

ASSIGNMENT

SALES MANAGEMENT

TITLE

**ETHICAL CHALLENGES IN SALES
MANAGEMENT – BALANCING PROFITABILITY AND
CONSUMER TRUST**

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1. Abstract

This report examines the significant ethical challenges encountered by sales management in the tourism sector, highlighting the inherent conflict between maximizing profits and sustaining strong consumer trust.

Employing a desk-based approach that integrates academic research, industry case studies, and regulatory assessments, the study explores two main ethical issues: misleading capacity management (such as overbooking) and exploitative pricing strategies (like hidden fees).

The results indicate that while these practices may yield short-term revenue increases, they result in substantial reputational harm, customer attrition, and vulnerability to consumer protection laws, ultimately jeopardizing long-term financial health.

The discussion underscores the inadequacy of self-regulation and the urgent need for proactive, integrity-driven sales strategies.

The report concludes with a recommendation for a Transparency and Fiduciary Duty Framework that emphasizes full information disclosure and the cultivation of long-term customer relationships, positing that ethical sales practices are not just a regulatory obligation but a strategic necessity for achieving sustainable success in the highly competitive and reputation-sensitive tourism industry.

2. Introduction

2.1 Background and Context

The global tourism sector is fundamentally dependent on the sales function, which translates perishable inventory (flights, hotel rooms, tours) into revenue. Unlike tangible goods, tourism products are experiential, intangible, and often purchased months in advance, creating a condition of asymmetric information wherein the seller possesses superior knowledge regarding service quality, availability, and total cost. The sales department understands the true likelihood of a flight being overbooked, the non-optional nature of specific fees, and the quality of the service package far better than the customer at the point of purchase. Sales management, therefore, operates at the nexus of commercial ambition and ethical responsibility. The intense pressure to meet quarterly financial targets, often set by investor demands for continuous growth, frequently encourages sales teams to adopt aggressive or opaque practices. These practices, which often involve obfuscating the full price or availability risk, directly challenge the industry's foundational requirement for consumer confidence and expectation management, eroding the perceived trustworthiness of the entire transaction process.

2.2 Problem Statement

The central ethical dilemma in tourism sales management is the delicate balance between short-term profitability and the cultivation of long-term consumer trust. Practices such as intentional overbooking, used to offset anticipated cancellations and ensure 100% capacity utilization, and the strategic unbundling of services to introduce hidden or non-optional fees, are systemic responses to the industry's unique challenge of inventory perishability. While these tactics bolster the bottom line temporarily by capturing marginal revenue, they fundamentally violate core principles of fairness, transparency, and contractual disclosure.

This behaviour generates profound and unnecessary reputational risk, exposes companies to punitive action under increasingly stringent consumer protection laws, and ultimately increases the overall cost of sales through diminished customer lifetime value (CLV). The core problem lies in the institutional adoption of practices that treat ethical integrity as a variable cost that can be minimized, rather than a strategic asset that must be maximized for sustainable market standing.

2.3 Research Objectives

This report aims to achieve the following objectives:

1. To analyse the root causes and manifestations of key ethical dilemmas in tourism sales, specifically overbooking and the use of hidden fees, by examining the motivations and financial rationales behind these practices.
2. To explore the direct link between unethical sales practices and the resulting costs associated with consumer protection compliance, regulatory penalties, and significant reputational risks evidenced by decreased customer loyalty and negative media coverage.
3. To develop and recommend a comprehensive ethical sales framework suitable for practical implementation by diverse tourism businesses, ensuring a sustainable and measurable balance between profit objectives and customer trust.
4. To substantiate the analysis through detailed review and discussion of real-world examples drawn from various segments of the tourism industry (e.g., airlines, hotels, online travel agencies) to provide empirical weight to the theoretical arguments.

2.4 Report Structure

Following this introduction, the report presents a comprehensive Literature Review establishing the theoretical context of sales ethics, including the application of core ethical

philosophies to tourism dynamics. The Methodology section outlines the desk-based approach to data synthesis and critical analysis. The Findings section details the two primary ethical challenges using illustrative, contemporary cases. The Discussion analyses the broader implications, linking unethical behaviour to regulatory gaps and profound reputational consequences. Finally, the Ethical Sales Framework Recommendations and Conclusion propose actionable, structural, and cultural strategies for fostering enduring integrity in sales management.

3. Literature Review

3.1 Defining Sales Ethics and Consumer Trust

Sales ethics, derived from the broader field of business ethics, concerns the moral duties and principles that govern the relationships between sellers, buyers, and competitors. Its core revolves around the principles of honesty, fairness, and transparency in all transactional dealings.

