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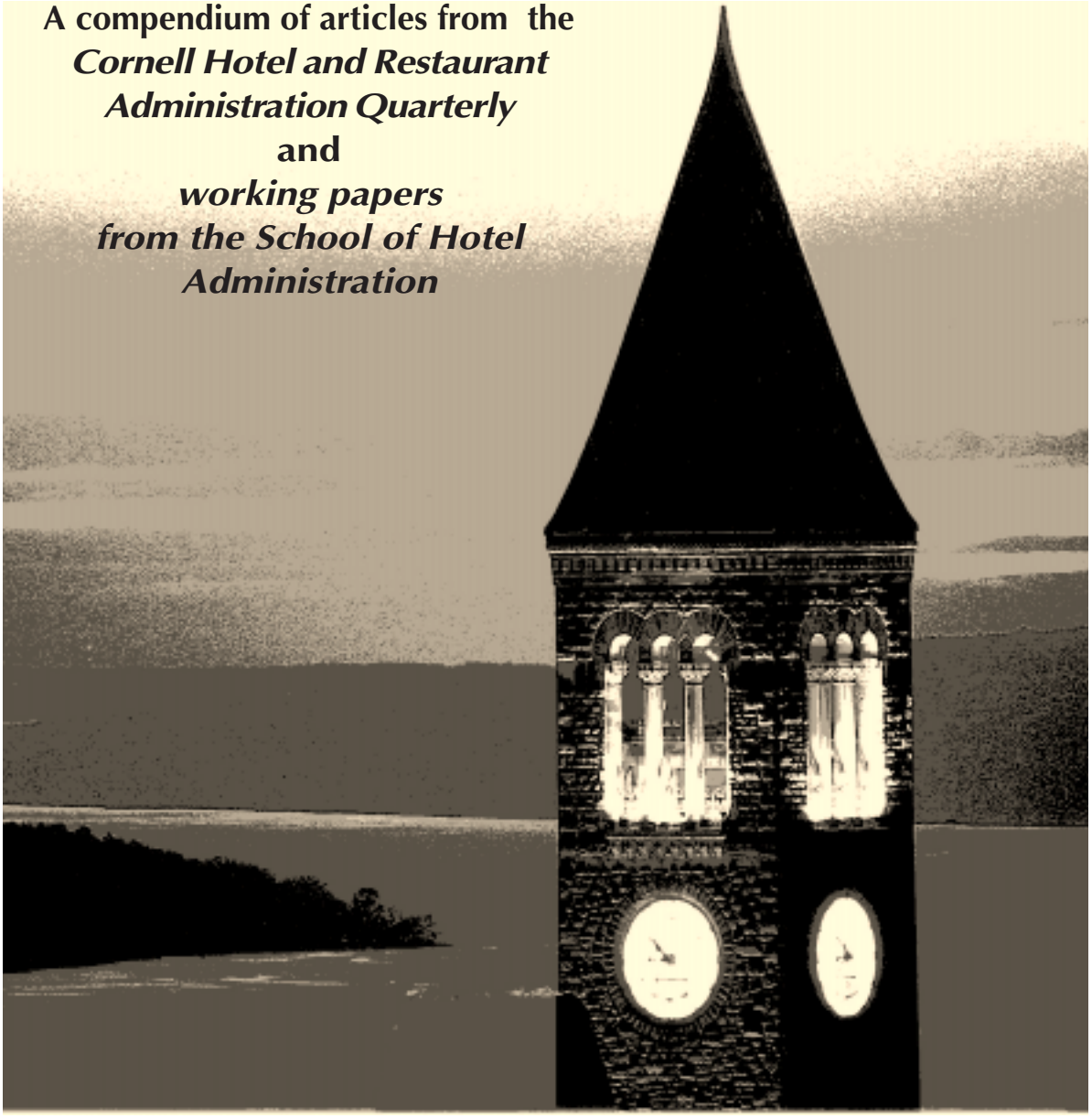

The Center for Hospitality Research
AT CORNELL UNIVERSITY

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is produced for the benefit of the hospitality industry by

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Cathy A. Enz, Executive Director

Glenn Withiam, Director of Publications Services

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Preliminary Report:

How Hotel GMs View the Industry's Prospects,

by Cathy A. Enz and Brian Ferguson


Enz

The objective of this study was to explore managers' perceptions and practices since the tragic events of September 11, 2001. A total of 15,000 two-page surveys were faxed on October 8 and 9, 2001, to a random sample of general managers in North America. Three days later 1,200 copies of the 47-item questionnaire had been returned, for an 8-percent response rate. All surveys were received by October 12, 2001. The major findings of the survey are summarized here.

Sales and Marketing Efforts

- The most extensive changes involved marketing. Fifty-eight percent of all hotels refocused their marketing efforts on local business. One-third of the hotels sought to attract local weekend business. Three out of ten hotels were focusing on regional business.
- Of those hotels with conference or group bookings, 22 percent reported no cancellations, but 20 percent of those who did report cancellations indicated that they had lost over 80 percent of their group business. While 73 percent of the hotels saw some group bookings being rescheduled, over eight out of ten hotels reported less than half of their conferences had been rescheduled.

Human-resources Strategies

- Twenty-five percent of hotel GMs expected no change in their staffing levels, while 20 percent expected to keep employee hours the same, and 22 percent expected no changes in training. Thirty-four percent had asked employees to work reduced hours.

Property Management

- In the area of general operations 25 percent of respondents were putting off renovation plans, while 9 percent—chiefly in old hotels—said they were using the slowdown as an opportunity to renovate rooms.

- Only 12 percent of hotels had substantially changed their security procedures, while 54 percent had made modest changes. Airport hotels were the most likely hotels to reevaluate their security procedures.

Hotel Outlook

- Over two-thirds of the general managers surveyed viewed the U.S. economy and the hotel industry as being in a recession. Most believe the national economy will begin to recover in the second quarter of 2002.

