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Managing Ethics in the Tourism Supply

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# Managing Ethics in the Tourism Supply Chain: The Case of Chinese Travel to Australia

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## ABSTRACT

**The purpose of this paper was to provide clues to the industry and the academia on how best to approach the challenge of managing ethics in the tourism supply chain. To achieve this objective, the paper provided a case study of how the Australian government has responded to concerns about unethical practices in the tourism supply chain from China to Australia. A series of best practice recommendations were provided following a review of both the demand side and the supply side processes. Copyright © 2008 John Wiley & Sons, Ltd.**

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**Keywords:** China outbound; unethical practices; ADS; group travel; Australia inbound.

## INTRODUCTION

The Chinese outbound tourism market is extremely important to Australia. In 2007, more than 350 000 tourists visited Australia from China, contributing an estimated \$2 billion dollars to the Australian economy. Over the last decade, this market has had an annual average increase of almost 20% over the last decade (ABS, 2008). This is

particularly significant given that during this same period, Australian inbound tourism's share of total global movements has declined (DRET, 2008c). Australia's Tourism Forecasting Committee predicts that China is destined to become Australia's single most important tourism market over the next decade, growing at more than 27% (TRA, 2008). However, the continuance of unethical business practices, particularly in Australia's inbound group travel operations, is putting this market in jeopardy.

The issue of unethical business practices within the tourism supply chain from China to Australia has emerged as one of the biggest concerns for tourism practitioners and authorities in Australia (DITR, 2005; DFAT, 2005). In a recent meeting between Chinese and Australian tourism officials, the China National Tourism Authority (CNTA) indicated that an analysis of complaints from Chinese nationals visiting Australia revealed a trend of overcharging certain groups and requiring travellers to pay more upfront because they did not spend enough at gift shops (DRET, 2008a). These concerns were reiterated in a survey conducted by one of China's most influential online travel portals — ctrip.com. The survey of their members revealed significant concerns about shopping-subsidised tours, revealing that this practice has impacted negatively on Australia's destination image (DRET, 2008a).

Although the impact of unethical business practices on group travel from China to Australia has been discussed in detail from a theoretical perspective (King *et al.*, 2006; Dwyer *et al.*, 2007), prior research has failed to consider in any detail the Australian government's

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response to this challenge. Accordingly, this prior research provides only minimal practical guidance for countries desiring to address similar problems in their own supply chains.

3 The author seeks to address these gaps by providing an overview of how the Australian tourism authorities have responded to the challenge of reducing unethical behaviour in the group travel market from China. According to the CNTA, the governance practices implemented by the Australian government to control for unethical business practice represent a best practice model for the treatment of such issues (DRET, 2008c).

To address these issues, this paper will be arranged as follows. First, the author provides a brief overview of Chinese group travel to Australia. This overview focuses on China's Approved Destination Status (ADS) scheme. Next, the author considers the governance processes that Australia use to monitor ADS compliance and to manage the ethical behaviour of travel intermediaries. Particular attention is afforded to the *ADS Code of Business Standards and Ethics* and the selection and monitoring processes for Australian inbound travel operators. Finally, the author concludes by providing some recommendations for countries interested in reducing unethical behaviour in their own tourism supply chains.

Before starting, however, it is worthwhile to clarify what is meant by 'unethical business practices'. For instance, the author acknowledges that what may be considered unethical in a mature Western context such as Australia may be considered culturally appropriate in a developing Eastern context such as China. In this paper, the author considers unethical business practices to be those specific actions by a travel intermediary that impact negatively on the tourists' satisfaction with the travel experience and their perception of a destination. Such activities can include use of inadequately skilled guides, limiting choice in shopping, changing the travel itinerary without consultation or approval, receiving commissions from suppliers and requesting tips from tourists. It is noteworthy that this definition is consistent with the position of both the Australian and the Chinese governments and other definitions of 'unethical business practices' used in prior academic studies in this area.