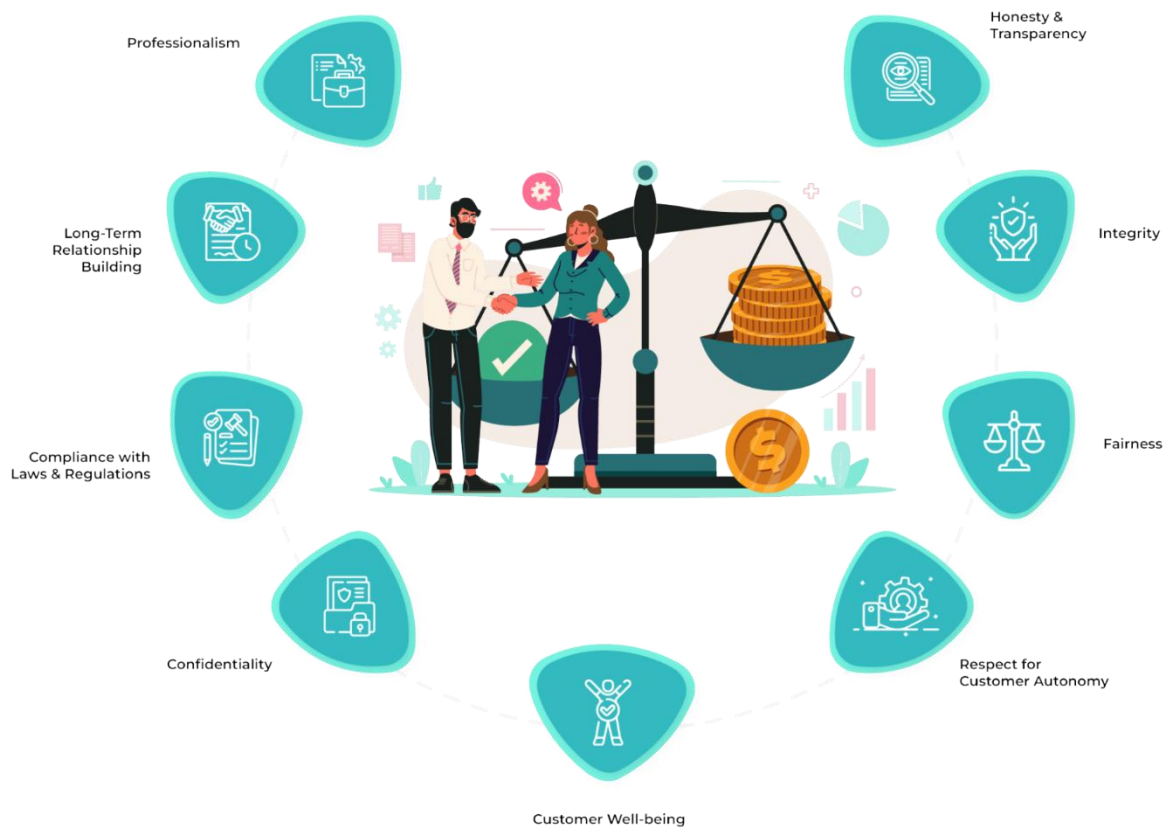


Figure 1. Ethical Behaviour for Sales

(Source: kennect.io)

Consumer trust is the reciprocal outcome of ethical conduct, defined as a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another (Rousseau et al., 1998). In the context of sales, trust is multifaceted, hinging not just on the belief that the salesperson will provide accurate information (integrity) but also on the belief that the company possesses the necessary resources and capability to deliver the promised service (competence), and that they will act in the customer's best interest (benevolence). A breach of this trust, particularly through intentional deceptive practices, is not easily recovered, leading to sustained negative perception and directly impacting customer loyalty and Lifetime Value (LTV).



