

# Managing an Internationally Diversified Workforce and its Impact on Cost, Quality, and Customer Satisfaction; the case of SMEs in the Cyprus Hotel Industry

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*Abstract:* - Over the last two decades and with the integration of more countries into the European Union, the workforce of many SMEs (Small to Medium Sized Enterprises) in Europe is now very international. This workforce diversity is a great opportunity but also a great challenge for entrepreneurs and managers. Especially, Cyprus, being an attractive tourist destination and a generator of new jobs, became also attractive for international workers. The hotel industry is one of the main business sectors that has greatly been affected by the international workforce reality. Despite the benefits, managing an international workforce is a great challenge for entrepreneurs and managers and there are many human resource management issues that need to be resolved in order to run successfully a hotel business enterprise. The hotel industry is very demanding, requiring frontline staff to work long, irregular, and unsociable hours while paying low wages. On the other hand, hotel employees need to be kept happy as it is actually them who truly provide the competitive advantage to the hotel SME since they are directly providing the main service to the customer. In fact, many studies show that the hotel industry being predominantly a labour intensive industry should invest in human resources and the quality of its staff. The purpose of this paper is to examine the impact on competitiveness with the internationalization of the workforce of SMEs in the hotel industry. The competitive priorities for the purpose of this study are isolated in the degree of cost reduction, the service quality dimension and the response to customer requirements. As a result, recommendations are given to SMEs in the hotel industry on how to properly utilize the social and technical skills of its international workforce to provide high quality service in a cost effective way but also innovate and thus become truly competitive.

*Key-Words:* - Small to Medium Sized Enterprises (SMEs), International Business, Workforce Diversity, Human Resource Management, Hotel Management

## 1 Introduction

Workforce diversity is undoubtedly a positive factor for organizational performance but at the same time it remains a great challenge for management. Especially, in today's globalized world, businesses face the challenge of effectively managing a diverse international workforce. Over the last decade and especially after the entrance of Cyprus into the European Union, Cyprus became an attractive destination of foreign labour. As a result of this mobility the labour market of Cyprus became very international. The hotel industry is one of the largest sectors of the Cyprus economy that has been greatly influenced by this major change in the labour market. It could be claimed that nowadays the hotel industry is very much depended on international workforce. Baum (2012) [1] in a recent study of several cases around the world on Migrant workers

in the international hotel industry shows the interdependence of foreign workers and the hotel industry.

Looking deeper into the subject matter, the hotel industry is a labour-intensive industry and thereby its success depends on the social and technical skills of its personnel, their ingenuity and hard work, their commitment and attitude. It is also true that in a labour-intensive industry, the effective utilisation of human resources can give an organisation its competitive edge. Thus, the success of the hotel industry depends on the quality of its employees and their effective management in order to assist the organisation to achieve its objectives. In the hotel industry, it is the employees who provide the competitive advantage to the organization since they are the ones that directly deal with the customer and deliver the products and services. Therefore, central

to the achievement of competitive advantage in the hotel industry is the quality of staff.

Even though everybody agrees on employing HRM practices there are many questions that remain open such as the following. Which HRM practices should be given more emphasis? Which management practices are more associated with performance especially when we have an internationally diversified workforce? What is the actual impact on specific performance metrics such as cost and quality? How do we design an HRM system to respond to the challenge of an international workforce? These questions need answers if we will be able to manage effectively.

The purpose of this paper is to examine these questions and specifically evaluate the impact of HRM practices on the main competitive priorities in the hotel industry. The competitive priorities for the purpose of this study are isolated in the degree of cost reduction, the service quality dimension and the response to customer requirements.

The next section goes through a literature on HRM practices and hotel performance. As result, gaps and issues are explored, and new areas of research are identified. This is followed by the methodology section which explains the main research questions and the procedure followed to resolve them. Next we have the main results, which show the relationship between the main factors that contribute to competitiveness using correlational analysis. Finally, conclusions are drawn and recommendations are given to the hotel industry.

## 2 Literature Review

Numerous research works have tried to identify the link between human resource management practices and hotel performance. Research during the past years had the purpose to identify those elements in the working environment, which are associated with important result metrics such as service quality, customer satisfaction and business performance. The various research studies have examined the importance of training provision on customer satisfaction, financial performance and productivity. Findings indicate a positive relationship between HRM practices such as strong training policies and the above three variables.

Unfortunately, the hotel industry has neglected its human resources (HR). The hospitality industry has a reputation for being demanding, requiring frontline staff to work long, irregular, and unsociable hours while paying low wages (Janes &

Wisnom, 2010) [2]. As a consequence of such poor working conditions hotels seemingly spend more on administrative costs, which affect their revenues and ultimately the profitability of the organization. Costs arising from dismissal compensations, new hiring and training, time to learn and low productivity have a negative effect not only on profitability but also on customer service. Hence, Baum (2007) [3] urges the hotel industry to adopt “good human resource management practices” since in this industry, “the human resources are the most important resource.” Furthermore, Baum (2007) [3] purports that in most service industries it is the HR that creates the competitive advantage for the organization.