## GROUP TRAVEL TO AUSTRALIA

Group travel to Australia by Chinese residents is controlled by the ADS scheme. This scheme was introduced by the Chinese government in 1997 to regulate outbound travel in the packaged travel market. Australia and New Zealand were the first Western countries to be given approval under the ADS scheme. Since taking effect in 1999, more than 21 000 Chinese tour groups have visited Australia under the ADS scheme (DRET, 2008c). The scheme is based on bilateral agreements between China and select overseas destinations that restrict the selection of overseas countries to which Chinese nationals can travel and the travel intermediaries that are allowed to service the Chinese market. By mid-2008, over 130 countries had been granted ADS approval by CNTA, with the USA being the most recent country to join the ADS scheme (PRC, 2008). Figure 1 provides an overview of the tourism supply chain between China and Australia under the ADS scheme.

The ADS scheme permits Australia to market directly to prospective Chinese tourists via their tourism marketing arm, Tourism Australia. Although only residents of Beijing, Shanghai and Guangdong were allowed to travel to Australia initially under the ADS scheme, approval was extended to residents of Chongqing, Hebei, Jiangsu, Shandong, Tianjin and Zhejiang in 2004, and to all of China in 2006. Australia has been able to capitalise on this growing market reach and their first mover advantage to become one of China's most desirable destinations. For instance, Kim *et al.* (2005) reported that of all the ADS-approved destinations, Australia is considered to be the most attractive by Chinese outbound tourists.

While Australia has little say in the appointment of outbound travel agents from China, it monitors quality on the demand side of the tourism supply chain via the Aussie Specialist Programme (ASP), and more recently, via the Premier Aussie Specialist Programme (PASP). The ASP has seen 2871 agents from 325 travel agencies in China registered as Aussie Specialists, with 1183 agents from 249 travel agencies achieving level 3 status (the highest level). In 2007, Tourism Australia launched PASP to reward the top 50 level 3 agents. The PASP aims at further grooming the most capable and

