CAFÉ AMERICANA: Case Study

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CAFÉ AMERICANA

The recently opened Café Americana strives for a unique dining experience that provides atmosphere and a superlative menu. The owners, a husband and wife team, Pat and Gregory Kroetch, have been restaurateurs since the early sixties. They are true entrepreneurs. While running their second restaurant, The Bread Basket, Pat and Gregory had the opportunity to buy The Golden Hour Restaurant from Pat's father. Pat's father had sold the business to finance his retirement, but the purchaser had unforeseen financial difficulties. In fact, he was two days short of losing the business and did not have the resources to make payroll. Within two days Pat and Gregory had taken out a loan and rescued The Golden Hour. The Golden Hour was closed, remodeled, and reopened, as Percy's.

Last October, Pat and Gregory took on a new venture and closed Percy's to create Café Americana. Upon entering Café Americana you are taken back to the nineteen forties; an era when people frequented supper clubs and men were not considered dressed unless they were in a suit and hat. Pat and interior designer, Curtis Anderson, are responsible for creating the atmosphere of the restaurant. Their artistry is reflected in the experience you get when dining at Café Americana. The combination of ambiance, the menu, and the customer service create pleasurable dining.

The manager, Greg Jr. has many responsibilities. One of his most important jobs is to hire responsible employees. Typically, restaurants have a high turnover. Café Americana has eighty-five employees; fifteen of them have been with the restaurant for over fifteen years. Unlike most restaurants, Café Americana offers benefits to employees. For example, after a six-month waiting period, full-time employees are eligible for medical and dental group insurance. Full time employees who have worked for one year receive a paid vacation.

Café Americana gives each new employee a copy of its employee handbook, which clearly outlines the rules and responsibilities for all employees. Rules and policies include, but are not limited to:

- Employees are to clock out for meal breaks. *
- Servers and bus persons receive a 25% discounted meal each day.
- Meals are to be rung in and you must have your computer ticket with you while you eat.
- Notification of an excused absence is to be given to a supervisor prior to an absence.
- Dress code and grooming policies require employees to have a professional appearance. * (See attached Employee Handbook)

Any violation of company policies is grounds for termination.

Two months ago Kathy*, a sixteen-year-old high school student, was hired to bus tables. This was Kathy's first job. When she was hired, she received an employee handbook, which was reviewed in detail with her. When Kathy arrives at work she clocks in and serves herself a bowl of soup which she does not pay for. She clearly feels that she should be paid from the moment she arrives at work, even though she has not begun to work. Kathy has been taking tips off the tables when no one is looking and her behavior is making the other employees feel uncomfortable. Jill, who has been with Café Americana for fifteen years, has brought Kathy's behavior to Greg's attention.

Andrew* has worked at Café Americana for six months. He is a nineteen-year-old server. When Greg interviewed Andrew, he was clean-cut and well mannered; however, for two months Andrew has been showing up to work disheveled. He arrives unshaved and unkempt. Andrew uses foul language when he is in the kitchen and does not clock out when he takes his breaks.

Several times Andrew has not shown up for his shift or notified management of his upcoming absences.

Greg Jr. is happy with all of his employees except for these two individuals. If he terminates them, he is required to give them a reason and report information to the unemployment agency when requested. Greg has decided to terminate these employees.

*The characters and situations of this case are fictional. They depict actual problems faced by many restaurants and their owners. This case is intended as a basis for class discussion rather than to illustrate any wrongdoing on the part of Café Americana, it's owners or employees.

Café Americana Employee Handbook

<u>General Conduct</u>

<u>Rest and Meal Periods</u>

A supervisor must authorize meal breaks, smoking breaks and rest periods. Meal breaks are always accompanied by a meal ticket and signed by a manager. Your computer ticket must be placed in front of you during your meal. Breaks are not given between the hours of 12 Noon to 2:30 PM and 3:30 to 9 PM.

<u>Eating While on Duty</u>

Team members, including kitchen staff, are not allowed to eat while on duty except during designated times approved by management.

<u>Personal Appearance</u>

- Uniforms must be clean and wrinkle free at all times. Employees arriving to work with less than impeccable appearance will be either sent home to change, or required to purchase another uniform from the office. Uniform shirts that are given from the office will be deducted from your paycheck and are only returnable is they are laundered, pressed and in perfectly new condition.
- It may be necessary for some hairstyles to be tied back or worn off the neck, at the manager’s discretion.
- Shoes are to be kept clean and polished. Check with the manager for approval of open-toed shoes. Socks or stockings must be worn at all times.
- Greeters and other non-uniformed personnel must be dressed professionally and in style that is appropriate to Café Americana.

<u>Gum Chewing</u>

Gum chewing is not permitted at any time in any area of the restaurant, other than designated break areas.

<u>General Policies</u>

Absenteeism

- **<u>Excused Absences:</u>**
  - An excused absence requires advanced notice. The notice is to be given to your supervisor or manager only.
  - A schedule change can be made if you get another employee to cover your shift, provided management approves the replacement in writing.
  - We encourage you to see a doctor if you are ill. We don’t want your illness to reoccur or to infect the rest of the staff or our guests. Your health is your responsibility, please take care of it.

