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Measuring the Effectiveness of Service Management on Priority Assessment: A Case Study for the Ritz-Carlton Hotel Company

by

Andrew Jacobson

A project submitted to the
Faculty of the School of Food, Hotel and Travel Management
at
Rochester Institute of Technology
in partial fulfillment of the requirements
for the degree
of
Master of Science

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ROCHESTER INSTITUTE OF TECHNOLOGY
School of Food, Hotel and Travel Management
Department of Graduate Studies

M.S. Hospitality-Tourism Management
Presentation of Thesis/Project Findings

Name: Andrew Jacobson Date: 6/15/99 SS#: _____

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on Priority Assessment: A Case Study for the Ritz Carlton Hotel
Company

Specific Recommendations: (Use other side if necessary.)

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Number of Credits Approved: _____

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Date _____ Committee Chairperson's Signature

6/15/99 _____

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ABSTRACT

This study addresses three main questions of how effective is the Ritz-Carlton on service process management. They are 1) What process management do they use, 2) What are the top three priorities and 3) How do they measure what they are measuring against. These three questions were asked how the Ritz-Carlton were able to maintain their excellent quality after winning the Malcolm Baldrige National Quality Award.

To address these questions, two main approaches were taken. Two interviews were conducted, On March 29th, 1995 with Mr. Patrick Mene, Director of Quality Control, at the Corporate Office in Buckhead, Georgia and August 7th, 1995 with Mr. Paul Roa, Director of Quality at the New York City location via telephone. Also, extensive research materials through the library as well as The Ritz-Carlton Hotel Company.

Results indicate that the Ritz-Carlton was able to maintain their high standards of quality by staying focus with their priorities. Result also indicate that the Ritz-Carlton is always trying to improve its quality and product. The Malcolm Baldrige National Quality Award was a foundation for the Ritz-Carlton to continuously keep improving onto world class quality.

ACKNOWLEDGEMENTS

This project is dedicated to my late brother, Billy and late grandmother, Caroline. These two individuals have provided guidance and directions in life that would have not been possible to where I am today. Also, I like to dedicate this project to my family - my mother Elaine, father Robert, sisters, Sara and Shelly, brother-in-law Perry and last, but not least my niece and nephew, Melody and Teddy. For my family, the love and support have provided me the tool to achieve success in life. I cannot say enough to express words to say thank you.

In appreciation to those people who help me complete this project, I would like to acknowledge the following people who have helped in the development, preparation and review of this paper. Dr. Richard Marecki, who has provided me an opportunity to continue onto graduate studies as well as giving me encouragement, provided guidance, and reaching the goal that I can achieve anything in life if you put your mind into it. Thank you, Dr. Marecki! Also, I would like to thank Dr. Ed Kelly for providing guidance and assistance to get this project started. If this were not for these two individuals, let alone this project would have never gotten off the ground! Also, I would like thank the faculty and staff of the Food, Hotel and Travel Management especially Diane Sommers, Maria Aglietti, Dr. Francis DeMoy, Mr David Crumb, Dr. Carol Whitlock and Warren Sackler for the support and assistance through my entire undergraduate and graduate studies at RIT. The staff at RIT were wonderful and very attentive during my educational career.

Finally, I would like to thank Mr. Patrick Mene, Mr. Paul Roa and the Ritz-Carlton Hotel Company for their time and generosity to help me complete this project. I have learned an invaluable to help other when experience and knowledge is needed.

Proposal Presentation

Step 1: Introduction

In 1992, The Ritz-Carlton Hotel Company became the first service-oriented (along with AT&T Universal Card Services) company ever to achieve the prestigious Malcolm Baldrige National Quality Award. Currently, the Ritz-Carlton Hotel Company operates 23 business and resort hotels in the United States and two hotels in Australia. The company claims distinctive facilities and environments, highly personalized services, and exceptional food and beverages.

The Malcolm Baldrige National Quality Award has seven criteria. They are 1) Leadership, 2) Information and Analysis, 3) Planning for Quality, 4) Human Resource Utilization, 5) Quality Assurance of Products and Services, 6) Quality Results, and 7) Customer Satisfaction.

The Ritz-Carlton has a unusually strong Total Quality Management program. Some questions arise such as how did Horst Schulze (chairman of Ritz-Carlton) implement the TQM? What was the philosophy behind the TQM as it is practiced by the Ritz-Carlton? What were the priorities for the Ritz-Carlton before the MBNQA was won? What are the priorities today? How does the Ritz-Carlton measure their priorities? What process management system do they have in place? Some of these questions will be answered in the final project.

Step 2: Problem Statement

This study will respond to the question, How effective is the Ritz-Carlton service process management system in assessing its priorities?

Step 3: Background

Horst Schulze hired Patrick Mene in 1989 as the Project Manager and in charge of quality to help elevate the Ritz-Carlton to the world class level. The first priority for Mr. Mene was to assess the modern quality management improvement and work on the MBNQA approach for the Ritz-Carlton Hotel Company. Mr. Mene assessment of the Ritz-Carlton took approximately six months and then applied for the MBNQA in 1991. The Ritz-

Carlton Hotel Company were semifinalist. In 1992, Ritz-Carlton applied again and eventually became the first hotel company in the industry ever to achieved the MBNQA. When Mr. Mene took the job, he originally told Horst Schulze that after the assessment of the hotel and the MBNQA was done, he would like to get back to hotel operations. It is now 1995. Mr Mene is still working as Director of Quality and there is unfinished work to do.

The Ritz-Carlton Hotel company achieved their goal of winning the MBNQA through the visionary work of Horst Schulze. Mr. Schulze elevated The Ritz-Carlton to a world class organization by having the right people at the right place at the right time! Mr. Mene was able to execute a program that put the Ritz-Carlton in the top echelon of all hotel companies.

Step 4: Purpose

The purpose of this final project is to determine how the MBNQA affected Ritz-Carlton Hotel's priorities. For example, in 1992, continuous improvement in customer satisfaction was at 92%. In 1995, where does the measurement stand? When working with a category such as continuous improvement, you would like the graph going upward. In this case, how do you maintain customer satisfaction? If the scale drop down, how does the Ritz-Carlton measure their problem? What steps are taken to correct those measurements? How does the Ritz-Carlton get feedback in this particular case? Most of these questions will be answered in the final project.

Step 5: Significance of the Study

This study will measure the effectiveness of various approaches to a process management system. The internal customer will provide insight how the Ritz-Carlton Hotel Company goes about measuring its priorities, and thereby provide model for the rest of the hotel industry.

Step 6: The Nature of the Study (Methodology)

A needs assessment study of priorities in the Ritz-Carlton Hotel will be carried out as a preliminary step toward establishment of a program in measurement.

Step 7: Literature Review

The topics that will be reviewed are the management of process quality and the strategic quality planning. Additionally, material on benchmarking, empowerment, self-directed team management, and other quality assurance issues will be researched.

Trade and academic journals such as Lodging, Hotel and Motel, Cornell Quarterly and Hospitality Research Journal should also prove useful.

Step 8: Hypothesis

This study will show that high service goals drive excellent results in the Ritz-Carlton Hotels. The hypothesis is that world class service comes from clearly articulated mission statements, setting service priorities, and company-wide commitment to accomplishing those missions.

Step 9: Definition of Terms

- Quality Network: A mechanism for the individual employee to advance a good idea through peer approval.
- Process Improvement: The team mechanism or corporate leaders, managers, and employees to improve our most critical processes.
- Quality Improvement Team: Special teams assembled to improve an assigned problem that was identified by an individual employee or leaders.
- Strategic Quality Planning: Annual work area teams that identify: 1) their missions; 2) primary suppliers objectives and action plans; 3) internal objectives and action plans; 4) progress review.
- Comprehensive Performance Evaluation Process: The work area team mechanism that empowers the people who perform the job develop the job procedures and performance standards. These standards drive our training certification, performance evaluation and individual employee growth and development.
- Streamlining Process: The annual hotel evaluation of processes, products or services that are no longer valuable to the customer.

Step 10: Assumptions

- Ideological:

The ideological assumption of this study is that there is a measurable connection between service commitment and service execution. The Ritz-Carlton Hotels have the Malcolm Baldrige Award, the Malcolm Baldrige award is being used, therefore the Ritz-Carlton Hotels are excellent properties.

- **Procedural:**

The procedural assumptions are that the interview and use of Malcolm Baldrige award criteria will yield useful results. Care will be taken to control researcher bias using standardized data gathering techniques and widely validated criteria (Malcolm Baldrige Award).

Step 11: Scope and Limitations

This study will be used to gather information involving the setting, process management, and measuring priorities. Through a literature review, the application summary will be reviewed. The scope of this study will be to suggest strategies that may be applicable to the rest of the hotel industry. This study will not research the impact of management styles, corporate cultures and service mission as articulate and execution.

