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Making the Most of Your Human Capital

Abstract

[Excerpt] If you ask hospitality executives and managers, “What keeps you up at night?” one of the most common responses is “human resources.” Indeed, there’s no question that you have to pay close attention to your workforce. We often use the term human capital to refer to employees, so when we talk about maximizing human capital, we are simply saying that you should make a focused effort to support and encourage your employees to do their best possible work. Since knowledge of how you and your firm can get the most from your employees has expanded greatly in recent years, we discuss ways to make the most of human capital. It wasn’t so long ago that managing human resources (HR) was primarily an administrative function. Today, however, the effective management of human capital requires more complex and sophisticated policies, programs, and systems that have a direct impact on your hospitality.

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Making the Most of Your Human Capital

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If you ask hospitality executives and managers, “What keeps you up at night?” one of the most common responses is “human resources.”¹ Indeed, there’s no question that you have to pay close attention to your workforce. We often use the term *human capital* to refer to employees, so when we talk about maximizing human capital, we are simply saying that you should make a focused effort to support and encourage your employees to do their best possible work. Since knowledge of how you and your firm can get the most from your employees has expanded greatly in recent years, we discuss ways to make the most of human capital. It wasn’t so long ago that managing human resources (HR) was primarily an administrative function. Today, however, the effective management of human capital requires more complex and sophisticated policies, programs, and systems that have a direct impact on your hospitality.

THE IMPORTANCE OF HUMAN CAPITAL IN THE HOSPITALITY INDUSTRY

No doubt you are well aware of the value of the employees who constitute your firm’s human capital. However, you also can see the factors that make it difficult for employees to do their jobs effectively. These problems stem primarily from the nature of front-line work in the hospitality industry. The hours are long, and many operations are open 24 hours a day, 365 days a year. In addition, customers

¹ C. A.ENZ, “What Keeps You Up at Night? Key Issues of Concern for Lodging Managers,” *Cornell Hotel and Restaurant Administration Quarterly* 42(2) (April 2001): 38 – 45; and C. A.ENZ, “Issues of Concern for Restaurant Owners and Managers,” *Cornell Hotel & Restaurant Administration Quarterly* 45(4) (2004): 315 –332.

can be fickle and demanding. Moreover, the nature of work in many front-line hospitality positions is fairly low in complexity, relatively stable, and requires little or no formal education and training.² Finally, the labor force is extremely diverse, which poses significant cultural and communication challenges. As such, a well-considered HR strategy is essential, since you must find individuals who are not only able to work in this kind of context, but who also are motivated to excel.

Emerging Forces and Key Implications

In addition to the challenges noted above, there are a number of competitive forces that could impede your efforts to optimize your human capital. One of the most salient factors is globalization. This isn't a new trend, but it has accelerated significantly in recent years. Even though you may not see a direct effect from globalization on your local or regional operation, your brand undoubtedly considers itself in global terms. It's also true that global concerns place significant pressures on how hospitality firms attract, select, and retain quality employees. For example, Zurich-based Mövenpick Hotels & Resorts, which managed about 70 properties in 26 countries in the mid-2000s, sought to increase the number of properties in its portfolio to 100 by the end of 2010. Most of the new properties were to be developed in Asia, the Middle East, and Africa, which means that its property-level leaders must not only fulfill their functional responsibilities, but they must also “carry the flag” and help the firm enhance its identity and overall competitive position. These dynamics require careful consideration of the HR policies, procedures, and systems that are used to attract, select, develop and retain individuals who will support Mövenpick's growth plans. Some of these leaders will undoubtedly be expatriates, with all the complications that entails (see Chapter 6).

The need to maintain efficiency—and often to do more with less—while increasing quality will also play a major role in your human capital management decision making. For example, companies such

² J. B. Tracey, M. C. Sturman, and M. J. Tews, “Ability versus Personality: Factors that Predict Employee Job Performance,” *Cornell Hotel and Restaurant Administration Quarterly* 48(3) (2007): 313–322.

as Four Seasons Hotels and Resorts, Royal Caribbean International, and Union Square Hospitality Group have included environmental sustainability as a central part of their overarching business plans, in part to reduce their operating costs, but also to enhance their social responsibility. To support these plans, a number of human capital management initiatives have been developed and implemented, including job descriptions that articulate “green” responsibilities, training programs that teach employees how to conserve energy and reduce waste, and incentive programs for meeting sustainability goals. These practices exemplify a purposeful and objective means for supporting the corporate value system, and demonstrate the ways in which human capital management can be linked directly to strategic-level priorities. Moreover, the results from this type of strategic alignment are reflected in the company’s financial results and provide a strong basis for creating a balance between efficiency and growth.

