

teaching note

Ivar's Case Study Teaching Notes

Learning Outcomes

- Students should be able to identify the different legislations that are pertinent to the case and how they affected the decision making process. Identifying policies and legislations that affect business decisions is crucial to success in this industry.
- After examining the case students should feel comfortable identifying and discussing the ethical considerations of this type of situation as well as others. Ethical issues include but are not limited to: tip-sharing, tip-pooling, living wage, and minimum wage.
- Students should be exposed to the differing legislation between tip credit states vs non-tip credit states. These concepts are important for the hospitality industry they have implications for managers, consumers, and frontline employees.

Summary

This case has several unique elements that allow for in depth analysis of the decision making process, the new policies, and the eventual outcome of those policies. Washington State is a non-tip credit state, which allows for more leeway in how the tipping policies can be changed, including the tip sharing aspect. Ivar's owned restaurants within the city that were affected by the new minimum wage, as well as a restaurant outside of the city that was not. Having two restaurants affected but one not allows for a unique side by side comparison of the new tipping structure and payment policies versus the old. The case study was conducted with the management team giving a unique insight into exactly what elements they considered in the decision making process and how those decisions were made.

Ivar's, Seattle's original seafood restaurant, operates more than 50 locations in Washington state, including three full service locations where customers leave tips for their servers. This case explores the impact of Seattle's \$15 minimum wage legislation on the tipping structure of Ivar's restaurants, especially within the city limits. The company was proactive in eliminating tipping, to ensure equitable pay between the "front" and "back" of house staff while remaining fair to its customers. Ivar's leadership desired to minimize the disparity between its service and kitchen employees exacerbated through the tipping policies existing in the cultural norm. With the looming minimum wage policy affecting compensation, Ivar's wished to utilize the opportunity to provide equitable compensation for all employees. The plan to eliminate tipping and replace it with a service charge was determined after much research by the management team. While there were mixed feelings by employees initially, it became well-received. What the management team did not anticipate was the impact the shift to a service charge would have on their customers.

The rest of the story...

In 2017, nearly two years after the new policies were enacted, the management team sat down once again to review the results and whether they were successful. It had become evident that the social experiment was not working as planned. The sense that Ivar's was wresting control from the customers was like "pushing up a hill that we could not go up," as Chris (the Director of Full Service Operations) described it. All the other restaurants in Seattle were doing something different and the guests simply were not responding to the bundling approach that Ivar's had taken. Tom Douglas restaurants had made a similar move and had backed down within days of implementation. Others were eliciting a 2-5% surcharge or 20% service charge; still others did nothing and were hoping for the best. New laws at the state level were beginning to even the playing field already, with all minimum wage moving to \$11 statewide. All signs indicated that Ivar's would need to return to a tipping practice.

The employees were gathered once again and envelopes prepared as before. The complicated kitchen revenue sharing went away and one-time raises were issued instead. The tipping confusion in the company's restaurant in Mukilteo was allayed, and it kept with the company's value of doing the right thing for the employees. The company retained almost every long-term employee and everyone left feeling valued. Plus, payroll was easier to do once again. Menu prices were adjusted down and they were ready to gear up for the busy summer season of 2017.

Chris summed up his feelings as he remembered all the "*heart-ache, energy, hard work to end up back where we are. If we had to do it all over again ...would we have made the same decisions? Probably not. However, we are in a much better position to move forward.*"

Arguably the most interesting element in this case is the follow up two years later. This additional information allowed for the decisions to be implemented in real life and then analyzed again. The follow up was not included in the case study itself; we suggest students explore the decision making process and new structure without the knowledge that the plan ultimately did not work. Then the instructor can distribute this follow up information to further discussion.

Supplementary Information Concerning Ivar's Culture

The following information can be given to students as an example of the Ivar's culture and the difficulties facing prior to the \$15/hour and tipping issues. This supplement would provide the basis for an excellent additional discussion concerning culture, ethics, and hiring laws, all of which would greatly supplement student learning.

Immigration Day

Almost a year and a half had gone by since Bob and Frank had met with the Immigration and Customs Enforcement (ICE). While the company had always followed the letter of the law when it came to hiring, ICE had proposed that Ivar's test a new verification system for ALL potential hires. In the past, the company only verified social security and employability information for managers. With shifting politics at both the state and federal level, they invited ICE to conduct a review of staff certification for employability at the Salmon House. Since many of the people in the Salmon House had worked for the company for decades, before employment verification was required, Ivar's did not know how many of its employees were undocumented. Given the closure of Acres of Clams for the remodel and the slower customer counts of the winter, the team felt the timing was right. Strategically, the plan was to transfer some of the staff from Acres of Clams to cover any staff losses incurred at the Salmon House. After a quick pep talk from Frank and Bob, they steeled themselves for the report from the ICE officials waiting outside the office.

As the officer read the names of the staff members who were undocumented, Michelle and Chris's eyes began to well up with tears. Every name brought a memory to their minds. In the end 30 out of 32 Salmon House kitchen staff were identified as undocumented.

