

## The story of a business formation and its failure

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### ABSTRACT

Outdoor Cooking Islands Inc. (OCI) was a manufacturer and installer of outdoor BBQ islands with its headquarters located in Upland, CA. The company was founded by Louis Garcia as a competitor to an existing company who virtually had a strangle-hold on the market share. The company's primary focus was on producing backyard entertainment islands consisting of a built-in grill in a customized unit. The BBQ units ranged in price anywhere from \$1,499 to \$24,995. This wide range in price was mainly attributable to customization with respect to size, color, outer texture, quality and types of tiles used, and quality and types of components. Customers could add such additional amenities as ice buckets, drawers, cutting boards, waterproof stereos, keg-fridges, refrigerators, lighting, side-burners, and sinks, to name just a few. In addition, these units could also come with bar seating to accommodate guests to sit with the cook and socialize in the backyard. Customers who were interested in a backyard facelift would consider investing in the OCI's products to both add value to their property and satisfy their outdoor entertainment needs. Early years of the company are characterized by hard work, innovations, and an incredible drive for success. However, the economy turned south, business started to slow down, and the company could not overcome economic hardships that ultimately lead to its demise in 2007. This case outlines a detailed history of Outdoor Cooking Islands Inc., its origin, founders, products, business dealings, and tribulations.

Keywords: Business formation, Bankruptcy, Business failure, Business strategy, Economic downturns.

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## INTRODUCTION

Outdoor Cooking Islands Inc. (OCI) was a manufacturer and installer of outdoor BBQ islands with its headquarters located in Upland, CA. Consumers who were interested in backyard remodeling, installing outdoor entertainment centers, and outdoor grills were attracted to what OCI had to offer.

A BBQ island is a backyard entertainment piece consisting of a built-in grill in a customized unit. These units ranged in price anywhere from \$1,499 to \$24,995. This wide range in price is attributable of course to customization with respect to size, color, outer texture, quality and types of tiles used, and quality and types of components. Customers could add such additional amenities as ice buckets, drawers, cutting boards, waterproof stereos, keg-fridges, refrigerators, lighting, side-burners, and sinks, to name a few. In addition, these units could also come with bar seating to accommodate guests to sit with the cook and socialize in the backyard. All and all, those seeking a backyard facelift would consider investing in the OCI's products to either add value to their property or satisfy their outdoor entertainment needs.

During nearly one decade in business, OCI had experienced both good days and bad days in sales and financial conditions. Success had reached the company through hard work, perseverance, and an unprecedented drive to succeed. However, despite its hard work aimed at profitability and expansion, the company could not overcome economic downturns that ultimately lead to its demise in 2007. This case outlines a detailed history of Outdoor Cooking Islands Inc., its origin, founders, products, business dealings, and tribulations.

## BACKGROUND

### Company Development

As a CEO "Louis Garcia" founded the company toward the end of the 1990s in a small town in Southern California. The company did not start as a new invention or a new concept for outdoor entertaining, but rather as a competitor to an existing company who virtually had a strangle-hold on the market share. From what I have been able to gather through my interviews and recollections, Outdoor Cooking Islands started simply out of spite rather than a passionate business idea.

Louis was working for "Rhino Products", which had been a family owned and operated company at the time, from 1994-1998. The company was doing well and business was booming as the outdoor kitchen concept took Southern California by storm. The company was expanding by wave of Louis' tremendous sales efforts to land new accounts and attract more business. However, Louis felt cheated and unappreciated as his efforts went unnoticed. Disagreements, false promises, and unpaid commissions plagued the family relationship and he eventually cut his ties with the business, leaving on extremely bad terms. "I am going to beat them at their own game," would be the words to sum up the reason for Outdoor Cooking Islands existence.

