

Part One

ETHICS

It's important for people to know what you stand for. It's equally important that they know what you won't stand for.

UNKNOWN

The twenty-first century began with a flurry of high-profile scandals involving managers in a wide variety of industries, ranging from high-tech firms to pharmaceutical manufacturers. Many very successful businesspeople found themselves behind bars for their ethical transgressions. The topic of business ethics is receiving increasing coverage in all media, including newspapers, business periodicals, television, radio, and even the Internet, while the pressures on businesses to perform continue to increase. With continued technological advancement, political upheaval, increased global competition, changing demographics, and pressure from stockholders, maintaining one's ethical integrity will become both more difficult and more important. In 1993 a large group of hospitality industry executives were asked, "What skills and abilities do students need to obtain to be successful in the hospitality industry?"¹ The number one answer was "business ethics." There is little evidence to suggest the answer would be any different today. One thing is clear: Ethical behavior is important, and all of you will be facing situations in which you will need to make difficult decisions that you will base on your ethical beliefs and value systems.

INDIVIDUAL ETHICS²

Ethics is defined as "the system or code of morals of a particular person, religion, group, or profession." As such, ethical beliefs may vary from person to person. There are three basic individual approaches to ethics that

are reflected in the behavior of people. First is the moral rights approach, which judges the consistency of decisions and behaviors with the maintenance of certain fundamental personal and group liberties and privileges such as life, freedom, health, privacy, and property. Second is the justice approach, which judges the consistency of decisions and behaviors with the maintenance of equity, fairness, and impartiality in the distribution of costs and benefits among individuals. Third is the utilitarian approach, which judges the effects of decisions and behaviors on providing the greatest good for the greatest number of people.

BUSINESS ETHICS³



Business ethics in Western society emerged with the growth in capitalism in sixteenth-century Europe. Up to that time it was largely believed that it was immoral to produce goods for profit. With the Protestant Reformation came the belief that a diligent worker pleased God, and that the wealth that was acquired from business activities was a sign that God was pleased. Good businesspeople could be good human beings by satisfying the needs of customers and providing employment for workers. Today there is a common belief among many organizations that good ethics is good business. This idea has evolved into the concept of social responsibility, and some companies, such as HVS and the Ecotel concept, have stressed the importance of energy conservation, recycling, and minimal disturbance of ecological systems in property development. It is too soon to tell if there is a positive relationship between social responsibility and profits, but there are clearly increasing numbers of companies who want to be known as being socially responsible. It is important to note that operating within the legal system may not be an adequate basis for evaluating the ethics of a business decision.

OVERVIEW OF THE INCIDENTS



Among the following cases, “Sunspot Resorts” involves the construction of a new resort in a developing country. “The Hawaiian Village” deals with the issue of employee theft. “A Dog-Eat-Dog World” describes a subordinate whose boss “fudges” data to obtain a business account. “Seaside Plantations” presents a situation involving misleading advertising. “The Decision to Serve” involves the issue of serving liquor to minors. In analyzing these incidents, you should think about the

relationship between ethics and the law. It should also become apparent to you which individual approach to ethics you favor.

NOTES

1. C. A.ENZ, L. M. Renaghan, and A. N. Geller, "Graduate-Level Education: A Survey of Stakeholders," *The Cornell Hotel and Restaurant Administration Quarterly* 34, no. 4 (August 1993): 90–95.
2. Discussion based on G. F. Cavanaugh, D. J. Mobery, and M. Velasquez, "The Ethics of Organizational Behavior," *Academy of Management Review* 6 (1981): 363–374.
3. Discussion based on D. Vogel, "Business Ethics Past and Present," *The Public Interest* 102, (1991): 49–84.

Case 1

SUNSPOT RESORTS

Sunspot Resorts, Incorporated, is a publicly held international hotel firm that specializes in luxury resorts in exotic locations. Sunspot has in the last 20 years focused on oceanfront development all over the world in locations such as Greece, Cyprus, Mexico, Indonesia, Australia, and South America. It has opened three resorts in the Caribbean region over the last several years and is hoping to begin construction of another property in Barbados in the near future. Real estate negotiations for the purchase of a seafront location have stalled, however, because of complaints from environmental groups and local citizens. These groups are protesting because they feel that development will disrupt the fragile relationships of life on the reef that is immediately offshore. The environmentalists say they have seen many instances in which developers destroyed pristine land and exploited native populations. They are determined not to let this happen in Barbados, and they have assembled the people and financial support to put up a major battle if necessary. The local residents have seen many changes in their island in the last several years. They are not totally opposed to development because it provides employment opportunities and tax revenues, but in the past developers have made promises they have not kept and, as a result, many parts of the island have been ruined.

