Games, gadgets, and other goods' discount coupon: An ethics case

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ABSTRACT

This short ethics case is based on a real-world situation, so the names of the store and the key players are disguised. The case is flexible and could be used in a number of courses that involve ethical situations and internal controls including auditing, accounting ethics, accounting information systems, and financial accounting.

Keywords: ethics, internal controls, coupons, store credit, iPad

INTRODUCTION

Paul recently received an iPad as a gift from his grandmother. Paul's grandmother purchased this iPad from Games, Gadgets, and Other Goods (GGG), which is one of the local stores in the downtown Cleveland area that is specialized in computer games and electronics. Paul has always wanted to buy an iPad to use at school and for leisure. But even though his grandmother bought him the full size iPad, it was not the one that he really wanted. He always wanted an iPad mini with a large memory to fit all the applications he is planning to use.

Before trying to use the iPad, Paul decided to return it to GGG and use the money to buy the iPad mini that he wanted. Unfortunately, his grandmother did not keep the store's receipt. She also did not ask for a gift receipt to give to Paul.

Checking with GGG's local store about its return policy, Paul understood that if he does not have a receipt, he can always return the device to GGG for a store credit instead of receiving a cash refund. He will receive the full value of the iPad as a store credit that can be used later to buy any other item or product that the store sells.

GAMES, GADGETS, AND OTHER GOODS

For many buyers, GGG is one of the favorite destinations to shop for computer games, electronics, and other gadgets that most people use. The store has been serving Cleveland's customers for over thirty years, but competition was getting tougher lately. To enhance sales, GGG started offering a variety of different discount coupons that include a ten dollar off of any product that is 30 dollars or more, and also a 20 percent discount of a one merchandise item. Previous customers receive these coupons frequently in the mail, which they use whenever they need to buy anything from GGG with no expiration date.

THE ETHICAL ISSUE

One week after returning his grandmother's gift to GGG, Paul decided to buy the iPad mini that he always wanted to buy using the store credit he received with the return. It was available at GGG for a very attractive price. Paul had a 20 percent discount coupon that he decided to use too. He had a store credit for $250, which was the price of the iPad that his grandmother initially purchased. The new Ipad mini that Paul wants is sold at GGG for $300. The coupon that Paul had has allowed him to buy the Ipad mini for $240, which is 20 percent below the original price. Paul ended up having a balance of $10 in store credit that he could use later.

After buying the iPad mini, Paul immediately realized that he could get any product from GGG without paying for it using one of GGG's 20 percent coupons, some cash, and a little product return trick. To do this, he can buy a $1000 item then return it on the next day without providing the receipt. The store will offer him a store credit for a $1,000. The next day, he buys the same item again using the store credit and the 20 percent discount coupon that he usually receives in the mail. He would only use $800 out of the $1,000 store credit. The following day, he returns the item he bought using the store credit and the coupon. He would provide the receipt that he kept from his purchase on the first day in order to get a full cash refund of the $1,000 that he initially paid in the first day. Now Paul gets his $1,000 back and he has a $200 store credit that he could use toward any purchase form GGG.

REQUIRED:

1. Given that GGG's return policy accepts items without receipts for a store credit, would Paul's idea be ethical? Why or why not?
2. On average 25 GGG customers make transactions similar to Paul's idea every month at each of GGG's stores, how much would this cost GGG annually for its 10 Cleveland stores?
3. What alternatives can GGG pursue to avoid similar courses of action? What are the pros and cons of each alternative?
4. There are three overlapping theories of ethical behavior that can guide the analysis of ethical issues in accounting. These theories are (a) utilitarianism, (b) a rights-based approach, and (c) a justice-based approach. Research these theories and provide a brief summary for each one of them and how they apply to the above case.

TEACHING NOTES

This case involves an ethical situation that involves taking advantage of a store return policy. The policy is in place to allow customers to return items with or without a receipt. Students may try to link the ethical issue to the legal aspect of the scenario. However, the legal discussion of this case is beyond the focus of the case. Fig. 1 (Appendix) presents the trick that Paul thought about to take advantage of the store's return policy. It displays a scenario of four days to complete the trick.