## Marketing Strategy

Outdoor Cooking Islands officially began operations in 1998 sharing a very small section of sub-divided industrial space in a friend's warehouse. Initially, Louis had no customers, starting capital, employees, investors, business plan, or even the knowledge of running a business, Outdoor Cooking Islands sure had its work cut out for and was in a situation that must compete against a family giant. The company's primary marketing plan, which was stuck with them until the end, modeled that of Rhino Products. The way they were going to attract customers and generate business was to sell at "Home Show" events all over California, Nevada, and Arizona. At these events, you would see products for home remodeling, gadgets from infomercials, over priced food and beer, and random decorations for sale. If promoted correctly, the marketers who ran these events could draw about 50,000 to 100,000 people on Friday through Sunday.

As the years progressed Outdoor Cooking Islands could sustain itself and emerge as a reputable company even against Rhino Products. Even though Louis had no formal training or education in running a business, one thing he was good at was selling. Having a background as a salesman over the last seven years paid off. He knew what to say, how to say it, and make people feel completely comfortable buying a \$4,000 piece of equipment from a brand-new company. The first year proved to be successful, not necessarily profitable, however, he could now rent his own facility and take on a few employees.

The company was executing its plan by selling at home shows, taking in deposits over the weekend to fund building projects, rent, and payroll and would then collect the remaining balance upon delivery a few weeks later. However, as years went by the company did not produce any profit as it had been mismanaged and spent too much money on overtime and inventory. By the beginning of 2001 the company had accumulated more than a million dollars in debt to vendors who had sold it building materials, grills, and services. In April of 2001 Louis and Outdoor Cooking Islands both filed for Chapter 11 bankruptcy because of mismanagement and overwhelming debt that could not be overcome.

## Rebirth

This business failure, however, did not stop Louis from giving the industry another try. In the latter months of 2001 after the bankruptcy was filed he teamed up with a partner (his cousin) and started the same company under a different name, Outdoor Products. This time they would have someone with business experience, banking experience, ability to sale, and an education to help get the new company off to the right start.

The partnership between Louis and his cousin "Peter Feder" proved to be a smart move and the company was starting to look like a real company. Having a background in banking, Peter could keep the books in order and knew how much money they had in the bank or how much was needed for each week rather than using a system of guessing and estimating. A production process was implemented and new positions were opening left and right as the company grew and partnered with other friends and family over the years. There were still problems but at least they weren't financial, they were more along the lines of family politics.

Peter's role in the company proved to be vital as he was concentrating on the business aspect and Louis, along with the sales team, could concentrate on sales and generating

revenue. The once tiny company grew to a small sized company with approximately forty employees. In 2003 the company could pay off its debt it had acquired for starting the company again, provide decent salaries for employees and owners, and have money left over in the bank. The years that followed proved to be the milestones of success that they had dreamed for. In 2004 and 2005 Outdoor Products saw huge increases in sales and dollars generated. In those years, the company had grossed more than \$25 million dollars. Louis and Peter indulged in their success and bought new houses and new cars and treated employees generously.

### **Customer Base**

The underlying factor that led to their huge success in 2004 and 2005 was paralleled to the boom in real estate values. Their customer base by large during these years, were homeowners who had homes valued between \$300,000 to \$500,000 with a minimum of \$100,000 in equity to borrow against. This was a period characterized by a refinancing frenzy which freed up money that homeowners didn't have otherwise. Those who did not have the equity to spend were willing to take \$5,000 against their equity to improve their backyard.

However, despite all the success and money to burn, the company could not foresee the near 70% decline in sales in 2006 and had no more money left in the bank when it had to make it through a hard year. Nonetheless, by October 2006 I was in a meeting where they were once again toying with the notion of bankruptcy. In November, after a final attempt to raise money had failed, the company had no other choice but to declare bankruptcy to rid itself of its near three million dollars in debt. This bankruptcy, on the other hand, was not like the one in 2001 because this time 1.2 million dollars of family investment capital was also lost. Declaring personal bankruptcy and selling their houses were no longer an option but necessary. In the next section, we will examine the details of the bankruptcy, why so much debt was accumulated, how the company was mismanaged again, why foolish dollars were spent, and why so much family money was invested and lost.

