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In prior quarterly reports, Pinnacle Advisory Group presented timely updates about the New England lodging industry, which included focused profiles on particular cities. In this issue, the firm offers more general insight about the hospitality industry. Several Pinnacle executives recently participated in a panel discussion about investment, management, and careers in the hospitality industry.

The Four ‘Ps’ of Hospitality Recruiting
John D. Murtha

When recruiting from university programs, there is a consensus among hospitality professionals about the qualities that make candidates achieve success in our industry. These can be categorized as preparation, presentation, purpose, and passion. The Four ‘Ps’ represent a useful assessment system for recruiters, and candidates should be aware that these categories are being considered.

The Morris Nathanson Design Collection
Christopher Muller

For more than a half century, Morris Nathanson has been at the forefront of creative interior design for the hospitality industry. He has nurtured, trained, and mentored scores of designers and project managers, while helping to launch the concept and brand development for dozens of landmark restaurant companies. Several images are reproduced from a vast collection of original drawings that have been donated to Boston University.

Still Searching for Excellence
Bradford Hudson

Despite the attention paid to quality management over the past three decades, service quality has not improved. Problems with service are prevalent throughout the economy, but they are especially notable in the hospitality sector. This conceptual article offers a brief history of the quality movements in manufacturing and services, and provides two brief case studies from the hospitality industry. The author concludes that the financial analysis of quality failures should be embedded within courses in services marketing or service management, and that service experts should collaborate more closely with colleagues in finance and accounting.
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In prior quarterly reports, Pinnacle Advisory Group presented timely updates about the New England lodging industry, which included focused profiles on particular cities. In this issue, the firm offers more general insight about the hospitality industry. Several Pinnacle executives recently participated in a panel discussion about investment, management, and careers in the hospitality industry. The results appear below.

**What issues most affect hotel investment and valuation at the property level?**

*Jonathan Jaeger*

Within our daily practice, we focus attention on the hotel investment community and what prospective investors are considering when acquiring hotel assets. Two of the most important issues frequently discussed are hotel management and franchise affiliation (flags).

Not all hotel management companies are created equal. We have been involved with several projects involving a turnaround/repositioning where new management was able to drastically increase the profitability of a hotel. Since profitability (or net operating income) directly leads to hotel value, the ability of a management company to drive top line revenues in addition to operating efficiently on the cost side is enormously significant. Depending on the hotel type/chain scale, management must have the tools necessary to drive profitability for the hotel owner. When hotel properties are listed for sale, investors often find unencumbered assets to be more desirable.

While management does not always have the ability to select and/or change a franchise affiliation, this is another integral component affecting hotel valuation. Each brand targets specific customers and offers rewards/benefits to frequent travelers. When investors are considering purchasing a hotel property, one of the first questions is often regard-
ing the brand. Is there an opportunity to renovate and reposition? Is there an opportunity to convert to a new franchise affiliation? The type of brand in each particular location can dramatically affect the overall value of a hotel property. It is important to select the right brand for each location.

Rachel Roginsky

Hotel values and investment are typically driven by a hotel's potential income. A hotel's estimate of value and investment are further determined, and potentially reduced, by current and/or anticipated capital needs. While property-level managers and owners cannot control the macroeconomics of a particular market, they can certainly impact the physical condition of the asset thereby reducing capital needs. By doing this, the property-level owner and manager are helping to boost the value of the hotel and make it a more attractive investment.

A hotel's income is driven by top-line revenues and reduced by operating expenses. Competent and effective property-level managers and owners should continuously monitor and address both supply and demand factors within the competitive market. The on-site team should strive to obtain the greatest fair share of demand, and the highest room rates possible, allowing the property to surpass competitors in its REVPAR penetration. Controlling expenses at an optimal level, combined with high gross income, will ultimately provide the hotel higher net income levels and elevated value.

Property-level management and owners also need to be aware of all deferred maintenance. They should continue to upgrade the property to the required standards of the brand, and ensure that the property's physical condition exceeds the condition of its competitors. When a potential investor is deciding how much a hotel is worth, a lesser amount of capital requirements for the physical aspect of the hotel will only serve to increase the value of the hotel asset.

What strategies should hotel owners or managers follow in times of financial uncertainty?

