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# Commentary: Human Resources Strategy in the Hospitality Industry: Where Do We Go From Here?

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**Abstract**

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# Human Resources Strategy in the Hospitality Industry: Where Do We Go From Here?

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## Commentary

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Our understanding of the strategic role and impact of human resources (HR) has evolved considerably over the past several years. One of the most salient changes is that HR is now viewed—for the most part—as a strategically central function rather than an administrative cost center. Indeed, as human capital concerns top the list of the industry's most vexing and challenging issues (e.g., Enz, 2001, 2004), much more attention has been given to the ways in which the HR function can support a company's competitive position and add real value to business-level decision making and problem solving. However, while we have learned a great deal about the role of human capital and its importance in helping firms achieve their objectives, we have a long way to go before specific prescriptions can be offered. In this chapter, I will begin by discussing and analyzing the information that was presented in Chapter 27 and the accompanying chapters. I will then describe some of the key gaps in the extant literature and then offer suggestions for advancing research in this area and the implications for HR practice. I hope to stimulate additional debate and inquiry that will motivate academics and business leaders to continue to examine the HR function and identify new methods for leveraging this important business function.

### What We Know

In Chapter 27, Walsh, Sturman, and Longstreet presented a cogent and detailed discussion of the research that has demonstrated a link between HR and firm performance. The evidence indicates that various HR policies, practices, and procedures—assessed individually and in holistic or aggregate terms—are significantly related to a variety of firm-level performance indicators, including organizational turnover, productivity, profitability, and market value (e.g., Becker & Gerhart, 1996; Huselid, Jackson, & Schuler, 1997; Wright, Smart, & McMahan, 1995; Youndt, Snell, Dean, & Lepak, 1996). The accompanying chapters lend additional support for these findings (see Chapter 30), demonstrate the impact and importance of key HR functions and activities (see Chapters 31 and 32), and provide new ideas for organizing and implementing the HR function (see Chapter 29).

From an applied standpoint, one of the most salient—and hopefully obvious—implications of the research evidence is that HR must play a significant role in implementing a firm's strategic plans. HR leaders must identify and adopt the most efficient and effective policies, programs, and systems that add value—economic and otherwise—and help differentiate the firm from its competitors. This idea is the central thesis of the resource-based view (RBV) of the firm (e.g., Barney, 1991; Wernerfelt, 1984), which is one of the most cited frameworks in the academic literature for understanding the strategic role and impact of the HR function. The second and complementary implication is that HR concerns must be incorporated directly into the process of developing strategic plans. In addition to supporting the directives articulated by senior leaders in the firm, HR priorities must be considered throughout the strategic planning process. Indeed, failure to account for the human capital requirements that are necessary for achieving business- level objectives regarding operational efficiency, quality, innovation, and customer responsiveness during the strategic planning process will compromise the firm's ability to execute plans, achieve goals, and maintain long-term competitiveness.

For example, Zurich-based Mövenpick Hotels & Resorts, which currently manages 65 properties in 26 countries throughout Europe, the Middle East, Africa, and Asia, recently launched a new vision and corporate identity—“passionately Swiss.” This identity involves a blend of traditional Swiss themes, such as quality and reliability, and more innovative ideas, such as cultivating entrepreneurship. In developing this image, CEO Jean-Gabriel Peres, Senior Vice President of HR Henrik Mansson, and the entire senior management team has spent countless hours identifying and linking the strategy with the people requirements for promoting and realizing this new direction.

At an early stage, all general managers (GMs) were engaged in defining the new values in order to help embrace and internalize delivery at all points of contacts. “It is not enough to say it or put it into words,” Mr. Peres stated vehemently. “Our identity must be clearly understood by every Mövenpick employee—our teams must live our identity and culture in all that they do” (J.-B. Peres, personal communication). To ensure this objective, Mr. Mansson and the global HR team have engaged in a comprehensive evaluation of the company’s human capital infrastructure to identify key strengths and weaknesses and develop plans that support the new image and address the gaps that are identified. Exploration and communication was facilitated using a simplified service marketing model to set, enable, and deliver the external promise. Mr. Mansson emphasized, “We will not be short-sighted. We know that our success requires that we continue to make significant investments in attracting, developing and retaining the top talent that has been identified throughout the organization” (H. Mansson, personal communication).

