people1st
performance through people

The performance & talent management revolution: Driving productivity in hospitality & tourism

Executive summary

June 2017

Foreword

There has never been a more challenging time to be dealing with people matters in the hospitality and tourism sector. For some this brings considerable headaches, for others it presents exciting opportunities. Either way, it means sizable changes to the way businesses go about recruiting, retaining and developing their people.

We embarked on this research to identify how large hospitality and tourism businesses are addressing rising costs, recruitment difficulties and changing employee attitudes in order to highlight innovative approaches and support employers across the sector in navigating these challenges.

What the findings tells us is that a growing number of businesses are thinking long-term about their people, ensuring that their strategy underpins the wider businesses strategy, and that they need to be able to demonstrate a tangible return on their investment. As a result, businesses are increasingly looking at new approaches to retain their staff to drive productivity and performance.

Businesses are at different stages of this journey and we want these insights to not only highlight the fundamental change in the way that employers are seeking to invest in their people, but also to stimulate and showcase examples of how businesses are tackling the common challenges and overcoming barriers along the way.

We have identified three broad typologies which shed light on how businesses are approaching and taking forward their people strategies, as they embark on transforming the productivity of their people.

We fundamentally believe that the new approaches that challenge traditional thinking and practices will not only benefit the businesses adopting them, but also the way the sector is perceived as a career choice and as a critical driver of growth to the UK economy.

Simon Tarr

Chief Executive, People 1st

This research was undertaken by Martin-Christian Kent, Executive Director of People 1st, and is based on interviews with 40 businesses, including:

Adnams, Amaris Hospitality, Baxter Storey, Casual Dining Group, CH&Co Catering, Compass Group UK & Ireland Ltd, Costa Coffee, D&D London, Drake & Morgan, Enterprise Inns, Harrison Catering Services, Harbour & Jones, Hilton Worldwide, Hotelcare, J D Wetherspoon, Jamie Oliver Enterprises, Kew Green Hotels, Living Ventures, McDonald's, Marriott, Merlin Entertainments Group, Mitchells & Butlers, Paul UK, Punch Taverns, Q Hotels, Red Carnation Hotels, Sodexo, TGI Fridays, Thai Leisure Group, The Restaurant Group, The Ritz London, Travelodge, Wahaca, Warner Leisure Hotels, Yum brands

This report explores how businesses in the hospitality and tourism sector are addressing the growing challenge of how to increase their productivity and performance in order to stay competitive. It is based on interviews undertaken with 40 large businesses representing a cross-section of the UK hospitality and tourism sector. Larger businesses are critically important because they employ 44% of the sector's workforce and it is likely that many of their actions and best practice will trickle down to have an impact on smaller employers.

Introduction

The UK's hospitality and tourism sector is facing a perfect storm of rising costs, increasing recruitment difficulties and changing employee attitudes. Compounding this is the political and economic uncertainty around Brexit.

As a result, many UK businesses are starting to focus on productivity improvements to help offset costs while maximising their customer experience and profitability. About a third of the businesses we interviewed described themselves as being at an early stage in considering how to increase productivity levels. A number are looking at their current activities as part of their people strategy and assessing what additional interventions are needed to improve productivity.
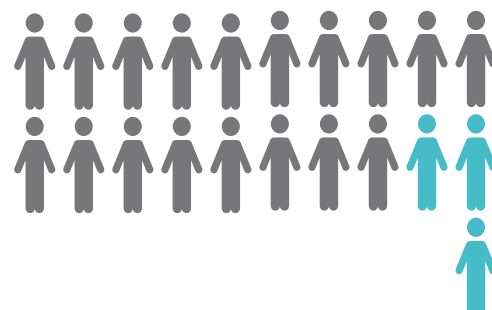
The productivity and performance challenge

Employment in the hospitality and tourism sector grew from **1.8m** in 2011 to **2.1m** in 2016, a **16%** increase, and while productivity levels have historically been much lower than other sectors, the sector's Gross Value Added (GVA) (the principal productivity metric that measures the contribution to an economy) has increased **52%** between 2008 and 2015, rising from **£34,951m** to **£52,978m**.[1]

Whilst this rise is much greater than comparable sectors such as manufacturing, construction and retail, the actual level of GVA is much lower - three times lower in the case of manufacturing.