Natalie Francoeur

There has been a fair amount of volatility in the economy over the last decade. One only has to look at the soaring hotel rates and values in 2006 and 2007, and then to the fallout experienced in the industry from 2008 to 2010 following the national economic recession, to have an understanding of how economic instability can significantly impact hotel operations. During tough or uncertain economic times, weakening demand, price sensitivity, and shrinking budgets (both for the customer as well as the hotel operator) can have tremendous detrimental effects on a hotel's bottom line. To help get through these periods of economic turmoil, hotel operators can focus on two main areas: revenue management and customer service (guest satisfaction). These areas should always be in focus, but they can be particularly helpful in weathering the tougher times.

Revenue management is crucial during economic uncertainty. Understanding how to best utilize the multitude of distribution channels can prove to be the difference between maintaining rate integrity and having average rates fall off a cliff. Significant rate declines that occur as a result of recession often take multiple years to recover. It has not been proven that lower rates lead to more business, but lower rates certainly lead to lower profitability. Equally, if not more important, is a focus on customer service and guest satisfaction. During tough economic times, there is a tendency to eliminate amenities and ancillary services. To some extent, this may be necessary to achieve acceptable levels of profitability. However, ensuring that hotel associates are visible and truly are customer-centric can have a huge impact on the overall satisfaction level, and intent to return, for guests.

Sebastian Colella

During an economic downturn, such as the recent times experienced due to the housing crisis and the years that followed the terrorist attacks of 2001, market demand is negatively impacted as travel across all segments decreases. Subsequently, market rate declines as individual properties compete for what little demand is available. Eventually occupancy will begin to rebound, but it is much more difficult for markets to drive rates to previous levels. For this reason, maintaining rate integrity during financial uncertainty is important to long-term profitability.

One of a hotel's largest expenses is labor. As demand levels decrease, management must strategically budget (reduce) labor costs, while being careful not to sacrifice the product/service and ul-
timately the hotel’s reputation. Staffing needs are directly influenced by demand levels. When occupancy drops, so should labor.

Lastly, management will be held accountable for the strategies put in place to mitigate declining profitability. For this reason, communication between management and ownership plays an important role in avoiding any surprises as market demand declines and a hotel’s performance seems to dip.

Sandy Lien

Financial uncertainty is a given in the nature of the real estate cycle. To protect yourself and your asset during a downturn, it is often best to strive for operating efficiencies throughout the entire cycle, both good and bad. Avoid over-hiring and over-spending. Most of all, avoid over-leveraging the asset and making it more susceptible to risk. Anticipate heavy capital spending at least every four to six years, especially if the asset is licensed with a major brand. Reserve requirements are typically under-written in the 4 percent of total revenues range, but from an owner’s perspective it may be more beneficial to establish a reserve 1 to 2 percentage points higher than the underwriting standard (especially for a full-service, branded property). Also, avoid ‘giving away’ rates too much during a downturn for the sake of filling up rooms. This will make it harder to re-establish the property’s former rate position following a down-cycle period.

What advice would you give to recent graduates of hospitality schools?

Allison Fogarty

It’s exciting to have achieved a degree. It’s a sign that you have really persevered and completed something. But to make your first years in the industy as productive and successful as they can be, I would offer the following advice.

In the hospitality industry, we all rely on each other. The most expensive facilities in the world do not achieve five-star status without kitchen porters and room attendants who care about their work and take pride in it. Acknowledge and appreciate the contributions of others, particularly the unsung hourly workers who make our hotels great. And along the way, you can learn a lot from those hourly workers, including how to make the hotels you eventually manage more efficient and profitable.

It is very tempting to point out the deficiencies we see in others. “This person messed up this” or “that’s not how this should be done.” The advice: Don’t. When you complain or gossip about others, the walls have ears and it inevitably gets back to the person you are talking about. One management trainee at my hotel complained about a restaurant manager to the food & beverage director. When he completed his training program, he became an assistant manager in that very restaurant. He got the worst possible shifts. Every time. Coincidence?

In interviews, focus on the positive. Telling an interviewer about all the negative things that a prior employer has done will not make you seem more knowledgeable or a pleasant person to be around. Rather, the interviewer will start to wonder if you are a troublemaker.

Nobody knows everything. And if you don’t know the answer to a question, don’t be afraid to say: “I don’t know. May I do some research and get back to you?” Then follow up. At this point in your career, you are not supposed to know it all. You just need to be willing to pitch in and find out.

