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# Rewarding Non-productivity In the Hospitality Industry

## **Abstract**

The industry has not clearly focused on many important problems, such as rewarding service workers based on productivity. Instead, many industry leaders have focused on "straw men issues," issues that are more rhetoric than substance. The authors examine some of these so-called issues in detail: governmental wage policies, immigration laws, the quality of the work force, service worker training, and gratuity management, to provide a fresh look at worker productivity beyond the rhetoric and myths that prevail

## **Keywords**

Robert A. Meyer, John J. Schroeder, Rewarding Non-productivity in the Hospitality Industry, Service, Wage standards, Immigration Laws, Tipping

# Rewarding Non-productivity in the Hospitality Industry

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*The industry has not clearly focused on many important problems, such as rewarding service workers based on productivity. Instead, many industry leaders have focused on "straw men issues," issues that are more rhetoric than substance. The authors examine some of these so-called issues in detail: governmental wage policies, immigration laws, the quality of the work force, service worker training, and gratuity management, to provide a fresh look at worker productivity beyond the rhetoric and myths that prevail.*

After more than a decade of articles and books deriding hospitality service in America, the past low quality of service in the service industries has turned around and improved. We no longer encounter rude salespeople; we no longer have to worry when we make reservations for a plane trip or for a rental car—the plane will go out as scheduled and the car that you ordered will be waiting. "Wrong! Wrong!" you say. In the past decade, service has deteriorated; it is worse, not better. You might even be inclined to agree with Thomas Peters, co-author of *In Search of Excellence*, who puts it succinctly: "In general, service in America stinks."<sup>1</sup>

As most travelers know, just going on a weekend trip can result in frustrating experiences. According to a 1987 poll by Marriott Hotels and Resorts, fully 93 percent of travelers run into problems, citing "unfriendly, poor service" as happening 45 percent of the time.<sup>2</sup>

The hospitality services (a term which many scholars claim to be an oxymoron much as the term "postal service") should not be pushed into untenable positions by the industry's rhetoric. Over the past few generations, we have built-up many of the myths or "villains" which are to blame for everything that goes wrong in the industry. (The habit of blaming others is similar to what the government does when it blames its foreign policy mistakes on the "Communist Menace.")

One of our favorite straw men of the hospitality industry is governmental intervention into our own private turf. If, for example, government wouldn't demand that we pay a minimum wage, all of us in the hospitality industry would make a great deal more money; the free enterprise system would be preserved; America would go on to greatness, and we would be a better competitor in the world service economy, etc.<sup>3</sup> We must be willing to spend millions of dollars fighting those ignorant senators in Congress who just don't understand that we may be driven out of business because we are unduly restricted as an industry when wage regulations are passed.

Immigration laws and regulations constitute another windmill against which industry leaders are constantly tilting. The argument is based on the premise that the hospitality industry suffers from a labor shortage in a time of rapid industry growth. If we are to keep pace with our tremendous growth, we must not restrict the free flow of lower priced foreign workers who are needed because the industry is so labor intensive.

Still, if the above arguments fail to convince the public that these are the real sources of the problems for the hospitality industries, we can always blame the lack of high quality service on the workers themselves. We can say that the service workers we are getting today are, by and large, an uncaring bunch. They are not loyal. They don't know the meaning of work. That's one of the reasons that turnover is so high in this industry. As soon as the work gets a little difficult, many of the workers quit. Therefore, it is not worth it for the industry to invest much time, money, and effort into training programs for people who won't be around long. Instead, we might be better off to attract more workers to our industry with special public relations ads telling of the "...special world"<sup>4</sup> of the hospitality industry.

There are also the hospitality business owners and managers who want customers to do their managing for them. They tell you to complain to management when things go wrong. Don't suffer gladly—complain. Other hospitality experts suggest that unhappy customers ought to take action about poor service. They should react with their pocket-books by not giving a gratuity to service employees if they don't provide good or excellent service. This will supposedly ensure service excellence by some kind of outside, largely undefined management.

### **Myths About Excellence Exist**

There are five basic myths and misconceptions about the obstacles to attaining excellence in service industries in the United States.

- **Governmental wage policies:** The minimum wage issue is no doubt a major problem to some hospitality operators, but to somehow single this issue out as one of the major problems in the U.S. hospitality industry is absurd. The matter of pay is a major issue, but the issue is not one of minimum wages. If the industry professes so loudly its belief in free enterprise, capitalism, and the absence of governmental regulation, why not base pay on productivity? Why not practice rewarding

those in our employ by what they produce instead of some mass across-the-board pay scale based on rewarding a physically warm body doing what everyone else is doing? Even in the Soviet Union (the antithesis of capitalism) they have indirectly admitted their failure in paying the same to everyone, no matter what the productivity. They now call that idea "wage leveling—the opposite of justice."<sup>5</sup>

Even in Neo-Socialist Britain, many labor and economic scholars are examining the idea that pay be based largely on productivity.