Another competitive challenge comes from your customers, who are increasingly demanding that your employees provide more and better service. In response, a number of companies, including ARAMARK, Hillstone Restaurant Group, Loews Hotels and Resorts, and Ritz-Carlton, have structured jobs that give front-line employees significant discretion to accommodate guest needs and requests. This empowerment approach to job design is supported by several human capital management initiatives, such as rigorous selection procedures, comprehensive training programs, and incentive programs that link individual and collective performance to clearly defined performance outcomes.

You certainly have found that advancements in technology give you the potential to expedite and automate routine transactional work so you can focus on value-adding activities that enhance the functionality and effectiveness of your decision making. Starwood, for one, has an extensive information systems platform that provides real-time access to comprehensive information that can be used for a variety of planning and evaluation efforts—including workforce scheduling, performance management, and succession forecasting. Such systems provide the means to respond to, and even anticipate, your company’s ongoing human capital needs, and increase the timeliness and quality of all human capital management decision making.

Then again, the pace of technological change means that you and your employees must embrace continuous improvement and engage in behaviors that support experimentation and innovation. So your HR strategy may be caught up in competing demands, muddy information, noisy communication systems, and organizational politics—not to mention external competitive forces. With that background in mind, let's look at the HR strategies that should help your hospitality firm achieve its overall strategic objectives.

HUMAN CAPITAL BEST PRACTICES

Your human capital strategy begins with plans and an infrastructure that addresses your organization's specific needs. From a strategic point of view, the primary focus is to start with your existing strengths—the knowledge, skills, and abilities of current employees—and to figure out how to get more of what you need. So, you identify and retain talent that can support your firm's competitive strategy and contribute to achieving your firm's strategic goals, and then you recruit and hire additional the employees who reinforce and complement this vision. Your employees all must share a commitment to the firm's objectives, and all individuals should demonstrate the ability and willingness to learn and grow. When these conditions are met, the firm becomes more agile and adaptable to the changes it faces. It goes without saying that some employees are more critical to your firm than others. This means that your firm's HR policies, practices, and systems must account for the differences in employee contribution (and ability), while simultaneously providing a means for developing and supporting all employees. This leads to a "best practices" HR system that is able to develop talented, committed employees who are capable of continuous learning and growth. Such an HR system is dynamic and flexible. Not only does it respond to the external and internal forces of change, but it can also help forecast and prepare your firm for future competitive conditions. Let's outline some of the best practices that can help you ensure effective management and promote a long-term competitive advantage.

Strong, People-Focused Culture

One of the most fundamental human capital management best practices is the development and reinforcement of a culture that emphasizes the importance of people. This idea sounds fairly obvious and even simplistic, but creating and maintaining a work environment in which your employees know what types of behaviors and outcomes are most valued and needed by your firm can be difficult. In Chapter 9, we dug into the idea that a firm's culture stems primarily from the views expressed by senior management. This is the starting point for making the most of your human capital, by encouraging and supporting your employees to do their best possible work.

Based on the lead of top management, you must be able to articulate clear and compelling statements about what is important to your firm and what types of employee behaviors and outcomes are expected. In addition to “walking the talk,” you must communicate the firm's culture and core values using whatever resources and media are at hand. In particular, electronic media, such as e-mail, message boards, and social media, can be used quite effectively for communicating core values and directing employee conduct. For example, Bill Marriott has developed *Bill's Blog*, in which he expresses the importance of Marriott's corporate values to all employees and guests. This provides a foundation for all other human capital management policies, practices, and systems, a guide for tactical decisions, and a yardstick for measuring outcomes.

Flexible Job Design

With the diversity and complexity of the workforce—including the many single parents, dual-career couples, and parents with child care needs—it is necessary for hospitality firms to develop flexible jobs and work schedules. Many companies have adopted job-sharing programs that allow employees to share a position. However the job is split, it's a good idea to give the individuals who are sharing the job the opportunity to have a say in creating their own schedules, as that kind of autonomy provides an important source of ownership and motivation for those involved in the process. Depending on employee

preferences and your company's needs, the job can be divided so that one employee works Sunday through Wednesday, and another takes Thursday through Saturday. Instead of dividing the job by the day, another common approach is for employees to split a shift between them. Rather than splitting jobs, another flexibility option that is used in many businesses is to offer employees a compressed workweek. The most common approaches allow individuals the opportunity to work four 10-hour days or three 12-hour days. Finally, you can offer flextime. This approach gives employees the opportunity to choose when, and in some cases where they work (e.g., from home), as long as they are able to effectively accomplish their job.

