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SERVICE PRODUCTIVITY AND STAKEHOLDER THEORY

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ABSTRACT

Globally there is significant growth in service industries across developed and emerging economies, however various studies have indicated that service sector productivity is less than that of manufacturing. Acknowledging that previous research has primarily focused on manufacturing productivity, this paper seeks to investigate service productivity. With simultaneity of production and consumption in services, the potential for influence from a range of stakeholders needs to be given consideration when exploring service productivity. Using stakeholder theory as a framework, we investigate service productivity in the hotel industry. Face-to-face interviews were conducted with managers in 13 different hotels. Results show that simultaneity, intra-stakeholder heterogeneity, and variability of stakeholder dependency impact on service productivity creating a non-linear, dynamic service productivity environment. A model of service productivity has been developed which is currently being validated through quantitative research. Results of our research have implications for emerging economies in terms of service productivity strategy and sustainability.

Keywords: service productivity, stakeholder theory, simultaneity

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INTRODUCTION

Globally there is significant growth in service industries across both developed and emerging economies. For example, in Australia, the service sector now accounts for 77% of GDP and 85% employment, the OECD countries averaging 70% GDP (OECD, 2010). However various studies have indicated that service sector productivity is less than that of manufacturing. Acknowledging that previous research has primarily focused on manufacturing productivity, this paper seeks to investigate service productivity. Productivity is a concept that is commonly used in many spheres including those of academics, business/economists and politicians. As a term it is often utilised as a synonym for performance or profitability, even considered interchangeably for efficiency or effectiveness (Tangren, 2004). Djellal & Gallouj (2008: 4) concur with this and state that “[productivity] is not to be confused with other concepts, such as (undifferentiated) efficiency, effectiveness or performance”. This is of particular concern when claims of differing productivity growth levels between economic sectors are being made at global and industry levels, in particular when they relate to sizable portions of various countries economies such as emerging nations whose economies are frequently very dependent upon service sector industries.

When considering any discussion with reference to productivity, a clear understanding of the concept used is required, in addition to a tacit understanding of the economic sector in which productivity is being discussed is also required. There is much

research describing the characteristics of both manufacturing and service sectors (Grönroos, 2000; Lovelock, Patterson, & Walker, 2004). Whilst Grönroos and Ojasalo claim (2004) the nature of the service sector is so different to that of manufacturing that the need to question the relevance and limitations of existing productivity concepts is established”, whilst Andersson (2000) goes so far as to state that “...the economy is becoming more and more service oriented, with distinctions between services and non-services making less and less sense”. However, it is important to note that clearly there is an increasing convergence between manufacturing and service industries with many manufacturing industries providing services and service industries providing products.

Regardless of the combination of manufacturing/service portion of a business, one of the significant differences in the producing of services to manufacturing production areas of a business is the concept of simultaneity of production and consumption when producing a service. This concept explains the role that a range of stakeholders, other than those employed directly by the organisation (as in manufacturing), to potentially be involved in the producing of the service and hence have the latent ability to influence service productivity. Therefore the concept of the stakeholder as an important factor for service production requires consideration when exploring service productivity. To explore this concept further, this paper investigates service productivity in the hotel industry using stakeholder theory as a framework.

The hotel industry is a significant service industry in both developed and many developing nations where in many countries the hospitality and tourism industry

contributes significantly to GDP and employment. The OECD underscores this importance of the service based economy, where "...services are increasingly critical for the employment performance of the economy as a whole" (Andersson, 2000). This is not only due to the number of opportunities directly provided by services - they remain more labour-intensive than manufacturing - but also due to the fact that service activities are expected to continue to grow in importance (Andersson, 2000). Thus service productivity is accepted as being important across the scope of business, considering "it can be defined and measured at different levels: country, industry, firm, production unit or individual" Djellal & Gallouj (2008: 4). Lewis, (2006: 3) suggests that "the power of productivity shows how the income level of a country is determined by the productivity of its largest industries". This statement not only establishes the importance of productivity per se, it provides the impetus to investigate productivity in significant economic sectors so as to derive maximum outcomes is in a sense is perhaps adopting the Pareto principle when selecting an appropriate industry in which to establish research.

Given the significance of the service based economy, it is of interest to note the areas of operations requiring significant research. For example, there is a solid body of knowledge pertaining to quality in both the manufacturing, for example Deming, Juran, and Taguchi (Hill, 2004) and the service sector (Gummersson, 1998; Kandampully, Mok, & Sparks, 2001; Parasuraman, Zeithaml, & Berry, 1988; Schmenner, 2004). However, whilst there is a large body of knowledge relevant to productivity in manufacturing industries (Johnson & Clark, 2005), researchers such as Sahay (2004: 7) suggest that perhaps "the concept of productivity is [so] deeply rooted in the context of mass

manufacturing, [that] ... this may be the reason for the prolonged neglect of the productivity issue on service management”. Notwithstanding this claim, it is widely acknowledged that the service based economy requires further research (Avkiran, 2002; Grönroos & Ojasalo, 2004; Johnson, 2005; Schmenner, 2004; Wimmer, 2000). When investigating productivity, approaches can be undertaken from a number of stances such as an economic, marketing and/or managerial approach. As Farrell (2006: 2) noted, “economists often have limited access to practical problems facing senior managers, while senior managers often lack the time and incentive to look beyond their own industry to the larger issues of the global economy”.

