

Impact of Labour Cost in overall performance of Hotels and Restaurants

Vikram Singh

Research Scholar, Desh Bhagat University, Mandi Gobindgarh, Punjab, India

Abstract: Restaurants & Hotels experience many challenges, including economic uncertainty, competition, demographic shifts in target markets, changes in employee work habits, and such financial considerations as maintaining adequate cash flow. Controlling costs in the restaurant business is essential to the success or failure of the establishment. In the hospitality industry, labour costs are very high; in fact, they amount to approximately 45% of operating costs. The goal of this review is to promote further research into identifying the specific criteria that govern the relationship between the use of labour resources and the goal of operating efficiency, mainly with a focus on internal marketing as a means by which to control labour costs. This study lays out the relevant literature for understanding sources of labour costs, particularly as they relate to the potential of internal marketing as a source of efficiency. It then appropriately offers recommendations for controlling labour costs in terms of the cost of labour itself (i.e., human-resource management practices), those costs associated with disruptions in the service flow and sources of error or lack of motivation in service delivery (internal marketing), and costs that occur due to gaps between employee preparation and espoused strategy. It concludes with a discussion of implications.

INTRODUCTION

One of the major direct costs in every organization is labour cost. The labour costs are costs which are bearing by company in every process of human resource management such as costs of hiring people, re hiring costs, wrongful termination lawsuits, costs for regular work and overtime work. In some sector material costs are more than labour costs but in some sector the labour costs are more than material cost e.g. agriculture. India is one of the developing country which is bearing very less labour cost compare to some other countries such as US, UK, Canada, Australia, and West European nations in other side such as India, Indonesia, Bolivia, Brazil, Russia, Mexico and East European countries the labour cost comparatively very less, consequently we can see number of MNCs are spread their production sector in these low cost countries with the intent of reducing labour costs. For example the number of US based companies carrying their production process in Mexico and India because of using an opportunity of less labour cost.

The Sustainable Tourism Cooperative Research Centre (STCRC), commissioned this research into labour turnover. The research sought to:

- Assess the extent of labour turnover;
- Assess the direct cost of turnover;
- Examine the accountability structures associated with turnover; and
- Assess the impact of turnover on service quality and productivity.

These issues are critical in shaping hotel HRM practice and the management of labour retention. Being the first large scale study, the research findings may also contribute to the development of a policy agenda of the accommodation industry in many countries. The estimates of turnover presented in this paper highlight the labour retention issues facing the Australian accommodation sector. The study represents a timely investigation into the issues surrounding turnover and identifies the ameliorating role that HRM might play.

How can we minimize labour cost and maximize profitability?

Labor is the largest variable cost for hotels. Managers struggle to keep labor costs down and profits up. While it's tempting to cut staff to reduce costs, service quality suffers when the property is understaffed, and no manager wants to get caught short-handed.

Labor scheduling is a complex process. Yet in many hotels, it is still done with pen and paper. Without access to advanced forecasting analytics, the demand forecast, which forms the basis for the labor schedule, is based on the (presumably) good instincts and experience of the outlet manager. Once managers understand the demand requirements, they have to translate that information into determining the right number of employees to meet that demand and which staff members should fill those slots.

Each step in the process is complex and time-consuming. Mistakes are costly. Uncertain demand patterns, interrelated external influences and data spread across multiple systems get in the way of building an accurate demand forecast.

Review of Labour Cost Control in Las Canarias Restaurant

Employee scheduling is like putting a puzzle together in that estimated sales from the business demand analysis and set standards are used in conjunction to schedule and estimate labour needs (DeFranco & Noriega, 2000, p. 276). A restaurant's business is characterized by periods of idleness followed by periods of intense rushing. Poor employee scheduling by management should be avoided as it causes low productivity and result in service flaws. During the work week in Las Canarias, at times, an ineffective employee schedule is created. It might not happen very often, but when it does, it affects the business performance, and also affects the employees' working emotional stability as well. When operating shorthanded, the labor problems are more than when the restaurant is overstaffed. For instance, when managers schedule inadequate workers to work during a busy operation period in Las Canarias Restaurant, the level of stress for each worker is extremely high, and this would result in decreasing the quality of service and leaves the restaurant susceptible to mistakes and complaints. If the scheduling oversight happens frequently, employees will lose the faith in the management decision, eventually they will become discouraged, burn out, and quit. Moreover, customers notice disorganization and poor service, which will eventually cause them to not return to the restaurant.

