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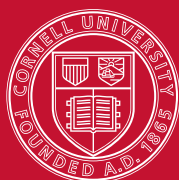


Cornell Hospitality Report

Data-driven Ethics: Exploring Customer Privacy in the Information Era

by Erica L Wagner, Ph.D., and Olga Kupriyanova

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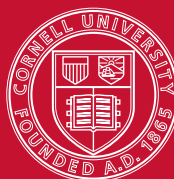
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Data-driven Ethics:

Exploring Customer Privacy in the Information Era

by Erica L Wagner, Ph.D., and Olga Kupriyanova

EXECUTIVE SUMMARY

An examination of issues related to the collection and use of personal information by hotel companies finds that many consumers would like to retain control of their personal information. In particular, they are concerned about what companies learn about their proclivities in the course of monitoring their commercial transactions. While the chief concerns vary from country to country, many respondents to a survey were unhappy that personal data could be stored long-term, citing the possibility of identity theft. Adopting a systems orientation and considering three ethical principles would go far to reassure customers that their data are secure. Those principles are minimize harm, offer respect, and operate consistently. The growth of data mining and data sharing, as well as current concerns over personal data privacy, means that these issues should be considered by managers, CIOs, marketing personnel, IT professionals, and consumers.

ABOUT THE AUTHORS



Erica L. Wagner, Ph.D., is an assistant professor at the Cornell University School of Hotel Administration (elw32@cornell.edu). Her primary research focus involves information and communication technologies within organizational contexts, with special attention to issues of strategy, negotiation, power, and transformation of work. A social scientist with IT expertise, she specializes in the study of how newly introduced information technology is “made to work” within organizations. She is particularly interested in how new technology can be accepted within organizations even when it is perceived as problematic, and the role played by the “best practices” concept and has published widely in both scholarly and applied outlets.

Olga Kupriyanova is a 2006 graduate of the Cornell School of Hotel Administration. A native of Moscow, Russia, her main interests are in hospitality marketing and information systems. She currently holds a marketing analyst position with Harrah’s Entertainment in London, U.K.



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Consumers have become accustomed to surrendering personal information to businesses in the course of purchasing products and services. The hospitality industry has long gathered such information, but with electronic storage of those data, personalization programs and brand loyalty schemes have become a prominent part of the business. Such programs require gathering, storing, and processing substantial personal data, including such diverse data as consumers' favorite pre-dinner drinks or pillow type and their credit card and social security numbers. A common example of the capture of personal data as part of a business transaction is airline frequent flyer programs, which have grown in membership at a rate of 11 percent annually, with around 130 programs and over 163 million members currently around the globe.¹

The stated purpose of this considerable customer data collection is to know more about the customer, the better to improve individualized service and boost efficiency gains. In this regard, relational database management software allows for the effective merger of data from different sources to create a complete picture of individual customers. This means that businesses with the right data have the potential to develop insights about their customers' needs and motivations. Firms that ex-

¹ www.WebFlyer.com, viewed on May 15 2006; and "Funny Money," *Economist*, Vol. 377, No. 8458 (12/24/2005).

tract consumer-related information are known as “analytics competitors.” As an example, Marriott International hones its quantitative expertise throughout the enterprise and uses this for competitive advantage.²

Another hospitality firm that has been able to effectively “mine” its customer data is Harrah’s Entertainment—a well publicized success story.³ The company developed an IT-dependent strategic initiative employing data analytics which prompted a shift in its customer relationship management approach based on uncovering non-intuitive information about its gaming customer base. By the end of 2002 Harrah’s had recorded 16 straight quarters of same-store revenue growth.⁴ Restaurant chains have likewise benefited from “business intelligence” initiatives. For example, based on its data mining findings, Hardees began selling a burger that might best be called a “heart attack on a bun,” because the company’s analysis showed a market for such a product despite public outcry over obesity rates.⁵ On a larger scale, the decreasing costs of database systems have made these tools accessible to most organizations, either in the form of specialized software (e.g., SAS, Oracle) or as mainstream systems that operate as part of Windows (e.g., MS Access).

The increasingly analytical and data-driven business environment has led to concerns about data privacy both in the popular press and hospitality scholarship.⁶ Given that publicity, we believe that data privacy is a concern for hospitality consumers, but we have seen no study on this question. The purpose of this report is to present the results of an exploratory study into the effects of personal information gathering on consumer perceptions of data ethics—that is, the general morals of and specific choices made by organizations and individuals when handling consumers’ personal data. We focused the study on hotel practices related to loyalty programs as exemplifying consumer awareness of the potential uses of personal data, as well as their education

² Thomas Davenport, “Competing on Analytics,” *Harvard Business Review*, Vol. 84, No. 1 (January 2006), pp. 98-107.

³ As told, for instance, in: Vincent P. Magnini, Earl D. Honeycutt, Jr., and Sharon K. Hodge, “Data Mining for Hotel Firms: Use and Limitations,” *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 44 No. 2 (April 2003), pp. 94–105.

⁴ Gary Loveman, “Diamonds in the Data Mine,” *Harvard Business Review*, Vol. 81, No.5 (May 2003), p. 109.

⁵ Meridith Levinson, “The Brain Behind the Big, Bad Burger and Other Tales of Business Intelligence,” *CIO Magazine*, March 15, 2005.

⁶ Scott Berinato, “Take the Pledge: The CIO’s Code of Ethical Data Management,” *CIO Magazine*, August 5, 2002; and Peter O’Connor, “Online Consumer Privacy: An Analysis of Hotel Company Behavior,” *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 48, No. 2 (May 2007), pp. 183-200.

regarding the reasons for increased threats to that personal data.

The report is structured as follows. The next section summarizes the method by which the study was conducted. This is followed by the theoretical ideas that inform the report—namely, systems thinking and ethics. Next we consider issues of data privacy and then turn to an analysis of the survey results. We conclude with specific recommendations on how our findings may be useful to hospitality companies that handle a great deal of personal information. In addition, we suggest some potential topics for future research and highlight technological innovations that are likely to increase the data-driven business environment.

Method

This exploratory study employed a web-based survey in which we distributed a questionnaire to 2,000 registered users of the Center for Hospitality Research’s website. This international population was selected because of their interest in hospitality issues. We asked them to respond based on their hospitality-related consumer experiences. We received 200 responses, which were compiled in MS Excel and analyzed first by each author independently and then jointly. Although the response was only 10 percent, we were successful in gaining international representation, with 44 percent of respondents from North America, 21 percent from Europe, 17 percent from Asia, and the remainder scattered around the world.

Theoretical Foundations

Effective information management involves the appropriate use of technology to meet the firm’s information-based needs, while dealing with too little, too much, or conflicting data. Managers are judged on the accuracy of this information as well as their ability to respond in a timely manner and to remain cost effective. In addition, information managers are responsible for ensuring data security and maintaining privacy policies across the organization. All of these activities are completed against the backdrop of the company’s operating environment and competitive marketplace. As such, business leaders are expected to manage multiple stakeholders’ agendas including those of shareholders, customers, employees, and—given the glare of publicity—the society in which they operate. This can bring about tensions in terms of decision making and raises ethical considerations when the wants and needs of one group are in conflict with those of another. In such situations it is valuable to adopt a systems perspective.