Though the full impact of Mövenpick’s efforts won’t be realized for some time, it appears that the emphasis on HR is very well placed. Even in light of the economic problems that have rocked the industry over the past year and a half, Mövenpick has performed well. For the 2008 fiscal year (which ended December 31, 2008), overall sales increased almost 6%, and EBIT went up 27.8% to reach CHF 17 million (approximately $16.5 million) compared to 2007. In addition, the company is well on its way to achieving their goal of 100 hotels by 2010, with 95 hotels in operation or currently under construction. So while certainly not definitive, it can be argued that these impressive results are due in part to the significant role that HR plays in the strategic formulation and implementation processes.

## What We Don't Know

While the importance of the HR function for formulating and implementing strategic plans appears well supported, the means by which HR influences firm performance is not clearly understood (Becker & Gerhart, 1996; Way & Johnson, 2005). In Chapter 27, Walsh et al. described two general frameworks that lend some insights regarding the process by which HR may help firms achieve long-term success and competitive sustainability. The first framework—which has its origins in the broader strategic management and economics disciplines—is the RBV (e.g., Barney, 1991; Wernerfelt, 1984). This explanation focuses on the management of the firm's internal resources, including human capital that may create value, distinctiveness, and profitability. Unfortunately, while this framework identifies some of the human capital requirements that may help firms achieve long-term success— exploiting the rare characteristics of human capital; creating policies, programs, and systems that are inimitable; and so on—there is little explanation regarding the process by which the various requirements can or should be organized and managed to achieve a sustainable competitive advantage. What does it mean to "exploit the rare characteristics" of the firm? What are the definitive elements of value-adding HR policies? These and many other related questions are begging for answers.

The second framework that explains, in part, the impact of HR on firm performance is the service-profit chain (SPC) (Heskett, Sasser, & Schlesinger, 1997). This model offers one important advantage to the RBV—it provides a bit more detail regarding the process that links human capital and financial performance. The SPC framework and others like it (see Becker & Huselid, 1998) posit that employee productivity, motivation, and attitudes will have a direct and immediate impact on internal business processes associated with efficiency and service or production quality, which in turn influences customer satisfaction and loyalty and ultimately firm profitability. Unfortunately, the explanatory processes among key linkages in this model—for example, the means by which employee productivity, motivation, and attitudes may influence operational efficiency and service quality—have not been fully articulated or explained. Thus, as Walsh et al. indicated in Chapter 27, we are faced with a “black box” problem—we know that HR matters, but we really don’t know much about the specific processes by which HR influences firm performance.

In addition to the need for conceptual clarity regarding how the HR function can be leveraged to create value, there are two noteworthy limitations in the studies that have examined the HR-firm performance relationship. First, many of the measures that have been used to assess the HR function are suspect. Most of the research that has examined the HR-firm performance relationship has used survey-based procedures in which a single respondent, usually the top HR executive in the firm or unit under investigation, reports on the HR policies, procedures, and systems of that firm or unit (Gerhart, Wright, & McMahan, 2000). Unfortunately, there may be considerable differences between stated policies (i.e., what should be done) and operational realities (i.e., what actually happens). A chief HR officer may report that the firm utilizes rigorous procedures for hiring staff (e.g., commercially available tests), but operational managers may decide to forgo such procedures if they feel that such efforts may have little relevance for their own department or needs. Thus, as Gerhart et al. (2000) stated, “obtaining accurate measures of practices may be more difficult than obtaining accurate measures of stated policy" (p. 862). Moreover, as Walsh et al. noted in Chapter 27, "[w]e look through a very fuzzy lens when we try to examine the financial value one person brings to an organization." Thus, careful consideration must be given to the measures that are used to assess functional activity and the impact that various HR policies, programs, and systems may have on key performance indicators.