This study adopts a managerial approach. It outlines significant characteristics of service industries and then examines the implications of stakeholders by examining stakeholder theory in the context of service productivity. The purpose of the paper is to report on an empirical study investigating service productivity by interviewing hotel managers to investigate their perceptions of service productivity. This study is relevant due to the minimal amount of research in service productivity and timely due to the growth and importance of the service based economy in both developed and emerging economies, and the significance of the hospitality industry within the service sector (Lewis, 2006).

LITERATURE REVIEW

The literature review presents a brief review of the concept of service productivity, and then examines the relevant characteristics of services given the context

of the study. Finally it examines the theoretical underpinning of stakeholder theory in relation to service productivity. The outcome of this process forms the basis for the development of the empirical study. A model for service productivity is developed as “Graphic imagery allows for simultaneous perception of parts as well as a grasp of interrelations between parts” (Maruyama 1986 cited in Meyer 1991: 229).

Service based economy

Fisher (1935), an economist, first presented the concept of a tertiary sector of industries in Australia, however it is now usually referred to as being the service sector that comprises the service based economy. The distribution of the labour force across the agricultural, manufacturing and service based economies has changed since the 1950's showing a decline in employment numbers in the agriculture and manufacturing sectors, with an increase in employment numbers in the service sector. These trends in employment distribution across industry sectors are also paralleled on a global level, with the service sector now contributing over two-thirds of all employment in developed countries and often much higher in emerging countries (OECD, 2010; UNWTO, 2008).

Four characteristics cited as differentiating services from other sectors are simultaneity in production and consumption, the issue of capacity and perishability of product and service inventory, the variability of service, and the tangibility/intangibility of products and services (Grönroos, 2000; Grönroos & Ojasalo, 2004; Lovelock et al., 2004; Schmenner, 2004). This research sought to investigate the characteristic of simultaneity in terms of service productivity (Parasuraman et al., 1985, 1988, 1994;

Grönroos & Ojasalo 2004) with the application of stakeholder theory (Freeman, 1984) within the service based economy. Simultaneity pertains to the concept of the co-production/consumption of services. It denotes the inseparability of the transformation process in operations, or seeks to explain the co-existence of inputs and outputs in terms of an open service operation system. Depending on the service system, a range of stakeholders can be involved in the simultaneity of production and consumption of services.

Productivity

So as to position productivity, a brief explanation of the following concepts is provided to distinguish between productivity, profitability, performance, efficiency and effectiveness. At its simplest understanding, productivity is the ratio of outputs over inputs. Tangen (2005) demystifies the concepts stating that whilst productivity and profitability are interdependent, profitability is the key goal for success and growth of a business and can be defined as the ratio between revenue and cost, and mainly addresses the needs of shareholders. “Efficiency is strongly connected to the utilization of resources and mainly affects the denominator (inputs) of the productivity ratio”...whilst, “effectiveness... is a more diffuse term and in most cases very difficult to quantify...often linked to the creation of value for the customer and mainly influences the numerator (outputs) of the productivity ratio” (Tangen, 2005: 41). Performance, Tangen states (2005: 43) “ is the umbrella term of excellence and includes profitability and productivity as well as other non-cost factors such as quality, speed, delivery and

flexibility”, with effectiveness and efficiency being cross-functional with productivity, profitability and performance.

The term productivity can be traced to an early use by Quesnay (1766 cited in Tangen, 2006: 35) in the *Journal de l’Agriculture, du Commerce & des Finances*. When reviewing the literature many definitions have been proposed with Table 1 providing a synopsis of some of the productivity definitions cited in the literature.

Table 1. A synopsis of some of the productivity definitions cited in the literature

Definition	Reference
Productivity = faculty to produce	Littre, 1883
Productivity is what man can accomplish with material, capital and technology. Productivity is mainly an issue of personal manner. It is an attitude that we must continuously improve ourselves and the things around us.	Japan productivity Centre, 1958 (from Björkman, 1991)
Productivity = units of out/units of input	Chew, 1988
Productivity = actual output/expected resources used	Sink & Tuttle, 1989
Productivity = total income/(cost + goal profit)	Fisher, 1990
Productivity = value added/input of production factors	Aspén et al, 1991
Productivity is defined as the ratio of what is produced to what is required to produce it. Productivity measures the relationship between output such as goods and services produced, and inputs that include labour, capital, material and other resources.	Hill, 1993
Productivity (output per hour of work) is the central long-run factor determining any population’s average of living	Thurow, 1993
Productivity = the quality of state of bringing forth, of generating, of causing to exist, of yielding large result or yielding abundantly	Koss & Lewis, 1993

