
Human resources, service quality and performance: a case study

Peter Haynes

Principal Lecturer in Employment Relations and HRM in the Manukau Business School, Manukau Institute of Technology, Auckland, New Zealand

Glenda Fryer

Senior Lecturer in the School of Hotel and Restaurant Studies, Auckland University of Technology, New Zealand

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Abstract

The relationship between specific "bundles" of human resource management (HRM) policies and practices and organisational performance in the hospitality industry is not well understood. Based on open-ended interviews with managerial staff, and examination of management documents, the human resource management policies and practices adopted by a luxury hotel in support of a strategic decision to enhance quality are considered in order to shed light on the nature of the relationship between HRM bundles and effectiveness in a quality-focused service context. The main features of the HRM policy and practice changes are outlined, along with associated changes to work design and organisation structure. The changes adopted are shown to have measurable positive effects on the key indicators of service used by the organisation. Support for the most commonly discussed models of HRM in the service sector is found.

Introduction

It is often argued that, given the importance of the customer/employee interaction to the service encounter, human resource management (HRM) has a key role to play in securing high levels of service quality. The consumer of a service, it is proposed, engages in a subtle and complex experience which is personal and psychological, unlike the act of consuming a product (Schneider and Bowen, 1993). Surprisingly then, our understanding of the relationship between HRM policies and practices and service quality remains incomplete. Redman and Mathews (1998, p. 71) sum up the literature thus:

the advice is largely normative and the links between good HRM practice and the quality of service that the customer receives are typically only inferred.

This lack of understanding may be partly due to the traditional focus of HRM on quantifiable outcomes not directly related to service: labour turnover, absenteeism, accident rates, productivity, and so on. Schneider (1994) attributes the lack of focus on service outcomes as a measure of HRM performance to the manufacturing paradigm within which HRM is said to have developed. However, as we discuss below, the HRM literature in general has tended to assume that the linkages between HRM and organisational performance are positive. Interest in the measurement of the effects of HRM (as opposed to individual HRM practices) on organisational performance, however defined, has been limited until recently.

This article briefly reviews recent developments in HRM theory about the relationship between HRM policies and practices and organisational performance. It argues that a model of the ideal configuration

of HRM policies and practices appropriate to a high quality strategy will lead to a better understanding of the linkages between HRM and service quality. Attempts to typologise HRM in the sector are discussed. The HRM policies and practices adopted by a large luxury hotel in support of a strategic decision to enhance quality are then examined. The effectiveness of the HRM strategy outlined is assessed and the strategy is discussed in terms of previous attempts to model HRM in the service sector and the need to determine the characteristics of effective HRM bundles in the hospitality industry.

Linking HRM and performance

Over the past decade a number of studies have reported a positive relationship between high commitment or high performance HRM policies and practices, and organisational performance (Arthur, 1994; Delaney and Huselid, 1996; Huselid, 1995; Huselid *et al.*, 1997; MacDuffie, 1995). More recently, attention has focused on the ability of internally consistent and synergistic HRM "bundles" or systems, in particular, to create a source of sustained competitive advantage, especially when aligned with organisational strategies (Arthur, 1992; Dyer and Reeves, 1995; Ichniowski, *et al.*, 1997; MacDuffie, 1995). However, the development of theory has not matched the encouraging empirical results. Importantly, these attempts to demonstrate statistically the effects of HRM leave the exact nature of the relationship between particular bundles and organisational performance unclear (Dyer and Reeves, 1995; Guest, 1997; Peccei and Rosenthal, 1997). The linkages between HRM, the intervening variables (commonly held in the HRM literature to be employee attitudes and individual and group behaviour) and organisational performance have been neglected in the empirical studies (Guest, 1997; Peccei and Rosenthal, 1997).



