

# Hard Entrepreneur Choices: Overpaid Invoice Mini-Case

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## Situation

You spent the last 12 years working 60+ hours a week building a computer consulting company with revenues of \$7,000,000. It has been your life's passion. Your revenue is made up of product sales and services. In the process you have had 2 partners, and received money from outside investors. However, running the business has been tough over the years and through this process you have not been able to retain much cash in the business. Your cash position is weak. Keeping cash coming in and vendors at bay is a full time job for your controller.

You have been working on a large project that represents nearly \$1,000,000 of consulting services. This large client has been one of your toughest clients to collect receivables from over the past 12 years. Although they have paid, they have always been very late, and you have had to expend significant effort to collect their money. You have called them. You have emailed them. You have faxed them the same invoices at least 10 different times. They always play dumb and act like they will be sending you the money soon, but it never shows up. You are now over 90% done with the contract, and FINALLY received a payment of \$250,000. This brings their account current and brings the collected money to \$950,000. However, you notice that they have overpaid their account by \$40,000.

## Actions?

What are your alternative decisions?

Explain the advantages and disadvantages of your alternatives.

## HEC Overview

The goal of the HEC series is to create brief but rich learning opportunities for students in the classroom. Many entrepreneurship courses rely on standard cases that require students to prepare the case outside of the classroom. However, many situations faced by entrepreneurs require quick decisions in real time while juggling many other crisis and situations. The HEC case series is not intended to dard case format, but rather complement it by requiring quick critical thinking in the classroom.

The term HEC comes from the situation the author was often confronted with when running a small business and found myself saying, "What the heck are we going to do?" The HEC cases are real stories from entrepreneurs. The author asked entrepreneurs for situations that were messy and where there was no clear answer for the problem. In other words, most of the HEC cases do not have a great or even good solution. They are by design intended to challenge the students and allow them to see how messy entrepreneurship can be. Most HEC cases have 2-5 obvious solutions; however, these solutions are often uncomfortable for the students. Each HEC case has a "What Happened" in the entrepreneur's own words that can be read to the students at the conclusion of the case.

### Use of the HEC Series

handed out in class. Most HECs can be taught within 25 minutes, but they can also be discussed for up to 45 minutes. The HEC format allows instructors to insert case discussion during the middle of lecture material (assuming class time of over 60 minutes). Also, instructors can bring a HEC to class if they are not sure how long their prepared materials may last.

### Teaching Plan for Overpaid Invoice

#### Case

This HEC can be used to help students understand the reality of cash flow issues in small business and the tough choices that may arise based on cash flow problems. The instructor can manage the discussion of this case in many different ways. The following is often very successful:

1. If this is the first time using a HEC, explain to the students that in entrepreneurship you rarely have adequate time to deal with a problem. Therefore instruct them they have 5 minutes to read the case and make a decision. However, in reality you can give them 5-10 minutes before you ask them what they are going to do.
2. Ask the students what they plan on doing. Typically, they come up with some of the following:
  - *Phone the client and let them know they have overpaid their invoice and give them a choice if they want a credit on the account or if they want a check.*
  - *Mail a letter informing the client they have overpaid their invoice.*
  - *Mail a letter and a check informing the client they have overpaid their invoice.*
  - *Credit their account, and mail them a statement next month (or some later time).*
  - *Don't tell the client, but credit their account so at the project you will balance the account and issue a check to the client if they have overpaid.*
  - *Keep the money.*

Often you will have other similar solutions, and can collapse them down to 3-5 solutions. After agreeing on the top 3-5 solutions ask the students to vote and record the votes.

Identify students who gave each of the above solutions and challenge them as follows:

- Phone the client/Mail a check - Challenge the students to explain why then need to send a check right away. This is a large organization you are dealing with and \$40,000 is not going to cause them any real problems for a few weeks. Besides they have been paying you late for the entire project while you have expended a lot of time and energy on collecting money that was due to you.

- Credit/Don't tell the client – Challenge the students on what will happen if the client finds out they overpaid and calls to ask why they were not informed about the overpayment. How will this impact the client relationship? Some students think they can call accounts payable and talk them into allowing the entrepreneur to keep the money. However, almost all accounts payable departments will ask for a check immediately, so help them understand this is not likely (the author and the entrepreneur have had personal experience with this). This is a good opportunity to role play a phone conversation with the client. You can play the client and be very adamant that you need to be refunded immediately.
- Keep the money – Challenge the students on the ethical basis for keeping the money. How will this impact their relationship with the client if they find out at a later time? This is also a good opportunity to role play a phone conversation with the client. You can role play the client as being very upset and become very aggressive and promise to never do business with them in the future.
- Add a twist by explaining to the students (after they have voted once) that you are going to miss payroll next week if you return the money. Ask them to revote. Often students will change their vote. Again, challenge the students who changed their vote from sending a check immediately to some type of delay by asking them if their ethics changed and why? Most students will be frustrated by this twist. Some students may think it is unfair they did not know this information (explain you rarely know all the information when you are an entrepreneur), or they don't understand why you could not plan your cash flow better. It is often helpful to explain that some clients simply don't pay on time and you can do little about it, or that you simply cannot predict when someone will pay you late. Make it clear there is no other source of cash to make payroll.
- For the students who say it's okay to miss payroll, it can be helpful to role play this out for them. Ask one of the students who voted to pay immediately and thus miss payroll to have a talk with you as the employee. They will attempt to explain the dilemma, and you can be the employee use some of the following responses:
  - *What? I have a family, what am I going to do without payroll? Explain many employees may live paycheck to paycheck.*
  - *Ask them what you are supposed to about your mortgage, if you don't get paid you will miss your mortgage payment.*
  - *Ask them why did we have to pay the client immediately, aren't your employees more important than paying a big organization that will not miss the money for at least a few weeks?*
  - *Act betrayed that you were not informed earlier and push students to explain why they did not figure out another way to get cash.*
  - *Help students understand the gravity of missing a payroll. This can lead to terrible morale and employees leaving your company to find new jobs.*

- *Point out that in a small business you sometimes have to make tough choices with people's livelihood depending on you.*

Read the "What Happened" comments from the actual entrepreneur.

### **What Happened**

We kept the money. I went back and calculated all the late fees based as stated on our invoices, and it was about equal to what they overpaid us. When we finished the project, they were unaware of the overpayment. Since they were a large government organization, I knew that returning the money would be a nightmare due to the bureaucratic nature of the organization. Trying to repay a large government organization is at times harder than trying to collect from one. We did additional business with them. They never found out they overpaid us (they couldn't, they were too dysfunctional).

### **Case Learning Objectives:**

1. Enrich understanding of what appears to be a simple decision but could have important implications for customer relations and employees.
2. Help students understand the issues related to collection issues within small business.
3. Bring the reality of cash flow problems to top of mind for the students.
4. Create tension related to ethical choices entrepreneurs often must make related to customers, employees, and cash flow.