Productivity means how much and how well we produce from the resources used.	Bernolak, 1997
Productivity is a comparison of the physical inputs to a factory with the physical outputs from the factory	Kaplan & Cooper, 1998
Productivity = efficiency*effectiveness = value adding time/total time	Jackson & Petersson, 1999
Productivity = (output/input)*quality = efficiency*utilization*quality	Al-Darrab, 2000
Productivity is the ability to satisfy the market's need for goods and services with a minimum of total resource consumption	Moseng & Rolstadås, 2001
Productivity is a concept used to manage production efficiency in manufacturing	Grönroos & Ojasalo, 2004: 414
Productivity is a most useful comparative measure at a national, sector or individual business level to provide comparisons between relative performances and measure trends over time.	Hill, 2004, 565
Productivity (p) is nothing other than the relationship between the production (P) of a good or service and the factors of production used (F): $p=P/F$. It is an indication of the productive efficiency of a given production unit for a given period.	Djellal & Gallouj, 2008:3
Productivity is the ratio between the output produced by the process and the input absorbed by the process in producing the output	Prajogo, Singh, & Samson, 2008: 162

(Adapted from Tangen, 2005:36)

Littre (1883 cited in Tangen, 2005) used the word simply in terms of producing, whilst Björkman (1991 cited in Tangen, 2005) assigns personal interpretation to productivity and suggests that decisions on productivity improvement are based on personal opinion, whereas Chew (1988 cited in Tangen, 2005: 35) remarks that people make decisions on a daily basis concerning productivity improvement, however cannot actually explain what is productivity. Sink & Tuttle (1989 cited in Tangen, 2005) state

that it is necessary to define productivity so as to reduce confusion, and important due to productivity being one of the most vital factors affecting the competitiveness of a business (Grossman, 1993 cited in Tangen, 2005).

Fisher (1990), Aspén et al (1991 cited in Tangen, 2005), Hill (1994), Kaplan & Cooper (1998 cited in Tangen, 2005) and Prajogo, Singh, & Samson (2008) have adopted a resources or technological (ratios of inputs/outputs), cost and value approach to productivity. Thurow (1993 cited in Tangen, 2005) considers the timeframe of productivity stating that it is a strategic function determining a populations living, with Koss & Lewis (1993 cited in Tangen, 2005) and Al-Darrab (2000) also indicating that quality is a factor of productivity. Whilst Thurow (1993, cited in Tangen, 2005)) includes the characteristic of time as a strategic context, Jackson & Petersson (1999 cited in Tangen, 2005) and Djellal & Gallouj (2008) consider time to be self determining, iterating the concept of personalisation in the term productivity mentioned by Björkman (1991, cited in Tangen) and Chew (1988 cited in Tangen). Jackson & Petersson (1999 cited in Tangen, 2005), Al-Darrab (2000), Djellal & Gallouj (2008) include efficiency in their conceptualisations, hence adopting an econometric, resource allocation approach. Bernolak (1997) goes so far as to mention people when discussing resources and furthermore “By “resources” we mean all human and physical resources...”. This is interesting when considering the range of ‘people’ involved in producing services. Moseng & Rolstadås (2001) introduce the concept of satisfying the market’s needs – moving on to linking operations and marketing, no longer considered as to separate and distinct functional areas of an organisation, with Mill (1989: 277) explaining current

service sector productivity measures as tending “to measure both the ability of the operation to *produce* and *sell* the service”. Grönroos and Ojasalo (2004: 414) explain the need to examine service productivity in its own right, noting that “...due to the nature of service production processes as open systems and the participation of customers in those processes, such a productivity concept is too limited”. The production of manufactured goods or transformation process is usually undertaken in a closed manufacturing setting as opposed to what could be considered an open services system. Whilst there have been some research activity in the area of service productivity (Gummersson, 1998; Grönroos, 2000; Johnson & Jones, 2004), Johnson (2005, p. 1300) notes that “the area of service productivity is almost bare”.

This review identifies the necessity to investigate service productivity in terms of the nature of the service system, the need to identify people – the stakeholder’s involvement in the production of services (Jones, 1988; McGuire, 1999), and to explain this in terms of relationships with service productivity (Avgeropoulos, 1998).

Stakeholder theory

Given the nature of the service sector in terms of simultaneity and the significance of stakeholders in service production (Grönroos & Ojasalo, 2004), stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984) was adopted to investigate the significance of stakeholders in service productivity. Stakeholder theory was identified as being an appropriate theoretical basis for conducting this research due to the growing acceptance of the theory and in particular to the characteristic of simultaneity of production and

consumption in services (Agle et al., 2008). Understanding the concept of simultaneity in services establishes the importance of stakeholders in the service operating systems of the sector, and therefore requires understanding as to how they operate. As a result of definitional inconsistencies, service stakeholders need to be clearly identified (Avgeropoulos, 1998; Pearson, 2004) so as to enable a research framework to be developed for service productivity.

Widely accepted as being the “launch of the concept of stakeholders and provid[ing] the basis for the evolution of stakeholder theory” (Pearson, 2004: 71), Freeman (1984: 31) presented stakeholders as “those groups without whose support the organisation would cease to exist”, further refining this to “any group or individual which can affect or is affected by an organization” (1998: 612). This was a shift in focus from management theory espoused value maximization for shareholders to consideration for maximizing the wellbeing of all stakeholders connected to the company. This is an appropriate theory to apply in the service sector due to the concept of simultaneity in service operations open service system and hence service productivity. In discussing stakeholder theory of corporations, Donaldson and Preston (1995: 65) claimed that “stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power and normative validity”. Fassin (2008: 879) goes so far as to state that “few management topics have generated more publications in recent decades than the underlying notion, the models and the theories surrounding stakeholders”.

