

## **Managing Human Capital for Performance in the Australian Hospitality Industry: The Carrot Drives the Outputs**

Firms operating in service industries such as hospitality are highly competitive organisations that are constantly seeking ways to out-perform their rivals (Timmo, 1993). Despite the need for continuous development and improvement, the hospitality industry is regarded as one of the least advanced industries when it comes to the use and integration of human resource management (HRM) practices (Nankervis, 1991). Moreover, it has been found that companies in the hospitality industry are homogeneous in terms of their human resource management activities and functions (Rodwell and Shadur) and there is considerable scope for using HRM as a means for enhancing their competitive advantage.

### **Human Capital**

It is estimated that by the year 2010, the information base of the world will double every 11 hours (Bontis, 1999). Organisations that seek to remain viable are faced with the strategic challenge of converting the massive source of information into knowledge (Bontis, & Fitz-enz, 2002).

Managers are recognising that 'hidden' assets such as knowledge of employees, customer and supplier relations, brand loyalty, technological or technical skills, internal goodwill, market position and knowledge play a major role in the survival or failure of organisations (Roos & Roos, 1997). It may in fact be an organization's sharpest competitive weapon, as highlighted by companies such as Microsoft, which has relatively few assets, yet has a market value of \$199 billion in 1997 (c.f. Roos & Roos, 1997).

Roos and Roos (1997) assert that if companies wish to be successful they need to capture, nurture and leverage off what employees know. They are supported by studies of professional service firms, (Scherer, 1995; Hitt, Bierman, Shimizu & Kochhar, 2001) Similarly, it is asserted that organisations need to retain, develop, organise and utilise their employees capabilities in order to remain in the forefront of competition (Gronhaug & Nordhaug, 1992). It is important for organization provide structural arrangements of co-ordination and co-operation to ensure this knowledge is integrated throughout the company (Roberts, 1998). This a particularly important considering the increasing rates of voluntary turnover (Kransdorff, 1996) and companies downsize it is of utmost important to create systems and use technology to capture the knowledge that resides in the minds of employees so that it can be shared easily with the rest of the organization (Forbes, 1997).

Intellectual performance that is the growth and decline of the intellectual capital of the company is becoming a key indicator of financial performance and decline (Roos & Roos, 1997). It is argued KM may improve performance (Bassi, 1997), productivity and competitiveness (Maglitta, 1995), a tool for improved decision making (Cole-Gomolski, 1997), a way to reduce research costs and delays (Maglitta, 1995) and a way to become a more innovative organisation (Hibbard, 1997).

Intellectual capital or intangible assets can be divided into three components: human, structural and relational. This study will be focusing on the human component of intellectual capital. Human capital can be defined as the knowledge that employees take home with them at the end of the day (Roos et al, 1997) and includes such things as employees talent and expertise, education level and flexibility (Sanchez, Chaminade & Olea, 2000). Human capital may be improved in an organization by investing money in training and reward systems (Sanchez et al 2000).

### **Investing In Human Capital**

It has been argued that human resource management practices constitute investments in human capital (Flamholtz & Lacey, 1981; Perry, 1991). Firms may make investments in human capital by hiring new employees into their business or by designing and implementing internal workforce development strategies. Internal strategies that can enhance human capital include needs-based training and development, employee appraisal systems and well-informed reward and recognition programs. Yet even with these programs in place, organisations cannot own human capital as it resides in employees who can move from one organisation to another (Becker, 1964; Jacoby, 1991). Even if they stay with an organisation, their contribution depends on their willingness to perform (Snell & Dean, 1992). Therefore costs of retaining and motivating employees, such as wages and rewards must be considered investments in human capital. (Flamholtz & Lacey, 1981). One manager made the comment that ‘95% of the businesses assets walk out the door every afternoon at 5pm, organisations must ensure they create an environment that makes the workers want to return at 9am the next morning.’

In advocating high performance HR practices, proponents of human capital theories have shown a link between a firm’s investment in human capital and its market performance (Youndt et al, 1996). In the so called “best practice” HRM literature a positive link has been found between certain key HRM practices and firm performance (Arthur, 1994; Huselid, 1995; Huselid et al, 1997; Pfeffer, 1994; Shadur et al, 1994).