## **FINANCIAL PERFORMANCE**

### **Round One**

The period before Outdoor Cooking Islands' first bankruptcy, 1998-2001, was more of a learning experience than a venture, and a costly one at that. Although I was not intimately involved with the company, but I have heard the nightmare stories that were told during that period.

Louis and his wife "Tina" were running the company from their sectional warehouse space in Ontario. They were handling everything from business license applications and filings, scheduling, managing, building, and even delivering the product. This way they could ensure that they maximized their profits, however, they were putting in sixty to seventy-hour work weeks not to mention selling at the events on the weekend. They were dedicated nonetheless to succeed and to compete heavily against Louis' family business.

Louis and Tina soon discovered that they needed a lot more than an incredible drive to succeed to succeed on a financial level. Debt began to accumulate very quickly once they started paying a higher rent for their bigger rental space in Pomona. Moreover, friends who

were assisting them by working on a “pay later” policy now were getting ready to collect. The overhead in this industry is challenging and frankly Outdoor Products was not producing the kind of volume needed to sustain such a business. Let me break down some of the costs involved in this business:

1. Booth space- 10 x 20ft - \$3,000 to \$4,500  
20 x 20ft - \$5,000 to \$10,000  
Greater than 20 x 20ft \$10,000 plus
2. Set up/Break down & Commissions- \$1,000 to \$5,000
3. Building Product to Display- \$5,000 to \$10,000
4. Hotel Expenses- \$500 to \$1,000 per weekend

Looking at these numbers alone and going into a weekend event, you could be in the hole for \$20,000 easily and not even know how well you will do at the show. Remember, this is only for one event on a weekend. To have a better chance at hitting bigger numbers Louis and Tina would try to sell at two events a weekend during peak season and one a weekend during the slow season. Also, remember that this doesn't even include fixed costs such as rent, automobile lease payment, utilities, and labor. For them to break even, they needed to bring in approximately \$25,000 a week just to sustain their operations. This number seems reachable because it breaks down to about ten sales a weekend. But, when this was their only way of marketing and the only way they planned on making money, it proved to be harder than it seemed because of the competition from Rhino Products and the lack of experience they had at managing the company's finances.

By not hitting sales goals on a weekly or monthly basis, the costs quickly overreached revenues they were producing from the sales. Within the first year they were somewhere around \$100,000 in debt, which isn't bad considering they could make that up in one weekend if they had a homerun show. On the other hand, however, they did not have homerun shows and they were adding to the debt from vendors quicker than they could bring in money from the weekend sales. Every week more products were needed to prepare show items for sale and customer orders which were needed to be delivered on a weekly basis. On paper, they could make their best-selling unit for \$1,800 and sell it for \$4,000 to make a huge profit. But, now with taxes on the unit, delivery, cost of debt, weekly show costs, etc., the profits went from 100% to 10% rapidly. To be successful in this industry especially since you cannot predict how many sales you will have or how much money you will bring in, you operate without any knowledge of the outcome.

Louis' experience as a salesman was both good and bad for the company. His salesmanship was good for the company with respect to the fact that they could sell many units and make customers happy because he was a personable guy who people enjoyed talking to. On the other hand, the industry that they were in was a negotiable market. This meant that consumers could negotiate price at these events to get the best deal from competing vendors. Louis, not wanting to be outdone by his competitors and family would always cave in and sell the unit for less than he was willing to because he wanted to make the sale and didn't want his competition to gain additional business. In the long run this practice reduced profit margins drastically and ended up that for most the time they were selling at a loss.

The beginning of 2001 marked the end for Outdoor Cooking Islands as the business strategies outlined above simply got them into trouble. Stories were heard from Tina who had said that the period right before the bankruptcy was a nightmare. Every check they wrote would bounce and they knew that it would bounce but they had to buy products and materials

to get the laborers working. Every week she said they would accumulate \$50,000 in additional debt and they could do nothing to stop it. She had described this problem as “a cancer that would not stop growing.” During those three years in operation with the first company they made little money and had little to show for their efforts, as Louis also had to declare personal bankruptcy. He had charged thousands of dollars to his credit cards for merchandise, hotels, and personal items that were months overdue and could not be paid for because of the lack of income.

