Vendor Gifts at Indian Trails Country Club: An Ethical Dilemma

Brief Case Summary and Importance of Topic

It is common for vendors to give away gifts to hospitality business. Tom LaFranz, the GM of Indian Trail Country Club, accepted vendor gifts, giving the appearance of professional impropriety. In this case, several factors came into play that affected how various stakeholders interpreted and evaluated his behavior, which was complicated by the absence of a code of ethics.

The literature tells us again and again that we must teach ethics in our hospitality programs. Hospitality managers will face a variety of ethical issues during their careers. They will need to develop cognitive tools for correctly interpreting, evaluating, and resolving them. They will also need to understand the importance of having a straightforward and well communicated code of ethics to minimize ethical issues and dilemmas. This case, using a common ethical dilemma, helps achieve the aforementioned objectives.

Target Audience

This case would be appropriate for an undergraduate or graduate course with ethics content, such as hospitality leadership theory, food and beverage cost control, hospitality finance, hospitality managerial accounting, senior seminar, or strategic management.

Teaching Objectives

- Understand the difference between a kickback and gift and recognize when gifts become kickbacks and lead to problems.
- Explain how gifts in hospitality businesses may create conflicts of interest for employees.
- Understand the consequences of unethical behavior.
- Delineate standard practices for dealing with gifts.
- Apply ideas, models, and theories to explain and evaluate Tom's behaviors.
- How to think ethically.
- Learn about measures for preventing ethical issues and dilemmas and allowing basically good employees to do the right thing and succeed.

Teaching Approach

This case uses a problem-solving approach where students identify issues within the case study and respond to the action-focused questions at the end of the case.

Step 1: Class lecture that introduces the case study topic.

- Have students take the following online Integrity and Ethics Test and then ask them what they learned from it: http://www.queendom.com/tests/access_page/index.htm?idRegTest=3089.
- Have the students read the article: Greenspan, J. (2011). Charlie Brown's CEO nailed with a 2-year prison term: Retrieved 2015-03-17, from http://www.law360.com/articles/225258/charlie-brown-s-ceo-nailed-with-2-year-prison-term.
- Have students read the Darden Code of Business Conduct and Ethics: http://www.darden.com/pdf/corporate/Code_of_Business_Conduct_and_Ethics.pdf.
- Have students read the Marriott Business Conduct Guide: http://www.marriott.com/Multimedia/PDF/CorporateResponsibility/Marriott_Business_Conduct_Guide_English.pdf.
- Explain to students how to calculate food and beverage cost percentages and to interpret their meaning. A very important part of a restaurant accounting system is determining the food and beverage cost percentages. The food cost percentage figure is the ratio of the cost of the food sold over the dollars received from selling the food. The beverage cost percentage figure is the ratio of the cost of the beverages sold over the dollars received from selling the beverages. For example, if the food costs are $1000 and the sales are $3000, the percentage would be $1000 over $3000 or 33.3%. The food and beverage cost percentages alert managers to possible problems when there is a deviation from past ratios (historically higher), targeted ratios (higher than budgeted cost percentages), and industry averages (higher than competitive set).
- Introduce students to different ethical theories to help students interpret and evaluate Tom's behavior. In the answer to question 3 below, three ethical theories are discussed. The selection of these ethical theories is not intended to dismiss the value of other theories but to help frame the ethical issues and questions pertinent to this case analysis. Information about ethical theories and applied ethics can be found at http://ethics.sandiego.edu/.

Step 2: Homework assignment. Students read the case study carefully, highlighting main points, organizing relevant events chronologically, and noting issues and contributing factors.

Step 3: In class or as a homework assignment, students perform a case analysis, individually or in a group. Students should begin by selecting ideas (e.g., industry standard or norm), models (e.g., Darden Code of Ethics) and ethical theories (e.g., Utilitarian) that will aid in their understanding of the situation. They will then apply those ideas, models, and/or theories to explain why things happened the way they are (framed information or facts). The next step will be to order the facts in a way that will help them interpret and evaluate Tom's behavior and determine and explain possible corrective actions, both near-term and long-term. Students can use the Fishbone or Cause and Effect tool to help with their analysis. This is a visual tool to identify, explore, and graphically display, in increasing detail, all of the suspected possible factors related to the problem (e.g., Tom's culpability in accepting vendor gifts) to discover its root causes. It will result in a diagram that looks like the skeleton of a fish with main causal factors or categories drawn as large bones attached to the spine of the fish. Each large bone then branches out to include smaller bones containing more detail. Six investigative questions – who what, where, when, why, and how – can help students better understand the root causes (Vallabhaneni, 2008).