Figure 2. Consumer trust

(Source: go4customer.com)

3.2 The Unique Ethical Landscape of Tourism Sales

The tourism product presents distinct challenges that exacerbate ethical pressures and provide unique opportunities for moral hazard. Key characteristics include:

- **Intangibility:** Since services cannot be physically inspected prior to purchase, the buyer must rely entirely on the seller's representations (marketing, descriptions, sales pitch). This heavy reliance increases the potential for moral hazard, where the seller, shielded from immediate quality verification, has an incentive to inflate expectations or withhold crucial information.
- **Perishability:** An unsold airplane seat, cruise cabin, or hotel room at midnight represents irretrievable revenue loss. This puts immense, time-sensitive pressure on sales managers to employ aggressive yield management techniques. The decision to overbook, for example, is often viewed internally as a financially responsible action to mitigate risk of loss, even when the risk of service failure (denied boarding) is known and calculated.
- **High Emotional Involvement (Hedonic Consumption):** Tourism purchases are often linked to significant, highly anticipated life events—honeymoons, family vacations, or once-in-a-lifetime trips. Ethical failures in this domain are felt more acutely by the consumer, leading to an amplified emotional response and disproportionately negative word-of-mouth (WOM), far exceeding the reaction to a product failure in less hedonic categories.

3.3 Theoretical Frameworks: Stakeholder Theory and Deontology

The analysis of ethical dilemmas in tourism is fundamentally framed by two key ethical theories:

- **Stakeholder Theory (Freeman, 1984):** This theory posits that a company's sales decisions should consider the interests and impacts on all relevant stakeholders, extending beyond the traditional focus on shareholders (profit). Key stakeholders in tourism include the customer, the sales team, the broader community, and the brand's long-term reputation. An ethical sales framework acknowledges that deceiving a customer (a primary stakeholder) for a temporary profit gain (short-term shareholder interest) is strategically counterproductive, as the negative impact on reputation and loyalty creates a greater loss for the long-term collective.

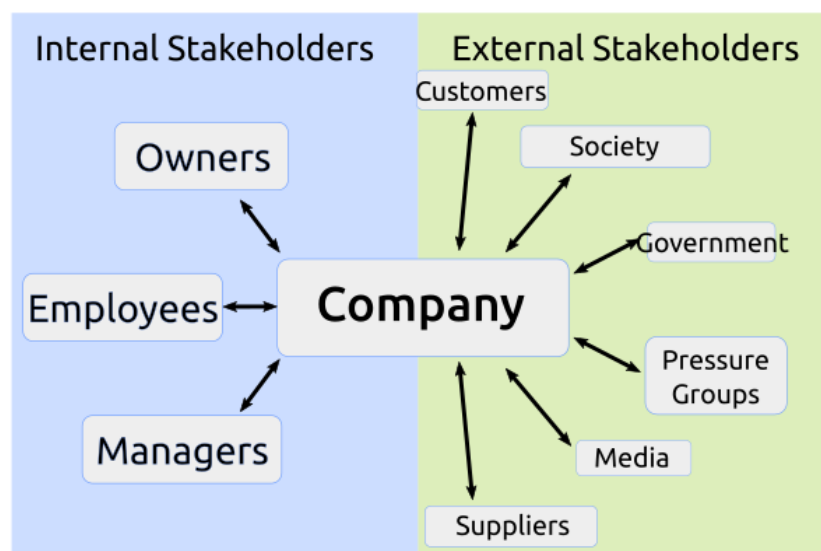


Figure 3. Stakeholder Theory

(Source: economicpoint.com)

- **Deontology (Kant):** This duty-based ethical system asserts that the morality of an action should be judged based on whether the action itself is right or wrong, according to a set of universalizable moral rules, rather than based on the consequences of the action. Deontological sales management would adhere to absolute, non-negotiable rules, such as the categorical imperative: "Never deceive the customer about the true cost or availability of a service," regardless of the potential for a short-term profit loss from an unsold unit or the desire to maximize yield. The act of deception is inherently unethical, regardless of its outcome.

Deontological	Teleological
• Ruled-based view of ethics was first proposed by Immanuel Kant which therefore commonly known as Kantian ethics	• Consequence-based view of ethics was introduced by Jeremy Bentham and developed by John Stuart Mill which also known as utilitarianism
• Goodness or badness is determined by the action	• Goodness or badness is determined by the results or outcomes
• The only behaviour that can be considered ethical is the one that has good will behind it	• Can justify the behaviour as ethical if it produces greatest good for the greatest number

Figure 4. Difference Between Deontological and Teleological

(Source: aaronbergman.net)

3.4 The Ethics of Pricing, Capacity Management, and Information Disclosure

Literature reviews consistently highlight that the most common ethical breaches involve information manipulation regarding either price or capacity.