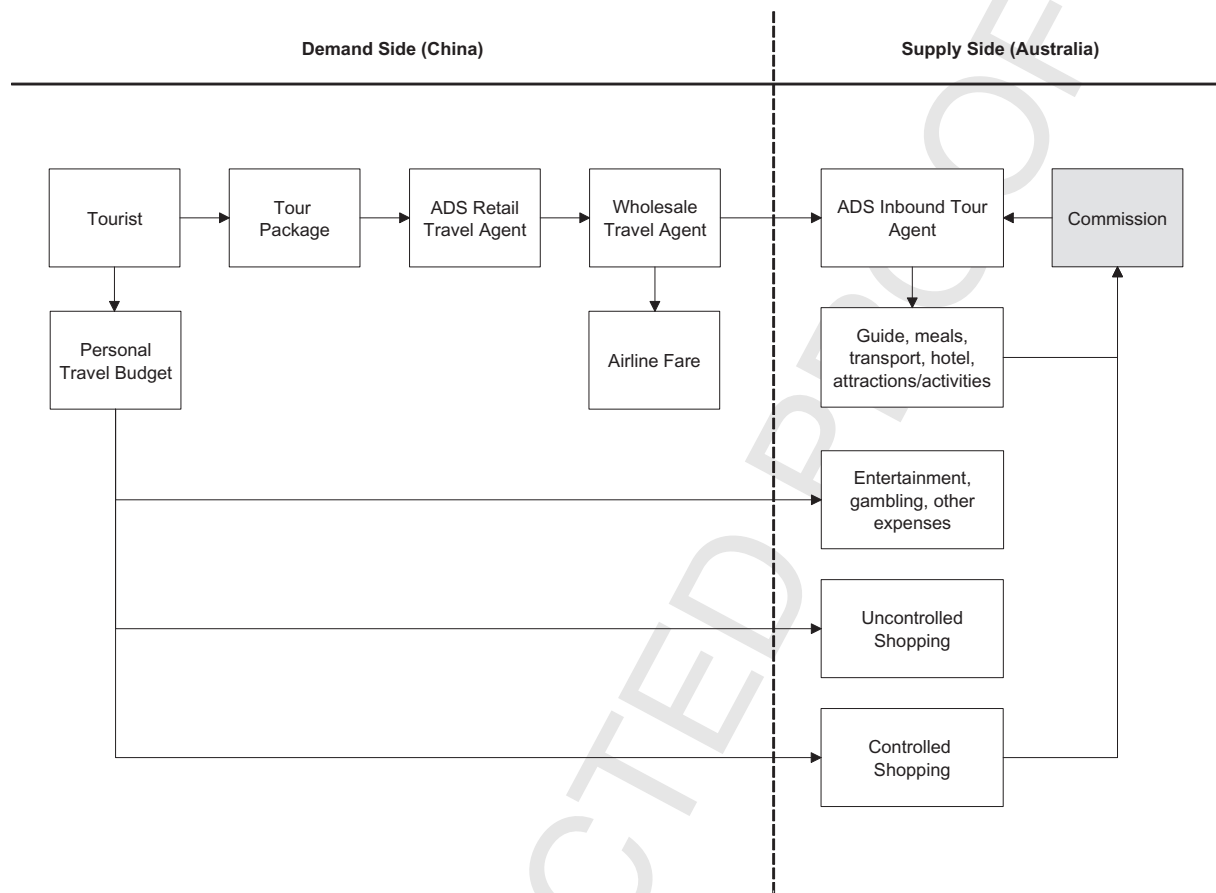


Figure 1. Tourism supply chain (adapted from King *et al.*, 2006).

passionate Aussie Specialists for the delivery of high-quality Australian travel experiences for Chinese tourists, and at leading the market away from shopping-subsidised tour operations. The premier agents are eligible to attend exclusive events and training on products and services for the Australian market (Tourism Australia, 2008).

However, the pathway to success has not been without challenges. In response to continued concerns about unethical business practices in group travel from China, Australia has recently embarked upon a number of reforms to the administrative arrangements for the supply side of the tourism supply chain under the ADS scheme. These reforms and the governance processes supporting them are the subject of further discussion in the next section of this paper.

#### ADMINISTERING THE ADS ARRANGEMENTS

The ADS scheme is administered in Australia by the Department of Resources, Energy and Tourism (DRET) in conjunction with the Department of Immigration and Citizenship (DIAC). The current round of reforms is the second iteration in Australia's improvement of the administration arrangements for the ADS scheme. The first round commenced in 2005, resulting in the development of the *ADS Code of Business Standards and Ethics*. The primary objectives of these reforms and the subsequent code were to (i) restore integrity, competition and fair trading to the operation of the ADS inbound market, especially in relations between operators and shops and between operators and tourists; and (ii) empower Chinese inbound

