

2005

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## Recommended Citation

Damito, James W. and Schmidgall, Raymond S. (2005) "Major Influences on the Ethical Behavior of Financial Executives in the Hospitality Industry," *Journal of Hospitality Financial Management*: Vol. 13 : Iss. 1 , Article 23.  
Available at: <http://scholarworks.umass.edu/jhfm/vol13/iss1/23>

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# **MAJOR INFLUENCES ON THE ETHICAL BEHAVIOR OF FINANCIAL EXECUTIVES IN THE HOSPITALITY INDUSTRY**

**James W. Damitio  
and  
Raymond S. Schmidgall**

## **ABSTRACT**

This study attempted to determine the major influences on financial executives' ethical behavior. A random sample of financial executives was asked to indicate how strongly their ethical belief system was influenced by various family factors as well as institutional factors. Respondents also reported on how strongly their ethical belief systems were influenced by various college or university courses that they completed. Findings in the study indicate that parents are by far the most important influence on controller's ethical behavior. Spouses rank as the second most important influence followed by immediate supervisors at work. These influences, however, do not appear to make a large difference in how financial executives responded to hypothetical ethical dilemmas.

## **Introduction**

What are the key institutions or who are the key individuals that most influence the ethical behavior of lodging financial executives? Is it family members, supervisors, or institutions such as churches or synagogues that have the most impact on financial executives' belief systems? Are financial executives' belief systems influenced more by their elementary or secondary teachers? Increasingly, college curricula are including courses on the subject of ethics. Can college educators expect to have a significant impact on the belief systems of future managers and if so what are the most important courses by which future managers' ethical belief systems are impacted? These are some of the questions that we attempted to answer in this study.

## **Review of Literature**

Ethics has become such a popular issue among people in the business world and researchers have attempted to determine the major influences on individual's ethical behavior. Accountants with different ideals make key business decisions differently than those with low ideals. For example, Elias (2002) concluded from a study of accountants that accountants with high ideals judged something like "earnings management" decisions more harshly than accountants who believed that relativity was a factor in decision making. Perhaps these high ideals come from institutions in society such as churches or synagogues. Angelidis and Ibrahim (2004) found that the stronger an individual's religious beliefs, the more important the ethical elements of business became.

On the other hand, some research indicates that the upper management of an organization or the general culture of the organization itself helps to determine one's attitude toward ethics. Jones and Hildebeitel (1995) found that strong organizational support of ethics positively impacted the moral decision process of accountants in general. Brune (2003) found that "ethical

failures” by employees are strongly related to the actions of top management because of the presence they maintain on lower level positions.

Stevens and Brownell (2000) conducted a study of two 300 room upscale hotels. They found that the chief source of ethical information was “family and friends” rather than supervisors and co-workers. Others have attempted to see if a college course in ethics significantly influenced the ethical views of individuals. Ludlum and Mascaloinov (2004) noted modest differences in the ethical views of students who had taken a course in business ethics.

## Research Design

Questionnaires were mailed to 565 members associated with the lodging industry selected on a random basis from the 2004 membership list of the Hospitality Financial & Technology Professionals (HFTP). Respondents were asked to indicate what they believed to be the influences on their belief system by indicating whether the influence of various factors was: very strong, strong, moderate, weak, very weak, or no influence. The factors listed in the survey were, parents, spouse, family other than parents, close social friends, immediate “supervisor” at work, professional associates, religious institutions/clergy, teachers at the elementary, secondary, or college/university level.

In addition, respondents were asked about the influence of certain college/ university subjects which they studied. The subjects listed on the survey were business management, ethics, history, humanities, literature, philosophy, and religion. Once again, respondents were asked to indicate the influence of these subjects as being: very strong, strong, moderate, weak, very weak, or no influence.

Financial executives were also provided 16 scenarios ( see Exhibit #1) containing ethical dilemmas to evaluate in two ways. These 16 scenarios were from the authors’ research conducted in the early 1990’s. First, the financial executives were requested to indicate if they believed the action posed was “ethical,” “unethical” or “not a matter of ethics.” Then, they were asked whether they would take the action posed in the scenario. Lastly, we asked respondents whether their organization had an ethical code of conduct for all managers, for financial executives, or for others in the organization.

## **Results and Discussion**

### **Characteristics of Respondents**

One hundred and thirty five surveys were returned for a response rate of about 24%. The majority of the respondents held some form of controller title such as corporate controller, hotel controller, division controller or assistant controller. A small number of respondents reported to have some other title such as chief financial officer or treasurer.

