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# Lean and Mean Do Not Equal Profitable and Hospitable

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# Lean and Mean Do Not Equal Profitable and Hospitable

## **Abstract**

Lean and mean hospitality organizations are relevant today. The authors explore research findings from Leader-Member Exchange (LMX) studies, in general, and cite findings from the hospitality industry to make the case for lean and loving hospitality organizations.

# Lean and mean do not equal profitable and hospitable

by Carl P. Borchgrevink,  
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*Lean and mean hospitality organizations are relevant today. The authors explore research findings from Leader-Member Exchange (LMX) studies, in general, and cite findings from the hospitality industry to make the case for lean and loving hospitality organizations.*

The downsizing of organizations has been described as a disruptive process impacting the communication patterns, perceptions, and attitudes of surviving employees.<sup>1</sup> The major U.S. corporations laid off more than 450,000 workers in 1994, and this trend is projected to continue.<sup>2</sup>

Often driven by the need to slash costs and build the bottom line, hospitality organizations are following suit in organizational downsizing. Whether the process is known as downsizing, restructuring, building down, or rightsizing, the result is often predictable. It basically consists of cutting back, reducing, and eliminating nonproductive and unprofitable people and activities.<sup>3</sup> Most frequently, the survivors (i.e., the staff members) are left wounded, while the executives of the down-sized organization loudly and proudly proclaim: "We have become lean and mean." When did a lean and mean hospitality organization become desirable?

One leading writer pleaded with readers to not become a rat in the Year of the Rat.<sup>4</sup> It was noted that too many good employees are being dumped these days; the frequent targets seem to be middle management. It was also pointed out that corporate America had become lean and, sadly, mean due to massive mergers, layoffs, and re-engineering. Another leading writer simply stated the undesirable outcome: The leaner an organization gets, the meaner the people get.<sup>5</sup>

In the early 1990s, staffs were reduced at both the operating and corporate levels in the hospitality industry.<sup>6</sup> Some of these reductions

resulted from the “domino effect” created by the closing of automotive plants in Southeastern Michigan and the elimination of a number of military personnel and civilian workers at military bases across the country. Additionally, the activation of reservists due to the Persian Gulf War created shifts in employment levels among service workers. In the early 1990s, for example, the business and industry segment of food service, both contracted and self-operated, suffered the consequences of downsizing due to recession-plagued corporate America.<sup>7</sup>

### **Stock market rewards layoffs**

In early 1994, AT&T reported \$4.7 billion in profits, yet recorded a \$4.1 billion charge against 1995 earnings to “surplus” 40,000 workers.<sup>8</sup> The “surplus” (i.e., firings and layoffs) process was deemed necessary as AT&T restructured into three different businesses. It was also reported that several thousand middle and upper-level corporate managers, city workers, Wall Street employees, and retail workers were terminated in late 1995 through early 1996 in New York City alone. Two outcomes directly resulting from these downsizings were reported. First, there was an erosion in the size of the guest base for the 70 or more new restaurants, as well as traditional favorites, that had opened in New York City from October 1995 to February 1996. Second, the stock market appeared to reward publicly-traded companies with a three to four point boost in stock prices every time layoffs of any magnitude were announced, suggesting layoffs increase a firm’s market value.

### **Career casualties are increasing**

The results of an extensive study of career casualties of a leveraged buy out (LBO) were reported in 1990 when Canteen Corp. was acquired by TW Services, Inc. The article reported the effects of the LBO as the end of a successful corporate culture spanning over 60 (profitable) years, deep cuts (i.e. firings) of Canteen’s top and middle management, a breakdown of trust within the organization, and a streamlining of the company. A management consultant familiar with the situation was quoted as saying: “Corporate loyalty—at least where buyouts like this are concerned—has come to mean only one thing, a commitment to servicing your debt. That’s where management’s real loyalty is today. It has to be.”<sup>9</sup>

By contrast, United Airlines CEO Gerald Greenwald strongly believes in the value of consensus.<sup>10</sup> He states that one of the ways to build staff loyalty is to keep in mind the fundamental concerns of staff members who work with you. Management must realize that workers have legitimate concerns about job security; only as a last resort should abrupt layoffs be used.

