

# Talent management for competitive advantage management essay



## **Introduction**

### **Aim of the Report**

The aim of this report is to undertake a critical appraisal of competitive advantage through talent management with special focus on the hospitality industry in general and Hilton Worldwide in particular.

As different countries and sectors emerge from or plunge further into recession, the hospitality industry faces challenges on many fronts. A truly multinational group such as Hilton Worldwide has to ensure that its various brands are able to produce a competitive advantage that will continue its growth and make new acquisitions as profitable as the existing business.

Employee engagement has always been a key issue for the hospitality industry and Human Resource Management (HRM) within in the industry has never been more important in generating sustainable business.

### **Coverage**

This report will cover:

A survey of Hilton Worldwide and its place in the hospitality industry

A definition of Competitive Advantage and critical consideration in relation to the hospitality industry

Talent Management as an idea within HRM

Talent Management in the hospitality industry

Implications for Hilton Worldwide

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## **Approach to the Issues**

This report seeks to identify the significant issues affecting the hospitality industry and Hilton Worldwide's place in that industry through a short review of the sector and consideration of Hilton Worldwide's structures.

It then moves on to review a number of academic and business sources to analyse the nature of Competitive Advantage and Talent Management before synthesising the concepts and applying them to Hilton Worldwide.

## **Analysis**

### **Hilton Worldwide and the global hospitality industry**

The Hilton Worldwide company has a simple but breathtakingly ambitious mission statement,

We will be the preeminent global hospitality company – the first choice of guests, team members and owners alike. (Hilton Worldwide, 2011)

This immediately prompts deeper analysis because most guests would be surprised to see the other two groups of people targeted in the same sentence “ team members” and “ owners”. The presence of Team Members is a sign that HRM plays a crucial role in the industry and Owners shows that Hilton Worldwide is a company with an interesting profile.

The Hilton Group became a wholly owned subsidiary of the Blackstone Group's Private Equity division in 2007 after a leveraged buyout which saw significant quantities of debt loaded onto the company (Bloomberg, 2007). In 2010 the debt was restructured (Blackstone Group, 2011).

The size of the company at the end of 2010 was described by Hilton Worldwide (2011) as:

More than 3, 600 hotels in 81 countries

Only the second hotel company to have 600, 000+ rooms

The largest hotel company in the U. S. by number of rooms

130, 000 team members (employees)

Significantly, when describing their expansion, almost twice as much (44, 000 rooms) was through managed or franchised agreements compared to directly owned rooms (24, 000). One of Hilton's brands (Hampton Inn) is almost exclusively franchised.

Hilton Worldwide's focus is offering fully-serviced rooms aimed at the business and luxury guest and its largest competitors are Marriott International, Choice Hotels International (CHH), Hyatt Corporation, the France-based ACCOR Group, and Intercontinental Hotels, many of whom also pursue franchise models as a mechanism for rapid brand growth.

Hilton's target market (business travellers) is vulnerable to movements in the economy when business travel is often one of the first costs to be cut back by cash-strapped companies. However, according to Smith Travel Research (2011) the U. S. market rebounded strongly in 2010 when Revenue per Available Room (revpar) in the top 25 sectors rose from \$71. 55 to \$76. 61.

How then does Hilton Worldwide gain a Competitive Advantage through Talent Management?

## **Competitive Advantage**

The idea of Comparative Advantage is almost as old as the discipline of economics and is usually attributed to David Ricardo (1817). This principle shows how, even when one country has an absolute advantage in production, international trade will allow other countries to produce goods for trade by prompting an efficient resource allocation so that both countries play to their relative strengths.

Although a well-established principle of classical economics, a number of economists began to question its application during the latter half of the twentieth century, culminating in the work of Michael Porter (1990) who said that cost alone could not explain dominance of certain countries and markets. His thesis was that a Competitive Advantage was secured by through “ segmented markets, differentiated products, technology differences and economies of scale” and that a new theory of competition “ must explain why firms from particular nations choose better strategies than those from others competing in particular industries.”

According to Neary (2003), this model of competition is now seen in business schools and business circles as being a far more important predictor of economic fortunes than the classical model of Comparative Advantage. Economists think otherwise and either dismiss Competitive Advantage as a re-statement of Comparative or as “ just a synonym for absolute advantage.” (Neary).

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Much of the focus of Neary and O'Shaughnessy (1996) is on the application of Competitive Advantage to national trading. This report is focused on corporate considerations and their application in the 21st Century.