- **<u>Non-excused Absences:</u>**
    - All other absences are considered non-excused. Employees with non-excused absences will be issued a written warning or may be dismissed.

- # CAFÉ AMERICANA

Case Overview

This case describes several incidences of employee theft in an entrepreneurial-owned and operated restaurant. The students are to analyze the case to determine whether the employees actions are violations of company policy and grounds for termination; what implications employee theft have on a business and it's employees and the legal requirements faced by managers.

Relevant Courses

This case illustrates real-life situations faced by employers and owners of businesses. Employee theft accounts for a large percentage of all theft incurred by business owners. This case is appropriate for high school or junior college students studying business law, business management and business math. Relevant topics include: employment law, employee theft, employment of minors, company policies, employee benefits, employee termination, analysis of financial worksheets and business losses.

Background Information

Typically when we walk into a restaurant we are unaware of what goes on behind the scenes. We do not think about all that goes into running and maintaining the restaurant; although we may analyze the food and the service, the many facets involved are not obvious to us. This case talks about Café Americana, and depicts problems that they, or any restaurateur may face. One of the most complicated and difficult jobs for the business owner is hiring and retaining honest, reliable and loyal employees. It is imperative that the employer be aware of employee theft, employee's legal rights and theft prevention techniques.

Employee theft is an increasing problem and affects the employers in all businesses. According to the "Atlanta Journal Constitution," 20 billion dollars in merchandise was stolen from merchants; inside theft accounts for 11 billion dollars of that (Bond, 1998). Surprisingly, businesses lose more money to employee theft than to shoplifting or robbery. One study conducted by the University of Florida found that "41.5% of inventory shrinkage was attributed to employee theft, while shoplifting accounted for 35.1%" (Mullen, 1999).

Employees are innovative when it comes to stealing. In order to minimize loss, employers should be aware of all the possible ways that an employee can steal. For example, it is not uncommon for a bartender to serve the house brand of liquor to a customer who has ordered a more expensive brand of liquor. The bartender than pockets the difference. Another practice is to pour drinks that are not a full shot, saving the left over liquor until they have a shot, selling it in a drink and not recording it (Plotkin, 1999). Eating without paying for food, not clocking out for meal periods, taking items such as silverware and dishes, constitute theft. The problem is significantly increasing. Last year theft by employees' rose from 32.4% of sales to 42.4% (Jeffery, 1999).

Laws governing employee rights are complicated. Employers should be especially aware of laws pertaining to minors. Employees are entitled to a meal break of 30 minutes if they are working a five hour shift or longer. They have a right to a 10-minute break for every four hours that they work. Minors, sixteen to seventeen, are to be given a 10-minute break or a 30-minute meal break after they have worked just two hours. They are to receive a paid 10-minute break for every four hours that they work (Washington, March 29, 1999). Employers are required to give minors, fourteen to fifteen years old, a 30-minute meal break if they are working for more then four hours. They must also have a 10-minute break that is scheduled every two hours if they will be working for more then four hours (Washington, Feb, 25, 1999).

It is particularly important for small businesses to be aware of employee rights and laws pertaining to them because of litigation issues. Recently, employees who had been fired for eating food that had damaged packaging sued Wal-mart. The four former employees were awarded $20 million dollars; they claimed that Wal-Mart has an unwritten rule allowing employees to eat food with damaged packaging (AP, Jan 18,1999). In order to avoid problems with litigation the article "And Now the End is Near" suggest that employers create an employee handbook. The handbook should include:

> Terms and conditions of employment, including working hours, vacation and sick leave, health and pension benefits, and disciplinary and termination procedures, including circumstances that warrant instant dismissal (Winter, 1998).

Having rules and procedures written and explained clearly protects both the employee and the employer. After creating the employee handbook, employers should adhere strictly to the rules. "Making exceptions for some 'favorite' employees only creates a disrespect for the rules for everyone." (Farr, Oct 1998)

A word of caution to the employer: if you suspect that an employee is stealing from you, you can terminate them on those grounds when "…you have a signed confession complete with witnesses and a video tape…" (Farr, Oct 1998). It is more important to eliminate the problem than it is to punish the employee.

Being an entrepreneur and owning your own business creates a web of functions and responsibilities. The Kroetch family has a long history in the restaurant business, beginning with Pat, whose parents were in the business when she was a small child (Jan 23, 1999). Pat and Gregory have created a new venture for themselves with Café Americana which offers "…a culinary lineup that touches down all over the map" (Kelly, Jan 22, 1999). With this new endeavor comes the hiring of new employees. Like all employers, Pat and Gregory have to be concerned with hiring and keeping reliable employees. The manager, Greg Jr. has an especially difficult job of determining if a person will make an honest and trustworthy employee. Running credit checks on potential employees can be a good indicator of their reliability (Hemphill,. 1976).

Managers can minimize employee theft by creating a general atmosphere that expects honesty. Treating employees well and fairly invokes loyalty from them. Employees who feel loyalty towards a company are less likely to pilfer from it. It is apparent that the way in which a person is treated and the satisfaction that they receive from the job correlates to their action toward the company. If they have ill feelings toward employers they are more likely to engage in damaging behaviors (Murphy,1993).