The largest group of respondents indicated that they had over 25 years of hospitality experience (29.3%) while about 23% had between 20 and 25 years of hospitality experience. Over 85% had either a four year college degree or a Masters degree. About 80% worked for properties with over 250 rooms. Exhibit #2 reflects years of hospitality experience, the size of the respondents' lodging operations and the percentage of organization's having a code of ethics.

### **Family Influences on Controller's Ethical Belief System**

As showed in exhibit #3 the greatest influence, by far, on controller's ethical belief system was parents with 94% reporting that their parental influence was either very strong or strong. The next highest rated influence was the respondent's spouse with over 71% indicating that their spouse's influence was either very strong or strong. As far as influence of family other than parents, 55% indicated that the influence of that factor was either very strong or strong.

### **Non-Family Influences on Controller's Ethical Belief System**

Exhibit #4 provides a ranking of the non-family influences on controller's ethical belief system. The leading non-family influence for controllers was the immediate supervisor at work, with 56.8% reporting that this influence was either very strong or strong. Interestingly, this influence had a higher percentage than did family members other than parents. The next highly rated non-family influence was religious institution/clergy with 47.7% indicating this influence to be very strong or strong. The percent of respondents rating a non-family influence factor as either very strong or strong was 44.6% for college/university educators, 44.4% for professional associates, 42.4% for close social friends, 41.1% for both and elementary and secondary teachers.

### **Influence of College Courses on Ethical Belief System**

Regardless of the curriculum a college student pursues, typically all students are required to take a number of courses in the liberal arts or humanities areas. Students also have the opportunity to take specific courses in ethics. In addition, business schools are attempting to integrate the subject of ethics into various courses in their curricula.

We attempted to gain insights into which college/university courses had the greatest influence on controller's ethical belief systems. Respondents were asked to indicate whether the influence of certain subjects was very strong, strong, moderate, weak, very weak, or of no influence. The subject categories on the survey were history, humanities, literature, philosophy, religion, ethics, and business/management.

Exhibit #5 reports the cumulative percentage of respondents that indicated that a college/university course influence factor was either very strong or strong. Interestingly, the factor with the highest percentage was business/management. Ethics courses ranked second on the list, followed respectively by religion, philosophy, history, humanities, and literature.

## **Code of Ethics and Financial Executives Responses**

As shown in Exhibit #2, 63% of the financial executives' lodging organizations have a code of ethics all managers are required to follow. Respondents were provided with sixteen scenarios as shown in Exhibit #1 and asked to indicate for each scenario whether the action posed was ethical, not ethical, or not a matter of ethics. Secondly, they were then asked whether if placed in the posed situation whether they would "do it," "not do it" or "depends." Do the respondents who are expected to follow their companies codes respond differently to the 16 scenarios than those respondents whose companies do not require their managers to adhere to a code of ethics?

Comparisons of responses of financial executives required to follow a company code of ethics were made to responses of executives whose companies did not have a code of ethics. Exhibit #6 reflects the probabilities of differences, based on chi-square calculations, between the two groups of respondents for labeling the scenario as ethical/not ethical (Column 1) and what their action would be (Column 2). Of the 16 scenarios, for only two (17%) did the chi-square statistic at the 10% confidence level reveal a significant difference for labeling a scenario as ethical or not ethical. Of the 16 scenarios, only one is revealed as a significant difference for the action the respondents indicated they would take.

Therefore, whether an organization has a code of ethics or not, there appears to be little difference in the responses to the 16 scenarios presented to the financial executives in evaluating the scenarios as ethical/not ethical or the action they would take.

## **Significant differences in Financial Executives' Responses**

Exhibits #3 – #5, reveal that a number of factors have had a major influence on respondents. The cumulative total of "very strong" and "strong" responses for parents was 94%, 71.1% for spouse, 55% for family other than spouse, 56.8% for immediate supervisor, 64.9% for business/management courses and 58.1% for ethics courses. For all other influences in Exhibits #3 – #5 the sums of very strong and strong for each influence were less than 50%. Do these "major" influences make a difference in how respondents labeled each scenario as ethical, not ethical, or not a matter of ethics?

Exhibit #7 reveals the p-value for each of these major influences. In only 12 of the 96 interactions (12.5%) is a statistical difference revealed at the .10 level of significance. Therefore, it appears that factors considered to have a major influence on the ethical thinking of the majority of respondents, did not generally make a huge difference in how they evaluated the sixteen scenarios.