When discussing business pragmatically, Freeman (cited in Agle et al., 2008: 184) suggests that stakeholders include “customers, suppliers, employees, communities and financiers”. Pearson (2005: 75) suggests there is a range of stakeholder groups consisting of “customers, employees, suppliers and stockholders” that are considered as the primary stakeholders that have formal, official and contractual relationships with the organisation”. Mitchell et al (1997: 865) presents core stakeholder attributes as:

- power - being the ability to impose its will in the relationship,
- legitimacy - as a generalized assumption that the actions are desirable within the socially constructed system of values,
- urgency - the degree to which stakeholder requires action, and
- saliency - as a function of the above three attributes.

Fassim (2008: 879) suggests that the success of stakeholder theory is due to “the inherent simplicity of the model”. Whilst Meyer (1991:232) acknowledges that schemata excel at revealing the data at several levels of analysis, and in inducing the viewer to think about substance rather than mythology”, he critiques the simplicity of stakeholder theory model as not representing the complexity of the environment. He then proposes a number of shortcomings to the model by addressing these characteristic “imperfections” (Fassim, 2008: 880). When this list is reviewed, it is noticeable that three of the stakeholder characteristics are also characteristics of services. These are:

- heterogeneity within stakeholder groups
- variability in the dependence among stakeholders, and
- the multiple linkages and networks relationships.

Hotels and service productivity

A well documented characteristic of the service sector is the dependence on people, and thus labour productivity is frequently used as an indication of service productivity. Hotels are a prime example of a service sector industry where this is often the case. Kim (2008) provides a comprehensive summation of research undertaken on hotel performance measures such as financial ratios, profitability measures, stability measures, credit activity and performance measures to identify operating positions. Whilst these all provide some indication as to the overall management contract on performance, the lack of research specifically relating to service productivity provides scope for the detailed examination in this area. Service stakeholders have the ability to directly and indirectly affect both input and output in terms of labour productivity, operational efficiency and effectiveness measures. However if service organisations wish to be sustainable, they need to understand how stakeholders in terms of service productivity can also be a source of competitive advantage.

Heterogeneity within stakeholder groups

Pearson (2005: 74) concurs with the idea of stakeholders being value-adding for an organisation and suggests that “for some time, the notion of multiple stakeholders has been used to broaden understanding of the relationships between a corporation and its external environment”. However he also acknowledges that “the lack of consistent definition means that the classification of stakeholders, the interpretation of their relationships, and ideas about how an organisation might respond to the influence and

interests of stakeholders becomes problematic” (2005: 69). This in effect confirms Fassim (2008) suggestion of heterogeneity within stakeholder groups. Winn (2001 cited in Fassim 2008:880) suggests that “stakeholders have multiple interests and roles” and “differ widely in terms of interests, involvement and influence capacity”. Whilst they may have a common stake, they may not necessarily share a common objective, thus potentially having differing relationships to service productivity for the organisation. Additionally, individuals may belong to more than one stakeholder group and at the one time. The hypothesis states that there is heterogeneity in stakeholders groups in the hotel sector.

Variability in the dependence among stakeholders

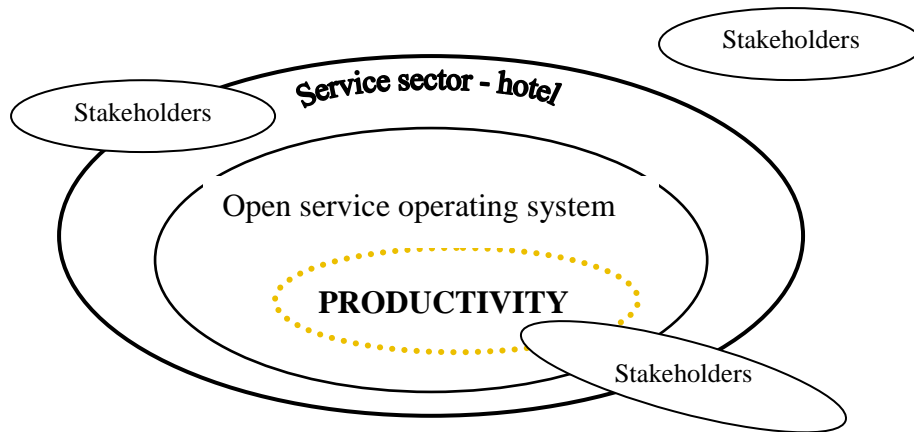
A number of authors (Pearson, 2005; Fassim, 2008) have suggested the two-way relationship between stakeholders and the organisation. Whilst these relationships represent dependence and reciprocity, risks and benefits, rights and duties (Pearson, 2005; Fassim, 2008), they are not necessarily stable over time or may vary according to the situational issue. Thus within a hotel open service system, stakeholder power and intensity characteristics are considered dynamic in nature. This adds to the spatial and temporal dimensions of stakeholder theory and simultaneity of services.

