Key Issues of Concern for Food-service Managers

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Key Issues of Concern for Food-service Managers

Abstract
In a time of economic stagnation and international turbulence, the United States food-service industry finds itself struggling with long-term problems that can only be magnified by the current environment. While it would be an overstatement to say that the industry is in crisis, such issues as dealing with government regulations and finding and keeping skilled employees seem critical after three years without economic growth. As explained in this report, the human resources challenge seems particularly thorny.

Keywords
human resources, restaurant concerns, food issues

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CHR Reports

Key Issues of Concern for Food-service Managers

by Cathy A. Enz, Ph.D.

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At Cornell University
CHR Reports:
Key Issues of Concern for Food-service Owners and Managers

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The chief concern for food-service managers remains human resources, a set of problems that embraces many facets. Also high on managers’ list of concerns is government regulation. Those are the major findings of a study of 448 restaurant operators, senior managers, and owners completed by the Center for Hospitality Research in conjunction with the National Restaurant Association. In addition to human resources and government issues, the respondents identified key points in the categories of food safety, marketing, the economy, competitive dynamics, accounting, and operations. However, none of those was as salient as human resources.

Issues relating to human resources included benefits, compensation, employee attitudes, immigration, interpersonal conflict, loyalty and satisfaction, recruiting, and retention. Many of those issues are connected with the industry’s long-running challenge of finding and keeping willing and talented workers. Indeed, the respondents decried the industry’s image as a place where people mark time while waiting for something else to come along. Perhaps the quintessential comment came from the respondent who wondered why there seemed to be no job applicants even though unemployment rates continue high.

The respondents did not speak with one voice on such issues as compensation and training, however. While many managers fretted at the prospects of having to offer increased pay and better benefits (especially as a result of government regulation), others realistically wondered how their employees can make a living on the industry’s typical pay scales.

The respondents showed considerable antipathy to government regulations, particularly those relating to tax rates and human-resources regulations. One common theme is that the managers are convinced that regulators and legislators do not understand the industry’s distinctive challenges.

While other issues paled in comparison with human resources and government regulation, the respondents were cognizant of the need to expand markets and handle food carefully, among other concerns.
In Appreciation to

National Restaurant Association

This CHR Report is made possible through a collaboration between The Center for Hospitality Research and the National Restaurant Association. Through this support, restaurateurs responded to a survey by The Center for Hospitality Research. The author acknowledges the support of both the National Restaurant Association and the Center.
In a time of economic stagnation and international turbulence, the United States food-service industry finds itself struggling with long-term problems that can only be magnified by the current environment. While it would be an overstatement to say that the industry is in crisis, such issues as dealing with government regulations and finding and keeping skilled employees seem critical after three years without economic growth. As explained in this report, the human-resources challenge seems particularly thorny.

While times of prosperity are ideal for making bold business changes, complacency often sets in. Instead, changes do not occur until a period of crisis arises. It is ironic that the motivation to do something different and to make radical revisions to current practice is strongest in those periods of greatest stress, when change is most difficult and resources are stretched. Crisis forces confrontation with current realities. Hence, it is in the most difficult times that we seize opportunity and open our minds to new ideas. In Chinese philosophy, crisis is opportunity riding a dangerous horse. Given that the challenges outlined here are familiar ones, the question raised by the comments in the following report is the extent to which the industry is willing to grapple with its chief problem—human resources—at the same time that a poor economy limits revenues.

Human resources and government regulation were by far the most salient concerns for 448 restaurant operators, senior managers, and owners who responded to a study intended to identify the most troubling problems for the U.S. restaurant industry. The study was conducted under the auspices of the Cornell University Center for Hospitality Research in collaboration with the National Restaurant Association. The survey asked open-ended questions so that the respondents could cite anything that was on their mind without being directed to a particular answer or forced to select an already identified problem. In addition, the manag-
Interested readers can themselves take this survey at www.chr.cornell.edu.

