

SERVICE GUARANTEES AND STRATEGIC SERVICE QUALITY PERFORMANCE METRICS AT RADISSON

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Radisson Hotels Worldwide recently pilot tested a service guarantee in twenty-eight of its hotels. The pilot hotels implemented the guarantee with a complete training program but with no advertising. The guarantee read simply:

Our goal at Radisson is 100% guest satisfaction. If you are not satisfied with something, please let us know, we'll make it right or you won't pay.

The response in the pilot hotels was amazing. In just three months, many of Radisson's service quality performance metrics in these hotels improved significantly. Customer satisfaction, measured by Radisson's own metrics and by a market research firm, showed increased "willingness to return" and "percent advocates." Radisson

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also found that the guarantee decreased employee turnover, increased utilization, and increased profitability for the pilot hotels.

A group of researchers at the University of Minnesota administered a survey to both management and front-desk hotel employees before and after the guarantee was implemented in the test hotels. The survey found statistically significant correlation between a new service quality metric called "employee motivation and vision" (EMV) and Radisson's service quality performance metrics. This relationship

suggests that EMV should be considered a service quality performance metric.

The paper begins with a description of Radisson's strategic business context followed by a discussion of Radisson's service guarantee. The next section presents the employee survey and results. The last section summarizes the paper.

RADISSON'S STRATEGIC BUSINESS CONTEXT

Company Background

Founded in 1938 by Mr. Curtis L. Carlson, Carlson Companies, Inc. is one of America's largest privately owned corporations with total system sales of \$13.4 billion in 1996 and \$20 billion in 1997. Carlson Companies employs about 130,000 people worldwide, including those who work in franchised and managed operations. Headquartered in a suburb of Minneapolis, Minnesota (USA), the company is organized into four operating groups — Carlson Hospitality Worldwide, Carlson Wagonlit Travel, Carlson

EXECUTIVE SUMMARY

■ *A service quality guarantee goes beyond marketing strategy to provide significant operations direction as well.*

■ *Radisson Hotels Worldwide piloted a service quality guarantee at 28 of its hotels, with no marketing, and yielded substantial positive changes in customer satisfaction, employee motivation, utilization and profitability.*

■ *The potential link between employee motivation and customer satisfaction is an intriguing one.*

EXHIBIT 1

Service Guarantees and Business Performance

Marketing Communications Impact (MCI)—A strong service guarantee will have both offensive and defensive marketing impact. Offensively, firms can use a service guarantee to proclaim the reliability of their high quality service and thus attract new customers. Defensively, a service guarantee not only enables companies to recover unsatisfied customers but also encourages dissatisfied customers to complain, thus allowing the firm to recover those customers.

Employee Motivation and Vision (EMV)—A strong service guarantee motivates employees to fulfill the guarantee and to satisfy customers. The guarantee clearly defines the employee's job as satisfying customers – not just taking reservations, checking out customers, or cleaning rooms. It can also inspire a new vision for service quality when employees are challenged to really satisfy customers' true needs. Hill⁹ quotes one senior European executive who proclaimed that "our service guarantee defines the mission for our firm."

Organizational Service Learning (OSL)—A strong service guarantee can help organizations discover dissatisfied customers and learn from them in order to improve service quality. Organizations with a strong service guarantee will tend to learn how to satisfy customers faster than organizations without one.

Hypothesis: When marketing communications impact (MCI), employee motivation and vision (EMV), and organizational service learning (OSL) are improved, then service quality, customer satisfaction, and customer loyalty (SQL) should also improve. Business performance (BP) will improve as a result of improved SQL.

Marketing Group, and Carlson Leisure Group.

Radisson Hotels Worldwide and its parent, Carlson Hospitality Worldwide, include more than 500 lodging locations in 49 countries, as well as four cruise ships sailing worldwide. Other Carlson Hospitality Worldwide operations include Regent Worldwide Hotels, Radisson Seven Seas Cruises, Country Inns & Suites By Carlson, T.G.I. Friday's, Italianni's, Friday's American Bar, Friday's Front Row Sports Grill, and the Carlson Hospitality Worldwide Procurement Division.

Strategic Context

Under the leadership of its former president, Radisson's strategy focused on growth and the firm added hotels at the rate of about one hotel every seven days. By 1997, Radisson's "growth at any cost" strategy left Radisson with a significant diversity in hotel quality and an "unfocused" brand image. Alignment with hotel owners (more than hotel guests)

also seemed to cause Radisson's customer service and hotel management expertise to atrophy.