This theoretical weakness becomes critical in the case of the hospitality industry (Haynes, 1999). The empirical studies have tended to focus on the manufacturing sector (e.g. Arthur, 1992, 1994; Cutcher-Gershenfeld, 1991; Ichniowski *et al.*, 1997; MacDuffie, 1995; Youndt *et al.*, 1996) or have surveyed employers across different sectors (e.g. Delaney and Huselid, 1996; Huselid, 1995; Huselid *et al.*, 1997). However, following Regan (1963, cited in Redman and Mathews, 1998), many writers have distinguished the service sector from the manufactured goods sector on the basis that the services provided are intangible, inseparable from the service producer, non-standardised and perishable. This view implies a critical importance for the producer-consumer interaction within the service offer in determining the customer's perceptions of service quality, which is most frequently defined as exceeding the customer's expectations. Research into the specific links between the appropriate configuration of HRM policies and practices and customer-perceived quality is therefore important. However, the amount of effort invested in researching the worker response to the service encounter has not matched that analysing the customer response.

A significant exception is the work of Peccei and Rosenthal (1997). This seeks to identify the antecedents of employee commitment to customer service in order to better understand how the intervening variables of employee attitudes and behaviour may link HRM practices and organisational performance in the service sector. Peccei and Rosenthal survey a large sample of service industry employees in order to throw light on these linkages. The present study attempts to identify the characteristics of the bundle of HRM policies and practices most likely to generate high organisational performance in the hospitality industry by reviewing the experience of a single service sector organisation. Although the focus is establishment-level, the HRM practices adopted may be compared with those implied by the findings of Peccei and Rosenthal's individual-level study.

HRM and the service sector

It is possible to differentiate customer-orientation (Bowen and Basch, 1992) or service operational types (Heskett *et al.*, 1990) within the service sector in order to better identify, if not model, appropriate management approaches. Lashley (1998)

classifies the most suitable HRM approaches for service operations according to the degree of customisation of the service offer and the form and *locus* of management control of employee performance. The latter refers to the extent to which control is exercised by management externally (through monitoring, performance pay, etc.) as opposed to control strategies reliant on employees internalising organisational objectives. Four ideal types are identified: involvement, professional, participative, and command and control (see Figure 1).

This represents an important attempt to model the most appropriate HRM bundles for the service sector, taking into account the importance and nature of the personalised "service offer", which is at the same time constrained by financial and marketing factors; primarily cost considerations and the requirements to maintain brand consistency (Lashley, 1998: 27).

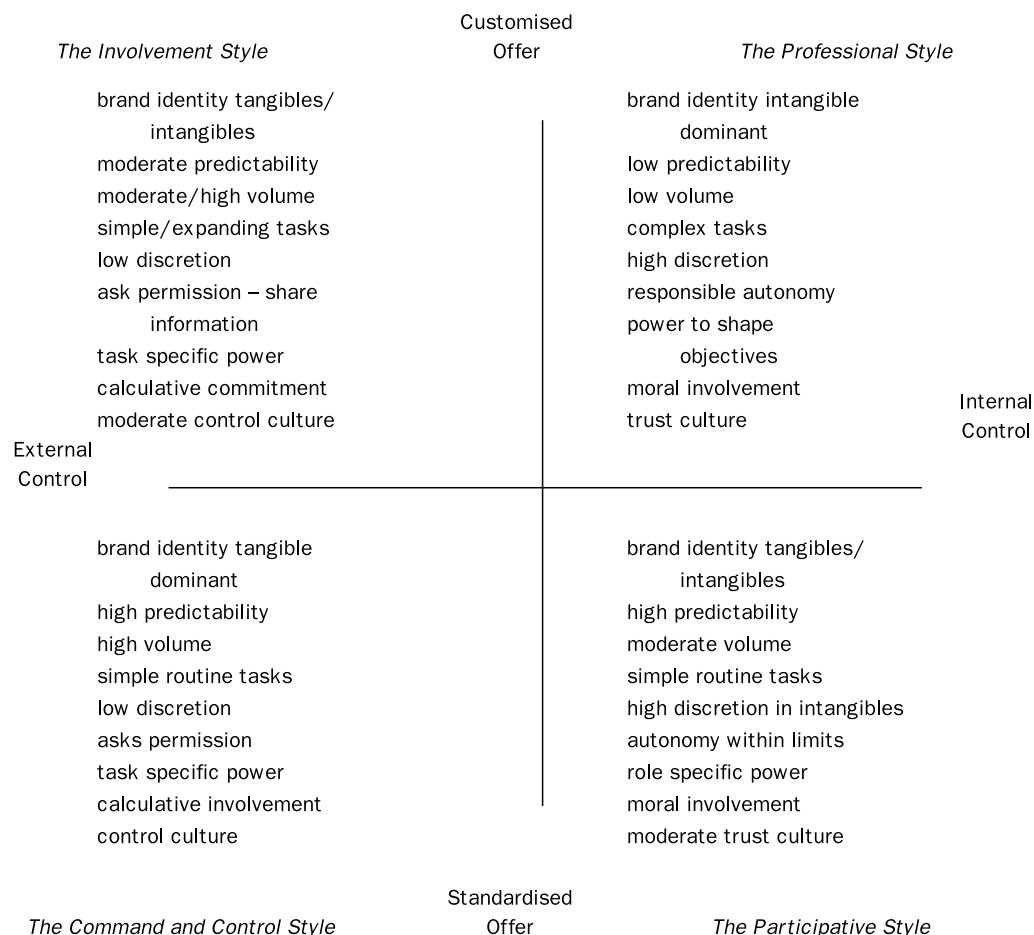
The present study explores the HRM strategies appropriate to a planned shift from a more traditional hotel management approach incorporating elements of the "command and control style" towards a style appropriate to a more customised offer and greater reliance on internal control mechanisms. In Lashley's terms the end-point most closely fits the involvement style. This represents an approach which is customised in the intangible element of the service offer, reflected in the renewed emphasis on delighting the customer evidenced by interviews with managerial staff (below), but which is highly standardised in the tangible element, reflecting the strong branding of an international hotel chain (cf. Lashley, 1998). The study is located in the luxury hotel industry where the quality of the employee/customer exchange is critical to organisational performance (Fuller and Smith, 1991). The service offer is highly customised for the service industry, and the degree of internal control exercised by the workforce is relatively high for the hospitality industry.