Of the 448 individuals who responded to our survey, the typical respondent was a male owner-operator (60 percent) in his late 40s (49 years old) with 24 years of industry experience. Most of the managers who responded worked in full-service operations (70 percent) that were owned by partnerships (62 percent). Presidents and senior managers also represented a substantial portion (24 percent) of survey respondents, with unit managers and regional or district managers constituting only 5 percent of the total (see Exhibit 1).

Problems on Your Mind

Managers were asked to think about the one or two issues or problems that they find themselves worrying about most or wishing that they had a better way of addressing. After reading all of the responses I developed several groupings that reflected overarching categories of concern, and within these broad areas I identified specific sub-issues. (See Appendix A on page 17 for the entire list of issues and their frequencies.)

My analysis revealed that by far the most frequently cited problems revolved around issues of human-
resources management (cited by 36 percent of respondents) and government regulations (25 percent). Six additional groups of problems surfaced, but as Exhibit 2 shows, the managers whom we studied did not mention the issues of food handling, marketing, operations, the economy, competitive dynamics, or accounting nearly as often as they did human resources. Taken together, in fact, these six “minor” issues were mentioned by 39 percent of the respondents—or about the same number as cited human resources. I’ll discuss these six lesser, but still critical issues before returning to a discussion of HR and government regulation.

**Food Issues**

Managers identified a variety of food-related issues that concerned them (see Exhibit 3). Forty-one percent of food-issue responses involved the vexing challenges of food safety, a category comprising supply, preparation, cooking methods, storage, and serving. Protecting the food supply from the field to the restaurant, and incorporating safe food practices into restaurants to prevent accidents or illnesses were noted by many respondents. Passionate managers spoke with some alarm about current farm practices while others suggested that preservation and diversification of domestic farm production and stabilizing of ocean harvesting were important issues. Still others identified the challenge of maintaining food safety standards with franchise-restaurant owners.
Food sanitation (16 percent) was mentioned in the context of biological terrorism and how to prevent contamination, while some expressed concerns about food-borne illnesses and how best to manage public relations and determine whether procedures were the true cause of a complaint. Making HACCP work in various restaurant contexts, such as high-volume white-linen operations that don’t use frozen or pre-made foods, was another example of a food issue that challenges managers. Identifying foods that contain transgenic components is yet another worrisome issue. Controlling food costs (13 percent of responses) and ensuring that the best possible food products are purchased are also of considerable importance to many managers.

Bioengineering of food, irradiation, and the changing American diet were noted as challenges for the industry. Obesity was noted in the context of food trends and the development of healthy foods and exploring alternative cooking methods. The balance between improving product quality while managing the higher costs of fresh products and the complexities of storage were noted in particular. In summary, while food safety was the most critical issue in this area, food sanitation and handling were mentioned, as were controlling food costs, food quality, and nutrition.

The Economy and Competition

The uncertainty of the economy, terrorism, and the war in Iraq all contribute to feelings of anxiety, and
the respondents worry that consumers will stay home rather than eat out. Exhibit 4 shows the four most troubling economic issues, with the slowing economy (48 percent of responses) by far the major factor identified by managers. One respondent cited economic issues as hampering the ability to initiate expansion plans that are warranted. Powerlessness and frustration are cited as outcomes of the external realities of the current economy.

The economy is troubling, but difficult to change. As a consequence, managing what you can control appears to be the only viable approach for handling this challenge. Along with a distressing economy are the dynamics of competition, including franchising, branding, maintaining increases in same store sales, and pricing behavior.

Two types of competitive issues surfaced in the survey—namely, competing with chains (mentioned by 92 percent of those who raised the issue of competition) and dropping sales (8 percent). Several owner-operators noted the challenges of competing against the large, multi-brand multi-unit chains. Finding the right niche and maintaining a reasonable profit margin is a competitive challenge for many who observe the increase in the number of chain units. New chain restaurants are flooding the market for casual dining, according to some respondents, and thus increases in restaurant supply have caused earnings growth to decline for small businesses. Independent restaurants in particular noted the challenges of surviving rising costs and an inability to raise prices, questioning whether they can co-exist with the chains. For those with a seasonally fluctuating business, another competitive challenge is increasing off-season business to maintain profitability.