Sunspot has handled similar situations in the past by emphasizing the poor economic conditions in the host country and by promising jobs that will benefit the local community, even though it has often had difficulty in providing these jobs. Sunspot management has found that the skill level of the local labor pool has typically been low, and the firm has found it easier and less expensive to import most managerial and supervisory personnel from the United States or Europe rather than training the local people.

This time, however, the strategy does not seem to be working, and the local community is resisting Sunspot's advances in order to retain the pristine nature of the area. To date, several hundred thousand dollars have been invested in the planning and design of the resort at corporate headquarters in Seattle. The Corporate President of Sunspot has made it clear that he wants a resort in this locale because of its unique environment and profit potential, and the annual bonus of the Regional Vice

President (RVP) is based on progress on the proposed development. The RVP has been in contact with the government of Barbados to push the economic perspective, and he has hired an attorney to attempt to portray the environmentalists as radical obstructionists.

Several local businesspersons have approached him, suggesting that they might know a way to overcome the resistance to the project, but they have implied that some sort of bribe might be necessary to do so. Sunspot stock has recently gone up several points on the New York Stock Exchange (NYSE), based on anticipated profits from this highly publicized development that was enthusiastically presented in Sunspot's annual report and meeting, where it was announced that the opening would take place in 18 months.



- 1.** What are the important issues in this situation?
- 2.** Who are the primary customers of Sunspot?
- 3.** What recommendations would you make to Sunspot management?

Case 2

THE HAWAIIAN VILLAGE

Allison Webb was employed by the Hawaiian Village as the Supervisor for all Food and Beverage Cashiers. She thoroughly enjoyed her job and the working relationship she had with her employees. Ms. Webb directly supervised 45 cashiers and was expected to train these employees, as well as the 29 bartenders whom she indirectly supervised. She was also responsible for balancing all of the cash drawers, programming the computers at all of the food and beverage outlets, and depositing all revenues collected from her cashiers. Because of the largely financial nature of her job, Allison was supervised by the Accounting Department, not the Food and Beverage Department. Throughout the time she worked at the Hawaiian Village, she had been evaluated as a “good” to “excellent” employee. Allison had found her work environment to be excellent as well, except for two unfortunate incidents of sexual harassment, which she felt warranted the two separate grievances she had filed over the past 18 months.

In the summer approaching Allison’s tenth year with the Village, it became necessary for her Accounts Clerk to question a cashier at the Seaside Hut, one of the hotel’s beverage outlets, regarding a corporate account. This particular corporation had been extended a line of credit at the hotel, with its food and beverage transactions being recorded on vouchers. After defaulting on several payments, however, the corporation’s credit was revoked by the Accounting Office and the cashier at the Seaside Hut was notified that “cash only” would be accepted for this account. Nonetheless, the Accounts Clerk had a voucher from the Seaside Hut showing credit sales to this corporate customer. The Accounts Clerk was trying to confirm that a mistake had been made in recording the sales on a credit voucher and that cash had actually been collected. The cashier did, in fact, remember collecting cash payments for this particular customer and happened to mention to the Accounts Clerk that she had handed the money to the hostess for recording. The Accounts Clerk found this suspicious, and she notified Ms. Webb of the situation, drawing specific attention to the fact that the hostess had been in physical possession of the money. Further investigation by Allison revealed that the hostess at the Seaside Hut used her seniority to convince the cashier that she was entitled to access the cash drawer, record payments, and make deposits. The hostess also frequently complained to the cashier

about her job, lamenting her low position and its lack of recognition. Responding to the norms of the work area and the hostess's negative attitude about her job, the cashier deferred to the hostess without really thinking beyond the cashier's immediate responsibility of ringing up customer sales. Another problem Allison found was that the Controller's Office had set up a system without cross-checks on the recording of payments and deposits. With no other employee required to verify these amounts, the hostess had complete autonomy to manipulate the Seaside Hut's ledger. The hostess had been recording cash payments of certain corporate customers as credit sales, using readily available vouchers, while pocketing the cash. The Seaside Hut being a relatively small outlet, Allison surmised that the hostess had assumed that its operation was dismissed by the Accounting Office as trivial and that her embezzlement would go undetected—which it had, for two years. In fact, if she had not written a credit voucher on an account that, unbeknownst to her, had been converted to "cash only," her theft may have continued.