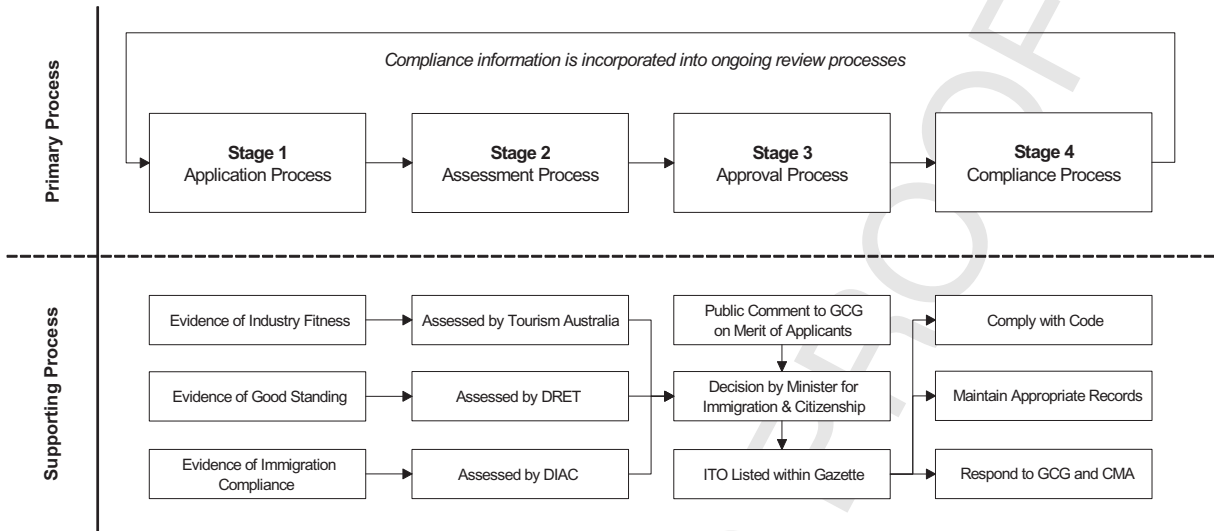


Figure 2. Australian approved destination status administration process.

tourists with knowledge and choice to exercise effective consumer power in the inbound market.

However, the original reforms were largely focused on education and intentionally not strict. In 2007, the Australian government undertook a review of the ADS administration processes and foreshadowed a series of changes commencing in 2008. These changes provided for stronger monitoring and clearer penalties for non-complying inbound operators. The key changes emerging from this review included strengthening the *ADS Code of Business Standards and Ethics* to ensure that operators have an express duty to care for tourists. The reforms also provided for commission shopping, but required that operators account for commission income and provide access to free shopping in designated retail areas prior to visiting commission shopping outlets. This change reflects the Australian government's acknowledgement that subsidised shopping tours are not all bad and that it may be more beneficial to provide choices rather than try to eliminate commission shopping.

Nevertheless, China's support for stronger governance processes in host countries is likely to influence the way that the ADS scheme is administered in the future, and certainly their expectations for the way that unethical behaviour is dealt with when it arises in other destination countries. Accordingly, the remainder

of this paper will elaborate on Australia's supply side ADS administration processes. Figure 2 provides an overview of these processes.

### Application process

Each year in February, DRET invites applications from licensed travel agents interested in providing services under the ADS programme. Existing ADS operators are also required at this time to submit an abridged application for reapproval, with a full application required every three years. Applicants complete an ADS application form and provide supporting documentation by early April. The application process is intended to ensure that applicants are good corporate citizens, and that they are suitable to be approved as ADS inbound tour operators. Applicants must consent to being vetted for their (i) industry fitness, (ii) standing in the community and (iii) prior immigration experience. Applicants also agree to have their details released via the Australian national press for comment from the general public.

### Assessment process

The applications are assessed against the three criteria listed previously. The assessment of industry fitness is made by the Tourism Australia and includes a qualitative assessment of

1 the applicant's capacity to service the Chinese  
 2 market. This assessment takes into account the  
 3 applicant's current and former business opera-  
 4 tions relevant to the ADS scheme. In particu-  
 5 lar, consideration is given to the applicant's  
 6 track record and commitment to the China  
 7 tourism market, evidence of industry involve-  
 8 ment and membership in relevant industry  
 9 associations.

10 The assessment of an applicant's community  
 11 standing is conducted by DRET. This assess-  
 12 ment considers the personal, commercial,  
 13 financial and professional standing of the  
 14 applicant and its associates. Specific issues of  
 15 concern include past breeches of the *ADS Code*  
 16 *of Business Standards and Ethics*, legal proceed-  
 17 ings brought against the applicant, and matters  
 18 related to financial solvency. DIAC also con-  
 19 ducts a review of the applicant's immigration  
 20 record and report on whether the applicant has  
 21 been warned or sanctioned under the ADS  
 22 scheme, or whether the applicant is considered  
 23 to represent an immigration risk.