Moreover, the sector's GVA per head is just **£25,899**,[2] half of that of manufacturing and the passenger transport sectors, and just below retail.

The sector increased its workforce from **1.8m** in 2011 to **2.1m** in 2016, a **16%** increase

GVA INCREASE

2015
↑
2008

🛎️ **Hospitality and tourism** 52%

Compared to:

Entire economy 28%

GVA per head

Hospitality and tourism

£25.9k

Passenger transport

£49.7k

**Manufacturing**

£55k

Factors undermining productivity

When it comes to increasing productivity levels, skills are a critical factor. Yet hospitality and tourism reports one of the highest levels of skills gap of any UK sector.

In 2015, **18%** of hospitality and tourism businesses reported that their staff lacked the necessary skills to meet their business needs – a figure only topped by the care and manufacturing sectors.[3]

The good news is that, unlike other sectors, the percentage of reported skill gaps has dropped slightly since 2011, which is possibly a response to the increasing emphasis on staff retention.

The hospitality and tourism sector has always traditionally had low levels of staff retention. Average labour turnover is in the region of **75%** (compared to the UK all-sector average of about **15%**)[4], and in some cases exceeds **100%**. Given the average recruitment and initial training costs are **£750** per person, this is costing the sector **£1.1bn** annually in recruitment and initial training costs alone. To put this in a wider business context, for a business with **40** full-time staff (or equivalent), that's an average of **£22,500** per year and is a significant factor in undermining the sector's productivity levels.

The average **cost** of recruitment and initial training is **£750** per person
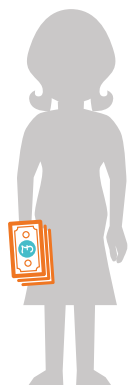
This alone costs the sector **£1.1bn** annually

For a business with 40 full-time staff, that's an average of **£22,500** per year

18% of hospitality and tourism businesses in 2015 reported that their staff **lacked the necessary skills** to meet their **business needs**

The figures speak for themselves: *"…every team member that we have to recruit costs us about £9,000 to recruit, train and bring into the business. But [retention] haemorrhages us really, and it's very difficult to build on something when you're continually having people leave the business."*

One interviewee admitted that *"26% of people we hire leave within the first 12 weeks of working for us."*

The cost of a high staff turnover means, for the majority of businesses we interviewed, that retention is now not just seen as a priority for HR teams, but for the business as a whole. Moreover, the employers we spoke to are more aware than ever of the direct bottom-line correlation between people and performance.

3 Employer Skill Survey (2011, 2015), UK Commission for Employment and Skills
4 Employee Turnover & Engagement: What You Need to Know (2015), Best Companies

Drivers of change: Why businesses are starting to think differently about their people

Rising costs

Between 2011 and 2015, hourly pay in the sector rose by 50p so that by 2015, median hourly pay in the sector was **£7.00**.[5] The National Living Wage (NLW) was introduced in April 2016 at a rate of **£7.20**, rising to **£7.50** from April 2017, which means effectively that hourly wages have risen at the same rate in the past two years as they did in the previous five. This goes a long way to explain the impact the NLW has had on many employers.

Hourly pay had **risen by 50p** so that by 2015, **median** hourly pay in the sector was **£7.00**

According to one employer we spoke to: **"…[rising costs] is what is causing us to stop and think and a bit of a realisation that we are going to have to get our head around the whole productivity piece over the next year."**

Nevertheless, pay in the hospitality and tourism sector remains low compared to other sectors. This is important in a tightening labour market where competition for talent is becoming intense. Hourly pay is **£5.88** more in manufacturing and significantly **80p** more in the retail sector.[6]

Whilst businesses are feeling the effect of the NLW, a large number of those interviewed saw positive implications here for making the sector more attractive as a career, with further positive repercussions for recruitment and retention.