Following this discovery, Allison promptly spoke to her immediate supervisor, Bill Tompkins. She felt that not only should disciplinary action be initiated, but that the flaw in the system should be corrected as well. After obtaining all of the information from Allison, Bill assured her that he would address the situation. Committed to her role as a supervisor, Allison wrote up the Seaside Hut cashier, citing her negligence in adhering to proper procedure. From their training, all cashiers knew that at no time were they to transfer cash to any person other than the appropriate accounting personnel.

The next week Allison went on vacation, pleased that it was her investigation that had revealed an inherent problem in the system and confident that Bill, working with the Controller's Office, would be able to correct it. Upon returning after a week's absence, she learned that the hostess and the manager of the outlet had been fired. Although feeling somewhat sorry for the Seaside Hut manager, Allison resumed her normal work with enthusiasm. At the end of her shift she was called to the office of the Assistant Controller, Harry Brunson, her supervisor's boss. Without any forewarning, Mr. Brunson terminated her, claiming *she* was negligent in not having performed an audit of the outlet. Mr. Brunson claimed that the Controller's Office expected her to have done an audit as part of her routine job responsibilities. Allison left Mr. Brunson's office in a state of shock and anger.

Later, at home that evening, she attempted to assess the whole situation. Sitting at her desk, she began to outline the events and the reasons for her termination. She did not believe the argument that she was actu-

ally expected to conduct an audit, as she was not a trained accountant. As Supervisor of Food and Beverage Cashiers, she doubted she would have had the authority to audit the Seaside Hut, which operated under the jurisdiction of the Controller's Office. Allison had not forgotten that it was procedures designed by the Controller's Office that had enabled the hostess to embezzle sales money, and later in the week she was to learn that except for the firing of the Seaside Hut manager and hostess, no action had been taken to correct the problem. Regarding audits, however, she decided that if, in fact, they were one of her responsibilities, it had not been made clear to her either by her supervisor, Bill, or in the job description of Supervisor of Food and Beverage Cashiers, which was vague and outdated. Allison concluded that there were two probable reasons why she was fired. One was that she was simply being used as a scapegoat to protect the accountants in the Controller's Office, who were more than likely the ones responsible for running audits. The other was that her three male superiors saw her as a troublemaker, in that she had revealed their inappropriately devised accounting procedure and had filed two sexual harassment grievances. Allison toyed with her pencil and considered filing charges against the Hawaiian Village for sexual discrimination and wrongful discharge.



1. How did this situation come about?
2. Was Allison at fault for any of the problems?
3. Who could have prevented this situation from happening? How?

Case 3

A DOG-EAT-DOG WORLD

Jackie Luden had been working at the Kingswood Conference Center for almost two years. It was a wonderful place to work, as the facilities were state-of-the-art and her fellow employees were extremely competent. Because of the nature of the conference center business, she found that she worked primarily Monday through Friday and seldom at night. She spent the first year of her employment in the front office training rotation and had become familiar with the operations of the front desk, reservations, and guest services. For the last nine months she had been working in the Sales Department and had reached a point where she was actively involved in developing and making presentations to potential clients. Her background in statistics and computers had prepared her particularly well for this new position.

Jackie had spent the last several weeks doing research and preparing a presentation to the executive board of a medium-sized manufacturing firm. Kingswood was attempting to get this company to sign a multiyear contract to use the facility for its management development training programs. If Kingswood was successful, the contract would be worth several hundred thousand dollars. The presentation, however, did not go as Jackie had expected, and she had two major complaints. She felt that her work had not been well represented, first, in that she had not received credit for what she had done and, second, that Ericka, the Sales Manager who had actually made the presentation, had altered a lot of her material and falsified some information.