Be curious. Ask questions. It’s a great way to learn, and most people will be delighted to help. Most people love to be considered experts. Just remember, at this point in your career, you are most expert at being a student of hospitality management, not being a hospitality manager. Be humble. You’ll get farther faster, and people will like you better for it.

Matthew Arrants

When asked for career advice, I encourage students to focus on learning the industry and building strong relationships. They should not focus on the money. That will come with experience. Besides, as my mother used to say: “You’re supposed to be poor when you’re young, it builds character.”

The best way to learn the industry is to expose
yourself to as much of it as possible. Most of the leaders in our business started washing pots and pans, or cleaning rooms, or parking cars. They all worked their way up the ladder. Rarely is the ladder straight. The breadth and the depth of your experience are equally valuable.

If you are entering the hospitality industry you are a ‘people person’ by definition. Building and maintaining relationships with your colleagues will serve you well in the future. In this industry, you are going to work hard and work with a lot of different people at a lot of different companies. Over time, you should be developing a strong network of friends that you can call on for advice and information that will provide you with future growth opportunities. Finally, whether you stay in the hospitality business or not, your range of experiences and depth of relationships will provide you with a rich life.

Rosemary Rowen

The hospitality industry offers a wide range of career options, and where your interests lie while you study in school may not be the only path worth exploring once you discover more of what is available in the field. Even if your major while in school was in one area, try to be open-minded when considering aspects of the industry that are outside of your focus. For instance, if you are looking to go into operations and your concentration was in marketing throughout your coursework while in school, don’t limit yourself to only looking for job opportunities in the sales and marketing department in a hotel. Often, to get your foot in the door with a company or property that you want to work for, you may need to look for options in other departments, such as rooms or food & beverage. Once you are working for a property and you work hard to prove yourself, others will see your successes, which can open doors for movement into other areas of the hotel. Continue to stay in close touch with senior managers in your hotel, so they know what your aspirations are. Always look for opportunities to show your skills which might be outside of your existing role. You may even discover that your passion lies in an area that you hadn’t considered before being exposed to it.

Along the way, perhaps one of the most important things you can do for your career is to maintain and increase your connections. This starts with your classmates from school. Within a few years, your peers will hold positions in a variety of disciplines, and the connections that you made in school will be valuable as you progress in the industry. The industry as a whole is close-knit, so it is important to maintain friendships and remain in good graces with former colleagues as you change jobs. You never know where your paths may reconnect again sometime in the future.

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The hospitality industry relies upon a supply of college graduates for entry-level management positions. Graduates can immediately contribute valuable services to employers and their initial jobs are a start toward future roles as general managers, corporate executives, consultants, and owners.

The Four P’s

When recruiting the most capable young women and men from university programs, there is a consensus among hospitality professionals about the qualities that make candidates stand out, get hired, and achieve success in our industry. These attributes fall into four categories, which can be termed the Four ‘Ps’ of hospitality recruiting.

**Preparation**

Candidates should arrive having already done substantial research about the companies holding the interviews, and be prepared to ask questions that reveal such research was undertaken. For example, if a company has a management training program, then this fact should have been discovered by the candidate and questions probing the nature of the training should be posed to the interviewer.

The candidate’s resume must be absolutely perfect with regard to spelling, grammar, and punctuation. Formats can vary according to personal taste, provided they have an overall traditional look. It is strongly recommended that resumes be limited to one page for seniors and recent graduates.
Presentation

Candidates must present themselves as professionals from the start, demonstrating traits that the interviewer believes are innate and not adopted merely for the interview. This means dressing the part and exhibiting a high degree of poise and maturity. A confident (but not cocky) demeanor and genuine smile are essential for success in the lodging industry and should be displayed by any college senior.

During interviews, candidates should appear comfortable with the process, be able to converse easily, and maintain a respectful demeanor. For example, addressing the interviewer by his or her first name is unacceptable, unless permission has been granted to do so.

Purpose

It is critical that candidates have some idea about what they want to accomplish in their careers and that they express this in specific terms during interviews. Being vague about professional goals can be a deal-breaker.

Although having a hospitality degree is essential for entry-level management positions, and while graduates from such programs are generally well prepared for entering the business world, their schooling does not replace on-the-job experience. Great candidates also have realistic expectations for the early years of their career. They understand that it will take time to develop the skills needed to succeed, that they must accumulate a reasonable breadth of experience, and that they will be expected to ‘pay their dues.’ This often means long hours, lower salaries, and a willingness to relocate for career-enhancing positions until they have proven their capabilities.