Some 20 years ago the 'withering away' of incentive payment systems was commonly predicted. It was widely suggested that new technologies would increasingly come to determine the pace and the volume of work while behavioral theorists who suggested that money was not an effective motivator gained increasing attention. In fact, the reverse has been the case...in recent years research has re-established the principal role of pay in motivating employees.<sup>6</sup>

With all the talk of productivity in the hospitality industry, there is precious little attention given to it. Recently it has been pointed out that productivity in the United States has not grown as rapidly as it was predicted and that "...the greatest drag on productivity growth has come from the ever-expanding service sector. Since 1979, output per hour in service-related industries has risen less than half a percent a year."<sup>7</sup> The manufacturing sector has had a tremendous shake-out in the past decade, but is now lean and productivity is growing. "If not for the sluggishness in services, total U.S. productivity would have grown by a respectable 2.2% since 1979."<sup>8</sup>

It is not necessary to be hit over the head as soundly as the manufacturing sector was for the service sector to get the message. With more than 68 percent of the nation's GNP and 71 percent of its employment in the service sector,<sup>9</sup> the beating that manufacturing took would be a disaster for our country.

The whole question of minimum wage is largely irrelevant in a capitalist country. We must pay our workers based on productivity. Currently, many of the employees in the service industry are rewarded "...by doing counterproductive things such as threatening to quit, unionizing and agitating."<sup>10</sup> If a worker is only earning minimum wages while working for a profit-making, non-charitable business, that person should be either in training or on the way to the unemployment lines. Productivity would be too low to work for most profit maximizing firms.

The hospitality industry is very contradictory at times. For example, the American Hotel and Motel Association's recent testimony in Congress concerning minimum wages spoke of some greater good of providing employment for the nation's economy. "We don't want you (Congress) to foreclose job growth in our industry, but simple economics tell all of us you will do exactly that if you increase the minimum wage."<sup>11</sup> Because of higher labor costs in a highly labor intensive industry, "...layoffs and other labor saving measures to maintain

productivity levels would be required.”<sup>12</sup> The groups in opposition to increasing the minimum wages euphemistically call themselves “The Minimum Wage Coalition to Save Jobs.” The National Restaurant Association advises its members to tell their representatives in Congress “...that an increase would actually hurt those it is intended to help by increasing unemployment in the least skilled and least educated workers.”<sup>13</sup>

The hospitality industry should be more forthright and truthful about minimum wages. Of course, as citizens we care about employment levels in the nation, but we are not in business to provide jobs for the unemployed. Laying off workers to maintain productivity levels is not bad in and of itself, especially if productivity is increased by laying off the least productive worker. Nothing is inherently wrong with using labor saving measures and substituting capital for labor to not only maintain, but increase productivity. But, again, this should have nothing to do with minimum wages. Higher productivity and higher profits are not tied to higher or lower minimum wages other than in a very casual way.

In a nutshell, minimum wage fights with Congress are largely irrelevant for those service industries trying to expand profits through expansion of productivity. It is not minimum wages that are the problems to productivity. It is how we reward productivity—or how we in the hospitality industry choose not to reward productivity.

• **Immigration laws:** There are many factors involved in discussing immigration laws, including issues of justice, freedom, and larger geopolitical questions that may involve the top decision makers of our government. However, for the service industries to ask for more immigrants because the industry is labor intensive and generally low in capital intensity is wrong for a variety of reasons. In the first place, it is based on an assumption, one which may be incorrect, that all service industries are the same. Not all service industries are the same. Some are highly labor intensive, while others are capital intensive. While the assumption that service industries are relatively labor intensive has a strong element of truth, it is far from being the case for all service-producing industries.

Labor intensive or not, most immigrant labor is the wrong kind of labor force for our industries to be recruiting. Vernon M. Briggs, Jr., a Cornell economist, says, “...immigrants have fueled at least one-third of the great American jobs machine...Unless stemmed, that continuing tide of non-native and unskilled new entrants in the job market threatens to overwhelm efforts to strengthen U.S. competitiveness and rekindle a rising living standard.”<sup>14</sup> Briggs went on to say: “Less than 5 percent of the immigrants and refugees who are legally admitted to the United States each year are admitted on the basis that the skills and education they possess are actually in demand by U.S. employers.”<sup>15</sup> (It is believed that Congress will deal with this very issue in the next Congress.)

