presentation in the boardroom ended, and Austen returned to his office to dig up the phone number for Jim Burgundy, his real estate consultant.

"Hey Jim, it's Walsh."

"Walsh! Long time no see. Running out of room again?"

"You've guessed it, Jim. We've already rearranged to try and make space, but it's time I face facts. If we get this contract we've been working on, we'll definitely need more space."

"No problem. Let's see. Oh, 55 Exeter Drive, right? There's an additional unit next to yours still up for lease, same price as before. This will be your fourth unit. You remember what I mentioned the last time you called, don't you?"

"Jim, you know how I feel about buying the building. I'm just trying to keep track of one business, let alone adding another — and a fixer-upper at that."

"Look Walsh, I know it's a bit more work than you probably need right now, but just think about it. The building is still under power-of-sale, and you'd get a great price for it, probably much lower than market. Smith's Bank just doesn't want to hang onto it any longer. It will need renovations, but with a location like that, people will soon be fighting for those units. It'd make a great investment property. Take some time to consider it and get back to me."

Austen hung up the phone and leaned back in his chair, careful not to disturb any of the papers piled on the bookcase behind him. He had feared a five-year lease for 2,500 square feet was too much space when he had first signed the lease, but at \$12 per square foot the price for the location of the building had been too good to pass. AW Technologies had since garnered several large contacts, and he had contacted Jim to lease two more 2500-square-foot units. Jim had been pushing Austen to buy the building since AW Technologies had leased its second unit, but the idea had never really seemed feasible until now. The original lease expenses had grown in the last four years from \$30,000 to \$90,000, and if he leased another unit, they would jump to \$120,000. Buying the building, on the other hand, would eliminate those expenses as well as secure AW Technologies' complete control over the building for future expansion. If they ran out of space again, they would likely have to relocate — a large expense — and

it was unlikely that a building could be found in the same location for a comparable price.

Nevertheless, Austen couldn't guarantee that the company would continue to expand, although several urban center development programs were finally coming to fruition in the area. The location on 55 Exeter Drive had the potential to become a prime real estate property in the next few years. The other tenants would most likely pay most or even all of the building expenses and, though parts of the building needed some work, any renovations would lead to future leases. He presumed that with close to 100 percent tenant occupancy, the building should generate at least \$500,000 a year that could add to AW's bottom line. (In case of low occupancy, he expected to generate around close to \$300,000 in rent revenues).

Austen recognized that he faced a difficult decision. He thought of calling Max, his long-time business mentor and friend, with whom he often met in small group meetings at the church. Austen reached for the phone.

"Hi, Max. This is Austen."

Max immediately recognized him.

"Oh, hello, brother!"

Austen could sense that Max was excited.

"Max, I have yet another favor to ask."

Max listened carefully and patiently to the details of Austen's plan, as he always did. He was also apparently familiar with the building.

"The building is slightly run down," Max said. "You said that 50-60% of the building is leased by tenants. So if you want to buy the building, you'll have to deal with the tenants, too. This place might zap up all your time. You have to take into consideration that property management is not your core business. You will need to look after the upkeep of this building. Without a property manager, this is almost guaranteed to distract you from your business. Furthermore, there are numerous unforeseen issues that can come up."

Max and Austen talked for a few more minutes, and Austen felt more comfortable with the advice of the faithful friend. He leaned in front of his laptop trying to organize his thoughts on a spreadsheet.

Austen recalled the minor renovations he started at his own kitchen at home a few months ago. This reminded him of all the work that buying the building would include. Jim was kind when he called it a "bit of work." The previous owner had bought the 55 Exeter Drive building as an investment property and had taken

out a significant second mortgage from First Smith's Bank to finance some renovations. However, he turned out to be a slob and had no interest in maintaining the building. Halfway through the renovations, a second investment property had fallen through, and the owner had been forced to declare bankruptcy. (Austen has recently heard that the owner had caught a flight to Tibet and now practices as a Buddhist monk). Thus, the building on 55 Exeter Drive had been repossessed by Smith's Bank, and although the bank had put the building up for sale at \$4.5 million on several occasions, no one had shown interest in buying a building with only half of the renovations completed. Austen estimated that a mortgage of this size would probably cost him approximately \$350,000 per year.

There was also another issue on Austen's mind. The church he currently attended leased a portion of the building, and some elders and members of the congregation were concerned about the temporary nature of the lease arrangement. Many members expressed their desire for a more secure location for the growing church.