Method

As a case for exploring the nature of the relationship between HRM bundles and effectiveness in a quality-focused service context, the study examines the policies and practices adopted by a luxury hotel in Auckland, New Zealand. The hotel was selected for study because it had embarked on a discreet set of HRM policies and practices in support of a strategic decision to

Figure 1

Approaches to the management of human resources in service organisations



Source: Lashley, 1998, p.28

enhance quality. In this respect it stood out from the population of major hotels in the Auckland region (Haynes and Fryer, 1999). The use of the case method is appropriate where researchers seek a richer understanding of the key issues and dynamics involved in a specific context. In particular, as Redman and Mathews (1998) note, case study research is of particular value in deepening our understanding of the relationship between service quality and HRM.

The primary research method employed was the interview. Interviews of one to two hours were conducted with human resource (HR) and line managers employed by the hotel in 1993, 1994, 1997, 1998 and 1999. A semi-structured interview technique with open-ended stimuli lists was employed. The interviews were conducted by two researchers who took verbatim notes and later cross-checked typed transcripts. In addition, management documents were

examined. This provided a means of overcoming, as much as possible, the subjective nature of many of the data collected by interview. The initial interviews were conducted as part of a study of HRM and employment relations in the Auckland region (Haynes and Fryer, 1999). This study included interviews with the HR managers of the entire population of large hotels in the region in two waves, 1993/4 (14 hotels) and 1997/8 (15 hotels), along with trade union representatives and industry organisations.

We selected a number of the organisations' own measures of organisational performance for use. This allows a range of types of measure, of interest to multiple stakeholders, to be examined longitudinally. Although the customer and employee satisfaction data are subjective, as Guest (1997) notes, the important point is that the data should be collected systematically. Further, as Schneider (1994) points out, the use of customer evaluations as an index of

organisational effectiveness is more appropriate in the service sector where organisational dynamics have a direct impact on the people the organisation serves. In any event, the hotel is not a public company whose public accounts may be used to calculate financial performance indicators such as rate of return on capital.