Morgan Stanley economist Stephen Roach believes that much of the blame for the lack of productivity can be found with "...the difficulty of managing the new computer technology and the information explosion that the technology has sparked."<sup>16</sup> For the most part workers in the service sector have not been able to take advantage of the new technology to increase productivity. The workers who were being recruited by the hospitality industry were not those whose current capacities were capable of manipulating technology for productivity advances. The industry has been choosing the wrong kind of workers based on a need that is no longer present in a world that is increasingly depending on technology.

It is not the language or the culture of the new immigrant that is at the crux of the problem. The different languages and cultures, in fact, will be a decided advantage for the industry in expanding into the world hospitality market. The problem is the general lack of skills and education of the new immigrants. A study done for the National Academy of Sciences found that, "Between 1970 and 1984, all the major Northern cities had consistent job losses in industries where employee education averaged less than a high school degree, and consistent employment growth in industries where workers on the average acquired some higher education."<sup>17</sup>

Even if a particular segment of the hospitality industry is highly labor intensive, the new untrained and largely uneducated immigrants would not be the type of workers needed to increase productivity at any measurable level. They would only exacerbate unemployment and under-employment problems that already exist in many areas of the United States today.

• **Quality of the work force:** A recent study, "Analysis and Future Needs of Human Resources Used in the Lodging Industry," found an annual average turnover rate of 105 percent for hourly workers and 46 percent for salaried employees.<sup>18</sup> Other hospitality segments of the industry have even higher turnover statistics. Some researchers estimate restaurant turnover as high as 300 percent a year.<sup>19</sup> In many newly opened restaurants, it is even higher. New York restaurant critic Bryan Miller says that "It is not uncommon for more than 90 percent of a service crew to be replaced in the first few months of operation."<sup>20</sup> Even at the managerial level turnover is extremely high. One growing national restaurant chain experienced an average store-management turnover rate of 100 percent.<sup>21</sup>

Whatever the actual turnover rates, the costs to industry are astoundingly high. For example, a study done by the author of this article found that the cost of hiring and training each new employee was similar in costs to providing employee health insurance coverage.<sup>22</sup> Coupled with the rapid turnover rate, this is an incredible expense for an industry to meet and still try to remain competitive, not to mention the lack of continuity and disorganization that results, which is responsible, in part, for further dissension and still further turnover.

Many in the hospitality industry continue to foster the myth that the reason for this high turnover is due to a drop in the number of qualified job applicants.<sup>23</sup> There is some truth to this, but poorly qualified people are the result primarily of the pay. The major reason that we lose employees is because we don't pay them for what they produce. We somehow have fallen into the mistaken belief that service employees, and, particularly, low-entry employees, all want to be paid the same.

We also lose workers because we don't give respect to our employees who are on the frontlines dealing with guests. Much of our industry uses outdated ideas from the manufacturing sector when considering service employees. This attitude ("...that workers are unintelligent and unthinking cogs who must be told what to do to make the machine run."<sup>24</sup>) sacrifices important service considerations and, as a result, we have created dull industry-wide standardized personnel policies which lack any personal interaction or humanizing ideas. We must learn that our employees are not just cogs in some giant hospitality machine, but real people who must be treated humanely. We must "...bring forth a spirit of endeavor which recognizes that our success relies on person-to-person interaction...the act of friendship with every guest builds success, not fancy buildings, not unusual decor."<sup>25</sup>

We must communicate with our front line employees, the ones who deliver the services, but who often receive the least respect and the least pay in our industry. It is much the same in other service industries. The people who deliver services and have the most contact with the person to whom the services are delivered get the least respect and the lowest compensation: the nurse in dispensing health services, the teacher in the delivery of educational services, the waiter in a restaurant, or the front desk clerk or the porter in a hotel. It seems as if the front line person has developed some kind of "negative visibility" with the managerial staff. That is, the more they are seen, the less respect and credibility they are given.

The real problem in achieving service excellence may not be with the front line workers, but how the hospitality industry managers, especially first time managers, view the front line worker. Because the industry has been growing so fast, many inexperienced managers have been hired who have not worked their way up through the ranks and who don't have the background to understand the problems facing those on the service front line. "We need restaurant people who have had experience running restaurants. If you want to run a train, you need an engineer. You don't need to be brilliant to run a restaurant, but you need experience."<sup>26</sup>

"Yet it is the maid and porter and waiter and busboy who has more contact with the hotel guest...than the manager has."<sup>27</sup> Successful and profitable management understands this.