Early models of Competitive Advantage were described by Peters (2003) as “figure out the one or two things you can do better than anybody else ... and keep doing the hell out of them.” Peters included this description in a section entitled Losing Bet III. In other words, simply focusing on a defensive moat and walls is no good in an era of gunpowder.

Returning to Porter's original four factors, it is easy to see Hilton Worldwide's strategy:

Segmented Markets & Differentiated products - by differential branding and ownership models

Technology Differences - The market leading OnQ booking system is being extended through new partnerships with IBM & Microsoft

Economies of Scale - The size of the group allows the Distribution arm to play a significant role in global operations.

Interestingly, although all of these developments were trumpeted in the company's 2010 statement, there was no reference to HRM. This report will focus on how Talent Management could help Hilton Worldwide to gain a further Competitive Advantage.

## **Talent Management as an idea within HRM**

The origin of Talent Management (TM) as a concept goes right back to a report by McKinsey & Company in 1997 and was amplified through further research (Axelrod, Handfield-Jones and Welsh, 2001) and then summarised in *The War for Talent* (McKinsey, 2001).

The report focused on the importance of talented employees in creating shareholder value and claimed, “ The companies in our survey that excel in talent management achieved total returns to shareholders that were 22 [%] better than the average.” The report went on to point to a looming demographic crisis in the talent pool which companies should prepare themselves for this by putting in place a TM Strategy. This survey will not be going into detail, partly because ten years have passed since then and partly because McKinsey focus exclusively on corporate leadership and for reasons which will become clear, the hospitality industry needs to have a wider definition of talent.

McKinsey & Company continued to develop their theme through published articles by Guthridge, Komm and Lawson (2006, 2008) which reinforced the message that companies “ like to promote the idea that employees are their biggest source of competitive advantage.” But also that, “ the astonishing reality is that most of them are ... unprepared for the challenge of finding, motivating, and retaining staff.”

The fact that McKinsey and Company are global management consultants and HR specialists, does not mean what they say is untrue. In fact, the

reason that the concept took off was that it resonated deeply within the corporate environment.

However, the idea of gaining Competitive Advantage through HR was not invented by McKinsey. As far back as 1984, Schuler & MacMillan (1984) were identifying HRM practices as being a key to advantage – by establishing good practice, it forces other companies to react (thus gaining the advantage).

It is not surprising, therefore, that Lewis & Heckman (2006) in their extensive critical review found, “ A disturbing lack of clarity,” in the definition of TM and that frequently it is considered a re-branding of standard HRM procedures.

By 2005, the buzz-phrase TM was being replaced in some quarters by Employee Engagement. As the world economy boomed, vacancy levels rose and unemployment fell. This is why Wellins, Bernthal & Phelps (2005) identified Employee Engagement, rather than TM as the key to realizing Competitive Advantage.

In their view, with only 17% of employees surveyed being highly engaged, it is crucial to look at the others – the “ neutral” majority and the “ actively disengaged” minority. They concluded that, “ there is a big difference between putting in place initiatives ... and truly seeing the payoffs.”

If this, then, is considered standard practice in HRM, how is TM any different, and how does it apply to the hospitality industry?



## **Talent Management in the hospitality industry**

The standard introduction to HRM in the hospitality industry begins by saying that, “ for as long as any of us can remember, the industry has had a staff and skills shortage... recruitment and retention is an overwhelming pre-occupation.” (Boella & Goss-Turner, 2005)

Two recent studies (Christensen Hughes & Rog, 2008 and Watson, Maxwell, G & D’Annunzio-Green, 2008) have focused exclusively on TM within the hospitality industry.

Christensen Hughes and Rog are open about the status of TM as potentially an empty buzz-phrase, saying it is created by some, “ as the latest weapon in the HRM arsenal,” as part of a struggle to elevate the discipline.

Their definition of TM is a company strategy for recruitment, retention and engagement of staff. They, along with McKinsey, Guthridge et al and Wellins et al all stress the importance of CEO endorsement and whole-group participation in the strategy.

This strategy for TM is seen as being especially relevant to the hospitality industry for reasons already cited from Boella & Goss-Turner. “ Recruitment and retention have long been identified as one of the hospitality and tourism industry’s biggest challenges ... This is due in part to the highly labour intensive nature of the industry, especially in contexts where customer service expectations are high.”

Christensen Hughes and Rog attribute this, from their own literature survey, as being created by factors such as low status, management focus on

minimising costs and the heavy emotional labour of service industry jobs. It is little wonder, then, that employee engagement has a huge impact on both recruitment and retention.