**Accounting and Operations**

Managing escalating costs was identified as a key accounting issue for 71 percent of the managers responding to this survey. Labor, rent, utility, product waste, and equipment costs were all mentioned as examples of the escalating costs that burden many managers. As one respondent noted, “We’re in California. Most of our concepts are cost based. Take your pick: rising labor, rising insurance costs, rising energy costs, rising administrative costs, rising legal costs.” In addition to cost issues, cash-flow management (mentioned by 8 percent), financing (6 percent), and profitability (15 percent) emerged as challenges.

Exhibit 5 summarizes the major accounting issues for owner-operators separately from all other groups of managers, with a detailed breakdown of specific cost issues. This analysis shows that labor costs are a key issue for everyone (including presidents and senior managers), but the challenge of sustained profitability is felt most strongly by owner-operators. Cash-flow management and financing were also identified as key accounting issues, but only for owner-operators, while all other managers stressed labor costs and cost controls. Numer-
ous owners (23 percent) indicated that banks are increasingly reluctant to provide loans to restaurants, or as one owner of a casual-dining restaurant noted, “Bankers do not want to help you anymore.” A similar sentiment came from the owner of a family-dining restaurant who stated in his survey response, “Bankers don’t think that a restaurant is a business.”

Operational issues constituted the least-cited area of concern in this study. At last, here is something over which restaurant operators have reasonable control. Nevertheless, even in this area the respondents cited specific problems, in particular purchasing and vendor quality (cited 44 percent of the time), followed by information-technology advances (17 percent) and maintaining or upgrading physical equipment (17 percent). The chief vendor issue is consistency of service, which is particularly troublesome for small operators. Suppliers’ food quality—specifically, that of seafood vendors—was another aspect of operational concern.

Two lesser operations issues were menu pricing and organizational structures. Menu pricing (11 percent) was mentioned in the context of trying to determine when the public will stop coming to a restaurant because prices have become too high. Organizational-structure concerns were based on larger operators’ challenges to design their organizations to ensure optimal organizational functioning. Perhaps the reason that operational issues were on the whole identified as challenging in only 3 percent of total responses is that these problems are more easily handled than are many of the others that respondents cited.

Marketing

A variety of marketing issues emerged, with advertising, customer attraction, sales management, and customer service at the top of the list. Customer retention, the poor image of the industry overall, changing customer expectations, and customer satisfaction round out the list of issues shown in Exhibit 6.

As this exhibit reveals, advertising was at the top of the list for owner-operators (23 percent), while presidents, senior managers, and field managers stressed sales management (35 percent). “Advertising is not working,” was the sentiment expressed by one owner of a family-dining restaurant. Advertising issues included such challenges as advertising to the unemployed, to Hispanic markets, and to people who do not read newspapers or listen to radio. Adjusting to the changing demographics in immediate local neighborhoods, and developing a successful overall advertising campaign were high on operators’ lists.

Some respondents criticized the industry itself for advertising fresh ingredients when, in fact, foods contain preservatives and are shipped frozen and microwave on site. Overall, the advertising challenge for single-unit operators appears daunting, while sales-management issues are a prob-
lem for all types of operators and managers.

Increasing sales in highly competitive markets during difficult economic times is the sales-management challenge. A puzzle for many who responded is how to increase the volume of customers coming into their restaurants. Keeping up with customer expectations as customers continue to demand novel, inexpensive, and intriguing food offerings was noted by many. Some felt that customers’ expectations had become unreasonable, while others argued that managers need a better understanding of demographic trends to help overcome the sales-management challenge. Still others argued that the guest mentality and perception of value had eroded and that guests have lost touch with the dining experience.

