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# Hotel Managers' Responses to Ethical Dilemmas

**Abstract**

Ethics is a hot topic today in many professions. The author creates a number of scenarios testing ethical situations and surveyed lodging managers as to their reactions.

**Keywords**

Raymond S. Schmidgall, Hotel Managers' Responses to Ethical Dilemmas, Ethics, Spotter's spies

# Hotel Managers' Responses to Ethical Dilemmas

by  
Raymond S. Schmidgall

*Ethics is a hot topic today in many professions. The author creates a number of scenarios testing ethical situations and surveyed lodging managers as to their reactions.*

Ethics is one of the most talked about topics in today's business, in political circles, and in just about every walk of life. The headlines of the daily papers tell of the lying, cheating, and illegalities that abound in the savings and loan industry fiasco. The sports world has been rocked by discoveries and revelations of the illegal use of drugs. Several U.S. senators' careers appear to be endangered due to extremely questionable behavior in realized extra income and political donations.

Yet, ethics is not about just the behavior of others. It would be a mistake to think the lodging managers are exempt from ethical concerns. The smallest motel deals in issues of fairness, of legal requirements, and of honesty. Many of the critical issues facing the lodging industry today are primarily ethical issues. Examples include truth in menu, liquor liability, job harassment, equitable wages, misleading advertising, and other areas.

This study was designed to find out how lodging managers felt about some of their most sensitive ethical issues. A questionnaire was mailed to 1000 managers with 15 brief scenarios; nearly 400 responded.

Respondents had as little as less than two years of managerial experience to more than 20 years. The median response was 8 to 10 years. Over 54 percent had a four-year college degree, while 18 percent and 19 percent had two-year degrees and high school diplomas, respectively. Just over one-third received AH&MA's CHA certification. Sixty-six percent manage properties of fewer than 250 rooms, while 26 percent manage properties of 250-499 rooms. The median annual gross revenues of lodging properties managed by the respondents was \$3,900,000.

The 15 scenarios are listed in Appendix 1. Each poses a possible ethical problem and suggests a hypothetical lodging manager's response. All respondents simply indicated the extent to which they agreed or disagreed with the ethics of the manager's action. The alternatives for each scenario included strongly agree, moderately agree, unsure, moderately disagree, and strongly disagree.

**Exhibit 1**  
**Response to Scenarios**

Scenario Number	Reference	Your action was ethical:				
		Strongly Agree	Moderately Agree	Unsure	Moderately Disagree	Strongly Disagree
1	New salary	10.7%	24.9%	16.2%	23.6%	24.6%
2	New menu	6.1%	15.5%	8.9%	24.9%	44.6%
3	Spotter's spies	61.2%	26.1%	3.3%	4.1%	5.3%
4	Yard work	25.4%	29.6%	6.9%	14.2%	23.9%
5	Bumped reservation	1.3%	5.1%	4.6%	13.7%	75.3%
6	Roof repair	7.6%	15.5%	6.1%	10.2%	60.6%
7	Cashier's integrity	36.5%	25.6%	9.4%	11.7%	16.8%
8	Fringe benefits	6.1%	12.2%	8.9%	26.6%	46.2%
9	Educational materials	1.3%	3.3%	3.5%	11.4%	80.5%
10	Free wine	7.4%	16.5%	10.6%	17.5%	48.0%
11	Work standards	8.9%	22.1%	11.2%	27.2%	30.6%
12	Service charge	4.1%	10.9%	6.9%	22.8%	55.3%
13	Price reduction	34.0%	36.1%	7.3%	8.4%	14.2%
14	Stock purchase	21.3%	23.9%	21.3%	13.2%	20.3%
15	Overbooking	40.2%	33.2%	4.8%	9.9%	11.9%

Note: A few questionnaires contained no response to some scenarios. For analytical purposes, they were combined with unsure.

Overall survey results are shown in Exhibit 1. Respondents identified either strongly or moderately with the hypothetical lodging manager's actions in only three of the 15 scenarios. These include scenarios referenced as spotter's spies, price reduction, and overbooking. In seven scenarios the respondents (either strongly or moderately) disagreed with the manager's actions. These scenarios are referenced as new menu, bumped reservation, roof repair, fringe benefits, educational materials, free wine, and service charge. Finally, the respondents provided mixed results, that is less than 65 percent agreed or disagreed with the manager's actions and more than 25 percent of the respondents were in the minority in the remaining five scenarios referenced as new salary, yard work, cashier's integrity, work standards, and stock purchase.