## Round Two

When Louis started the company for a second time with Cousin Peter, he finally had some experience under his belt, a fresh start with no debt, and a clue at how to run a business. This period from 2001 to 2007 was a time of sheer success and utter failure. This was a time of partnerships gone bad and the tarnishing of family relations that will take years to mend.

The year 2001 did not start off with the new company as planned. As the events on September 11<sup>th</sup> took a toll on the economy and people’s spending, the new business began on a rough start. The units that Outdoor Products sold were not necessities, but rather luxury items that people could get by without and they felt it first hand. However, using their expertise in salesmanship, they could sell the bare minimum to maintain operations. After getting through a tough year out of the gates post bankruptcy, they were confident they could make the business profitable.

Louis and Peter were correct in their predictions with 2002 and 2003 finally showing a profit in the books. They could take care of workers who helped them get there, treat office staff to lunches, and of course treat themselves to some rewards that they felt they deserved. Not to mention, the business was growing as they took on more employees, added more shows per weekend, took on a full sales crew, and tripled their sales from the years before. Deposits from the weekend sales always met expected operational goals and many times exceeded expectations two or three times over. Everyone was happy and they finally could see huge success on the horizon.

To achieve goals of bigger success Louis and Peter realized they needed to expand the business and take on different partners to get there. In 2004 they teamed up with “Mike” from “Maximum Steel” to design a commercial grade stainless steel grill of their own. They made an exclusive partnership where Mike would only sell grills to Outdoor Products and, vice versa, Outdoor Products would only buy grills from Maximum Steel. In addition, they took on another builder who did phenomenal work but was struggling in the business of BBQ islands. They partnered with “Troy” at “Fantastic Islands” to handle excess building volume. This way they could turn over more units quicker and bring in delivery collection money in larger amounts. These two partnerships helped propel Outdoor Products in the direction they wanted to go. They had their own grill, which gave them a huge selling advantage over their competitors and they had enough manpower to handle twice as many deliveries, which meant more dollars coming into the company on a weekly basis.

At the beginning of 2004 Outdoor Products was experiencing growth and success on a level they had never seen before. The housing market was doing extremely well and homeowners were re-financing their houses left and right to get their hands on their home equity. Consumers now had buying power that they never had before to get what they wanted and finish projects around the house that they couldn’t otherwise do. By the end of 2004

Outdoor Products had done nearly \$1.5 million in business with Maximum Steel (about 2,500 grills) and had built and delivered the same number of units, with the help of Troy, bringing the gross revenue to about \$12 million. Business was great, they had \$1 million in the bank, they bought new cars, designer clothes, expensive jewelry, and everyone received generous Christmas bonuses.

The following year proved to be an even greater success financially, but business ties would begin to crumble however. With California real estate still red hot, sales came easy and people spent money on their products in greater volume than in 2004. I guess you could say that Outdoor Products was getting a little greedy because they began to slow-pay Maximum Steel for the grills because they felt that their success was solely based on the success of Outdoor Products. Mike was getting extremely frustrated with his partnership and Outdoor Products quickly found themselves \$250,000 behind in past invoices. Mike would eventually cut ties with his partners and sued for past balances due, which he won, leaving Outdoor Products to not only pay for past merchandise but for attorney's fees and damages, totaling to a half million-dollar lawsuit.

With no direct supplier of BBQ's, Louis remembered some friends in the stainless-steel industry and called them immediately. "Jim" and "Bruce" from "ABC Steel" met with Louis and decided to do business with each other in the same fashion that Outdoor Products had done business with Maximum Steel. This time however, ABC was not doing well and Outdoor Products decided to merge its business with ABC and make it a branch of the business as direct stainless steel vendor. After the paperwork was signed Outdoor Products owned 49% of ABC Steel and a new partnership was formed.