Austen glanced at the clock and was surprised that an hour had already passed. That was an hour that he could have, and possibly should have, spent preparing for upcoming meetings with clients. If he bought the building, there would inevitably be numerous issues and meetings that he would have to attend, continuing to distract him from his current business. There were also numerous unforeseen events that could come up, and previous experience clearly illustrated that it could be years before he would be able to sell the building again. Investigating and finalizing an offer on the building would likely take about 200 hours of effort — time that might be better spent dedicated to his primary obligation, his clients. Of course, he could also hire more management for the building and to relieve some of his current responsibilities at AW Technologies, but this would also require additional time and money (\$40,000 - \$80,000, depending on the scope of responsibilities and qualifications), not to mention the massive debt acquired to purchase the building.

The company needed more space. Was Jim right? Should AW Technologies buy the building? Using decision-tree analysis, decide whether Austen should buy or rent the building on Exeter Drive. How can AW's Corporate Values and Principles (Appendix A and B) help guide the owner's or manager's decisions?

## APPENDIX A: AW TECHNOLOGIES PROFILE

### Mission Statement

AW Technologies provides high-quality, effective, software solutions that solve our customers' specific business problems. We provide robust, extendable, and flexible software solutions delivered on time and on budget using industry best standard practices.

### Corporate Values

#### *The Best and Brightest*

Our clients deserve only the very best. Our team is a flexible yet global player with seasoned veterans, each with at least 10 years of industry experience. We believe that individuals' experience is crucial in composing software code. Thus, continuous learning is crucial in the competitive environment of our industry. Our team of professionals is constantly being trained in the latest software technologies to provide multi-faceted solution architecture for your company. Our strength is our people.

#### *Doing It Right*

Integrity is the cornerstone of both a successful life and a business. The true test of one's character is how she or he behaves when no one is looking or when no one will find out. Usually most software clients will lack the expertise to "open the hood" and examine the source code. But should you do so, you will find out that your project was done right.

AW's team uses industry best standard practices (so called design patterns) to build your software solutions. We base our work only on a solid and tested foundation to build the requisite features. Thus, our clients enjoy lower costs of maintenance, reduced impact of future changes, and flexible solutions that grow with your business.

#### *Pride in our Work: Craftsmanship*

We are committed to bringing craftsmanship to our solutions. We believe craftsmanship is the mix of attitude and competency. It takes effort and requires discipline. Competency constitutes one's ability and skill. It comes from natural talent, education, and experience. Thus, the mark of a craftsman is left by someone with a wealth of experience, an attitude and desire for growth, and a demonstrated ability to achieve utmost quality. Poor craftsmanship costs the client money and unnecessary effort.

#### *Sow Where You Reap*

AW Technologies believes very strongly in returning to the community that contributes to our professional growth. We often benefit from the developments in the web community, MSDN articles, and similar free exchanges of software information.

AW Technologies gives back to the web community in numerous ways:

- Team members are encouraged to write technology articles, participate in technical discussion forums, attend or present at user conferences and group meetings, and write online software and book reviews.
- AW Technologies supports freeware/shareware and public domain components by registering products and contributing with donations.
- AW Technologies sponsors community projects such as little league team sports. Software creation, like many sport activities, is a team effort, not an individual one. Teamwork skills learned at a young age can reap rewards for a lifetime.

### The Process

AW Technologies follows four phases to develop software for its clients: inception, conception, construction, and delivery.

The inception process translates client's software needs and requirements into a business case for the solution and tentative software architecture. The conception stage identifies details of product's use cases and designs system architecture. The construction stage develops the product with minor changes in architecture. Finally, a soft release (i.e., a test drive) of the product occurs in the delivery phase. AW Technologies provides user documentation and on-site training as well as correction of possible glitches related to hardware and software integration.

## APPENDIX B: AW TECHNOLOGIES' CORPORATE PRINCIPLES

### Principle 1: Integrity

Luke 16:10: "Jesus went on to make these comments: 'If you're honest in small things, you'll be honest in big things; If you're a crook in small things, you'll be a crook in big things. If you're not honest in small jobs, who will put you in charge of the store?'"

AW Technologies was born from integrity. AW Technologies' first customers stated the reason they want-

ed to deal with AW Technologies instead of the myriad of other already established software companies: “Because we trust you.” It shouldn’t be so, but when we started, this was our greatest competitive advantage.

AW Technologies’ implementation:

Never lie, trick, tell false information to, or leave a false impression with a customer.

Never lie, trick, tell false information to, or leave a false impression with a manager, coworker, partner, or supplier.

In practice:

- If you know something will take two weeks, don’t tell someone you can do it in one week. Even if feeling pressured from management/customers.
- When AW Technologies provides a price quote to a customer, the price is fixed. It doesn’t change. This means it is critical to get it right the first time. If not, we don’t penalize the customer by increasing the price; we penalize ourselves by sticking to our word and losing money.
- When AW Technologies provides a schedule, we stick to that date.

The integrity of the company and every employee is of critical concern to AW Technologies. To compromise your integrity is grounds for dismissal.