Case study

Background

Fivestar is a large luxury hotel in Auckland operated by one of the leading branded international hotel groups. It contains in excess of 400 rooms. Established in the early 1980s, the hotel had not been refurbished by the mid-1990s. In industry terminology, it had become a little “tired”. Competition in the market had intensified in the late 1980s and early 1990s as three other large hotels in the same luxury category opened in downtown Auckland.

New strategy

It was against this background that the hotel owners in 1996 accepted the need to upgrade both the physical property and the service standards. The aim of the new strategy is encapsulated in the “vision statement” presented to staff in December 1997:

(Fivestar) is to be recognised as the *finest five star property* in Auckland and a business leader in the hospitality industry. We will achieve this vision by recruiting and developing *customer focused employees* who provide the highest level of guest service and by providing the *highest amenity level* of any hotel in Auckland (Emphasis in original).

In short, a quality-focused strategy was adopted, based on the repositioning of the hotel at the top of its category. The first phase of the strategy entailed a significant investment in room refurbishing in 1996–97. However, the critical factor for success is identified as “the capability to provide services to the customers beyond their expectations, to delight the customers”, as one HR manager put it.

Customer service, it is recognised, is the only area over which the hotel’s product can be clearly differentiated from its major competitors’ products. The potential to create quality-based competitive advantage with the physical property is seen to be limited by the sharply diminishing marginal benefit of further upgrading and the unwillingness of the customer to pay the higher price entailed. Similarly, amenity levels, sales and branding are believed to offer only limited potential for differentiation. “At the end of the day the only thing I can really compete on is

customer service and the ‘wow factor of my staff’”, said one HR manager.

It was therefore determined at the outset that the critical area of organisational competency is “customer service”, the then current level being “four star, (with) nothing to differentiate us in the market as a five star hotel” (internal memorandum). The employees, it was noted, “try, but lack the belief in (Fivestar) as a five star hotel” (internal memorandum).

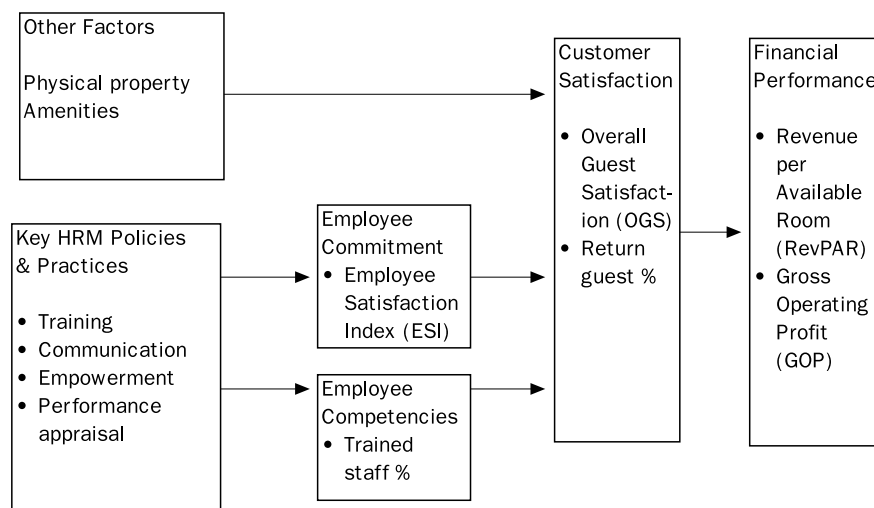
The conceptual framework adopted by management when deciding the HRM interventions which would best “fit” the strategy adopted is illustrated diagrammatically in Figure 2. In order to sustain excellence in customer service, thereby increasing customer satisfaction and in turn lifting financial performance, it is considered necessary to “engage” the employees and to provide them with the competencies required. Figure 2 also shows the HRM policies and practices identified by management as critical to the success of the strategy, along with the key performance indicators used to measure the important variables. Recognition of the importance of the staff to the success of this strategy is reflected in the “Key Performance Indicators” adopted (see Appendix 1). Of the 14 indicators, four relate directly to the staff. Significantly, these are ranked first (employee satisfaction), second (staff training), seventh (occupational health and safety) and eighth (staff turnover).