A recent article in Hotels magazine by Nathan Greenhalgh pointed to this issue. He observed that “hotel school graduates sometimes have inflated expectations about their career paths,” but that “new curricula from hotel schools include more business-focused courses, as well as more experience in the field.” Chris Mumford of HVS Executive Search was quoted as saying there is “still this complaint among hotel companies that these hotel schools are responsible for giving an inflated set of expectations.”

Passion

While a high grade point average is great, practical experience and demonstrated ambition are better indicators of how serious a candidate is about making a career in the hospitality industry. There must be evidence that the candidate is committed to hospitality.

Interviewers look for job experience that is relevant, reveals a solid work ethic, and demonstrates progression through a variety of jobs during their college years. Experience in supervisory roles, or leadership positions in industry-related extracurricular activities or clubs, is especially valuable.

Personality Attributes

In addition to traditional interviews, some recruiters use personality tests or leadership style assessment tools to identify traits believed to make someone an ‘ideal manager’ for the hospitality industry. These include the Myers-Briggs Type Indicator and the Predictive Index. Critics of these tests argue that they are not infallible, so the results are often used to inform rather than determine decisions.

Most recruiters would like candidates to exhibit the following range of attributes that various testing tools can help to reveal:

- Open-minded and flexible, having the ability to understand a range of perspectives and opinions;
- Eager with a sense of urgency, having the ability to get things done quickly and correctly;
- Comfort with policies and procedures that are dictated by others;
- A team orientation, with a willingness to commit to the objectives of a group;
- Ambition, with the urge to advance and be seen as a leader;
- Self-motivation, with an outlook that is undaunted in the face of challenges;
- A personable and happy manner, which increases the likelihood they will be liked by others.

Best Practices

Marta McManus, Director of Career Services in the School of Hospitality Administration at Boston University, recently commented on these issues. She observed: “We view career services as a linkage between students and industry professionals. To create this linkage, we start from the career basics
of resumes and cover letters. Then we prepare students on what to expect in an interview and provide them with a mock interview. Through this process, we also offer workshops on proper dress and professional protocol when working with business leaders.”

Natalie McGinniss, the employment manager at the Omni Parker House Hotel in Boston confirms that this comprehensive approach makes a difference. She remarked: “One thing I noticed when interviewing BU students is that they were all professional and well prepared for the interview. This made it more difficult, in a good way, to determine the top choices. So, we had to look more closely at their purpose and passion for the industry.”

**Conclusion**

The ‘Four Ps’ are a useful way for hospitality professionals to assess the qualities of prospective entry-level managers. Candidates should be aware that these categories are being considered and plan accordingly.

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For more than a half century, Morris Nathanson has been at the forefront of creative interior design for the hospitality industry. Along with his own artistry, his influence on many of today’s top hospitality designers is a testament to his lasting vision.

Originally trained in theatrical and stage design, Nathanson worked early in his career for the Paramount Restaurant Supply Company in his native Rhode Island, where he helped create iconic concept designs for companies such as Dunkin’ Donuts.

With an entrepreneur’s drive and an artist’s eye, he was a pioneer in the field of restaurant and hospitality design when he opened his own firm in 1967, Morris Nathanson Design. Since then Morris has nurtured, trained, and mentored scores of designers and project managers, while helping to launch the concept and brand development for dozens of landmark restaurant companies.

Nathanson has been designated as a ‘Thought Leader’ by the American Society of Interior Design-
Joe's American Bar and Grill - West Hartford, CT

Capital Grille - Boston, MA

PapaRazzi - Cambridge, MA

Legal Sea Foods - Chestnut Hill, MA

Essex Hotel - Boston, MA

Red Lobster - Prototype
ers and his firm has received numerous accolades. He is also a recognized fine artist and an exhibiting member of the Providence Art Club, which was founded in 1880 and is one of the oldest in the country.

The images that follow are a small sample of the more than 400 hand-drawn renderings of restaurant, hotel, and resort projects that have been donated to Boston University. They are part of the Morris Nathanson Design Collection in the renowned Howard Gotlieb Archival Research Center.