Systems Thinking and Ethics

In this report, we attempt to take a systems approach to ethical data management. The dangers to a business of having a myopic perspective with regard to multiple external stakeholders extend to internal stakeholders, if one department or function is emphasized over another. To avoid overemphasis on one or another stakeholder, systems thinking encourages a holistic understanding of the information resource by focusing on how the parts interact. Systems thinking also helps one avoid a reductionist perspective that assumes, for example, that more data will solve the business problem. Instead, systems thinking extends the boundary to consider the broader environment by including not only the acquisition of additional data but also the customers, the users who must work with the data, the designated business goals, and the external business environment, as well as consider the interactions among these concerns. Further, systemic thinking discourages the silo effect that happens when one views a phenomenon from a particular perspective. For example, a restaurant could be considered to be a profit making system from management's perspective, an employment system from the staff perspective, and a dining system or entertainment system from customers' perspective.⁷ Disciplined investigation into a phenomenon as a system comprising multiple interpenetrating viewpoints may result in new insights about how a business works, what its problems are, and how changes made to one such component may affect others.

Systems thinking provides a foundation from which to address ethics issues because such thinking highlights the full implications that an action may have on multiple interest groups. Ethics is broadly defined as the study of how to apply one's moral standards to particular situations. Although morality determines what is good and what is bad, and despite objective measures of morality, people generally recognize that standards are based on cultural norms and belief structures. This situation is particularly true in

the business environment where potentially diverse ethical codes of conduct are developed by professional associations and corporations (not to mention standards arising from different cultures). The key to effectively implementing a set of ethical standards is that one chooses to live and behave in a particular way because of that perspective. Similarly, businesses make decisions based on their ethical values, values which at times may seem unpopular and inconvenient for a particular stakeholder group. Levinas defines ethics as our moral responsibility to (as philosophy puts it) "the Other," where we act not from our own self interests but based on the way we view ourselves in relation to those with whom we interact.⁸ In business contexts a systemic perspective is particularly helpful for invoking an ethical framework because it takes into account "the Others," who may be affected by a particular action.

Although businesses are charged with supporting the bottom line, many business leaders are also seeking a way to prosper while also developing trust relationships. Recent studies point to the importance of developing and maintaining trust relationships with customers, supply chain partners, and the broader community to retain loyalty and manage reputation risk. In these instances, ethical principles are helpful guidelines for keeping the Other in mind during thought experiments where one plays out the consequences of potential actions based on a hypothetical scenario. Systemically analyzing how a potential decision will affect all stakeholder groups and then weighing the harm done to one versus another is helpful for trying to minimize harm. Adopting such a perspective will ensure that one is holistically evaluating business opportunities and aiming to maximize the positive outcome. Adopting a systemic perspective also begets consistency in analyzing one's business within the broader social environment (for example, considering one's competitive set, or national or international operating space). Lastly, an ethical stance involves making decisions that treat people with the greatest respect. In addition to being the

⁷ Adapted from: en.wikipedia.org/wiki/Systems_thinking.

⁸ E. Levinas, *Otherwise than Being or Beyond Essence* (Dordrecht: Kluwer Academic Publishers, 1991 (1974)).

Systems thinking provides a foundation from which to address ethics issues by highlighting the implications that an action may have on multiple interest groups.

right action, doing so is likely to increase one's reputation and build loyalty over time.

Issues of Data Privacy

A company typically collects data that relate either to a subscription or to a transaction. Subscription data are personal items purposefully submitted by consumers either at the time of purchase or during registration to use a particular service, for example, when buying something online or signing up for a new email account. Transactional data, on the other hand, are preferences and activity data captured in the course of the consumer's use of a product or a service. For example, when purchasing books online the merchant keeps a record of the items purchased.

Businesses are making extensive use of both subscription and transactional personal data, typically using database applications that allow targeted sales strategies. For example, Amazon.com and the iTunes Store record transactional data on their customers' purchases and use this information to offer them related products when they visit the website. Amazon took the additional step of using these data in its own form of revenue management, called "dynamic pricing," in which the company experimented with adjusting the price of its products based on inventory levels and customers' buying patterns.⁹ The practice of offering related products can be part of a customer relationship management (CRM) program, which is enabled by database technology. In particular, luxury hotel chains rely on customer databases to extend superior service to regular guests. Keeping track of customer preferences also allows for better inventory control and sales forecasting. Additionally, numerous companies have learned to explore their consumer data to market across brands and to enhance their marketing research capabilities.

Companies are exploring the substantial benefits of data exchanges. If a company's own database tells a limited

story about its customers, the firm can arrange with other organizations to purchase or trade additional data to fill out the customer profile. Numerous companies have developed strategic alliances for this purpose. A recent example of this is the Pacific Asia Travel Association (PATA), which in December 2005 announced a partnership with the Visa credit card. The purpose of this alliance is to develop joint marketing intelligence programs which "utilize the collective data resources and customer reach of the two organizations."¹⁰ Supplementing one's organizational knowledge through the acquisition of related data is a savvy and increasingly necessary tactic. With this growing trend comes a responsibility to consider the implications of a data-driven strategy—and particularly the implications of sharing data in this way.

Because personal data have become a commodity, business leaders are being called to develop an ethical stance and code of conduct regarding the handling of their customers' information.¹¹ Although tangential to this report it is worth noting the overlap between privacy issues and security concerns precisely because of the commoditization of people's personal information. These concerns are not without foundation, given revelations of consumer data security breaches. In December 2005, for example, the timeshare unit of Marriott International notified more than 200,000 people that their personal data, including social security and credit card numbers, were lost after some backup computer tapes went missing from a Florida office.¹² A similar situation occurred in January 2006 at the upscale Atlantis Resort in the Bahamas, where 55,000 guest records, including credit card and bank account numbers, were stolen from the company database.¹³ Not only does data theft financially burden the company, but it can damage the company's reputation and

¹⁰ http://ehotelier.com/browse/news_more.php?id=D7157_0_11_0_M, viewed on December 16, 2006.

¹¹ For example, see: Berinato, op.cit.

¹² <http://abcnews.go.com/Business/wireStory?id=1447534>, viewed on May 15 2006

¹³ http://ehotelier.com/browse/news_more.php?id=D7321_0_11_0_M, viewed on January 21, 2006.

⁹ See, for example: Robert M. Weiss and Ajay K. Mehrotra, "Online Dynamic Pricing: Efficiency, Equity and the Future of E-commerce," *Virginia Journal of Law and Technology*, Summer 2001 (www.vjolt.net/vol6/issue2/v6i2-a11-Weiss.html).

