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Ethics In The Hospitality Industry: A Management Control System Perspective

Abstract

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Keywords

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Ethics In The Hospitality Industry: A Management Control System Perspective

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Hospitality managers may assume that unless under control, ethics in their operations are out of control. This article proposes a management control system for ethics.

Imagine, if you will, your operation facing bankruptcy despite a history of excellent cash flow and minimal debt. Increasingly, managers are facing this situation because, at some critical moment subject to later scrutiny by either an investigative reporter or civil court jury, they did not do what was to be judged as "right." Not "right" in the more limited business or legal sense of the word, but, rather, "right" as it is defined by standards of morality and ethics. Such situations are now not limited to hypothetical cases developed for teaching graduate students to be "good." One is now hard pressed to pick up the business news without finding out the latest in one corporation's \$10 billion lawsuit charging another company's officials with unethical conduct, or learning of another military contractor disbarred from doing government business because once accepted common practices are now seen as "not right."

The assumption is that ethical behavior in today's hospitality industry is out of control. Not out of control in the sense that unethical behavior is rampant, but, rather, out of control in the sense that ethical behavior is not within control. Put differently, this means that unless your operation has in place a management system for controlling ethics, it can be assumed that your employees' behavior, the behavior you are responsible for, is out of control. This is true for any behavior in any organized enterprise. But standards of profit and standards of law are relatively stable: They are slow to change and once accustomed to, they may be relied upon. Changes are usually significant, and systems—from the business press to consultants to professors writing articles—are in place to adjust the enterprise to change. Ask yourself, however, when was the last time you assessed the fit of ethical behavior in your organization with that of the broader social environment in which it exists.

The point is not to accuse, but rather to note that increasingly higher standards of ethical conduct are being expected, perhaps demanded, from business enterprise. Ethical conduct, likewise, may have a high personal priority for you, or for all or some of the participants in your organiza-

tion. Instead, the point is to note that if you wish to ensure that ethical behavior is under control, this behavior must be managed in exactly the same manner that profit is.

Hiring “good people” won’t do this. Neither will pronouncing that hereafter “the enclosed booklet of ‘ethical conduct standards’ will be adhered to.” If the choice is to stay out of court, or out of tomorrow’s headlines (imagine what an ill-timed article might do as “the season” begins), then hospitality industry managers must look at ethics in a manner exactly the same as they look at any other element of the job: as an area of their organization’s behavior that must be managed.

The Management Of Ethics Systems Must Be Planned

In a standard management text, Dessler identifies five functions of management.¹ They are:

- **Planning:** Setting goals and targets; developing rules and procedures, developing plans...; forecasting...
- **Organizing:** Deciding what activities [units] must perform...; setting up departments; delegating authority...; establishing...channels of authority and communication...; coordinating...
- **Staffing:** Recruiting prospective employees; selecting employees, setting up performance standards; training and developing employees.
- **Leading:** Maintaining morale; motivating subordinates.
- **Controlling:** Setting performance standards...; checking to see how actual performance compares with those standards; taking corrective action as needed.

These functions, more or less similar to management functions identified in any standard management text, are the “tools” hospitality management must use to ensure compliance with societal expectations. Evidence of implementation of these functions for a clearly defined priority–profit–is hard to escape; planning, evaluation and review techniques, quantitative forecasting techniques for reservations, cost accounting, quality control, etc., all stand as examples. Where the goal is less clearly defined, systems may also be in place, including review committees to ensure the legality of actions, or elaborate planning to ensure that not only is food of a high quality, but that the “experience will bring ’em back.” Clearly defined or not, a management priority demands a system of planning, organizing, staffing, leading, and controlling. Any stated priority with such a system is a serious priority and is under control; one without such a system—a management system—leaves the enterprise vulnerable.

The implications of not having a management system in place for an organizational priority are evident; the organization, relative to the unmanaged priority, would quickly go out of control. Referring to the above profit goal example, no hotel which has been on the scene for more than a few months relies more than minimally on individual behavior typically characterized as “profit maximization” to develop a black bot-

tom line. Instead, in every facet of the hotel's operation—from maintenance to the executive club—controls are put in place, goals set, evaluation made, etc. Without the management function being carried out, the directed organizational effort toward profit would quickly dissolve.

So it is too with ethics as an organizational priority. The acid test for ethics being a serious organizational priority is whether or not a system for managing ethics exists. Is ethical behavior in your enterprise planned for? Is it organized? Is staffing done to account for ethical behavior? Is there ethical and moral leadership, and is ethical behavior controlled? An ethics control system cannot more than minimally rely upon "ethical actors," i.e., good people, to secure a high standard of ethics in the organization. Likewise, it cannot be assumed that somewhere in the mythical marketplace forces are at work in your enterprise striking an appropriate balance between ethics, profits, and whatever other goals are being set for business enterprise. Demand for ethical conduct means integrating not just ethics into management, but managing ethics into the management function.