DISCUSSION QUESTIONS AND ANSWERS

1. Given that GGG's return policy accepts items without receipts for a store credit, would Paul's idea be ethical? Why or why not?

People might have different sets of standards that depend on many factors, like culture, religion, or backgrounds. However, in this case, most students are expected to see Paul's actions as unethical. He is taking advantage of GGG's return policy. GGG's return policy was probably developed so that the company can attract and retain more customers with the fact that the company is willing to allow store credit if a receipt is not present. GGG understands that a customer is a human and occasionally loses a receipt, so they do not penalize their customers for that. However, people like Paul have taken GGG's act of kindness and have taken advantage of it.

2. On average 25 GGG customers make transactions similar to Paul's idea every month at each of GGG's stores, how much would this cost GGG annually for its 10 Cleveland stores?

This type of transaction can cost GGG about $600,000 annually. Each store can lose $5,000 per month or $60,000 per year. This adds up to $600,000 when you take into account all 10 stores in Cleveland.

3. What alternatives can GGG pursue to avoid similar courses of action? What are the pros and cons of each alternative?

There are a number of internal control procedures that GGG can pursue to avoid similar actions. Some of these procedures may include the following:

a) GGG could require receipts for all returns, sealing shut the loophole entirely. A con would be that some customers who are not abusing the system, but making legitimate returns may not be able to do so if they lose their receipt, which will cause frustration among some of GGG's customers. An additional con could be that, unless receipts can be verified somehow, the customer could make duplicates of an original receipt. On the other side, a pro is that this would give them reason to switch to a store-credit only refund policy for returns, most likely boosting the amount of cash that will stay in the firm.

b) GGG could require a free membership before using any discount coupons, which would allow them to track a customer's transactions even without receipts. The obvious con to this idea is that customers who are unwilling to take a moment to sign up for this program, which there are bound to be even if it is free and only takes a moment, will no longer be able to use the discount coupons and may take their business elsewhere. A pro is that this program might also help GGG to track customers' buying patterns and get to know their market better.

c) GGG could require ID, such as a state driver's license, to be shown and recorded when making a material return without a receipt. Lists of this data would then be entered into a database which could identify a customer who may be abusing the policies. Cons include the potential alienation of customers and the fact that a customer would have to commit this type of fraud at least twice before being caught. A pro is that GGG would not have to alter its sales promotion plan or the rest of its return policies.

d) GGG could stop accepting the discount coupons in combination with store credit. This would probably be the least attractive idea as they would have to devise another strategy to win back the sales that the coupons are responsible for generating. This would, however, end the potential for abuse of their policies.

4. There are three overlapping theories of ethical behavior that can guide the analysis of ethical issues in accounting. These theories are (a) utilitarianism, (b) a rights-based approach, and (c) a justice-based approach. Research these theories and provide a brief summary for each one of them and how they apply to the above case.

Several textbooks and studies in accounting ethics (e.g. Armstrong, 1993; Mintz, 1997) present classical ethical theories to construct a foundation for applying ethics to accounting. In this case, engaging the students into researching these ethical theories enhances their ability to analyze different ethical situations.

a) Utilitarian ethics are focused on doing the most good for the most people with each decision that is made. For each alternative, you would compare the 'costs' and 'benefits' then the alternative with the highest net 'benefit' would be considered the best alternative for that decision (Armstrong et al., 2003). Most students find this to be one of the most simplistic and morally gray types of ethics as it can literally lead them to conclude, in some cases, that murdering someone is the best option. Still, students can surmise that it is used often in business because of its parallels and appeal to those who want to maximize profits by making choices that have the best net benefits. If we apply utilitarian ethics to the GGG case, we can see that ultimately Paul is acting unethically since his actions could eventually lead to losses big enough that GGG might end its coupon program, end its return policies, or even go out of business.