CHR Report:

A Model for the Strategic and Operational Roles of Human Resources

by J. Bruce Tracey and Arthur Nathan

This model proposes that all decision-making authority, responsibility, and accountability should be vested in the person who supervises the employee. Thus, decisions related to hiring, promotion or demotion, training, work actions (e.g., discipline, commendations), pay, and scheduling can and should be made by the immediate supervisor of the affected employee. When those actions require additional approvals, the farther away from the source that such decisions are discussed and approved, the less likely it is that real-time and relevant information about the decision and its effect can be monitored. Compelling evidence exists that the proper alignment between HR systems and business strategy will enhance a firm's performance. Rather than make operational decisions, HR practitioners will instead act as consultants to other business functions by designing, developing, and delivering programs that give line managers the tools and training they need to perform their responsibilities. Additionally, the company should put in place strategies that reinforce the performance of managers who adopt and successfully handle these duties—for example, managers should be trained in HR functions and those duties should be tied to their reviews and total compensation.

CHR Report:

Developing the Full Picture on Hotel Industry Averages

by Cathy A. Enz, Linda Canina, and Kate Walsh


Canina


Enz


Walsh

Hotel operators and observers often employ industry-wide averages as key points of comparison and analysis for room rates, occupancy, and revenues. The use of simple averages, however, can be misleading if one does not take into account the possibility that a mean will be pulled in one direction or another by extreme values. This analysis of three industry averages shows that those averages are, indeed, subject to distortion, or skew. The analysis, which examines figures for virtually all brand-name hotels in the United States, determined that the means for average daily rate (ADR) and revenue per available room (RevPAR) are skewed in a positive direction by hotels with extremely high rates. On the other hand, occupancy is skewed in a negative direction by a group of hotels with inordinately low occupancy levels.

A more complete picture of the industry's ADR, RevPAR, and occupancy is gained by examining two other measures: the median, which is a measure of the data's middle value, and the mode, which states the most common data point. By comparing the mean with the median and the mode, one can determine the extent to which the mean overstates the industry's ADR and RevPAR and understates the typical occupancy. Specifically, 61 percent of U.S. hotels recorded a RevPAR below the overall mean and 63 percent saw an ADR below the mean, but only 48 percent reported occupancy below the mean.

Many of the extreme values are found in the top-25 markets, which have hotels with inordinately high ADRs. Analysis of those markets shows that, once again, the overall statistics are distorted by a relatively small set of hotels with exceptional ADRs and occupancies. However, each of the top markets shows a distinctive rate and occupancy pattern.

The pattern of skewed operating statistics carries over into individual lodging segments. The greatest distortions arise in the luxury and upscale segments, while economy and budget hotels record more consistent (normally distributed) statistics.

Finally, the analysis shows that although the events of September 11, 2001, created much turmoil for the industry, the hotel business had already cooled substantially from its record pace of a year earlier.

In conclusion, managers must be careful in applying overall industry statistics to their own situation and should take into account the factors that distort operating statistics.

CHR Report:

Word-of-mouth Communication in the Hospitality Industry

by Kirsti Lindberg-Repo

This exploratory study among resort customers aimed to develop a new framework for understanding post-purchase word-of-mouth in the relationship context. New insights into word-of-mouth communication were also sought by applying the concept of post-purchase cognitive dissonance to this framework. The empirical focus of the research was on high-involvement hospitality service processes, because purchase of these services is influenced by word-of-mouth communication and cognitive dissonance. An important finding in the study was the difference in cognitive dissonance that could be identified in the post-purchase communication intentions of first-timers and loyal customers. First-time customers were not certain after the first visit at the resort whether they were convinced of its superiority or not. They compared this resort with several other resorts with similar offerings. They also communicated disappointment with the service. On the other hand, loyal customers described a long list of the resort's benefits that created value for them individually, as well as for their family collectively. Although many of them mentioned that the price was high, the loyal customers felt that this was justified because the value received was so superb.

CHR Report:

The "4-C" Strategy for Yield Management

by Sheryl Kimes, with John E. Alexander, Deborah Barrash, Richard B. Chase, Sunmee Choi, Philip Y. Lee, Elizabeth N. Ngonzi, and Glenn Withiam

Yield management is the umbrella term for a set of strategies that enable capacity-constrained service industries to realize optimum revenue from operations. The core concept of yield management is to provide the right service to the right customer at the right time for the right price. That concept involves careful definition of service, customer, time, and price. The service can be defined according to the dimensions of the service, how and when it is delivered, and how, when, and whether it is reserved. Timing involves both the timing of the service delivery and the timing of when the customer makes known the desire for the service, whether by reservation or by walking into the business. Price can be set according to the timing of the service, the timing of the reservation, the type of service, or other rules that seem appropriate. Finally, the customer can be defined according to demand characteristics relating to the service, the timing, and the price. The ideal outcome of a revenue-management strategy is to match customers' time and service characteristics to their willingness to pay—ensuring that the customer acquires the desired service at the desired time at an acceptable price, while the organization gains the maximum revenue possible given the customer and business characteristics.

The strategic levers of yield management can be summarized as four Cs: namely, calendar, clock, capacity, and cost. They are bound together by a fifth C: the customer. The strategic levers of yield management are geared to matching service timing and pricing to customers' willingness to pay for service in relation to its timing. Based on customers' demand levels and characteristics, management can shift the demand of those customers who are relatively price sensitive but time insensitive to off-peak times. Shifting that demand clears prime times for customers who are relatively time sensitive but price insensitive.

C1: *Calendar*. Calendar-related yield-management levers rely on demand forecasts to determine the dates on which demand is strong or slack. By correctly forecasting demand, a yield-management system can recommend when to open or close price categories for specific service periods. Opening rate categories generally fills slack times, while closing rate categories closes off all but top-price demand from strong periods.

C2: *Clock*. Clock-related strategic levers are related to the timing of when the service is ordered. Most yield-management strategies rely on some form of reservation-driven system that employs rate fences to separate customers according to their demand characteristics. Those who are willing to abide by the "rules" of a rate fence can receive the same service as those who do not, but at a lower price (and sometimes at a different time). One clock-related strategic lever involves tactics to ensure that customers honor reservations once they are made.


Kimes

C3: *Capacity*. Since yield management is used chiefly by capacity-constrained businesses, it is essential that the operation make the most of existing capacity. This is particularly true for businesses such as restaurants and golf courses, in which the duration of the service is not consistent. Yield managers can use process control and other strategic approaches to attempt to standardize the duration of each meal or round of golf, thereby gaining a more reliable forecast of demand.

C4: *Cost*. All yield-management strategies rely on the lever of variable pricing. A yield manager establishes price classes according to demand forecasts to shift low-price demand into slack times and encourage high-price demand in strong times. Those prices are set according to the rules of the rate fences that are designed to parse demand into various rate classes and match the service offering to customers' characteristics.

