

# *Leadership, Ethics, Human Resources, and the External Environment: A Case Study on Resort Turnaround, New Management, and Land Disputes*

By Britt Mathwich

## **Introduction**

The case study presents a complex practical scenario with challenging leadership and management strategies that students may face in an executive level position in the hospitality management industry. There are several problems facing Enchantment Resort's Vice President of Operations in the areas of leadership, ethics, human resources, and the external environment. This will be your role for the purposes of discussion. These issues arise at least in part from the resort's efforts to develop an eighteen-hole golf course during ongoing resort operations. A more complicated issue is the request by the owners of the resort that the management company you work for pursue eminent domain to recover a parcel of disputed land on the golf course. Leadership and management dilemmas and questions arise in dealing with local governments, legal issues regarding land rights, golf course investors, and the staff of the resort. The golf course under construction must be completed while managing the turnaround of resort operations. As VP of Operations, you must identify the key issues, develop practical solutions to address the issues, and fulfill Enchantment Resort's third-party management contract.

## **Case Overview**

### *An Incomplete Golf Course*

Equis Resort is privately held by a couple in their seventies. The property was built in 1952. The current owners acquired the resort in 1971. Equis Resort was originally developed as an affordable family resort with unsupervised activity offerings including pools, croquet, volleyball, horseshoes, and other similar activities.

The owners of Equis Resort began looking for additional ways to differentiate their resort and improve revenues. They were approached by a local land owner with the idea of building a golf course. Feasibility studies had shown pent up demand for golf courses in the area. Additional studies had shown positive increases in room occupancy and rates and that access to new markets occurred when resorts added golf facilities in high-demand markets. Equis Resort would be the only property in the area with a golf resort. The resort and several land owners would contribute land and water rights to build the course. The resort would also contribute construction costs and receive exclusive rights to operate the course, and retain any operating profits.

The owners decided to develop a golf course to attract a new market for the resort. They had been developing the golf course for several years and they were now into the second year of construction. The golf course was developed on land contributed by Equis Resort and several adjacent land owners. The land and associated water rights were contributed at no cost with the anticipation of land values on the owners' remaining land parcels increasing significantly in value. The construction costs on the course, club house, cart barn, and maintenance building were budgeted at \$3.5 million. A recent contractual issue on a small but critical portion of the golf course property threatened to stop the project. In the final year of the golf course construction, one of the contributing landowners for the golf course demanded he receive a \$500,000 cash payment or his land would be removed from the project. Fair market value of \$125,000 had been offered for the parcel, but was rejected. There were no additional funds available for a \$500,000 payment to the contributing landowner.

The owners of the golf course had not followed through on the final signing of a part of the contract with the landowner. The land in question was critical to the flow of the golf course and had the potential to stop the project if a solution was not found. The project must be completed on time or else Equis Resort risked losing additional land that had been contributed by several other landowners and ultimately the golf course project. The loss of the course would negatively impact the resort, including the loss of all capital expenditures to date as well as the potential loss of revenue from the golf course and repositioning of the resort, its surrounding community, the land owners, and the reputation of the management company.

### *Under New Management*

From 1952 to 1971, the resort had enjoyed popularity and prosperity. The resort was sold in 1971 to the current owners. The current owners continued the business model of an affordable family resort and did well for a few years. As with many similar resorts in the southern and eastern parts of the U.S., they began losing market share due to increased competition from a variety of new travel options including destination theme parks, cruises and new resorts with more modern amenities. The last ten years have seen a steady decline in revenues and profitability. In recent years, there has been a sharp decline due to a national economic downturn. In spring of 2001, the United States economy experienced a stock market downturn generated by the technology bubble. All areas of the economy were affected, including nonessential expenditures such

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as travel and vacations. In addition, the terrorist attack on September 11, 2001 sent shock waves through the economy and the travel industry.

Equis Resort's owners realized that the golf course construction completion and the turnaround of the resort needed additional expertise. After researching several top management companies, Enchantment Resorts Management was hired. The ten-year third-party management contract began before the land owner contract issue was known.