The need for better tools to capture customers’ feedback before they leave the restaurant was identified as necessary to help in the process of attracting and retaining customers. In addition, a better understanding of customer satisfaction with regard to the dining experience was suggested to help deliver high-quality service. Many respondents seemed frustrated with evolving customer expectations and understanding of the dining experience, but particularly with regard to discovering how to keep them content and coming back. I now turn to the two most-important issues identified in our study—those being government regulation and human-resources management.
EXHIBIT 7
Government-related issues by respondent category (percentage of responses)
Government Regulations—One of Life’s Certainties

Taxation and regulation are issues of major concern to the food-service industry. As Exhibit 7 shows, taxation and health-care insurance are extremely worrisome. Exhibit 7 divides governmental issues into specific taxation and regulation issues according to four ownership categories. It is interesting to note that government interference is a shared theme, but the respondents worried about different facets of that overall theme, depending on the type of business they operated. Legal liability was of particular concern to managers in public corporations (29 percent), especially lawsuits around obesity. As one operator of a quick-service restaurant expressed it: “Why not sue restaurants because they serve whole milk, or soda, or apple pie? None of them is good for you if eaten in large quantities.” Others expressed concern about obesity in the context of public health and education. Representatives of public corporations were not as worried about property and payroll taxes as were individual operators (and, of course, estate taxes are not a factor for public companies as they can be for sole proprietors). Similarly, issues of tipping, added paperwork from reporting and record keeping, smoking bans, rising minimum wages, and workers’ compensation expenses were issues for privately operated corporations and sole proprietorships, but were not mentioned by respondents from public corporations.

Excessive government regulation is creating an unnecessary burden on the industry was the clear message of the many managers who cited regulation and taxation as being a challenge. Individuals in legislative positions or government agencies were viewed as lacking a clear understanding of the industry’s narrow operating margins or the reasons why restaurants typically fail. Profits for some are not keeping pace with the current annual increases in expenses stemming from regulation and taxation. A respondent from Oregon noted, “Our liberal state constantly finds ways to tax the hospitality industry. With a profit margin of 3 to 7 percent and measures on the November ballot exceeding that percentage, legislation is destroying the industry.” Several expressed the feeling that various government entities were indifferent to their problems and that the small-restaurant owner was helpless to resist additional government interventions. One respondent expressed it this way: “Local, town, county, state, and federal—multiple agencies at each level show a seemingly in-your-face attitude, knowing we have little or no resources to fight them without repercussions.” A call for tax-law reform was voiced strongly by those who were in sole proprietorships and partnerships. Property taxes, estate taxes, and payroll taxes were all identified as onerous for small and medium-size businesses. Overall, taxation was a topic of major concern for all ownership groups, but was most strongly expressed by public corporations (29 percent).
A large percentage of respondents from privately operated organizations talked about the burden of increasing minimum wages, although a few noted that the “minimum wage is an insult,” and that even when raised it does not suffice to cover the ever-increasing cost of living for the young and informed worker. Then again, state and local efforts to tie the minimum wage to the consumer price index or to raise it on a mandated or automatic schedule drew criticism from respondents. Others noted that minimum-wage differentials exist for small businesses, but no accommodation is made for medium-size businesses that must follow the same regulations as large chain restaurants. Note that managers from public companies did not express concern about the rising minimum wage, perhaps because these businesses enjoy slightly higher profit margins than do independent operators. In addition, some argued that the negative image of the industry was a function of paying so little to workers and asking them to work long hours without health-care coverage. That issue is covered more fully later in this report, during the discussion of human resources.

Tipping was another hot topic for respondents from privately owned or operated firms. Most were resentful of their government-imposed obligation to ensure that employees report their tip income. Several suggested that the U.S. should reduce the complexities of managing the tipping issue by adopting the European practice of a fixed service charges. The pay inequity of tipped versus non-tipped employees was also noted as a constant source of friction and something that requires the industry’s attention. Finally, smoking bans were mentioned, albeit to a lesser degree than were other regulations. Respondents commented on both sides of that issue, with some suggesting that such bans will harm their business and others hoping that their state will follow California’s lead and prohibit all smoking in restaurants. Note that public corporations did not mention smoking bans, tipping restrictions, or specific taxes.