The front line employees suffer not only from lack of pay compared with other employees, but also lack of prestige and status. We in this industry must remember that pay is not only some vague reference point to economic freedom, but, "...also a reference to our relative



status, as compared to other members of social groups to which we relate, and as compared to other individuals and achievements."<sup>28</sup> It is about self worth.

"It's fine when the boss gives you a pat on the back (praise) but it really means something when he 'puts his money on the line' which becomes a cognitive reward in more real terms to most people."<sup>29</sup> Or to put it another way, it's about motivation and loyalty. Many of our answers may be buried in esoteric, philosophical, and motivational rhetoric, but the bottom line is pretty simple. Most all of us respond to "raises and praises." Can we expect any more or any less from our employees, especially in a capitalist, free enterprise economic system?

The current ad campaign of the National Restaurant Association and fourteen other hospitality associations, "Ours is a Special World," has, as its goal, to raise the esteem of the hospitality workers of America so that "...current workers will feel better about their jobs, and new workers will be attracted to the industry, thereby easing the labor shortage."<sup>30</sup> No matter how noble or how ideal this slick advertising campaign is, it does not address the real issues of pay and respect for service employees in the hospitality industry. A wage of \$3.35 per hour paid to all the lower level employees, regardless of productivity, is an approximate annual wage of \$6,700 a year. No matter how much glitter and how many ad campaigns extolling the wonders of the hospitality industry, wages such as these do not speak much for respect of the worker or speak well of a capitalistic program based on productivity.

• **Training:** Training or the lack of it, has been of considerable interest for a number of years to our industry. Discussions concerning the subject of training almost always revert to the old saw of "What came first, the chicken or the egg?" Is it because workers in our industry don't stick around long that we don't think it worthwhile to develop a meaningful (and expensive) training program for them? Or is it because they don't receive the proper training in the first place that workers leave because they don't have enough confidence and self assurance to stay on the job?

From information gathered in the Georgia State/Purdue University Hotel-Restaurant Survey, 1986-87<sup>31</sup> of 200 hotels and 200 restaurants randomly selected throughout the United States on the question of a preconceived labor shortage, it was found that industry-wide formal, systematic training of service positions in either hotels or restaurants is almost non-existent. In fact, the most significant finding in all the restaurants and hotels surveyed was that over 80 percent indicated that the length of the training for all employees (both hourly and salaried) was only one to four days. Almost two-thirds of respondents used the technique of "new employee follows old employee" method of training.<sup>32</sup> It takes time to properly train a service staff and the method used above raises some serious problems about its usefulness. As one waiter pointed out in a similar situation, "Usually when I get hired they drag me around the floor for a night behind another waiter, and then they give me a menu and put me to work."<sup>33</sup> This kind of "training"

is not very likely to raise productivity. In fact, it seems to suggest to the employee that management doesn't care; this fosters the same attitude in the employee.

The Georgia State/Purdue University Survey and other available current literature in the field strongly point to one of the major reasons for the lack of training programs--the fact that most management people in the field don't know how to train. Because they were not trained in the past, certainly not in a formal, meaningful way as to increase productivity and to increase profits, they don't know how to train others to reach these desired goals. In a study done by McFillen, Riegel, and Enz, of the four principal factors that influenced managers to leave, training (or the lack of) was considered the paramount reason for managers to leave their present positions.

The respondents considered the training they received inconsistent and overly concerned with organizational issues (e.g., cleaning procedures, preparing products) at the expense of managerial skills (e.g., leadership and motivation). They believed training was a low priority for the company. Trainers had low status in the organization, and store operations always took priority over training schedules. Training classes were canceled repeatedly, or not scheduled at all.<sup>34</sup>

These would-be-trainers get little help from most of the professional journals in the field concerning training for increased productivity. Much of what is written about increasing productivity is related to ideas such as the impact of table configurations and seating policy.<sup>35</sup> We should not have to pay big-name consultants big dollars to tell us what well-trained service workers can more easily identify, i.e., bottlenecks that can cause service problems and lower productivity.<sup>36</sup> However, these problems will usually only be pointed out if the service worker has something to gain from increasing productivity. To be successful, training must be viewed as a capital expenditure. "A number of U.S. companies have already made tremendous progress in improving their competitive positions by discovering that higher quality and lower costs can be achieved through prudent investments in people, product design and process improvement."<sup>37</sup>

Training is so important that it cannot be put on other people, especially the guest or the patron. The National Restaurant Association seems to suggest otherwise by saying that when customers are unhappy with the service or food, they should tell the manager and express their displeasure immediately.<sup>38</sup> No doubt many restaurant patrons would agree with this plan of attack, even though they might not, in fact, carry it out. That is the major flaw--there is no consistency, and yet many managers use this kind of inaccurate information to reward and punish.