This type of scheduling mistakes can be taken from a number of reasons, one of which is the different concerns of labor cost between top management and operation management. Top manager inclines to give priority to low labor cost percentage and to monitoring the ratio of payroll to sales, but unit managers tend to rationalize higher labor cost percentages on a qualitative as well as quantitative basis. When labor cost percentages are low during certain periods and service is at its best, both top and unit managements are in harmony on labor cost. However, when labor costs are high and service has not been improved in proportion to the additional costs incurred, top management will demand a reduction in labor cost. Following are some other samples of scheduling problems which have occurred in Las Canarias:

1. Lacking control of reservations.

Las Canarias in its long running history is known for its delectable cuisine. Although customers who come to the restaurant look forward to a remarkable dining experience, they don't foresee their dishes brought out long after their order has been taken. Las Canarias restaurant must incorporate a time management system to eradicate the large gap between the taking of orders and the presenting of dishes. Especially during peak hours, Las Canarias finds it extremely challenging, and often defeating, to be able to handle the high volume of customers. Inexperienced hosts in Las Canarias restaurant are able to only make take reservations, but lack the knowledge of when customers are most likely to appear, and are unable to predict how many tables will be utilized at certain time. If a high volume of customers arrive simultaneously, it will not only be difficult for the servers to attend to all the guests, but for the kitchen to deal with the massive orders on time as well. Moreover, it also results in lacking of providing helpful information to managers in order to make a proper schedule for the rushing time. That is a matter of creating a forecast based on the restaurant's history and of carefully increase labor cost.

2. Over-time working can significantly increase labor cost

To reduce the huge amount of overtime hours, there are many ways that management can implement, such as hiring part time employees, employees who are on-call, agency staffing, and associates from other departments who are willing come to help, for instance, the servers in banquet Department.

3. Flexible working hours

Based on the business, management can schedules some other employees to have more than two days off per week, arrange employees to begin their shift a few hours later than the usual working schedule or send them home a few hours before the end of their shift. However, manager must be careful of making those kinds of decisions, or it might give rise to new issues. For example, if managers have overscheduled and are having to send someone home every

night, managers will need to find a way to fairly determine who goes home. If it is the same employee every shift, that employee will find that his or her paycheck is greatly reduced.

4. Scheduling sever assistants in morning shifts

Breakfast operation in Las Canarias is completely different from dinner. Even though they both serve the same A La Carte menu, breakfast serves the more traditional American and Mexican food, where as dinner serves the outstanding New American cuisine combined with French cuisine. Breakfast sales are more dependent on the occupancy of the hotel, and breakfast mainly serves in-house guests; on the other hand, dinner creates the fine dining theme that attracts customers from different ends of the city and even in extension of South Texas. As a matter of course, the price of dinner is considerably higher than breakfast.

5. Scheduling the Kitchen

In the hotel business, although the restaurant managers are normally not in charge of the kitchen, and there is Executive Chef and his management team to manage the kitchen, but the trust is, we all are a team. Without the kitchen's support, there is no business in the restaurant, and also without the restaurant's effort, no kitchen exists. At this point, the scheduling of kitchen is also important. However, sometimes it does happen that the kitchen is shorthanded, as reflect from the customers' feedback on the assessment of timeliness on the Medallia, which is an online system that provides a coordinated, powerful way to monitor and improve services and products at very point of contact with customer.

Labour Cost in Hotel Industry – A View

Labour costs are the key expenses in every fragment of business world. Labour costs are very crucial to use in optimum manner, for the reason that only by making appropriate investment in human resources it's possible to utilize accurately of all resources of the organization, in other words human resource is a tool which can utilize all other resources of the organization in recovered line of attack. Since 1960, unit level labour costs averaged 43.7% of total hotel operating expenses and increased at an average annual rate of 4.3%. Variations in hotel labour costs also are extremely volatile from 1960 to 2010. During this period annual changes in hotel labour costs swung from a high of positive 12.3% to a low of negative 10.4% .