**Principle 2: Pay What is Owed to Others**

Proverbs 3:27-28 “Withhold not good from those to whom it is due [its rightful owners], when it is in the power of your hand to do it. Do not say to your neighbor, ‘Go, and come again; and tomorrow I will give it when you have it with you.’”

AW Technologies’ Implementation:

Most of AW Technologies’ suppliers are net 30 days, and expect prompt payment. How can we expect our customers to pay our bills on time if we don’t do the same? We will pay within the time allotted and maintain our integrity.

AW Technologies will pay for legit licenses for all software it uses. How can we expect our customers to pay us for software development services, when at the same time we don’t pay those who supply our tools? We pay for software to maintain our integrity.

In practice:

- If we don’t have the cash to pay an invoice within the allotted time, we either ask for an extension or borrow the money to pay it. The owner is prepared to invest money as necessary to stick to this principle.
- We will register all software, big or small. Visual Studio, Office, all the way down to shareware like Winzip.
- Employees should never bring in “illegitimate” or cracked software to use at work, even just temporarily. Make your needs known to management, and the best course of action will be decided.

**Principle 3: Treat Others as You Want to be Treated**

Mark 12:29-31 “‘The most important commandment,’ answered Jesus, ‘is this: “Hear, O Israel, the Lord our God, the Lord is one. Love the Lord your God with all your heart and with all your soul and with all your mind and with all your strength.” The second is this: “Love your neighbor as yourself.” There is no commandment greater than these.’”

In practice:

- Talk to customers and coworkers in a dignified and professional manner. This takes several forms: no swearing, yelling, slander, etc.
- Since this is a very generic yet applicable principle, keep it in the back of your mind.

Colossians 3:8: “But now you must rid yourselves of all such things as these: anger, rage, malice, slander, and filthy language from your lips.”

Ephesians 4:29: “Do not let any unwholesome talk come out of your mouths, but only what is helpful for building others up according to their needs, that it may benefit those who listen.”

Ephesians 5:4: “Nor should there be obscenity, foolish talk or coarse joking, which are out of place, but rather thanksgiving.”

**Principle 4: Employees are People First, Employees Second**

Genesis 1:27: “So God created man in his own image, in the image of God he created him; male and female he created them.”

The quote above states that people have intrinsic value and worth simply because they are human beings.

In most businesses, the value of an employee is only what you can get out of them. This self-seeking mentality is so prevalent it is hardly worth mentioning:

- Pay employees as little as possible, burn them out, and when they quit, hire new people and repeat.
- Attempt to limit bonuses, find loopholes to giving raises, and utilize various other means to keep profits as high as possible.
- Set a strict working schedule; force them to live their lives around work. If they can't, too bad.
- Create an environment of assumed overtime where if they don't keep up with others their job is on the line.

AW Technologies' Implementation:

Each employee is a person who has had a life before AW Technologies, has a life outside of AW Technologies, and will have a life after AW Technologies. It is AW Technologies' desire to integrate work in as seamlessly into a person's life as possible. There are side benefits to the company for operating this way, but that is not the motivation behind this mentality.

In practice:

- Employees set their own hours. Each individual knows their personal lifestyle: some are early bears; some are night hawks. Some have small kids; others don't. It's impossible for the company to determine a schedule that meets everyone's needs.
- If you can't work, don't. If your child is sick home from school, and you need to stay home to watch them, stay home. If your child has a recital at 5 p.m., take half the day off and go watch it.
- If you don't feel like working, don't. That may mean taking time out to play foosball, or going out for lunch with a friend you haven't seen in a while for several hours. Maybe it means staying home because a new computer game came out and you stayed up all night playing it.
- If your religious holidays go beyond the statutory holidays, you get them off, too. For example, if your family is gathering the first week of January for Orthodox Christmas, stay home and enjoy it with them.
- Compensation is above fair. As a small company, AW Technologies probably can't afford to be the highest paying company in the industry. But we can definitely pay better than most.
- All employees participate in profit sharing. It is only by the hard work of everyone doing their specific

part that the company succeeds. As a result, your hard efforts are rewarded proportionately

### **Principle 5: Treat the Customer Fairly**

Proverbs 11:1: "GOD hates cheating in the marketplace; he loves it when business is aboveboard."

The ultimate test of treating a customer fairly is: "What would the competition say?" In the hypothetical event that a customer were to leave AW Technologies and use another company, what would that company say about our work and billing practice? Would they look at the code and be impressed? Would they look at what the customer paid and be even more impressed? Would they tell the customer they got a "good deal" with AW Technologies? That is the goal.

This doesn't mean AW Technologies is against profit, and it also doesn't mean we're necessarily the cheapest solution provider. But it does mean that the amount billed for the project is cost-based, not "what-we-can-get" based.