But what about the after effects of becoming a lean and mean organization for the company and for the people who remain? While downsizing usually succeeds in reducing a portion of operating costs, the bolstering of profitability for the company and its shareholders is usually another matter, in that productivity and performance are sometimes compromised.<sup>11</sup> One survey reported that of the more than 1,000 companies that downsized during 1992, only 36 percent achieved the expected savings.<sup>12</sup> The question of the people who remain in the lean and mean organization is perhaps more difficult to address.

Albert J. Dunlap's book detailing his philosophies of management is appropriately entitled *Mean Business*.<sup>13</sup> Known as "Chainsaw Al" and "Rambo in Pinstripes," he is legendary for leading the most dramatic business turnarounds. His fundamental business principle is to make money for the shareholders, the owners. Further, his four-point turnaround program consists of the following:

- getting the right management
- cutting back to the lowest costs
- improving the balance sheet by selling noncore assets
- having a strategy.

At Scott Paper, he cut back 70 percent of upper management and eliminated more than 11,200 jobs, 35 percent of Scott's payroll. As a result, Scott's stock price rose from \$38 the day he arrived to \$89 (pre-split) a year later.

He wrote: "I may fire 35 percent of the workforce, but the remaining 65 percent have a more secure future than they ever before had in their lives." He criticizes companies that make decisions that are more in tune with employees than shareholders. "Employees are stakeholders but they don't deserve rights the way shareholders do, unless they've invested some money in the company they're working for." He closes his book by noting: "I cause people to achieve more than they ever thought they could achieve. The process is painful. Sometimes, it's ugly. But, in the end, it's worth it."

After completing his run at Scott Paper, Al Dunlap moved on to Sunbeam Corporation as chairman. His aggressive approach to downsizing continued at Sunbeam with the elimination of 3,000 people. Dunlap was quoted as saying: "If I don't get short-term results, there ain't no long term."

By contrast, Robert Goizueta, CEO of the Coca-Cola Co., delivered a 43 percent return on investors' money in 1996. He has demonstrated that the value of company shares can be increased over time while also benefiting customers, employees, business partners, and the community. The tradition built by Goizueta at Coca-Cola is to actively and

self-consciously consider the interests of customers, employees, and the community. To that end, he has made sure that many employees have the opportunity to own Coca-Cola stock. For Goizueta and Coca-Cola, the hospitable business philosophy has resulted in greater profitability.<sup>14</sup>

When a corporate or unit-level culture is radically changed, when the ax beheads managers and staff members alike while the survivors look on, when loyalty erodes and people become fearful, when the human toll steadily rises in the name of controlling costs and ramping up productivity to enhance efficiency, a lean and mean organization has then come into being. At what price does a hospitable organization become a lean and mean organization? Is it preferred and possible to become lean and loving, rather than mean, and still build value for shareholders, guests, and people who are key stakeholders in creating and delivering guest-driven service? Relevant research dealing with leader-member exchange (LMX), loyalty as a leadership concept, and layoff survivors' responses to organizational downsizing can possibly answer some of these questions.

#### **Leader-member exchanges should be considered**

There is a body of research<sup>15</sup> that argues that leadership does not take place between leaders and their followers as a collective, but that leaders differentiate their responses toward their various followers. In other words, leaders act and behave differently across the various members of the organization. This is best known in the literature as leader-member exchange (LMX). The research has primarily focused on the relationship between formal leaders in organizations and their immediate subordinates. The supposition that leaders do not act uniformly toward all staff members stands in contrast to traditional leadership theories that work from the premise that leaders have an average leadership style to which all followers are exposed. There is substantial evidence for the LMX approach within organizations at large and, more importantly, within hospitality companies.

The relationship between leaders in organizations and organizational members (i.e., potential followers) has been found to be related to a variety of variables important for hospitality companies. As a sample of variables, LMX is related to turnover, performance, job satisfaction, and burnout.