Despite the above research findings the challenge remains to develop a comprehensive and effective HRM system. Unfortunately, human resource management departments of hospitality organisations constitute a so called “cost centre”. This is because although the investment on employees is directly measurable, in contrast, the outcomes of this investment are very difficult to measure. These outcomes are generally measured with intangible factors such as employee engagement surveys, customer satisfaction indexes, customer complaints, etc..

Further, in a relatively recent article on workforce diversity and HRM Alcázar *et al* (2013) [4] suggest that managing a heterogeneous workforce requires a holistic transformation of human resource strategies and there is a need to define cross-cultural and diversity-oriented models based on the business context.

In an era of globalization of production and markets what is missing from the literature is studies of more quantitative nature on the impact of workforce internationalization on real costs, service quality, and Customer Satisfaction. Also, instead of trying to suggest universal conclusions studies should take into account the context, which in our case is the hotel industry. The authors experience with SMEs shows that the context plays a significant role. Especially, in the hotel industry of Cyprus, which consists mainly of SMEs such a study is original. In the next section we explain our approach to tackle this issue of HRM practices and their relation to competitiveness of hotel business enterprises.

## 3 Methodology

A multi-dimensional questionnaire, with Likert-scale questions, has been designed in order to

collect quantitative data. Questionnaires were conducted through an interactive interview and consequently, data has been collected in a quantitative form. This is based on the multi-method technique called “questerviews” (Adamson, et al., 2004) [5]. The questionnaire utilized a Likert scale where each question was scored on a 10-point scale. The questionnaire was used as the instrument for gathering information from the respondents, which in our case where representing Hotel SMEs of Cyprus.

The survey was conducted on 40 Hotels throughout the 5 districts of Cyprus. The participating hotels have been selected randomly. The questionnaire was addressed to the Human Resource Management directors of the Hotels.

The process for collecting data was initiated by phone and email contact in order to arrange a meeting if the Hotel was willing to participate in the survey. I need to note that a large number of Hotels declined to participate due to their companies' protocol or due to unexpected last minute obligations. Then the meeting took place and the questionnaire was answered in a face to face interview in order to eliminate the chance of error or misunderstanding. The data collection was carried out over a 5-week period. This was followed by a statistical analysis of the results, which is presented in the next section.

## 4 Results

The factors/criteria that are considered by the hotel management in the process of recruiting foreign employees were thoroughly investigated. The results are presented in table 1 below.

Table 1: Factors/criteria considered in the recruitment of foreign employees

	Mean	Std. Deviation
Cost reduction	3,63	1,25
Reduced expectations on behalf of foreign employees.	3,18	1,15
Availability to work part time	3,7	1,09
Entrance of new "air" into the business	2,45	1,15
Productivity efficiency	2,13	1,04
Increased Communication	2,5	1,06
Willingness to adopt the hotel culture	2,68	0,92
Service quality perception	2,78	0,97
Country of origin	2,58	1,13

Skills and Knowledge for the position	2,48	1,26
Training and development willingness	2,85	0,80
Long employment duration	2,78	0,86
Ability to maintain good professional relationship with their colleagues	2,90	1,01
Level of absenteeism	2,85	1,25

The research results reveal that the main criterion that is considered in the recruitment process is the availability of those employees to work on a part time basis. Equal importance is given to the objective of reducing the cost of the service operation. The Cypriot managers in the hotel industry believe that foreign employees have low expectations in terms of fridge benefits. This is considered as an advantage and is in fact a decisive positive factor/criterion in recruiting foreign employees. Interestingly foreign employees are not considered as highly productive and efficient and this factor is not taken into consideration in the decision making process.

As seen below, table 2 shows the correlation between the factors/criteria that hotel managers consider in hiring foreign employees with the level of achievement of a specific competitive priority (Cost reduction, Service Quality and Response to Customer Needs).

Table 2: Correlation between the factors/criteria that hotels consider in hiring foreign employees and the achievement of a specific competitive priority

	Correlation coefficient ( r )		
	Cost reduction	Service quality	Response to customers' needs
Cost reduction	,678**	,105	-,295
Reduced expectations on behalf of foreign employees	,549**	,083	-,198
Availability to work part time	,330*	-,005	-,218
Entrance of new "air" into the business	,116	,466**	,309
Productivity efficiency	,179	,607**	,447**
Increased Communication	-,069	,419**	,483**
Willingness to adapt with the hotel culture	,081	,651**	,375*
Service quality perception	-,025	,539**	,374*
Country of origin	,097	,346*	,182
Skills and Knowledge for the position	,015	,412**	,264
Training and development willingness	,225	,656**	,327*
Long employment	,020	-,102	,117

duration			
Ability to maintain good professional relationship with their colleagues	-,299	,265	,242
Low level of absenteeism	-,193	,131	,022

The factor with the greatest impact on Cost Reduction is the degree of considering cost reduction in hiring foreign employees ( $r= 0,678$ ) followed by the reduced expectations on behalf of foreign employees ( $r= 0,549$ ). Also important contributing factor with positive influence to Cost Reduction is the degree of considering the availability of working part-time.