Hotel Labour cost Comparison among countries

The Above table reveals that with the comparison of other country the salary getting by hotel employees in India is very less. Again the reasons behind this was huge population and easily available of labour with less expectation. Thus due to this reason number of MNCs were carrying their major production activities in India. India is a country which is having superior position in all factors of production such as labour, natural resources except in capital. So other countries those wealthier in capital make investment in India with the intent of optimum utilization of natural and human resources.

Table: General Manager's Average Salary in Five Star Hotel

Sl. No	Country	Salary	In Indian Rupees (Value consideration on July 5th July 2013)
1	India	420999 - 3446542	-
2	USA	\$30203 - \$106844	18,21,543 – 64,43,762 (\$ to INR 60.31)
3	Malaysia	RM 110532 – RM410209	20,92,371 – 77,65,256 (RM to INR 18.93)
4	Singapore	S\$71490 – 323342	33,90,771 – 1,53,36,111 (S\$ to INR)

Labour Cost Cutting Strategies of Hotel Industry

Train the existing employees by that they can do their job more efficiently so fewer employees are needed to serve the same number of customers. This practice leads to avoiding or reducing additional employees' needs of hotel. By this it's possible to get escape from the risk of recruiting and training new employees and providing adequate wages are salaries to them. ii. Striking multiple tasks to single employee: In some hotels multiples tasks are carrying by single employee e.g. the task of supplying foods and billing. When the hotel impose or create this kind of situation that provides carrying of multiple task with same labour cost, means it avoids the cost need to incur on one more employee. iii. Hire people who are in school. They are likely to be good workers who will quit when they go to college or get "real" jobs - don't have to worry about raises that way and they may come back for summer vacations when it is busy and additional staff is needed. Then hotel don't have to train someone new¹⁰. iv. Overtime work for existing employees: Some hotels in India maintains the shift wise working system but some commanding overtime work for same employees, means more than normal working hours. In the hotel greater part of the key business starts after evening, so the workers need to work up to night 10 or 11. v. The hotel pays some portion of amount as incentive for

that extra work done by them but not equated to their extended effort. It may tend to reduce labour costs in the hotels. In India official per day working hours are 8 hours but actual in practice it's not followed by greater part of hotels except in government running organization.

There is totally changing pattern of working hours for hotel employees managers and sub workers working in rooms division and food and beverage division reported being particularly challenged by long, non standard hours, including weekends and holiday. While managers in human resources, engineering, and accounting tended to have 8 a.m. or 9 a.m. to 6.p.m.and in some hotels duty ending time will be 10 or 11 p.m. vi. Using of Sophisticated Technology: Technology can help the hotels in cutting labour costs as well. Many useful cooking machines may reduces the need of more employees such as automatic idly, chapatti, preparation machines may reduce unnecessary manual hand work. Technology based equipment can greatly reduce production time and costs. vii. Labour costs are the highest for some other outsource labour such as laundry, so to reduce this cost hotels are adopting techniques, such as washer-extractors that are equipped with control systems, e.g. UniMac equipment. This model can be loaded before the staff leaves for the day and programmed to start an hour before the first employee arrives the next day. From there, the morning shift can transfer clean loads to the dryers¹¹. A second group of employees then could be scheduled to arrive just prior to the first drying cycle being completed. viii. It is common in many hotels to have peak periods of business operation. Majority of the hotels have extended hours and need more employees during the week-end holidays and in some particular seasons such as in winter. During that season instead of hiring a full-time or even part-time employee, hotels are assigning that extra work for existing employees by showing the ambition of extra attractive incentives, so this practice tend to avoid labour cost that need to incur on hiring new full time or part time employees.

Conclusion

The statistical concept of labour costs comprises remuneration for work done, payments for time paid but not worked, premiums and bonuses, the cost of food, drink and other payments in kind, employee housing costs covered by the employer, employer payments to social security, the cost covered by the employer for professional training, social welfare services and different items such as employee transport, work clothes and contracting, alongside the taxes considered to be labour taxes.