#### **Turnover and commitment are hospitality concerns**

Historically, hospitality organizations have been faced with high turnover at line-level, hourly staff levels. While turnover continues to be a vexing problem today, a shortage of qualified staff members due to tight labor markets has magnified the concern. Both turnover and occupational commitment can be predicted when considering LMX

quality. Staff members who have low quality LMX employers tend to leave their jobs more frequently, with resulting turnover increases, than those that have high quality LMX. Most research supports this relationship, although some researchers have not been able to specifically identify a relationship between LMX and turnover. This inability to specifically identify the relationship is not surprising because the leader-member relationship is only one of a multitude of potential predictors of turnover.

Early in the history of LMX research, scholars suggested there would be a positive relationship between LMX and organizational performance. This relationship has generally been identified, although in work situations where the leader is not needed to provide direction and structure nor socioemotional support, the LMX is less important. When a task is variable and unpredictable, direction and assistance from the leader are needed. Boring, and perhaps mundane, tasks may require the leader to provide socio-emotional support. For other tasks the supervisor is less necessary, and the relationship with the supervisor, the LMX, is of less importance and impact. Hospitality companies have many tasks that can be categorized as relatively mundane and routine, such as those performed by the housekeeping staff in the rooms department or the warewashing staff in the food and beverage department. Hospitality companies also have their share of tasks that vary greatly in demand and may be comparatively unpredictable; such as those performed by restaurant servers and front desk sales agents.

### **Job satisfaction is back**

A substantial amount of research has demonstrated that LMX quality is positively related to job satisfaction. These findings are important for hospitality organizations to the degree that those organizations value satisfied staff members. Recently research has shown that there *is* a relationship between job satisfaction and performance.<sup>16</sup> Furthermore, a relationship between job satisfaction and employee turnover, a pervasive hospitality concern, has also been established.<sup>17</sup> Finally, in a study of a hospitality company following a downsizing, job satisfaction was found to be negatively influenced by staff member stress levels and their perception that they were not being kept properly informed.<sup>18</sup>

Occupational tedium or burnout is a pervasive concern in many industries, including the hospitality industry. Burnout has a strong relationship with LMX. Burnout has negative effects on both staff members and the organization. Staff member consequences include physiological and psychosomatic effects, reduced job satisfaction, and negative behavioral adaptations such as heavy drinking or the use of illegal drugs. For the organization the consequences may be lost profits, dissatisfied staff

members, resulting in dissatisfied guests/customers, increased turnover, and negative work attitudes, which may lead to poor service quality.

### **LMX suggests lean, but not mean**

Based on LMX research, what can be concluded about the lean and mean approach in the hospitality industry? The research suggests that lean and loving may be more appropriate, if the organization is concerned about its staff members' performance, turnover, job satisfaction, and burnout. Hospitality research has proven that leaders who develop high quality LMX behave very differently from leaders that develop poor quality LMX. Research has shown that leaders who communicate on a regular basis with their immediate staff members develop much better LMX with those staff members. Furthermore, we know that those who use coercion with their staff develop low levels of LMX quality, while those who control rewards and use encouragement, when appropriate, develop high quality LMX.

Regarding communication, when leaders engage their immediate staff members in conversations about work and non-work issues, the leaders influence the LMX quality positively. It is important to note that the conversations under consideration are those that take place one-on-one between a leader and a staff member. The reference is not to communication from the leader to all the staff members at large. It would appear that when leaders, be they supervisors or managers, take the time to interact with their staff members one-on-one, they garner benefits in the form of improved relationships with their staff members. This fact alone demonstrates the importance and potential of mentoring programs or other opportunities for contact that increase communication and one-on-one interaction between supervisors and staff members.

People who have leaders who are perceived as having the ability to reward, and reward accordingly, see the benefits of developing or maintaining a good work relationship with the leader. In other words, they become followers and contributors. Leaders who do not have reward potential, or do not make use of such potential, have poorer LMX relationships, and are less likely to develop followers. If a hospitality organization does not provide leaders the ability to reward, LMX may be impaired.

Coercion, if used at all, should only be used sparingly, as the price it carries is high. When leaders use coercion to elicit desired work behaviors from their staff members, they simultaneously have a negative impact on relationships with those staff members. To minimize this potential negative effect in organizations that find it absolutely essential to utilize coercion, procedures could be instituted to distribute coercive power across supervisors, rather than have a single supervisor responsible for such action. For example, organizations



could refer issues of reprimand and discipline to an advisory group or committee for review.