The multiple linkages and networks relationships

The role of hotel managers as the decision makers is a critical feature of the stakeholder framework, as Pearson (2005: 101), explains “ultimately, the benefits attained by particular stakeholders are determined by how managers prioritise competing

claims”. This suggests an open service system within hotels, present managers with the role to identify stakeholders within the hotel system, their possible influences, impacts, and involvement within the service relationship. Operationally, this means the organisation and stakeholders need to nominate the zones or boundaries within which the organisation is prepared to allow the identified stakeholders to operate, that is be involved in the operations of the hotel (Taylor & Sohal, 2009). This in turn will aid in the understanding of their realm of influence in productivity within the organisation (Johnson, 1994; Johnson & Clarke, 2004). As this process is not a linear of static relationship, networks need to be identified and feedback loops clearly established between all hotel stakeholders.

Figure 1: Framework for developing service productivity model



As Shah and Corley (2006, p.1822) propose to ‘develop theory that is grounded in the experiences of the living’, this study adopted a qualitative approach to investigate service productivity in the hotel industry.

METHODOLOGY

The aim of this study was to investigate service productivity using stakeholder theory by undertaking qualitative study that involved semi-structured interviews with hotel managers. The semi-structured interview instrument was developed from a literature review, and administered by face-to-face interviews were conducted with managers in 13 different hotels. Managers were asked about their perceptions of service productivity and hotel stakeholders. The qualitative approach was used to develop an in-depth, empirical investigation of the phenomenon using thirteen cases. The research design used a cross-sectional approach, also referred to as a correlational study format (Ghauri & Gronhaug, 2002; Tharenou et al., 2007). This project was based on an *ex post facto* design with the unit of analysis being a convenience sample of senior management staff in 4 or 5 star rated hotels, located in three states in Australia.

For the purposes of the project, due to the diverse composition of the accommodation sector, it was desirable to delineate the sampling frame to four and five star rated hotel properties. These are representative of similar operational activities and constraints, with the star rating as a quasi representation of this commonly being used across hotel studies of significance as determined by standard rating systems. This meant that the respondents were by definition managing the operations of properties in large size accommodation range (not SMEs), based in city locations with a cross section of corporate and leisure clients and were willing to be involved in the research project.

The respondents were selected via a convenience sample. An interview protocol was established and followed for each of the thirteen interviews. The interviews detailed the following areas: organisation profile, background of interviewee, business and organisational issues and outcomes, and future trends. The data was analysed using the qualitative data analysis package NVivo (v7).

FINDINGS AND ANALYSIS

This study sought to investigate the relationship between service productivity and service stakeholders in four and five star rated hotel properties. Hotel managers were asked about their understanding of the concept of productivity in hotels and who they considered to be key stakeholders in their organisation. Table 1 provides a summary profile of the hotels.

Table 1: Summary profile of respondent hotels

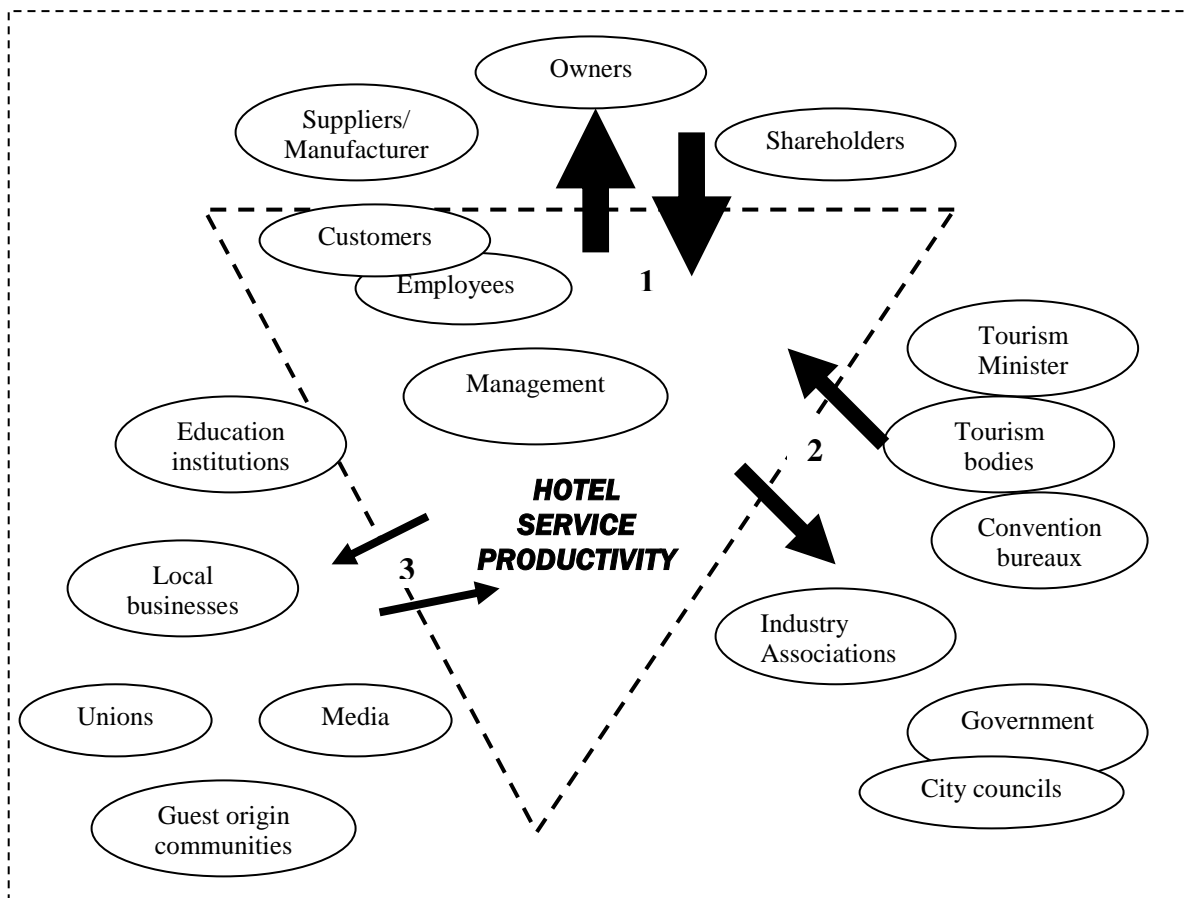
Hotel property	Property location (Australian state)	Property size (N rooms)	Hotel star rating	Manager (Gender)
1	Western Australia	306	4*	M
2	Western Australia	300	4*	M
3	Western Australia	170	4*	M
4	Western Australia	94	4*	F
5	Victoria	340	5*	M
6	Victoria	91	5*	M
7	Victoria	112	4*	M