Ethics Systems Must Be A Priority

Ethics systems management is defined as the systematic application of management principles and techniques to ensure appropriate standards of individual and corporate ethical conduct are maintained as an enterprise's priority. Various authors, tracing back almost a decade, have made contributions in the development of this concept.

Purcell identifies an enterprise's ethics committee as responsible for monitoring ethics.² This committee, composed of ethics advocates either at the board of directors or officer level, would be responsible for introducing a moral dimension into ordinary business activities. Weber identifies means for "institutionalizing ethics," defined as "getting ethics formally and explicitly into daily business life, making it a regular and normal part of business."³ The specific means suggested are establishing an ethics code or policy, forming an ethics committee within the board of directors, and integrating ethics training into an organization's management development program. Davis and Frederick have proposed a more comprehensive plan for "improving an organization's ethical performance." They describe an ethics committee, an ethics advocate, a code of ethics, ethics audits and reviews, and ethics training as elements of an organization's ethics performance upgrading plan.⁴

Stone takes the position that "developing a moral corporation is not just a matter of good intentions." He proposes that society's rewards and penalties be changed to increase business morality. He also proposes that a company's "culture" be changed. How? By rewarding moral excellence, by increasing through sensitivity training executives' awareness of ethical issues, and by increasing the public's awareness of ethical and moral concerns as they relate to business behavior.⁵

McCoy develops the thesis that business' ethical performance is compatible not only with general corporate welfare, but with economic performance measures as well. He sees management as responsible for establishing a "community of purpose" within the company. The new

culture would be identified by a clear set of values, a set of values consistent with those of society, and a set of values fully integrated into the organization's purpose for being. Integral to maintaining that community, McCoy proposes, would be systems for maintaining corporate ethics "quality control." These systems would include:

(1) comprehensive, inclusive quality control with which to evaluate the entire enterprise from intention to action to consequences and (2) the constant review of information so that criteria are regularly appraised, related more closely to every level of operations, and utilized to correct the course and to enhance performance.⁶

Finally, DeGeorge develops a comprehensive system for integrating "morality" into corporate structure. Specific steps he recommends are:

- The board of directors should act actively and conscientiously to oversee management's running of the corporation.
- More than half the board, including the chairman of the board, should not be management.
- Responsibility for policies and decisions should be tracked for at least five year periods, and those responsible should be held accountable for policies and decisions they made in previous positions within the firm.
- At each level, a determination should be made about how much disclosure is appropriate, and to whom.
- There should be channels and procedures for accountability up, down, and laterally.
- Corporations should develop input lines whereby employees, consumers, stockholders, and the public can make known their concerns, demands, and perceptions of a corporation's legitimate responsibilities.
- Corporations should develop a mechanism...for anticipating various demands, for seriously considering and weighing them, and for proposing appropriate action.
- Corporations should develop techniques for disseminating to those interested the basis for decisions affecting the common good.
- Responsibility should be enforced with sanctions within an organization, and when compatible with antitrust laws, throughout an industry.
- A corporation...should provide procedures, mechanisms and channels whereby any member of the organization can file moral concerns...
- The corporation should hold some highly placed official in the corporation responsible if insufficient attention is paid a legitimate claim of safety and the like.⁷

To varying degrees, but never explicitly, what the authors have proposed are mechanisms, some concrete and some abstract, for dealing with business ethics as a "management problem." This is in contrast to defining the ethics problem as a "moral person" problem, a problem of good people versus bad people in business, or as a "legal" problem, the ethical non-problem of an amoral agency. By defining the ethical problem of business to be a management problem, upgrading business ethics performance becomes a far simpler undertaking, practice replaces theory, concrete replaces abstract.

The systematic application of management principles to the "business ethics" problem makes explicit and complete the institutionalizing of business ethics within the enterprise. By implementing standard management techniques, here described as planning, organizing, staffing, leading, and controlling, corporate management can be certain business ethics is established "...formally and explicitly into daily business life, making it a regular and normal part of business."⁸

The planning function when applied to managing business ethics systems means translating societal expectations for business performance and behavior into policies, rules, and codes relevant to the organization. It also means ensuring the enterprise is capable of adjusting to changes in those expectations. In specific, planning requires goal setting, policy developing, and forecasting. When applied to business ethics, the specific functions required are:

- Developing a clear statement of the organization's "statement of purpose." Such a statement should make explicit what the company exists for, and how that relates to the general societal welfare. It should also make clear what are to be identified as organizational values and in what priority they should be thought of.
- Developing a corporate ethics code. This code makes explicit the relationship between the general purpose of the organization and specific behaviors to be punished and rewarded.
- Monitoring society's ethical and moral concerns for changes in expectations. This requires interacting without outside sources of such concerns, those with expertise in ethical and moral analysis. This implements "environmental scanning" techniques in ethics systems management.