Outdoor Products now had a new partner and another customized stainless steel grill that gave it a cutting-edge advantage. However, funding ABC's operational costs in addition to their costs and those of Fantastic Islands took a large toll on Outdoor Products cash reserve. ABC's operating cost was about \$45,000 due to the price increase of stainless steel, labor cost, engineers, large volume of units needed, overtime, machinery, and overhead. Outdoor Products' bank account was diminishing as total costs for all branches increased. Fortunately, the business was still booming and they could support themselves and their partners.

By the end of 2005, despite heightened costs from new partners, Outdoor Products recorded gross revenue of \$13 million. However, the difference between 2005 and 2004 is that they were severely short of the money in the bank compared to what they had the year prior. With the company still doing well and its newly acquired partners and available goods, Louis and Peter wanted to take the company to a higher level and sell at more shows and bring in even more money to build up their reserve that once was at \$1 million. Although goals and spirits were high, there was nothing that could prepare them for the financial events in 2006.

From the start, 2006 appeared to be a different year compared to the prior years in regards to sales and the economy. Sales throughout the year became consistently lower and dropped sometimes 80% from the years before. Interest rates in the housing market began to rise and consumers in general had less expendable income. The days of the massive home refinances were over, which in turn hurt Outdoor Products' sales drastically. What made it even worse was that they were operating at the same capacity to catch up with all the orders from the previous year. Moreover, the costs of ABC and Fantastic Islands were extremely prevalent and took a heavy toll on the company.

By mid May of 2006 the partners of ABC and Fantastic Islands were fed up with the lack of funding and could not operate any further. The partnerships and friendships were tarnished and Outdoor Products once again had their work cut out for them to prepare for the busy summer season. Outdoor Products worked out an agreement to split ABC's two facilities and started to manufacture the grills themselves. This worked for the time, but again, the lack of knowledge in the stainless-steel industry proved to be grave and grills were costing twice as much as they did for ABC.

Prior to the disagreements with their partners, Louis and Peter wanted to put Outdoor Products on the market to sell their business and all they it owned. However, because they had no more cash reserve and were basically operating on a very small profit margin, they looked to friends and family for loans to the company to make the company appear as if it was stronger than ever. Louis and Peter turned to family and eager friends willing to double their money in a short time because selling the company seemed to be viable. Nearly \$1.2 million were invested into the company from December 2005 through August 2006. The money was supposed to be placed into a savings account so that when interested buyers looked and their P & L statement and cash reserve, they would see a large sum of money and get excited about the potential profit that they too would be able to enjoy.

Although the thought of selling the company and cashing out appeared handsome, more bad than good came from it. Family investors invested hundreds of thousands of dollars from their home equity lines based on the information and promises Louis and Peter had made on the return. Instead of the investments sitting in a savings account like they had planned, Outdoor Products needed the money to support their stainless-steel operations and working capital at the company. Before anyone knew it or could believe it for that matter, the money was gone, all of it. As mentioned earlier, I was sitting in a meeting in Louis' office in October of 2006 discussing bankruptcy and in November it was no longer a topic of discussion but the only choice. Too much money was being spent on lawsuits, loan payments, overtime, and overhead.

Many months passed and Outdoor Products was still finishing the details of the bankruptcy. Many family members and customers alike will never see their money or investments back, let alone the products that they had paid for months before.

## **ANALYSIS AND FINAL THOUGHTS**

The major factors that contributed to the downfall of Outdoor Products as a company were inexperienced managers/owners, overspending, over extending operations, lack of business knowledge, and poor choices. From the beginning, it seemed that Outdoor Products was doomed because of the nature of its emergence into the business world. It was started out of spite rather than a passion. It was driven by the want to compete against family and beat them. It was mismanaged tremendously and money was spent foolishly throughout the years. It was conjured by a person with no business training or education. Too much money was spent on fancy cars, designer clothes, expensive novelty items, jewelry, and houses to name a few.