Another important limitation of previous research is that almost all of the studies that have been conducted to date are based on cross-sectional research designs. In order to determine whether HR policies, practices, and systems predict or are leading indicators of firm performance, three conditions must be met. First, covariation between the variables that are assumed to be "causal" and outcomes or "effects" must be established. Second, it must be shown that the causal variables precede the outcome variables (i.e., "temporal precedence"). And third, the ability to control or rule out alternative explanations for a possible cause and effect connection must be shown. (For a detailed discussion of these conditions, see Cook & Campbell, 1979.) As noted earlier, previous research has demonstrated covariation among HR and firm performance. However, temporal precedence has yet to be established, and alternative explanations for the evidence to date remain. Thus, it is not clear if HR drives firm performance or there are other explanations for the findings that have been generated thus far.

**Where Do We Go From Here?**

To begin, scholars need to enhance the validity of measures that are used to assess the HR function and its components and utilize more rigorous research designs to address the key issue regarding causal impact. One option to the measurement concerns previously noted is to examine more objective indicators of a firm's HR function. There has been some research on the relationships among various efficiency (e.g., employee turnover) and effectiveness metrics (e.g., employee opinion, satisfaction) and firm performance (cf. Becker & Huselid, 1998). This avenue of research may provide some answers to the question posed by Walsh et al. in Chapter 27: "What sorts of human resources initiatives should organizations use to obtain the most beneficial use of employees' knowledge, skills and abilities and as a result, create a competitive advantage?" However, while it may be fruitful to examine the costs and counts associated with various HR activities and link those costs and counts to indicators of financial performance, this approach is not without limitations. For example, it may be helpful to know that a certain level of investment in formal training accounts for a significant proportion of variance in gross operating profit (GOP); earnings before interest, taxes, depreciation, and amortization (EBITDA); and similar measures. However, we also need to know more about the overall training investment (e.g., amounts allocated to new employee versus ongoing development, management versus nonmanagement training, technical skill versus customer service programs) in order to generate prescriptive guidance about resource allocation. Moreover, it is important to consider the extent to which other and more immediate outcomes of training have been realized (e.g., positive utility reactions, learning, and individual behavior/performance change) in order to ensure that the training process has been executed appropriately. Thus, measures of quantity (e.g., efficiency) and quality (e.g., effectiveness) are required.

In terms of research design, longitudinal studies are needed to establish temporal precedence and determine which efficiency and effectiveness metrics have the biggest impact as leading indicators of key performance outcomes—financial and otherwise. In addition, as Walsh et al. indicated in Chapter 27, careful consideration of analytics is needed. While it may be difficult to justify the use of cost-benefit and utility-based procedures, the time is overdue for using more sophisticated analytical tools. Indeed, just as marketing and finance leaders have utilized rigorous statistical models and procedures to justify and evaluate functional initiatives and change, HR leaders must be able to demonstrate or forecast the impact of all HR initiatives using econometric procedures and similarly sophisticated techniques. Indeed, the "trust me" approach has lost all credibility.

In addition to addressing measurement and design problems, the black box needs to be opened and efforts need to be taken to develop and test more comprehensive explanations of the processes by which HR can help firms achieve their business objectives and enhance competitiveness. In particular, we need to know more about the nature and type of HR systems that are required to cope with dynamic, changing environments. One avenue of research that may be particularly fruitful is an examination of the HR policies, practices, and systems that may improve a firm's capacity to manage both forecasted and unforeseeable forces within and outside the workplace. That is, an understanding of the adaptive or flexibility requirements of the HR function may provide new insights regarding the processes by which HR may impact firm performance and competitiveness.