## **Conclusions**

Our study appears to support other research that we cited in our review of literature on how important supervisors or organizational support is to ethics in an organization. Our study shows that immediate supervisors have substantial impact on financial executives' ethical support systems. Controllers are influenced more by immediate supervisors than by any level of educator that they had or by religious institutions or clergy. The influence of immediate supervisors is exceeded only by that of parents and spouses.

One would think that college/university courses in areas of the humanities or religion would greatly influence the ethical belief systems of controllers. This does not appear to be the case based on our study. Rather, it appears that financial executives' ethical belief systems are influenced more by the business/management courses. Perhaps this is because ethics is being

emphasized lately in their business courses. Perhaps on the other hand financial executives relate better to the more concrete ethical dilemmas that are presented in business classes.

Finally, it is disappointing to find that major influences on respondents do not appear to result in markedly different responses of financial executives to several ethical dilemmas posed. Further, respondents required to adhere to a company code of ethics do not appear to respond differently to the vast majority of ethical dilemmas presented than those financial executives whose companies did not require them to follow a code of ethics.

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## Exhibit #1 Scenarios

Number	Description
1. Controller's Salary	Anne Newity, the controller, has just received a 20% increase in her annual salary to \$95,000. However, the hotel's Board of Directors refused to increase the hotel's hourly employee average pay of \$5.25 since the hotel is in a financial straits. Anne decides to quietly accept the pay raise.
2. Tight Standards	Bud Get, 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.
3. Spotters' Spies	Chick Booke, the controller, has just contracted with Spotters, Inc. to provide spotters to spy on his bartenders to determine if they are preparing drinks according to the standard recipe and if they are properly charging customers for all drinks served.
4. Yard Work	Deb Itt, the controller, needs yard work done at her personal residence. She approaches one of the hotel's best maintenance workers and offers to personally pay him the same hourly wage he receives from the hotel for the desired five hours of work/week at her house.
5. Service Charge	Ed Quity, the controller, has advised the accounts payable clerk to continue to add a 1 ½% monthly service charge to overdue accounts of individuals and small business but to discontinue this procedure for the overdue large corporate accounts.



6. Defer Maintenance	Fred Earl Reserve, the controller of a 25 year old property sorely in need of repairs, has recommended that maintenance for the fourth quarter be deferred until next year in order to improve the current year's operating statement.
7. New Roof	The hotel requires a new roof. Three bids are obtained and the lower bidder suggests privately he would be willing to shingle Glen Earl Edger's (the controller) personal residence for half price, which just happens to also need the attention. The controller finds references indicating the low bidder does excellent work. The hotel roof is replaced and his house is shingled by the lowest bidder.
8. Cash Discount	Hedge Yerbets, the controller, was playing golf last Friday and failed to approve the payment of an invoice in time to take advantage of the 2% discount. Later, he instructed the accounts payable clerk to prepare the check for the net amount despite the fact that they were beyond the discount date.
9. Cash Overage	Izzy Cheaton, the controller, decides to test a cashier's integrity. The cashier has been with the hotel ten years and has had a flawless record. The controller slips 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 the controller that he/she pocketed the \$45 difference.
10. Fringe Benefit	The Board of Directors of Joy Nall's hotel recently provided full time employees with free health insurance. Joy Nall, the controller, in an attempt to maintain the hotel's profitability and her bonus, has decided to reduce six full time workers to ¾ time and hire two additional ¾ time workers. The bottom line result is considerable savings in the cost of the hotel's fringe benefits.
11. Cash Float	Kappy Tull is the corporate controller of a lodging chain with properties in Atlantic City and Las Vegas. His suppliers allow him to take 2% cash discounts as long as the check is postmarked by the 10th of the month. In order to improve cash flow through float, he has the Atlantic City bills paid through the Nevada account and the Nevada bills paid through the New Jersey account.