In 1997 and 1998, Mr. Brian Stage, Radisson's President, and Ms. Maureen O'Hanlon, Radisson's Executive Vice President, took several initiatives to drive the organization towards becoming a more customer-focused brand. In their words, they "re-discovered that their primary customers should be the guests—not the owners."

Some of these initiatives included a service guarantee, a guest satisfaction measurement program, an employee satisfaction measurement program, and an information technology initiative. Stage and O'Hanlon were committed to creating the systems and programs that would bring Radisson into the 21st century as a truly "customer-driven learning organization." Their goal was to make Radisson the "most trusted and respected brand worldwide." They were hopeful that these initiatives would make a significant

contribution to helping Radisson achieve these goals.

Service Quality Performance Metrics

Radisson uses four service quality performance metrics based on room comment cards solicited from hotel guests:

- *Willingness to return*—percent of customers who indicate that they are willing to return.
- *Percent advocates*—percent of customers who indicate a willingness to recommend Radisson Hotels to others.
- *Percent defectors*—percent of customers who indicate that they are unwilling to return.
- *Percent complaints*—ratio of complaints to room nights.

Information systems, under the leadership of Radisson's Vice President of Knowledge Resources, Mr. Scott Heintzman, produces a "dashboard" for each hotel that includes these and other more financial measures. The one-page dashboard is Radisson's "balanced scorecard"¹ for each hotel. These measures are often supplemented with *ad hoc* marketing research.

This paper focuses on the service guarantee initiative, the four strategic service quality performance metrics that support the implementation and evaluation of that initiative, and a new measure called "employee motivation and vision" that was found to correlate highly with Radisson's service quality performance metrics.

RADISSON'S SERVICE GUARANTEE

The Service Guarantees Concept

Hart^{2,3}, Hill⁴, and others^{5,6} have argued persuasively that service guarantees can help many firms to position themselves in the market

EXHIBIT 2**Radisson Employee Survey Results**

Construct	Question	Average improvement
EMV Motivation		
	1. Our employees always make customer satisfaction their top goal.	.145
	2. Our employees go out of their way to listen when customers complain.	.193*
	3. Our employees try very hard to fix customer problems when they know about them.	.033
	4. Our employees feel a strong sense of accountability and ownership for service quality.	.230*
	5. Customer satisfaction is an extremely important part of my job.	.110*
EMV - Vision		
	1. Our service quality priorities are always clear to our employees.	.350*
	2. Our employees have a clear understanding of the role that service quality plays in helping our company compete in our market.	.115
	3. We have very well defined standards for service quality.	.265*
OSL - Discovery		
	1. When a service problem occurs, we are almost always aware of the problem.	.286*
	2. Our employees are very aware of customer complaints and why they occur.	-.037
	3. Customers with a service problem almost always complain to us.	.314*
OSL - Data		
	1. We have accurate information on how many complaints we receive.	.177
	2. We have accurate information on why our customers complain.	.091
	3. Information on customer satisfaction trends is communicated to all of our employees.	.205
OSL - Improvement		
	1. Collecting customer feedback helps us to regularly improve our service quality.	.145
	2. We have improved our service quality over the past year based on customer complaint information.	.193

* Statistically significant at the 10% level of significance.

by clearly defining their value proposition to customers and employees. Service guarantees also “stress” front-line workers to deliver high-quality service the first time, encourage customers to voice their complaints to the firm, and motivate and enable workers to quickly discover and recover dissatisfied customers.

Hays and Hill⁷ at the University of Minnesota developed a model (see Exhibit 1) to show how service guarantees affect service quality and, ultimately, business performance. In this model, they argue that a strong service guarantee

improves customer satisfaction, service quality, and customer loyalty through three intervening variables: Marketing Communications Impact, Employee Motivation and Vision, and Organizational Service Learning. These are defined in Exhibit 1.

The Service Guarantee Design

In his book, Hart prescribes an “unconditional satisfaction” guarantee where the firm responds to any and all service failures with some sort of immediate compensation. In focus groups conducted by Radisson, customers found it

uncomfortable to receive a full refund for a minor complaint; giving away room-nights too freely actually discouraged customers from voicing their complaints. Radisson’s management team, led by Ms. Sue Geurs, VP of Guest Services, decided that a more appropriate guarantee would be a two-step guarantee that allowed Radisson to “make it right” before the hotel offered the customer a full refund. Focus groups confirmed that this was a good balance between encouraging customers to voice their complaints and

assuring customers that their complaints would be taken seriously.