Rising insurance costs, particularly for health and for property and casualty insurance, were also major issues within this category. Government interference was cited again in reference to mandatory insurance benefits. The costs of insurance programs are repeatedly noted as cost...
prohibitive, placing many managers in a conflict between wanting to provide the best benefits they can for workers, while feeling the profit pressures. Small operators in particular were concerned about their ability to compete against large chain operators in the areas of employee benefits, especially affordable health insurance for hourly workers.

While the seven issues of concern discussed so far are important to the respondents—and government regulation in particular was a worrisome area for managers—the final issue, human-resources management, was the overwhelming area of concern for respondents in this study. The many facets of this key issue are shown above in Exhibit 8.
Human Resources—
The Major Issue of Concern

Imagine the following scenario. You have a competent and hardworking employee whom you would like to retain. You don’t offer health insurance, though, and this person gets a better job with good benefits and moves on quickly. In contrast, you have other employees who have attendance problems, walk out during shifts, don’t understand service, and don’t have the needed skills. Worse, the rising minimum wage for these low-skilled and unmotivated employees makes it difficult for you to attract and retain the more desirable workers.

If this problem sounds familiar, you are like many of the respondents to our survey. As shown in Exhibit 8, employees’ skill levels (21 percent of responses) constitute the area of greatest concern in managing human resources. Careful analysis of the human-resources issues reveals that other issues such as compensation and benefits, adequate training, or the image of the industry in attracting and retaining talent all combine to contribute to or produce the lack of skilled employees. As the scenario at the beginning of this section suggests, if the industry is viewed as a place to work on the way to a “real” job, few new skills are acquired through investments in training, and it is difficult for an individual to support a family on the available wages, the industry will be unable to attract or retain employees who possess the necessary skills and talents owners and operators desire.

“If unemployment is such a problem, where did all the applicants go?, wondered one survey respondent. Finding qualified and dependable staff members with the appropriate skills is a struggle, as some noted that they never have enough employees and the labor pool from which they draw is poor. “Nobody seems to want to work in the food-service industry,” lamented a unit manager in a family-style restaurant. He added: “The hours are long, the work can be hard, and the pay can be average in some areas, yet potential employees are now able to pick and choose where they want to work. Most of these people choose the most amount of pay for the least amount of work.”

The recruiting problem exists for positions at all levels. The back-of-house positions, which may require less skill than do those in the front of the house, pose special challenges because managers often rely on recent immigrants to fill many kitchen positions. Finding qualified management candidates is equally challenging, with 50 percent of the respondents identifying recruiting skilled managers as
being a constant concern. Some blame the industry’s image as a long-hours, low-wage occupation as being part of the recruitment problem.

Numerous managers expressed the need to create an image of food service as a rewarding career to keep “good people” interested in the industry. One respondent expressed alarm at the small numbers of high-school students who are interested in going into the food-service industry. Another recommended that the industry at the national level should work to instill the view that food service is a profession and not something you do while waiting for your life to begin or as a fall-back job. The problem with that position, however, was noted by another manager, who stated that industry owners and operators themselves do not take a professional attitude when it comes to their own businesses—a situation that makes it challenging to project a favorable industry image.

To retain good workers the popular perception of the industry needs to be altered, said some respondents, and along that line several focused on the importance of providing appropriate compensation. Even more participants stressed improved benefits as a means of altering the industry’s recruiting and the image problems. “We need to figure out how food service can offer health-care benefits to the working poor,” suggested one manager who was worried about finding and retaining good people. A similar sentiment was expressed by a different manager, who said, “We need to figure out a way to reward the hardworking people who work for us, so that they can provide a decent standard of living for their families.” Another observed that executives make millions while employees make minimum wage or less.