A flexibility approach that was implemented at Le Meridien is the 60/40 job design. This plan gives managers employees who are capable of performing a wide array of multifunctional tasks, duties, and responsibilities. The basic premise is that at least 60 percent of an employee's time will be dedicated to one particular job (e.g., front-desk agent or receptionist), and the remainder of their time will be assigned according to the property's needs as they relate to the employee's interests and skill sets (e.g., previous experience with night audit, desire to take on food and beverage responsibilities). For employees, this kind of flexibility provides an enriched work experience and offers many opportunities for development and growth. At the same time, Le Meridien and other employers who use an approach like this can be more responsive to changing workload demands because their employees are highly skilled, engaged, and have a sense of purpose.

Another example of flexibility is the use of contingent, part-time, or temporary employees. This flexibility tactic may improve an organization's capacity to respond to specific and short-term competitive needs, such as hiring additional banquet servers for an event. This type of practice can provide an efficient means for addressing fluctuating demands and helps maintain a high-quality service environment that promotes customer satisfaction, loyalty, and, ultimately, profitability.

Rigorous Recruitment and Staffing Procedures

Your recruiting and hiring procedures can send a strong signal to potential employees about the kind of employer you are and, thus, directly affect the number and kinds of individuals who apply for your open positions. When recruiting employees, one of the most important considerations is the message or image that is conveyed in job advertisements. The standard, boilerplate help wanted ad is probably not where you want to start. You know the one, a short position description, a statement about offering “competitive” compensation and benefits, and an email address where applicants may submit their application or resume. Instead, recruitment ads should present a positive but balanced message that expresses not only what your firm needs, but what it has to offer—beyond a job. This shouldn’t be filled with advertising-speak puffery or business jargon. Instead, information about your culture, professional development opportunities, community involvement, and even awards or recognition your company has received—especially if the recognition has anything to do with being a “best place to work” or similar accolade—will have a direct effect on the number and quality of applicants you get.

Another good way to enhance your recruiting efforts is to use video-based, online job previews. A video can give prospective candidates the opportunity to see what the work environment is like instead of having to speculate. For example, Kimpton Hotels produced several “A day in my Kimpton life” video segments that are embedded in the HR section of their corporate Web site. Each segment offers insights from various employees—for example, a newly hired food-and-beverage management trainee, general manager, and executive housekeeper—about working at Kimpton. This kind of promotion helps prospective employees assess their fit for the organization, culture, and the job itself. Thus, the resulting applicant pool includes a higher percentage of individuals who are both qualified *and* interested.

Another way you can enhance the effectiveness of employee recruitment is to implement a referral rewards program, which usually involves a cash bonus when an employee identifies a candidate who takes the job and stays for some stated period of time. One of the key benefits of this practice is that it involves all staff in the recruitment process, and helps increase retention and overall employee morale.

When making hiring decisions, you need to go beyond interviews and background checks to determine the best candidates for your open positions. One of the best predictors of job performance for many jobs is an individual's general mental ability (GMA).³ This characteristic is similar to intelligence and provides an indication of a person's ability to learn new information quickly. Given the importance of doing things right in guest service, you can easily see the importance of hiring someone who is quick on the uptake. Many GMA assessments are easy to administer and inexpensive—some tests can be completed in about 15 minutes and cost a few dollars per applicant. In addition to GMA, some measures of personality are excellent predictors of job performance. In particular, a person's conscientiousness—the extent to which a person is efficient, punctual, well-organized, and dependable—can be a good indicator of a person's work results. Finally, obtaining objective measures of a candidate's ability to perform critical job functions should be included in the selection process. These assessments must be based on the position's essential tasks, duties, and responsibilities—for example, a drink-mixing test for bartenders, a sales pitch for sales managers, or a cash flow analysis for a controller—and administered in a standardized, consistent manner.

After a careful audit of their selection procedures, for instance, the corporate HR team at Uno Chicago Grill found that the scores from a 12-minute assessment of GMA and several items from a 20-minute personality survey were significant predictors of performance for servers, bartenders, and hosts in their restaurants. After using these tools for several months, management found that they had not only hired more capable, higher-performing employees who generated higher sales, but the recently hired staff also demonstrated higher levels of commitment, which significantly reduced employee turnover.⁴ Thus, increasing the rigor of selection procedures improved both top- and bottom-line performance by boosting efficiency and service quality.