8	Victoria	387	5*	M
9	New South Wales	204	4*	M
10	New South Wales	382	5*	M
11	New South Wales	207	4*	M
12	New South Wales	359	5*	M
13	New South Wales	106	5*	M

The results indicate that managers consider a diverse range of internal and external groups as key stakeholders associated with service productivity within their hotels with Figure 1 providing summary diagram of the responses. The array of stakeholders provided by the hotels managers indicates the scope of stakeholders potentially involved with service productivity, and would suggest that there is a high degree of stakeholder heterogeneity within the industry. Stakeholders could be grouped into three clusters. The basis for this grouping is the significant impact various stakeholders can have in terms of stakeholder salience and service simultaneity in service operations. When further investigating production and consumption of hotel services, it was found that some stakeholders were internal to the organisation, some were external to the organisation and some were intermittently involved in the organisations services operations. This supports the notion that service operations function within an open system, as opposed to traditional manufacturing businesses that operate more in closed systems.

Three broad groups of stakeholders were identified from the study. Cluster 1 represents those groups of stakeholders that were reported as being essential to the operations of the business, Cluster 2 were reported as being selectively involved with the operations of the hotels, whilst Cluster 3 were reported differentially by the respondents as representing those stakeholder groups that were optional when considering hotel operations.

Figure 1: Key stakeholder salience for hotel service productivity



Stakeholder heterogeneity, variability and relationship

Cluster 1 comprises those stakeholders nominated by hotel managers as being essential to the business operations and directly involved in service productivity in the hotel (Freeman 1984; Avgeropoulos 1998; Pearson 2005; Agle et al. 2008). This cluster of stakeholders is identified as necessary for the operating of the hotel therefore it has the power to consciously influence service operations or unconsciously impact of service operations due to the service characteristic of simultaneity. It should be noted that whilst the stakeholder group remains constant, the individuals that make up these groups can constantly change, indicating both heterogeneity of stakeholder and variability within stakeholder groups, for example there is a constant flow of new customers and high levels of staff turnover within hotels. It was also reported that loyalty to suppliers in the hotel industry is quite low, therefore the supplier and overall supply chain is also potentially dynamic. Additionally, there can be quite different sub-groups within each stakeholder group. For example hotels with large convention markets (MICE sector) suggested the time for check-in for some convention groups is extremely fast and therefore very efficient, whilst others seek so much additional time, that separate check-ins are built for these groups. When this information is known prior to the groups arriving, appropriate operational strategies can be developed, however often that is not necessarily the case for all stakeholders given the range and growth of the MICE sector.

The degree to which stakeholders require action is of interest in that whilst the stakeholder group per se has a continuous relationship with the hotel, the individuals within the stakeholder cluster may not, this often being dependent upon the one-off or

repeat nature of the stakeholder relationship. Thus it would appear to provide an opportunity for hotel management to investigate how they can manage service productivity more effectively in terms of managing the dynamics of the open system of operations, whilst acknowledging the heterogeneity of the stakeholders. This finding concurs with other studies that, due to the characteristic of service simultaneity, this cluster of stakeholders could take on a legitimate role of an internal stakeholder. This primary cluster of stakeholders has a very high stakeholder salience and is essential for business survival (Table 2).

Cluster 2 represents the organisations which can influence or impact on service productivity via legal or industry necessity. This need will often be dependent on the strategic needs of the business, and whilst may have a high level of power, the relationship will be activated by either the hotel or the stakeholder on a selective basis. Therefore, in a dormant phase on the relationship, there may be no direct link to service productivity and effects quite intangible. However, due to stakeholder urgency, for example in an industry crisis situation such as SARS or a global security situation, the relationship is activated and the legitimacy of the relationship in terms of its effects on service productivity can be direct and visible. Therefore stakeholder salience of Cluster 2 is selective based on organisations' strategic goals and operational needs.