24 **Approval process**

25 The Minister for Immigration and Citizenship  
 26 is responsible for making the final decision  
 27 regarding which operators are granted the  
 28 ADS approval. In making such a decision, the  
 29 minister takes into consideration the outcomes  
 30 of the assessment process, as well as the feed-  
 31 back from the Government Coordination  
 32 Group on the public consultation process.  
 33 Following the approval, the minister advises  
 34 applicants of the outcome and releases an  
 35 updated *Gazette* of ADS-approved operators.  
 36 The *Gazette* is published on the Australian gov-  
 37 ernment website in early July of the year of  
 38 application. The approval process also makes  
 39 provision for unsuccessful applicants to appeal  
 40 the minister's decision, and in the event of an  
 41 unsuccessful appeal, for the applicants to  
 42 transfer any existing tour groups to alternative  
 43 ADS-approved operators.

44 **Compliance process**

45 Following the approval, ADS operators are  
 46 required to submit to ongoing compliance  
 47 checks by a compliance monitoring agency  
 48 (CMA) engaged by DRET. The goal of the

compliance process is to ensure that the ADS  
 operators continue to conduct their business in  
 an ethical manner and in accordance with the  
*ADS Code of Business Standards and Ethics*. As  
 part of this process, ADS operators must main-  
 tain records of all quotations and tour itinerar-  
 ies. Operators may also be required to submit  
 a tour completion report on request to the  
 CMA outlining any deviations from the origi-  
 nal itinerary and providing justification for  
 changes.

Another key aspect of the compliance moni-  
 toring process is a requirement for ADS opera-  
 tors to maintain detailed financial records  
 (especially with regard to commissions  
 received) and to contact DIAC within 48 hours  
 if a tourist leaves the tour group at any time  
 during his or her visit, or if a traveller acts in  
 any way contrary to the provisions of his or  
 her visa. ADS operators are ultimately respon-  
 sible for the tourists in their groups, with  
 penalties for non-complying operators ranging  
 from suspension to revocation of the operator's  
 approval status under the ADS scheme.  
 Breaches by an ADS operator are also incorpo-  
 rated into the annual application process and  
 can adversely affect an operator's chances of  
 obtaining reapproval.

CONCLUSION

Unethical business practices have the potential  
 to seriously undermine the tourism develop-  
 ment work of destination countries. Accord-  
 ingly, governments are becoming increasingly  
 aware of the need to develop strategies to  
 manage ethics within their tourism supply  
 chains. In this regard, the present paper pro-  
 vides some clues for how best to pursue this  
 objective through a case study of the Austra-  
 lian government's administration of group  
 travel from China. Emanating from this discus-  
 sion, this paper has provided some guidance  
 for countries wishing to adopt a similar strat-  
 egy. These guidelines have been summarised  
 in the best practice model presented in  
 Table 1.

Although caution needs to be exercised  
 when generalising from case-based research, it  
 is hoped that this paper has provided some  
 interesting insights regarding sustainable  
 supply chain management. In particular, the

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Table 1. Best practice model for managing ethics in the tourism supply chain

Step	Description
1	Create a strong business case for managing ethics in the tourism supply chain and use this to generate stakeholder support.
2	Establish appropriate ethical standards for supply and demand side travel intermediaries in consultation with industry.
3	Develop governance processes and tools to assess the performance of travel intermediaries against these standards.
4	Provide quality feedback to intermediaries on their ethical performance and appropriate penalties for non-conformance.
5	Develop programmes to reward and educate exemplar travel intermediaries.
6	Undertake regular reviews of the processes, making adjustments where necessary to any of the above.

author believes that this paper represents a timely contribution to an under-researched topic. Future research can build on this study by exploring whether these principles can be applied effectively by other countries and can be used to manage ethics in different tourism supply chains.

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