Recruitment difficulties

Recruitment is becoming increasingly challenging for many UK employers. The latest Employer Skills Survey [7] showed that **25%** of hospitality and tourism businesses reported vacancies, of which **38%** considered them hard-to-fill. Just four years previously, the number of employers reporting vacancies was just **10%**.

Current projections suggest that by 2024, the hospitality and tourism sector will need to find an additional 1.3m people (with **971,313** staff needed simply to replace existing staff), including **226,000** people into management positions and **11,000** chefs.

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Need to **recruit**
**226,000** people into **management positions** and **11,000** chefs

Meanwhile, unemployment in the UK fell from **8.1%** in 2011 to **4.8%** in 2017. Additionally, by 2022, there will be **700,000** fewer 16-25 year olds and **3.7m** more over 50's,[8] which is important considering the sectors reliance on younger workers - a third of the workforce are under 25, twice the proportion across the economy as a whole.

5 & 6   Annual Survey of Hours and Earning 2011-2015, ONS/People1st
   7   Employer Skill Survey (2011, 2015), UK Commission for Employment and Skills
   8   Ros Altmann (2015) A New Vision for Older Workers: Retain, Retrain, Recruit, Report to Government
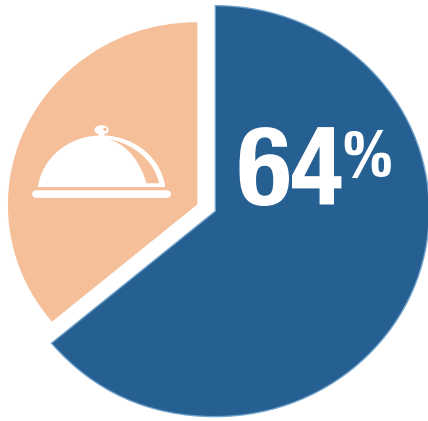
64% of hospitality businesses with a **vacancy** suggest that they are **hard to fill** because there are **insufficient** candidates with the **skills** required
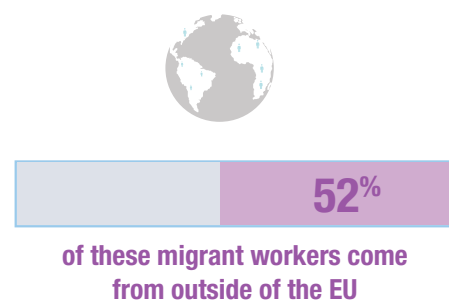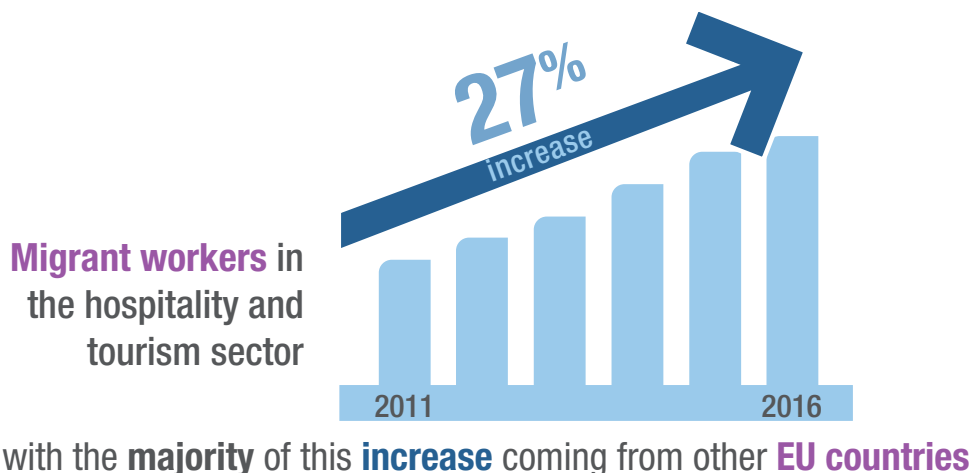
However, it's not just the case that employers are recruiting from a much smaller – and shrinking – pool. Some **64%** of hospitality businesses with a vacancy also suggest that they are hard to fill because there are insufficient candidates with the necessary skills.