Enchantment Resorts Management is a resort management company specializing in the development and management of upscale boutique resorts. Their expertise lies in new construction for investors as well as repositioning of existing properties. The management contract for Equis Resort in rural South Carolina began one year ago. The resort owners tasked Enchantment with the renovation of the existing property and a rebranding and repositioning of the business.

Enchantment Resorts proposed to rebrand and reposition the property as a lifestyle resort appealing to a broader range of markets. Lifestyle resorts are geared toward a younger, active clientele offering both supervised and unsupervised activities. Examples would include, golf, kayaking, rafting as well as the traditional activities offered by Equis Resort. The golf course, rooms, amenities, public area renovations, and upgrades were to be incorporated into the resort rebranding and repositioning. The repositioning and renovations with more modern amenities would also target group markets interested in meetings and active lifestyle offerings.

### ***Problematic Cash Flow***

Enchantment Resorts' management team had begun the turnaround of the resort, implementing several operational efficiencies, revenue management strategies, and a short-term targeted sales and marketing campaign. This had been accomplished despite a significant downturn in the national economy and local resort industry. The new golf course would be incorporated into the rebranding and repositioning of the resort. At this point, one year into their ten-year contract with Equis Resort, the resort was improving financially but had funneled all cash flows into renovations and projects. As part of achieving operational efficiencies, Enchantment Resorts' management had asked staff to continue to cut labor costs, which resulted in grumbling and low employee morale. Regarding the landowner issues for the golf course, the resort owners have asked you, the Vice President of Resort Operations, to file for eminent domain to obtain the disputed land. This would mean the city could turn over that land for the golf course project.

### ***The Vice President of Resort Operations' Role***

As part of Enchantment Resorts Management, you have been assigned to run the project as Vice President of Resort Operations. The owners negotiated the contract to include their strategic involvement in the golf course completion and in the resort turnaround. You have already completed a planning timeline for golf course construction completion and an operational, marketing, and renovation plan for the

owner's approval. Upon approval, weekly meetings were set to update progress. Enchantment is responsible for all direct operations.

You are also overseeing the resort turnaround in addition to the completion of golf course construction. Enchantment Resorts provides support to the individually-managed properties but has a corporate philosophy of placing the right managers with the right contract and giving them a fair amount of autonomy. Based on that philosophy, Enchantment Resorts has placed you in this position due to your work as a turnaround specialist and your years of experience managing successful golf course construction projects. However, regardless of how Enchantment Resorts Management operates, the owners of Equis Resort continue their involvement as well, per the original contract agreement.

### ***Where Things Stand***

The owners of Equis Resort have no additional funds for the cash payment to the land owner, cash infusion to offset wage freezes, other labor issues, or operational expense cuts now. The decision has been made by ownership to pursue an eminent domain claim through the local city council. It has been decided to launch a local public relations campaign, aimed at residents and local government, and to hold an informational open house at the golf course in-progress. This open house is scheduled to take place before the hearing with city council to request eminent domain.

## **Discussion & Application of Theory**

### ***Discussion Questions***

As the VP of Operations, you will need to develop answers for the following questions:

#### **I. Leadership**

- What are the major leadership challenges for the VP of Operations?
- What were leadership failures, if any, in the case?
- What leadership traits would be necessary to resolve the challenges and why?
- How would you as the leader?
  - a. Have avoided the failures?
  - b. Outline your leadership solutions and why?

#### **II. Ethics**

- What do you see as the major ethical dilemmas in this case?
- How would you address them and why?

#### **Human Resources**

- What are the major human resources issues?
- How would you address them and why?

#### **External Environment**

- Describe the external environmental factors in the influencing case? (Legal/Political, Economic, Socio-Cultural, etc.)

- What can the VP do to mitigate or use these environmental factors to reach the resort's goals?
- Summarize how you integrate the four previous questions in reaching the stated organizational goals.

### *Theoretical Concepts*

The case presents four major areas for analysis: leadership, ethics, human resources, and the external environment. The case discussion questions above are built around these concepts and the theoretical foundations of each are discussed below.