A Compendium of Articles from the 2001 *Cornell Quarterly*

Acquisitions in the Lodging Industry: Good News for Buyers and Sellers

by Linda Canina

Canina

An examination of the equity market's reaction to merger and tender-offer announcements in the lodging industry finds that the equity markets view lodging mergers and acquisitions in a favorable light. For a sample of 41 acquisitions from 1982 to 1999, the stock-price reaction is significantly positive for both the acquiring firms and their targets. That finding stands in contrast to the results for the overall market, where fewer than half of all mergers add value in terms of equity prices. Thus, one can conclude that the capital market views acquisition announcements in the lodging industry as positive decisions. This implies that acquisitions have been valuable for the overall industry, or positive net-present-value investments. For the overall market, on the other hand, the evidence shows that merger bids are at the best zero net-present-value investments that create no additional value for the firm.

December 2001, Vol. 42, No. 6, pp. 47–54

Key words: Finance, Mergers and acquisitions

What Keeps You Up at Night? Key Issues of Concern for Lodging Managers

by Cathy A. Enz

A survey of hospitality managers worldwide found that human-resources issues were the foremost concern for the industry. Most of the managers surveyed were from the United States or Europe, with a small percentage from other locations. Some 57 percent of those surveyed identified human-resources issues as the industry's major challenge. Other concerns paled by comparison. A total of 40 percent of the respondents cited the following issues, after mentioning human-resources topics (in

descending order of frequency): **(1)** understanding the customer, **(2)** effectively using capital, **(3)** aligning stakeholders' interests, **(4)** using information technology, and **(5)** valuing brands.

April 2001, Vol. 42, No. 2, pp. 38–45.

Key words: Hotel management, Human resources

Hotel-industry Averages: An Inaccurate Tool for Measuring Performance

by Cathy A. Enz, Linda Canina, and Kate Walsh

Enz

Hotel managers and analysts who rely on broad-based ADR, RevPAR, and occupancy statistics to measure performance are not using the best available information. Those measures all rely on averages (means), and this study shows how certain "extreme" markets, such as New York City, can skew the results of an entire data set. In other words, if a major market or a group of key markets has extremely high ADR or RevPAR figures (as does New York), they can pull the entire ADR or RevPAR upward. In such a situation, the calculated ADR may not be representative of typical ADR in the industry overall, and thus calculating the mean, or average, actually masks the industry's common ADR patterns. The authors suggest measuring the median and the mode for ADR, RevPAR, and occupancy—as well as the mean—to get a reasonably complete picture of the central tendency of lodging performance. Similarly, hoteliers should rely on information from a market segment or a data set that closely approximates their own situation. The authors show how data from the top-25 markets significantly distort the overall-industry results, and how even the top-10 cities do not have comparable performance patterns.

December 2001, Vol. 42, No. 6. pp. 22–32

Key words: Hotel management, Market analysis

How Product Quality Drives Profitability: The Experience at Holiday Inn

by Sheryl E. Kimes

Kimes

A study of 1,135 franchised Holiday Inns found that the hotels with well-kept facilities earned a higher average revenue per available room than those with facility defects. Hotels with defects in the exterior, the guest rooms, and the guest bath earned an average of $2.80 less in daily RevPAR than hotels without defects in all of those areas. Hotels that started the period with defects in all three areas not only recorded a lower RevPAR than did non-defective properties, but the defective hotels never recovered and had a lower RevPAR throughout the period. Interestingly, while the exterior and the guest rooms and baths had a significant effect on RevPAR, defects in public areas such as function rooms and the lounge did not have a significant effect on revenue. At the level of franchise-system royalties and fees current in 1990, Holiday Inn Worldwide lost an estimated $20 million in revenues due to defective hotels during the three-year study period (1990 through early 1993), while the individual hotels lost, on average, $200,000 apiece.

June 2001, Vol. 42, No. 3, pp. 25–28.

Key words: Hotel management, Hotel maintenance, Holiday Inn

Forecasting for Hotel Revenue Management: Testing Aggregation against Disaggregation,

by Lawrence R. Weatherford, Sheryl E. Kimes, and Darren A. Scott

Most hotel revenue-management systems require inputs of the forecasted demand by rate category and length of stay. A test of four different approaches to obtaining a forecast (fully disaggregated, aggregating by rate category only, aggregating by length of stay only, and aggregating by both rate category and length of stay) found that the fully disaggregated forecast produced the lowest error. Aggregating by rate category almost always resulted in a lower error measure than either aggregating by length of stay or aggregating by both rate category and length of stay. The results of this study showed that a purely disaggregated forecast strongly outperformed even the best aggregated forecast (even though it meant forecasting smaller numbers). All aggregation approaches resulted in

higher forecast error than a fully disaggregated method regardless of the error measurement used. The forecast is the most important driver of any revenue-management-optimization approach.

August-September 2001, Vol. 42, No. 4, pp. 53–64

Key words: Hotel management, Revenue management, Forecasting demand

Preserving Your Revenue-management System as a Trade Secret

by Sheryl Kimes and Paul Wagner

A hotel's or airline's revenue-management system is **(1)** quite valuable and **(2)** a trade secret. Trade secrets involve special proprietary information and processes, including publicly available information that is assembled in a special manner by the trade secret's owner. Establishing that a process is a trade secret involves demonstrating that it is, in fact, a secret, that information about the process is restricted to employees and licensees, and that the owner makes a specific effort to shield the information. Hotels' revenue-management systems are particularly at risk for either general disclosure or corporate espionage because of the relatively rapid turnover of hotel employees and the fact that those employees often go to work for competitors. Thus, a wise hotelier will take the following steps to protect the company's revenue-management system: **(1)** maintain the information's physical security by restricting access, **(2)** place restrictive legends on the information stating that it is in fact confidential, **(3)** state in employee handbooks that the revenue-management information is a trade secret and will be shared only in confidence, **(4)** require revenue-management employees to sign confidentiality agreements, **(5)** train employees and remind them regularly of the confidentiality of the revenue-management information, and **(6)** ask exiting employees to reaffirm their agreement not to share the confidential trade secrets.