Discussion Questions

Employment Law and General Business:

1. What impacts does employee theft have on a company? Consider the legal, moral, and economic impacts in your analysis.
2. What company policies did Kathy violate? How about Andrew? Do these violations warrant termination? If so, on what grounds?
3. What laws must a manager be in compliance with when hiring employees? What laws have implications on terminating employees?
4. What impact does terminating employees have on a company? What impact does it have on employees?

Business Math:

5. What laws regulate the hiring of minors in your state? What implications do these laws have on businesses and minors?
6. If a bowl of soup costs $3.95 and each employee of this restaurant has one bowl of soup on each of his/her 5 shifts per week, what is the amount of the loss incurred by Café Americana in one year? (Assume employees work 50 weeks per year.) Are there any other losses incurred besides the cost of the soup? Explain.
7. If every employee were to clock in 5 minutes early for each of their scheduled shifts, what would be the cost incurred by the company for one year? For 5 years? Assume the average wage is $6.50 and employees work 50 weeks per year.

Answers for Discussion Questions

1. **What impacts does employee theft have on a company? Consider the legal, moral and economic impacts in your analysis.**
   Legal impacts:
   - Dealing with regulatory agencies such as Department of Labor and Industries
   - Lawsuits due to improper handling of termination of employees

   Moral impacts:
   - Employee morale issues
   - Employee trust
   - Safe and friendly work environment
   - Loss of employee benefits

   Economic impacts:
   - Profitability
   - Employee Benefits
   - Cost of theft-reduction plans
   - Employment costs
   - Training costs

2. **What company policies did Kathy violate? How about Andrew? Do these violations warrant termination? If so, on what grounds?**
   Kathy violated two company policies. First, she failed to clock out to eat her soup. Second, she didn't pay for her soup. She has also been stealing tips off the tables.
   Andrew also violated two company policies: He failed to notify management prior to absences from work and he violated the company dress code policy. He has also been using abusive language on the job and is harassing other employees.
   According to company policy, Kathy and Andrew's behavior warrants termination. They could both be terminated for either performance or gross misconduct, provided there is documentation of their violations of policy.

3. **What laws must a manager be in compliance with when hiring employees? What laws have implications on terminating employees?**
   There are many laws that managers must comply with when hiring and terminating employees. These are laws at both the Federal and State levels. The major laws affecting employment are:

- Fair Labor Standards Act, which establishes minimum wage, overtime pay, and child labor standards.
- Equal Employment Opportunity, which prohibits discriminating against race, color, religion, sex or national origin in all aspects of employment.
- Affirmative Action
- Americans with Disabilities Act, which prohibits discrimination due to disabilities and provides of reasonable accommodation.

- ADEA
- Occupational Safety and Health Act, requires employers to provide and maintain safe and healthful work environments for their employees.

4. **What impact does terminating employees have on a company? What impact does it have on employees?**
   Terminating employees normally has negative impacts on a company. It impacts the company financially due to costs of training, lost work time, unemployment benefits, and possible litigation, as well as affecting the company culture. Impacts on other employees include morale issues and feelings of an unsecure or hostile work environment

5. **What laws regulate the hiring of minors in your state? What implications do these laws have on businesses and minors?**
   In Washington, the Department of Labor and Industries issues laws that regulates the hiring of minors. These laws specify terms of employment, such as age, wage and types of job, hours of work and the working conditions required for minors. The laws can have a wide range of impacts on the businesses and minors. Businesses must obtain a special permit to hire minors and are required to maintain special paperwork documenting minor's work. They must also consider what work the minors will be doing and what hours they will work, prior to hiring. This often means hiring several minors for positions that normally one full-time person might be able to cover. The implications for minors are limits on the time and the amount of money that they are able to earn, since they can only work a minimum of 20 hours per week during the school year.

6. **If a bowl of soup costs $3.95 and each employee of this restaurant has one bowl of soup on each of his/her 5 shifts per week, what is the amount of the loss incurred by Café Americana in one year? (Assume employees work 50 weeks per year.) Are there any other losses incurred besides the cost of the soup? Explain.**
   $3.95 – 25% discount = $2.96 cost per bowl
   $2.96 x 5 days = $14.80 per week
   $14.80 x 50 weeks = $740.00 per employee per year
   $740.00 x 85 employees = $62,900.00 loss for 1 year
   Other possible losses include: labor in production, product cost, utility expense, equipment depreciation, employee labor (if employee failed to clock out to eat)

7. **If every employee were to clock in 5 minutes early for each of their scheduled shifts, what would be the cost incurred by the company for one year? For 5 years? Assume the average wage is $6.50 and employees work 50 weeks per year.**
   5 minutes/ 60minutes = .08 hour
   .08 hour x $6.50 average wage = $ 0.54
   $0.54 x 5 shifts per week = $2.71 per week
   $2.71 per week x 50 weeks per year = $135.42 per year per employee
   $135.42 x 85 employees = $11,510.42 per year
   $11,510.42 x 5 years = $57,552.08 for 5 years

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