The factor/criterion with the highest contribution on the service quality dimension is the willingness of foreign employees to upgrade their skills and knowledge and develop their capabilities ( $r= 0.656$ ). Employee willingness to adapt with hotel's culture is found to be highly correlated with the achievement of increased service quality ( $r= 0.651$ ). Increased service quality is also highly affected by the productivity / efficiency criterion. Interestingly this factor is positively correlated with the response to customer needs competitive priority. The increased communication level criterion is significantly correlated with both the increased service quality competitive priority and the response to customer needs.

The communication criterion exerts the higher impact on the achievement of the 'response to customer needs' competitive advantage ( $r=0.483$ ). Highly correlated contributing factors on the achievement of increased response to customer needs is found to be also, the productivity/efficiency criterion ( $r=0.447$ ), the employee willingness to adapt with the hotel's culture ( $r=0.375$ ) and the service quality perception that foreign employees maintain ( $r= 0.374$ ).

One important finding here, is that the criterion of Entrance of new "air" into the business, Productivity efficiency, Increased Communication, Willingness to adapt with the hotel culture, Service quality perception, Training and development willingness are highly correlated to both increased service quality dimension and ability to response to customer needs.

Further to the above analysis, the Management / Organization practices and competitive priorities were examined as shown below. Consequently, the impact of the application of specific HR management practices and organization characteristics on the achievement of a specific competitive priority has been investigated. The

results of this correlation are tabulated in table 3 below.

Table 3. The impact of management / organizational practices associated with foreign employees on the competitiveness of the hotels.

	Correlation coefficient ( r )		
	Cost reduction	Service quality	Response to customers' needs
Level of Employee skills and knowledge	-0.154	0.219	0.270
Training provision to employees	-0.356	0.090	0.329
Degree of application of diversity Management practices	0.131	0.278	0.169
Fitness within the culture of the organization	-0.263	0.202	0.164
Level of employee turnover	0.247	-0.069	-0.228
Level of Unjustifiable absences	-0.007	-0.033	-0.167
Relationship between Local and foreign employees	0.050	-0.045	-0.090
Existence of motivation system	-0.316	0.253	0.386
Formal hiring procedures	-0.32	0.294	0.367
Personnel training and development procedures	-0.241	0.134	0.280
Detailed Job Descriptions	-0.279	0.150	0.313
Evaluation System	-0.249	0.074	0.122
Employee involvement in the determination of the company's objectives	-0.313	0.031	0.144
Employee empowerment procedures	-0.134	-0.019	0.021
Level that employees are undertaking initiatives	-0.240	0.001	0.059

The results reveal that training provision to the foreign employees is positively correlated with the achievement of high response to customer needs on the one hand but on the other hand this is negatively correlated with the cost reduction. The same picture appears with existence of a formal motivation system. The existence of such a system fosters the response to customer requirement but has a negative impact on cost. Further, formal hiring procedures and proper application of those procedures have a positive impact on the level of service quality achieved and on the responses to customer requirements. On the other hand, this is negatively correlated with cost reduction.

A quite interesting finding is that the practice of involving foreign employees in the decision making

process is found to be negatively correlated with the cost reduction. This practice has no significant impact on the level of service quality obtained and the response to customer needs. Also, the existence of detailed job descriptions is found to have a positive correlation with the response to customer needs and negatively correlated with the cost reduction.

## 5 Conclusions

This paper examined the relationship between the main factors associated with Human Resource Management practices and competitiveness of Hotel SMEs in Cyprus. Factors such as hiring processes, training and development, motivation systems, job enrichment, organizational culture etc. were explored in relation to Cost Reduction, Quality of Service and Response to real customer needs.

Overall the results showed a positive contribution of an internationally diversified workforce but there are also some areas of concern that need to be further investigated. For example, job enrichment practices such as involving foreign workers in decision making processes found to be associated with higher costs. This might be due to communication problems that create delays in making the decisions. Communication was found to be the most important factor when correlated with the “response to customer needs” dimension. Moreover, the existence of detailed job descriptions was found to have a positive correlation with the response to customer needs but negatively correlated with cost reduction.

In order to improve performance in all dimensions, hotel managers should be giving extra attention to resolve HR issues and especially communication problems that arise as a result of an international workforce. Further, from our analysis some important factors emerged that explain to a large degree the ability of hotels to perform well. These are the “Existence of Formal Human Resource Management practices”; the “Level of Matching of skills and knowledge of foreign employees with the needs and culture of the Hotel”; and the “Degree of addressing diversity management practices”. The authors plan to further study the above factors in the process of creating a model to explain what really contributes to hotel performance and competitiveness.

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