Several days after the presentation Jackie approached Ericka to discuss the situation. When Jackie entered Ericka's office she found that Ericka was exuberant about getting the account, and Ericka initiated their conversation by congratulating Jackie for her hard work. Although Ericka was excited and was attempting to make Jackie feel good about the success, this only made Jackie feel more uncomfortable about what she had to say. Ericka was surprised to learn that Jackie had come to see her about a problem and was even more surprised that the problem was about the new account.

Jackie began by asking why some of the information she had worked so hard on researching had either been changed or left out of the presentation entirely. Ericka responded by asking, "We wanted to get the

account, didn't we?" This made Jackie very uneasy, as in a discussion prior to the presentation Ericka had assured her that everything in Jackie's report was perfect and that no changes were necessary. Jackie said that she felt it was dishonest to the customer to falsify information, but Ericka reverted to her previous argument that her actions were in the best interest of the company. Ericka did not understand Jackie's disappointment, because they had gotten the account, and replied simply, "It's a dog-eat-dog world out there."

As Ericka continued to praise Jackie for all the hard work she had done, Jackie felt that this was an opportune time to question her about the lack of credit she received at the presentation. Ericka explained that she did not get the recognition because she was her subordinate, saying, "It simply doesn't work that way." She informed Jackie that the higher she gets in the company hierarchy, the more credit she will get, no matter who does the work.

Still annoyed by the situation, Jackie requested that any changes or "falsifications" in her work not be made in the future or, at least, if they were, that she would like to be informed. She told Ericka that she would feel better if she was able to expect any changes, rather than have them surprise her, and asked if they could meet prior to the next presentation to go over the material. Although Ericka noted that the word "falsifications" was much too strong, she agreed to meet and notify Jackie of any changes the day before the next presentation.



1. Who was right in this situation?
2. How often do you think this type of incident occurs?
3. What would you do if you were Jackie?
4. What are some of the possible costs involved?

Case 4

SEASIDE PLANTATIONS

Liza Slater was a Property Manager with more than 10 years of experience specializing in resorts and 20 years in the hospitality industry. She had previously been the Director of Property Management for Seaside Plantations, a beach resort located on Bayside Island that catered to both families and convention business. In this position, Liza was responsible for the communication between the resort operating company and the individual owners of the condominiums in Seaside Plantation's rental program. Liza had been in this position for five years and had developed a good working relationship of trust and mutual respect with the condominium owners. She left the position because of her family and their growing needs.

Two years later a powerful storm struck the island and nearly destroyed Seaside Plantations. Liza felt a responsibility to return to the resort to help the property owners, who had experienced great losses, both economical and emotional. Because most of the condominium owners lived in other, distant locations, they desperately needed an agent on the island to help them through the reconstruction period and to prepare their villas again for rental. Time was of the essence, as most property owners had suffered enormous loss of rental income as a result of the storm.

The original property management company for whom Liza had worked had offices and front desk check-in on the premises. This company closed, however, after the storm and was eventually sold to a new company, Condominiums, Inc., who then occupied the vacated space. In the meantime, Liza accepted a position with a competitor, Oaks Properties, a prominent resort rental company. Oaks Properties owned and operated two other villa resort rental programs in the area and had just purchased a villa rental company on Bayside Island that was located 3 miles from Seaside Plantations. Inasmuch as Oaks Properties did not have previous rental experience on this island, they were particularly interested in hiring Liza because she was so familiar with the Seaside Plantations property, the property owners, and their condominiums. Liza's responsibilities included the day-to-day supervision of the office, including reservations, front desk activities, and property management functions, as well as overseeing both the housekeeping and maintenance

operations. Although she lived at the resort, she had to travel the 3 miles to the office and was on call 7 days a week, 24 hours a day.

