Organizational Behavior
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Denny's & Racism

These Issues Will Not Go *Over Easy*

Lightning@11

Identification of the Organization and Context

…It's three o'clock in the morning. You're in your car with your buddies en route to Mardi Gras, and you've developed an insatiable hunger for two buttermilk hotcakes with two eggs, two sausage links, and two strips of bacon. "Where in the world am I gonna find this food at the crack of dawn?" you ask your friends. One friend, skilled at the art of road trip munchies, recalls that this is exactly Denny's Original Grand Slam Breakfast. Thrilled, you pull off at the next exit housing a Denny's, knowing that they're open 24 hours, seven days a week…

Are you looking for American food that's a cut above the rest? Then bring the family on down to Denny's for a hearty breakfast, lunch, or dinner. Denny's is the nation's largest full-service family restaurant chain, operating more than 1,600 restaurants system-wide. Nearly half of Denny's restaurants are franchise owned and operated. In 1997, Denny's ranked tenth out of over 700 franchises in Success Magazine's Franchise Gold 100; it ranked 17th out of 350 franchises in Franchise Time's Top 200 list; and it ranked first in the family restaurant category in Entrepreneur Magazine's Franchise 500, which reviewed 861 franchises.

Denny's began in 1953 in Lakewood, California. It was originally named Danny's Donuts and served only donuts, as the name suggests. A brief synopsis of Denny's history follows ("History of Denny's"):

- 1953, Harold Butler opens Danny's Donuts in Lakewood, CA.
- 1954, Impressive profits lead to more Danny's Donut shops. The menu expands to include sandwiches and other entrees, and Danny's Donuts is renamed Danny's Coffee Shops.
- 1959, The chain is renamed Denny's Coffee Shops, with 20 Denny's serving customers by year's end.
- 1963, A franchising program begins. By year's end 78 Denny's Coffee Shops are operating in seven western states.
- 1966, Denny's makes its IPO on the American and Pacific Coast Stock Exchanges.
- 1967, Denny's becomes an international company by opening a restaurant in Acapulco, Mexico.
- 1968, Denny's now operates 192 restaurants. A merger with Sandy's Restaurant chain and the acquisition of Pioneer Restaurants means Denny's is on the move eastward.
- 1977, The Denny's Original Grand Slam Breakfast is born. It remains the most popular menu item to this day.
- 1981, Over 1000 restaurants strong, Denny's has become the nation's leading family restaurant.
- 1987, Denny's is purchased by TW Services, Inc. (now known as Advantica Restaurant Group, Inc.), one of the largest restaurant companies in the U.S.
- 1993, Denny's and the NAACP sign a Fair Share Agreement to provide minorities with greater employment and business opportunities throughout the company.
- 1994, Forming a national partnership with Save the Children, Denny's becomes the charity's largest corporate sponsor.
- 1995, Denny's signs an agreement with the Hispanic Association on Corporate Responsibility to increase economic opportunities for Hispanic Americans.
- 1997, Denny's opens 77 new franchise restaurants, a record number of franchise restaurants in its 44-year history. At the year's end, Denny's operates 1,652 restaurants.

Description of the Action

In 1993, Denny's restaurant chain fell under an uncomfortable spotlight as it faced the first of several lawsuits and thousands of claims of racial discrimination of its customers. San Jose, California was the site of the first incident, when several black teenagers were refused service unless they agreed to pay in advance (Smith, 1996). The following year more and more issues came crashing down on the popular casual dining chain. One of the most well-known cases was that of six Asian-Americans of Syracuse University. The students visited a Denny's restaurant late at night and waited over 30 minutes for service. As white patrons were regularly seated and waited on, these six students were kept waiting. When they complained, they were forcibly ejected from the establishment by two security guards. Outside, they were beaten by a mob of white customers that spilled out of the restaurant while guards stood by and did nothing. These six students were pushed, shoved, jeered, and racially insulted, and not a single law enforcer present did anything to stop it. Three black students were threatened with mace by guards when they attempted to aid the Asian-Americans. A white student accompanying the group was also threatened. Two of these students were knocked unconscious during the assault ("Students Accuse," 1997).