EXHIBIT 1

Participation in frequent-flier programs

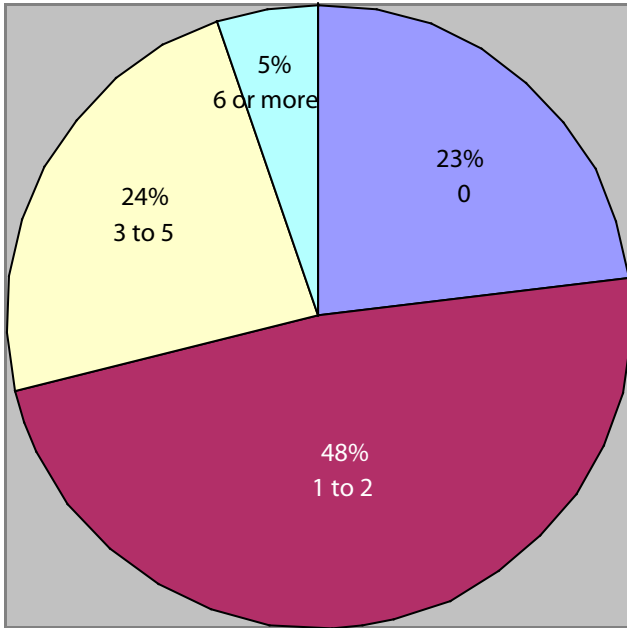
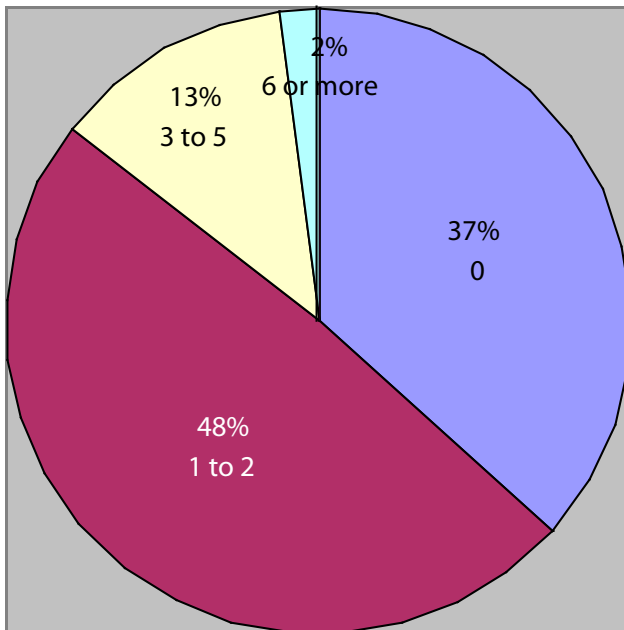


EXHIBIT 2

Participation in hotel loyalty programs



trust-based customer relations. Developing a response to such incidents may likely be informed by the company's ethical position where what the firm must legally do differs from what it chooses to do to compensate the customer.

Global Industry—Global Data

The international character of the hospitality industry creates a complex data handling environment. Currently, the legal regulations regarding personal data privacy vary greatly across countries. For example, the EU Data Protection Directive contains an extensive set of regulations with specific instructions for handling data. On the other hand, in the U.S., despite the high level of personal data processing, no official regulations have been implemented. According to the EU directive, personal data must be used only for the purposes for which they are collected. The data must be kept up to date and erased as soon as they are no longer needed. When the data are not collected directly from an individual, the organization must provide that person with a report of the purpose of the collection. In addition, the individual has a set of extensive rights, including full access to all of his or her personal data, notification of which third parties have had access to those data, and the right to block the data from being passed on to third parties. All of these rules go hand-in-hand with specific technological security requirements for all data handling organizations.

In 1998 the U.S. Congress reviewed a bill called the USA Data Protection Act, which proposed voluntary guidelines similar to those of the EU Data Protection Directive. However, the bill never became law, and there has been no similar attempt since. At the moment, the U.S. relies on professional associations such as the Privacy Alliance to encourage safe personal data handling practices.¹⁴ Third parties such as these are often informed by the Fair Information Practices adopted by the OECD in the early '80s which offers a framework for considering information privacy protection.¹⁵ The different perspectives on individual privacy rights between the EU and the U.S.A. demonstrate the importance of determining how data will be handled at the corporate level by a multinational hotel group, where rules regarding data collection, storage, and use may differ depending on its origin.

Analysis of Findings

Participation in Hospitality Loyalty Programs

As we mentioned above, customer loyalty programs are a major source of personal data for the hospitality industry. We therefore began our study by developing an overall picture of the scale of participation in such programs among

¹⁴ www.privacyalliance.org/, viewed on June 24 2006.

¹⁵ <http://www.worldprivacyforum.org/fairinformationpractices.html>

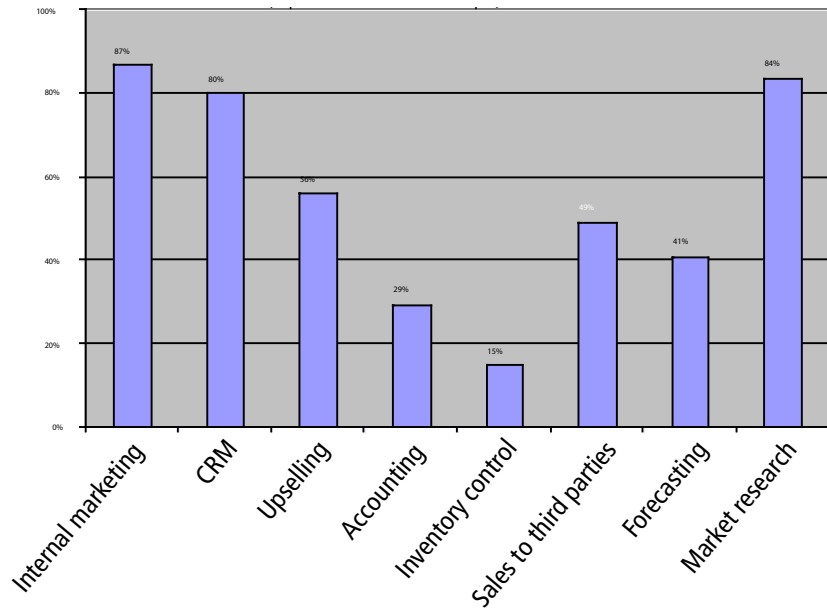
the survey respondents. Specifically, we asked them to indicate the number of frequent flyer and hotel loyalty programs in which they participated. The findings show that the majority of respondents participates in at least one frequent flyer program (77%) and one hotel loyalty program (63%) (refer to Exhibits 1 and 2). We see such heavy participation as indicating a willingness to provide subscription data in exchange for a perceived benefit such as rewards and personalized service. Beyond that, we also see this participation as indicative of the commoditization of data and the consumers' willingness to participate in that market. On the other hand, our study also shows that between a third and a quarter of respondents have chosen not to participate in any type of loyalty program. While we did not ask why that is so, we think the possible explanations for this are an increased concern about the use of personal data or a sense that the transaction itself does not benefit the consumer.