12. Room Rate	Lyle A. Bilty is the controller of the new hotel that is experiencing lower than expected occupancy rates. In an attempt to increase room sales and occupancy percentage, he recommends advertising a 25% discount off the regular rack rate of \$80.00 despite the fact that no rooms have ever been sold at the \$80.00 rate.
13. Free Wine	Mort Gage, the controller, recently purchased 20 cases of wine from a new beverage purveyor. Without his advance knowledge, the purveyor delivers one free case of wine to Gage's residence. Mort decides to keep the free case for his personal use since the free case did not influence the purchase of the 20 cases for the hotel.
14. Stock Purchases	Ronnie Revue is the corporate controller of Empire Hotels. He buys 50 shares of Empire's stock each month for his personal portfolio. In light of recent improved (but unpublished) earnings figures that have crossed his desk, he doubles his monthly purchase to 100 shares of Empire's stock.
15. Over Bookings	Connie Troller, the controller of the XYZ Hotel, has just studied a special report that reveals that 2% of the rooms reserved each day are not sold due to no shows. To offset this problem (and lost revenue), she orders the rooms reservationists to over book rooms up to 2% each day. She informs the front office personnel to be prepared to walk a few potential guests due to the new procedure.
16. Small Tools	Dennis Bursement, the hotel's controller, has heard from a highly reliable source that several maintenance employees have been taking small tools home for personal use and not returning them. Since the Maintenance Department is not over budget, he decides not to report these occurrences to the hotel's GM or the Maintenance Department manager.

Source: Raymond Schmidgall and James Damitio, "How Ethical are Hospitality Financial Managers," The Bottomline, August/September, 1991.

## Exhibit #2 Other Demographic Factors

### **Years of Hospitality Experience**

< 10 years	12.8%
10-15 years	17.3
15-20 years	18.0
20-25 years	22.6
> 25 years	<u>29.3</u>
Total	<u>100.0%</u>

### **Size of Lodging Operation**

< 250 rooms	25.0%
250-500	36.6
501-1000	25.0
> 1000	<u>13.4</u>
	<u>100.0%</u>

### **Organization has a Code of Ethics for:**

All managers	63.0%
Financial executives	9.6
Others	5.9

**Exhibit #3**  
**Family Influence on Ethical Belief System**

	<b>Very Strong</b>	<b>Strong</b>	<b>Moderate</b>	<b>Weak</b>	<b>Very Weak</b>	<b>No Influence</b>	<b>Total</b>
<b>Parents %</b>	66.2	27.8	3.8	0	0	2.3	100
<b>Parents Cumulative %</b>	66.2	94.0	97.7	97.7	97.7	100	
<b>Spouse %</b>	36.7	34.4	14.8	3.1	.8	10.2	100
<b>Spouse Cumulative %</b>	36.7	71.1	85.9	89.1	89.8	100	
<b>Family Other Than Spouse %</b>	23.7	31.3	36.6	3.8	0	4.6	100
<b>Family Other Than Spouse Cumulative %</b>	23.7	55.0	91.6	95.4	95.4	100	

**Exhibit #4**  
**Non – Family Influence on Ethical Belief System**

	<b>Very Strong</b>	<b>Strong</b>	<b>Moderate</b>	<b>Weak</b>	<b>Very Weak</b>	<b>No Influence</b>	<b>Total</b>
<b>Immediate Supervisor at Work %</b>	22.7	34.1	27.3	9.1	1.5	5.3	100
<b>Immediate Supervisor at Work Cumulative %</b>	22.7	56.8	84.1	93.2	94.7	100	
<b>Religious Institution/Clergy %</b>	26.9	20.8	24.6	5.4	4.6	17.7	100
<b>Religious Institution/Clergy Cumulative %</b>	26.9	47.7	72.3	77.7	82.3	100	
<b>College/University Education %</b>	10.8	33.8	32.3	10.8	3.1	9.2	100
<b>College/University Education Cumulative %</b>	10.8	44.6	76.9	87.7	90.8	100	
<b>Professional Associate %</b>	12.8	31.6	41.4	11.3	.8	2.3	100
<b>Professional Associate Cumulative %</b>	12.8	44.4	85.7	97.0	97.7	100	
<b>Close Social Friends %</b>	12.1	30.3	43.9	6.1	0	7.6	100
<b>Close Social Friends Cumulative %</b>	12.1	42.4	86.4	92.4	92.4	100	
<b>Elementary Teachers %</b>	14.0	27.1	36.4	7.8	.8	14.0	100
<b>Elementary Teachers Cumulative %</b>	14.0	41.1	77.5	85.3	86.0	100	
<b>Secondary Teachers %</b>	14.0	27.1	36.4	7.8	3.9	10.9	100
<b>Secondary Teachers Cumulative %</b>	14.0	41.1	77.5	85.3	89.1	100	