As one interviewee put it: *"Everybody wants those skills and I think that skill level, or that pool, is getting smaller because purely there are more opportunities for people to work elsewhere."*

As the labour market has tightened, employers have looked outside of the UK in search of talent. Between 2011 and 2016, the number of migrant workers in the sector has increased by **27%**, with the majority of this increase coming from other EU countries. Currently, a quarter of the workforce consists of migrant workers, of which **52%** come from outside of the EU.

One interviewee commented that, *"It was always hard to recruit people. Ever since I've been in London, maybe 25 years, we were always dependent on migrant populations. When I first came to London there were Filipino and Caribbean people, then it went through all the European countries bit by bit, and it feels like we've run out of people now. Still, it's a job nobody wants to do and the only way I would see forward is that we pay a worthwhile salary to say, "For this job you get £12 an hour." It's not a manual minimum wage job, it's a job that we need to pay people the proper rate of pay for to get it done."*

Clearly Brexit is likely to compound these problems if it makes it more challenging for businesses to recruit staff from the EU.

Migrant workers in the hospitality and tourism sector

27% increase

2011   2016

with the **majority** of this **increase** coming from other **EU countries**

25% of the hospitality and tourism workforce is made up of migrant workers

52% of these migrant workers come from outside of the EU

Changing employee attitudes

In May 2016, HR magazine released findings of a survey with **150** HR leaders that found **73%** see changing values of employees as one of the most significant disruptors to their business.[9] The same theme emerged strongly from our research, with most employers consistently highlighting that younger staff were motivated by different factors and need to be engaged and managed differently than previous generations.

"The millennial generation's expectation of the role is very different to when I worked in hospitality and lots of our management team did" one interviewee said.

Another noted: *"They come to work for different reasons. They expect to be treated differently than our industry did 5, 10 years ago. …they're far less accepting of poor working conditions or long hours than ever before."*

These differences are having a demonstrable impact on how businesses recruit, engage, motivate and manage staff.

73%

HR leaders see **'changing values of employees'** as one of the most **significant disrupters** to their business.

Implications: How businesses are tackling these challenges

Finding the right talent

This emphasis on retention has resulted in greater focus on recruiting staff who are more likely to stay with their business.

"The difficulty is, if you're moving towards fewer, better people, we're looking at potential. So, it's about having the right person. It's about encouraging people to spend the amount of time to recruit the best person, rather than just someone to come in and do the job" one interviewee said.

How employers advertise is also changing radically, with social media and apps replacing job boards and ads.

As one employer commented: *"I think it is the difficulty in recruitment. I think it's the definition of insanity, isn't it? Keep doing the same thing expecting different results. We can't just keep putting things out in the usual channels and not getting anything from it."*

Many businesses are systematically refining their processes based on evidence of what works and taking into account the changing labour market.

An increasing number of employers are targeting staff from other sectors in order to attract employees with the same interpersonal skills that they are seeking. Some are also targeting older workers and women returners. Many are engaging universities to attract graduates to fill first line management positions and as a result, businesses are again placing more emphasis on graduate programmes, as well as looking into higher-level apprenticeships.

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[9] The Future of HR (May 2017), HR Magazine

Culture and values

Employers are also taking steps to address the negative perception of jobs and careers in the sector, with some ramping up their local community activities and engaging with careers advisors and other influencers to demonstrate the positive aspects of working in the sector and the career potential on offer.

Many businesses have been doing these activities for a long time, but the fundamental shift is that they are not ignoring the negative aspects of work and trying to be as honest and upfront as possible.

One employer commented: *"We are really focusing on the first interview. Making it much more of a realistic preview of the job so that when they join in two weeks' time, they have a realistic perception of the job. We're not necessarily trying to widen the funnel but make it tighter in terms of people knowing much more about the opportunity before they join."*

They are also maximising their brand, the values it represents and the importance of their staff to their external consumer-facing brand and to their customer experience.