### **HRM and The Hospitality Industry**

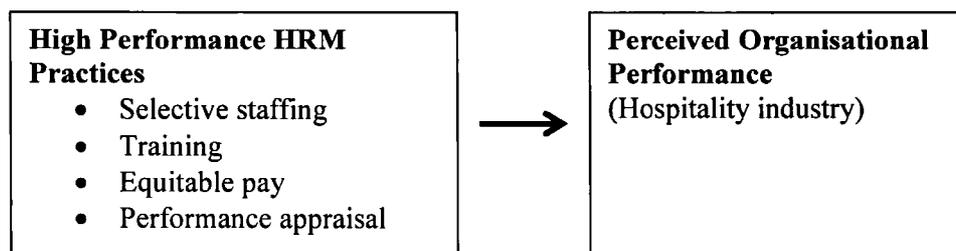
Despite the positive links between HRM practices and organisational outcomes, research suggests that the hospitality industry has largely ignored high performance HR practices. Elements of a high investment approach to human capital have been shown to exist in this industry (Harrington & Akehurst, 1996), however HI firms have continued to utilise ad-hoc measures that focus on minimising labour costs. A recent review of the 1998 Workplace Employee Relations Survey, *Britain at Work*, found that off-the-job training was less likely to occur in hospitality than any other industry (Lucas, 2002). Similarly, a study of the HR practices in Australian-based hotels found that hotel workplaces in that country continue to be associated with numerical flexibility (e.g., incorporating contingent work) rather than functional flexibility (e.g., multi-skilling and job redesign) (Knox & Walsh, 2005). Other research involving hotels and restaurants has revealed that these establishments are frequently associated with inferior employment conditions, poor employee relations outcomes (e.g., high labour turnover), and a lack of systematic forms of consultation, communication and information sharing (Guerruer & Lockwood, 1989).

The low take-up rate of high performance HRM in the hospitality sector is at odds with an industry that appears to be driven by the need to meet and exceed consumers' perceptions of quality. These perceptions are heavily influenced by the outcomes of customer-employee interactions and, in-turn, the employee's input into the exchange is determined almost solely by the staff member's skills, knowledge and attitudes. People management practices and working conditions impact on both the employee's willingness and ability to meet customer expectations and are therefore inextricably linked to HRM policies and practices. The synergistic links between progressive HRM and quality have been referred to as the 'HRM quality enhancement approach' and are seen as a distinct and worthwhile source of competitive advantage (Hoque, 1999).

Whilst the connection between high performance HRM and quality support calls for the HI to adopt more sophisticated and progressive HR initiatives, empirical evidence supporting such a move is underdeveloped. There has been relatively little investigation of the advantages and disadvantages of pursuing either the conservative, cost containment approach or the progressive model (Kalleberg 2001, 2003) and, as acknowledged by Haynes and Freyer (2000), further research is necessary to establish the relationship between high performance HRM practices and organisational outcomes. The present study aims to address this gap in the research by examining the empirical relationship between several high performance HRM practices, namely selective staffing, comprehensive training, developmental appraisal and equitable rewards, and perceived organisational performance. It was hypothesised that perceived organisational performance in the hospitality industry would be positively related to these practices.

### **Model**

The model tested here is that there are certain HR practices that will be predictive of high performing organisations in the hospitality industry.



Human resource management practices are the primary means by which organisations can invest in their employees (Cascio, 1991). According to Snell and Dean (1992) selective staffing, comprehensive training, developmental performance appraisal and equitable rewards are important variables for enhancing human capital.

### **Selective Staffing**

One of the most obvious ways firms can enhance their human capital is through the individuals they hire (Parnes, 1984). In a perfect world all employees would have equally

high levels of job performance (Cook, 1988). However, humans are not robots and there are considerable differences in workers' output levels. Hull (1928) found that good workers do twice as much work as poor workers. Therefore the advantages of using a good selection technique seem obvious. Selective staffing is hypothesized to be related to perceived organisational performance in the hospitality industry.

### **Training**

Training is another means by which organisations can enhance their human capital. If skilled individuals were not available 'on the market' an organisation can develop employees skills in house. These increases levels of skills would enrich the level of human capital in the organisation and improve efficiency therefore comprehensive training should lead to increases in perceived performance.