October-November 2001, Vol. 42, No. 5, pp. 8–15

Key words: Revenue management, Trade secrets

Function-space Revenue Management: A Case Study from Singapore

by Sheryl E. Kimes and Kelly A. McGuire

By applying the principles of revenue management to function spaces, a hotel can gain better control over the financial contribution that function spaces make to operating profits. The idea of function-space revenue management is to gain the greatest possible contribution margin per unit of available space (ConPAST) for each possible time unit (usually a day or part of a day). The authors propose a five-step process for managing function-space revenue. Those steps are **(1)** establish a baseline of occupancy, contribution, demand, and booking behavior; **(2)** understand the reasons for groups' booking behavior; **(3)** develop a revenue-management strategy; **(4)** implement the strategy by determining which times each space is well used (and therefore will not have discounts) and which times each space is empty (and therefore could have discounts); and **(5)** evaluate the system by measuring ConPAST, yield index, or revenue opportunity (that is, revenues above mere chance that the revenue-management system obtained for the hotel). The authors use the Stamford and Plaza Hotels (formerly Westin Hotels) in Singapore to demonstrate their proposals.

Lynn

December 2001, Vol. 42, No. 6, pp. 33–46

Key words: Revenue management, Stamford and Plaza Hotels (Singapore), Hotel management

Restaurant Tips and Service Quality: Evidence of a Weak Relationship

by W. Michael Lynn

The connection between service quality and tip size is tenuous at best, as shown by an analysis of 14 studies (involving 2,645 dining parties at 21 different restaurants) that examined the relationship between service and tips. The meta-analysis of the studies sought to statistically combine 24 correlations between tipping and service. While the studies taken together found that, indeed, tips increased with the perceived quality of service, the relationship was weak enough to raise doubts about the use of tips to motivate servers, measure server performance, or identify dissatisfied customers.

February 2001, Vol. 42, No. 1, pp. 14–20

Key words: Restaurant management, Tipping

Challenges in Hotel Design: Planning the Guest-room Floor

by Walter A. Rutes, Richard H. Penner, and Lawrence Adams

Penner

The architectural planning of the typical guest-room floor is critical to a hotel's success. Not only must the design be pleasing for guests and efficient for the staff but the floor configuration, which comprises up to two dozen rooms, must also fit into the hotel's construction budget. Economies in the plan of a guest-room floor configuration are multiplied many times over. The three most common design types are slab (usually comprising corridors with rooms on both sides), tower (whether square, round, or triangular), and atrium, which gives up some economic efficiency in exchange for making an architectural statement. Other design issues to be resolved are the relationship of back-of-house spaces to public spaces and how to provide the most guest-room space while making a pleasing design.

August-September 2001, Vol. 42, No. 4, pp. 77–88

Key words: Hotel design

The Customer-service Life Cycle: A Framework for Improving Customer Service through Information Technology

by Gabriele Piccoli, Bonnie R. Spalding, and Blake Ives

By conceiving the relationship between a business organization and its customers as a cycle, a manager can use information technology to improve customer service. This framework, dubbed the Customer-service Life Cycle, is designed to foster the process of augmenting service and building relationships. This framework comprises four main phases, as follows: **(1)** determining requirements (establishing the need for a product or service and specifying the characteristics of a suitable solution); **(2)** acquisition (purchasing the product or accepting or service); **(3)** ownership (using the product or receiving the service); and **(4)** retirement (disposing of the product or terminating the service). To illustrate the CSLC framework, the article reports examples of how hospitality companies are currently using internet and information technology to improve customer service at various stages of the cycle.

June 2001, Vol. 42, No. 3, pp. 38–45

Key words: Marketing, Information technology

Web-site Marketing for the Tourism Industry: Another View

by Gabriele Piccoli

Piccoli

While the idea of using search bots to gain marketing information from personal web pages is attractive, the concept raises ethical, marketing, and technical concerns. Marketers need to consider whether it's appropriate to use technology to glean web-page information and use it for a purpose not intended by the poster. Additionally, many targets of such marketing acumen might be offended by finding that their posted information is being used in such a fashion. The experiences of Real.com and DoubleClick.com, both of which attempted to get personal marketing information without notifying users, should give pause to any marketer who seeks to surreptitiously gather and use web-based data. Finally, although some technical problems can be offset by human intervention, such a hybrid approach to data gathering compromises the cost efficiency inherent in a bot-only approach.

December 2001, Vol. 42, No. 6, pp. 63–65

Key words: Marketing, Web searches

The Perversity of Sexual-harassment Law: Effects of Recent Court Rulings

by David Sherwyn, Michael C. Sturman, Zev J. Eigen, Michael Heise, and Jenn Walwyn

When the U.S. Supreme Court handed down two decisions in 1998 relating to on-the-job sexual harassment, lower courts were left to interpret an ambiguous standard. The crux of the cases is the issue of employer liability when employees allege that they have been sexually harassed by a supervisor. First, the Supreme Court held that an employer is liable for harassment if the employee suffered a tangible loss (e.g., termination, demotion). When there is no tangible loss, the court established a two-prong defense that enables employers to prove that they are not liable for sexual-harassment claims. In the court's words, the test is that employers must prove that **(1)** the employer "exercised reasonable care to prevent and promptly correct any sexually harassing behavior" and **(2)** the plaintiff "unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer or to otherwise avoid harm." Because, the court did not define the first prong's

reasonable-care standard, and because it seemed employers could not satisfy the second prong if an employee made a report, commentators predicted that employers could not prevail in sexual-harassment cases. Contrary to dire predictions, the new law has had little effect on employers' success rates in sexual-harassment cases. There is a problem, however, in that under the new standard, implementing positive human-resources practices (e.g., training, hotlines) has a negative effect on employers' win rates.

June 2001, Vol. 42, No. 3, pp. 46–56

Key words: Legal liability, Sexual harassment

Sherwyn

Mandatory Arbitration of Employment Disputes—Implications for Policy and Practice

by David S. Sherwyn and J. Bruce Tracey

While there's no definitive answer as to whether mandatory-arbitration policies for employment disputes are universally enforceable, many courts have allowed such provisions to stand. To ensure enforceability, however, such a policy should meet certain standards of fairness. Specifically, an arbitration policy should provide that **(1)** the procedure for selecting arbitrators is fair and impartial; **(2)** evidence and documentation of the facts of the matter are permissible and sufficient; **(3)** the damages available to the complainant are in keeping with allowable statutory awards; **(4)** the outcome will be provided in writing; **(5)** the agreement is fully disclosed to employees such that it can be entered into knowingly and voluntarily by the employees; and **(6)** there is no confusion regarding what employment issues must be resolved through arbitration. Mandatory arbitration cannot, however, preclude employees from filing a complaint with the Equal Employment Opportunity Commission. Some courts have also created confusion regarding whether unionized employees with a collective-bargaining agreement should be treated differently from non-union workers with respect to mandatory-arbitration policies.