Step 12: Procedures

The information for this study will be based on Patrick Mene's interview and the Ritz-Carlton's Application Summary of the Malcolm Baldrige National Quality Award. The independent variable will be the outcome of process management. The dependent variable is the internal employee as an information resource. The intervening variable is the hotel industry's dire to use the information to increase better customer satisfaction.

Step 13: Long Range Consequences

Should the findings be in accordance with the Ritz-Carlton's management, then further study and research will be needed. Should the findings be in accordance with the Ritz-Carlton as a world class organization, then other hotels should look into Ritz-Carlton's method of management.

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Introduction

Quality is a word where businesses are trying to emulate. Unfortunately, many businesses does not a have strategic plans to put quality in its place. How do I know this? The answer is that only 1 out of 10 businesses survive after five years of operations. What does this statement has to do with this project? The answer is the Ritz-Carlton Hotel Company is one of those business that is surviving. In fact, they are thriving!

The Ritz-Carlton Hotel Company is a recipient winner of the 1992 Malcolm Baldrige National Quality Award (MBNQA). Prior to winning the MBNQA, The Ritz-Carlton Hotel Company has put the Total Quality Management (TQM) as part of the new evolution when Mr. Patrick Mene came abroad as the project manager in 1989. The idea belong to Horst Schulze, CEO and President of the Ritz-Carlton Hotel Company. Mr. Schulze has wanted Mr. Mene to come in to coordinate and spearhead the company's TQM program. Mr. Mene came in and agreed to work on the assessments of the hotel and MBNQA. He told Mr. Schulze that once everything has been accomplished, that he wanted to go back running hotel operations. Mr. Schulze agreed to Mr. Mene's wishes. Fortunately, when the Ritz-Carlton Hotel Company did win the MBNQA, Mr. Mene found out there was too much work to be done. It is now 1996, Mr. Mene is still working as Director of Quality for the Ritz Hotel Company.

Award Criteria Purposes

The Malcolm Baldrige National Quality Award Criteria are the basis for making the Awards and giving feedback to applicants. In addition, the Criteria have three important roles in strengthening U.S. competitiveness:

- To help raise quality performance practices and expectations;
- To facilitate communication and sharing among and within organizations of all types based upon a common understanding of key quality and operational performance requirements; and
- To serve as a working tool for planning, training, assessment, and other uses.

Award Criteria Goals

The Criteria are designed to help companies enhance their competitiveness through focus dual, results-oriented goals:

- Delivery of ever-improving value to customers, resulting in improved marketplace performance; and
- Improvement of overall company operational performance.

Core Values and Concepts

The Award Criteria are built upon a set of core values and concepts. These values and concepts are the foundation for integrating the overall customer and company operational performance requirements.

These core values and concepts are:

Customer Driven Quality

Quality is judged by customers. All product and service characteristics that contribute value to the customer and lead to customer satisfaction and preference must be the focus of a company's management system. Value, satisfaction, and preference may be influenced by many factors throughout the customer's overall purchase, ownership, and service experiences. These factors include the company's relationship with customers that help build trust, confidence, and loyalty. This concept of quality includes not only the product and service characteristics that meet basic customer requirements, but it also includes those characteristics that enhance them and differentiate them from competing offerings. Such enhancement and differentiation may be based upon new offerings, combinations of product and service offerings, rapid response, or special relationships.

Customer-driven quality is thus a strategic concept. It is directed toward customer retention and market share gain. It demands constant sensitivity to emerging customer and market requirements, and measurement of the factors that drive customer satisfaction and retention. It also demands awareness of developments in technology and of competitors' offerings, and rapid and flexible response to customer and market requirements.

Success requires more than defect and error reduction, merely meeting specifications, and reducing complaints. Nevertheless, defect and error reduction and elimination of causes of dissatisfaction contribute significantly to the customers' view of quality and are thus also important parts of customer-driven quality. In addition, the company's success in recovering from defects and errors ("making things right for the customer") is crucial to building customer relationships and to customer retention.

A company's customer-driven focus needs to address all stakeholders - customers, employees, suppliers, stockholders, the public, and the community.

Leadership

A company's senior leaders must create a customer orientation, clear and visible quality values, and high expectations. Reinforcement of the values and expectations requires substantial personal commitment and involvement. The leaders' basic values and commitment need to include areas of public responsibility and corporate citizenship. The leaders must take part in the creation of strategies, systems, and methods for achieving excellence. The systems and methods need to guide all activities and decisions of the company. The senior leaders must commit to the growth and development of the entire work force and should encourage participation and creativity by all employees. Through their regular personal involvement in visible activities, such as planning, communications, review of company performance, and recognizing employees for quality achievement, the seniors leaders serve as role models, reinforcing the values and encouraging leadership in all levels of management.

Continuous Improvement

Achieving the highest levels of quality and competitiveness requires a well-defined and well-executed approach to continuous improvement. The term "continuous improvement" refers to both incremental and "breakthrough" improvement. The approach to improvement needs to be "embedded" in the way the company functions. Embedded means that: (1) improvement is part of the daily work of all work units; (2) improvement processes seek to eliminate problems at their source; and (3) improvement is driven by opportunities to do better, as well as by problems that must be corrected. Opportunities for improvement have four major sources: employee ideas; R&D; customer input; and benchmarking or other comparative information on processes and performance.

Improvements may be of several types: (1) enhancing value to customers through new and improved products and services; (2) reducing errors, defects, and waste; (3) improving responsiveness and cycle time performance; (4) improving productivity and effectiveness in the use of all resources; and (5) improving the company's performance and leadership position in fulfilling its public responsibilities and serving as a role model in corporate citizenship. Thus improvement is driven not only by the objective to provide better product and service quality, but also by the need to be responsive and efficient - both conferring additional marketplace advantages. To meet all of these objectives, the process of continuous improvement must be contain regular cycles of planning, execution, and evaluation. This requires a basis - preferably a quantitative basis - for assessing progress, and for deriving information for future cycles of improvement. Such information should provide direct links between desired performance and internal operations.

Employee Participation and Development

A company's success in improving performance depends increasingly on the skills and motivation of its work force. Employee success depends increasingly on having meaningful opportunities to learn and to practice new skills. Companies need to invest in the development of the work force through education, training, and creating opportunities might include classroom and on-the-job training, job rotation, and pay for demonstrated skills. Structured on-the-job training offers a cost effective way to train and to better link training to work processes. Increasingly, training, development, and work organizations need to be tailored to a more diverse work force and to more flexible, high performance work environments.

Major challenges in the area of work force development include: (1) integration of human resource management - selection, performance, recognition, training, and career advancement;

and (2) aligning human resource management with business plans and strategic change processes. Addressing these challenges requires acquisition and use of employee-related data on skills, satisfaction, motivation, safety, and well-being. Such data need to be tied to indicators of company or unit performance, such as customer satisfaction, customer retention, and productivity. Through this approach, human resource management may be better integrated and aligned with business directions, using continuous improvement processes to refine integration and alignment.

Fast Response

Success in competitive markets increasingly demands ever-shorter cycles for new or improved product and service introduction. Also, faster and more flexible response to customers is now a more critical requirement. Major improvement in response time often requires simplification. Such improvement, the time performance of work processes should be measured. There are other important benefits derived from this focus: response time improvements often drive simultaneous improvements in organization, quality, and productivity. Hence it is beneficial to consider response time, quality, and productivity objectives together.

Design Quality and Prevention

Business management should place strong emphasis on design quality - problem and waste prevention achieved through building quality into products and services and into production processes. In general, costs of preventing problems at the design stage are much lower than costs of correcting problems which occur "downstream". Design quality includes the creation of fault-tolerant (robust) or error resistant processes and products.

A major issue in the competitive environment is the design-to-introduction ("product generation") cycle time. Meeting the demands of ever-more rapidly changing markets requires

that companies carry out stage-to-stage coordination and integration (“concurrent engineering”) of functions and activities from basic research to commercialization.

From the point of view of public responsibility, the design stage involves decisions regarding resource use and manufacturing processes. Such decisions affect process waste streams and the composition of municipal and industrial wastes. The growing demand by consumers and others for a cleaner environment means that companies will need to develop design strategies that place greater weight on environmental factors.

Consistent with the theme of design quality and prevention, continuous improvement and corrective action need to emphasize interventions “upstream” - at early stages in processes. This approach yields the maximum overall benefits of improvements and corrections. Such upstream intervention also needs to take into account the company’s suppliers.

