

AN ETHICAL DILEMMA*

Even though Todd had just graduated from Indiana University, he interned with Jennings Department Store for two summers. This experience helped him get promoted to section manager once he graduated. Although Todd was young and most of the people he managed were older, they respected him because of his expertise and ability to form good relationships with his coworkers and customers.

Several weeks ago, Todd began to hear rumors about one of the unit managers, Zara. He checked Zara's past financial reports and verified she was one of his better managers. Her unit posted the highest sales volume and growth, received positive customer feedback, and showed excellent cost control. The unit's people also did consistently well on inspections. In fact, Zara consistently rated higher than all the other managers for the last two years. Todd wondered why she hadn't been promoted. He knew upper management went over the financials with a magnifying glass. Todd decided to investigate further.

Over the next few weeks Todd began talking informally to those that knew Zara. He heard the same story over and over again. Zara was kind, firm, great with the customers, and looked out for her employees. Zara even had a dedicated following of customers that came in to ask questions about fashion and accessories. She had a client list that followed her tweets and made her department the cash cow of the store. Even though Zara had not graduated from college, she took night classes and was about a year away from her management degree.

Next, Todd spoke to some of Zara's retail clients. The comments made him realize just how much he needed to learn about retailing. They spoke of Zara's advice on shoes, dresses, and jewelry. Some told him they routinely came in to give Zara Christmas gifts. He discovered the store was doing so well in large part because this one employee cared about her clients and workers.

Yet as he questioned more clients, Todd found something rather odd. Some of the customers told him that for small items they handed Zara cash and told her to keep the change. Todd soon discovered these sales were not rung up. Next, he checked the store's shrinkage measures or items that may have been stolen or damaged. The records indicated some shrinkage but nothing significantly "excessive."

After a few weeks of investigation Todd discovered Zara used the money or cash as unrecorded payments to her retail staff. She gave the money in the form of performance bonuses, overtime incentives, and off-hours work. He knew this was in violation of company procedures, yet he couldn't definitively prove Zara was actually taking the shrinkage money and using it to achieve the high performance that had become her trademark. It wasn't as if the employees were being over paid, compared to top management's 700:1 income disparity ratio. Most employees just scraped by, as was evident by the company's high employee turnover rates. But Zara's turnover rate had always been low.

Todd could not definitively say whether Zara was stealing. He did know there were some cash purchases that were not recorded properly. However, Zara was officially getting the money, whether through theft or simply by "keeping the change" the customers gave her for purchases, he knew that because the funds were not listed as income, the extra "wages" to Zara's employees meant no payroll taxes were being withheld. This meant Jennings was at risk for a tax liability action by the IRS.

Todd thought about what to do. He looked through the company's ethics code, but found the guidelines vague. The code itself only spanned two pages and did not provide any contact information for him to ask questions. Todd murmured under his breath, "Why did I start this mess? Should have left things alone." He knew nothing at a company is secret for long and his questions would soon alert others to start asking questions. On the other hand, he knew this had gone on for quite some time. Why had nobody noticed before?

QUESTIONS | EXERCISES

1. Describe some of the weaknesses in Jennings's ethics program.
2. Discuss the alternatives for Todd.
3. How has Zara been given the opportunity to engage in misconduct?

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.