### **Development of performance appraisal**

Traditionally performance appraisals are conducted for administrative (usually of rewards) or developmental purposes (Latham & Wexley, 1981). The development component of performance appraisal is argued to be the most important to human capital. It is argued that managers who devote time to providing feedback, discussing problems and identifying areas for improvement increases employees goal setting and future orientated approach to performance (Snell & Dean, 1992). Therefore investments in performance appraisal are likely to increase perceived organisational performance.

### **Equitable rewards**

Since organisations make investments in employees but do not actually own the resulting human capital, it is advisable that organisations device methods to ensuring individuals act in the organisations best interests (Snell & Dean, 1992). In this sense organisations should consider control theories when implementing rewards (Flamhotz & Lacey, 1981; Wallace and Fay, 1988). Equity theory explains how employee perception of equity effects their decision to join, remain and produce for an organisation (Adams, 1963). Equity can be divided into internal and external equity. External equity is the extent to which an employee pay in an organisation compares to the external labour market, whereas individual equity is the extent to which employees are rewarded proportionately to their individual performance (Wallace & Fay, 1988). Therefore equitable rewards are likely to result in perceived organisational performance.

## **METHOD**

### **Sample**

The sample was drawn from a Dun and Bradstreet list of all the companies in the selected industry that had greater than 50 employees. Data were collected from a sample of 47 Australian hospitality businesses. A questionnaire was typically sent to the Managing Director or General Manager due to their direct knowledge of organisational performance. The response rate was approximately 20 percent.

### **Measures**

### *Facets of Strategic HRM*

HR practices that support and develop an organisations human capital were assessed using indicators of human capital as developed by Snell and Dean (1992). The human capital measures used were all human resource management practices commonly found in professional service firms, in particular: selective staffing, comprehensive training, performance appraisal and equitable rewards. Taken together, these represent the domain space of strategic HRM both in terms of explicit practices employed (using the Snell & Dean scales) and the degree to which these practices are present and integrated within a strategic approach to HRM (using the Huselid strategy HRM scale).

*Selective Staffing.* Selective staffing was measured using a seven item scale measuring the extensiveness of a firm's selection process, as demonstrated for example by time and money spent and the number of people involved in staffing decisions.

*Comprehensive Training.* Comprehensive training was measured using an eight item scale which described the extensiveness of training and development opportunities, such as the frequency and variety of training, money spent and the percentage of employees trained.

*Equitable Reward Systems.* Equitable rewards was measured using an eight item scale measuring the degree to which pay was competitive for the industry (external equity) and based on individual performance (individual rewards).

*Performance Appraisal.* Performance appraisal was measured using the nine item scale assessing whether performance was used for developing employees, as exemplified by diagnosing training needs, frequent feedback, problem solving, and discussing future issues.

### **Perceived Organisational Performance**

We operationalized organisational performance by asking respondents to answer questions evaluating their organisational performance relative to similar organisations over the past three years, employing the seven-item scale of Delaney and Huselid (1996). Although perceptual data introduces limitations through increased measurement error and the potential for monomethod bias, it is not unprecedented to use them to measure firm performance (Becker & Huselid, 1998). Furthermore measures of perceived organisational performance have been found to be strongly correlated with objective measures (Venkatraman & Ramanujam, 1987).

## **RESULTS**

The means, standard deviations and reliability coefficients of each of the variables is reported in Table 1 below. From table 1 it is also evident that each of the human resource management variables are significantly and positively correlated with the dependent variable perceived organisational performance, selective staffing ( $r = .397, p < .005$ ), comprehensive training ( $r = .575, p < .005$ ), equitable rewards systems ( $r = .588, p < .005$ ), and performance appraisal ( $r = .658, p < .005$ ).

(insert Table 1 near here)

To examine further the extent to which human capital measures were related to perceived organisational performance a regression analysis was performed with perceived organisational performance entered as the dependent variable and all independent variables entered together.

It was evident that all the variables together explain 56.5% of the variance in perceived organisational support. This was a significant amount  $F(4, 36) = 11.68, p < .005$ .