One of the major contributions to its fall was the lack of reinvestment in the company. Louis and Peter developed the ideology that the money and sales will always be there; therefore, they could spend company dollars on themselves above and beyond their paychecks without hesitation. The money that they used to self indulge should have been saved or



reinvested into the company immediately. By the time they did try to reinvest money to help the company it was way too late and there was too much money needed to dig themselves out of the hole they had dug.

Big dreams and huge success led to poor choices and the accumulation of partners that would drain the company. If they would have not partnered with Maximum Steel and ABC Steel companies, perhaps they would have been in a much better financial situation. In 2005 over \$500,000 was spent on overtime based on the notion that they could make it up with extra deliveries and more revenue. These big dreams also led to a big lifestyle, which had to be funded by the company. The parties that were thrown on the company's dollar in addition to extravagant vacations did not help.

Outdoor Products' decline was the result of big wants, big desires, and big dreams. While there is nothing wrong with that by any business standards, but when it is approached with the wrong state of mind you are destined to fail. A good recommendation to Outdoor Products managers would have been to take things slow and try not to build an industry mogul overnight. If they would have managed money better, simplified operations and sales, and put a limit on their spending they would have prospered, or at least be able to stay in business. The first time they brought in \$250,000 in one weekend was the time they expected it every weekend. They wanted to operate on that kind of level all the time when in the end that is what hurt them. They wanted success and money to come quickly. It is tragic that the speed at which they accumulated money and success was much more rapid during its decline. Many people's lives were changed forever, especially the investors. In addition, customers whose orders were never received will be cautious for life. The end of Outdoor Products was more than a bankruptcy; it was the alteration of lifestyle, friendships, and family relations.

## QUESTIONS

1. What strategies would have helped the company to avoid bankruptcy?
2. Should the owners have re-invested their profit back into the company at the last stage?  
Can it be described as good business practice or a poor choice?
3. Do you think that internal controls should have been implemented to monitor spending behavior?  
Do you think that a system of internal control would have helped in this case?
4. What business practices were unethical, how so, explain?
5. What could the company have done for its loyal employees to prepare them for their future and their customers as a sign of good faith?

**SUGGESTED TEACHING NOTES**

1. In many cases borrowing is a way of life for both individuals and businesses. Substantial amounts of debt can be so overpowering that it leaves no other options but bankruptcy. Since filing for bankruptcy is such a dreadful event, it is recommended that companies seek alternative remedies before filing Chapter 7 or Chapter 13 bankruptcy. Prudent managers and business owners would prefer taking these alternative measures over the bankruptcy option for saving their business, employees, and possibly customers. Furthermore, analysis of financially troubled businesses reveals that many could have avoided future business losses and often could have saved the business itself by following some seemingly basic solutions. Management's business objectives should be, not only, to maximize owners' profit, but also to measure performance of directors and to enhance corporate responsibility (Bower and Paine, 2017). Of course, it is possible that many experienced business managers and owners do not follow these solutions because of deceitful motivations. By ignoring them, management may risk the very survival of their business.

- a. Sell Some of Your Assets.

Sell some of the furniture in your office and other business assets to pay off the debt that is becoming due in a short period. Also, there might be some items that are sitting somewhere without being used or necessarily needed, such as a piece of land or a boat or a vacation home. Sell whatever you can to pay off the loans with the higher interest rates.

- b. Pay Your Way Out of Debt.

Often it is possible to reduce your debt by prioritizing your business needs. If there are some nice-to-have things that can be avoided, try to sell them or return them to the merchant to reduce the company's obligations. For example, a very expensive car or truck can be replaced with a cheaper, more economical model. Look around the office and surroundings to find items that can be returned to vendors for reducing or eliminating the debt.

- c. Ask Creditors to Help You Avoid Bankruptcy.

