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Still Searching for Excellence

Bradford Hudson

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

The Quality Movement

The effort to increase consistency, minimize errors, and reduce costs has been a priority in

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

The latter contributed to a significant and unexpected quality advantage among Japanese cars, which resulted in serious competitive pressure on the American automobile industry and the near collapse of Chrysler. This served as a wakeup call

for automobile executives, but it also served as the catalyst for a renaissance in quality management throughout the economy.

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

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

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

Services marketing is now an established field with its own extensive literature. At the core are two basic principles. First, services differ from manufacturing due to their intangibility, variability, simultaneity, and perishability. These characteristics can be problematic for managers who use principles and tools designed for manufacturing without adapting them to the unique aspects of the service sector. Second, services are usually produced and delivered by people rather than machines. This means that service companies

must understand the linkage between employee behavior and customer satisfaction, and develop sophisticated systems in the areas of human resources, management, and organizational behavior.

Service Quality Today

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

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

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

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

FURTHER READING

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

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

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

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

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

One could also argue that these cases, while compelling, are limited and anecdotal. However, my personal experience as a consumer of services

in numerous industries and contexts indicates otherwise. It seems indisputable that poor service remains a real and widespread phenomenon, and that these cases are representative of the status of service quality throughout the hospitality sector today.

A Missed Opportunity

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

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

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

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

The Cost of Quality

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

The same dynamic also occurs in services. An example in the hotel industry is an erroneous room service order, which requires the entire production and delivery sequence to be repeated and the improperly prepared item to be discarded. The duplication in labor and food costs,

which typically represent about two-thirds of the revenue generated from the order, are quite significant and completely eliminate any operating profit for that transaction. Now imagine the cumulative cost if such errors occur repeatedly.

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

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

Underlying Dynamics

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

First, the hospitality sector is not particularly sophisticated in terms of management systems and practices. The inseparability of production and consumption results in thousands of small and relatively independent locations, which cannot support the types or layers of specialized management that are common in centralized manufacturing facilities. This is further exacerbated in the case of independents, which have no

corporate infrastructure. The tools required to effectively manage service quality are simply unavailable. Even if front-line hospitality managers understand quality techniques, the analysis necessary is often seen as peripheral to basic operations.

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

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

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

A Way Forward

Another round of enthusiastic promotion and persuasion by quality experts, in which a series of logical arguments is used to garner commitment to quality principles by hospitality executives, is unlikely to have the intended effect. If the im-

passe is being caused by excessive attention to the costs of implementing quality management programs, and a lack of understanding about the true costs of service failures, then perhaps a solution can be found in the particulars of cost accounting rather than the platitudes of service excellence.

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

One practical example of integrating quality management and financial management can be found in the service guarantee technique. In its purest form, guests are offered the opportunity to 'return' unsatisfactory service experiences by invoking a guarantee, which results in an immediate and unchallenged refund of their expenses. To be clear, this is not the same as offering a complimentary dessert or room during off-season to placate a guest. This is a reversal of the entire

amount charged to their credit card for the visit in question, which must then be deemed waste, in the same manner as an improperly formed beam in the steel manufacturing industry.

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

A Time for Reckoning

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



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