(insert table 2 near here)

When all the variables were entered into the model together, equitable reward systems ( $t = 2.35, p = .024$ ) and performance appraisal ( $t = 2.47, p < .018$ ) explained unique variance in predicting perceived organisational performance. However selective staffing ( $t = .32, p = .749$ ) and comprehensive training ( $t = 1.48, p = .146$ ) failed to offer unique variance to the model.

## DISCUSSION

The results of this study support evidence that human capital has a moderating effect on performance of firms (Sherer, 1995; Hitt, Bierman, Shimizu & Kochhar, 2001). Managers in the hospitality industry can increase their organisational performance by investing in human resource management techniques associated with human capital (Arthur, 1994; Huselid, 1995; Huselid et al, 1997; Shadur et al, 1994 Pfeffer, 1994). It was found that equitable reward systems, performance appraisal, selective staffing and comprehensive training were all related to organisational performance. However of these equitable rewards systems and performance appraisal were the best contributors. These results may reflect the transient nature of hospitality work (Knox & Walsh, 2005), with a consequent focus on motivation rather than selection and development.

An alternative interpretation is that selection and development of staff is done through informal means. Hospitality workers must work effectively in teams and where tacit knowledge is important, gain it vicariously (Cf. Polanyi, 1958, 1967). Access to such knowledge may depend on the individual's ability to share cognitive constructs held by the group and engage in the mental model (Denzau & North, 1994) of their work. Those who can not, simply move on.

Where people remain in the industry (self selection) informal learning is likely to take place through communities of practice (Lave & Wenger, 1991) in which newcomers learn from old-timers by being allowed to participate in certain tasks relating to the practice of the community. Over time newcomers move from peripheral to full participation in the community. (Hildereth & Kimble, 2000). The implication for HRM is to engage in practices that will facilitate, perhaps through good job design, the development of peer learning.

Anand, Manz and Glick (1998) argue that soft knowledge (tacit knowledge, judgement, intuition) needs to be managed through organisational processes that can enhance group memory. Among these, they advocate externalising soft knowledge through consultancies of various kinds. In Australia, the technical and further education system (TAFE) has formed relationships with the hospitality industry to provide joint training, often at the workplace, in key skills. This also equips them for entry into communities of hospitality practice.

The apparent focus on equitable rewards and performance appraisal suggests a short term perspective when compared with developmental goals such as talent and expertise, education and flexibility (Sanchez et al 2000). The evidence that training and employee satisfaction are positively related to human capital (Brontis and Fitz-enz,2002) fits with the corpus of research on organisational citizenship that argues for a new psychological contract as cosmopolitan post Gen X employees demand personal development, and enhanced career skills, as part of their 'package' of organisational rewards.

The hospitality industry is characterised by low pay rates and a tendency to be a transitional employer. Customer's perceptions of quality are influenced by the 'moments of truth' (Carlzon, 1991) in which workers and customers interact. It follows that considerable competitive advantage can be gained by organizations able to understand knowledge management.

This research has some limitations due to its basis on a cross-sectional survey and is therefore somewhat constrained in terms of determining causality. However this paper represents that first step towards a longitudinal study, further work is currently being conducted in the same arena.

This research is also limited as a result of common method variance. Future studies in the area should try and utilize a combination of self report and objective data.

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**Table 1.** Descriptive Statistics, Correlations and Reliabilities of Variables.

	Mean	SD	1.	2.	3.	4.
1. Perceived Org Performance	22.04	3.26	(.73)			
2. Selective staffing	31.26	5.35	.397**	(.75)		
3. Comprehensive Training	37.68	9.49	.575**	.552**	(.91)	
4. Equitable reward systems	34.21	4.49	.588**	.123	.365*	(.80)
5. Performance appraisal	39.74	6.55	.658**	.428**	.603**	.445**

NB: \* $p < .05$ ; \*\* $p < .005$  correlation significant at the 0.05 level (2-tailed), all figures in parentheses on the diagonal are the Cronbach's alpha for each scale, where applicable.

**Table 2.** Regression Analysis of Variables onto Perceived Organisational Support.

Variable	b	Beta	p
Selective Staffing	.027	.043	.749
Comprehensive Training	.077	.230	.146
Equitable Reward System	.218	.302	.024
Performance Appraisal	.180	.364	.018