Similarly, the supporting values emphasise the human element, along with the other key stakeholders’ interests. “People values” are placed ahead of “guest values” and “profit values” in the presentation of values to management and staff. The “people values” include the key HRM changes: a renewed focus on training, career development, staff satisfaction, communication and consultation and business focus.

The new strategy was implemented as a managed change project including changes in organisational structure, job design and physical property as well as HRM changes. Implementation proceeded on a number of fronts from mid-1997. In the first stage, in the latter half of 1997, senior management developed the vision and values underpinning the strategy. At the same time, restructuring of the management structure commenced and a new Employee Performance and Development Review was instituted. The vision and values statement was presented to the wider management group in December 1997. In January 1998, management “engaged” with staff over the

Figure 2

Management policies and practices in a quality-focused hospitality industry strategy



need for change, presenting the vision and values statement, and initiating the joint development of key performance standards for each department by departmental managers and their staff. In the next stage, emphasis was placed on improving communication processes, including the launch of a “business and change focused” monthly review process in February 1998.

Management roles and the capability and style of individual managers were reviewed to support the change initiatives. Ability tests and personality inventories were used to augment the restructuring process. The restructuring of the management corps was completed in mid-1998. The focus was on the creation of a series of self-contained “small businesses”, run by managers capable of meeting more demanding key performance indicators. Thus independent business unit managers were introduced in the banqueting, reception, conventions and catering, engineering, food preparation, housekeeping, in-room dining, and dining and bar areas. These new managers were paid significantly more than their equivalents elsewhere in the local labour market. Two senior Business Managers (the Rooms Division Manager and the Food and Beverage Manager) were added to the structure to coach business unit managers and facilitate synergies across the hotel.

Changes to HRM policies and practices centre on the following:

Training and career development.

Enhancing employee competencies is a central management focus. For line staff a “skills matrix” has been introduced, and displayed in the form of training boards to show skills in a highly visual way. The

career structure for both operative and managerial staff is linked to the Employee Performance and Development Review (see below). Operative staff may elect to join a management development programme. Twelve months after the introduction of the Review procedure about 10 per cent have joined the programme.

The mix of management training has been altered to emphasise “leadership skills”. In practice this means “pushing down power and influence in departments so that managers are encouraged to involve staff and lead changes”. Overall, the training budget was increased significantly in 1997 and doubled in 1998 to around 1 per cent of total labour costs.

Communication. Fivestar has for some years operated a “staff committee” with elected representatives from each department (12 in total). This committee meets monthly with the HR Director and two HR managers. In addition, all staff are invited to quarterly general staff meetings, where the General Manager of the hotel addresses them and presents awards. These “big room” meetings are used to reinforce the vision and values underpinning the new strategy; something which did not occur before to the same degree. Strategic goals and progress towards them are stressed.

Greater emphasis is also placed on the meetings at departmental level, which had been treated variably. A monthly review process focuses on the performance targets for each unit. At the individual level, the employee development and review process is used as a key means of “engaging” employees with the hotel’s strategy, and the comprehensive (57 question) employee

satisfaction index is given a high weighting as a key performance indicator.

Performance appraisal. The individual performance appraisal system has been enhanced as a three-monthly, “employee development and review” process with a tighter focus on critical job success factors, key performance indicators and competencies. Unusually for the hospitality industry, significant emphasis is placed on employee development (see Appendix 2).

Job redesign and empowerment. Work has been reorganised in all departments to allow greater discretion in solving guests’ problems and to provide greater flexibility in scheduling. The “Company Vision” states that “(Fivestar) empowers all staff to strive for excellence in the service they provide and to initiate improvement in the service process”. Staff are empowered to do “whatever they can to ensure customer satisfaction” (line manager). In the front office, for example, the work was integrated and new task descriptions, performance standards and work procedures adopted in May 1998. Previously the work had been segregated by function (concierge, reception, telephony, etc) and responsibility for handling cash (check-in and check-out). For each of the 69 tasks (such as “assigning arriving air crew rooms” or “balancing cashier’s envelope”), competency is assessed as “basic training received”, “working with supervision”, “competent”, or “empowered” (self-supervised). A practical example of the empowered approach arose when a staff member complained that he could not get guests a drink from the bar while they waited for their room to be made up. Front office staff were quickly reassured that they are able to do this. In housekeeping 20 key tasks were jointly identified and housemaids’ competencies assessed over four levels of competence: training level; working under supervision; working without supervision; empowered.

