

## THE CASE OF THE CHALLENGED GLOBAL HOTEL CHAIN

### INTRODUCTION

You are partners at the well-known international consulting firm Integrity Associates International that specializes in advising corporate boards of directors and their executive teams on a broad variety of corporate ethics, compliance, cyber, and risk issues. You are often called on by clients for preventive risk management advice, as well as crisis interventions and post-crisis corporate reviews and program design improvement.

Malaga Global Hotels, one of the largest hotel chain holding companies in the world (ranked #3 in 2019), is headquartered in Madrid, Spain. Most of their hotel chains and hotels are located in Europe, Africa, and Asia, but they also have a large US subsidiary headquartered in Denver, Colorado. The Americas headquarters oversees several hotel chains in the Western Hemisphere including a well-known adventure chain called Natura Motels that operates throughout North and South America with properties located near or within natural parks.

Malaga Global Hotels, through its various chains, is present in 160 countries, has approximately 75,000 employees, is publicly traded on the Spanish IBEX stock exchange, and had revenues of \$15 billion in 2019.

The Malaga Global Hotels Board of Directors has retained Integrity Associates International to review a variety of potentially problematic ethical issues that have recently come to the fore, though some appear to have been brewing for a while.

Your assignment is to review the background information and current developments outlined below and to provide the Malaga Global Hotels Board of Directors with (a) an analysis of the most salient and critical ethics, risk, cyber, and cultural issues you find and (b) a detailed 3-5 year action plan for what global executive management of Malaga Global Hotels should do next to address the unfolding ethics, risk, cyber, and cultural issues in a way that is constructive, sustainable, and profitable.

### BACKGROUND

#### **The Client: Malaga Global Hotels**

Malaga Global Hotels was founded 50 years ago by the Garcia family — a Spanish family of refugees of the Spanish Civil War who fled Malaga, on the Costa del Sol, to the South of France and settled in the French Riviera where they built their first small and then larger, super-successful, luxury hotels in the 1950s and '60s. They became the go-to place for the 1960s Hollywood jet set including the likes of Ava Gardner, Cary Grant, and Katherine Hepburn and famous musicians like Frank Sinatra, Miles Davis, and several opera luminaries of the time.

Once Spain became democratic again in the mid-1970s, the Garcia family returned to Malaga. They turned their business attention outward and their international business grew exponentially over the next couple of decades. Then the family took Malaga Global Hotels public on the Spanish stock exchange in 2000. They continued to build their global empire of hotels from the ultra-deluxe Azul Chic chain and the nature-based Natura chain to a lower-end motel chain, Brev-Motels, that caters to short-term transient guests who may be on the road to somewhere else. The motels are often located in the middle of nowhere or near airports in large urban areas like New York City.

The Azul Chic chain is world renowned for its ultra-deluxe accommodations, 5-star ratings, Michelin-rated restaurants, exotic locations, and services catering to the wealthiest of wealthy customers and their entourages, movie and music industry stars and their hangers-on, as well as tech billionaires and their friends and family. The Azul Chic hotels are also known for their extreme discretion, and for their highly developed property, personal, and virtual security where the rich and famous can be confident that they won't encounter mere mortals on such properties, and where the staff exercise complete confidentiality.

## CURRENT DEVELOPMENTS

In early 2019, Malaga Global Hotels acquired a large global competitor headquartered in India (Adventure Worldwide Hotels or "AW Hotels"), a hotel chain holding company, with several hotel chains all over Asia, Africa, and Australia and best known for their high-end adventure travel destinations from Victoria Falls in Africa and Red Rock in Australia to the foothills of the Himalayas.

Shortly after completing the acquisition of AW Hotels (which business analysts considered more of a merger of equals, as AW Hotels had been the 6<sup>th</sup> largest hotel chain in the world), a shocking development comes to light: there has been an enormous cyber-breach against the Malaga Global Hotels' consolidated global guest database. It's unclear whether the cyber-breach happened before or after the acquisition of AW Hotels, but it involved the cyber-theft of personal details for over 100 million individual hotel guests from around the world going back 10-15 years, including sensitive data such as passport scans. Amongst those affected by this cyber-breach are 50 of the wealthiest people in the world (according to the Forbes 400 list).