In practice:

- When something takes 1.5 hours to do, we don't round it up to four hours.
- When the customer asks for a change and we can make that change with no impact to the schedule, we don't charge for it.
- If the customer is asking for a feature they really don't need, we tell them and take the cost out of the project.

When passing costs onto the customer, we don't amplify them. If the customer wanted to audit the expenses, we could provide every invoice to the penny.

### **Principle 6: Work Isn't Everything**

Psalms 127:2: "It's useless to rise early and go to bed late and work your worried fingers to the bone. Don't you know he enjoys giving rest to those he loves?"

When people are on their deathbed, what are their regrets? That they didn't finish such & such project? That they only made XXXX 10 years ago? Or is it a child's first steps that were missed? Or a relationship that was broken and never repaired?

According to human logic and wisdom, every hour worked brings the company one step closer to success; so therefore overtime is a great way to move forward quickly. Managers become taskmasters driving everyone to work more hours. Executives work themselves to the bone trying to get ahead, trying to push the company forward.

### AW Technologies' Implementation:

The amount of productivity you have when you are well rested, family/relationship situation is good, and generally happy is significantly higher than when you are tired, worn out, and fighting with your spouse.

Executives and managers need to know when to stop thinking they can do everything themselves. Sometimes there are elements of success that are not under our control: timing, the customer's disposition, the competition, and numerous other variables.

#### In practice:

- No workaholics or tyrants will be tolerated at AW Technologies.
- We will succeed or fail by the quality of our work, not the volume of it.

### Principle 7: Pay Employees Fairly

Jeremiah 22:13 "Doom to him who builds palaces but bullies people, who makes a fine house but destroys lives, who cheats his workers and won't pay them for their work."

It is critical for any business to provide for its employees' needs, both personal and professional. If the company doesn't, it is doomed to fail.

### AW Technologies' Implementation:

There are several key factors that contribute to someone's enjoyment of their job:

1. Compensation plan
2. Challenging work
3. Work environment
4. Training

Each of these receives attention at AW Technologies.

#### In practice:

- Employees are paid more than fair for their annual salary. A bonus is also paid based on the company's financial success.
- Employees will be given the opportunity to work with the latest technologies and tools in a professional office space.
- If the business requires overtime, suitable meals will be provided.
- If travel is required, employees will stay in a nice hotel: Holiday Inn or better.
- Employees are expected to cooperate in the improvement of their skills. This means magazines, books, webinars will all be provided for self-education. Formal education will be provided as needed.

### Principle 8: Operate Debt Free

Proverbs 22:7: "The poor are always ruled over by the rich, so don't borrow and put yourself under their power."

This principle is about not borrowing long term to finance the growth of the company. This is just the opposite of common business logic, which says to always use other people's money to make money. This concept is fueled by people's desires to have more than they can afford, to grow faster than normal. Ultimately the people who win are the lenders.

### AW Technologies' Implementation:

Borrowing for short-term needs is inevitable in business. But this money can be paid back in a few months' time at very low cost.

Long-term financing creates an immense burden on the company. Since there are no 0% business loans available, the money always ends up costing something: 5%, 7%, 9% or more. This is money right out of the bottom line. This could also divert funds from other activities, such as satisfying employees' request for more training and education.

#### In Practice:

- The company will grow and operate based on the cash income from customers.
- New equipment or hires will be made only when the company has the cash to do so.

### Principle 9: Help others

2 Corinthians 9:6: "Remember this: Whoever sows sparingly will also reap sparingly, and whoever sows generously will also reap generously."

In essence this is saying those who help others, will themselves be helped. Those who are generous givers will themselves receive generosity. This is a fundamental principle of life; it is the way life was designed.

### AW Technologies' Implementation:

This is another far-reaching principle that plays itself out in many ways. Specifically, if you are a kind and encouraging person, others will be kind and encourage you. If you help others in need, others (maybe not even the same ones) will help you.

#### In Practice:

- A percentage of corporate profits will be paid out in bonuses to employees.
- A percentage of corporate profits will be donated to predetermined charitable organizations.

- Some of the corporate profit will go towards sponsoring little league teams, especially those of our employee's children.
- If we get code from an open source community site, we will make a donation to help keep them going.

## ABOUT THE AUTHORS



**Dr. Vahagn Asatryan** is associate professor of business at Redeemer University College in Hamilton, Ontario. His research interests include Christian integration, consumer behavior, and business ethics training in developing countries.



**Thomas Henshell** is a self-taught software developer and serial entrepreneur. He employs 14 talented individuals across his three companies. He believes in the integration of faith in work: if Christ is the master of the universe, then he matters in every day, in every moment.