b) Rights-based ethics are about respecting the rights of individuals. A distinction can be made between positive and negative rights, the former being one that is bestowed and can be taken away, the latter being universal and inalienable. Rights based ethics might consider it unethical to torture one man in order to obtain information needed to save the life of another, assuming that in that society you had a right to not be tortured. Applying rights based ethics to the GGG case, we might be able to say Paul's actions are ethical, since he had a right to use the coupon, and he had a right to make a return. This type of ethics seems as open to abuse as GGG's policies. Paul may like them!

c) Justice-based ethics are concerned with the degree of fairness of an action, whether it is distributive, procedural, or interactional fairness. Respectively, these three types of fairness are concerned with each individuals' outcome from the action and how they perceive it, the process used to decide to take the action rather than its results, and the amount of respect, consideration, and quality of treatment received during the decision making process. Justice-based ethics might be more concerned with how a criminal is treated, how fair the trial process is, and how fairly his punishment is perceived rather than with what good may come of it all. Applying justice based ethics to the GGG case, we might ask, "Is it fair that some customers can abuse this 'trick' to get the same goods for less money than other customers, and at the expense of the firm?" Since this type of ethics is so concerned with fairness, it certainly condemns the actions of Paul.

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APPENDIX

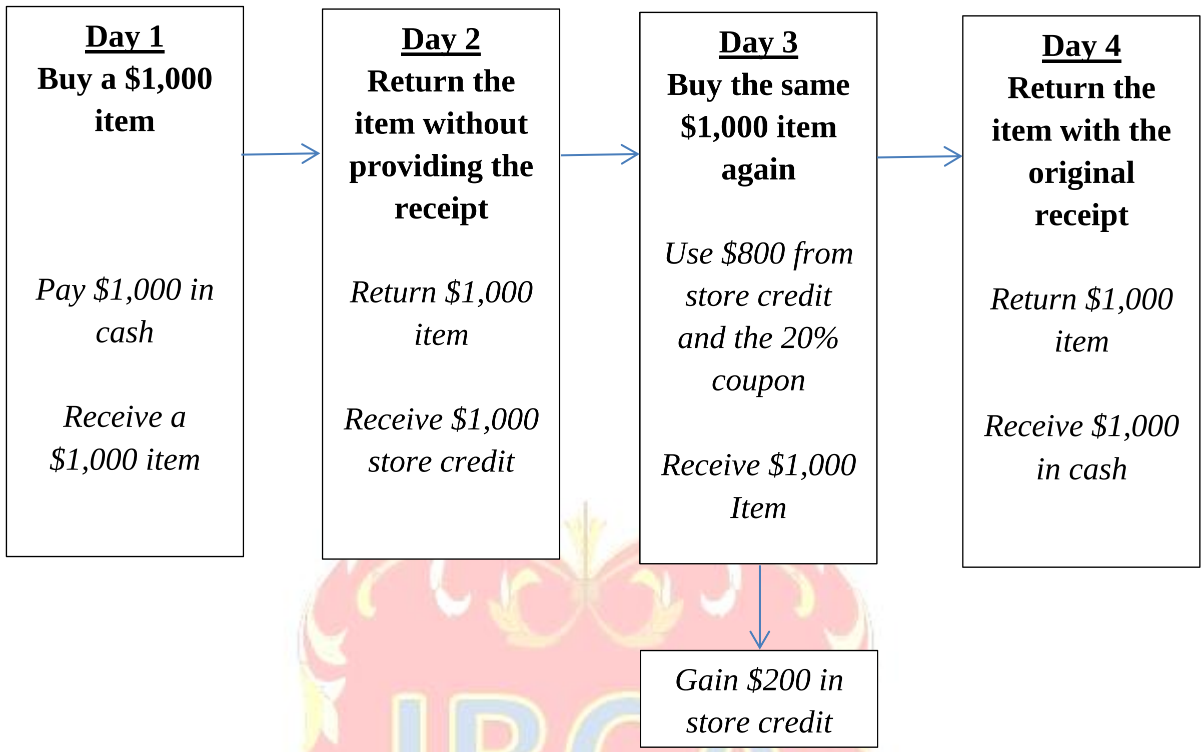

Fig. 1. A four-day scenario to implement the coupon trick.