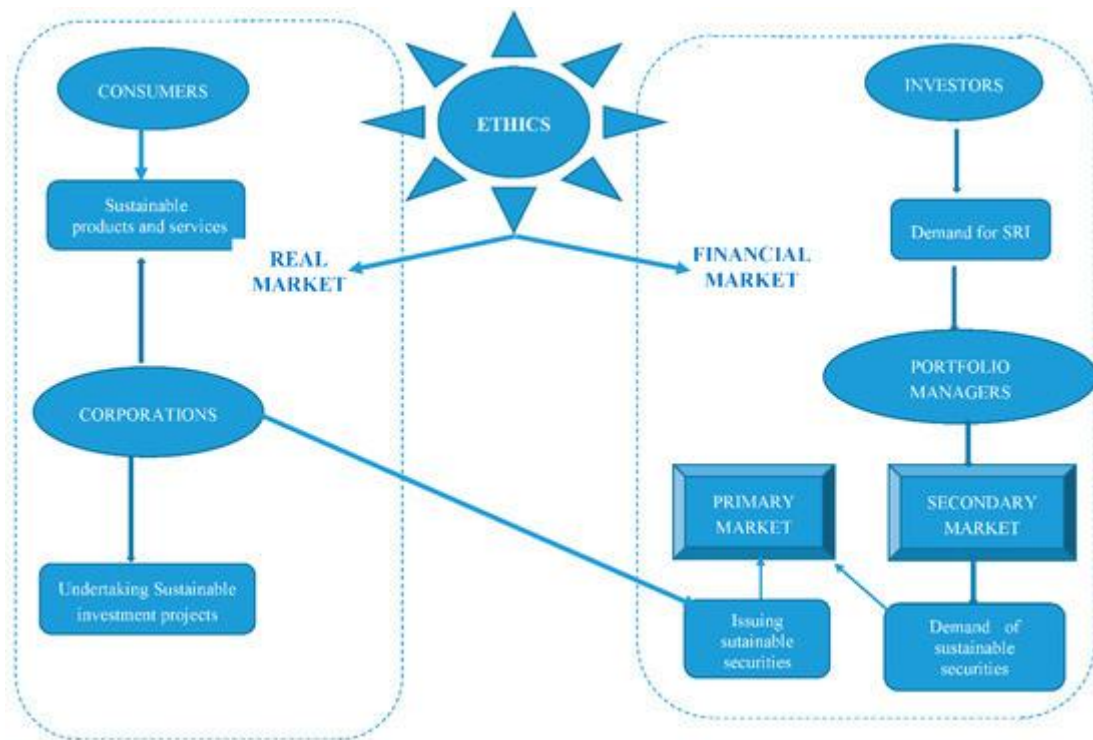


Figure 5. Market ethical coordination in face of sustainability

(Source: mdpi.com)

In pricing, the widespread practice of drip pricing—where mandatory fees are revealed sequentially during the booking process, often after the customer has invested significant time—is a deceptive strategy designed to anchor the initial low price in the consumer's mind. For capacity, overbooking is often justified internally by academics like Kimes (2002) as a *prudent business strategy* necessary to maximize inventory utilization against anticipated no-shows.