Long-Range Outlook

Achieving quality and market leadership requires a company to have a strong future orientation and a willingness to make long-term commitments to all stakeholders - customers, employees, suppliers, stockholders, the public, and the community. Planning needs to determine or anticipate many types of changes including those they may affect customers’ expectations of products and services, technological developments, changing customer segments, evolving regulatory requirements and community/societal expectations, or thrusts by competitors. Plans, strategies, and resource allocations need to reflect these commitments and changes. A major part of the long-term commitment is development of employees and suppliers, fulfilling public responsibilities, and serving as a corporate citizenship role model.

Management by Fact

A modern business management system needs to be built upon a framework of measurement, data and analysis. Measurements must derive from the company's strategy and encompass all key processes and the outputs of those processes. Facts and data needed for quality improvement and quality assessment are of many types, including: customer, product and service performance, operations, markets, competitive comparisons, supplier, employee-related, and cost and financial. Analysis refers to the process of extracting larger meaning from data support evaluation and decision making at various levels within the company. Such analysis may entail using data to reveal information - such as trends, projections, and cause and effect - that might not be evident without analysis. Facts, data, and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company quality performance with competitors' or with "best practices" benchmarks.

A major consideration relating to use of data and analysis to improve performance involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. The measures or indicators should be selected to best represent the factors that lead to improved customer satisfaction and operational performance. A system of measures or indicators tied to customer and/or company performance requirements represent a clear and objective basis for aligning all activities with the company's strategy and goals.

Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed. For example, measures or indicators selected to track product and service quality may be judged by how well improvement relative to the quality measures or indicators correlates with improvement in customer satisfaction.

Partnership Development

Companies should seek to build internal and external partnerships to better accomplish their overall goals.

Internal partnerships might include those that promote labor-management cooperation, such as with unions. Agreements might entail employee development, cross-training, or new work organizations, such as high performance work teams. Internal partnerships might also involve creating network relationships among company units to improve flexibility and responsiveness.

Examples of external partnerships include those with customers, suppliers, and education organizations. An increasingly important kind of external partnerships is the strategic partnership or alliance. Such partnerships might offer a company entry into new markets or a basis for new for blending of a company's core competencies or leadership capabilities with complementary strengths and capabilities of partners, thereby enhancing overall capability, including speed and flexibility.

Partnerships should seek to develop longer-term objectives, thereby creating a basis for mutual investments. Partners should address the key requirements for success of the partnership, means or regular communication, approaches to evaluating progress, and means for adapting to changing conditions.

Corporate Responsibility and Citizenship

A company's management objectives should stress corporate responsibility and citizenship.

Corporate responsibility refers to basic expectations of the company - business ethics and protection of public health, public safety, and the environment. Health, safety and environmental considerations need to take to account the company's operations as well as the life cycles of products and services. Companies need to address factors such as resource conservation and

waste reduction at their source. Planning related to public health, safety, and environment should anticipate adverse impacts that may arise in facilities management, production, distribution, transportation, use and disposal of products. Plans should seek to prevent problems, to provide a forthright company response if problems occur, and to make available information needed to maintain public awareness, safety, trust, and confidence. Inclusion of public responsibility areas within a quality system means meeting all local, state and federal laws and regulatory requirements. It also means treating these and related requirements as areas for continuous improvement “beyond mere compliance.”

Corporate citizenship refers to leadership and support - within reasonable limits of a company's resources - of publicly important purposes, including the above-mentioned areas of corporate responsibility. Such purposes might include education, environmental excellence, resource conservation, community services, improving industry and business practices, and sharing of nonproprietary quality-related information. Leadership as a corporate citizen entails influencing other organizations, private and public, to be partner for these purposes.

The following page is the Baldrige Award Criteria Framework Dynamic Relationships.

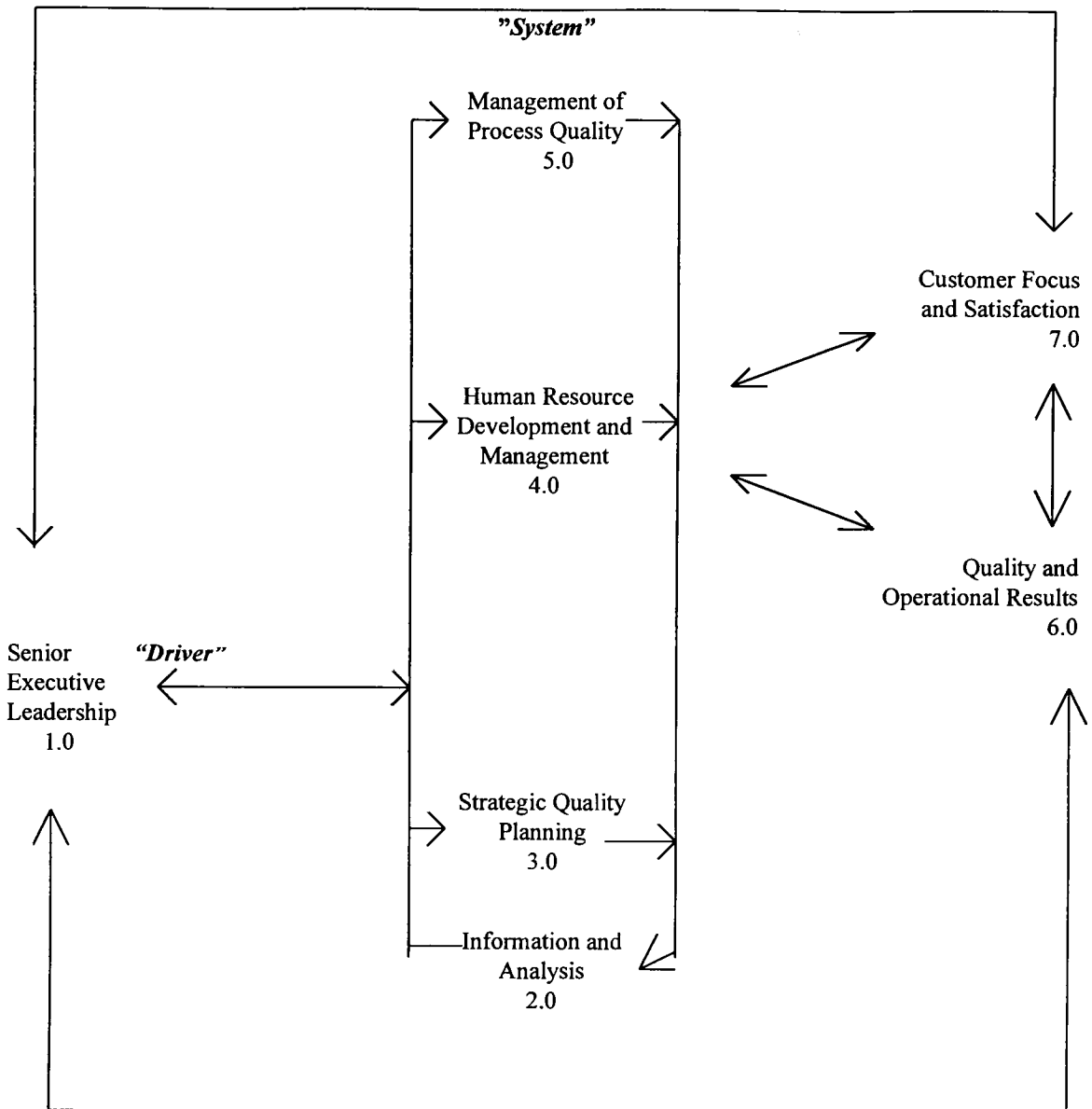


Figure 1

Goal

- Customer Satisfaction
- Customer Satisfaction Relative to Competitors
- Customer Retention
- Market Share Gain

Measures of Progress

- Product & Service Quality
- Productivity Improvement
- Waste Reduction/Elimination
- Supplier Quality

Award Criteria Framework

The core values and concepts are embodied in seven categories, as follows:

- 1.0 Leadership
- 2.0 Information and Analysis
- 3.0 Strategic Quality Planning
- 4.0 Human Resource Development and Management
- 5.0 Management of Process Quality
- 6.0 Quality and Operational Results
- 7.0 Customer Focus and Satisfaction

The framework connecting and integrating the categories is given in the figure above.

The framework has four basic elements:

Driver

Senior executive leadership creates the values, goals, and systems, and guides the sustained pursuit of customer value and company performance improvement.

Goal

The basic aim of the quality process is the delivery of ever-improving to customers.

System

The System comprises the set of well-defined and well-designed processes for meeting the company's customer, quality, and performance requirements.

Measures of Progress

Measures of progress provide a results-oriented basis for channeling actions to delivering ever-improving customer value and company performance.

****Notes:** The above documentation was written for the 1994 Award Criteria of the Malcolm Baldrige National Quality Award.