Malaga Global Hotels' management scrambles to deal with the situation, but does not have a full-time Chief Information Security Officer (CISO) and is still searching for a new General Counsel (as the role has been open for over a year since the prior General Counsel, Inga Brutus, was arrested for insider trading right before the acquisition of AW Hotels). At the time the Malaga Global Hotels General Counsel was arrested (and fired), the CEO and Chairman of the Board of Malaga Global Hotels, Inigo Garcia, the patriarch of the founding Garcia family, appointed the Malaga Global Hotels' long-time Chief Audit Officer, Boris Garcia (a nephew of Inigo Garcia), to oversee legal, compliance, and information security globally. Malaga Global Hotels has always lacked a global head of corporate security, as it has always relied instead on each hotel to manage its security issues locally.

A preliminary report on the cyber-breach by external, expert cyber firm Bryce Cyber, Inc. (commissioned by the Malaga Global Hotels Board) details that the cyber-security defenses of Malaga Global Hotels were weak and/or non-existent before the acquisition of AW Hotels. The main causes for the theft included:

- Bombardment of phishing emails that fooled numerous hotel employees
- The lack of, or inconsistent use of, passwords at hotel guest registration computers throughout the world
- The lack of an information security team and a patchwork, pell-mell, decentralized approach to addressing security issues
- No evidence of any cyber-education/training or cyber-hygiene practices being imparted to the 75,000 plus employees at Malaga Global Hotels worldwide

Meanwhile, and as part of the Malaga Global Hotels AW Hotels deal, the mantle of Malaga Global Hotels Global CEO passes from Inigo Garcia (who remains Chairman of the Board of Malaga Global Hotels as per the acquisition deal) to the glamorous, extroverted, and (some would say) somewhat imperial former CEO of AW Hotels, Roberto Gone.

Mr. Gone is a world-renowned titan of industry in his own right. Prior to assuming the Global CEO role at Malaga Global Hotels, Mr. Gone had a storied career in both the retail and hotel sectors having launched the biggest and most successful global retail stores for fast fashion in the 1980s, which he sold to a competitor for a profit of \$5 billion five years ago. AW Hotels represents his second incarnation as a founder and head of a highly successful, rapidly growing global business.

As part of the acquisition of AW Hotels by Malaga Global Hotels, Mr. Gone (who, as the founder, was a major shareholder of that company) is rumored to have personally made a profit of approximately \$3.5 billion. His position as the Global CEO gives him management oversight over all the chains in the Malaga Global Hotels portfolio as well as all the hotel chains in the portfolio of the AW Hotels holding company.

Mr. Gone is known for his charisma, media-savvy persona, and often sumptuous parties including a \$5 million party he threw at the Palace of Versailles outside Paris in early 2019 ostensibly for business purposes (but some commented that it appeared to coincide with his 60<sup>th</sup> birthday). He also threw a \$2 million birthday party for his then-new wife, a glamorous Bollywood star, in 2018 at the Taj Mahal in India, raising a lot of eyebrows in business, entertainment, and media circles about who paid for the party.

A human rights group just published an investigative report alleging the following about the new combined Malaga Global Hotels conglomerate now headed by Mr. Gone:

- The existence of human trafficking rings in several countries in Asia and Europe allegedly operating out of some of the Brev-Motels in Europe and several other former AW Hotel locations in India and Indonesia

- Allegations that their high-end hotel in New Delhi (The Delhi Azul Chic), which regularly hosts the rich and famous, has security surveillance equipment on their premises that may have been compromised, with material possibly commandeered by unknown cyber-attackers
- That less-than-flattering videos, including footage of new Malaga Global Hotels CEO Roberto Gone, are being used for blackmail and ransom purposes

Prosecutors in the US, Spain, and India are beginning to look at these potential criminal issues — involving human trafficking and cyber-hacking — and have started several investigations. They have contacted Malaga Global Hotels demanding documents and interviews with executives and board members.

*This case was prepared for the Daniels Fund by Andrea Bonime-Blanc, CEO, and Jacqueline Brevard, Senior Advisor, GEC Risk Advisory, and consultants to the Ethics & Compliance Initiative.*