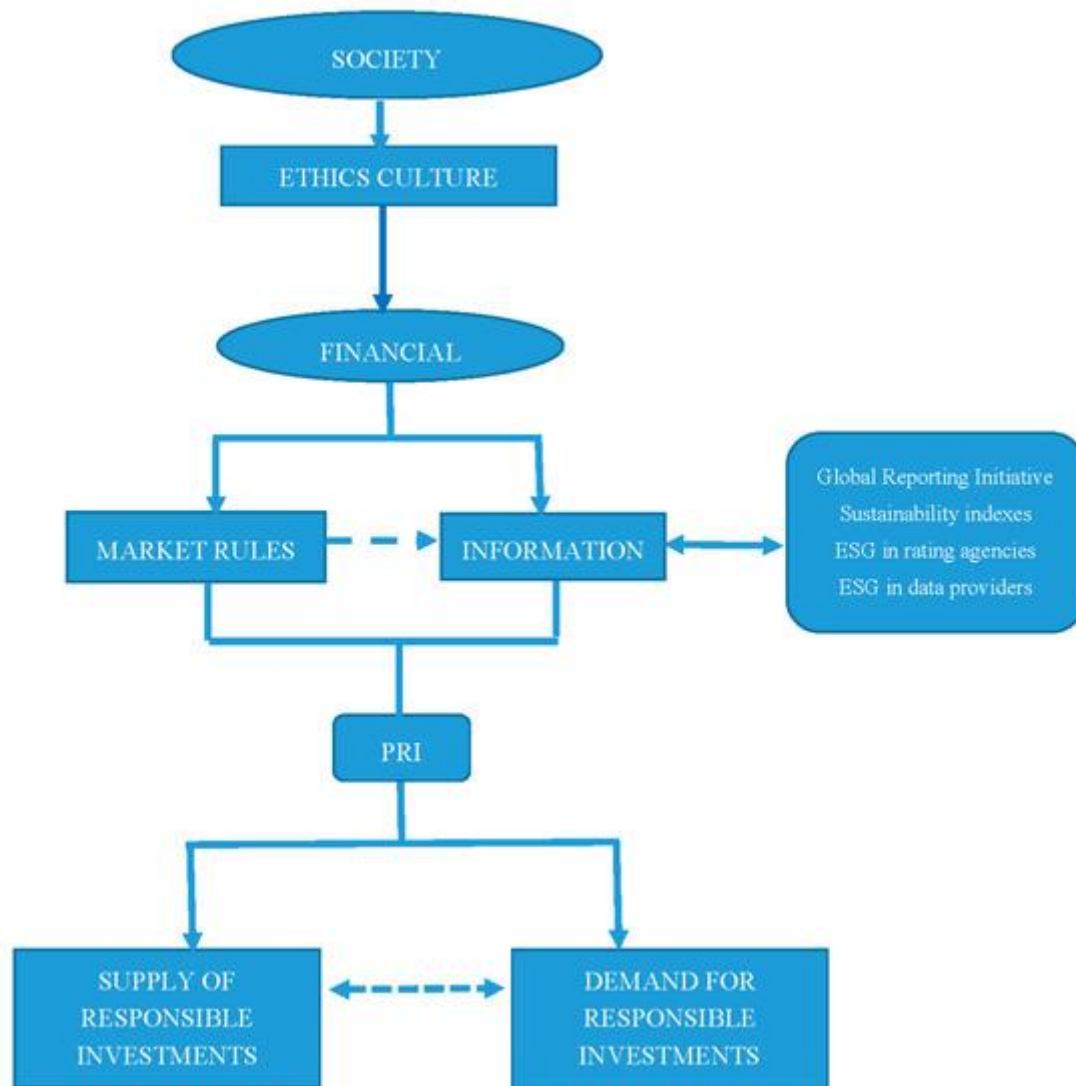


Figure 6. Ethics and sustainability

(Source: mdpi.com)

However, ethically, it represents a calculated risk of service denial against a customer who believes they have purchased a guaranteed service. This deliberate decision to risk a contractual breach, often without transparent communication of that risk during the initial sale, demonstrates a failure of complete, up-front disclosure, which is identified as the root cause of both capacity and pricing dilemmas.

4. Methodology

4.1 Research Design

This report employs a Qualitative, Desk-Based Research Design utilizing a non-empirical approach. The primary methodology involves the systematic synthesis and critical analysis of existing secondary data.



Figure 7. Elements Of Research Design

(Source: questionpro.com)

This design is appropriate for this assignment as it allows for the ethical evaluation of widespread industry practices against established theoretical frameworks and regulatory standards without requiring the collection of new primary data. This includes:

- 1. Academic Literature Review:** Analysis of peer-reviewed journals in business ethics, sales management, hospitality, and consumer psychology to establish theoretical grounding and consensus on ethical norms.

2. **Industry Reports and Trade Publications:** Review of best practices, documented case studies, and professional guidelines issued by influential tourism and travel associations (e.g., IATA, WTTC, national hotel associations).
3. **Regulatory Analysis:** Detailed examination of major consumer protection statutes and documented regulatory actions taken by government bodies (e.g., the U.S. Federal Trade Commission (FTC), the U.K. Competition and Markets Authority (CMA)) specifically related to deceptive sales practices in the travel sector.

4.2 Data Sources and Collection

Data were collected from scholarly databases (e.g., EBSCOhost, JSTOR), relevant legal and regulatory body websites, and authoritative business news sources (e.g., *The Wall Street Journal*, *Financial Times*). The selection criteria for case studies and examples prioritize those that are: 1) well-documented in the public record (e.g., resulted in litigation or public apology), 2) have generated significant public controversy or media coverage, and 3) directly address the issues of overbooking and hidden fees within the airline, hotel, or cruise sectors, providing tangible evidence of the consequences of ethical lapses.

4.3 Analytical Approach

The analysis is structured around the application of the Stakeholder and Deontological frameworks to the synthesized findings. The approach is descriptive, comparative, and evaluative:

1. **Identification:** Pinpointing specific practices (intentional overbooking, drip-pricing/hidden fees) as measurable ethical breaches against the principle of transparency.