However, there are greater implications to this suggestion than appear on the surface: Apparently, the manager is not aware of the problem, so you should bring it to his or her attention. Now you, as the customer, have become the "de facto manager." The real manager does

not have to pay as close attention to the service or food, because the patrons will take care of this. The manager need only to refer to the daily complaint sheet to know what is going on, thereby foregoing one of the most effective methods of server monitoring—the active presence of the manager.<sup>9</sup>

• **Gratuity Management:** If all else fails, the argument goes, let the customers play manager. Let them reward and penalize the service employee through a system that has developed over the years—tipping. Not only will this system assure prompt, immediate service, it provides a pay system based largely on productivity. The person who provides the best service gets the most money. Management does not even have to pay the existing minimum wage. Under current law, employers of workers who regularly receive tips—such as service staffs in restaurants—must count the tips as earned wages equivalent to 40 percent of the minimum wage (which is likely to be raised to 50 percent next year). What system could be more fair?

The above in many ways does seem like a fair system of rewards based on productivity. However, by relying on the customer to reward and punish, the service worker is no longer under the control of management. The worker has as many bosses as there are patrons. The goals of management and of profitability are largely irrelevant to the service worker whose pay is determined by the tipping customer.

Again, if this system worked the way it was supposed to, most customers would be pleased by the service received, even if management were not. But even this is not the case because “management by tipping” is not always rational. The customer does not have all the management facts at hand to either effectively reward or punish. Most restaurant patrons, for example, will still leave a tip even if the service was poor. In fact, in a recent study, almost two thirds of the nation’s restaurant patrons leave a tip no matter what.<sup>40</sup> Most of the time customers do tip, especially if they plan to eat in the restaurant again. This is because there is an implied threat by the service staff. Apparently, it is not the customer managing the service worker, but the other way around.

Additionally, most patrons tip out of a sense of guilt “because it is the ‘right’ thing to do. Not to tip is a subtle form of theft.”<sup>41</sup> Customers know that service people are underpaid, and not to tip, even if the service is poor, is almost akin to stealing money from a church’s poor box. So, giving a tip under these circumstances is not really a form of management, but actually a symbolic type of charitable donation.

Regardless of whether they tip or not, a very large percentage of Americans, it seems, are not very comfortable with tipping. According to a National Restaurant Association/Gallup Survey, 62 percent of the respondents felt that paying the waiter and waitress is the responsibility of the restaurateur, not the customer.<sup>42</sup> In fact, over half of those surveyed thought that service people should receive a guaranteed wage rather than a tip.<sup>43</sup>

The phenomenal rise of take out food (22 million people buy take out food on any given day in America)<sup>44</sup> cannot only be traced to Yuppies and women who work, but also, in part, to the fact that there is no required tipping and little contact with ill-mannered and poorly-trained staffs.

This same trend, no doubt, is leading to the expanded use of microwave ovens and re-emergence of the supermarket as a major employer, etc., who have the most contact with guests and patrons. They are the ones who make or break the business. Yet sometimes we get so caught up in our own rhetoric of where the major problems are that we forget the real simple lessons of capitalism and common sense. Not only do we in the hospitality industry continue to look for villains to blame for the malaise affecting our work force's productivity but we constantly look for a technological quick fix to raise productivity and, at the same time, increase the profits. But before any technological advances can be successful, we must increase the quality of the work force "...because people skills are far more complex than technical skills."<sup>47</sup> We can't do that by manipulating minimum wages or by increasing the number of immigrant workers. It can only be done by training programs based on the principle that training takes place to increase productivity and profits. Wages must be based on that same capitalist criteria.

The industry must remember that workers—no matter what level—want to be treated with dignity and be recognized for the work that they accomplish. They must see promotions based on those accomplishments.

Employees should not be seen as a liability or some adversary that must be stopped at all costs, but as essential co-participants, contributing to a profit-making endeavor that both management and labor can share.

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- <sup>44</sup> Louis Harris, *Inside America*, (New York: Vintage Books, 1987), p. 25.
- <sup>45</sup> Harris, *op. cit.*, p. 28.
- <sup>46</sup> Philip E. Ross, "Head of Shoney's Sees An Industry Slowdown," *The New York Times*, (March 10, 1988), p. 32.
- <sup>47</sup> William B. Martin, *Quality Service—The Restaurant Managers Bible*, Cornell University, (Ithaca, NY: Cornell University, July 1987), p. 54.