Values and culture also play a critical role in how staff feel involved in the business and the level of engagement on a social level.
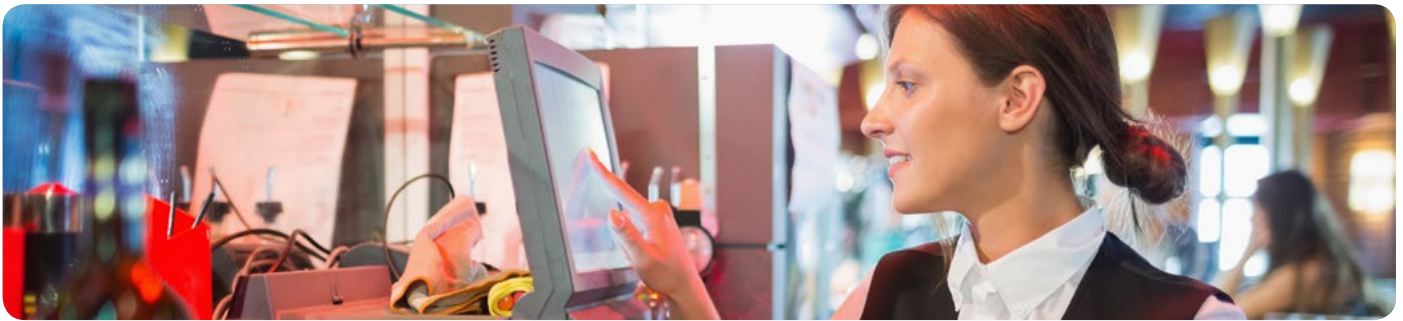
Tackling talent retention

Many large businesses have well-established talent management strategies, however, a number are looking afresh at their existing retention mechanisms to assess their impact and look at what else they need to be doing.

One interviewee commented *"… retention, and how we focus on both retaining great staff but also hiring staff that are qualified, understand the opportunity and hopefully want to stick around for the future, is a big, big concern for us, but also a big priority."*

The initial employment period is the most important for retention, and employers are increasingly focusing on strengthening the experience for new members of staff, with many looking at improving structure and content of the induction, as well as the support new recruits receive.

Businesses are also emphasising career progression by making it more transparent through career maps and linking this more closely to performance management and succession planning. *"A lot of the work we're doing around talent and career paths and succession planning is around making sure that people don't need to leave us to go and have a career, because one of the special things about us is there are so many different jobs here."*

Reviewing the existing talent management activities to see how effective they are and identifying gaps, as well as looking at which areas of the business have the biggest problems and which staff they want to retain to build a talent pipeline have all become critical factors.

As businesses are trying to understand individuals' needs and motivations better, approaches to performance management are evolving with systems being adapted to collect this type of information more effectively. There is also a greater emphasis on recognition and reward:

"It's definitely become more and more in the mind's eye. We always have felt that we're a fun place to work. We have a massive recognition culture that basically extends to just telling people they've done a good job and giving people cuddly toys, or cards or gifts that say, "Hey, you really helped me out today."

Adjusting packages and benefits and a focus on getting the communication and engagement right is also proving critical.

Improving management skills

Poor management skills is another factor identified by many businesses as increasing staff turnover and some of this is a result of the current recruitment problems. High turnover at managerial level causes its own instability and has a negative knock-on effect across the business.

"If we have high turnover at leadership level, that makes it more difficult to build our employer brand and share our culture as we acquire new businesses." one interviewee said.

Another pointed out the direct correlation between management effectiveness and their bottom line: *"In the hotels where we have a more stable management team and lower people turnover, we are achieving higher customer experience or higher Net Promoter Scores. In hotels where that isn't the case we tend to suffer more in that respect."*

In many instances, employers acknowledge that managers have been promoted without the necessary development and support, so in some cases lack the relevant skills and experience to manage, motivate and retain staff effectively.

As a result, businesses are now making managers a key learning and development focus.