Michelle recounted, "The immigration part was probably more devastating, and not just the impact on the business—the emotional part of it.... We've been to their weddings. We've seen their children. We had generations of families that worked there. We would have a father and children that had been there for years."

Chris added, "It's the separation of financial versus personal. Its personal relationships we've worked with—10, 15, 20 years. Needless to say, this had significant impact on the operation of the Salmon House, requiring both compassion for those whose lives were now turned upside down to running a business."

Michelle recalled the days and weeks following: "Yeah. I mean, we were chewing through people. We do such an extremely high volume that the learning curve is, very high.... Even after we had to give notice to our team members, the level of loyalty and compassion of the people [was astounding]"

The company culture of Ivar's was playing out in the scenarios described by the leadership team in response to what most would frame as a crisis situation. Peter Drucker is attributed with the quip, "Culture eats strategy for breakfast." Without the strong culture built within the company over the years this situation surely would have had devastating results for Ivar's Salmon House. As a result of management and employees pulling together and pulling through a tough situation, Michelle shared that two and half years later that *"I have a team now that I've had in place for less than a year that has been solid. So getting them to [be ready]—it's not like you have a line full of people and you*

replace somebody, and you've got strength on either side to bring them along. Everybody was just learning from everybody, and so on."

Ivar's agreed to pay the legal costs for every undocumented employee to become legally documented. As a result, six employees became legal residents.

Target Audience

This case is relevant for undergraduate or graduate students studying restaurant management, food and beverage, business law, or business ethics. The case offers a real life example of a situation in which management has to make difficult decisions based off of changing politics and regulations, company culture, the ethics of the situation, and popular opinion. These variables allow the students to explore a wide range of topics in a single case study.

Discussion Questions

- What are the most crucial elements of this case, why? Can you identify these items?
 - Changing wage structure in Washington State and Seattle specifically
 - Changing tip structure within the operation, and communication of
 - One restaurant was closed due to updates on the waterfront.
 - The updated tipping structure and the decision process that went into it.
- Describe Ivar's culture. What examples of Ivar's culture are displayed in the case?
 - Strong family type culture within the organization. Several employees have been around for an extended period of time.
 - Had experienced issues previously in the year with immigration (only if this has been presented to students)
 - The restaurant is a fixture in Seattle, WA and has been for a long time.
- How does the Ivar's culture affect the management team's decision making process?
- Discuss and explain the difference between tip credit and non-tip credit states. How is this situation affected by the non-tip credit legislation in Washington State? Would this situation have been able to occur in a tip credit state?
 - Might not be legal in a tip credit state unless the owners started paying minimum wage or above. (not the server wage) This is a gray area that can be discussed in class.
- Why does a non-tipping system work in Europe and other countries but not in the United States?
 - Cultural differences
 - Tradition

- Wage structure
- How could Ivar's have communicated its goals of the new system better? How did the news article about the changes impact the implementation?
 - Negative perception of the public before the implementation
Could have published a public rebuttal to the initial article
- If the news article had not come out could Ivar's have rolled out the changes in a positive way? How would you have recommended they communicate the changes to their loyal customer base?
 - Communicating it to the public via social network platforms
 - Emails or other direct communication
- If this was your restaurant what would you have done? What would you do differently?
- As a customer, do you prefer tipping or restaurants that do not include tipping?
- What are some advantages of tipping? Advantages of no tipping? Why do customers wish to retain that aspect of control? Specifically identify examples from the case.
- Recall a time when you had to reverse a decision you had invested a lot of time and effort into. What process did you use to arrive at the moment when you needed to say you were wrong and change direction? How did you feel once you made the decision to move forward?

Instruction

This case can be taught in many ways depending on the class and the professor's personal style. Some suggestions are included based on how this case was envisioned by the authors. This case can be discussed in a single class or in multiple. If the case study will be used in multiple class periods, then the suggested activity below or the suggested discussion questions may be used as a template for assigning homework. The authors suggest that the discussion about the case, including any activities, be completed in the first two thirds of the class period (or in the first class period if multiple periods will be devoted to the case). In the last third of class, or in the second class period, the professor may then decide to share the updates in Ivar's tipping policy following the public backlash. As Ivar's tested this new tipping structure and ultimately reverted to the old structure, discussions about how and why the new structure didn't work can be explored. This adds a unique element to the case and can be particularly useful in furthering discussion in a classroom setting.

A formal class discussion can be used to explore this case. We suggest that students come prepared by having read the case as well as the supporting literature about tip credit and non-tip credit states. These readings are essential as Washington is a non-tip credit state and that plays out in the case. The discussion questions listed above should help guide the discussion.

Activity-

Separate students into groups of approximately four students. Have two students act as members of the management team while one member is a server and another is a member of the back of the house staff. Have each student work to compile a list of pros and cons of the decisions based on their role. Then have each student present an alternate solution to the tipping structure that was proposed. As a group, students should select one of the solutions suggested and present to the class.

As a class the discussion should continue to select the overall best suggestion for the new tipping structure. The class should identify the strengths and weaknesses of the proposed plans in order to compare them to one another as well as the solution that was enacted by the Ivar's management team.

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