On the same day that the first lawsuit was settled, six black Secret Service agents visited a Denny's restaurant in Annapolis, Maryland, and were forced to wait an hour for service while their white companions were seated promptly and were waited on with second and third helpings (Guillermo, 1997). Countless other incidents similar in nature occurred throughout the Denny's chain. One Sacramento resident, a white male, was seated promptly at a Denny's restaurant. When his wife, a black woman, came to join him, the waitress's demeanor altered drastically. She slammed down a plate of spaghetti in front of the black woman, splattering her blouse with tomato sauce. Another black Denny's customer, Douglas McNeal, was told that he and his friends had to pay for their meals at the same time they ordered their food. McNeal observed a white couple order and pay up at the counter after their meal, as usual. He questioned the waitress: "We asked the waitress about it and she said some black guys had been in earlier who made a scene and walked out without paying their bill. So the manager now wanted all blacks to pay up front" (Ferraro, 1995).

These are only a few examples of the discrimination that Denny's displayed. Thousands of black customers have claimed similar suits.

Impact of the Action on the Firm

The original reaction by Denny's top management was that the discrimination cases were "isolated incidents." In 1994, a Denny's regional manager said, "We hire from the population. We get the good with the bad. But, yeah, it makes you wonder if this wasn't blown out of proportion" (Kohn, 1994).

In 1993 and 1994, following the class-action lawsuits filed by the black teenagers and the Secret Service agents, thousands of complaints came in from across the country. Attorneys from the United States Justice Department concluded they were dealing with the largest case ever in the history of the public accommodations section of the 1964 Civil Rights Act. Thousands of people joined the six black Secret Service agents' class-action lawsuit.

Top management at Flagstar Companies, the company that owns the Denny's chain, was determined to contest the lawsuits filed against them. Even as the evidence of wrongdoing piled up nationwide, Flagstar CEO Jerry Richardson continued to take the position that very little wrong had been done. "If our African-American guests were mistreated, was it because of racism?" Richardson said. "I can't tell you. It's impossible to know what's in a person's heart" (Kohn, 1994).

In what many consider a shortcut to get Denny's problems out of the headlines, Flagstar signed a pact in 1993 with the NAACP pledging to hire minorities and increase purchases from minority owned businesses. Officials from the NAACP and Flagstar also agreed to participate in a jointly administered program to ensure that customers were treated fairly. According to the lawyers and plaintiffs involved in the class-action suits against Denny's, the NAACP agreement may have been a step in the right direction, but it did nothing to address the past discrimination. Many people believe that the agreement with the NAACP was a transparent attempt to improve Jerry Richardson's chances of winning an NFL football franchise. At the time, Richardson Sports, a Flagstar subsidiary, was attempting to land an NFL franchise in Charlotte but was under the scrutiny of Jesse Jackson before the NAACP agreement.

Eventually Flagstar conceded defeat and settled the class-action suits, consolidating one of them with a case originally settled in 1993 with the U.S. government (Rice, 1996). By December 1995, Denny's had paid out $54 million to some 295,000 customers and their lawyers (Rice, 1996). Flagstar CEO Richardson's explanation for why he settled was based on numbers. "I had to consider the cost of the litigation, which would have been astronomical even if we'd won every trial. Plus, litigating was going to take years, and you can't go for years being at war with a percentage of your customers. I had to consider the financial good of the company" (Kohn, 1994).

Indeed, in 1993 Denny's sales declined tellingly. The president of Denny's, C. Ronald Petty, confirmed that "in Detroit and other heavily black areas, there was a definite drop-off" (Kohn, 1994). In 1993, the year of the worst racial incidents, operating income declined 30 percent from the previous year. In 1994, people apparently forgave Denny's or forgot about its checkered past, because operating revenues rebounded from the 1993 slump, increasing by 35 percent (Rice, 1996). The growth in the past few years has continued to be slow but steady.

Evaluation of the Action and Its Impact

The predicament that occurred at Denny's is a perfect example of a bad situation that became worse before it could become better. Instead of simply being a very "bad" experience for the company, this situation became truly "ugly." The racism at Denny's was ugly because racism is always ugly. It is hard to believe that even in the 1990's things like this still happen. Also, the way Denny's handled the situation was ugly: it took multi-million dollar lawsuits to make Denny's change its ways.