Learning and development

A focus for many employers we spoke to has been to ensure that learning and development is centred on managers. The aim is to help them become better people managers and give them the skills and confidence to address individual team needs: *"We are really changing the mind-set from "If you have got a problem with your employees, go see HR", to "Let's just make sure, as a leader, we don't have those problems to start with."*

More broadly, however, businesses speak extremely positively about the training they offer and they don't want this to change. Instead, they are evaluating how learning and development can play a greater role in their talent management strategy by linking it to specific development needs, and as an effective tool to aid staff progression.

One interviewee said *"We're looking to change the way we're training - we've still got quite a traditional training model in place at the moment which is very programmatic and quite formal training-led. What we're trying to do is drive from much more of a capability perspective and say, "Actually, what do you think the capabilities you need for your role or career path are? And where are you against those and how can you develop them?" Rather than saying: "You're at this grade/level – this is the programme that you go on."*

The amount of investment in learning and development varies enormously across businesses and, for some, the introduction of the apprenticeship levy has prevented them delivering a significant amount of training outside of it. However, with new apprenticeship standards and the apprenticeship levy in effect since April 2017, businesses are increasingly seeing apprenticeships as a means to help retention and support progression at management level, rather than simply as a recruitment tool and entry programme.

"We're definitely not seeing it as an added cost. It looks like we're doing apprenticeships because the levy's coming down the line, but we were going to do apprenticeships anyway. That's been in the pipeline, and now it's all colliding. In the ideal world, we would've been a year ahead of where we are at the moment. But, there's just so much happening. You can't do everything all the time. But we see it as an opportunity."

To manage individual learning and development, businesses are increasingly rolling out learning management systems. Given the link to performance management, businesses make use of these systems in different ways, but a common concern is making sure that staff are being given training for the right reasons.

Increasing productivity and performance

A range of interventions and approaches are being adopted by businesses to help them increase productivity levels.

Hospitality has a high ratio of staff to output, and therefore lower productivity. While many other sectors have become more productive by replacing staff with technology, technology is unlikely to replace the need for hospitality staff in such large numbers, but rather change the way they work.

For example, front office departments in hotels are probably experiencing the most change as customers take most of their calls on their mobile phones and book online, so reducing the need for switchboard and reservation teams. Similarly, as customers increasingly check-in on line there will likewise be less demand for reception staff, or their roles could change.

Many businesses are beginning to rethink their customer journey and are consequently introducing new technology, some of which is disrupting the way staff work or, on the flipside, is helping them undertake specific tasks more effectively.

"We're looking at tablets and those diary and table management systems to operate our restaurants much more efficiently, booking systems, etc. That's our main element that we're looking at for next year. But at the moment we're looking to enhance our service, not remove any."

Other areas where technology is having an impact on productivity is around things like stock control, staff scheduling, absence management and staff monitoring, hand held kitchen ordering devices, new payment systems and hand held checklists for room attendants.

Many businesses interviewed are also beginning to look at whether jobs can be redesigned to increase efficiency and flexibility. The introduction of technology as part of the customer journey is often the catalyst for such redesign, although many businesses interviewed acknowledge that they are at an early stage in their thinking.

Productivity is notoriously difficult to measure. In a hospitality and tourism setting, outputs are even harder to define and need to take account various factors including: the number of customers; average spend; return business; and customer satisfaction.

Nonetheless, performance metrics are playing an increasingly important part in these efforts to boost productivity, providing greater insights into the types of people employed, the reasons why staff leave and the reasons they stay. Of those businesses interviewed, half of them felt that they had good systems in place to measure staff retention and turnover and the remainder were focusing on putting these in place.

"Every single week, I look at these reports and at the reasons for leaving, particularly the general managers" and another said: *"We've been working really hard to get our people data in a good place. Now that we have, we can start to look at: "Why has that unit got an absence rate that's twice the rate of our average figure? Have we got return-to-work interviews?"*

Some businesses are measuring a range of quantitative outputs that are linked to productivity, such as average spend and number of rooms cleaned. Customer experience and customer satisfaction metrics are increasingly being collated, with techniques such as Net Promotor Score and analyses of online reviews being analysed against other statistics to look for correlations and find areas for efficiency improvement.