³ Ibid.

⁴ J. B. Tracey and T. R. Hinkin, "Contextual Factors and Cost Profiles Associated with Employee Turnover," *Cornell Hotel & Restaurant Administration Quarterly* 49 (2008): 12–27.

Comprehensive Training and Development

Training is far more than simply showing someone what to do. Here is where instilling your corporate culture is critical. Once you have hired an individual, her or his experiences during the first few weeks on the job can deeply affect assimilation into your firm and proficiency in performing her or his key responsibilities. Start by getting the tedious and annoying administrative requirements out of the way. Before the first day on the job, ask the person to come in and sign tax and work eligibility forms, enroll in the benefits plan, obtain identification cards, and so on. Also, send new employees such items as the employee handbook, training guides, operating procedures, and related documentation before their first day to help them hit the ground running. If all this can be accomplished, your new employee can focus on more important matters on her or his first day, such as building relationships and learning the job. Although learning from other employees is a valuable training approach, your firm should have a formal employee orientation, with a structured induction or orientation program. Such programs are best designed and implemented using a collaborative approach whereby you, other managers, and coworkers take collective responsibility for ensuring that the new employee learns his or her job requirements, as well as the firm's cultural values and norms. You also should use on-the-job training, and classroom-based and computer-assisted training opportunities throughout, as well as ongoing assessment and feedback so that everyone involved—especially the new employee—knows that he or she is making adequate progress.

Orientation and training should be just the beginning of an employee's continuous learning efforts. Many successful hospitality organizations offer a wide variety of professional development opportunities. In addition to formal programs that are specifically directed toward improving job performance and enhancing career advancement, employees should have access to cross-functional assignments, special projects, and even community service involvement—especially when such efforts are clearly linked to core firm values or strategic priorities. Management involvement, flexible jobs (similar to Le Meridien's 60/40 plan), and accountability and reward systems that reinforce the

application of newly acquired knowledge and skills, are also necessary for supporting for these types of learning-focused environments, and promoting a continuous improvement workplace.

One company that offers a wide range of training and development programs for its employees is Taj Hotels and Resorts. Staff members have the opportunity to develop skills in an area of specialization, or pursue broader development opportunities that may prepare them for both domestic and international assignments. Taj offers continuous training that involves both on-the-job and formal classroom development opportunities—including programs on Taj’s service culture and courses on food and wine pairing, business writing, and financial management. All programs are evaluated using rigorous assessment methods. Results are tied directly to program improvement efforts, and performance incentives are given to those who effectively use their newly acquired knowledge and skills.

Clear, Comprehensive, and Open-Book Performance Evaluation

The final step in ensuring your employees’ success—and that of your organization—is to be clear about individual performance requirements and to measure and reward employees based on the stated expectations. Every study that we have seen emphasizes the importance of clear management expectations.⁵ These drive excellence in customer service and are critical for financial success. As a side effect, employees who work for employers who cultivate a positive work climate (which is created by clear and consistent management expectations) are generally happier and more productive than those who are not sure about how they will be evaluated. So employees should have a clear understanding of what is required of them, and how decisions based on performance evaluation information are made, such as merit pay adjustments, incentives, recognition programs, and promotions. In addition, collective contributions should also be incorporated in performance evaluation systems. In hospitality contexts, departmental ratings of customer satisfaction provide an excellent means for linking individual efforts and

⁵ See, for example, S. A. Way, M. C. Sturman, and C. Raab, “What Matters More? Contrasting the Effects of Job Satisfaction and Service Climate on Hotel Food and Beverage Managers’ Job Performance,” *Cornell Hospitality Quarterly* 51(3) (August 2010): 379–397.

results to a key indicator of firm performance. In fact, customer satisfaction and loyalty have been shown to be leading indicators of financial performance in several hospitality and service firms.⁶

Make sure that your performance evaluation draws from multiple reliable sources. Then you must make sure that you use that information for both evaluative and developmental purposes. In addition to linking evaluations to customer satisfaction, service quality indices, and other strategically important outcomes, assessments of individual performance requirements should be based on self- and supervisor reports—and those of peers and subordinates as applicable. In addition, a substantial proportion of an employee's annual performance assessment should be linked directly to behaviors that support the firm's culture and core values. This portfolio-based approach generates information about how well an employee is performing and contributing to important organizational requirements, as well as developmental information that can be used for identifying training and development needs, developing succession plans, and other types of planning-based decisions. ARAMARK's career management program (CMP), for instance, incorporates multiple sources of performance data that include job-specific requirements (e.g., maintaining compliance with all safety and sanitation requirements), and strategically critical requirements (e.g., helping meet or exceed revenue targets for base business growth). Moreover, the results are tied directly to training and succession plans and merit pay decisions.

