

Case Study 2:

The Ethics of Vacations

Background

ReaComm is a producer of software applications for mobile devices based in Ontario, Canada. The company's primary product offering allows sales representatives and managers to track and record travel and entertainment expenses on a smartphone. ReaComm's customers include a number of Fortune 500 companies and their software products are sold in North America, Europe, Asia Pacific, and South America. ReaComm has sales offices in New York, Los Angeles, London, Berlin, Melbourne, and Caracas.

Current Situation

In May of last year, a member of the ReaComm board of directors informed CEO Walter Smith of the possibility that payments were being made by ReaComm sales managers in the London office to customers in return for purchases of ReaComm software (see Exhibit A). The director had been informed of an all-expenses paid vacation being purchased for a customer and his family in return for a substantial order of software. The cost of the vacation had been added to the software charge as a part of the regular pricing—in other words, the accounts payable department of the customer had no knowledge of the kickback. The director reminded the CEO that this behaviour is in violation of the ReaComm code of ethics and that she expected a full report on the accusation at the next board meeting.

The CEO immediately emailed Yasmina Ali, Senior VP of worldwide sales, and requested an inquiry (see Exhibit B). Yasmina in turn emailed Madeline O'Connor, VP of sales in Europe, looking for confirmation and immediate action (see Exhibit C). Madeline forwarded the email to her sales managers with her own request (see Exhibit D).

The Problem

Yasmina's forwarded email caused a panic among the members of the European sales team *not* involved in kickbacks (see Exhibit D). Many team members were upset and offended by accusations of unethical behaviour. A number of sales representatives requested meetings with Madeline to discuss the accusation. As a result, Madeline's calendar was overloaded with meetings and phone calls in reference to the "situation," as it became known, to the point where her ability to focus her division on quarterly sales and financial goals was hindered.

Eventually, one sales team member, Piotr Brento, located in Europe, admitted to devising the kickback scheme but denied being aware of its questionable ethics (Exhibit E). Madeline replied to the sales associate in question with admonishment and the promise of further action if the practice occurred again (see Exhibit F). One month later, evidence surfaced that Piotr had provided another customer with a kickback in the form of a cash incentive.

Exhibit A
Transcript of Board Meeting Conversation

Amara Devi, Board Member: Walt, I have a friend who works at SoftTake (a competitor of ReaComm) telling me that we are offering kickbacks to the purchasing agents of a few of our customers in Europe. He would not be specific and he did not want to give me client names, but he hinted at going public if we didn't take steps.

Walter Smith, CEO: Did he give *any* particulars? Do you think he was fishing, trying to get information on our European operation?

Amara Devi: No, I think he is serious and this is a very serious issue that I am sure you will give your full attention. Apparently, we have been providing client purchasing personnel with all-expenses paid vacations that we, in turn, covertly add to our invoice.

Walter Smith: I will definitely look into the allegation, thanks.

Exhibit B
Email from CEO to Yasmina Ali, Senior VP of worldwide sales.

To: Yasmina Ali
CC: Amara Devi
Subject: Possible European sales ethics problem
From: Walter Smith

Yasmina,

Amara Devi has informed me of a possible sales ethics breach in the European office. Amara has learned from a reliable and trusted source in one of our competitors that our European sales office has been offering kickbacks in the form of vacations to key employees of our clients and then burying the cost in the invoice.

Please look into this matter and report back to me. If this is occurring, it is a serious breach of our code of ethics.

Walter

Exhibit C

Email from Yasmina Ali to Madeline O'Connor

To: Madeline O'Connor
CC: Walter Smith, Amara Devi
Subject: Sales ethics problem
From: Yasmina Ali

Madeline,

I am sorry to have to hit you with this so soon after your transfer.

I have been informed of a sales ethics problem in the European division. One (some) of our offices/ employees is giving client employees kickbacks in the form of vacations with the cost of these vacations hidden in the client invoice.

I do not have to remind you that such practices are in serious violation of our code of ethics and require immediate and severe action.

Please provide a detailed report of any such activities and your proposed remedial steps.

Thanks,

Yasmina

Exhibit D

Forwarded email from Madeline O'Connor to her direct reports

To: <list-europe>
CC: Yasmina Ali, Walter Smith, Amara Devi
Subject: FWD: Sales ethics problem
From: Madeline O'Connor

Please read the following email and be prepared to provide a detailed report on the sales practices of your office.

Madeline

Forwarded:

*To: Madeline O'Connor
CC: Walter Smith, Amara Devi
Subject: Sales ethics problem
From: Yasmina Ali*

I have been informed of a sales ethics problem in the European division. One (some) of our offices/employees is giving client employees kickbacks in the form of vacations with the cost of these vacations hidden in the client invoice.

I do not have to remind you that such practices are in serious violation of our code of ethics and require immediate and severe action.

Please provide a detailed report of any such activities and your proposed remedial steps.

Thanks,

Yasmina

Exhibit E
Email from Piotr Brento to Madeline O'Connor

To: Madeline O'Connor
Subject: RE: Sales ethics problem
From: Piotr Brento

Dear Madeline,

I have not had the opportunity to introduce myself; I am Piotr Brento, sales manager of our Berlin office. I would like to congratulate you on your recent promotion and wish you success in your new position. I have been involved in managing sales in Europe for ReaComm for the past six years and have had a series of successful quarters, always hitting my sales and profit goals. We are a small operation here and face very serious competition in the marketplace.

I am emailing to discuss the recent discussion of what I had up until now considered marketing practices. We certainly offer bonuses to our partners in the form of vacations. I was not aware that the practice was considered unethical. I would like to arrange a meeting with you to discuss the situation.

Yours truly,

Piotr Brento

Exhibit F
Email from Madeline O'Connor to Piotr Brento

To: Piotr Brento
Subject: RE: Sales ethics problem
From: Madeline O'Connor

Piotr,

While I am aware of your excellent record, the code of ethics we follow is very explicit when it comes to this sort of behaviour. As an employee of ReaComm, I am sure you signed the code when you were hired.

I understand your market is competitive and tough, and I know you are very aggressive in your marketing and sales activities, but you must look at this situation from the company's perspective. While vacations, as a marketing incentive may work; they make us look unethical in the eyes of the public. I know you will do what is required to keep your sales numbers on track, but if I detect further use of vacations or other incentives buried in a client's invoice, I will be forced to take further action.

I agree we should meet and figure out how to navigate this situation with HR.

Madeline

Activities and Discussion

1. Does ethical behaviour represent a soft skill or a hard skill? How important is ethical behaviour in business?
2. Consider Madeline O'Connor's email (Exhibit F). Could she have avoided the reoccurrence of the kickback practice? How?
3. Discuss how this particular ethical lapse could have occurred.