The Pilot Test

In order to test the "100% Guest Satisfaction Program," Radisson selected twenty-eight hotels for a "pilot" test of the 100% Guest Satisfaction Program. These hotels represented a wide variety of hotel types, locations, and sizes.

Employee training was a key aspect of the service guarantee program at Radisson. A comprehensive training program, complete with training manuals and videotapes, was developed to support the guarantee program. Radisson managers and employees were required to participate in the training program before the hotel could implement the guarantee program.

Radisson's management team measured the impact of the guarantee using three approaches:

1. Radisson's internal data from room comment cards to measure the service quality metrics discussed above.
2. A customer survey conducted by a market research firm.
3. A University of Minnesota study of employee motivation.

EMPLOYEE SURVEY AND RESULTS

A team of researchers from the University of Minnesota developed a survey instrument based on the EMV and OSL theory in Exhibit 1 and administered it to both managers and front-desk workers in each of the pilot hotels. (The MCI construct could not be tested with employee data.) Exhibit 2 presents the items (questions) that made up the survey. The actual survey randomized the questions. Respondents were asked to score each item on a 7-point "agree-disagree" scale.

A service guarantee program can significantly shape the operations strategy of a firm.

Of the twenty-eight hotels in the pilot study, four were excluded from the survey data analysis because they were not in the United States or Canada. One additional hotel was excluded because service quality performance metrics were not available. With Radisson's help, the survey had a 100% high response rate for the twenty-four remaining hotels in the sample. The survey data included 559 individual survey responses, about equally divided between management and front desk respondents.

The average change for each variable is also shown in Exhibit 2. Fifteen of the sixteen variables showed improvement. The improvements marked with an asterisk (*) had statistically significant improvement. Five of Employee Motivation and Vision (EMV) items showed significant improvement with the service guarantee program. Two of the OSL-Discovery variables improved significantly. However, none of the OSL-Data or OSL-Improvement items was statistically better. It may be possible that OSL variables lag EMV variables and, therefore, OSL improvements were not detected in the study.

Comparison of front-desk and management respondents found that front-desk employees perceived themselves as more motivated than management perceived them to be. Compared to front-desk respondents, management believed they were "missing" more

complaints. Lastly, management was more confident in data accuracy than front-desk employees.

PROGRAM RESULTS

Service Quality Performance Metrics

A study of Radisson's four service quality performance metrics found that the willingness to return increased, percent advocates increased, and percent defectors decreased. Percent complaints increased significantly during the first four months of the pilot program. Management concluded that the service guarantee encouraged dissatisfied customers to voice their complaints, and viewed this as a positive result.

A more sophisticated statistical analysis found a statistically significant relationship between the sum of the EMV scores, the sum of the OSL scores, and the percent advocates metric. In other words, customer satisfaction (measured by percent advocates) is strongly affected to employee motivation and vision (EMV) and the firm's ability to learn from its customers (OSL) as measured by the survey instrument.

Roll Out To North America And Industry Recognition

With strong positive results from Radisson's internal measures, the market research studies, and the University employee survey, Radisson's senior management decided to "roll out" the "100% Guest Satisfaction Program" to all Radisson hotels in North America in early 1998. In April of 1998, The American Hotel & Motel Association named Radisson Hotels Worldwide the "Star of the Industry" in the Guest Relations category.⁸ The award recognized

Radisson's superior customer service programs.

CONCLUSIONS

While many practitioners might view a service guarantee program as only a marketing strategy, this study provides compelling evidence that a service guarantee program can significantly shape the operations strategy of a firm as well. A service guarantee can exert positive influence on the motivation and vision of employees and thus increase service quality and customer satisfaction. A service guarantee program can also provide the impetus for a firm to focus operations on the attainment of superior service quality through learning from service failures.

With respect to strategic performance measurement, this

study illustrates an interesting application of strategic quality measures. The paper also provides evidence that the survey instrument (Exhibit 2) can be used as a service quality performance metric to measure employee motivation and vision construct (EMV) and organizational service learning (OSL). *This research was supported by grants from the National Science Foundation Transformations to Quality Organizations (Grant SBR-9811047). Radisson Hotels Worldwide, the Juran Center for Leadership in Quality at the University of Minnesota, and the Institute for Management Development.* ■

Notes

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