Cluster 3 represents organisations that have the power to influence service productivity either directly or indirectly dependent on the contractual relationship of the parties. The relationship tends to be controllable, often intangible, varied in duration, and

needs to be actively managed to sustain intangible outcomes which can impact on service productivity. Due to the fact that the legitimacy of this group of stakeholders is identified by it being an optional group, there is usually a high degree of interest between the parties, however often project based and supporting intermittent needs. For example, this agreed contact involvement could be a once-off event (a sponsorship project) or a continuous relationship (a loyalty program). Frequently, these relationships can be based on the responsibility principle (Agle et al. 2008) or value creation (Donaldson & Preston 1995), and thus this optional cluster is indirectly considered as stakeholders in terms of service productivity.

Whilst some authors (Fassin, 2008) have indicated that perhaps the size of the shape representing the stakeholder can be adopted to further clarify the diagram, at this stage further quantitative research is being undertaken to establish this effect. Additionally the intensity or salience of the stakeholder group could be indicated by the intensity of the shading of the shape in the diagram. The arrow shape represents an initial categorizing of the importance of the three stakeholder clusters to service productivity, however it needs to be investigated how variability can also be represented. Whilst this study establishes the range of service stakeholders, further research is being undertaken to develop a hierarchy of stakeholders to determine the importance or relative relationships between stakeholders and service productivity. An additional challenge will be to provide an indication of the dynamic nature of the stakeholder relationship within the service productivity model.

Table 2: Service productivity as defined by heterogeneity, variability and relationship of stakeholders

Stakeholder attributes	Cluster 1: <i>Essential</i>	Cluster 2: <i>Selective</i>	Cluster 3: <i>Optional</i>
Power	Direct, heterogeneous involvement in service productivity at operational level; ability to directly influence service productivity; variable control by organisation	Variable influence between industry and business levels; dependence direct or indirect, usually controlled by contract Bilateral relationship	Indirect influence, needs to be actively managed to sustain any service productivity outcomes; direct if relationship established, variable dependence, often intangible
Legitimacy	Legitimate relationship at operational level/ strategic level; directly impacts service productivity	Legitimate interest at industry and business level; indirectly impacts service productivity; more strategic in nature; tangible impacts on service productivity	Variable legitimacy in service productivity outcomes, when directly relevant to individual groups
Urgency	Stakeholder group	When activated,	Intermittent

	continuous over time, individuals can change (e.g. markets, staff, suppliers)	continuous relationship develops	relationship, needs or project based; CSR; based on agreed contact; involvement varies
Saliience	Necessary for business survival, directly relevant to service productivity	Selective based on organisations' strategy, information and legal needs; can affect service productivity	Optional based on responsibility or creating value in terms of service productivity

Information was sought from hotel managers in terms of service productivity within the hotel organisations in relation to the nominated stakeholder groups. The results indicated that hotel managers considered all employees to be important stakeholders involved in hotel service productivity however with varying levels of involvement. Service productivity planning, for example, was undertaken by line managers, reported to department heads and on to general manager where it was reported that managers viewed service productivity primarily on the basis of labour costs or financial measures (Table 2). Most hotels operate within the traditional departments of front office, food and beverage, housekeeping and engineering. Both the measurement and evaluation of service productivity in the hotel organisation was undertaken primarily by department supervisors looking at operational and staffing efficiencies, whereas when reported to the general management service productivity was viewed in terms of financial ratios.

However improvements in service productivity were undertaken at senior level management, usually the general manager and then forwarded down through line management to the departments.

When discussing the scope of service productivity, one manager went so far as to state that

'the families of hotel staff are also important to productivity as this relationship could indirectly impact on productivity given the twenty-four hour/365 day operations nature of the working environment of hotels and their staff'.

The importance of service productivity was noted in terms of increased attention given to service productivity where one manager noted that they had only really been looking at productivity for the last three years. Whilst this may not be the norm across the industry, the importance of service productivity was acknowledged by all hotel managers. This perceived importance was emphasised at the firm level by statements such as 'productivity is the bottom line for the hotel'. It was also considered important at the operational level given the all pervading hotel practice of monitoring every activity, 'the hotel is very aware of productivity, it is noted in every payroll and in every project such as per advertising project.

Hotels are considered quite traditional in organisation, and this was shown by managers explaining that service productivity was considered differently within the

differing functional areas of the hotel. The result of this is that service productivity was often considered only at the departmental level, this is supported by the statement that

it is different for different department areas – for housekeeping it is rooms cleaned per house or the number of minutes it takes to clean each room, whereas in the kitchen it is meals served per hour. For the conference area it is the number of guests served per waiter and the front office it is number of checked-out rooms per stayover, for example the number of corporate rooms versus leisure rooms and single versus multiple occupancy. Also front office it is the percentage of labour plus casuals on arrivals per department movements.

Whereas other managers saw service productivity more at a firm level in terms of *‘inputs such as (a) people are important, for example skilled labour levels and rosters; and (b) processes – manuals, targets; and (c) outputs – the actual sales or dollars in relation to costs’.*

Operationalising service productivity

A number of managers described service productivity in terms of measurable outcomes such as financial ratios, for example costs such as wages, total sales, number of employees, work performed or provision of services. Labour, financial ratios and time were considered to be areas where service productivity was measured at the departmental level for analysis at the firm level. Time was considered an important component of service productivity as quoted *‘time is the critical factor’* and *‘time is a very important factor in productivity’*. Managers noted the use and non-use of time by

‘ratios looking at non-productive time in regards to output’. Productivity, performance and profitability were conceptually indistinguishable, with service productivity frequently described in terms of physical outputs and customer expectations, noting that ‘service is the outcome of productivity, service delivery is the function of productivity’.