**Several Scenarios Show Strong Agreement**

In scenario 3, spotter's spies, 87.3 percent agreed (either strongly or moderately) with the manager's decision to contract Spotter's, Inc. to check upon the performance of the bartenders,

overwhelming support for this practice that has been used by many hospitality operators. Yet, secretly observing the behavior of employees was disliked by 9.4 percent of respondents. Perhaps this minority would be placated had the bartender been informed that this practice was occasionally used to insure proper performance.

In scenario 15, overbooking, the hotel overbooks rooms in order to offset the expected no-shows. However, management realizes that a few guests may have to be walked because of this new procedure. Over 73 percent of the respondents agreed with this action, while just more than one out of five disagreed. The large percentage agreeing with the overbooking practice suggests strong support for this common practice.

Finally in scenario 13, price reduction, in order to increase sales, the hotel advertises a 25 percent discount off the rack rate of \$80, even though no rooms have ever been sold for \$80. It is interesting to note a Federal Trade Commission guideline that requires goods (services) should be offered for sale at regular prices in good faith and for a reasonable period of time and not for the purpose of establishing a fictitious higher price. Indeed, the rack rate of \$80 was the rate at which the hotel decided to sell its rooms, but since it never did, should they advertise a discount from this rate? Seventy percent of the respondents felt this practice is acceptable, while nearly 24 percent disagreed with this action. The minority of respondents of nearly one in four would probably be more agreeable to the discounting if the average price charged prior to the discounting were advertised.

### **Several Scenarios Had Strong Disagreement**

In seven scenarios, more than 65 percent of the respondents disagreed with the action taken, that is, they indicated moderate or strong disagreement that the hypothetical manager's action was ethical.

Over 90 percent disagreed with providing guest lists to organizations for the distribution of educational material (scenario 9, educational materials). Only 4.6 percent agreed with this practice. Even though the intentions may appear to be proper, guests register with a hotel to provide information for the hotel's operating use, not for distribution to outsiders; managers overwhelmingly respect this.

Nearly 90 percent of respondents disagreed with bumping a less influential guest in favor of a very influential guest (scenario 5, bumped reservation). It is refreshing to see respondents standing up for showing equal respect to all guests, regardless of influence.

In scenario 12, service charge, 78 percent of respondents disagreed with discriminating against small accounts by continuing to levy a service charge, while giving a break to large corporate customers. This appears to be consistent with respondents' feelings on the prior scenario, bumped reservations. However, 15 percent believe charging the little guy is acceptable, and nearly 7 percent were unsure.

Scenario 8, fringe benefits, appears to be an effort directed toward cost reduction; however, several employees lose a fringe benefit and the hypothetical manager's bonus increases. Is it fair to the six

employees whose hours have been restricted and who have lost the new fringe benefit? Would this practice encourage workers to organize? Seventy-three percent disagreed with this action; over 46 percent strongly disagreed. Yet, 18 percent found this practice to be acceptable; nearly 9 percent were unsure.

Scenario 6, roof repair, smells strongly of bribery, reshingling the roof of the manager's personal residence for half price if the contractor gets the contract to replace the hotel's roof. Appearances at times are more important than facts. More than 70 percent of the respondents disagreed (61 percent strongly disagreed) with the hypothetical manager's actions in this scenario. Still, nearly one in four found this practice to be acceptable.

Nearly 70 percent of the respondents rejected the idea of a new menu containing no nutritious alternatives (scenario 2). This suggests a fairly high level of health consciousness among hotel managers. Still just over 21 percent of respondents agreed with the action taken. Finally, in scenario 10, free wine, a free case of wine is delivered to the manager's personal residence by a new purveyor who sold the hotel 20 cases. In this situation the manager had no advance notice of this gift. Still, the question must be asked: Would the acceptance affect future beverage purchases? Just over 65 percent of the respondents believed the free case should not be kept by the manager. On the other hand, nearly 25 percent of the respondents agreed with the manager's keeping the wine.

