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## **Drivers of Productivity Improvement in Tourism and Hospitality** *Industry practice, research evidence and implications for teaching*

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### **Introduction**

In this article, I seek to explain why the issue of productivity is so important to the tourism and hospitality industry, what research has contributed to our understanding of this, and what the implications of this are for management teaching. I argue that despite productivity's importance and an increasing wealth of data, it seems we continue to know very little about how to manage productivity. I then explore two major ways in which productivity could be improved – through functional flexibility and the introduction of information technology – and what we have learned from research about these. And then look at labour scheduling and the potential of research in this area. The article concludes with some thoughts about how tourism and hospitality management should be taught in relation to the issue of productivity.

### **Importance of productivity**

Over the long-term productivity is a key determinant of corporate health. As the old adage says, "productivity isn't everything, but in the long run it's almost everything". Hence, in the United Kingdom (UK) it has been the focus of the Blair government for the last ten years. Despite this, in July 2007, the Centre for Economic Performance at the London School of Economics reported "*There is an enormous productivity gap between Britain and other developed economies. Output per hour worked is 13% lower than Germany, 18% below America and 20% below France.*"

This same kind of gap – in fact worse – has been identified in the hospitality industry. The McKinsey Global Institute study of 1998 reported that the UK hotel sector had labour productivity 53% of the US and 60% of France. Other data suggests little has changed in the last ten years. The reasons the McKinsey study gave for this relative poor performance were:

- the age of the UK's hotel stock - 75% more than 40 years old
- low chain penetration – a much higher proportion of independently owned and run hotels
- service mix – the so-called 'English breakfast syndrome'
- hotel size – on average smaller in the United Kingdom than in the United States of America and France
- organisational learning – a failure by management to learn from best practice.

An analysis of UK Hotel Labour Cost Trends from 1980 to 1997 (Dickens, 1999) would suggest some improvement, as labour cost percentage has gone from 35% to 27%. But this hides the fact that this was due almost entirely to holding wages level whilst prices rose. In labour efficiency terms, staff to guest ratios remained almost unchanged. Since 1997, very little has changed. TRI Hospitality HotStats reported London hotels had a labour cost of 27.3% in 2005. When compared with other European cities this appeared to be good – Brussels reported 42.7% and Paris 41.9%. But this again hides different social oncosts associated with labour, as well as very different average achieved room rates – London being the world's most expensive city for hotel accommodation.

One of the factors that enable the UK to hold down workers wages without addressing the productivity issue is access to cheap labour markets. The UK is an attractive destination for immigrant labour seeking to learn or improve their English in the short term or to move there permanently. And the hospitality industry has relatively easy entry points into the workforce. Thus since April 2004, following the accession of ten Eastern European countries into the European Union, there has been a significant influx of migrant labour into the industry. On average, 40,000 such workers have come to the UK each quarter and around 25% of them have worked in the hotel and catering industry.

### **The Productivity Challenge**

Despite considerable sources of data and a variety of studies, there is still a lot we do not know about productivity. For instance, how labour cost varies over time and what drives this change? What approaches to productivity improvement work? What impact do these have on performance? One thing is for sure, the industry cannot continue to respond to this challenge by holding down wages – real productivity gains must be achieved.

It would seem to me that everyone bears some responsibility for this. The hospitality industry appears to be unable to solve the problem. Hospitality educators have not produced managers/employees that have resolved the problem. And hospitality researchers appear to have provided no insights, nor solutions. At least not yet!

It is slightly unfair to say that no progress has been made. Some firms have significantly redesigned work processes. For instance, in winning the Malcolm Baldrige Award the Ritz Carlton hotel company researched and revised eighteen key processes they regarded as fundamental to their operations. Likewise, flight catering companies such as LSGskycheffs have introduced ideas and concepts from lean manufacturing designed to address efficiency in their operations. Other organisations, such as McDonalds and TGIFridays, have sought to increase employee output through training, recognition & remuneration schemes, empowerment and coaching.

The problem is that much of the evidence for the effects of these is practitioner-based, without any empirical research evidence to suggest these initiatives have the impact they are supposed to have. So I now want to go onto to look what contribution the research has made to understanding and addressing the productivity challenge.