Awareness of Potential Personal Data Uses

Prior to addressing the issue of customers' concern with personal data use, we examined our respondents' general awareness of how their personal data may potentially be used. In our survey, we asked the respondents to indicate how they believe their personal information is used by companies once it is submitted (refer to Exhibit 3). Overwhelmingly the respondents felt their data were being used for marketing purposes, including market research, internal campaigns, and customer relationship management efforts. By contrast, back-of-house issues such as inventory control and accounting were perceived to be the least likely use of their data. This outcome is to be expected given the focus of the study on loyalty programs. In the future it would be interesting to expand this study and consider the extent to which consumers are aware of the role that data play in labor allocations, staffing, and inventory decisions. Interestingly, nearly half of the respondents believed that their personal data would be sold to a third party once they submitted it. This situation, known as function creep, highlights the importance of adopting an ethical stance about data handling. Function creep occurs when data collected for one purpose are later used for another purpose—in this case, the sale of loyalty data to a third party. Respondents' awareness of data sharing indicates that hospitality consumers are savvy about the data-driven marketplace. We used the next section of the survey

EXHIBIT 3

Respondents' expectations for use of personal data



Note: Figures are percentage of total sample.

to evaluate whether this increased awareness translates into an increased level of concern in relation to personal data processing and safety.

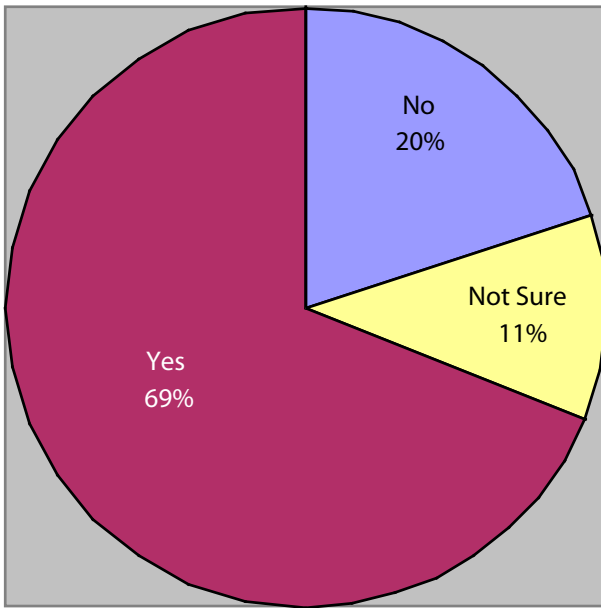
Comfort with Submission of Personal Data

Our survey found that 69 percent of respondents were concerned about how their personal data would be used by companies (refer to Exhibit 4, next page). This level of concern highlights the issue of data ownership in terms of the transfer of personal information from the individual to the firm. That is, from an ethical perspective who owns the data after that transfer takes place? Clearly the majority of respondents feels that they still have ownership rights to their subscription data. Only 20 percent clearly indicated a lack of worry, which might indicate that they believe the ownership of their data transfers to the firm at the time of the subscription. The position of the remaining 11 percent, the uncertain respondents, might indicate the need for consumer education about data privacy issues.

The findings from these two sections of the survey imply that consumers are aware of the potential uses of their personal data and are generally concerned about what may happen to this information once it is submitted. This concern may be the result of publicity about stolen identities, or it may result from merchandising strategies that use extensive telephone, direct mail, and spam contacts. The concern may also arise from respondents' awareness of data aggregation

EXHIBIT 4

Concern over use of personal data



that allows previously disparate datasets to be combined in a way that provides insights that the consumer never intended to share with the firm(s) in question. In any event, the sale of data to third parties is an ethical issue because of its potentially detrimental effect on the consumer—the Other. Taking into account the ethical principle of minimizing harm, one could argue that while selling data to a third party might benefit the firm, consumers might be harmed. Beyond the ethics of that outcome, this may in turn affect their loyalty and diminish their trust. The next step in the survey was therefore to identify the specific customer concerns associated with submitting personal data to companies, and the varying importance of these concerns from the consumer perspective.

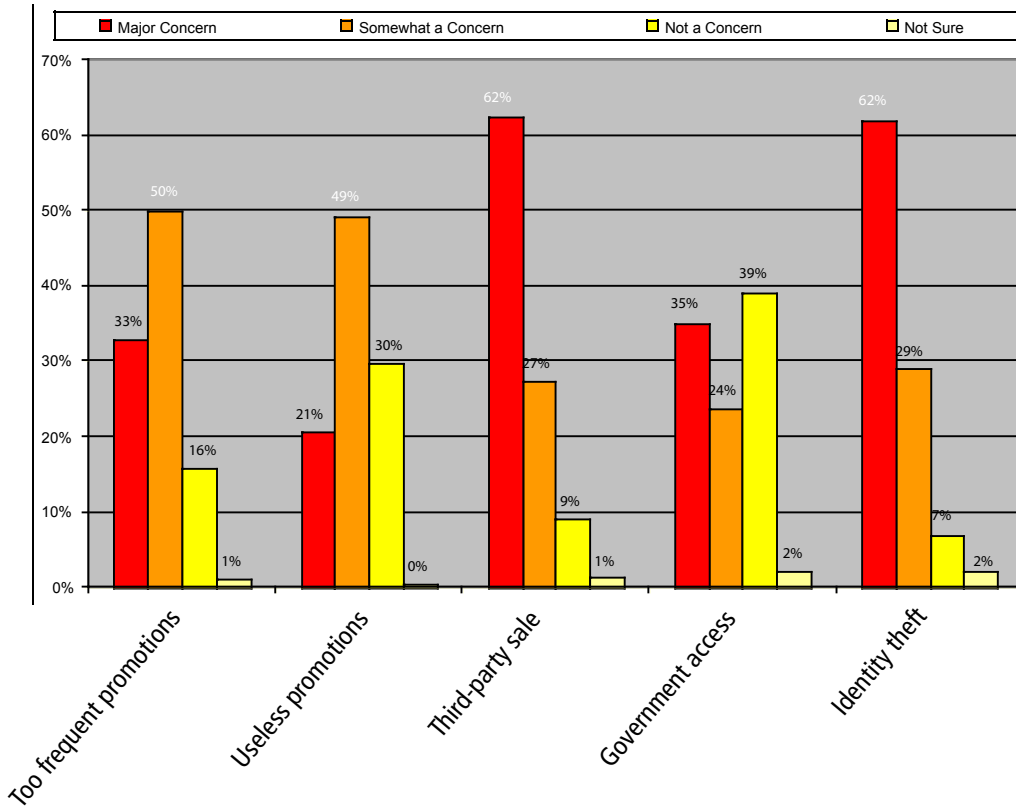
Concerns Associated with Submitting Personal Data

For the next section of the survey, we asked the respondents to rate their level of concern over each of the following issues as they relate to data mishandling:

- You will be contacted for frequent marketing promotions;
- These promotions will be of little or no use to you;
- Your data will be sold to a third party;
- The government will demand access to your personal data; and
- You will become a victim of identity theft.

EXHIBIT 5

Specific concerns over use of personal data



Looking at the survey results regarding these five points (in Exhibit 5), 62 percent of the respondents felt that selling their personal data to a third party was a major concern. This is almost twice the number of respondents who expressed concern over being contacted frequently regarding promotions (33%), or that when contacted

those promotions would be of little or no use to them (21%). Most importantly, the threat of having personal data sold to a third party appeared to be of equal concern to the threat of identity theft. Given that identity theft is a highly publicized issue, we interpret this finding as indicating just how seriously consumers take data sharing even though it is much less widely discussed in the media.