The Ritz-Carlton Hotel Company

Application Summary

The following information are from the Ritz-Carlton Hotel Company Application Summary. These information will relates to the effectiveness of service process management on priority assessment. We will be focusing on two topics of the Application Summary. The first topic will be the Strategic Quality Planning. The second topic is Management of Process Quality.

3.0 Strategic Quality Planning

Our primary objective, during our genesis period, was opening new hotels that met the highest travel industry quality ratings by opening day. This required detailed planning and was achieved through our pre-opening control plan. This continuously improving plan synchronizes all steps leading up to opening day. A specially selected staff from other hotels throughout the company ensures all work areas, processes and equipment are ready.

Today, the quality plan continues to be the business plan. The primary objectives are to improve the quality of our products and services, reduce cycle-time and improve price value and customer retention. Through benchmarking studies within and outside of our industry, we have developed a disciplined, integrated planning system.

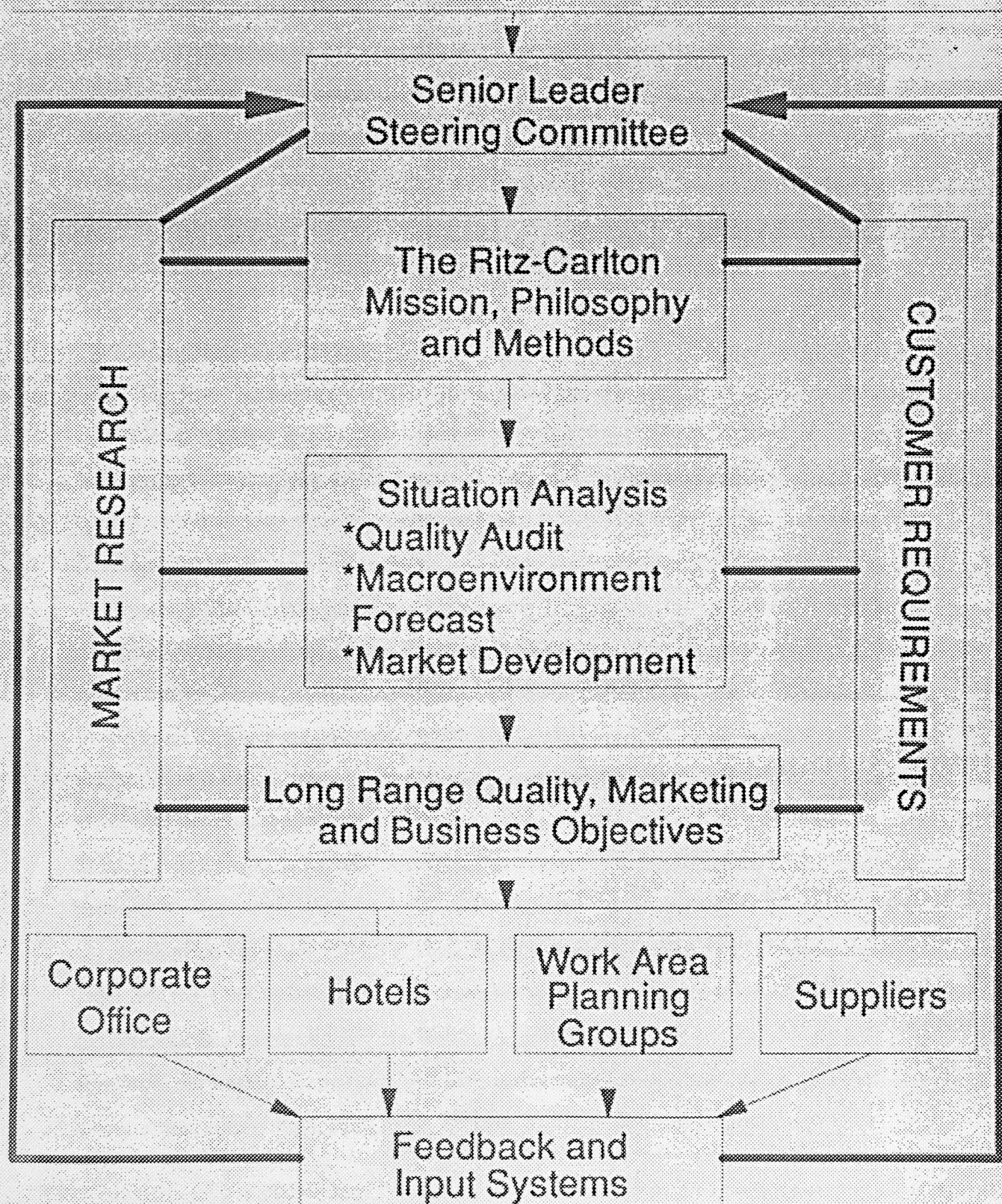
At each level of the company - from corporate leaders to managers and employees in the 720 individual work areas of our company - teams are charged with setting objectives and devising action plans, which are reviewed by the corporate steering committee. These teams enhance the quality and productivity of the Ritz-Carlton by: (1) aligning all levels around our common vision and objectives; (2) encouraging all of our people to think beyond the demands of day-to-day activities; (3) increasing communication among the diverse functions that make up The Ritz-Carlton; (4) simultaneous, integrated problem solving. In addition, each hotel has a quality leader who serves as a resource and advisor to teams and workers developing and implementing their quality plan.

Action plans proceed through a screening process that ensures the plan have been adequately researched and are not undertaken unless they are adequately resourced.

THE RITZ-CARLTON

Long Range Strategic Planning Model

Benchmarking the Best Process



As we moved forward, our plans are based on clear quality and customer satisfaction priorities. Our priorities include becoming virtually defect free by 1996. We have plan to be the first hospitality company with 100% customer retention. In addition, we plan to increase our focus on cycle time reduction and streamlining to provide continuous price/value improvement for our customers. All plans center on directing the resources of The Ritz-Carlton - time, money, and people - to the wishes and needs of our guests and travel planners, as well as employees.

Lessons Learned: Action plans developed by each level of the organization must be screened to ensure they: (1) have been adequately researched; (2) have been adequately resourced; (3) contain no complexity before they are undertaken.

5.0 Management of Process Quality

Since The Ritz-Carlton is primarily a professional hotel management company, quality assurance most often begins with a private developer interested in creating a high-quality hotel project in appealing, diverse travel destinations. Our process for assuring the quality of the new hotel products and services evolved over eight years of benchmarking, development and improvement. Like world best products and services, our product management approach is capable of overcoming geographical and cultural boundaries. Our product management process has three integral parts: interactive team pyramid, basic product management process and regional product management process. The entire process and its goals are supported by company who work as a binding agent with professional development planning experts, from several fields, to prevent and resolve new hotel development issues.

Several critical aspects contribute to the effectiveness of our product management process:

(1) standard design team; (2) forced interface of all design, marketing, operations and legal functions throughout each project to anticipate requirements and evaluate progress; (3) concentrated focus on basic, regional and individual customer requirements; (4) synchronized startup control plan that tests and evaluates the performance of facility construction, furnishings, equipment, systems, staffing, suppliers, food preparation,

service delivery and guest interface; (5) continuous emphasis on our principles and prevention on problems; (6) final assessment of products and services by senior leaders before opening day. All problems are resolved prior to initial customer occupancy while teams from operating hotels improve the entire process.

Customized hotel products and services, such as meetings and banquet events, receive the full attention of local hotel cross functional teams. These teams are effective due to several aspects of their product management process: (1) all internal and external suppliers become involved as early as possible in the design of the event; (2) verification of production and delivery capabilities prior to each event; (3) samples are prepared, then critiqued by event planners; (4) “after event” assessments are conducted for continuous improvement; (5) all suppliers who come in contact with our customers must apply our principles, especially The Three Steps of Service, our method of guest interface. Over the past eight years we have predetermined the individual expectations of 240,000 of our 400,000 customers.

An important part of the delivering quality in hotels after their initial launch is using systematic controls:

- Self control of the individual based upon their spontaneous and learned behavior, managed through our selection and development process.
- Basic control mechanism which is carried out by every member of our workforce. The first person who detects a problem is empowered to break away from routine duties, investigate and correct the problem immediately, document the incident and then return to their routine. These incidents are aggregated on a daily quality production report and pattern problems are investigated and corrected permanently.
- Critical success factor control which is underway for critical processes. Process teams are using customer and organizational requirement measurements to determine quality, speed and cost performance. These measurements are compared against benchmarks and customer satisfaction data to determine corrective action and resource allocation.



GUEST

CUSTOMER
INTERACTION
EMPLOYEE

TRAINING CERTIFICATION,
PROBLEM SOLVING AND
STRATEGIC PLANNING TEAMS

HOTEL EXECUTIVE COMMITTEE

CORPORATE STEERING COMMITTEE / DEVELOPERS

THE RITZ-CARLTON INTERACTIVE TEAM PYRAMID

There are eight mechanisms used solely to improve the quality of our processes, products and services.