Daft (2016) defines management as achieving organizational goals through others. Leadership takes management one step further in providing the vision to motivate others to achieve the organizations goals. Today's environment requires an understanding of the evolution of management thinking. Today's manager must be innovative, people-oriented, and understand how to manage change in a rapidly changing environment. In this demanding situation, you—the VP of Operations—must evaluate and prioritize the issues presented to you. You will need to play several leadership roles and use a variety of management skills and traits in working with all the stakeholders in the case to reach their individual goals. Daft (2016) and Woods and King (2010) present a detailed discussion on leadership theory and types of leaders; this is an excellent supplement to your knowledge of this subject. There needs to be discussion regarding balancing stakeholder needs to reach the organizational goals.

Managers must understand the basic skills needed (conceptual, human relations, and technical) and how to apply these skills in management and leadership positions (Wood and King, 2010; Daft, 2016). Mintzberg defines ten managerial roles or sets of expectations for managers' behaviors. These are divided into three categories: informational, interpersonal, and decisional (Daft, 2016). The roles may vary by situation. Woods and King (2010) summarize these concepts into a contemporary or transformational leader—a leader who uses management principles but who leads with communication of vision and values, manages systems and processes, supports people, engages in continuous improvement and provides ethical guidance to achieve organization goals. Leaders/Managers of organizations must understand when and how to apply these skills in their organizations.

Ethics is defined as a code of moral principles and values that governs a group regarding what is right for what is right and wrong (Daft, 2016). Business ethics scandals in recent years have emphasized the importance of ethics from a financial, social, and environmental perspective (Shefali, 2015; Daft, 2016). Sisson and Adams (2013) feel that a critical skill for hospitality managers is understanding business ethics and the ability to provide ethical decisions when faced with dilemmas. There are several ethical issues presented in this case. The first is the request for eminent domain, which you must first address in terms of its legality. (Eminent domain is the power of a state, provincial, or national

government to take private property for public use.) Any legal grounds for the local government to acquire the property with justifiable compensation from a private landowner against his will must be addressed. However, this power can be legislatively delegated by the state to municipalities, government subdivisions, or even to private persons or corporations, when they are authorized by the legislature to exercise the functions of public character (Wikipedia.org, 2017). While it is unusual for government entities to enact eminent domain over private land for use as a golf course, there is legal precedence. An early eminent domain case allowed land to be taken for a golf course for a state university (T. L. '32, 1931). Recent cases have involved Trump developments in both Scotland (Ablow, 2016; Tuttle, 2016) and New York (Fox News, 2015).

To reinforce the concept of eminent domain, students may review the articles on the subject in the additional reading section. Liberman and Nissan (2008) would argue that the utilitarian ethical philosophy could be applied in this instance. And, even if there is a legal argument for eminent domain, management and ownership must determine if it is the right thing to do. The consideration of other ethical theories and processes will enhance your understanding for this portion of the case and allow you to fully address the associated discussion questions (Lieberman and Nissan, 2008; Jaszay and Dunk, 2006).

Daft (2016) and Wood and King (2010) emphasize the importance of human resources in strategic leadership and management. Both managers and leaders must recruit, hire, train, retain, and develop people to reach organizational goals. There are several issues to keep in mind for these discussion questions. The first is the fact that Equis Resorts has been tasked with reducing expenses in operations. The Resorts' workforce has been asked to become more efficient and eliminate positions. A wage and benefit freeze has also been implemented. Additionally, all savings and cashflows have been directed toward renovations, leaving operational expense budgets for basic needs (such as small tools, linens, paper goods, etc.) squeezed. This has resulted in the perception, by the employees, that they are overworked, underpaid, and undervalued.

The external environment (anything outside the organization that may influence it) must be understood and managed for organizational success. The general environment includes technological, natural, sociocultural, economic, legal political international and the task environment which is outside the organization but more directly connected. Daft (2016) discusses two components of the external environment: general and task. These include customers, competitors, suppliers and the labor environment. The factors from the external environment that are influencing the case and your ultimate decisions about them need to be identified. In this case the legal political implications are important. Further, the political implications for the local government and the legality of the case must be determined. And the economic conditions which prompted the hiring of Enchantment Resorts Management and the development of the golf course should also be discussed.