Regarding government access to personal data, we found two divergent consumer perceptions. Approximately one third of the respondents were distrustful of the government, believing that government access is a major or a somewhat important data mishandling concern, but another third of the sample felt that government access is not a concern at all. Generally, our European respondents tended to be less concerned overall about government access to their personal data than were people from other regions, including North America. However, due to the limited geographical diversity of the survey respondents, we recommend more research in this area before that conclusion can be drawn with any certainty.

In the post-9/11 environment, hospitality operators may need to formulate an ethical stance related to providing the government with customer records. In 2003, for instance, the U.S. government demanded customer reservation data from Las Vegas hotels as well as arriving-passenger details from the airlines in spite of the statement that “FBI and local law enforcement agencies have said there was no specific and credible terrorist threat aimed at Las Vegas” during that time.¹⁶ Armed with national security letters government officials collected over 270,000 customer records and then enrolled Jeff Jonas, who was working on analytics with MGM Mirage properties, to crunch the data using his sophisticated data mining application.¹⁷ More routinely, hotels are asked to cooperate with state and local police by providing data about their customers. Again, the ethical principles presented earlier might help guide actions. In this instance one must consider the company’s moral obligation to the Other and conduct a systemic assessment of who those Others are (both government and individuals) and what harm might come to each party as a result of the decision.

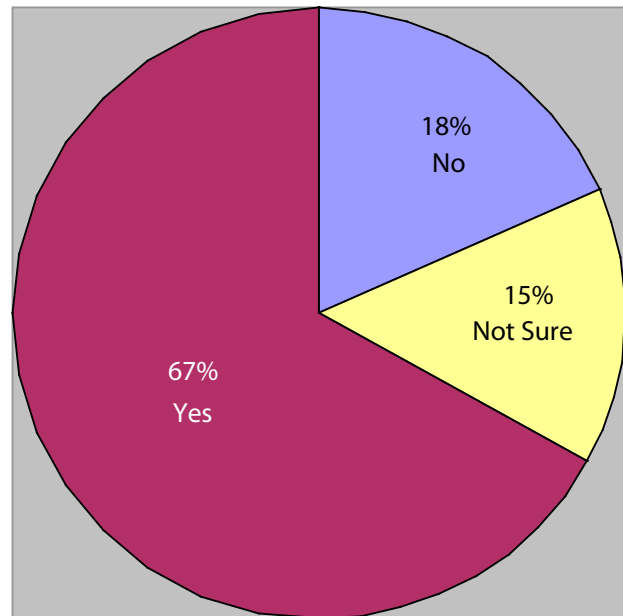
Sixty-seven percent of survey respondents also indicated that they were generally concerned about the long term retention (five years and more) of their personal data (refer to Exhibit 6). Considering the high level of concern about the mishandling of data, one possible way to explain these findings is that consumers may generally associate longer retention of personal data with more opportunities for data misuse. Developing a policy about how these data will be

¹⁶ www.reviewjournal.com/lvrj_home/2004/Jan-07-Wed-2004/news/22934251.html.

¹⁷ www.pbs.org/wgbh/pages/frontline/homefront/view/.

EXHIBIT 6

Concern over long-term storage of personal data



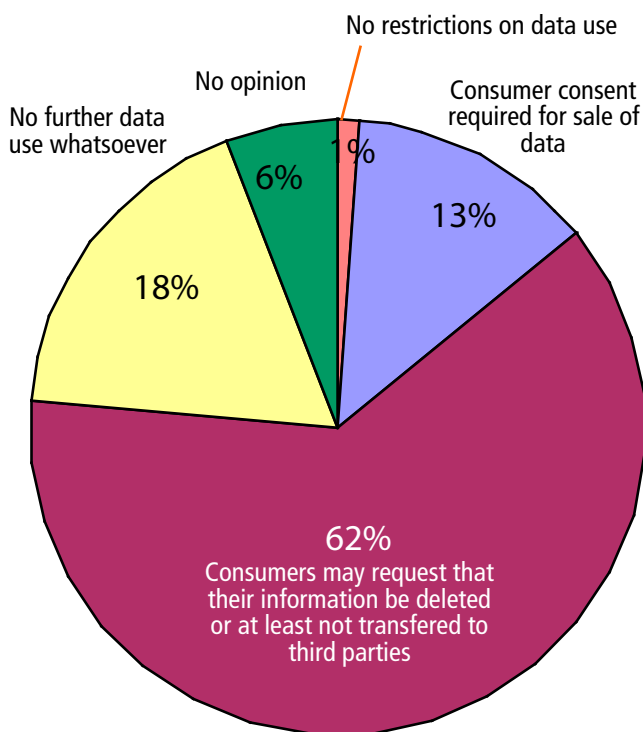
secured over the long term and clearly communicating that policy to consumers may be helpful. Alternatively, adopting the EU approach to erasing data once its retention is no longer necessary might be preferable. These approaches may help to strengthen trust relations with customers.

Consumers understand that their personal data are highly transportable and valuable in an information economy. Overall, our results suggest that while using data for marketing purposes is bothersome to consumers, their foremost concerns are the related issues of data privacy and security. According to our survey, third-party sales of data are the primary cause of discomfort among consumers who submit personal information for products or services. In addition, 96 percent of those respondents who felt that third-party sale was a major concern also stated that identity theft was a major or somewhat major concern. This may imply that consumers are associating third-party sales of personal data with the higher potential for criminal abuse.

Perceptions of Necessary Government Regulations Regarding Personal Data Handling

Since data protection laws vary greatly by country, we wanted to examine the general perception of what consumers believe government regulations should be in regards to corporate data handling (refer to Exhibit 7). Looking at the survey findings, the majority of respondents (62%) believe that there should be data protection laws that allow corporations to pass on their data, but only if customers consent

Desired protection of personal data



to the transfer, and only if the customers retain the right to request that their information be erased, edited, or restricted from being passed on to specific or all third parties. These preferences follow the current EU data protection directive. In addition, almost 18 percent of respondents believe that corporations should not be able to buy or sell consumer data in any form. These responses vary by region, and the data suggest that European respondents prefer a more stringent set of laws than did respondents from other areas. However, once again, we would caution that further research needs to be done before such a conclusion can be decisively drawn.

Overall, our results seem to indicate that consumers believe governments should take action against abuse of personal data, and that most of the public holds governments to some degree responsible for protecting consumers. However, with the growth of internet commerce and the lack of a unified global legal system regarding personal data protection, most online companies have felt the need to set up a data-use contract for their consumers. This contract appears in the form of a “the privacy statement” or “privacy policy.” In the next section of our survey, we examined the effects on consumers’ perceptions of offering privacy statements, and how the presence of a privacy statement affects consumers’ level of comfort in the purchase situation.