Method/Purpose

1. *New Hotel Start-up Improvement Process*

A cross sectional team from the entire company that takes advantage of the time when our people are together to identify and correct problem areas.

2. *Comprehensive Performance Evaluation Process*

The work area team mechanism that empowers the people who perform the job to develop the job procedures and performance standards. These standards drive our training certification, performance evaluation and individual employee growth and development.

3. *Quality Network*

A mechanism for the individual employee to advance a good idea through peer approval.

4. *Standing Problem Solving Team*

A standing work area team that works on any problem they choose.

5. *Quality Improvement Teams*

Special teams assembled to improve an assigned problem that was identified by an individual employee or leaders.

6. *Strategic Quality Planning*

Annual work area teams that identify: (1) their missions; (2) primary supplier objectives and action plans; (3) internal objectives and action plans; (4) progress reviews.

7. *Streamlining Process*

The annual hotel evaluation of processes, products or services that are no longer valuable to the customer.

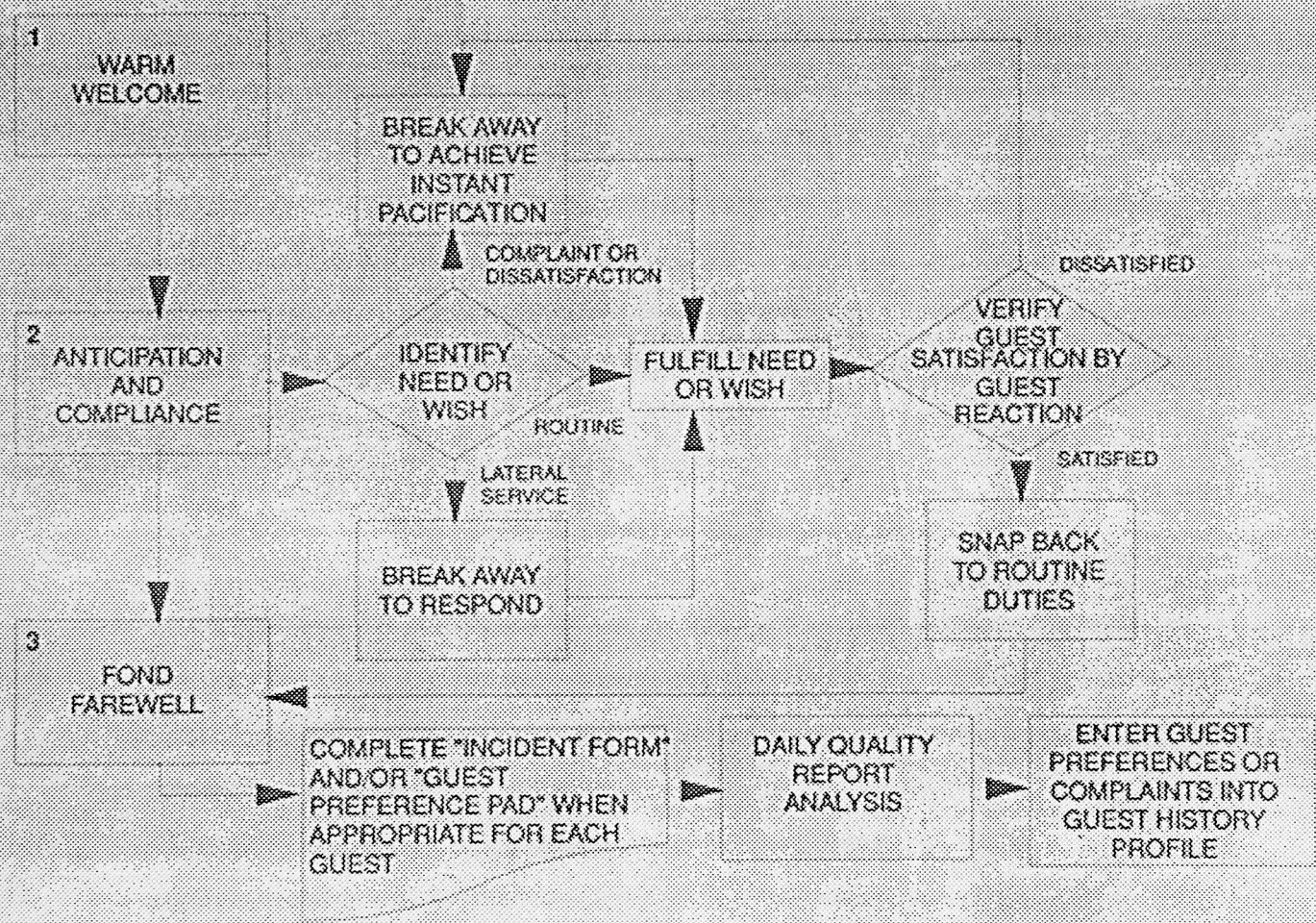
8. *Process Improvement*

The team mechanism of corporate leaders, managers, and employees to improve our most critical processes.

To make sure we deliver quality products and services, The Ritz-Carlton continually conducts both self audits and outside audits. Self audits are carried out internally at all

THE RITZ-CARLTON HOTEL COMPANY

Three Steps of Service



levels, from one individual or function to an entire hotel. Process walk-throughs occur daily in hotels while senior leaders assess field operations during formal reviews at various intervals. Through a cooperative effort with our external suppliers, we audit their capabilities. **Outside audits** of our processes, products and services are performed by independent travel and hospitality rating organizations such as American Automobile Association and Mobil Travel Guide. These organizations decide if we are providing the products and services required by our customers at a higher level than our competitors. The means to used to improve audit findings revolves around four points: (1) all audits must be documented by the person performing the audit; (2) any documented audit finding must be submitted to the senior leaders of the unit being audited; (3) senior leaders of the unit are responsible for action; (4) implementation and effectiveness of recommended corrective actions are assessed from the previous audit, using the same data.

Lessons Learned: New products and services that get off to a good start are most reliable and efficient. The major thrust of our quality effort is to prevent difficulties from ever reaching a customer.

Five tenets of Total Quality Management

While the following five principles are not the only tenets of Total Quality Management, by concentrating on these principles, employees will realize that TQM is not just another “program” that will almost certainly vanish. The key is that TQM is an integrated system of techniques and training.

- (1) **Commit to Quality.** Making quality a number-one priority requires an organizational culture to support it, and only top leadership can foster a TQM culture. Thus, the first step toward TQM must involve active support and direction from top-level managers, especially the CEO.
- (2) **Focus on Customer Satisfaction.** Customers are concerned about quality and, in fact, define it for the organization, Successful TQM companies are acutely aware of

the market. They know what their customers really want and invariably meet and exceed their expectations.

- (3) Assess Organizational Culture.** A select group of top managers and employees from different parts of the company should examine the organization, with a focus on its culture, and assess the fit between that culture and TQM's principles. This assessment, which may take several months to complete, will help management build on strengths, identify weaknesses, and set priorities.
- (4) Empower Employees and Teams.** Although TQM is led from the top, the real work occurs "bottom-up." Empowering employees and teams requires training them to use their authority effectively. It may also require redesigning some jobs to facilitate a team approach and modifying policies and practices that support rewards for results and other cultural elements that empower employees.
- (5) Measure Quality Efforts.** The ability to gauge your efforts toward superior employee performance, streamlined decision-making, supplier responsiveness, and improved customer satisfaction is endemic to the TQM process. Information gathering and analysis techniques should help identify causes of work-process problems and be well-designed, timely, and straightforward. In the end, TQM is based mostly on rational thinking and problem solving, not on sophisticated statistics and other measurement techniques.

MISSION STATEMENT

The Ritz-Carlton Hotel Company will be regarded as the quality and market leader of the hotel industry worldwide.

We are responsible for creating exceptional, profitable results with the investments entrusted to us by efficiently satisfying customers.

The Ritz-Carlton Hotels will be the clear choice of discriminating business and leisure travelers,
meeting planners, travel industry partners, owners, partners and the travel agent community.

Founded on the principles of providing a high level of genuine, caring, personal service; cleanliness; beauty; and comfort, we will consistently provide all customers with their ultimate expectation, a memorable experience and exceptional value. Every employee will be empowered to provide immediate corrective action should customer problem occur.

Meeting planners will favor The Ritz-Carlton Hotels. Empowered sales staff will know their own product and will always be familiar with each customer's business. The transition of customer requirements from Sales to Conference Services will be seamless. Conference Services will be a partner to the meeting planner, with General Managers showing interest through their presence and participation. Any potential problem will be solved instantly and with ease for the planner. All billing will be clear, accurate and timely. All of this will create a memorable, positive experience for the meeting planner and the meeting participants.