### **The Case of Multi-skilling**

A study by the University of Surrey (Riley et al 2000) identified the positive contribution that multi-skilling could make to hospitality operations. Multi-skilling is the selection and

training of staff so that they are able to work in more than one job position within the operation. Our research found that hospitality operators adopt multi-skilling for a number of reasons:

- More efficiently schedule staff, especially during relatively quiet periods of operation. Two organisations reported major labour cost savings of up to 50%.
- Increase staff retention, especially amongst part-time employees.
- Improve team working.

But the organisations that adopted multi-skilling reported additional benefits to those that they expected:

- Improved work processes, as multi-skill employees approach their second role with experience of the organisation but objective insights towards their new department.
- Lower induction training costs, as multi-skilled staff need only be inducted into the organisation once.
- Better co-ordination and collaboration between Heads of Department

If multi-skilling is to be adopted, management have a number of choices. First, there are choices about the breadth of the scheme. The extent it will operate across the business unit and the degree of inclusion of the workforce. How is staff to be selected and what skills need they acquire? Secondly, there is the question of depth – will staff be expected to perform all or a selected number of the tasks in their second (or subsequent) role. At the operational level there are choices about whether staff will be moved between departments within a shift, or only on separate shifts. In practice, although some of the cases had policies about not moving staff within a shift, this did occur in all cases to cope with unanticipated short-term changes. Equally, there are questions about whether multi-skilled staff should be paid an enhanced rate of pay for this capacity. Resource allocation issues also need to be addressed regarding when and how labour costs will be redistributed.

Finally, successful implementation requires that potential pitfalls are avoided. These include:

- Employees are reluctant to put themselves forward to work in other departments.
- Management may be resistance due to the perception that staff scheduling will become more complex.
- There needs to be a clear structure so that both management and employees are clear about how multi-skilling works in the organisation over issues such as which is the 'home' department, how overtime is paid, and etc.

### **The Impact of I.C.T.**

Another area where there are potential opportunities for productivity improvement is in the adoption of new technology, particularly information and communication technologies (ICT). A researcher at the Surrey investigated this in 94 UK three star hotels (Sigaala et al, 2004). Data envelopment analysis (non-parametric statistical technique) was used to establish relative levels of productivity of these operations, and information about the hotel's ICT infrastructure, software and its usage was gathered.

The results of this study showed that ICT had less of an impact than might be thought. Some hotels had improved their 'market productivity'. That is, the effectiveness and implementation of their yield management practices, distribution and marketing

strategies. Some other hotels had improved their operational productivity through better staff scheduling, information technology applications and paperless office strategies. But very few properties had improved both their market and operational productivity. This was because ICT had simply replaced existing systems without radically transforming how those processes were carried out. The power of ICT to improve productivity was underexploited because the systems were not integrated and their functionality not fully exploited.

### **Labour Scheduling**

More recently, a research team at Surrey is now looking at web-based labour scheduling systems. There are Application Service Providers (ASPs) that enable hotel chains to roster their employees on the internet. One chain that has adopted such a system has been able to reduce its labour cost in housekeeping by 25%. The reason for this is that those that schedule staff can be constrained by 'rules' as to how many staff they schedule based directly of forecasts of likely business, and are able to benchmark productivity levels in real time. However, one chain of 45 hotels that has adopted this has found that performance improvement has not been uniform across the chain. So the Surrey team is looking into why some hotels have made more productivity gains than others.

### **'Lessons' from Research**

We would argue that research can play a significant role in helping industry understand how best to adopt and implement new ideas or technologies so that they maximise their impact on productivity. There is a tendency for firms to seek out and copy 'best practice' without understanding how their business is different to those they are copying from. Our research has shown that multi-skilling is probably a good idea for all kinds of hospitality operator. But how this policy is managed and implemented needs to be tailored to the needs of each business depending on whether it is large or small, urban or rural, and so on.

This is true not just of multi-skilling, but also IT systems and web-based scheduling. Indeed, there are other concepts that may be of value to all businesses such as forecasting and benchmarking which are also highly contingent when it comes to successful implementation.

### **Conclusion**

The implication of this discussion is that industry is not always the best place to find 'best practice'. Many companies and operators are under-performing because they have not adopted the right policies or technologies, or have not implemented them as well as they might. Teachers therefore need to ensure they are up-to-date with the findings of research studies that explore these issues. Teaching, researching and practicing hospitality are the basically the same thing, they just provide different perspectives on the issues that concern us all.

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