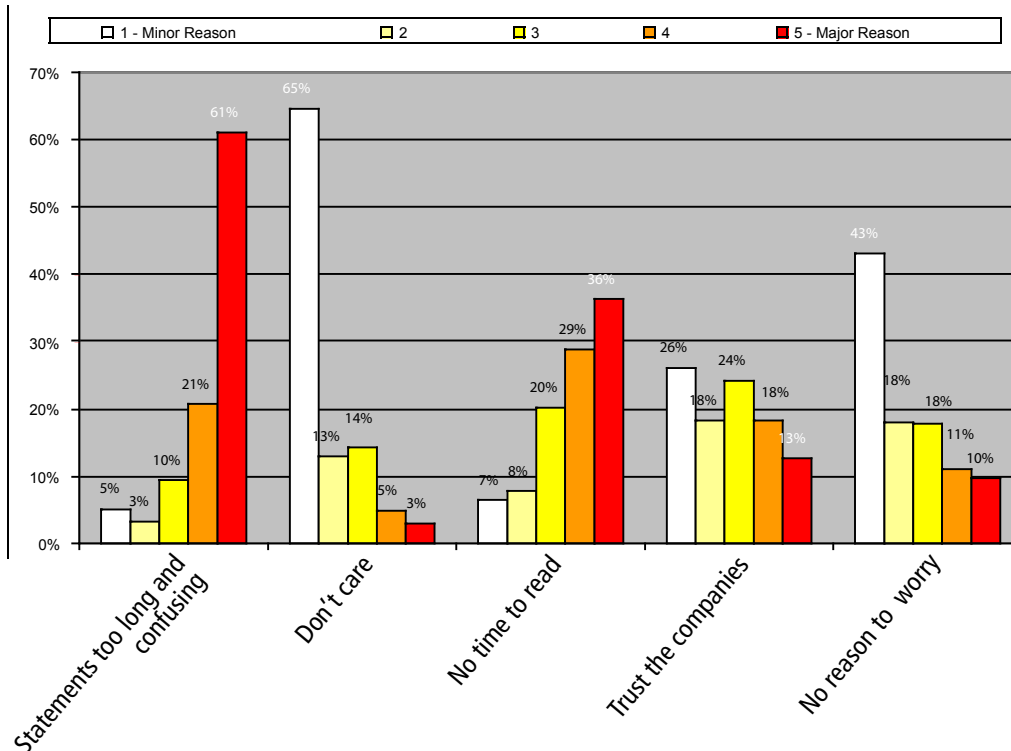
Impact of Privacy Statements on Consumer Perceptions of Ethical Data Use

In general, the purpose of a privacy statement is to outline company policies as to the collection, handling, and storage of personal data that they have collected. Consumers who proceed with transactions on the site are considered to be in agreement with the policy’s terms and conditions. However, not all companies update their policies each time a change is made to their data handling practices (for example, if new data mining technology is being used or a new dataset has been purchased that will be combined with their in-house repository). Nor have organizations historically done an effective communication job on their policies, making it rather difficult and time consuming for the average person to comprehend. Considering the high level of customer concern about personal data misuse, specifically in relation to third-party sales of personal data, we chose to investigate whether privacy statements improve consumers’ comfort in purchase situations.

To begin with, we asked respondents to indicate how often they read privacy statements. The results show that one-third of our respondents almost never read them and 75 percent read them no more than “sometimes.” Bear in mind, though, that few people (3%) who choose not to read privacy statements are skipping them because they are unconcerned about how their data are being used (refer to Exhibit 8). Instead, most of the respondents (97%) claimed that they fail to read such statements because they are lengthy and confusing (61%) or they lack time to do so (36%). Only 13 percent of the respondents said that a major reason for not reading privacy statements is that they trust the companies to whom they provide data. In one of the open ended answers from the survey, one respondent suggested that “even if you trust the company that you give your data to, to pass it on to only trustworthy companies, the data may eventually end up in the hand of someone who is not trustworthy.” Clearly this indicates that trust relations are vital to consider when developing privacy policies and perhaps indicates a more transparent approach to indicating strategic alliances where data may be shared.

To further explore trust relations we asked survey respondents to express their level of comfort in the following two scenarios:

- (1) You provide personal information to a company and it is sold to a third party for purposes other than what you originally submitted it for.
- (2) You are informed in a privacy statement that third-party transactions may occur and your information is then sold for purposes other than what you originally submitted it for.

EXHIBIT 8**Reasons for not reading online privacy policies**

Responses indicated that regardless of the explicit statement of data sharing with third parties contained in statement 2, over half of the respondents (58%) were uncomfortable with scenario. Only one-third of the respondents who were uncomfortable with third-party sales as indicated in statement 1 changed their opinion when the scenario included a privacy statement notification.

These results suggest that consumers are uncomfortable with the sharing of their information regardless of whether they are notified of the details in a firm's privacy statement. We conclude that privacy statements fail to make customers more willing to submit their personal data. We see two reasons for this perception. First, consumers do not have the time or desire to read long privacy statements. Second, there is a general lack of trust among consumers regarding the companies that they do business with. Therefore, regardless of a company's assurances that customer data will not be mishandled, our survey results suggest that a large proportion of customers generally do not believe companies will hold to this promise.

It should be noted, however, that these results do not examine the extent to which customers transact business with a firm in spite of their view of the privacy policy. This issue needs to be examined in future research to expand

our knowledge of the influence and effectiveness of privacy statements during purchase decisions.

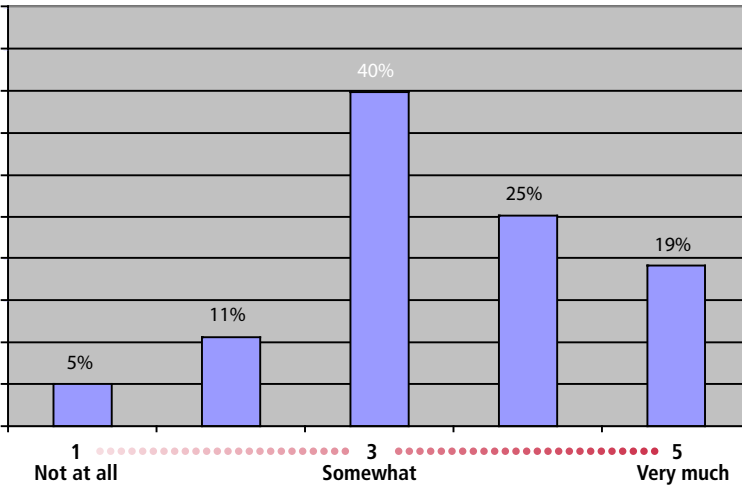
Customers who do want to protect their privacy have difficulty determining the right purchase strategy to achieve this objective. One approach is for consumers to "opt out" of the controversial aspects of a policy when an opt-out is available. Another way of opting out has historically been to pay only cash. Choosing to retain complete ownership of personal information by dealing on a cash only basis is becoming more challenging as electronic transactions expand in scope. It may be that the antidote to customers' suspicions lies not in cash but in ethical operations. Perhaps ethics offers us a platform for considering how to treat the consumer with utmost respect. If consumers are not reading the privacy statements because they are too busy or the statements are confusing, perhaps an ethical approach to this situation would be to assist the customer in learning about your business and reconsidering short-run profitable data-driven alliances with third parties in favor of long-run customer satisfaction and trust.