Housekeepers in the last category have been given limited decision-making authority over their work in a radical departure from traditional practice. Attention was also given to management training for these housekeepers. The first cluster of skills included performance management, training skills, interviewing skills, goal setting and finance.

Notably, pay and recruitment and selection have not been seen as critical to the success of the new strategy to the same degree. For line staff, levels of competency are not related to pay. As the HR Director put it, “it’s about promotion and empowerment”. High performing line staff are paid above the

contract, but in general the large proportion of revenue (42 per cent) in 1997 paid to staff precludes major shifts in the pay system. Although the need to maintain above average pay rates as part of the quality-focused strategy was recognised, and the hotel agreed to across-the-board increases in excess of the local labour market averages in 1997 and 1998, the difference was only of the order of 1 per cent of total wages each year.

Similarly, although the selection of managerial staff has become more sophisticated in recent years, including the use of consultants and psychological testing, for operational staff “life fit” (i.e. long-term willingness to work the number of hours and times scheduled) continues to be more important than attitudinal characteristics in selection.

Key performance indicators

Less than two years had elapsed at the time of writing since the new set of HRM policies and practices began to be introduced. Nevertheless, very positive results had been reported. Employee satisfaction, as measured by the Employee Satisfaction Index (a ten question survey), improved gradually: from 3.76 and 3.79 in March 1996 and 1997 respectively, to 3.87 out of 5 in April 1999. While sick leave as a percentage of total hours worked improved only slowly (from a monthly average of 2.4 per cent over the first three quarters of 1998 to 2.2 per cent over the same period in 1998), monthly staff turnover averaged 2.5 per cent over the first three quarters of 1999 compared to 3.7 per cent over the same period in 1998, a significant reduction.

It is in the areas of customer satisfaction and financial performance that the most striking results have been apparent. The Overall Guest Satisfaction Index improved by 13.2 per cent between the first quarter of 1997 and the fourth quarter of 1998 (as a percentage of the 1997 level). More tellingly, the difference between the hotel’s Overall Guest Satisfaction index and the very high regional benchmark fell from 18.0 per cent (of Fivestar’s rating) to 3.97 per cent over the same period. (It must be kept in mind that increments become more difficult to achieve at higher levels.) Outlet satisfaction (the percentage of customers rating good and excellent) also increased throughout 1998 and the first three quarters of 1999.

In very difficult trading conditions in 1998 the revenue per available room (RevPAR) and gross operating profit fell and remained fairly flat throughout the first three quarters of 1999. However, Fivestar’s RevPAR moved significantly (24.6 per cent) ahead of the average of six comparator Auckland luxury

hotels in September 1998, and remained ahead of or the same as the average over the next 12 months with only one exception.

Discussion

Fivestar has implemented a set of HRM policies and practices that are designed to enhance both the level of skill of its staff and their commitment to a vision of excellence in service. These policies and practices are internally consistent and mutually reinforcing in pursuit of these objectives. As they are also closely aligned with the strategy adopted by the hotel they constitute an HRM “bundle” as understood in the literature investigating the impact of HRM on organisational performance.

The changes in work organisation underpinning the new strategy, and the associated HRM initiatives, are broadly in keeping with Lashley’s “involvement style” outlined above. Although the service offer is more customised than previously, and there has been some empowerment of the workforce to make on-the-spot decisions without recourse to supervisors, the scope for discretion remains somewhat limited, particularly compared to the “professional style”. The control style has been moderated, but by no means abandoned. As Lashley (1998) predicts, there is renewed emphasis on involvement, particularly through communication, to ensure the moral involvement of employees with customer satisfaction and quality service.

The limited nature of the job autonomy extended to staff is also consistent with the findings of Peccei and Rosenthal that job autonomy may not be a significant direct predictor of customer service commitment (1997). Peccei and Rosenthal speculate that: while a minimum degree of job autonomy may be necessary for individuals to be able to engage in more proactive forms of customer service behaviour, beyond this there is no reason to expect employees to use their added discretion for the benefit of customers (1997, p. 81).