Ethics Systems Management Requires Organization

Organizing as a management function requires structuring the organization, including its political and communications network, in a manner that develops maximum potential for achieving goals. To develop that potential, a manager ensures individuals in the organization are continually faced with stimuli which encourage individual behavior supportive of the organization's goals. Organizing ethics systems management requires these following tasks:

- Establishing within the organization an ethics committee. This committee should be structurally placed parallel to other functional committees, and should be similarly staffed.

- Establishing for each department within the organization a clear statement of what ethics system management responsibilities and authority they have. Where departments or individuals are dealing with those marginal to the organization—customers, vendors, etc.—that statement should be made available to such outsiders.
- Establishing a communication system within the organization to ensure information relevant to ethical behavior is communicated to the appropriate management level. It is important that this communication system reflect the organization's existing political and communications network.
- Establishing at management level a single person who is responsible for the enterprise's ethical performance. This person should be responsible for ensuring integration of ethical standards and priorities into the firm's structure and operation, and for ensuring that there exists within the firm appropriate means for information relevant to ethical performance which can reach appropriate management levels. This single person should also establish a channel of authority and responsibility which ensures that lower-level managers understand what powers and responsibilities they have regarding the ethical performance and standards of the organization.

The "staffing function" involves not only determining who should be employed and recruiting them for the enterprise, but, perhaps more importantly, ensuring that specific jobs are structured in a manner to achieve the organization's goals. This means not only paying attention to corporate priorities, but also shaping jobs, rewards, and penalties so that individual performance is achieved consistent with those priorities. The staffing function when applied to ethics management requires the following:

- Ensuring recruitment standards are consistent with the values statement and ethical code of the company.
- Ensuring selection procedures are used which, where appropriate to the job, eliminate potential personnel with undesirable ethical/moral traits.
- Developing within the firm ethics education as part of the organization's employee development program.

McCoy, in identifying value management as the key to increasing business' ethical performance, is proposing that the principal mechanism for ethics improvement is leadership.⁹ Leadership demands providing the organization's participants with a common sense of worthwhile purpose. In controlling an organization, it is this common sense of worthwhile purpose which differentiates commanding from leadership, and which creates within subordinates a morale and performance level sufficient to meet the organization's goals and priorities. Nothing less is demanded when leading corporate ethics system. Ethics systems leadership demands:

- Providing for employees a sense of worth as ethical behavior relates to society, its goals, and to the firm's own goals.
- Providing for subordinates, and for others with interests in the organization, a personal example of ethical behavior.
- Proactively communicating with society to ensure the firm has an input as societal expectations of ethical performance change, to ensure that once these expectations are clear, the firm operates consistent with them, and further to ensure that those outside the enterprise know that they will be dealing with an organization which has placed a high priority on ethical behavior.

Controlling Ethics Systems

The controlling management function links all of the above functions together, for it asks the question: "Is our behavior appropriate to our goals and standards, and, if not, what changes in planning, organizing, staffing, and leading need to be made?" Ethics systems also need to be controlled. To control ethics the following management tasks must be undertaken:

- Management performance standards relevant to the ethical code must be established and communicated.
- Ethical performance must be continually monitored, with periodic reports issued as appropriate to subordinates and to those in authority.
- Management must undertake corrective action, e.g., direct feedback, punishment and rewards, goal modification, increased communication, organization restructuring, etc., when corporate or individual performance does not meet pre-established standards. Where corrective action outside the enterprise is called for...the problem is external, not internal...management must be prepared to take a leadership position.

McCoy has noted that the "integration of ethics into the entire policy process must not be neglected....The ethical difference can....result in more than quality; it can even result in excellence."¹⁰

Managing ethics systems in the hospitality industry produces the potential for an enterprise to maintain a closer and more substantive relationship with society. Given its fundamentally retail nature and its reliance on the "feelings" of a vacation, a flight, a convention/conference/meeting, or simply a meal, managing ethics in the hospitality industry thus produces the potential for not only "closing the back door" on a civil court action or an investigative reporter but it also opens the front door for increasing overall quality and profit.¹¹

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- ¹⁰*Ibid.*
- ¹¹See Mark Pastin's recent book, *The Hard Problems of Management*, (San Francisco, CA: Jossey-Bass Publishers, 1986). There, he analyzes different business situations where maintenance of a high ethics standard produced increased profitability.

Note

In an earlier version, this paper was presented at the 1986 Academy of Management Meetings, Social Issues in Management, Chicago, Illinois.