These findings show that stakeholder heterogeneity, variability of stakeholder dependency and the nature of the stakeholder relationship are all contributing factors to service productivity. Service productivity exists in an open, dynamic service operations environment.

DISCUSSION

This study found that service productivity is considered in operational terms such as labour, financial and time ratios. This range of terms provides scope for investigating the meaning of productivity within hotels and the service sector. Subsequent to this, measurements at the operational level and how this information is provided to senior management for analysis can then be developed for the purposes of improvement, value adding and innovation. Given the range of responses and understandings of the managers’ perceptions of service productivity, it was of interest to note that this study identified overall stakeholder salience as being an important construct of service productivity. Implications of this provide scope for further service productivity research.

Due to the characteristic of simultaneity in service operations (Grönroos, 2000; Lovelock, Patterson, & Walker, 2004), the customer is an integral part of service

productivity and could in effect be considered a quasi-employee due to the range of involvement in service productivity. Frequently customers, in this case hotel guests, are involved in not only the consumption of the service, but also in the production of the service in real time. Many service organisations are increasingly designing their operations to include more customer involvement due to the increasing use of technologies. This provides scope for further research in terms of both staff and customers to be actively 'trained' to assist in the service productivity objectives of the organisations operations.

External stakeholders such as suppliers can directly or indirectly affect service productivity, however would appear to be operationally managed via such tools as specifications, supply chain management contracts or quality audits therefore minimizing their impact on service productivity. Stakeholders exhibiting more challenging service productivity management include industry associations and government organisations where it would be of interest to identify what it is that firms require of these organisations so as to manage this within the context of service productivity. That is the network relationships need thorough clarification. Finally, a group of organisations who may appear quite removed from direct service productivity could be identified within the organisations as those that are connected to it via the responsibility principle (Agle et al., 2008) that indirectly or to a lesser extent are considered as stakeholders in service productivity. The importance of stakeholder analysis in terms of service productivity is supported by Pearson (2005, p. 86) who states that 'understanding how the interactions

between various organisational resources affect the delivery of services (output) is invaluable in the increasingly competitive services domain’.

Based on the findings of this study stakeholder salience directly relates to service productivity. The findings established that stakeholder theory provides a basis for developing a conceptual framework for service productivity on which to develop further service productivity research. Service productivity can be viewed from both a B2B and B2C approach by considering the open service system. This is where a service business needs to systematically identify who they would like included in the service system, and which sub-areas or operations zones they wish those nominated stakeholders to be involved. This approach in turn provides the basis for analysing productivity according to the hierarchy of stakeholders within the organisation according to the stakeholder attributes.

These findings present a clear mandate to precisely define service productivity; how it relates conceptually to areas such as performance, quality and satisfaction; identify the key characteristics of service productivity and examine how stakeholders impact on service productivity. Finally, the drivers and barriers for service productivity, measurement, improvement and service productivity innovation can then be examined. Strategy and policy implications for service productivity can then be developed for both developed and emerging nations.

CONCLUSION

Service productivity is currently considered from a range of conceptual standings. This was made evident in a study of thirteen hotel managers with findings reported in this paper. With many countries now reliant on the service sector underpinning the growth of their economies, it is important to establish an understanding of service productivity.

This study investigated the concept of service productivity and found that there is a broad interpretation and understanding of service productivity in terms of scope, measurement, concepts, characteristics and contributing factors. All 13 hotel managers interviewed considered service productivity to be important and have increasing importance in their hotels. Some hotels indentified productivity very narrowly in terms of either finance or labour outcomes, whilst others were very inclusive and considered it as the entire bottom line of the hotel operations. A range of tangible service productivity characteristics, primarily in the form of measureable items such as financial ratios, labour hours and time units were discussed, as well as a range of intangible characteristics including customer satisfaction, time, perishability and simultaneity. Together these characteristics used by the managers to describe productivity, therefore provide scope for the basis of service productivity theory development.

There was a strong, clear view that stakeholders, in particular the customer is non-separable from productivity in service organisations. Stakeholder theory focuses on the multiplicity of ways that companies are about people creating value for each other

(Freeman cited in Agle et al., 2008). Three clusters of stakeholders were identified as being important in developing the concept of service productivity, being *essential*, *selective* and *optional* groups of stakeholders. The challenge for business is to identify, and duly recognise the importance of stakeholder relationships in service productivity. The findings show that stakeholder heterogeneity, variability of stakeholder dependency and the nature of the relationship are all contributing factors to service productivity. Service productivity exists in an open, dynamic service operations environment. The challenge for service productivity in hotels is therefore to develop a common understanding of the concept so as to be of value to both the organisations operationalising the term and industry in comparability of measures across industry and economic sectors. Results of this research have implications for emerging economies in terms of the relative importance of the service based economy many emerging nations are so dependent upon for sustainable development. This in turn has implications for service productivity strategy.

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