Lack of Education as a Reason for Consumers' Discomfort

Finally, we expand on some possible reasons why customers appear to be so uncomfortable with the issue of

EXHIBIT 9

Extent to which improvements in database technology affect respondents



ethical data use in a corporate setting, and how this in turn may result in a lack of customer trust towards businesses. Improvements in information technology, particularly as it relates to merging data from different sources, means that a company can use third-party data purchases to create a set of sensitive and complete information about an individual consumer. We asked respondents to indicate to what extent recent improvements in database technology, which allow businesses to easily combine personal data from different sources (e.g., tax registers, motor vehicle records, and marketing data), affected them personally. We found that only 19 percent felt that this issue was personally relevant (Exhibit 9). Furthermore, 21 percent of the respondents who were highly concerned about the way that their personal data are used by companies said that this improvement in technology affects them personally.

Another section of the survey asked respondents to indicate which of the following two types of data they believe are more sensitive:

- (1) *Subscription data*—credit card details and billing addresses, or
- (2) *Transaction data*—shopping patterns on a website.

Over one third of the respondents felt that transactional data are more sensitive in nature than subscription data (Exhibit 10). We found this surprising, as it suggests that a relatively large percentage of customers are concerned more about general surveillance of their actions than about the storage of information which, if revealed, could result in

identify theft. Furthermore, it might indicate customer naiveté regarding how data aggregation occurs (in large part through the appending of credit card records). Considering these findings, it is suggested that customer education about the nature of data sharing be a priority both at the public service level and in educational environments where database theory and marketing is taught.

Discussion of Findings and Implications for the Hospitality Industry

From an ethical perspective, businesses have a moral responsibility to individuals, groups, and society. If we take this as the starting point of our inquiry then the adoption of a systemic perspective is particularly helpful because it shifts the focus to those others whom we are morally obliged to consider. We take each of the three ethical principles presented earlier

(i.e., minimize harm, operate consistently, be respectful) and apply them to our survey findings to emphasize the most important conclusions, along with specific recommendations that can be made based on these findings.

Minimize Harm

While we recognize the profit motive of businesses, we are also informed by the hospitality-oriented notion of being of service. Adopting an ethical stance when considering potentially lucrative data sharing activities may result in a decision that offers better service to your stakeholder groups. Holistically evaluating business opportunities, with the goal being to minimize the harm done to those involved, is a middle path between making rampant use of shared data and no such use, which will likely prove sustainable over the long term. Not only are consumers becoming more aware of the different uses of personal data for marketing activities and sale to third parties, they feel that this sharing is what most threatens their personal data privacy. Companies should have clear guidelines about which partners, if any, with which they will exchange data. This may involve a specific company evaluation that each prospective data partner needs to pass before any sales of data can occur. In addition, to decrease the sensitivity of the data itself, any exchanges should include only anonymous data.

Furthermore, we recommend a more transparent approach to the sharing of data by hospitality companies. Exemplars of this approach can be found in social networking site Facebook and the travel intermediary Expedia, both of which adopted a customer-centered approach to data

privacy. When Facebook made a privacy decision that was unpopular with its subscribers, the founder posted a personal, straightforward letter on the front page of the site and rectified the situation. Expedia, for its part, clearly states with whom it shares customer data, structures the policy to make it easy to navigate, and begins the statement by informing the customer of its membership in the trusted Council of Better Business Bureau's BBBOnLine® Privacy Program. Though both of these companies clearly seek to benefit financially from the sharing of data, they adopt an ethical position that is clearly communicated through their web site. We argue that this approach minimizes harm and elicits good will.

Being of service is a helpful concept to remember when dealing with law enforcement—an influential Other who must be considered. The reputation of airlines was at risk when some carriers shared millions of passenger records with the U.S. government just after the 9/11 attacks. This is an example of trying to minimize harm from a systemic perspective. Even though the airlines violated their privacy policies by sharing customer records, it might be fair to assume that these airlines believed that they were minimizing harm to society by helping the government during a stressful time. While this argument is plausible, the airlines missed their chance to build ethical trust with their vaguely worded privacy policies. Customers' complaints were dismissed on the technicality that a corporate policy "merely said it would not sell data. It didn't address sharing it with the government."¹⁸ This approach to consumer relations seems sneaky and legalistic rather than based on an ethical foundation.

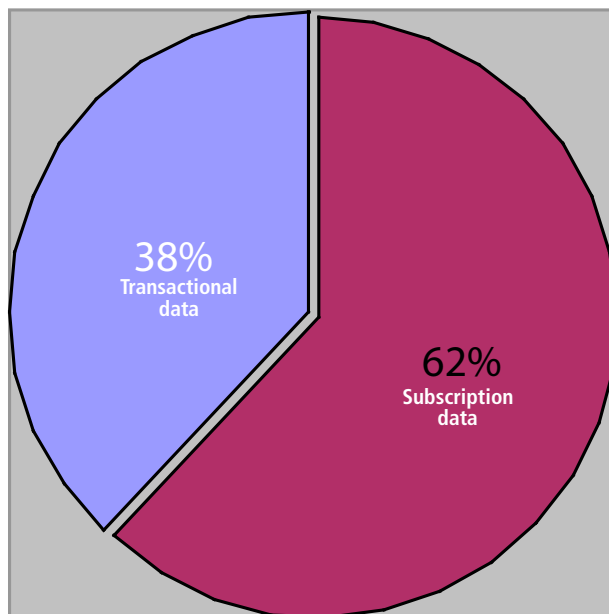
Since 2001, the U.S. government has been increasing its spending on analytical database technologies and on purchase of data sets on U.S. citizens, which it buys from corporate entities.¹⁹ While it is still difficult and time consuming for the government to legally collect such information directly, it is forging strong ties with commercial data brokering entities. For this reason it may be important for businesses to consider their ethical position on function creep. It may become necessary for companies to conduct due diligence on the third parties with whom they agree to share data and determine how that company will use the data and to whom they intend to resell it. Applying the idea of "six degrees of separation," where each person is no more than six connections away from every person in the world, might be helpful. While a business might feel that a particular third-party transaction is benign, the subsequent transactions embarked upon by those partners may be less so. As

¹⁸ www.usatoday.com/money/companies/2006-05-11-biz-privacy-usat_x.htm.

¹⁹ www.washingtonpost.com/wp-dyn/content/article/2006/06/14/AR2006061402063.html.

EXHIBIT 10

Data type causing greater concern to respondents



such, the question should be considered: to what extent am I ethically responsible for my customers' data?

Operate Consistently

Businesses operate in the context of their environment, which influences the business and is, in turn, influenced by the business. In short, whatever one hotel chain does with its consumer data reflects on the entire industry. Whatever a firm decides in terms of data sharing, we encourage a holistic perspective where each company sees itself as part of a larger business ecology to which it seeks to contribute.