### **Some Scenarios Have Mixed Results**

In the five remaining scenarios, there was a divided response. In addition to presenting the results as before, these responses have also been analyzed based on years of experience, level of education, certification, and size of respondent's property.

No differences were noted based on years of managerial experience, certification, or the size of property (number of rooms). A few differences were noted based on level of education and annual revenues of the properties.

In scenario 1, new salary, the lodging manager is given a 20 percent pay increase, while the hourly employees' average pay is maintained at \$5.25. The hypothetical lodging manager decides to quietly keep the pay increase. Two issues appear to be involved in this scenario, acceptance and quiet acceptance. Respondents were divided; almost 36 percent agreed with keeping the increase, while 48 percent disagreed and one in every six respondents was unsure.

Further analysis of the response to this scenario showed 43 percent of the respondents from properties with over \$5 million annual revenues agreed, compared to only 31 percent of respondents with smaller properties agreeing; 41 percent of respondents from larger properties disagreed as did 52 percent of respondents from smaller properties. This suggests respondents at larger properties find this action more acceptable than respondents from smaller properties.

Scenario 4, yard work, poses an interesting dilemma. The lodging manager desires to hire the hotel's best maintenance worker to care for his yard. Does the hotel maintenance worker feel he really has a choice? Does saying "no" mean he may be passed over for promotion in the future? Is the manager taking unfair advantage of his position? Slightly more than half the respondents agreed with the lodging manager hiring the maintenance worker; however, nearly 40 percent disagreed. Almost an equal percentage strongly agreed and strongly disagreed. Differences in responses were not related to any demographic factors.

### **Some Scenarios Test Workers**

Scenario 7, cashier's integrity, focuses on testing a cashier with a flawless record for 10 years. Unfortunately for the cashier, he or she took \$45 of the \$50 planted. Was this too much pressure? Was there good reason for testing this employee? Sixty-two percent agreed with the manager's test, while 29 percent disagreed; and 9 percent were unsure. Further, analysis of the data reveal that 12 percent of the respondents of the smaller properties (annual revenues of less than \$5 million) were unsure, while only 3 percent of the larger properties were unsure. Overall, 61 percent of the respondents of smaller properties agreed, while 65 percent of the respondents of larger properties agreed. This suggests only that respondents of larger properties more readily expressed themselves than did respondents of smaller properties. No other differences were noted.

Cost containment is the goal of scenario 11, work standards. In this scenario the work standard is tightened, even though the prior standard was "tight, but attainable." Nearly 58 percent of the respondents apparently believed this was unjustified, while 31 percent agreed with the hypothetical lodging manager's actions. Further, analysis reveals differences based on the level of education of the respondent. The respondents with a two-year college degree or less more frequently disagreed (62 percent). Those with college degrees (bachelor's and master's) also more frequently disagreed. Though both groups disagree with the action, the differences suggest the higher the level of education, the greater the agreement with the action taken.

In scenario 14, stock purchase, the hotel's manager has decided to take advantage of inside information and purchase more of the company's stock. This action certainly appears to be in violation of securities laws which regulate purchase by insiders, such as the hotel's manager, when the purchase is based on unpublished information, that is, information not available to other potential purchasers. Twenty-one percent were unsure or did not respond to this case, suggesting a fairly high level of ignorance. Surprisingly, 45 percent agreed with the action, while 34 percent disagreed.

The higher the level of education, in this case a college degree, unsure (19 percent) and the greater the disagreement with the purchase of the stock (39 percent). Of those with high school or two-year

college degrees, only 25 percent disagreed and 27 percent were unsure.

The larger the respondent's property, (revenues of \$5 million or more), the less unsure (15 percent) and the greater the disagreement, (43 percent). Smaller properties reflect a 30 percent disagreement.

This study suggests major differences on several ethical issues; however, in general, these differences are not due to levels of education, years of managerial experience, size of respondents' properties, or certification.

Some writers have suggested a code of ethics for the lodging industry. Generally, codes of ethics are so general that it is very questionable whether a code of ethics would make a difference. A discussion of ethical issues is important and continued discussion in the hospitality literature should raise the ethical consciousness of lodging managers.