Though many were distressed by their employees’ work ethic (or lack thereof), others understood that the industry itself has contributed to staffing problems by failing to provide adequate benefits, reasonable training, and competitive wages. Interestingly, at the same time that some managers were reporting that workers lacked skills, motivation, a good work ethic, basic manners, honesty, and dependability, others focused on why they were getting such low worker effort—mostly citing the lack of industry action to become more professional through training, compensation, skill building, and other incentives. That said, one manager noted that he found it difficult to expect 100-percent effort, enthusiasm, and engagement from young American workers.

Settling for second best by just getting the job done captures another manager’s description of his staff. All of these managers were struggling to determine what would attract good workers to the industry and what would be necessary to keep them.

Crisis and Opportunity
As indicated at the outset, crisis is opportunity mixed with danger, according to the eastern philosophy of
yin–yang or opposing forces. Other than economic malaise and turbulent international events, the list of industry worries given here is neither new nor surprising.

One serious concern arising from the respondents’ comments is that some operators and managers seem to have set up their operating systems to accept the reality of low skills, high turnover, and low motivation. If that is the case, such structures would hinder the industry’s ability to resolve its long-running human-resources challenges. In place of a mindset that accepts low wages and poorly trained employees as a facet of the industry’s environment, the industry could seize the opportunity of a lackluster economy to restructure for the inevitable growth to come. Instead of wondering why young managers and workers are not loyal, managers could determine how to foster loyalty, possibly through creative wage and benefit policies.

In conclusion, the crisis of finding and retaining skilled workers could be considered an opportunity to revolutionize current human-resources practices. Riding this dangerous horse might be a way to move restaurant operations toward a sustainable competitive advantage.

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Appendix: Tally of key food-service issues

### Issue | Frequency
--- | ---
**Human resources** *(44% of total responses)*
Employee skills | 85
Benefits | 72
Recruiting | 66
Motivation | 47
Retention | 46
Training | 36
Compensation | 14
Interest in industry | 12
Immigration | 10
Loyalty and satisfaction | 6
Interpersonal conflicts | 5
Subtotal | 399

**Government regulations** *(28% of total responses)*
Health-care insurance | 49
Rising minimum wages | 44
Taxation | 38
Insurance costs | 33
Legal liabilities | 21
Tip restrictions | 16
Interference | 15
Smoking bans | 10
Workers compensation | 9
Paperwork | 8
Property tax | 4
Estate tax | 3
Payroll tax | 3
Obesity | 3
Subtotal | 256

**Marketing** *(7% of total responses)*
Sales management | 15
Customer attraction | 10
Customer service | 10
Customer retention | 8
Advertising | 7
Industry Image | 6
Customer expectations | 5
Customer satisfaction | 2
Subtotal | 63

**Accounting** *(7% of total responses)*
Labor costs | 19
Cost controls | 12
Profit | 10
Utility cost | 6
Cash-flow management | 5
Rent cost | 4
Financing | 4
Cost of sales | 2
Product waste | 2
Equipment cost | 1
Subtotal | 65

**Food issues** *(6% of total responses)*
Food safety | 25
Food sanitation | 10
Food costs | 8
Food trends | 7
Food quality | 4
Nutrition (obesity) | 3
Food allergies | 2
Food handling | 2
Subtotal | 61

**Economy** *(3% of total responses)*
Slow economy | 14
Labor-pool shortage | 8
Terrorism | 4
Seasonality | 3
Subtotal | 29

**Competition** *(3% of total responses)*
Competing with chains | 22
Dropping sales | 2
Subtotal | 24

**Operations** *(2% of total responses)*
Purchasing and vendor quality | 8
IT advances | 3
Maintaining physical equipment | 3
Menu pricing | 2
Administration work | 1
Organizational structure | 1
Subtotal | 18

**Grand total of responses** | 915

Note: Since respondents could cite as many issues as they wished, the percentages are based on the grand total of responses and not on the number of respondents.
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