The survey showed that many respondents do not trust the companies to whom they submit their personal data. We interpret this to be in part an issue of education about database development and data-driven marketing and research. If companies educate their customers regarding their use and protection of personal data, that may substantially increase their level of comfort with the submission of personal data. Such educational efforts may begin to challenge customers' current lack of trust towards companies, and increase their overall confidence that their data will not be mishandled. The implementation of consumer education tools may address some of their greatest fears in regards to privacy breaches. Education efforts could include, for example, how identity theft occurs and how a company is working to prevent it. Although protecting customers against identity theft is not the primary responsibility of a

One of the most important findings of this study is the high level of concern about the sale or transfer of personal data to third parties.

hospitality company, any effort for consumer outreach and communication (perhaps at the association level, or through curriculum support at universities) may foster a trend that others in the industry would adopt. Our study indicates that the current effort is falling short, given the way our respondents disregard privacy statements.

Since complexity was an issue among our respondents, we recommend making any privacy statements as short and readable as possible. The problem with that idea is that the privacy statement is a contract that inevitably attracts the attention of a company's legal counsel—thus, the complexity and impenetrable language. Even worse, many privacy statements require users to click through to read the actual contract in its entirety. We argue that this in itself creates an obstacle for the customer. A possible rule of thumb to go by is that privacy statements should be short enough that the customer can feasibly read the statement within the typical time it takes to complete a transaction. Perhaps the policy can be presented in audio or video format. In any event, privacy statements need to directly address the sale of personal data to third parties, and the rights that the consumer has in regards to this issue. We argue that the benefits to customer trust and good will are likely to result in increased loyalty.

Offer Respect

Companies are advised to acknowledge consumers' desire to protect their personal data by making an industry-wide commitment to such protections. With technological improvements of database systems in mind, data ethics will likely continue to be important for both the average consumer and hospitality businesses. We argue that it is insufficient to disclose data activities in a dense and off-putting privacy policy, particularly one that requires customers to opt-out of the scheme. If we, as business leaders know that our customers do not (or cannot) read these statements, the ethical issue becomes one of whether we should make it easier for our customers to understand how their data are being used.

The majority of consumers surveyed believed that they should be able to reserve the right to choose which of their

specific data points are exchanged as well as choose the third parties involved. Based on this finding, hospitality organizations are advised to develop specific company-wide guidelines in regards to their consumers' data. Since customers generally agree that more legal control needs to be exerted by governments on the issue of data protection, these guidelines do not need to simply meet the legally required minimum in a given country. Our research indicates that customers would welcome any practices that seek to protect their interests. Specific guidelines may be found in professional associations dedicated to data privacy (e.g., Privacy Alliance, Better Business Bureau's Privacy Program), or be based on legal requirements in countries where such regulations have been rigorously implemented (i.e., the EU). This context may provide the impetus for U.S.-based hospitality companies to form a set of personal-data handling practices and a code of ethical conduct for the industry.

In summary, we see no doubt that the hospitality industry will expand its use of information technology in connection with customer relationship management. We expect that ever smaller operations, right down to B&Bs and independent mom and pop shops will be empowered to compete using database products. The importance of consumer data argues for more comprehensive approaches to handling those data. Moreover, in view of the lack of consistent government regulations regarding data privacy, hoteliers should protect themselves from further government intervention by addressing the issues raised by consumers' awareness and concerns about the use of their data. Business leaders are encouraged to consider how mishandling data may affect consumers' purchase decisions and expressions of loyalty. A business model that includes trust and reputation risk as key ingredients will help ensure the business's long term health.

Areas for Further Research

As explained at the outset, this is an exploratory study. Thus, there are still many areas for further research on the topic of data ethics. In this study we have proposed a number of introductory claims regarding consumers' perceptions and opinions. Future research should seek to solidify and expand

on these propositions. We see potential for additional study in the following areas.

First, for the global hospitality industry, it is important to address the issue of cultural implications on customer perceptions of data privacy. In this study, the survey results indicated that Europeans tend to be less concerned overall about government access to their personal data than are people from other regions, including North America. On the other hand, Europeans tend to be less trusting of corporations than are their North American counterparts. Such conclusions have significant implications in terms of developing the right approach to the personal data protection issue, and thus deserve a good deal of further research

Transfer of data is a second key research area. One of the most important findings of this study is the high level of concern that customers feel about the sale or transfer of their personal data to third parties. Further research is needed to expand on this topic, addressing the specific concerns associated with third party sale of personal data and how companies might develop trust relations with their customers by more clearly stating their data handling policies.

Finally, there is potential for studies focused on examining the actual effect on customers' purchase decisions of maintaining ethical data policies and the extent to which companies that take greater responsibility in data handling will benefit therefrom. We believe that the development of information technology and marketing strategies that assist hospitality operations in handling the issue of personal data ethics would be highly beneficial.

The Future of Data Collection

Data collection and consolidation are growing practices by both commercial and government organizations around the world. In that regard, technology that in the past may have been considered relevant only to the military is starting to look attractive to business users. Radio frequency identification (RFID) tags, already in use in retailing, are one example. The FIFA World Cup championship used RFID tags on 2006 tickets to identify each of the 3.5 million fans who attended the matches. In the process FIFA collected a substantial amount of personal information on its ticket holders.²⁰ Alternatively, the U.S. government has long been using special correlation systems to analyze the activities of money launderers. These systems, which work by collecting data on small deposits made into different accounts,²¹ could be just as useful to banks or other commercial organizations looking to get more detailed information on the behavior and spending preferences of their customers. Furthermore,

²⁰ www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=110454, viewed on July 1, 2006.

²¹ www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=81979&pageNumber=2, viewed on July 1, 2006.

high-tech video equipment is being combined with point of sale (POS) and analytical applications to record incidents of activity in an attempt to reduce inventory and profit loss within the restaurant and bar industry, as well as to reward exemplary behavior.

Looking further into the future, it is likely that we will continue to see an increase in the use and collection of various identification methods. Already many personal computers are equipped with fingerprint scanners, and the U.S. border security system collects retina scans and fingerprints from all international visitors into the country. With this in mind, it is possible that as more organizations embrace organic identification, a retina scan could become a replacement for identifiers like social security numbers. Considering that such highly personal and sensitive information must be stored, the future of personal data and database security will only become a more pressing issue. Already companies that provide authentication and identification applications to governments and airports are considering the viability of personal authentication within hotels as an emerging market. With the ability of computers to store images, sounds, and text as data the implications for data handling are immense. Without doubt, however, the ethical issues that we have raised in this report will apply to storage and use of these personal data.

Conclusion

This report considered ethical issues related to the collection and use of personal information by companies, a timely and relevant topic in the hospitality industry given the increase of data mining and sharing and the concerns over privacy issues. We made a start into this area of research by determining that hospitality consumers are concerned about issues of data privacy. We are encouraged by the responses and welcome a dialogue on these issues with hospitality practitioners. While this report has provided an ethical framework and highlighted some areas for concentrated effort with regard to information gathering and sharing, we also believe the findings indicate concern and interest about these issues on the part of consumers.

Ethics is a subjective topic that each practitioner must personally consider. We are not arguing legalities here, but rather the code of conduct that underpins a company's culture. As such, we call for companies to develop or revisit their standards of conduct as they pertain to the use of information systems and the data held within them. This is of fundamental importance because information in our era is a valuable commodity. If, as found in this study, customers are concerned about the use of their personal data, then a company that takes ethical data handling seriously should gain substantially increased customer trust and good will, all of which should result in increased brand loyalty. ■

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