It may be that industry practice, conditioned as it is by the disciplines of the marketplace, reflects this.

Neither recruitment and selection nor pay systems are afforded the priority predicted by Lashley (1998), however. On the other hand, training and career development, reinforced by communication and involvement, have been emphasised. Once again, these practices are consistent with the findings of Peccei and Rosenthal. They find that affective, normative and altruistic

considerations, rather than overtly instrumental concerns, drive employees’ propensity to engage in continuous improvement and exert effort on the job on behalf of customers, and that job competence and understanding of customer service requirements are positively linked to commitment to customer satisfaction (1997).

The changes adopted have been associated with clear and measurable positive effects on the hotel’s performance, particularly in respect of the measures relating to the interests of the customer and owner stakeholders. There is some evidence of improvement in employee satisfaction, used by Fivestar management as a proxy for commitment, but it is as yet limited and variable across departments.

Clearly it is not possible to generalise from a single case about the nature of the links between HRM policies and practices and organisational performance specific to the industry as a whole. However, examination of the successful implementation of an internally consistent HRM strategy designed to enhance quality reveals the outline of a model that is both industry-specific and testable. This model is largely consistent with commonly discussed models of HRM in the service sector as refined by Lashley. Support for this model from the findings of research into one of the key linkages in the model, employee commitment to customer service, is also encouraging. However, clearly more attention must also be given to explicating these linkages before a model of the relationship between HRM bundles and effectiveness can be proposed with the degree of coherence and confidence necessary to ensure acceptance and usefulness in practice.

Conclusion

The HRM practices and policies adopted by Fivestar to support its new quality-focused strategy have not been in place sufficiently long to enable firm conclusions to be drawn. After one year, however, there appears to be evidence that appropriate synergistic HRM policies and practices provide measurable support for such a strategy.

The experience of Fivestar also assists in identifying the elements of the HRM bundle which best matches the demands of that part of the hospitality industry which provides a more customised service offer. The model which is implicit in the approach adopted by the management of the hotel also throws some light on the possible linkages between HRM and performance in this context. However, further research is necessary in

order to determine more precisely the characteristics of high performance bundles in the service sector and the exact nature of the relationship between such complementarity-based HRM strategies and organisational outcomes.

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Appendix 1

Key performance indicators

- 1 Run an Employee Satisfaction Index (ESI) rating above X.
- 2 Run a percentage of trained staff of X per cent.
- 3 Run a Guest Satisfaction Index (GSI) rating in all areas at or above the (regional) benchmark.
- 4 Implement a food and beverage outlet questionnaire running at over an XX per cent satisfaction ratio.
- 5 Continue to increase return guests as a percentage of all FIT guests.
- 6 Win national accommodation and food and beverage prizes.
- 7 Run an Employee injury metric less than XX.
- 8 Staff turnover will be kept below XX per cent on an annual basis.
- 9 Run the highest Revenue Per Available Room (RevPAR) in Auckland.

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- 10 Run a Gross Operating Profit (GOP) over XX per cent.
- 11 Run an F&B Profit of over XX per cent in 1998 building to XX per cent in 1999.
- 12 Run a Food Cost of Sales of under XX per cent.
- 13 Run a Rooms Profit of over 68 per cent in 1998 building to 70 per cent in 1999.
- 14 We will be acknowledged as an environmentally active hotel.

Source: *Vision and Values Launch* documentation. NB: Specific figures have been disguised for reasons of commercial sensitivity.

Appendix 2

Employee performance and development review

Purpose

- To provide feedback against: critical success factors of the role; specific objectives.

- To agree objectives for the next quarter.
- To review employee's development over the last quarter.
- To identify areas for employee's development against current and projected skill requirements.
- To identify specific development to be undertaken in next quarter.
- To ensure clarity of employee's direction/continuity.
- To provide a forum for general one-on-one discussion about business and personal issues.
- To provide a forum for checking the organisation is meeting the employee's needs, providing appropriate tools, and minimising frustrations.

Source: *Employee Performance and Development Review*.