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Investors Dilemma

Adam R. Marasco
University of Dayton

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An Investor's Dilemma

Arthur Vandelay is a wealthy investor and part of a large Angel Investment fund based in San Francisco. While flying back home from a business trip in Pittsburgh, he couldn't help but listen to two men talking in the row behind him on the plane.

"This is my last chance," says one man. "Without an investment, I can't sustain the growth of my business and I'll probably have to close up shop. I have four kids, and wife who's just been diagnosed with breast cancer and I need to make this business work to give them the best life possible. I put 80 hours a week into this business and I think this is going to finally be my big break."

"80 hours a week?!" the other man replied, "I can barely make it through 40 in my job, how do you do it?"

"It's not as bad as it sounds really." The first man responded, "I was blessed to have the same attitude and work ethic as my father. He spent 30 years working in a Steel Mill during the day, and then going to work at a hunting and fishing store that he owned at night. We didn't see him much, but we knew that he was doing the best he could to provide for us." As Vandelay listened, he couldn't help but smile and think to himself that it's men like this that make this country great. He said a short prayer, hoping the man would get the money he needed.

Vandelay rushed to the parking lot, knowing that he only had 30 minutes to make it to his afternoon meetings. Today, the Angel investment fund he was a part of was hearing presentations from two businesses, one of which will get the last \$500,000 that the current fund has to offer.

The first presentation was given by the typical entrepreneur that usually pitches to this fund. He was 27 years old, with an MBA from Stanford. His father was a rich oil tycoon from Houston and had already invested \$250,000 into the business. He had a certain arrogance about him that may arise from someone of his background, but his business had great growth potential. When the presentation was over, Vandelay concluded that he even though did not care for the attitude of the founder, the business was highly investable. While Vandelay waited for the other entrepreneur to come in for the next presentation, he began talking to his friend, and fellow investor Bob Sacamano. "Rumor has it, this kid stole the idea for his business from his college roommate," Bob said. "They went to court in a brutal legal battle but his dad gave him the best legal representation money could buy and he ultimately won. Life's not always fair I guess."

When the second entrepreneur came for his presentation, Vandelay recognized him immediately as the man from the plane. He couldn't believe the chances and was excited to have an opportunity to invest money in such a hard working individual. However, when the 30 minute presentation was over, his heart sunk. Immediately, Vandelay knew that the man's business was nowhere near as investable as the one pitched by the Stanford MBA. The man from the plane had a good business but, in Vandelay's opinion, the growth potential wasn't as favorable.

As the investors began to vote, the outcome seemed decisive. There were a total of 100 votes in the fund and Vandelay, being the largest investor had 25 of the votes. As was customary in all of their meetings, the largest investors voted last so Vandelay was the last person to vote with 48 votes for the Stanford MBA and only 27 for the man from the plane. Knowing that his 25 votes could earn the man from the plane the \$500,000 he needed, he faces the ultimate dilemma.

1. What would you do if you were Arthur Vandelay situation? Which business would you invest in?
2. What responsibility does Vandelay have to the other investors in his fund?
3. Would Vandelay be justified in picking the business pitched by the man from the plane?

The two aspects of this case that could cause a dilemma are: 1). Does Vandelay have a responsibility to other investors in his fund to choose the better business? 2). Overall, is it right to invest in a business that could have been started in an unethical manner?