This is developed by Watson, Maxwell & D'Annunzio-Green (2008) which, as well as conducting a literature review which drew heavily on Christensen Hughes & Rog, uses primary data from their own research in Scotland.

They identify changing expectations of employees. Managers, used to working long hours themselves, 'can't possibly expect others' to do the same and that there is, 'a cultural thing about professionalism' - or rather lack of it - in the industry.

In Western Europe, this position was intensified by two factors during the last decade - the opening up of labour markets to Eastern Europe and the changing of attitudes amongst new indigenous entrants to the workforce. Similar pressures apply in North America with respect to immigration from Central America.

In their study of the indigenous labour market, Generation Y's Career Expectations and Aspirations, Maxwell, Ogden & Broadbridge (2010) cited a generation which had received poor initial experiences of the hospitality industry and had which had, "high initial career expectations and higher aspirations still for long-term careers." They also observed that Generation Y is, "apparently self-centred and demanding."

In a very recent outburst in the British media, the celebrity chef Jamie Oliver said that young workers all acknowledged that migrant labour was far, far more willing to work longer hours for less money.

## **Reflection & Implications**

### **Critical Reflection**

In his Chapter One of *Managing Employee Attitudes and Behaviors in the Tourism and Hospitality Industry* (Kusluvan, Ed, 2003), Salih Kusluvan cites extensive evidence for the high turnover in the hospitality industry from the International Labor Organization with 42% in the UK, higher in the U. S. and only slightly lower in Asia. This is coupled with part time levels of work being nearly 50% in the UK. Building Talent Management on these foundations is inherently difficult. However, as Kuslovan says in his own preface, “employees are one of the most, if not the most, important resources or asses for tourism and hospitality organizations in their endeavor to provide excellent service... [and] achieve competitive advantage.”

Traditional definitions of Talent Management have focused on industries where leadership has a high profile and high rewards such as financial services and manufacturing. The message for the hospitality industry is that although these senior management and board level factors are important, there is a much larger issue for the whole of the workforce.

Hospitality has traditionally suffered from high turnover and low status. The message from Competitive Advantage is that any company which can gain a lead in its recruitment and retention of staff will, indeed, be at a strategically advantageous position with regard to its competitors.

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## **Implications for Hilton Worldwide**

As a very large company operating in 81 countries with 130, 000 staff, Hilton Worldwide faces all of these challenges with the additional problem of much of its base being located in America and Europe, despite much recent diversification in the Far East.

Hilton Worldwide has positioned itself in the premium business sector of the hospitality market and therefore faces the challenge of offering high levels of customer service to justify its premium tariffs. The quality of hotel rooms is only partly down to the architect: much of it comes from the quality of the cleaning and servicing.

## **Conclusion & Recommendations**

Hilton Worldwide is huge and, as a Private Equity subsidiary, its reporting requirements are substantially different to public companies. It has been difficult to see beyond the public face of the company.

One obvious area where Hilton Worldwide has a strategic engagement with TM is in the recruitment and retention of potential senior staff through their Hilton Elevator programme. This graduate recruitment programme is truly international and expects its small number of recruits to be fast-tracked into senior positions after a broad experience of the many Hilton operations.

However, there is evidence from many of the sources with an HRM focus that global TM throughout the workforce requires an equally global strategy from the company. The key requirements from this critical survey for Hilton Worldwide in seeking a Competitive Advantage through TM are:

The exclusive focus on High Performing staff can have a detrimental impact on others. This should be weighed carefully.

The most important factor for employee engagement is personal relationships

Very small companies are inherently better at promoting manager-employee relationships. As a multinational, Hilton Worldwide has a real challenge here.

This would point towards the Small Team Ethos as being the right strategic approach to create.

This in turn puts a significant expectation on junior & middle managers and especially on team-leaders in service teams (housekeeping supervisors etc.)

Watson, Maxwell & D'Annunzio-Green summed up the message from extensive research by saying, " approaches to TM in many cases are organisation specific and driven by internal expertise and available resources rather than a proactive strategic vision."

Hilton Worldwide has a clear strategy for gaining Competitive Advantage through franchising, quality standards, customer loyalty, economy of scale and integrated IT systems.

Only when Talent Management as part of the company's Strategic Human Resource Management has an equal focus will they be able to gain an advantage through their investment in people as well as their use of capital intensive investment in estates and infrastructure.