

# teaching note

## *Nigel's Choice: A hotel appraiser's decision-making issues when interests conflict*

### Summary

This case presents a dilemma for a hotel appraiser who is being asked to change the valuation assumptions of an appraisal in order to satisfy the client. The case and teaching methods have been based on the values-driven leadership methods from *Giving Voice to Values* (Gentile, 2010). The conflict demonstrated in the case and teaching methods allow the student to practice the skills required to recognize, speak to, and act on his/her values in difficult situations. The case tells the student not what is right or wrong but how to think logically about a decision and act on that decision once the right course of action has been identified.

The case is based on an actual hotel in a resource-driven economy and a valuation performed during a significant economic downturn. However, due to reasons of privacy and the sensitive nature of the topic, all identities of the actual individuals and organizations involved have been removed.

### Target Audience

This case may be applied to hotel management, real estate management, or management ethics courses. The case would be appropriate for upper-year undergraduate students or masters students. Students participating in the case will gain an understanding of the role of real estate valuation and conflicts of interest in a professional setting.

### Learning Outcomes

The purpose of this case is to improve decision-making and leadership skills. Upon completion of this case students will:

- Recognize reasons for and rationalizations about a difficult decision.
- Analyze the impacts on stakeholders in a decision.
- Identify arguments that could influence others who may disagree with their plan of action.
- Practice making a difficult decision and supporting it with a plan of action.

### Case Assignment

Recognizing that hotel valuation is a very specialized field, additional reading may need to be assigned along with the case study. Depending upon the class and level of knowledge, one or more additional readings may need to be assigned. Since every school has different levels of access to journal sources, two different levels of readings have been identified, the full references for which are provided in the references that follow.

### Introductory Readings

For undergraduate students in hospitality or ethics courses who have limited knowledge of hotel valuation, two readings are recommended:

"Hotel valuation" (Roubi, 2016)

In chapter 14 of *The Routledge Handbook of Hospitality Management*, Roubi introduces the strategic role of hotel valuation. The chapter is good for students who have limited knowledge of the hotel industry or valuation.

"Ethics in hotel appraising" (Rushmore, 1993)

Appraisers are exposed to pressure from clients all of the time. This article gives the reader an understanding of the different kinds of pressures to which the appraiser is exposed.

### More Advanced Readings

For graduate students or students studying real estate or hotel asset management, two academic papers are suggested for reading:

"Client pressure in the commercial appraisal industry: how prevalent is it?" (Kinnard et al. 1997)

This research paper used an experimental methodology to provide evidence of whether appraisers react to client pressure.

"The influence of clients on valuations" (Levy and Cschuck, 1999)

Many non-methodological factors affect the valuation of real estate. The results from this research highlight many different factors that impact the valuation of real estate.

### Teaching Plan/Case Discussion

Considering that many students will not have any real estate background, it is important that they read the case and the readings in advance of class. To achieve the optimal learning from this case, we propose a three-staged approach based on Erskine, Leenders, and Mauffett-Leenders (2011).

### Individual Preparation (In Advance of Class)

Assign the student the reading of the case and two of the readings. Have them submit answers to four questions in advance of class to be evaluated for a grade. This evaluation will ensure that the students complete the work in advance and are prepared for the discussion. Answers may be provided in simple table format rather than in essay form in order for students to focus on the content and not on the process of writing an essay.

1. What are the relevant facts and industry issues in the case?
2. What individuals or groups have an important stake in this

case? Do some have a greater stake because of a special need or obligation?

3. What are Nigel's options?
4. Which option is the right or best thing for Nigel to do? Why is it the best option?

### ***Initial Class Discussion (Small Group) - 15 Minutes***

Once the class starts, break students into small groups of 3-5 students. While in their groups, have them review their answers again with each other. This process of group review will teach them that other students in the group may have different perspectives. The purpose of the small group discussion is for the students to reach general agreement on the answers to the questions amongst themselves.

Before the groups are ready to move on to the large group discussion, first they must all agree on an answer to question 4.

### ***Class Discussion (Large Group) - 20 Minutes***

Now that your students have prepared for the case in small groups, have a group volunteer to share their answer to a question. After the initial question is answered by one of the groups, have other groups feed into the discussion. To encourage feedback and discussion, write the answers to the question on the board so that the students understand that you are listening and that they can feed into the discussion. Proceed to the other questions in a similar fashion.