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AMERICAN JOE'S BAR & GRILL

NOTE: ALL ELEMENTS ON RIGHT TO BE ON LEFT SIDE ALSO. (DESIGN IS SYMMETRICAL).

J oe's AMERICAN BAR AND GRILL  W. HARTFORD, CONN.
Three decades ago, American industry was obsessed with quality management. Thomas Peters and Robert Waterman helped create the enthusiasm during this era with their best-selling book *In Search of Excellence*. Although the subsequent quality movement was quite successful in the manufacturing sector, it has been less successful in services. Indeed, there is little evidence of effective quality management in the hospitality sector today.

The Quality Movement

The effort to increase consistency, minimize errors, and reduce costs has been a priority in manufacturing since the beginning of the Industrial Revolution. Notable milestones and pioneers include the interchangeability of parts attributed to Eli Whitney, the scientific management approach promoted by Frederick Taylor, the development of statistical process control by Walter Shewhart at the Hawthorne Works, and the influence of quality experts such as Edwards Deming and Joseph Juran on industrial reconstruction in post-war Japan.

The latter contributed to a significant and unexpected quality advantage among Japanese cars, which resulted in serious competitive pressure on the American automobile industry and the near collapse of Chrysler. This served as a wakeup call...
for automobile executives, but it also served as the catalyst for a renaissance in quality management throughout the economy.

The quality movement reached its zenith during the 1990s, in terms of its prevalence as a topic of discussion among business practitioners and within the popular media, and it has faded in importance during the following two decades. This decline could be attributed to several causes. Perhaps quality was never actually a problem, maybe quality was simply a fad, perhaps ideas about quality were not communicated well, or maybe the solutions proposed by experts never actually worked.

My suggestion is that the principles of quality management were embedded in the repertoires of practitioners and the curricula of business schools, and that quality management has become routine for any executive in the manufacturing sector. The lessons learned from the Japanese were widely adopted in the United States and Europe, and have now become global standards that are followed even in developing nations. The quality problems in manufacturing that existed two decades ago have now been solved or at least improved significantly.

The quality movement in manufacturing was followed shortly thereafter by a quality movement in services. A new academic field, variably referred to as service management or services marketing, was developed by faculty members at several leading business schools. Notable among these were Leonard Berry (Texas A&M University), Roland Rust (now at the University of Maryland), and Valarie Zeithaml (University of North Carolina). The pioneers also included numerous academics affiliated with Harvard Business School including Christopher Hart, James Heskett, Christopher Lovelock, Earl Sasser, and Leonard Schlesinger.

Services marketing is now an established field with its own extensive literature. At the core are two basic principles. First, services differ from manufacturing due to their intangibility, variability, simultaneity, and perishability. These characteristics can be problematic for managers who use principles and tools designed for manufacturing without adapting them to the unique aspects of the service sector. Second, services are usually produced and delivered by people rather than machines. This means that service companies must understand the linkage between employee behavior and customer satisfaction, and develop sophisticated systems in the areas of human resources, management, and organizational behavior.

Service Quality Today

Despite the attention paid to service quality over the past three decades, and the extensive academic literature that has appeared during this time, my contention is that service quality has not improved at all. Problems with service are prevalent throughout the economy, but they are especially notable in the hospitality sector. Two cases from my own experience will illustrate this point.

The first case involves hotels in the luxury segment. Two decades ago, we vacationed at a beach resort, which was part of an international chain of luxury hotels renowned for its quality management systems. The individual property was rated ‘Five-Star’ by the Mobil Travel Guide and ranked as the top resort in the United States by a leading travel magazine. During our stay, we experienced a series of errors and lapses in service that compelled us to write a letter of complaint. The general manager responded with a tepid letter of apology, which offered a complimentary visit to make amends. However, the problems were so serious that we never returned.

Earlier this month, my family vacationed at a different beach resort, which is part of another internationally renowned chain of luxury hotels. This property was rated ‘Five-Star’ by the Forbes Travel Guide and ranked among the top 20 resorts in the world by a leading magazine. Again, during our stay we experienced a series of errors and lapses in service that compelled us to write a letter of complaint. The general manager responded with a tepid letter of apology, which offered a complimentary visit to make amends. And again, the problems were so serious that we resolved not to return.