Tracey

October-November 2001, Vol. 42, No. 5, pp. 60–71

Key words: Labor unions, Collective bargaining, Mandatory arbitration

Identifying Uniform Employment-termination Practices for Multinational Employers

by James J. Zuehl and David S. Sherwyn

After a review of the diverse laws governing termination of employment in 11 countries, the authors note patterns across the different legal systems. For example, all but two of the eleven countries required some form of just cause for dismissing an employee. Additionally, some countries gave the workers the chance to appeal their dismissal, often with the assistance of third parties. Although the authors consider it unlikely that the severance-pay idea will become a blanket policy (since some countries don't require severance pay), they adduce a set of standards that could provide a uniform termination process across all 11 nations. The strategy underlying such a uniform policy is to make its provisions fit the laws of the most restrictive nation, by using a just-cause standard in all dismissals. While that adds some personnel cost, on balance, the authors argue that establishing cause for dismissal protects the employer from future claims and could save money in the long run. It also forces managers to make a specific effort to remediate employment issues and to try to help struggling employees.

October-November 2001, Vol. 42, No. 5, pp. 72–85.

Key words: Human resources, Legal liability, Terminating employment

Neutrality Agreements: How Unions Organize New Hotels without an Employee Ballot

by Arch Stokes, Robert L. Murphy, Paul E. Wagner, and David S. Sherwyn

An increasing number of hoteliers who have a project under development are being asked by labor-union organizers to sign so-called neutrality agreements—sometimes under duress. While labor unions do not operate in all hotel markets, this organizing tactic seems to be gaining currency in markets where unions are present. By signing a neutrality agreement, the hotelier agrees not to oppose the union's organizing efforts, to allow the union to contact employees during work hours, and to allow the union access to employee directories. Without the agreement, the union would not be allowed any of those things, and the hotelier would be permitted to state its case publicly for why employees might not want to be represented by a union. The duress comes from the

union's potential threat to use political connections to hamper the project's permits and to invoke the activity of other labor unions. The key element missing in the neutrality agreement is the employees' consent to the arrangement. Given that workers are legally given the right by U.S. labor law to decide via a secret ballot whether they do or do not want to be represented by a union, a neutrality agreement that allows for employers' to recognize a union via a "card check" provision appears to abrogate that right to a secret vote by effectively sealing the matter before the hotel even begins hiring. Recent court rulings point to the likelihood that if workers formally complain to the National Labor Relations Board about such agreements, those agreements could be set aside.

October-November 2001, Vol. 42, No. 5, pp. 86–96

Key words: Labor unions, Collective bargaining, Neutrality agreements

Simons

The Effect of Employee Turnover on Hotel Profits: A Test Across Multiple Hotels

by Tony Simons and Timothy Hinkin

Employee turnover is generally recognized as a costly phenomenon in the hospitality industry, and hotel companies consequently have initiated various turnover-reduction programs. Despite many studies, however, it remains difficult to assess exactly what effect turnover has on operating profits—and thus to assess the return on investment for initiatives designed to reduce turnover. An analysis of gross operating profits and employee turnover rates at 98 full-service hotels finds that the cost of turnover increases with ADR. That is, the cost of a 1-point increase in turnover is greater for a hotel with a high ADR than for an economy-tier property. On average for this sample, the cost in GOP of a 1-point increase in turnover rose $525 with every dollar increase in ADR. Thus, for a hotel with a $125 ADR, each point increase in turnover cost another $32,750 per year in GOP. On the other hand, a hotel with an ADR of $65 would be losing just $1,250 for every additional point increase in turnover.

August-September 2001, Vol. 42, No. 5, pp. 65–69.

Key words: Human resources, Turnover cost

Hinkin

Hotels' Energy Management in 2000 and Beyond: Operational Options that Reduce Use and Cost

by David M. Stipanuk

Stipanuk

A look at the past 30 years shows that today's energy "crisis" is less severe than the shortages and cost escalations of the 1970s and early 1980s. While other U.S. economic segments such as business, education, and health care reduced their energy use from 1986 to 1995, during that period hotels consumed about 20 percent more energy than before. Moreover, over the years when energy costs were relatively low, developers generally avoided implementing energy-saving technology in new hotel construction. Today, affordable technology exists to implement efficient energy-management programs. In addition, some of the most effective steps cost nothing at all—like asking housekeepers to turn off lights and close curtains, resetting thermostats, offering guests towel- and linen-reuse programs, and replacing energy-wasting light bulbs with energy-conserving ones. An employee-recognition program to reward environmental initiatives can go a long way toward raising workers' consciousness about saving energy and management's commitment to doing so. Additional steps include cleaning HVAC units and installing occupancy-sensor switches to control lighting and temperature in unoccupied areas. A computerized building-management system can be used to shift power use during peak-demand periods and can help with thermal-energy recovery, which can reduce the need for more power. More dramatic steps involve running the hotel's emergency generator to produce electricity during peak demand, building or contracting for an on-site power plant, and installing photovoltaic panels and fuel cells. A tactic used by some hotel companies is to add an energy surcharge to guests' room bills. While doing so may recover some of the increased cost of more-expensive energy, it sends the wrong signal about energy conservation to guests and employees alike.

June 2001, Vol. 42, No. 3, pp. 57–70.

Key words: Property management, Energy conservation

The Compensation Conundrum: Does the Hospitality Industry Shortchange Its Employees—and Itself?

by Michael C. Sturman

A comparison of salaries paid for jobs in the hospitality industry versus those in other industries showed that the hospitality positions on average paid less for comparable duties. The only exception was that both the hospitality industry and the comparison group ($N = 140$) paid about the same amount for low-level jobs—probably due to minimum-wage laws. For upper-level positions, however, the comparison showed a noticeable difference between the two groups. To assess the extent to which jobs are comparable, the author compared the knowledge, skills, and abilities (or human capital) needed for each set of jobs. For jobs in the midpoint of the human-capital scale, hospitality-industry wages averaged about 85 percent of wages paid in other industries. Hospitality-industry wages fell even shorter at the top of the human-capital scale, standing at an average of 78 percent of compensation for top positions found in the sample of other industries. As a practical matter, such pay disparities encourage the best-qualified candidates to choose employment in other industries.