For each question, there are some important items that need to be discussed. Below is a summary of the questions and the key learnings to be expected from the class discussion:

#### **1. What are the relevant facts and industry issues in the case?**

There are multiple facts in the case. Students will present some that are relevant and some that are not. The most relevant key facts include:

- Resource industry is having a negative impact on the business of hotels in the market.
- The value of The Apollo Hotel will drop significantly.
- The drop in value will trigger a reaction from the bank, with financial consequences for Smithson and a negative impact on Ed's credibility.
- Smithson has been a significant client of Nigel's for many years.
- Nigel needs to follow CUSPAP standards, which state that he should provide valuations based on his professional judgment, without regard for personal interests.

#### **2. What individuals or groups have an important stake in this case?**

**Do some have a greater stake because of a special need or obligation?**

- Smithson Development. Lower valuation can trigger higher costs for lending, as well as a margin call, and/or lower value when selling the property.
- Ed. His credibility was attacked as he fought for the development of The Apollo, despite opposition from more

senior partners.

- Nigel. At stake for Nigel is the business revenue he receives from Smithson and his reputation as a real estate valuator.
- Bank. The bank is a stakeholder indirectly. It has an interest in managing the risk on its loan to Smithson Development.

#### **3. What are Nigel's options?**

Students can forward multiple options to address the case. At the most basic level there are three options: 1) keep the valuation the same, 2) re-do the valuation and change assumptions, or 3) create a third valuation forecast using a more optimistic forecast and/or wider range of comparable assumptions. For a more advanced class that has detailed knowledge of hotel real estate, options related to the changing of the assumptions for the valuation may come into play.

#### **4. Which option is the right or best thing for Nigel to do? Why is it the best option?**

Depending upon the options that the students develop, there is no one right answer to this question. Based on the standards set out by CUSPAP, Nigel must be able to stand behind his valuations. This obligation must supersede any obligation that he may have to his client or to his future business revenues because it is his legal obligation.

During this stage of the case, the instructor must get the class to decide on the one option that the entire class should pursue, so that one last question related to the right course of action may be assigned. Once the class has made the decision, they should be asked to work in small groups again.

### ***Implementing the Decision (30 Minutes)***

With all questions now answered and discussed in the large group, post the final question for discussion:

#### **5. Implement the decision. Outline the steps your group would take to implement the decision in chronological order.**

Ideally this question will be discussed during the same classroom time, or it may be done in a second class. Each group must come up with a list of action items, in chronological order, of how they would approach their client to inform them of their decision.

After ten minutes of small group discussion, the groups are then asked to present their action plan. Have the first group write their action plan in chronological order on the board. Now that an initial action plan has been established, go around the room to different groups and have each group contribute a new idea or revise an existing action. As the changes are discussed, write them on the white board at the front of class. This iterative process of having groups add/delete content from an action list is paramount to the learning activity. Initially, the first group may have a five-step action plan that is only

partially well thought out. However, after an around-the-room discussion, this action plan will grow to include more items, and the items will also be more specific. The final product of the large-group discussion will lead to a comprehensive action plan that a student can use to deal with a difficult decision. This focus on the actions required in difficult situations is based on the Giving Voice to Values (Gentile, 2010) approach to ethical decision making.

Typically, what happens through this process is that students start with a rather simple action plan, but after discussion with the large group and the adding/deleting of items, the action plan becomes more detailed and complete. The students learn from each other and develop a more comprehensive plan to deal with a difficult decision.

### **Pilot Test Results**

This case was tested twice (Winter 2015 and 2016) in a class of 30+ hospitality students enrolled in a Hospitality and Tourism Ethics course. After each testing of the case, feedback was solicited from students to help improve the case. Overall, the case stimulated discussion and made students aware of the role of hotel valuation and the ethical dilemmas faced by appraisers. The process used to analyze and discuss the case resulted from the amalgamation of different case-study teaching methods for ethics and business cases. The variety of questions and discussion methods used demonstrated to the students the value of in-group decision making and that their initial instincts for decision making can be improved by soliciting input from others. Most importantly, it demonstrated a process for making and implementing difficult decisions.

### **References**

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