Key account customers will receive individualized attention, products and services in support of their organization's objectives.

All guests and customers will know we fully appreciate their loyalty.

The Ritz-Carlton Hotels will be the first choice for important and social business events and will be the social centers in each community. Through creativity, detailed planning, and communication, banquets and conferences will be memorable.

Our restaurants and lounges will be the first choice of the local community and will be patronized on a regular basis.

The Ritz-Carlton Hotels will be known as positive, supportive members of their community and will be sensitive to the environment.

The relationships we have with our suppliers will be one of mutual confidence and teamwork.

We will always select employees who share our values. We will strive to meet individual needs because our success depends on the satisfaction, effort and commitment of each employee. Our leaders will constantly support and energize all employees to continuously improve productivity and customer satisfaction. This will be accomplished by creating an environment of genuine care, trust, respect, fairness and teamwork through training, education, empowerment, participation, recognition, rewards and career opportunities.

CREDO

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed yet refined ambiance.

The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

THE RITZ-CARLTON MOTTO

“We are Ladies and Gentlemen serving Ladies and Gentlemen.” Practice teamwork and “lateral service” (i.e., employee-to-employee contact) to create a positive work environment.

THREE STEPS OF SERVICE

1.

A warm and sincere greeting. Use the guest name, if and when possible.

2.

Anticipation and compliance with guest needs.

3.

Fond farewell. Give them a warm good-bye and use their names, if and when possible.

THE RITZ-CARLTON BASICS

1. The Credo will known, owned and energized by all employees.
2. Our motto is: “We are Ladies and Gentlemen serving Ladies and Gentlemen”.
Practice teamwork and “lateral service” to create a positive work environment.
3. The three steps of service shall be practiced by all employees.
4. All employees will successfully complete Training Certification to ensure they understand how to perform to The Ritz-Carlton standards in their position.
5. Each employee will understand their work area and Hotel goals as established in each strategic plan.

6. All employees will know the needs of their internal and external customers (guests and employees) so that we may deliver the products and services they expect. Use guest preference pads to record specific needs.
7. Each employee will continuously identify defects (Mr. BIV) throughout the Hotel.
8. Any employee who received a customer complaint “owns” the complaint.
9. Instant guest pacification will be ensured by all. React quickly to correct the problem immediately. Follow-up with a telephone call within twenty minutes to verify the problem has been resolved to the customer’s satisfaction. Do everything you possibly can to never lose a guest.
10. Guest incident action forms are used to record and communicate every incident of guest dissatisfaction. Every employee is empowered to resolve the problem and to prevent a repeat occurrence.
11. Uncompromising levels of cleanliness are the responsibility of every employee.
12. “Smile-We are on stage.” Always maintain positive eye contact. Use the proper vocabulary with our guests. (Use words like - “Good Morning,” “Certainly,” “I’ll be happy to” and “My pleasure”).
13. Be an ambassador of your Hotel in and outside of the work place. Always talk positively. No negative comments.
14. Escort guests rather than pointing out directions to another area of the Hotel.
15. Be knowledgeable of Hotel information (hours of operation, etc.) to answer guest inquiries. Always recommend the Hotel’s retail and food and beverage outlets prior to outside facilities.
16. Use proper telephone etiquette. Answer within three rings and with a “smile.” When necessary, ask the caller, “May I place you on hold.” Do not screen calls. Eliminate call transfers when possible.
17. Uniforms are to be immaculate; Wear proper and safe footwear (clean and polished), and your correct name tag. Take pride and care in your personal appearance (adhering to all grooming standards).
18. Ensure all employees know their roles during emergency situations and are aware of fire and life safety response processes.

19. Notify your supervisor immediately of hazards, injuries, equipment or assistance that you need. Practice energy conservation and proper maintenance and repair of Hotel property and equipment.
20. Protecting the assets of a Ritz-Carlton Hotel is the responsibility of every employee.

Appendix

The following are two interviews that were conducted on March 29th, 1995 and August 7th, 1995.

An interview with Mr. Patrick Mene, Director of Quality Control for the Ritz-Carlton Hotel Company on March 29th, 1995 in Atlanta, Georgia. The focus of this interview is to find out how did the Ritz-Carlton Hotel Company achieved the distinction as the only hotel company to win the Malcolm Baldrige National Quality Award. The interview started out with a series of question:

- What are their top three priorities in 1995.
- How do they measure what they are measuring against.
- What process management system do the Ritz-Carlton Hotel Company use.

AJ: Andrew Jacobson PM: Patrick Mene

AJ: Okay, where do I start?

PM: Like a big circle?

AJ: Yes. Tell me how did you first come to the Ritz-Carlton and why?

PM: Well, I was a luxury hotel manager by trade and I was in Los Angeles and the President of the company, Horst Schulze who I work for and his first general manager assignment some 20 years ago called and told me he wanted to pursue a modern quality management improvements and he wanted to use the Malcolm Baldrige approach to achieve this world quality quality. He invited me in to be the project manager and in charge of quality. I had done, I was aware of the topic and had done some industry specific work on it but I basically did not have full knowledge. I said I'd come in and work for one caveat. At the end of this Baldrige assessment or how ever it was going to end, but I wanted to get back to running hotels and he said "fine." Well, after we won the Baldrige award I said "gee there's too much unfinished work to do."

AJ: So, did you find it very challenging to do the Malcolm Baldrige award?

PM: Yes. Very much because the Baldrige criteria at that time we felt was written by engineers for engineers. It was very... we did not think it was relevant and we thought it

was very burdensome. So it really took us a while to interpret what they were saying before we could even address this internal audit or assessment. By the time we went through it, and got our first feedback, which was not very impressive, although we thought we were good, then did we start to realize what needed to be designed into our approach. We were very strong on leadership and had some wonderful world class Human Resources systems and we had results but it was not as systematic as it could be. The process management was strong in regarding a hotel off and personal service and beyond then it was non-existent, great optionalization. The strategic planning was not as formal as it could be and of course our use of data was astute towards finding traditional goals. So it helped us improve and I must tell you, once we went through our first pass to understand if it was efficient, and I discovered the work of Duran, it became much more clear. I am not suggesting that Duran was the sole architect of the Baldrige but I got to tell you anyone who has ever read the handbook and then goes off to read the Malcolm Baldrige National Quality Award criteria, it will so much more clear at least what they are asking for. I am not saying that Duran provides all the remedies, but his influence is clear.

AJ: Now Duran....

PM: Doctor Joseph Duran what many consider to be the world's most foremost expert on quality, founder of the Duran Institute.

AJ: Okay, how long did it take you to complete the project when you first started?

PM: From the day that I was assigned to start, and gotten organized, it took me a few months to get organized to become familiar with some of the companies practices, which I fairly well knew because I have worked with many of these people before and I understood their processes and I understood hotel processes, but I would say that we started the project in November conducting the assessment and it took us all the way to April to have our approach written. To have results collected and gathered and really do a book ended so you got to consider a 5 to 6 months project, just to conduct the leader assessment.

AJ: An adjusted assessment, that is just not....

PM: Just the assessment.

AJ: ...filling out the criteria?

PM: Just the assessment. That is not design and implementation of improvements actions that you receive your feedback from. Let's put it this way, I agree with Duran and make numerous reference to him that it is a six year journey to world class quality. And that is at the end of the sixth year. By the time you prepare for the Journey, and launch the journey, and you start out and expand the journey, it is going to be six years. I am talking more about world class quality, that is where you are achieving a very high level of customer satisfaction, almost a freedom from deficiency, eliminate a lot of waste, be the leader of quality. In your field of market. It is a six year term.

AJ: Go back to the leadership, were you here when Horst Schulze said we are lucky...

PM: Yes..

AJ: ...we rate a "Bloody 6" on a scale from 1 to 10.

PM: Sure!

AJ: What were the reaction of that?

PM: Ah...astonishment, motivation. Schulze, remember, and this is critical, every organization is made up of a social and technical system. The technical aspect is addressed by Baldrige. If you have the passion, the drive, the Baldrige will give you the road map. But that passion and drive is really the social side of the Baldrige. The relationships, the values, and the way you change things, and Schulze is a natural at changing management, he really addresses the three things you got to tell people that this is important to them and you have got to make them believe that they can do it or show them that they can do it and make them see the benefits. Some of that leadership is what really was the reason for the willingness to change. He showed the benefit was to be better. He said the Baldrige was the way to do it and other companies have done it. I give the analogy on change management is that many years, centuries, man traveled eight miles an hour, horse, donkey, up to about 1850 until the railroad came. Now why did it take two thousand years? Because no one said it was important to go faster, no one saw

the benefit. And so change does not happen until most of the elements and so that, it takes great leadership. In fact, the social aspect of it is sometimes more important than the technical. You could have great technical and fail socially because you can not manage the change. The change, in fact I have come to believe that if you not had made this change you cannot be a bad manager. The adding of the technical tends to make you move along that journey a little bit faster. It was really more Schulze's leadership and naturally the ability to manage change that opened the gates and allow this technical improvement to take place.