The second case involves restaurants in the quick service segment. Two decades ago, we visited a quick service restaurant that was part of an international chain renowned for its standards and consistency. During our lunch, we experienced a series of errors and lapses in service that
FURTHER READING

Readers interested in learning more should begin with the following publications. An overview of the benefits and methods of service quality can be found in the best-selling book The Service Profit Chain by James Heskett, Earl Sasser, and Leonard Schlesinger (Free Press). Specific techniques and tools for quality management in manufacturing (which can be applied to food production) and services can be found in the textbook Quality Management for Organizational Excellence by David Goetsch and Stanley Davis (Pearson Prentice Hall). A comprehensive explanation of the service guarantee approach can be found in the book Extraordinary Guarantees by Christopher Hart (American Marketing Association). The bibliographies and citations in these publications will lead interested readers onward to a wide array of academic, professional, and popular books and articles on topics related to service quality and quality management.

compelled us to write a letter of complaint to the corporate headquarters. The area manager subsequently contacted me to apologize and offer some coupons to make amends. He admitted that similar problems at this location had occurred so often that his company decided to rescind the franchise rights and assume direct control of the unit.

Earlier this month, my family visited a different quick service restaurant, which is also part of an international chain respected for its standards and consistency. Again, we experienced a series of errors and lapses in service that compelled us to write a letter of complaint to the corporate headquarters. Again, a senior manager contacted us to offer apologies and coupons.

These two cases occurred in different industries within the hospitality sector, in different segments of their industries, with locations operated by different managers, represented by different chains, in different parts of the country, across the span of two decades. And yet, in both cases, the quality problems and the management responses were almost identical.

An astute reader might wonder if the problems in these cases were attributable to difficult customers who were impossible to satisfy or atypical guests with unusual preferences. In response, it should be noted that every unmet standard had been established by someone else. Guest expectations were calibrated against widely recognized industry or segment norms, explicit standards of the chain or property, or the star-rating system that the property was promoting.

One could also argue that these cases, while compelling, are limited and anecdotal. However, my personal experience as a consumer of services in numerous industries and contexts indicates otherwise. It seems indisputable that poor service remains a real and widespread phenomenon, and that these cases are representative of the status of service quality throughout the hospitality sector today.

A Missed Opportunity

My academic expertise includes services marketing and hospitality management. My prior career includes work as a manager with a leading luxury hotel chain and as a consultant in the area of service quality for multinational corporations in numerous industries. Based on these experiences, three conclusions seem valid.

First, the quality management revolution somehow bypassed the hospitality sector. This is a stunning contention, given that leaders in the hotel and restaurant industries consider themselves to be the exemplars of superior service.

Second, the basic principles of quality management, specifically that poor quality and customer dissatisfaction are costly, remain valid. Service problems undermine the financial performance of hospitality companies and, due to the immersive nature of services, have a significant impact on the quality of life for guests.

Third, the techniques of quality management have proven to be quite successful in the manufacturing sector, and academics have subsequently offered voluminous advice on how these principles should be applied to the unique characteristics of services. The hospitality sector is simply not using them.

The Cost of Quality

Business practitioner and quality consultant Philip Crosby devised the maxim ‘quality is free’ to convey the idea that the savings achieved through improved quality typically exceed the expense of implementing quality programs. This reflects the prior work of Demings and Juran, who had proven conclusively that improved quality delivers financial benefits in manufacturing contexts.

The same dynamic also occurs in services. An example in the hotel industry is an erroneous room service order, which requires the entire production and delivery sequence to be repeated and the improperly prepared item to be discarded. The duplication in labor and food costs,
which typically represent about two-thirds of the revenue generated from the order, are quite significant and completely eliminate any operating profit for that transaction. Now imagine the cumulative cost if such errors occur repeatedly.

My first job in the hospitality sector was as a room service manager in a five-star hotel. Even minor errors, such as a missing spoon on a tray, would cause significant problems, because the server would be required to repeat the delivery process. Given the consequences of failure, it was astounding to discover that the error rate for orders in room service was nearly 50 percent. More astounding was the revelation that senior managers had known about this situation for months and, while concerned, had not done anything to implement a systematic approach to diagnose and resolve the problem.

The hospitality sector has an amazingly lackadaisical attitude about service failures. Even in five-star hotels, a service failure will result in little more than a sharp rebuke to the manager responsible, a computer-generated apology letter to the guest involved, and perhaps an offer of a complimentary dessert or a room during the off-season. This amounts to little more than appeasement of angry guests, and does virtually nothing to correct the root causes of problems, which will undoubtedly occur again.