Specific steps in developing the Fishbone diagram:

- Write down the exact problem in a box on the left hand side of a sheet of paper. Draw a line across the paper horizontally from the box. Click on the following video link to learn how to use PowerPoint for creating a Fishbone or Cause and Effect Diagram: https://www.youtube.com/watch?v=U5hQcN49LjM.
- Identify the factors that may contribute to the problem. Draw lines off the spine for each factor, and label it. Factors might include policies and procedures, business culture/environment, supplies/vendors, systems, skills, and employee values and motivation.
- Identify possible causes, such as lack of policies, unclear policies, ignorance, not sure what is really the right thing to do, learned behaviors, greed, misguided loyalty, vendor pressure and dishonesty, no ethics program, poor accounting controls, and industry practices. For each of the factors you considered in the previous step, brainstorm possible causes of the problem that may be related to the factor. These are shown as smaller lines coming off the large bones ' of the fish.
- Analyze the fishbone diagram and investigate the most likely causes further.

Step 4: The instructor starts and facilitates a class discussion on the case study by asking someone (or a group) for an answer to a particular discussion question and then works backwards to derive the analysis.

Step 5: Have students develop code of ethics statements or provisions for conflicts of interest that would be appropriate for Indian Trails Country Club. Key areas to address include vendor relationships (e.g., gifts and gratuities,), employment relationship (e.g., club employee also works for a club vendor), financial interests (e.g., club employee borrows money from a club vendor), and fair dealing (e.g., club employee deals fairly with club members, vendors, and employees). As a term project, have students develop a comprehensive code of ethics and/or an ethics training program specific to Indian Trails Country Club.

Answers to Discussion Questions

1. Are vendor kickbacks, receiving anything of value to influence a business decision, illegal?

Kickbacks to an employee are not illegal per se. According to section 162(a) of the Internal Revenue Code, if a kickback does not specifically violate federal or state laws and such kickbacks are made to clients throughout the industry, the kickback may be normal, legal, and even tax deductible.

2. Did Tom receive gifts or kickbacks?

The Internal Revenue Service allows only one $25 business gift per year as a tax exemption. Gifts exceeding that allowance become taxable as income. The former head of the Charlie Brown's restaurant chain was sentenced to two years in prison for tax evasion. He failed to report to the IRS $1 million in kickbacks from vendors. The vendor prices from products received from Southeast Meat Company and Wine and Spirits of America appeared to be reasonable during the first three years of Tom's tenure, as reflected in the food and beverage cost percentages. The longer you deal with the same vendors, however, the cozier the relationships can become and the potential for abuse. Because some of the gifts were at the high end of the spectrum, they could be interpreted as kickbacks. The bottom line is that gifts become kickbacks when they corrupt an employee's professional judgment.

3. Did Tom maintain ethical relationships with the vendors based on his intentions, the consequences of his actions, and/or industry practices? If not, what disciplinary action would you recommend?

Ethics, the principles of right and wrong, are the standards that govern business decisions on a daily basis. (McShane and Von Glinow, 2010). In the hospitality industry, purchasing can be a challenging task due to the broad array of products and services needed to sustain an operation and the highly competitive nature of the marketplace. Consequently, ethical issues arise as purchasers and suppliers interact, as sources are selected, and as terms are negotiated (Trace et al. 1992). A hospitality business may have a written code of ethics that governs the rules or standards of professional conduct of all its employees. A written code of ethics is typically found in corporate organizations, such as Dallas-based ClubCorp, owner and operator of more than 200 clubs in 26 states. In the ClubCorp code of ethics, the following questions are asked to guide employee decision making (http://public.

thecorporatelibrary.net/ethics/eth_316065.pdf):

- Is the action legal?
- Does the action comply with the Code?
- How will your action or decision affect others?
- How would you feel if your action or decision was made public?

ClubCorp recognizes that it is sometimes difficult to delineate precise standards of ethical conduct. Without formal ethical standards, however, managers' ethical orientations will tend to determine the ethics of the organization (Fox, 2000). In light of Tom's longstanding relationship with the vendors at Indian Trails Country Club and at his previous employer, accepting gifts was a normal business practice for him. He may have been blindsided by the significant increase in the vendor prices or agreed to the higher prices for more lucrative gifts, such as the wine vacation.