**Exhibit #5**  
**Influence of College/University Courses on Ethical Belief System**

	<b>Very Strong</b>	<b>Strong</b>	<b>Moderate</b>	<b>Weak</b>	<b>Very Weak</b>	<b>No Influence</b>	<b>Total</b>
<b>Business/Management %</b>	23.7	41.2	26.0	3.8	1.5	3.8	100
<b>Business/Management Cumulative %</b>	23.7	64.9	90.8	94.7	96.2	100	
<b>Ethic's %</b>	26.6	31.5	25.0	.8	1.6	14.5	100
<b>Ethic's Cumulative %</b>	26.6	58.1	83.1	83.9	85.5	100	
<b>Religion %</b>	17.1	24.4	27.6	3.3	4.1	23.6	100
<b>Religion Cumulative %</b>	17.1	41.5	69.1	72.4	76.4	100	
<b>Philosophy %</b>	8.1	23.4	40.3	9.7	4.0	14.5	100
<b>Philosophy Cumulative %</b>	8.1	31.5	71.8	81.5	85.5	100	
<b>History %</b>	4.8	25.6	41.6	8.0	0	20.0	100
<b>History Cumulative %</b>	4.8	30.4	72.0	80.0	80.0	100	
<b>Humanities %</b>	7.2	20.8	41.6	7.2	4.0	19.2	100
<b>Humanities Cumulative %</b>	7.2	28.0	69.6	76.8	80.8	100	
<b>Literature %</b>	7.3	12.9	44.4	12.1	4.8	18.5	100
<b>Literature Cumulative %</b>	7.3	20.2	64.5	76.6	81.5	100	

**Exhibit #6**  
**Comparison of Results of Managers Required /Not  
 Required to Follow Company Codes of Ethics**

<u>Scenarios</u>	<u>Column I Ethical/Not Ethical P-Value</u>	<u>Column II Action P-Value</u>
Controller's Salary	.623	.796
Tight Standards	.860	.839
Spotters' Spies	.416	.738
Yard Work	.149	.402
Service Charge	.467	.830
Defer Maintenance	.918	.769
New Roof	.769	.721
Cash Discount	.080*	.403
Cash Overage	.951	.583
Fringe Benefit	.237	.037*
Cash Float	.070*	.116
Room Rate	.154	.437
Free Wine	.476	.878
Stock Purchases	.624	.141
Over Bookings	.292	.544
Small Tools	.696	.131

\*<0.10 significance

**Exhibit #7**  
**Crosstabulation Between Significant Influences and Ethical/Not Ethical Identification of Scenarios**

<b><u>Scenarios</u></b>	<b><u>Parents P-Value</u></b>	<b><u>Spouse P-Value</u></b>	<b><u>Family Other Than Parent P-Value</u></b>	<b><u>Supervisor P-Value</u></b>	<b><u>Business Mgt. P-Value</u></b>	<b><u>Ethic P-Value</u></b>
Strong Influence	94.0%	71.1%	55.0%	56.8%	64.9%	58.1%
Controller's Salary	.200	.385	.476	.983	.930	.719
Tight Standards	.089*	.193	.232	.008*	.570	.941
Spotters' Spies	.700	.830	.543	.876	.612	.317
Yard Work	.182	.034*	.213	.376	.060*	.517
Service Charge	.455	.230	.021*	.519	.833	.142
Defer Maintenance	.463	.483	.876	.124	.880	.366
New Roof	.672	.775	.250	.862	.203	.861
Cash Discount	.771	.121	.961	.301	.425	.248
Cash Overage	.574	.323	.061*	.330	.555	.275



<b><u>Scenarios</u></b>	<b><u>Parents P-Value</u></b>	<b><u>Spouse P-Value</u></b>	<b><u>Family Other Than Parent P-Value</u></b>	<b><u>Supervisor P-Value</u></b>	<b><u>Business Mgt. P-Value</u></b>	<b><u>Ethic P-Value</u></b>
Fringe Benefit	.146	.219	.869	.468	.981	.515
Cash Float	.558	.144	.339	.306	.011*	.411
Room Rate	.762	.873	.568	.791	.871	.644
Free Wine	.603	.262	.328	.506	.867	.721
Stock Purchases	.014*	.713	.360	.221	.056*	.458
Over Bookings	.076*	.968	.800	.691	.240	.292
Small Tools	.016*	.979	.013*	.237	.231	.207

\* <0.10 significance