August-September 2001, Vol. 42, No. 4, pp. 70–76.

Key words: Human resources, Compensation

Sturman

Working Papers

QUAN, D.C. & XUAN, C.N.

Pricing limited partnerships in the secondary market

(04-01-01)

The secondary market for limited partnerships was established to provide liquidity. Brokers and dealers in this market purchase pre-owned limited partnerships at 40- to 70-percent less than their estimated liquidation values. In this paper we investigate the pattern of such discounts when multiple limited partnerships from the same structure are purchased sequentially. The main insight of our model is in recognizing that a limited partner's price-determination process is similar to the task facing bidders in a common value multiple-object sealed-bid auction. When a buyer wishes to purchase multiple limited partnerships, there is an incentive to purchase them sequentially, since regulation requires simultaneous multiple purchases be made at the same price. However, the benefit to the buyer of a sequential purchase strategy is partially offset by rational sellers who demand higher prices in earlier sales. The anticipated sale in the future lessens the sellers' eagerness to sell in early rounds, leading sellers to ask for higher prices in those early rounds. This strategic component suggests that the pattern of prices (discounts) should decrease (increase) over time. Using a panel dataset comprising 52,679 transactions from 18 real-estate limited partnerships, we find that after controlling for performance characteristics, prices in fact increase over time as suggested by our model.

LYNN, M.

Ethnic differences in tipping: evidence, explanations, and implications

(04-02-01)

Marketing effectively to an increasingly ethnically diverse buying public requires an understanding of ethnic differences in consumer behavior. This paper contributes to such understanding by comparing the restaurant tipping behaviors of blacks, Asians, and Hispanics with that of non-Hispanic whites. Analyses of data from 29 restaurants in Houston, Texas, indicated that blacks and Asians tipped less than did Hispanics and whites. Various practical implications of the findings are discussed.

WALSH, K. & GORDON, J.R.

The work identity of professional service providers

(04-04-01)

This paper builds on existing research on organizational identity, social identity, and occupational identity to consider the way individuals create their individual work identities in the field of professional services. Individual work identity refers to a work-based self-schema composed of a constellation of organizational, occupational, and other identities that affect the way people think about themselves in the context of their work. The social identity process explains how an individual's identification with his or her organization's identity or occupational identity influences an individual's work identity. More specifically, it suggests that individuals identify with their organization or profession if these groups offer distinct and congruent values and practices, provide a perceived level of prestige, or offer a sense of in-groupness or distinction from other groups. Based on the nature of the identification, service professionals can think of themselves and act as knowledge-based experts, client-based experts, or efficiency-based experts and can potentially hold these identities in a congruent, complementary, or conflicting manner. Client relationships also play a role in evoking individual work identities.

SHERWYN, D., STURMAN, M.C., TRACEY, J.B. & HEISE, M.

New frameworks for predicting court decisions: introducing and applying classical legal theory and legal realism to sexual-harassment law

04-05-01)

This paper introduces two legal theories to the management domain—namely, classical legal theory and legal realism—and applies these theories to sexual-harassment law. Using data on the first 109 court cases in which employers argued for the affirmative defense, our results generally support legal realism over classical legal theory. A number of directions for future research are explored, practical implications are discussed, and potential changes to sexual-harassment law are proposed.

SIMONS, T. & PARKS, J.M.

The sequential impact of behavioral integrity on trust, commitment, discretionary service behavior, customer satisfaction, and profitability

(04-06-01)

We propose that employees' perceptions of their managers' word–action correspondence (behavioral integrity) will affect their trust in those managers, and, in turn, affect employee commitment and discretionary service behavior. Service behavior should affect customer satisfaction, and satisfied customers improve company profitability. Data from 6,792 employee surveys, approximately 21,000 customer surveys, and financial records at 76 Holiday Inn hotels were used to test this proposed causal chain. Structural-equation-modeling (SEM) analysis largely supported the expected links.

CANINA, L.

The effect of corporate acquisitions on stockholder returns in the lodging industry

(04-07-01)

I examined the stock market's reaction to merger announcements in the lodging industry over the 1982–2000 period. Unlike the results for the overall market, I found that the stockholders of both the acquiring and target lodging firms gained at the time of the merger announcement. In the lodging industry, mergers were positive net-present-value investments for bidders, whereas for the overall market, merger bids are at the best zero net-present-value investments. In addition, I found that shareholders benefit from mergers in the short term (one year), medium term (three years) and long term (five years). Last, the wealth gains to tender offers are significantly greater than the wealth gains to mergers for both the portfolio of target and acquiring firms.

STURMAN, M.C., CHERAMIE, R.A. & CASHEN, L.H.

The consistency, stability, and test-retest reliability of employee job performance: A meta-analytic review of longitudinal findings

(04-08-01)

While research shows that individuals' job performance changes over time, the extent of such changes is unknown. This paper defines and distinguishes among the concepts of consistency, stability, and test-retest reliability when considering an individual's job-performance ratings over time. The results suggest that the test-retest reliability of these ratings ranges from 0.89 for subjective measures in low-complexity jobs to 0.73 for objective measures in high-complexity jobs. The stability of these ratings over a one-year time lag ranges from 0.78 to 0.47. The analyses also reveal that correlations between performance measures decrease as the time interval between performance measurements increases, but the estimates approach values greater than zero. The implications of these findings for longitudinal research are discussed.

SUSSKIND, A.M.

(1) An examination of consumer rage in the customer-server exchange (CSX); and *(2) The development and test of a theoretical model*

(04-18-01)

The customer-server exchange (CSX) in service-based organizations provides an opportunity to examine the emerging phenomenon of consumer rage. This two-part investigation examines rage as it relates to retail consumerism. In study one, measures of consumer rage and information inadequacy were developed, validated, and tested along with an existing measure of consumers' attitudes toward complaining in service contexts originally presented by Day (1984). The results of study indicated that the two newly developed constructs were, in fact, viable measures of elements of customer rage and refined measure of consumers' attitudes toward complaining emerged from the analyses. In study two, the measures were revalidated and applied to a simple causal string, suggesting that consumers' attitudes toward complaining were related to perceptions of receiving sufficient information in the CSX, along respondent sex and frequency of air travel. Ultimately, the consumers' perceptions of information inadequacy were related to consumer rage in the CSX.