When an organization has gone through a downsizing process, chances are that the members of the organization are in need of both socioemotional support and task structuring. Under these conditions, LMX has shown to have the clearest impact on performance. The LMX research does not address the issue of leanness, but does clearly suggest that meanness is not beneficial.

### **Loyalty is a leadership concern**

The following reported research<sup>19</sup> suggests that loyalty toward all organizational stakeholders is beneficial for the organization. In contrast to much current thinking, it is suggested that companies should not be loyal to shareholders first and foremost, but that loyalty toward other stakeholders, such as staff members, has the potential for having a dramatic positive impact on guest satisfaction and resulting company profits. Lean and loving is more appropriate than lean and mean. Only 36 percent of the companies that downsize see improved profits. The body of research suggests that such improvements are temporary improvements, as downsizing hurts long-term profits. Consistent with this, additional researchers have reported that layoffs do not, per se, bring enhanced productivity and performance.<sup>20</sup>

A great deal of research is offered in support of the loyalty effect, particularly as it relates to staff members in that it pertains to the notion of being lean and mean versus lean and loving. It is important to note, however, that loyalty toward other stakeholders (e.g., guests, suppliers) also has a positive impact on the organization's long-term profits and sustainability.

The research emphasizes the importance of the staff selection process, and suggests that much can be gained by selecting the "right" staff members. When a company has the "right" staff among its workforce, however, the research shows that the way in which these people are treated will have a dramatic effect on the company's longevity, productivity, and profits. The point is well made that when companies downsize, they often lose many of their most productive staff members. The loss occurs either by downsizing them out of the organization or through the staff members' self-selection to leave the increasingly lean and mean organization for other employment opportunities. Furthermore, leaders who have a lean and mean approach to staff members often find that, in addition to losing productive and well-trained staff members through reengineering, the "right" employees who are left after a downsizing process will be less motivated, more concerned about job security, and more likely to defect to other companies.

Research also shows that the cash and profit consequences of turnover usually are much worse than any estimates that the leaders

have made. Rather than treat staff members in a narrow, lean and mean fashion, leaders should seek to build positive relationships with staff members, and develop a reward and compensation system that aligns the staff members' interests with those of the company. Leaders need to create value for guests/customers, but they also need to create value for their staff members in order to retain the "right" staff members who in turn will assist in the creation of value for guests/customers. The research does not suggest blind kindness, but a clear, open, measured approach to rewarding all staff members.

A hospitality company, Chick-fil-A, is one of several companies that is an exemplar of those companies that have succeeded in earning staff member loyalty. Chick-fil-A has designed its compensation program in such a way that almost every move their managers make that will benefit the company will also benefit the managers. Furthermore, in contrast to many other hospitality companies, Chick-fil-A does not move its managers around from outlet to outlet, but keeps them in the same location so that they can develop the loyalty of their staff members, and also the loyalty of the local community, as they become an integral part of that community. The results are outstanding, in that Chick-fil-A experiences a 4 to 6 percent turnover of managers when 30 to 40 percent turnover in management is the industry norm. Turnover at the crew level is also low relative to industry averages because the company and the managers reward the crew and show care and concern for them. Annual growth for Chick-fil-A has been 10 to 15 percent, with no down years. The overriding reason for this success is that they are not lean and mean, but caring and concerned.

The philosophy of lean and mean is counter to a lean and loving (i.e., hospitable) hospitality culture. LMX research has clearly proven that the relationship between the leader and the staff members, on a one-to-one basis, clearly affects performance, job satisfaction, and burnout.<sup>21</sup> Further research has shown that the essential ingredient in guest/customer satisfaction, and the realization of financial goals, is the satisfaction and resulting loyalty of staff members.

Other concerns stem from layoff survivors' reactions to organizational changes in terms of shift in personnel, work routines, and work functioning. Layoff survivors' responses may also include decreases in openness to change, increased levels of perceived organizational chaos and overall decreases in positive affect toward their jobs in the leaner and meaner environment.<sup>22</sup> Clearly, lean and mean does not equal profitable and hospitable.

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