Marketing was handled exclusively by the home office located on another island. The owners of Oaks Properties had decided to compete aggressively on Bayside Island in an effort to increase their market share in both reservations and number of villas in their Seaside Plantations rental program. They used the Seaside Plantations name throughout all of the advertising without specifically identifying themselves as Oaks Properties, a rental/property management agency for the resort. This strategy was carried into their brochures, telephone advertising, and conference sales. Prospective guests assumed they were reaching the on-site reservations office for Seaside Plantations, rather than a separately located rental agency. Callers thought that they were making reservations directly with Seaside Plantations and that their stay would include certain amenities of the resort. Bookings made through the competing on-site property management company, Condominium, Inc., for instance, offered golf and tennis privileges at reduced rates, a free summer children's program, free transportation within Seaside Plantations, and convenient charging privileges at the front desk for all food and clothing outlets. Although Oaks Properties offered slightly lower rental rates, its check-in desk was located 3 miles from the front gate of the resort, it did not offer special amenities, and it required full payment for the accommodations within two weeks of booking the reservation, which was nonrefundable 14 days prior to arrival. Although Liza did not approve of Oaks Properties's strategy, she initially had some ability to correct the misperceptions of potential guests by instructing her reservations staff to provide complete information to the guests when they were inquiring or booking reservations.

During the second year of operations, Oaks Properties's management decided that the three reservation offices located on separate islands should be consolidated, and the reservation function was moved to the main office. Because of this move, the satellite operating office that Liza managed no longer had control over the information that was given to the prospective guest prior to making the reservation. Management also decided that the staff should be cut in half on Bayside Island because this office no longer handled reservations. This did not allow for sufficient staff to handle the problems of the property owners or guest services.

Difficulties for Liza and her staff began soon after this consolidation. Oaks Properties invested heavily in marketing its properties. All types of advertising had the name "Seaside Plantations" prominently displayed, with only a small-lettered notation of "Oaks Properties" and the address. The reservations office, now under control of the home office, answered

the telephone, "Seaside Plantations Reservations," not "Oaks Properties." The 800 directory listed "Seaside Plantations Accommodations," which in reality was the 800 number for Oaks Properties.

The change caused a great deal of confusion for guests, particularly in regard to check-in procedures. Because many of the guests did not realize they were renting through Oaks Properties, they would go to the main resort front desk, run by Condominiums, Inc., where they would be directed to the Oaks Properties office, 3 miles away, to check in. During the busy summer months it was not unusual for guests to slowly creep along in congested traffic to reach Seaside Plantations, where they would then wait at the front desk only to be sent back the 3 miles. Often the delay caused by the check-in confusion would be more than 45 minutes and was typically endured in subtropical heat. Many guests had small children in their cars and had been traveling for several hours. By the time they finally arrived at Oaks Properties to check in, they were hot, tired, and terribly irritated.

Oaks Properties policies gave Liza and her staff no way to appease these guests. They could merely point out that no misrepresentation had occurred, inasmuch as the name and address of Oaks Properties did appear on the brochure and reservation confirmation. The only positive information they could provide was that Oaks Properties's rental rates were slightly lower than those of Condominiums, Inc. In addition, because the deposit was now nonrefundable, guests would forfeit their money if they did not keep their reservations.

Although this was an extremely upsetting situation for Liza and her staff, there were other equally distressing occurrences. Oaks Properties did not operate its Bayside Island office, including the front desk, on a 24-hour basis. When the office closed at 8:00 P.M., check-in information was left in a box for the guest to pick up. Guests arriving late at night, most having gone directly to the resort first, were greeted by a rental packet and key when they returned to Oaks Properties. Often the security office or the front desk of Seaside Plantations would call Liza at home to handle an irate guest. On these occasions, she was forced to leave her two children unattended, sometimes after midnight, to unlock the door of a condominium while trying to calm the guest. Even if the staff and Liza survived the check-in, there were other troubles. Included in the summer rates charged by Condominiums, Inc. at Seaside Plantations was a free all-day children's program. Many families visited the resort during the summer, and this was an important amenity. A sign was prominently displayed on the main road by the resort that read "Registration for the Children's Program." Although the program was available only to guests

who booked through Condominiums, Inc., all guests driving to their accommodations could not fail to see this sign. Guests who had made their reservations through Oaks Properties would often try to register their children in the program, only to be told that they could not. Once again Liza and her staff had very angry guests on their hands, and once again they could only point out that the guests paid a lower rate for the accommodations through Oaks Properties.