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## Appendix 1

### Scenarios on Ethics

1. **New Salary:** You have just received a 20 percent increase in your annual salary to \$95,000. However, the hotel's Board of Directors refused to increase the hotel's hourly employees average pay of \$5.25 since the hotel is in "financial straits." You decide to quietly accept the pay raise.
2. **New Menu:** You have just approved a new menu which contains several of your favorite high-calorie, high-cholesterol, high-sodium foods. No nutritious alternatives are on the menu. You reason that the hotel guests like what is on the menu and that's why they will keep coming back as in the past.
3. **Spotter's Spies:** You have just contracted with Spotters, Inc. to provide spotters to "spy" on your bartenders to determine if they are preparing drinks according to the standard recipe and if they are properly charging guests for all drinks served.
4. **Yard Work:** You need yard work done at your personal residence. You approach one of the hotel's best maintenance workers and offer to personally pay him the same hourly wage he receives from the hotel for the desired five hours of work/week at your house.



5. **Bumped Reservation:** You have just been approached by a very influential guest regarding a surprise birthday party he would like held at the hotel two months hence. Unfortunately, the hotel is totally booked. The guest, after discussing the bookings for the targeted date with you for 30 minutes, suggests bumping a less influential party who reserved the desired room yesterday. The influential guest suggests you tell the other party "the sales person made a major mistake in booking a room that had previously been reserved." You concur.
6. **Roof Repair:** The hotel requires a new roof. Three bids are obtained and the low bidder suggests privately he would be willing to shingle your personal residence for half-price, which just happens to need the attention. You find references indicate the low bidder does excellent work. You go with the low bidder. The hotel roof is replaced and your house is shingled.
7. **Cashier's Integrity:** You decide to test a cashier's integrity. The cashier has been with the hotel ten years and has had a flawless record. You slip a \$50 bill in the register receipts. At the end of the day, the cashier shows a \$5 overage. Upon questioning the cashier, the cashier admits to you that he/she pocketed the \$45 difference.
8. **Fringe Benefits:** The Board of Directors of your hotel recently provided full time employees with "free" health insurance. In an attempt to maintain the hotel's profitability and your bonus, you have decided to reduce six full time workers to 3/4 time and hire two additional 3/4 time workers. Three of the workers are single parents. The bottomline result is considerable savings in the cost of the hotel's fringe benefits.
9. **Educational Materials:** You belong to an organization which, with apparently noble intentions, asks your cooperation in distributing educational materials to your hotel guests. You, being desirous of helping the organization, provide a copy of the hotel's influential guests including names, addresses, and telephone numbers.
10. **Free Wine:** You recently purchased 20 cases of wine for the hotel from a new beverage purveyor. Without your advance knowledge, the purveyor delivers one free case of wine to your residence. You decided to keep the free case for your personal use since it did not influence the purchase of the 20 cases for the hotel.

11. **Work Standards:** The controller has recommended in light of rising labor costs that housekeeping time allowed to clean a room be reduced from 30 minutes to 25 minutes. The 30 minutes time was considered "tight, but attainable." You concur.
12. **Service Charge:** The controller has advised the accounts payable clerk to continue to add a 1 1/2 percent monthly service charge to overdue accounts of individuals and small business but to discontinue this procedure for the overdue large corporate accounts. You concur.
13. **Price Reduction:** You are the manager of a new hotel that is experiencing lower than expected occupancy rates. In an attempt to increase room sales and occupancy percentage, you recommend advertising a 25 percent discount off the "regular" rack rate of \$80 despite the fact that no rooms have ever been sold at the \$80 rate.
14. **Stock Purchase:** You are the general manager of a hotel owned by Empire Hotels. Every month you buy 50 shares of Empire's stock for your personal portfolio. In light of recent improved (but unpublished) earnings figures that you have "crossed" your desk, you double your monthly purchase to 100 shares of Empire's stock.
15. **Overbooking:** The controller of the XYZ Hotel has just studied a special report that reveals that 2 percent of the rooms reserved each day are not sold due to "no shows." To offset this problem (and lost revenue), she orders the rooms reservationist to overbook rooms up to 2 percent each day. She informs the front office personnel to be prepared to walk a few potential guests due to the new procedure. You concur with this action.