Based on the work by Sanchez and his colleague (e.g., Sanchez, 1995, 1997; Sanchez & Heene, 1997) and Wright and Snell (1998), Way and his colleagues (Tracey, Way, & Tews, 2008) defined HR flexibility as

> the capacity to develop (redevelop), configure (reconfigure), and deploy (redeploy) systems of HR practices/policies/structures which acquire, develop, coordinate (re-coordinate), and deploy (redeploy) human resources who possess competencies that

> enhance the capacity of the firm as a whole to quickly—compared to competitors—meet and/or generate a variety of dynamic market demands, (p. 9)

The primary premise is that flexible HR systems will have a positive impact on firm performance and create a source of competitive advantage because such systems provide firms with employees who "can do" (i.e., employees who possess the knowledge, skills, attitudes [KSAs], and behavioral repertoires necessary to fulfill their role responsibilities) and employees who "will do" (i.e., employees who possess the desire and motivation to perform their role responsibilities). Thus, flexible HR systems enhance the firm's capacity to manage and adapt to environmental influences by enhancing the firm's human capital on several behavioral and motivational levels.

Tracey and colleagues (2008) argued that a flexible HR system includes two key elements— resource flexibility and structural coordination flexibility. Resource flexibility is defined as the extent to which a resource can be used, including the time and costs associated with using the resource for a variety of purposes. The primary components of resource flexibility include cognitive staffing, multiskill training, job rotation, involvement in decision making, group-based compensation systems, and employment stability. For example, as described in the study by Tracey, Sturman, Shao, and Tews (in Chapter 28), cognitive ability has been shown to be a significant predictor of individual performance. Given that cognitive ability is a key indicator of the individual's capacity to perform their essential role requirements, as well as the ability to learn and adapt to new situations, then recruiting and selecting employees based on their cognitive ability (among other key characteristics) should enhance the overall quality of the firm's human capital and thus, elevate the capacity to adapt to changes in the environment. As such, firm performance should be enhanced. Similarly, efforts to train employees in a broad array of skills should develop and promote the use of new behaviors that are necessary to meet the changing needs of the organization, which in turn enhance flexibility and promote higher levels of firm performance. Therefore, firms that enhance resource flexibility should realize superior performance and gain a competitive advantage due to higher levels of quality and efficiency that such resources generate.

The second element of HR flexibility is structural coordination flexibility. This element of flexibility refers to the extent to which a firm's human capital can be assigned or reassigned, configured, or reconfigured within the workplace and is posited to include two primary components—contingent employees and self-directed teams (e.g., Way & Johnson, 2005; Tracey et al., 2008). For example, the use of contingent employees may enhance the firm's capacity to respond to specific and short-term competitive demands (e.g., hiring additional banquet servers for special events). In addition, the use of self-directed teams may increase decision-making efficiency and quality by eliminating unnecessary oversight or supervision, thereby increasing customer responsiveness, satisfaction, and loyalty—factors that have been shown to be related to revenue growth (cf. Heskett et al., 1997).

Examining the factors associated with flexible HR systems has the potential to provide a much-needed and focused starting point for identifying the contents of the black box. To begin, efforts are needed to identify the relative importance of the various components associated with resource and coordination flexibility, particularly in relation to functional efficiency (e.g., employee retention and productivity) and functional effectiveness (e.g., employee engagement). In addition, the links among HR flexibility, functional performance, and more distal indicators of effectiveness, such as service quality and profitability, should be examined. This type of inquiry will be instrumental in developing and testing more comprehensive and detailed models of the

HR-firm performance relationship and ultimately provide both strategic and operational prescription regarding the priorities for managing key drivers of firm performance and long-term competitiveness.

## Conclusion

It is clear that HR will remain one of the top priorities in the hospitality industry for the foreseeable future. While we have learned a great deal about the importance of HR, it is critical that rigorous efforts be taken to explore the processes by which HR may influence firm performance. Enhancing the methods and measures that are used to examine the HR-firm performance will continue to advance our understanding of the role HR can play in formulating and executing a firm’s overarching business plans. In addition, opening the black box and examining the various HR policies, practices, and systems that are used to manage the ever-changing environment, we can develop more detailed and prescriptive insights that help business leaders develop strategies that help them achieve their strategic and operational objectives.

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