If you let your creditors know that your business is in trouble and is having financial difficulty they might be willing to help you avoid bankruptcy. Some or all of them may be willing to negotiate with you and grant you a lower interest rate and/or a lower monthly payment. Credit card companies and large banks offer programs to assist their customers and clients to stay in business.

- d. Seek Consumer Credit Counseling.

The bankruptcy law requires that before one resorts to filing for bankruptcy, seeks the services of a professional counseling agency. Thus, if business

manager or owner is unable to negotiate with its lenders, they should hire a professional to assist them in this endeavor.

e. Get Help from Family and Friends.

Normally, borrowing money from family and friends is a bad idea. It's been known to create hardships and even end relationships. But there's an exception to every rule, and bankruptcy is one. Take the time to calculate how much money you need to avoid bankruptcy. Carefully consider how much you're able to contribute, then ask friends and family to help you make up the difference. Before you approach them with your wallets turned out, come up with a plan for how you will repay them once your financial situation has turned around.

f. Settle with Creditors and Debt Collectors.

Settling with the debtor is another that one can avoid bankruptcy. Filing for bankruptcy should always be the final resort. If you must choose between settling your debts or filing for bankruptcy, always choose to settle the debts.

First, don't use the companies that claim they can settle your debt. They take too much time and a lot of fees for this service. Second, don't settle the debt that is current. Focus only on debts that are past due or sent to collection. Third, avoid settling for payments. Pay the lump sum amount as soon as an agreement is reached.

g. Apply a combination of the above strategies.

2. The answer to this question depends on the circumstances surrounding the case. If the business can be salvaged by investing more money into the business, it should certainly be done. On the other hand, if their economy is bad, the market for BBQ islands is slow, and the sales are at a level that are not expected to cover the cost of goods sold and operating expenses for the foreseeable future, then the owners' additional investment in the company will be fruitless.
3. Often problems start to slowly come to the surface due to either the lack of internal controls or weaknesses in the already established control systems. Per the Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal control is "a process, effected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations (Knowledgeleader, 2016)."  
Effective internal controls are expected to safeguard the company's assets, properly document all key operations, ensure that all applicable laws are followed, and proper reports are prepared for management and all other private and public authorities. The

key components for effective internal control are (1) risk assessment, (2) control environment, (3) control activities, (3) information and communication, and (5) monitoring.

For a small company, as in the case of Outdoor Products, Inc., the main two control activities involve controls over cash receipts and controls over cash payments.

Research has documented that effective internal controls work to prevent fraud (Thornhill, 1996). If the owners of the company had decided to establish a system by which these two primary activities could be controlled, it would not have allowed the managers to plunder the corporate funds for financing their extravagant life style at the expense of the company's downfall.

4. If the company was still operating, a good advice to its managers would have been to take things slow and try not to build a giant company overnight. If the company would have managed money better, simplified operations and sales, and put a limit on their spending they would have prospered, or at least can stay in business. The first time they brought in \$250,000 in one weekend was the time they expected it every weekend. They wanted to operate at that level all the time when in the end that is what hurt them. They wanted success and money to come quickly. It is tragic that the speed at which they accumulated money and success was much more rapid during its decline. The unethical action committed by the company owner/managers was to mix the company's assets with their own. This is a clear violation of the entity principle. Louis and Peter indulged in their success and bought new houses and new cars using the company funds. The other issue facing OPI is the lack of accountability. Without accountability, many of the problems raised in this case are likely to occur including floundering, failure, and business fraud (Kermis and Kermis, 2014).
5. There is a distinction to consider when a company is filing for bankruptcy under Chapter 7 (a liquidation) and Chapter 11 (a reorganization). When a company files for Chapter 11, the company is planning to reorganize and continue its operations as usual. In this case, there is a chance that the employees and the customers will still be here and their relations with the company will continue in future. Companies usually retain their key personnel to continue operations. On the other hand, when a company files under Chapter 7, it is planning to liquidate its assets and close its doors within a short period. As a minimum, the company should keep its employees and customers informed of its pending application for bankruptcy. This will allow them to plan their future actions while the company is still around.

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