Analytical Methods



Figure 8. Analytical Test Methods

(Source: registech.com)

2. **Evaluation:** Assessing these breaches against established ethical norms (honesty, fairness, duty to the customer) using the defined theoretical lenses.
3. **Impact Assessment:** Analysing the quantifiable and non-quantifiable consequences on both the organization (reputational, financial, legal) and the customer (trust degradation, inconvenience).

- 4. Prescription:** Developing and proposing a robust, actionable ethical framework grounded in the findings that can mitigate future ethical risks and align sales goals with long-term trust creation.

5. Findings: Analysis of Ethical Dilemmas

The investigation reveals two recurring and structurally entrenched ethical dilemmas in tourism sales management: capacity manipulation (overbooking) and price opacity (hidden fees). These practices are driven by short-term revenue optimization but pose significant long-term threats to business viability.



Figure 9. About Ethics

(Source: slideshare.net)

5.1 Case Analysis I: The Pervasive Issue of Overbooking

Overbooking, particularly prevalent in the airline and hotel industries, is a calculated business strategy known as revenue management. Companies intentionally sell more inventory than they possess based on sophisticated historical data predicting "no-shows" and cancellations. The margin of overbooking is a fine balance between maximizing asset utilization and minimizing service denial incidents.

The Ethical Dilemma: While rationalized by management as a technique to maximize asset utilization (profitability) and potentially lower overall prices by absorbing empty capacity, overbooking fundamentally represents a calculated breach of the sales contract. The customer purchases a guaranteed service (a seat or a room), but the seller retains the right to unilaterally deny that service, creating a situation where the seller is not fully committed to honouring the explicit promise made during the sale. The problem is compounded by the asymmetry of power when the breach occurs; the customer, often stranded far from home (in the case of airlines) or at a critical point in their travel, is forced to accept compensation terms that frequently involve non-cash instruments (vouchers or future travel credits) that rarely equate to the emotional cost, time lost, or inconvenience incurred, making the compensation an additional ethical point of contention.

Real-World Example: Major global airlines have faced intense scrutiny, often amplified by viral media incidents of involuntary denied boarding. One infamous case involved a passenger being forcibly removed from a flight to make room for staff, leading to a catastrophic collapse of public relations. While the airline followed minimum regulatory compensation rules, the public backlash centred entirely on the ethical right to unilaterally revoke a purchased service in a high-stakes, high-emotion context. This incident demonstrated that public perception judges the *morality* of the act (denial of service) far more

harshly than the *legality* of the subsequent compensation, profoundly eroding the public perception of the airline's integrity.

5.2 Case Analysis II: Deceptive Pricing and Hidden Fees

Hidden fees, often termed "resort fees," "facility fees," "mandatory service charges," or "drip pricing" in the online context, constitute a deceptive sales strategy. The base price advertised to the consumer is deliberately incomplete, with mandatory, non-optional costs disclosed only at the final stage of the transaction or upon arrival.

The Ethical Dilemma: This practice severely violates the ethical principle of transparency and the deontological duty of honesty in commercial representation. It exploits the consumer's psychological biases, capitalizing on the sunk cost fallacy (the customer is less likely to abandon a complex booking process at the final stage, having already invested significant time) and loss aversion. By segmenting mandatory costs into multiple layers, the sales manager engages in a form of financial obfuscation that ultimately degrades the perceived value of the purchase, leads to post-purchase cognitive dissonance, and creates consumer anger—feelings that translate directly into negative reviews and low repurchase intent.

Real-World Example: The hospitality sector, particularly hotels and vacation rental platforms in high-density leisure markets, widely employs mandatory "resort fees" that are non-negotiable. These fees often cover amenities (like Wi-Fi, local calls, or gym access) that were either previously included in the room rate or should be considered basic operational costs. Beyond resort fees, airlines frequently employ hidden fees in the form of inflated "optional" charges for baggage, seat selection, and even printing a boarding pass, which for most travellers are practically mandatory. Regulators in numerous jurisdictions, including the United States, the European Union, and Australia, have launched enforcement actions,

classifying these fees as unfair or deceptive trade practices because they misrepresent the true cost of the product at the critical decision-making stage (price comparison). This forces ethical businesses that advertise the full price upfront to appear uncompetitive, thereby creating a corrosive race-to-the-bottom ethical dynamic within the market.

6. Discussion: Impact and Regulatory Landscape

6.1 The Financial and Reputational Costs of Ethical Lapses

While unethical sales practices may yield immediate increases in the average transaction value (through fees) or occupancy rates (through overbooking), a detailed financial analysis shows the long-term cost invariably exceeds the short-term profit.