In addition to Liza's misgivings regarding the marketing and management practices of Oaks Properties, its compensation policy further complicated her predicament. Liza was paid a base salary that no longer met her financial needs. The company had eliminated any base salary increases and had decided instead that any additional compensation would be received in the form of a bonus for performance. Part of the bonus it paid Liza was based on how much she "comped" guests to appease them. Although Liza often felt that a guest was entitled to some recompensation, the less she "gave away" in the form of complimentary gifts or services, the more she received for her bonus. She was also paid a very large fee every time she obtained a new rental unit for Oaks Properties. This put her in the position of having to be aggressive in securing villas for its rental program when she did not personally feel that its operating methods were ethical.

Liza's integrity and values were very important to her, but as a single parent she felt she had no alternative except to do her best for Oaks Properties until another comparable position could be found. She was also bound to Oaks Properties by her sense of fairness. Although she had been approached by several direct competitors, she did not think that joining their organizations would be appropriate. Once again, the end came when Liza put her family's needs first. She realized that not only was she suffering from the stress of her job, but that her children were as well. The ethical dilemmas she faced every day left her emotionally drained. The long hours she worked, with little or no opportunity to leave the island, as she was to be "on call" around the clock, left her physically exhausted. She had for some time been unavailable to give her children the attention they needed.



1. Evaluate the strategy of Oaks Properties.
2. What impact did the strategy have on employees?
3. What could Liza have done in this situation?
4. Make a prediction about the future of Oaks Properties.

Case 5

THE DECISION TO SERVE

David Anderson was the Assistant Manager of an upscale restaurant in Philadelphia. On a beautiful summer afternoon he noticed two attractive young ladies enter the restaurant and head for the lounge area, which contained a bar and also had small tables where light meals were served. He assumed that they were going to eat lunch in the lounge. Ten minutes later David was approached by Josh, one of his servers, who told him that he was in a situation that made him feel uncomfortable. Josh explained that the hostess had seated two young ladies in his section in the outside seating area that was adjacent to the sidewalk in front of the restaurant. This area was under an awning and separated from the sidewalk by a short decorative iron fence, but diners were clearly visible from the sidewalk and street. He said that both of the women had cocktails, and he felt that they were underage and he did not know what to do. David looked out and noted that the two ladies were the same ones he had seen enter the restaurant earlier. He went to the bar and asked Julie, the bartender, if she had served the two ladies drinks, to which she replied that she had. He asked her if she had asked for identification, and she told him that she had not.

David then approached the table where the two were sitting and asked them for identification. One had a driver's license that showed she had recently turned 21, and the other said she had forgotten her identification. David informed the one without identification that he would need to remove her drink, as the restaurant had liability issues related to serving underage people. He told her that she would be reimbursed for the drink and offered to provide her with a complimentary nonalcoholic beverage. When David took the beverage, the woman immediately began to complain loudly, got up from the table, went into the restaurant, and began yelling at the server, saying that her father was joining them soon and would rectify the situation. The General Manager approached David about the ruckus, and David explained the circumstances. In the meantime, the young lady returned to her table, and the two women were soon joined by an older man. At this point the General Manager approached the table and had a brief conversation with the man and the young ladies. He apologized for the incident and offered them a complimentary round of drinks and dinner as compensation for their inconvenience.

The General Manager (GM) then approached David and explained to him what he had done and said the older man had vouched for the age of the young lady lacking any identification. It was never made clear as to whether the man was actually the father of either of the ladies. The GM went on to explain that the policy of the restaurant was to not ask for identification, especially for attractive women, unless it was obvious that the person was underage—which David felt was indeed the case in this situation. He continued to explain to David that having attractive women in the restaurant was good for business, that it was like free advertising, and that this was something they did not teach you in school. A few minutes later Josh approached David and apologized for creating the problem. David thanked him and made no comment about the General Manager's decision, even though he thought it was wrong. David then approached the table to make sure that the man and two young ladies were enjoying their dinner. He asked if there was anything else he could do, to which the man replied that everything was fine and apologized for the confusion. The two young ladies said nothing.



1. How did this situation come about?
2. Was David's action appropriate? Why or why not?
3. What would Josh do in a similar situation in the future?
4. Evaluate the General Manager's performance.