Whilst this poses challenges for HR teams, many view it as essential to help them work more effectively and to be able to demonstrate the value of their activities to the business.

Typologies: Three approaches to the people strategy

The three key drivers of rising costs, recruitment difficulties and changing employee expectations means that the alignment of the HR strategy with the business strategy is now of critical importance to large hospitality and tourism employers. However, some HR departments have travelled much further down this path than others. There are those that see themselves as a key component working at the heart of the business to drive profitability through its people, whereas others remain closer to their historic role as a support department.

Through this research, we have identified three broad typologies that help to understand how hospitality and tourism businesses are approaching and taking forward their people strategy and help businesses starting out to overcome these challenges. These are 'architects', 'interior designers' and 'builders'.

Architects

HR team is working to redesign the way the business looks

- HR is typically externally focused, such as working to increase customer experience and retention
- The people strategy is visible and is a central plank of the business strategy
- There is a strong link to the external brand

Interior Designers

HR team is working to improve people's performance

- HR is internally focused on increasing staff performance
- The people strategy is clearly aligned with the strategy, but often supporting the central strategy, rather than being integral to it
- There is a strong link to the external brand

Builders

HR team are building or repairing infrastructure

- HR team is a support function underpinning the business strategy
- It is largely solving problems or keeping things moving
- The people strategy is not visible outside of the HR team
- Weak link to external brand

Businesses tend to reflect the dominant characteristics of one of these typologies, even though they might be doing specific activities which would be typically found in another.

Those that are adopting the characteristics of 'architects' and 'interior designers' have closely aligned their people strategies to support their business strategy and as such, are more likely to be making progress on their journey to improving the performance and productivity of their people, through the forward-thinking approaches highlighted in this report. Consequently, they are also likely to making some headway in overcoming the three disruptive challenges – rising costs, increasing recruitment difficulties and changing employee expectations – that are increasingly facing sector employers.

Conclusion

There has probably never been a more exciting – or more challenging – time to be working in HR in the hospitality and tourism sector, and with the uncertainty over Brexit, and the economy as a whole, it is a fluid picture.

There is a clear rupture from the ways large businesses have operated in the past, and these changes present some critical opportunities. There is a new focus on retaining talent and this impacts on how businesses are recruiting and taking forward learning and development.

The three key drivers of rising costs, recruitment difficulties and changing employee expectations are also increasing the number of businesses homing in on productivity improvements to help offset costs and maximise customer experience and profitability.

These changes are not going to happen overnight. Many businesses are on a journey.

To help businesses navigate these journeys, we have established 'The Wire', a free-to-join and largely virtual network that helps businesses engage with the key themes emerging from this report, share experiences and hear from experts in their respective fields. In this way, we aim to connect businesses with some of the leading brands that are making progress to tackle the common challenges and transforming their business as 'architects' to improve the productivity and performance of their teams. To join The Wire go to **www.people1st.co.uk/the-wire.**

We are also embarking on new research that picks up themes emerging from this report. The first focuses on the customer experience and the second on what our managers of the future look like. More information is available at **www.people1st.co.uk/insight-opinion/upcoming-research.**

Additionally, we are beginning to work with interested businesses to develop a productivity model that allows businesses to easily, but meaningfully measure productivity. We are also putting together an anonymous benchmarking tool to help businesses see how they compare on key measures against the sector average. Interested businesses can find out more at **www.people1st.co.uk/measuring-productivity.**

About People 1st

People 1st is a unique, insight-driven performance and talent management expert.

We provide tailored solutions and advice that help our UK and global clients to:

- Grow performance and talent
- Drive customer excellence
- Maximise the value of apprenticeships

Our industry-led experts deliver highly successful results that reflect the needs of your business because we understand your culture, your environment and your budget.

people 1st
performance through people

People 1st
Hospitality House
First Floor
11-59 High Road
East Finchley
London
N2 8AB

020 3074 1212

info@people1st.co.uk

@p1stgroup

People 1st

www.people1st.co.uk