Figure 10. Professional Ethics

(Source: slideshare.net)

- **Reputational Risk and Brand Erosion:** In the age of social media and online review platforms, a single unethical incident can rapidly go viral, leading to an immediate and measurable drop in brand equity (Fombrun & Shanley, 1990). The resulting negative Word-of-Mouth (WOM), often persistent in the form of one-star reviews and negative search engine results, has a long-tail effect. This forces companies to incur substantial, unbudgeted costs for public relations crises management to defend the brand's integrity, fundamentally damaging the trust required to sell high-value, high-risk experiences.
- **Customer Churn and CLV Loss:** Customers who feel deceived—whether by a surprise fee or a denied service—are highly unlikely to repurchase. Studies indicate that a customer who feels they were treated unfairly is not only lost themselves but also likely to deter multiple potential new customers. The cost of acquiring a new customer significantly outweighs the cost of retaining an existing one. Thus, deceptive practices effectively monetize the existing customer base at the direct expense of sustainable growth and long-term Customer Lifetime Value (CLV).
- **Litigation and Fines:** The legal costs associated with class-action lawsuits or administrative fines levied by consumer protection bodies for deceptive pricing or fraudulent contractual practices can be catastrophic. These fines, which can range from millions to hundreds of millions of dollars depending on the jurisdiction and scale of the practice, can dwarf the aggregate revenue gained from the fees or the overbooking strategy, proving that the ethical lapse was also a poor business decision.



Figure 11. Strong Ethical and Professional Culture

(Source: slideshare.net)

6.2 Consumer Protection Legislation and Regulatory Gaps

Global consumer protection laws are increasingly targeting transparency in pricing and fairness in contract fulfilment, providing a crucial check against unethical sales management.

- **Pricing Transparency Mandates:** Legislation in various major markets (e.g., the EU's Unfair Commercial Practices Directive, and actions by the US FTC) mandates that the total, unavoidable price must be clearly displayed to the consumer before the booking process begins. These regulations directly challenge the profitability of the drip pricing model, forcing companies toward "all-in" advertisement.
- **Contractual Fairness and Compensation:** Regulations often require sellers to provide meaningful and proportionate compensation for contractual failure (such as

denied boarding due to overbooking, codified in rules like EU Regulation 261/2004).

However, a significant regulatory gap remains: current legislation focuses primarily on *compensation after* the failure has occurred, rather than preventing the *calculated risk of failure* itself, which is the ethical core of the overbooking problem.

Furthermore, regulatory rules often vary drastically by transportation mode and nation, creating compliance complexity.

- **Regulatory Arbitrage:** Companies that operate globally can exploit this fragmented regulatory landscape, a process known as regulatory arbitrage, by strategically routing transactions or conducting business through jurisdictions with less stringent consumer protection laws. This practice undermines the global enforcement of ethical standards and places the burden of vigilance on the consumer. The global nature of the tourism industry demands a multilateral regulatory approach to effectively close these loopholes.

6.3 The Tension Between Short-Term Profitability and Long-Term Trust

The tension analysed throughout this report is a classic corporate governance issue: prioritizing short-term financial performance (driven by quarterly sales targets) over long-term strategic value (driven by brand equity and trust). Ethical sales management requires a fundamental shift in Key Performance Indicators (KPIs) used to measure and reward sales teams and management. Instead of rewarding sales managers solely on raw revenue generation, average transaction size, or high occupancy rates, KPIs must incorporate robust metrics of ethical performance and customer quality:

- **Net Promoter Score (NPS) and Customer Satisfaction (CSAT):** Focusing specifically on post-transaction happiness, particularly regarding price perception and the fulfillment of service promises.

- **Zero-Complaint Rate for Pricing:** Targeting the elimination of customer complaints related to mandatory or unexpected fees.
- **Overbooking/Denied Service Rate:** Making a transparent, measurable commitment to minimize intentional capacity failure, penalizing sales managers when the rate exceeds a pre-defined ethical threshold.

This alignment shifts the function of sales from a transactional, profit-extraction pursuit to a relationship-based model focused on delivering promised value, thereby making trust the foundation of future, sustainable profitability.

7. Ethical Sales Framework Recommendations

To permanently reconcile the conflict between profitability and consumer trust, tourism sales organizations must adopt a framework rooted in radical transparency and a formal fiduciary duty to the customer.