While there are a number of ethical theories in the literature, the following could be used for interpreting and evaluating the ethicality of Tom's actions and then determining the appropriate disciplinary action (e.g., verbal reprimand, written warning, or dismissal) if deemed necessary:

"Is the Road to Hell Paved with Good Intentions?"

Ethics of Intentions. According to this theory, the consequences of an action are not of moral importance. It is the intentions, not the consequences, of action that define whether it is ethical or unethical (Zamagni, 2006). Emmanuel Kant philosopher maintains that good intentions is the same as acting according to one's duty or sense of obligation (Bowie, 1999). Kant's ethics then is an ethics of duty rather than an ethics of consequences. Was Tom blindsided by the significant increase in the vendor prices or did he agree to the higher prices for more lucrative gifts, such as the wine vacation? Did Tom negotiate contracts with the best interest of Indian Trails Country Club uppermost in mind? Did Tom have a moral obligation to disclose the gifts? Was the ethical dilemma in this case a result of Tom's ignorance to both moral obligation and moral responsibility? Ward (2006) maintains that ethical failures in a leader are due to ignorance. They often feel excused from ethical requirements that others follow.

"Do the Ends Justify the Means?"

Utilitarianism. According to this theory, the consequences, not intentions, of an action are of moral importance. As such, it moves beyond the scope of one's own interests and takes into account the interests of others to maximize aggregate welfare or overall happiness. One study found that utilitarian moral judgment was associated with reduced empathetic concern (i.e., feelings of warmth and compassion in response to someone in distress) (Gleichgerrcht and Young, 2013). Did Tom's acceptance of gifts jeopardize the financial health of the club? What if the case scenario was reversed and Tom's acceptance of the gifts did not jeopardize the financial health, how would Tom's actions be perceived using utilitarian judgment? Considering that Tom was well loved by club members, would this pose a moral dilemma - a conflict between the desire to handle his situation rationally (utilitarian judgment) and an emotional aversion to harming his reputation and career (non-utilitarian judgment).

"Is it all Relative?"

Ethical Relativism. According to this theory, morality is relative to the norms of one's culture. There are no moral absolutes. The decision making process is more flexible because it gives a person the option to take into consideration more than just a set list of concrete rules. Ghillyer (2012) contends that many people choose the idea of ethical relativism, whereby the traditions of their circumstances of the present moment define their ethical principles. Because it is fairly common for vendors to give away gifts to their customers, is this industry practice right or wrong? Do low value gifts have the same impact has high ones on decision making processes? Because accepting gifts was a normal business practice for Tom that stretched back to his previous employer, does that make it right or wrong?

4. *What can be done to prevent the case's ethical dilemma from happening again?*

Preventing ethical issues and dilemmas must be addressed at the individual and company levels within an industry context (Carroll and Buchholtz, 2011). The first step begins by writing a code of ethics, which did not exist for Indian Trails Country Club. A code of ethics is a set of straightforward guidelines and policies that specify acceptable behaviors. It should address the particular nuances of the company's industry and be specific enough to serve as a guide for employees in a quandary (Spiro, 2010).

Darden, owner and operator of more than 1500 restaurants, has a detailed code of ethics. It states that "employees must avoid any conflict of interest with Darden...A conflict of interest occurs when an individual's private interest interferes in any way – or even appears to interfere - with the interest of Darden." It also provides a number of provisions that spell out relationships with suppliers, one of which directly applies to this case study (http://www.darden.com/pdf/corporate/Code_of_Business_Conduct_and_Ethics.pdf):

> No cash gift or gratuity or any kickback, free services or special favors from any vendor, supplier, contractor or agency may be solicited, requested or accepted. Gifts of a nominal value (defined as less than $100) may be accepted provided they have not been solicited and are not being made in return for a special consideration or decision.

Tom and other managers must clearly understand ethics codes in order to effectively model them. The combination of written ethical codes that are clearly communicated to employees and consistently modeled and practiced by management can be very influential (Stevens and Brownell, 2000). More and more organizations are finding that ethical training is an integral component of their business. It is typically more oriented toward the dilemmas faced in a particular work environment. A 2014 study found that the positive effects of a formal ethics training can last more than two years after the training (Warren, Gaspar, and Laufer, 2014).

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