Moreover, the whole situation was ugly because it showed American society at its worst, giving Americans a glimpse of a part of our culture we wish did not exist. Of course, racism and discrimination are unacceptable and reflect perhaps the worst of American culture. However, multi-million dollar lawsuits are another can of worms we should wish we had never opened. Perhaps the origin of these lawsuits can be traced back to the case of the woman who spilled coffee in her lap, burned herself, sued McDonald's, and was awarded $2.9 million in damages (Schine, 1994). This case paved the way for the Denny's lawsuit and eventually brought us to 1999, when people are now suing tobacco companies because they are addicted to cigarettes. Maybe the Denny's case is different. Certainly, those who were discriminated against probably deserve something, but how can you put a monetary value on suffering? In this case, the value turned out to be less than $180 per person, an amount that was nothing more than spare change according to Denny's parent company, Advantica. Therefore, was the multi-million dollar settlement needed? Or would forced reforms within the Denny's corporation have been enough? Both sides of this argument are easy to see, but the point here is that lawsuits have gone astray. They just do not mean as much as they used to. It seems like every day XY Corp. is paying Joe Schmoe millions of dollars for something, and this situation is truly ugly.

Recommendations for What Should Have Been Done

In the face of the lawsuits and bad press Denny's was getting, the members of the company could do nothing other than try to scrape up as much dignity as they could and try to pull themselves out of the mire with proactive plans.

The first thing to do under the circumstances would be to fire the employees who were obviously racist, if they refused to treat all patrons equally. Others who were less overt in their racism should be put on probation. The number of non-racist managers on duty should increase, to monitor the employees better. Denny's should institute a system of checks as to whether or not the employees are acting according to a nondiscrimination policy. The consequences of nonconformance to such a policy should be very severe, such as reduction in pay or dismissal. If the consequences are not sufficiently harsh, they will not deter the employees from racism.

In addition to the policies, Denny’s should work hard to promote diversity within the organization, including hiring more minorities as upper-level management. By internalizing the minorities, Denny's can promote more understanding within its ranks. This action may cause some friction with the current employees who hold racist attitudes, but it will also be a good way of weeding out those who are hostile to minorities.

Finally, Denny’s should show the public that it has made major changes in its policies and in its hiring practices through press releases and commercials. By promoting public awareness of the changes it is making, Denny's also will inspire awareness in other companies. This awareness could spark a widespread change in the way businesses view racism, and could bring about changes in the policies that they already have instated to deal with the problems.

How Denny's Recovered From the Situation

Denny's recovery started with trying to settle its lawsuits so that it could concentrate on moving forward. In 1993, Flagstar CEO Jerry Richardson hired Ron Petty as CEO of the Denny's subsidiary. Ron Petty has helped many companies overcome problems with diversity in the past. In 1994, with a third class-action suit just filed against Denny's, Richardson needed all the help he could get. Denny's quickly moved to settle the lawsuits, and by the end of 1995, the company had paid $54 million to 295,000 aggrieved customers and their lawyers, the largest public accommodation settlement ever (Rice, 1996).

The real work of rebuilding Denny's began when Flagstar CEO Jerry Richardson stepped down. His was replaced with Jim Adamson, who let all employees know from the beginning that he wanted to provide better jobs for minorities and women (Faircloth, 1998). At his first meeting as CEO, he told employees, "Anyone who doesn't like the direction this train is moving had better jump off now…and I will fire you, if you discriminate" (Rice, 1996). Within a few months of Adamson's entrance, only four of the company's top 12 officers were left.

Adamson devised a four-part strategy for Denny's cultural reconstruction: (1) loosen up the hierarchical environment; (2) make diversity a performance criterion for all managers; (3) require the entire staff to attend workshops on racial sensitivity; and (4) never miss an opportunity to preach the "gospel of diversity."

Together, Adamson and Petty began working to implant diversity as deeply in the new Denny's as racism was implanted in the old. They created management-training programs to give minorities a chance to fill the executive ranks. They also started a fast-track training program to help minorities become Denny's franchisees. Applicants enroll in the training program for one to three years depending on their experience. Every applicant who completes the program can buy a franchise with a loan guaranteed by Denny's. Adamson and Petty have also been working to diversify Denny's external suppliers by making information on the requirements for its orders available to all.

Aside from expanding opportunities for people who were shunned in the past, Adamson and Petty are trying new methods to prevent hiring racists. They have a new computerized interviewing technique called H.R. Easy, which screens applicants for racial bias. It uses the assumption that it takes someone longer to tell a lie than to tell the truth. There is an average response time for each question, and if an applicant has long response times for questions about bias, Denny's follows up with face-to-face interviews (Rice, 1996).

The public face of Denny's has also become more diverse. One of the decrees from a lawsuit against Denny's was that in its print promotions depicting employees or customers, at least 30 percent of those depicted must be African-American or other identifiably nonwhite persons (Faircloth, 1998). Denny's has been making good on this promise, says Derrell Pierce, a black restaurant manager from San Diego. Pierce concludes, "Denny's is now an organization for all people" (Rice, 1996).

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