Strategically Based and Balanced Incentives

Incentives play an important role in attracting, retaining, and motivating employees. An effective incentive system goes beyond “competitive” base compensation (within 10 percent of the market average), although a competitive base pay certainly is necessary. Beyond that, decisions regarding incentives must be just like those involving performance evaluation—that is, based on clearly defined objectives and linked to other HR policies and programs as appropriate. Performance bonuses and profit

⁶ J. L. Heskett, T. O. Jones, G. W. Loveman, W. E. Sasser, and L. A. Schlesinger, “Putting the Service-Profit Chain to Work,” *Harvard Business Review* 86 (2008):118–129; and G. W. Loveman, “Employee Satisfaction, Customer Loyalty, and Financial Performance: An Empirical Examination of the Service Profit Chain in Retail Banking,” *Journal of Service Research* 1 (1998): 18–31.

sharing should be part of all reward and incentive programs, because they provide a strong basis for creating high performance work systems, promoting teamwork, and helping to motivate employees to go beyond their performance expectations.

A good example of a strategically based incentive program comes from Harrah's Entertainment. CEO Gary Loveman and his senior HR leadership team developed a bonus program for all line employees that is based exclusively on customer satisfaction scores from the Targeted Player Survey, which is an assessment tool that captures perceptions about service quality among Harrah's reward players. Employees are awarded credits that they can redeem for a wide array of merchandise, similar to credit card reward points. These awards are allocated every quarter to all employees who work in departments that meet or exceed their specific customer satisfaction standards. One big benefit of this program is that Loveman has first-hand knowledge regarding the firm's customer satisfaction status. Because of the relationship between satisfied customers and financial success, Harrah's customer service reward program is actually a means for driving financial performance. The more satisfied the targeted players, the more likely they will remain loyal and generate predictable increases in revenue for Harrah's. Another key benefit of this incentive program is that it promotes continuous improvement efforts. A focus on meeting and exceeding customer expectations induces people to experiment and search for ways to enhance the quality of service.

Finally, you should ensure that all incentives have personal meaning for your employees. Money is important, but don't overlook the intangibles. Employees need to know they are valued, which you can demonstrate through praise and recognition for achieving work goals, going the extra mile, and being a good organizational citizen. In this regard, you must continuously articulate and communicate the behaviors and performance outcomes that you value. Incentive programs should also include policies that extend beyond work, such as those that help employees maintain a healthy work-life balance. Policies such as flexible job designs and family-friendly and community-focused policies not only provide employees opportunities to effectively manage their personal lives, but they also strengthen your

operations. Employees who have time to take care of family members or to attend their children's school-related functions will be more focused on the job. Employees who volunteer their time to charitable organizations help create a better environment in your community. Policies that offer incentives for employees to participate in activities that extend beyond their immediate work settings can have a substantial impact on job satisfaction, organizational commitment, and of course, performance. In addition, these kinds of efforts enhance a firm's image and can strengthen the firm's overall brand.

The Need for Evaluation and Flexibility

We have discussed several human capital management best practices that will help your hospitality firm encourage employees to perform at their best level. Merely adopting these practices without consistent application will not provide the benefits that you might expect. Instead, continuous monitoring and assessment is needed to ensure that all major policies, practices, and systems create value. This means that you and your firm's leaders must clearly understand the evaluation procedures that can be used to examine the impact of all components of your firm's human capital management system—including demonstrating that information gathered during the selection process can predict future job performance, and showing that the various health and welfare benefits are linked to employee morale and retention.

In closing, all human capital, or HR, management policies, procedures, and systems must be flexible and adaptive. For example, when an employee attends training, performance evaluations must be modified to account for the individual's use of the new knowledge and skills. Moreover, employees who effectively use their training on the job should be rewarded for doing so. If such changes are not made, then the time, effort, and money that were invested will be wasted. This is the core principle of strategic resources as we have presented it here: be clear, be consistent, and be fair. Your employees will respond by doing their best to deliver the best possible customer service.