This paper has addressed the challenges researchers face when conducting qualitative research with hospitality employees and managers using observations, individual interviews, and focus groups. Specifically, the challenges in obtaining institutional approval of qualitative research work, recruitment and show rates of potential participants, and retention of participants were explained. Strategies were identified to overcome or minimize these challenges. Working with IRBs, building trust with gatekeepers and participants, over-recruiting and most importantly, having experienced qualitative researchers are some of the strategies suggested. The use of qualitative research methods such as observations, focus groups, and interviews was effective when conducting food safety research within the hospitality industry. The use of qualitative research methods has allowed the researchers to identify many complex variables that survey research alone would not have permitted. These findings include compliance of behavior with identified food safety standards, hand washing behaviors, motivators and barriers to follow food safety practices, and manager and employee perceptions of food safety. There is a place for qualitative methods in hospitality research. Selection of this type of methodology should be in alignment with the research purpose and questions. Qualitative research should be used if depth and breadth of understanding is sought. However, as with any research method used, whether it is qualitative, quantitative, or a combination, rigorous standards must be maintained during the entire research process. By anticipating potential challenges in advance, researchers can take a proactive approach to implementing strategies and assure that rigorous standards are upheld throughout the qualitative research process.

References

- [1]. Marshall, C. and Rossman G.B. (2006), *Designing Qualitative Research*, Sage Publications, Inc., Thousand Oaks, CA.
- [2]. Mason, D., Tideswell, C. and Roberts, E. (2006), "Guest perceptions of hotel loyalty", *Journal of Hospitality & Tourism Research*, Vol. 30 No. 2, pp. 191-206.
- [3]. Mays, N. and Pope, C. (1995), "Education and debate – Qualitative research: Rigour and qualitative research", *British Medical Journal*, Vol. 311 No. 6997, pp. 109-112.
- [4]. Morgan, D. (1998), *Planning Focus Groups*, Sage Publications, Inc., Thousand Oaks, CA. Okumus, F., Altinay, L. and Roper, A. (2007), "Gaining access for research – Reflections from experience", *Annals of Tourism Research*, Vol. 34 No. 1, pp. 7-26.
- [5]. Paez, P., Strohbahn, C. and Sneed, J. (2007), "Handwashing frequencies and methods used in deli-types of foodservice operations", *Food Protection Trends*, Vol. 27 No. 11, pp. 903-908.
- [6]. Paget, E., Dimanche, F. and Mounet, J. (2010), "A tourism innovation case: An actor-network approach", *Annals of Tourism Research*, Vol 37 No. 3, pp. 828-847.
- [7]. Papageorgiou, G. C. (2008), "The human dimension of tourism – Supply-side perspectives", *Annals of Tourism Research*, Vol. 35 No. 1, 211-232.

- [8]. Parsa, H.G., Self, J.T., Nijite, D. and King, T. (2005), "Why restaurants fail", *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 46 No. 3, pp. 304-322.
- [9]. Pouder, R.W. and Clark, J.D. (2009), "Formulating strategic direction for a gated residential community", *Property Management*, Vol. 27 No. 4, pp. 216-227.
- [10]. Pullman, M., McGuire, K. and Cleveland, C. (2005), "Let me count the words: Quantifying open-ended interactions with guests", *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 46 No. 3, pp. 323-343.
- [11]. Riley, R.W. and Love, L.L. (2000), "The state of qualitative tourism research", *Annals of Tourism Research*, Vol. 27 No. 1, pp. 164-187.
- [12]. Roberts, K.R, Arendt, S., Strohbehn, C., Ellis, J. and Paez, P. (2012), "Educating future managers to motivate employees to follow food safety practices", *Journal of Foodservice Management Education*, in press.
- [13]. Roberts, K.R. and Barrett, B. (2009), "Behavioral, normative, and control beliefs impact on the intention to offer food safety training to employees", *Food Protection Trends*, Vol. 29 No. 1, pp. 21-30.
- [14]. Amitabh Dey, Sandilyan P.R. and Mousumi Mukherjee, Human Resource Management And Service Quality Management-Linkages, *Zenith International Journal of Business Economics and Management Research* 2(4), (2012).
- [15]. S.M. Denis Amirhraj, HR Concepts in Hotel Industry towards Employee Training And Development, *International Journal of Human Resource Management and Research*, 1(1), 44-56.
- [16]. Issac Wisikote, Marcus and Nhuta, The Significance of the Human Resource Role in the Hotel Sector in Harare, Zimbabwe, *Indian Journal of Management and Business Studies*, 2(3), 48-50 (2012).