AJ: Here are the three questions. 1. What are the top three priority for the Ritz-Carlton?

PM: That is very simple. The reduction in defects to the six sigma level. Reduce the cycle time of critical work, and 100 percent customer satisfaction. Those are the three goals, primary objectives of our company right now. To improve revenue, to reduce operating expenses, to be more competitive, to create investors to be attracted to us. So those are the foundation objectives. If I had to say it simpler, it is to simplify work and never lose a customer. Profitable excellence and its efficient customer satisfaction, however you want to say it, but that is the foundation of it all. It is not Harvard business practice...sell harder, raise the prices, force the production, make it cheaper and finance it period. That is not too good.

AJ: I am very aware, I visited the Atlanta Ritz Carlton, and I just walked through here before, and I noticed that manpower that you have is plentiful. I believe in that concept to provide excellent quality service you need to have the manpower to be able to do that.

PM: Yet we have abandon the thought of quality at N expense. Again, that manpower that you saw is more likely to be doing valuable work...there's a continuous improvement there. The old concept of quality was a, good product or services is the essence and then the way you get it done is brute force and great expense. In other words, I do not care what it takes, do it, and then someone is applying brute force to make sure that is being applied. That is an antiquated way to do it. You are constantly looking at better, faster, cheaper ways to do it. We have not found...we have found a lot of ways to eliminate unnecessary work and therefore unnecessary workers. But we have been

hard pressed in a highly personalized business to find any mechanization that could approach that. We are always going to do a lot more hand labor than most, but we want to eliminate the amount of unnecessary work so that we can afford the unnecessary hand labor and personal service. It is pretty hard to automate a kitchen.

AJ: What process management system do you have in place, which is like a service map?

PM: Well, it is a little bigger than that because you have to understand that at the Ritz Carlton, or any hotel, although we probably do more personalized service than anyone, we are providing a lot of intangible presentations. We are buying and making a lot of things which requires a lot of manufacturing style processes. So if you think of it as a horizontal work flow, the approach that the Ritz Carlton uses is from a leadership point of view, the leaders are personally involved in quality. So that is not delegated out. The business management system that gets the work out is a process where by there is a quality plan that has as much as importance as marketing and financial planning. There is an annual quality plan and in that plan most decisions data issues and we make full use of people and we manage we have a way of designing things the first time, we have a superior quality planning process. And then we have a problem solving process.

Basically, the Ritz Carlton approach is if you want to use that Fable that the manager went in to drain the swamp that is his job, gets up to his hips and now ears...at the Ritz, leaders are involved in the managing the quality of draining that swamp. And there is a plan to do with that shut down the alligator hatchery. And then if we do run into any alligators they are killed off one at a time with the involvement of the people. So it is a business management system that quality is heavily involved in a base decision. Quality plans, and a way to do things the first time to prevent failures and a way to permanently fix things that get inadvertently designed...and that is the essence of it. Of course there is some traditional marketing approaches that do sell pretty hard, but we try to pull customers in instead of push them in. Or have them pull us in. And there is traditional financial controls on management but it is a very integrated system. A lot of process team management. So its not the old command and control its leadership, personally involved, and teams of people are empowered to make decisions. In fact if I had to tell

you the structure really we have is there is a leadership team, then we look at it that there is a team of people that deal with what gets bought and how it comes in that it is right. And we have a support team that supports the primary work and then the primary work which we see more as pre-arrival, arrival stay of restaurants and then special events so we try to manage horizontally and we try to have the fewest number of processes and the fewest number of managers but all with a cycle time defect reduction test recycle. It is just a horizontal approach. It is not all chopped up, humpty dumpty approach that takes all the Kings horses and all the Kings men to put everything back together again. There is many ways to describe this, but I would say that is very much horizontal management. Horizontal management using data, using planning, hiring people with a superior quality planning process and a problem solving process with a strong customer focus that uses the minimal amount of management. That is what we are headed for, we are not there yet. We are not at world class quality yet to answer your question.

AJ: How do you measure against your priorities?

PM: Well, that is pretty simple, when you have defect reduction you would like to identify at least in our case, I mean I am not saying we are Motorola, we say six sigma, but really for the near term we want to get rid of the chronic severe defects at the ear fold company level. We have a way of...cycle time is not so much on going, that is more of a special project steps that we have identified them that work that needed to be reduced by half and pretty much found the individual and now we are institutionalizing it and then customer satisfaction...so those are kind of like the internal measures, our assessment of quality. Then the external assessment of quality is the customer's assessment and that customer then says to us, whether their satisfied or not with our products and services and solutions and prices. Basically you have these internal measures of do you have any defects, is cycle time being reduced, I won't say we are accounting managers, but there is a little bit of that in there. And then on the other hand, we are assessing what the customer says. There are a few external audits on hospitality. I won't say that we used the Baldrige every year, that would be an external audit but when you put your internal assessment of quality and match it against the customers assessment of quality, and the

employee assessment of quality, you run that whole thing down the supply chain and if the employee, you, the team, or the manager and the customer are saying the same thing, you are pretty likely to have a company wide chronic problem that is worthy of a new approach.

AJ: So, the feedback, how do you get it from the customer, and how do you get from the employees?

PM: We use a certified suppliers like J.D. Powers to find out the critical features that people want and identify the critical difficulties and have a customer satisfaction system that feeds us back, it is matched against the internal figure. The internal things tend to focus more on major failures in efficiencies the external, same thing. And then you add it all up. Since most of our processes are usually industry best and pretty stable, we sue most of the data as a basis for improvement. We are not real big using it for control because we are up there pretty high and it is a very stable system, maybe because the hotels were all high grade, and opened the same way. It is not a big control problem system, you do not have that coming out to see if somebody all of a sudden dropped out and defied the system, their mixing and moving within those limits so you are really looking at it to find chronic severe problems in the whole company. You got to almost look at it as one big machine. And when you see that we are not very capable in a critical process, or these failures keep coming up in a good process, then we basically use that for improvement. We use data to plan so that things do not go wrong with the wind, but the existing process data, customer satisfaction data and financial data is pulled out for the basis of identifying chronic severe failures worthy of shaking up to these breakthroughs. We use the data for breakthroughs.

AJ: I read somewhere about with your employees, if they see something about to go wrong, they have what is called a warning system?

PM: Yes, that is the point, the data used mainly for breakthrough purposes. There is so many variables in a hotel, it would not be feasible to measure all of them all of the time. So we measure vital few. But when things do go wrong, the employees are allowed and required to break away from their routine, apply some sort of immediate causative action,

if a customer wants something that is not in standard array, or if they are dissatisfied with some sort of product or service, they are allowed to break away from their routine, apply some sort of immediate causative action documented for future use or analysis, snap back to their routine. That is the basic control mechanism there is. In other words, when things do go wrong, employees are required to bring them back to control right away. Then as they record the failures, that is the daily report to see what failed each day. After a while, that report is analyzed to find chronic severe failures. That is one of the primary sources of information of what is worthy of a company wide approach for improvement or maybe a localized improvement. So we just threw out some data of what is chronically going wrong and it is a local of it is a company that will see what should be improved. The basic control mechanism is the employee. We do not really go in and try to bring the whole situation under control or improve it until we see it chronically happening at the hotel.

AJ: How long does the Ritz Carlton set goals on continuous improvement and planning?

PM: Every three years. We set our goals through 1996. We review it, but I do not think that it is ever going to change. It is going to take a long time to get six sigma, reduced cycle time by fifty percent and having all the customers satisfied all the time is world class quality. It is almost an infinite task. I do not see us changing that. Now once a year, we allow the hotels and the corporate office to identify the projects that we endure that will address that. So there's a yearly review of those objectives. Those company objectives will be forever. We want to put major resources...quality management is a very strategic thing, but we still live in a financial world has values and demands short term results, so we try to put major resources behind the vital few to drive a fiscal year of fiscal year improvements. So when we look at it annually, and look for those vital few and try to get rid of them in about six to twelve months to prevent them, we feel that is better than setting three year goals what happen is the task of improving is constantly in competition with traditional goals. It tends to fade into dust over three years. So we find from a management point and from a linkage to the P and L results, it is best to have annual projects. Six months or better.

AJ: How does benchmarking process work for the Ritz Carlton?