**Underlying Dynamics**

Although service failures are typically regarded as independent events, caused by uncontrollable circumstances or ineffective employees, they are more often the result of poorly designed service delivery systems or inferior management systems throughout the organization. In some instances, such problems reflect the nature of an entire industry. My contention is that quality failures in the hotel and restaurant industries have fundamental causes.

First, the hospitality sector is not particularly sophisticated in terms of management systems and practices. The inseparability of production and consumption results in thousands of small and relatively independent locations, which cannot support the types or layers of specialized management that are common in centralized manufacturing facilities. This is further exacerbated in the case of independents, which have no corporate infrastructure. The tools required to effectively manage service quality are simply unavailable. Even if front-line hospitality managers understand quality techniques, the analysis necessary is often seen as peripheral to basic operations.

Second, the financial costs of implementing quality management systems are readily measurable and significant, while the financial costs of service failures are hard to measure and easily overlooked. It is very difficult to predict, capture, and measure events that never occur. Services generally cannot be returned after delivery, and the easiest remedy for unsatisfied guests is simply to return less often or never return at all. Nonetheless, the work of Frederick Reichheld and others in the area of loyalty and retention has demonstrated conclusively that a lost customer has a significant negative financial impact.

One of the case scenarios discussed earlier will illustrate this point. Since we experienced problems at the first beach hotel two decades ago, we have never visited another property in that chain, despite staying at numerous competing luxury hotels in destinations where the offending brand had a hotel. The leaders of the parent company have no idea that they have lost us as potential customers, nor have they attempted to measure the lifetime value of our patronage, which amounts to tens of thousands of dollars.

Third, strategic management is often separated from daily operations, even in contexts where operational experience is a necessity for career progression, such as the hospitality sector. During my appointment as chief executive officer of a restaurant company, my attention was devoted almost exclusively to financial performance and acquisitions, rather than the details of daily operations and the satisfaction of individual guests. It was amazing how quickly my own experience as a quality consultant was forgotten, despite my philosophical commitment and practical expertise in this area.

**A Way Forward**

Another round of enthusiastic promotion and persuasion by quality experts, in which a series of logical arguments is used to garner commitment to quality principles by hospitality executives, is unlikely to have the intended effect. If the im-
passe is being caused by excessive attention to the costs of implementing quality management programs, and a lack of understanding about the true costs of service failures, then perhaps a solution can be found in the particulars of cost accounting rather than the platitudes of service excellence.

It is my contention that academics in business schools and hospitality programs who are committed to service excellence, and who have their primary appointments in non-financial disciplines (such as marketing, management, or operations) should engage more effectively with topics and colleagues in the disciplines of finance and accounting. The financial analysis of quality failures must be embedded within courses or modules about service management or services marketing. To the extent possible, faculty members interested in services should also request and encourage the discussion of service quality in courses about financial accounting, managerial accounting, and corporate finance.

One practical example of integrating quality management and financial management can be found in the service guarantee technique. In its purest form, guests are offered the opportunity to ‘return’ unsatisfactory service experiences by invoking a guarantee, which results in an immediate and unchallenged refund of their expenses. To be clear, this is not the same as offering a complimentary dessert or room during off-season to placate a guest. This is a reversal of the entire amount charged to their credit card for the visit in question, which must then be deemed waste, in the same manner as an improperly formed beam in the steel manufacturing industry.

The nuances of the guarantee approach are described extensively in the work of Christopher Hart, who popularized the technique during his time at Harvard Business School, and will not be repeated here. The point is that, in the guarantee system, the amorphous nature of poor quality is made concrete, because it is formalized as an exact amount of unrealized revenue in the financial statements. At the end of every month, even the chief executive officer of a huge chain can evaluate the effect of quality levels at the unit level, and even a chief financial officer will become committed to guest satisfaction.

A Time for Reckoning

It is time for executives in the hospitality sector to be honest about the ubiquitous nature of service failures and admit that service quality has not improved in decades. Quality management systems must be adopted or improved, even at five-star properties. Significant advances could be made by more closely linking service operations to financial accounting, and academic curricula should be adapted to recognize this connection. Beyond that, we have an ethical responsibility to deliver on our promises. We can and should do better. ■

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Approach

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