

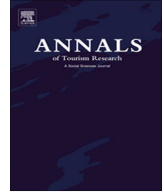


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## Demand fluctuations, labour flexibility and productivity



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### ABSTRACT

There is a dearth of studies analysing the relationship between demand variations, productivity and flexible working in the face of variable demand challenges confronting the tourism industry. This investigation seeks to inform important firm and industry specific labour management strategies for improving productivity. Using data for 43 medium sized hotels owned by two chains in the UK, this paper analyses productivity in relation to external (demand variations) and internal (labour management) conditions over an 8 year period from 2005 to 2013. The paper's findings show that demand variation is the principal determinant of productivity. Numerical, functional and zero-contract hour flexible labour management also contributes to labour productivity. Significant differences in findings between establishments and departments indicate the importance of disaggregated analyses.

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### Introduction

Temporal demand fluctuations are a prominent feature in tourism (Andriotis, 2005; Highman & Hitch, 2002), and assume various forms: for example, in particular seasons or days of the week, across the business cycle, or erratically. These pose major challenges in efficient resource utilization (Guizzardi & Mazzocchi, 2010; Jang, 2004), especially labour (Butler, 1994; Capo, Riera, & Rossello,

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2007). The challenges centre on the well-known tourism issues of perishability, the impossibility of inventorying unsold services (Baker & Riley, 1994), and economies of scale in staffing. Previous researchers have addressed the impact of demand variations on local economies (typically employment) and environments (Butler, 1994; Koenig-Lewis & Bischoff, 2005) but there has been surprisingly little investigation of the relationship between demand and productivity, and the effectiveness of labour flexibility in responding to this challenge.

While responding to different forms of demand variations has always been a major influence on productivity in tourism, and specifically for hotels, (Morikawa, 2012), this has become even more important in the face of the globalization of competition, and global recession. Following the 2008+ economic crisis, Gross Domestic Product (GDP) per capita declined globally by 3.4% in 2009, and 4.7% in the EU-27 (Eugenio-Martin & Campos-Soria, 2014), with implications for disposable incomes and business expenditure, as well as for investment in operations and properties (Smeral, 2010). It is a question not only of their occupancy levels and effective capacity utilisation, (Boffa & Succurro, 2012; Jeffrey & Barden, 2001), but also of managing the most significant input cost, labour.

Establishments may respond to these challenges by either managing the level of demand, or through 'chase demand management' which manages inputs in response to these variations (Jones & Robinson, 2012). Demand management typically includes optimal pricing strategies (Pan, 2007). However, given the labour intensive nature of most tourism operations, chase management strategies are also important, especially effective labour force utilisation involving flexible working. It is not only a question of flexibility in the hours of labour scheduled, but also of ensuring the available workforce delivers quality services and experiences, which are integral to service productivity (Blake, Sinclair, & Soria, 2006; Hu & Cai, 2004). This raises the issue of the effectiveness of different forms of flexible working (Kelliher, 1989; Lockwood & Guerrier, 1989), but the impacts on productivity at the micro level, although gaining the attention of academics and policy makers (Koenig-Lewis & Bischoff, 2005), remain substantially under-researched.

This paper aims to fill this gap by analysing labour productivity in the hotel sector in relation to both external (demand variations) and internal (labour management) conditions (Sigala, 2004). Specifically, this study analyses labour productivity in two UK hotel chains which manage 25 and 18 hotels, respectively. Controlling for heterogeneity, by focussing on only two chains, is important because labour management practices are likely to be firm specific. The panel data set, provided by the management systems company *Eproductive*, allows analysis of financial performance and labour management practices at the establishment and departmental (rooms versus food and beverage [F&B]) levels that account for most hotel operations (Brown & Dev, 2000; McMahan, 1994; Wong, 2004), and more than 90% of total average revenue in this case study. It consists of monthly series for an 8 year period, 2005–2013, covering the recent 2008+ economic recession. This research provides theoretical contributions to the literature about the tourism economy by identifying the dominant influences of demand variation, together with flexible labour management, on service productivity. Importantly, the findings of this study highlight the heterogeneity of productivity across chains, firms and departments.

The theoretical background, including demand variations, productivity and labour flexibility, is discussed in the next section, followed by a third section which discusses the methodology. The fourth section of the paper presents the findings, and the implications, while the academic and managerial implications are discussed in the final section of the paper.

## Literature review

Productivity is a function of external and internal factors (Sigala, 2004). Variable demand conditions, usually the most important external feature, are discussed below while internal labour management is discussed in the following section.

### *Demand variations and productivity in tourism and hospitality*

Different forms of temporal variations exist in hotel operations, including erratic, diurnal and weekly (Kimes, 2004) but this paper focusses on seasonal fluctuations and business cycles (Butler,

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