PM: It is in our tool kit. I won't say we use it to what I consider the best, Xerox. It is a sophisticated tool. It is not something we try to keep the employees run around and benchmark. Basically, benchmarking is used more at the upper level of the company for major breakthrough process, especially the processes that run the corporate offices, that can be in any industry. As a rule, we teach the people in our quality training that when they are going about quality planning or problem solving, that while they are searching for the cause or the remedy, that benchmarks should be one of the alternatives. It is used as a supplement...emerging tool for us.

AJ: Do you benchmark against other hotels?

PM: No. We benchmark internally, and then we look for the best in any industry. We tend to do best in class, high level, luxury, or best in any industry. Best in class or internal.

AJ: What are the customer requirements and performance targets for the Ritz?

PM: Zero defects. Fifty percent less cycle time. The critical customer requirements are, things must be beautiful, pleasant is not good enough. That is a little tougher one to measure. Things that tend to get measured more are gigantic scales, we do not measure much defects or cycle time on that. They expect things to be on time, and they expect their problems to be resolved immediately and completely. Those are the generic features that must be designed in. Once they are designed in, what we try to measure internally is critical deficiencies and cycle time reduction of critical work internally. Externally, is the satisfaction of critical customers, and that is pretty much how it is. We looked at customer loyalty, and are looking on better measurements there, and we have some external audits to verify them. It is a lot of prevention, a lot of design in quality, and a lot of measurement on design whether the process is capable in the first place. The ongoing controls tend to be more of the employee, day to day. As far as improvement at the hotel in the local level, we handle a process that looks at that data and identifies your critical

projects and then tries to improve them not only in the project, but in your local customer access.

AJ: How effective is Total Quality Management?

PM: Very effective! It is one of the best investments you can make. For every dollar we put into quality, we get about five dollars back. And the question is ,as we continue to expand, it becomes more and more of a force. At the Ritz Carlton, the business plan has become the forward plan.

AJ: When you were going through changes, empowerment, what was the employee's reaction?

PM: From day one, they were empowered to break away, so TQM was a more sophisticated tool so they were very hungry, they were having no problems. They became more empowered for day to day planning and activities and now some of them are even getting into major financial and capital and strategic issues. It was just an expansion of something that they were comfortable with.

AJ: Marriott Corporations recent acquisition of 49% of all shares. Will they have any affects on the operation strategy that you have currently have in place?

PM: Well, it is too soon to tell. They wanted to buy Ritz Carlton because we have penetrated the only market that they have not penetrated. They want us to run as a separate division, and they want to provide support services that would help with our efficiency, purchasing, accounting support services. They have no intention on changing the product features of the processes...we made some real estate deals but when it comes to operating, we are just about any critical success factor we are the best and I think that they realize that.

Appendix II

An phone interview with Mr. Paul Roa, Director of Quality Control for the Ritz-Carlton Hotel in Manhattan, New York on August 7th, 1995. The focus of this interview is to find out how the hotel is achieving its goals according to corporate office in Buckhead, Georgia.

AJ: Andrew Jacobson PR: Paul Roa

AJ: I have had an interview with Patrick Mene this past March, I would like to ask you some questions about the goals that Ritz-Carlton Hotel Company has nationwide?

PR: Go ahead.

AJ: First, you are aware that the Ritz-Carlton Hotel Company has set a goal for customer retention rate at 100%?

PR: Very well.

AJ: What is the customer retention rate for the New York City hotel?

PR: 65%.

AJ: Is this low for what the Ritz-Carlton Hotel Company want in achieving its goal for 100% retention rate?

PR: Yes, it is.

AJ: What is the goal for the 1995 year for retention rate?

PR: 60%.

AJ: Why is the goal is lower than when you have achieved 65% so far for the year?

PR: This goal was set before the year started and we felt this was an accurate forecast for 1995.

AJ: How do you compared to other properties across the country?

PR: You cannot compare! It is not fair due to different culture, people and location. Each location has its own distinctive flair is what keep customer keep coming back to certain property.

AJ: Are you saying that New York City is somewhat “dangerous” compared to other location?

PR: No, I am not. I am saying that New York City’s location does not offer as much amenities compared to other location. For example, our meeting rooms does not hold as much as some of the other property.

AJ: What are your Six Sigma?

PR: Quality Measurement.

AJ: How do measure the Six Sigma?

PR: We measures of having 3.4 per defects, which means that for each guest that stay at our location, there were 3.4 problems or potential problems.

AJ: How do you communicate which your staff?

PR: Each employee usually meet with their supervisor at least once a week to discuss what need to be work on, what events are coming up and so on.

AJ: How do you get feedback?

PR: Employees give suggestions to look out for potential problem. They break from their routine if they see a potential problem and rectify the situation as soon as possible. Once they have solved the potential problem, they go back to their normal duty and then fill out “incident form” and/or “guest preference pad”.

AJ: This sounds like what Patrick Mene explained to me earlier in March.

PR: This is a corporate standard. Our goal is to satisfy each customer 100% at all time.

AJ: How often do you communicate with Patrick Mene?

PR: All the time! I usually look for his advice when there is a problem. We usually have a weekly phone meeting to keep each other updated.

AJ: How often do you meet with Patrick?

PR: Sometimes once a month or once every other month. Sometimes we meet when it is necessary.

AJ: Paul, I know you must be a busy person, I want to thank you for your time and feedback. Once again, thank you very much.

PR: Pleasure, if you have any questions, just give me a call and I will try my best to answer your questions.

Variance Summary

After I had conducted these two interviews, there are couple of discrepancies that need to be pointed out. First and foremost, the customer retention rate. The Ritz-Carlton Hotel Company is trying to establish themselves as the first hotel company to maintain 100% customer retention rate. Unfortunately, after comparing the corporate goal with the New York City location, the disparity is alarming. The New York City location was able to muster 65% customer retention rate. This rate would be consider very good by any industry standard, but not for the Ritz-Carlton Hotel Company! Another thing that struck me about the customer retention rate is the location of all Ritz-Carlton Hotels. It would be very unfair to expect the New York City location to have the same customer retention rate as the Mauna Lani, Hawaii. The Mauna Lani location offers a variety of options such as a championship golf course, 11 tennis courts, a protected swimming lagoon and many exclusive boutiques which the New York City location can not even touch! If a guest was giving a choice, this would be very easy to select the location where they want to go. If the customer retention rate is able to allow a customer stay at one location and go to another location, then I can see it is possible for the customer retention rate to reach 100%. Otherwise, it is not possible for a particular location such as New York City to reach 100% customer retention rate.

The next discrepancy I like to focus on is the Six Sigma: reduction of defects. The New York City location has 3.4 defects per customer stay is pretty high by the corporate standard. I say high is because that means there has been potential problems between 3 to 4 during a customer stay at this location. The corporate standard is to be defect free at all times. As what Mr. Patrick Mene said during the interview how do they measure against

their priorities, “the six sigma is really the near term we want to get rid of the chronic severe defects at the ear fold company.” Also Mr. Mene stated “cycle time is not so much ongoing, that is more of a special project steps that we have identified them that work needed to be reduced by half and pretty much found the individual and now we are institutionalizing it and then customer satisfaction...so those are kind of like the internal measures, our assessment of quality.” When speaking to Mr. Paul Roa at the New York City location, I got the feeling that this location (NYC) is one of the toughest location to measure up to the corporate standard. Nonetheless, it is a very visible location looking north over Central Park.

These two previous discrepancies are the sticking points for the New York City location. When you are trying maintain world-class quality, all locations for the Ritz-Carlton Hotel Company has the same “The Gold Standards” (see Credo, Motto, Three-Step Basics, and Basics). Therefore, different locations offers unique qualities to their environment is what attract customers to certain location. It is very difficult to achieve 100% customer retention rate and defect free at all time. There is no such thing as being perfect!

Conclusion

What I have learned during this gathering of the final project is: no matter what the goals are for the company, you want to keep striving for something better. The main goal for the Ritz-Carlton Hotel Company is continuous improvement. Once a company reached its pinnacle, they tend to get stagnant and eventually loses its credibility to maintain excellent quality. The Ritz-Carlton Hotel Company did win the MBNQA back in 1992, they are still trying to improve quality continuously!

The Ritz-Carlton Hotel Company is indeed a professional hotel management company. They have recognized the ability to see things where other hotel companies do not. Also, they have penetrated an area where hotel such as the Marriott Corporation have not been able to go into.

As we know, Marriott Corporation is a well known hotel company with established reputation. Unfortunately, the Ritz-Carlton Hotel Company tend to cater to upper class market.

Overall, I have found the Ritz-Carlton Hotel Company is a solid organization. In fact, they have by far the best quality management that other hotel companies wish to emulate. Ritz-Carlton has been a leader in the hotel industry and will continue to be the leader until the next hotel company reached the MBNQA. At this time, I cannot see any other hotels taking over the top spot when it coming to quality.

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