SUSSKIND, A.M., KACMAR, K.M. & BORCHGREVINK, C.P.

Customer-service providers' attitudes relating to customer service and customer satisfaction in the customer-server exchange (CSX)

(04-19-01)

A model describing the relationship between customer-service providers' perceptions and attitudes toward their service-related duties and their customers' perceptions of satisfaction with their service experiences was proposed and tested in two studies. In the first study the content validity of newly developed measures of perceived coworker support, supervisory support, organizational standards for service, and customer orientation were tested with a sample of 400 MBA students. In the second study, we first confirmed the construct validity of the measures from study one and then tested a process model of customer service representing both individual and organizational influences in the customer-server exchange. The second study's results indicated that at the individual level perceived support from coworkers and supervisors jointly influenced service providers' perceptions of organizational standards for service that subsequently influenced service providers' customer orientation. Finally, at the organization level service providers' customer orientation indicated a strong influence on customers' reports of satisfaction with service.

KIMES, S.E. & McGUIRE, K.A.

Function-space revenue management: Applying yield management to function space

04-23-01)

In principle, hotels should be able to apply the time-and-price-based philosophy of revenue management to function-space sales. To do so, however, requires a revision in the way most hotels traditionally have viewed function-space sales. Most hotels track costs, revenue per daypart, or similar operating ratios. A different type of measure, revenue per available square foot, integrates the duration of the event as a factor in the revenue calculation. Certain elements of current-day function-space practice, such as differential pricing (e.g., late-day specials, local business discounts) and promoting special events (such as local catering events on off nights) are basic attempts to revenue manage the space, but few hotels have established the necessary strategic approach to assemble those tactics into a coherent function space revenue-management strategy. This paper seeks only to establish a framework for such a strategy, and not to set a practical road map for its execution.

PICCOLI, G., SPALDING, B.R. & IVES, B.

The customer service life cycle: A framework for internet use in support of customer service

(04-24-01)

Today the internet provides, at modest cost, an unprecedented level of connectivity and the ability to communicate efficiently and effectively directly with customers. The rapid adoption of the internet and the worldwide web, both by consumers and businesses, has generated a wealth of new opportunities for even small firms. In this article we present a framework to help managers think creatively about the use of IT, and particularly the internet and the worldwide web, as enablers of outstanding customer service, and as tools for the creation of competitive advantage. By structuring one's thinking about a firm's relationship with customers, it will become apparent where avenues for improvement lie.

PICCOLI, G., ANGLADA, L.D. & WATSON, R.T.

Using information technology to improve customer service: Evaluating the impact of strategic opportunities

(05-08-01)

The Customer-service Life Cycle (CSLC) provides the analytical underpinning for the development of an organization's internet strategy. The framework enables managers to see how the internet and other advanced IT can be leveraged to support and improve the customer experience. But the CSLC alone does not provide any guidance for understanding the magnitude of change that IT innovations bring about. Nor does it provide direction or support for forecasting challenges and implementation risks. The Customer-relationship Change Spectrum (CRCS), a new framework we describe in this paper, aids management in understanding the magnitude of change that follows the introduction of IT. In this article we broaden the scope of CSLC analysis, and illustrate how different IT innovations affect the organization, its customers, and the relationship between the two. We conclude with some recommendations to managers and professionals who are faced with the challenge of managing IT-driven change.

QUAN, D.C.

Market-mechanism choice and real-estate disposition: Search versus auction

(05-30-01)

I propose a model of mechanism choice in the disposition of real-estate assets that considers two alternatives: a search market and an auction. Within the search framework, I derive an equilibrium whereby buyers incur search costs and sellers incur holding costs for the period during which the property is not sold. In the auction alternative, the seller joins an existing pool of sellers in undertaking a multiple-object auction and pays a commission upon sale. Buyers and sellers freely choose their mechanisms, which in equilibrium are optimal, given each group's conjectures about their counterpart's mechanism choice. In equilibrium, an agent cannot benefit from deviating from his choice and each agent's beliefs are consistent with the equilibrium outcome. It is shown that **(i)** buyers with high search costs will choose auctions because the auction payoff imposes an upper bound on buyers' gains from search and **(ii)** prices at auctions will be higher. Using vacant-lot sales data and a method-of-moment estimator that accounts for the presence of an endogenous discrete mechanism-choice variable, I estimated a hedonic regression to detect the price effect. It was determined that, on average, lots sold for $1.44 per square foot more in auctions than in the search market, as predicted by the model.

SUSSKIND, A.M.

A picture is worth a thousand words: A content analysis of consumer complaints, remedies, and repatronage intentions regarding dissatisfying service experiences

(06-28-01)

Building on existing research examining customers' complaints about service experiences, this study examined restaurant consumers' episode-specific reactions to service failures. In the first stage of this work, restaurant patrons were asked to describe a recent service experience where they complained about some element of the service they received. From these statements a coding scheme was developed to classify the consumers' qualitative descriptions of the service episodes where they experienced a service failure and remedy. The consumers reports addressed three issues **(a)** the issue that triggered the complaint, **(b)** the complaint remedy further broken down on two dimensions based on the degree of correc-

tion and whether the remedy produced a positive or negative outcome, and **(c)** how (and whether) the service failure and remedy influenced intent to return. Following the content analysis and the coding of the critical incidents, logistic regression analyses revealed that the extent to which a service failure is corrected is important to customer satisfaction and satisfaction with a specific service remedy is connected to a consumer's desire to return to the restaurant.

JAMESON, D.A.

Narrative discourse and management action

(07-30-01)

An analysis of the language used by a management team shows that narrative discourse helped to resolve conflict, influence corporate decisions, and unify the group. By collectively constructing stories, managers made sense of the past, coped with the present, and planned for the future. Managers' preference for narrative reasoning reflected their beliefs that narrative conveyed contextual complexities and helped interpret other types of evidence, such as statistics. Lack of trust between the management team and corporate headquarters derived from different beliefs about what makes stories believable. Through individual and collective narration, managers used imagination to transform experience and knowledge into influence and action.