7.1 The Transparency and Disclosure Model

This model directly addresses the issues of hidden fees and overbooking risk by mandating complete, proactive information disclosure at the earliest possible point in the customer journey.

Principle: *All mandatory costs associated with the basic service must be included in the initial advertised price, and all capacity risk must be explicitly stated.*

- **For Hidden Fees:** Adopt an "All-In Price" Guarantee. The sales system and booking engine APIs must be structurally hard-coded to display the final, total, non-optional price (including all taxes, mandatory fees, and service charges) as the first price seen by the customer, removing the incentive for drip pricing. Any subsequent fee shown should be demonstrably optional (e.g., travel insurance, premium seat selection) and clearly justified in its value proposition.
- **For Overbooking:** Implement a Contractual Risk Disclosure. For products where overbooking is a necessary yield management tool, the sales process must not bury this fact in the fine print. Instead, it must include a clear, easily understandable, and non-negotiable statement of the customer's maximum likelihood of denial of service (e.g., "Historically, 1 in 10,000 bookings on this service are subject to denied service due to overcapacity"). Furthermore, the pre-defined compensation package they will

receive in the event of a contractual failure must be explicitly stated in cash terms, not restricted to future travel vouchers.

7.2 The Fiduciary Duty Sales Approach

The traditional sales relationship in tourism is often *caveat emptor* (buyer beware). The Fiduciary Duty approach mandates that the seller assumes a legal and moral obligation to act in the best financial interest of the buyer, similar to a financial advisor's duty.

Principle: *The sales team must recommend the product that provides the highest value and fitness for purpose for the customer, even if it is not the highest-margin item for the company in the short term.*

- **Training and Incentives:** Sales compensation must be fundamentally restructured, tied not only to volume but directly to customer retention rates, post-trip customer satisfaction scores (CSAT), and customer lifetime value (CLV). Sales personnel should be trained not as aggressive negotiators but as travel consultants whose primary role is to advise and inform. This strategic shift reduces the incentive to pressure customers into expensive but unnecessary add-ons or upsells that ultimately degrade trust.
- **Ethical Review Boards and Governance:** Establish a mandatory, cross-functional Ethical Review Board—comprising representatives from sales, legal, marketing, and customer service—to pre-approve all new pricing models, service bundles, and booking terms before market launch. This board's mandate must be to actively look for elements that could be construed as deceptive, misleading, or unfairly burdensome to the consumer, ensuring ethical integrity is validated at the product design stage.

7.3 Implementation Strategy and Training

Successful implementation of an integrity-based sales culture requires deep structural and cultural change, supported by technology and continuous oversight:

1. **Top-Down Commitment and Code of Ethics:** Ethical standards must be explicitly driven and championed by senior management and the Board of Directors. A formal Code of Ethics must be articulated that specifically addresses yield management practices (overbooking and pricing) and defines acceptable limits. This code must be non-negotiable and publicly visible.
2. **Technology Integration for Compliance:** Sales systems (CRMs, booking engines, and point-of-sale terminals) must be technically redesigned to enforce the "All-In Price" rule and the contractual risk disclosure, making it technologically impossible for any salesperson or automated system to circumvent the transparency standards.
3. **Continuous Audit and Enforcement:** Conduct regular, independent mystery shopping and compliance audits across all sales channels (online, call centre, in-person agents) to ensure sales agents are not circumventing the new transparency standards or engaging in deceptive practices. Non-compliance must be met with clear and escalating disciplinary action, signalling the company's commitment to the new ethical culture.

8. Conclusion

The ethical challenges within tourism sales management—typified by intentional overbooking and the use of hidden fees—are complex consequences of the industry’s unique pressures surrounding inventory perishability and the fiduciary gap created by asymmetric information. These practices, while superficially attractive for driving short-term revenue, are morally hazardous and financially destructive over time, incurring crippling costs associated with reputational damage, customer attrition, regulatory fines, and protracted litigation. The tourism industry, being entirely predicated on trust in a non-tangible, experience-based product, requires an elevated and codified ethical standard. The strategic adoption of the recommended Transparency and Fiduciary Duty Framework—which mandates all-inclusive pricing, clear contractual risk disclosure, and performance metrics aligned with customer retention—is not a philanthropic endeavour but a necessary strategic shift toward sustainable viability. The long-term competitive advantage in the modern, transparent tourism market will unequivocally belong to those enterprises that successfully demonstrate that maximizing profitability and earning enduring consumer trust are not mutually exclusive goals, but rather interdependent and inseparable facets of a responsible business model.

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