SEN, P.K. & SINHA, P.

Analysts' forecasts in "good-news" and "bad-news" environments: Evidence of differential timing of information arrival

(08-27-01)

If managers systematically delay the release of bad news in earnings but expedite the release of good news, financial analysts should be affected by the timing of the management's information release. Another view, however, is that financial analysts take into account alternative sources of information and management's timing of information releases would have no effect on the forecasts of the analysts. In this paper we examine **(a)** whether the variance of analysts' forecasts of earnings in the good-news environments are significantly lower than those in the bad-news environments, **(b)** whether the reduction of variance over time occurs more quickly under a good-news environment, perhaps indicating an early consensus building and, **(c)** whether the variance (of forecasts) can be used to predict the good-news or the bad-news about earnings *ex ante* with a better accuracy than mean alone. Our empirical results show that the variance of analysts' forecasts is smaller when the expected or the actual news about earnings is good (relative to when it is bad). There is also some evidence that analysts' consensus builds earlier in a good-news environment, as measured by reduction in variance.

BROWN, M.P., STURMAN, M.C. & SIMMERING, M.J.

Compensation policy and organizational performance: The operational and financial implications of relative wage levels and pay structure

(08-30-01)

In this study, we investigate the relationship between organization-level compensation decisions and organizational performance. Specifically, we examine how companies' pay structure and relative wages relate to both operational and financial measures of organizational performance. We expect both non-linear and interactive effects. Results from a large database of hospital compensation information support our predictions. The results of this study have implications for practice, and compensation research theory development.

MATTILA, A.S. & ENZ, C.A.

The role of emotion in service encounters

(09-26-01)

This paper advances our understanding of the influence of affect in consumers' responses to brief, nonpersonal service encounters. This study contributes to the services-marketing literature by examining for mundane service transactions the impact of customer-displayed emotion and affect on assessments of the service encounter and the overall experience. Observational and perceptual data from customers were matched with front-line employees in 200 transaction-specific encounters. The results of this study suggest that consumers' evaluations of the service encounter correlate highly with their displayed emotions during the interaction and post-encounter mood states. Finally, our findings indicate that front-line employees' perceptions of the encounter are not aligned with those of their customers. The managerial implications of these findings are briefly discussed.

QUAN, DANIEL C.

The price of a reservation

(10-18-01)

Reservations are widely used in many hospitality and service-related industries to eliminate customer uncertainty about the price and future availability of the desired service. While such a commitment is desirable for the consumer, it is costly for the issuer. In this paper, using hotel reservations as an example, I show that for a specific group of price-sensitive customers, reservations are analogous to financial call-option contracts written by the hotel and given to the guests. This analogy allows one to use option-pricing models to determine the price of a reservation. This price has the interpretation of both being the value of a reservation to a guest and the cost incurred by the issuer. Using this approach, I demonstrate how a hotel reservation can be priced and discuss the possibility of a hotel's charging for this service. I also discuss the closely related topics of cancellation policies and nonrefundable reservations. Last, I price the value of dilution in cruise-line reservations.

SUSSKIND, A. M. & STEFANONE, M.A.

Internet apprehensiveness: An examination of on-line information-seeking and purchasing behavior

(11-12-01)

We present a model of the relationships between individuals' perceptions of internet use and internet-use behavior. Building on the internet-apprehensiveness model of Susskind, Bonn, and Dev, we demonstrate that a lack of perceived interaction and involvement with on-line communication processes is positively related to individuals' internet apprehensiveness. Perceptions of general internet apprehensiveness are then shown to be negatively associated with on-line information seeking behaviors, and positively associated with transactional internet apprehensiveness, which shows a negative relationship to consumers' reports of on-line spending behavior for both tangible and intangible goods and services. Demographic analyses identified that female respondents were more apprehensive about on-line purchasing than male respondents and older respondents reported a higher level of internet use for information seeking and on-line purchasing.

KIMES, S.E. & WIRTZ, J.

Perceived fairness of demand-based pricing for restaurants

(12-06-01)

Demand-based pricing is underused in the restaurant industry because customers are believed to perceive such pricing practices as not acceptable and unfair. Experience in other industries has shown that fencing can be highly effective in improving the perceived fairness of demand-based pricing. In this paper we explored five rate fences that might be suitable in the restaurant context. We found that restaurant patrons perceive demand-based pricing in the form of coupons (e.g., two for the price of one), time-of-day and lunch-and-dinner pricing as fair. Weekday–weekend pricing was perceived as neutral to slightly unfair. Table-location pricing was seen as neutral to somewhat unfair with potential negative consumer reactions to this practice. Furthermore, we explored whether framing demand-based pricing as discounts rather than surcharges would make a difference. We found that demand-based pricing presented as discounts made the price structure seem fairer in the consumers' eyes, and therefore less likely to have a negative impact on consumer perceptions and reactions.

SUSSKIND, A.M.

Electronic commerce and internet apprehensiveness: An examination of consumers' perceptions of internet use

(12-13-01)

Through a telephone survey of 204 residents from a northeastern state I investigated individuals' perceptions toward internet use as it relates to their actual behavior. I found distinct differences between communication-related and commerce-related apprehensiveness toward internet use among our respondents. Specifically, my findings indicated that individuals' general internet apprehensiveness was notably related to the amount of time they spent on line. Additionally, my findings indicated that general internet apprehensiveness and the misuse of personal information were strongly related to individuals' resistance to use the internet for commercial transactions. General internet apprehensiveness showed a strong negative influence on time spent on line, and transactional internet apprehensiveness showing a moderate, negative influence on time spent on line and a stronger negative influence on dollars spent on line.

QUAN, D.C. & SEHGAL, A.

The performance of lodging properties in an investment portfolio

(12-17-01).

A number of studies have focused on the relationship between commercial real estate and other investment classes. However, none of them has focused on the lodging sector. Lodging properties are different from other real estate due to lodging's ability to react quickly to changing economic conditions. This paper compares lodging-property investment–return characteristics with those of other asset classes. Specifically, we focus on measures of returns, volatilities, and correlations among the various investment alternatives. We find that the lodging sector displays respectable returns with relatively low volatility in comparison with stocks and bonds. It also has low correlation with other asset classes along with small positive correlation against inflation. Hence, lodging properties provide a ripe opportunity to traditional portfolio managers for diversification and inflation hedging opportunities.

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