

COVID-19 CRISIS FORCES HOTELIERS TO REVIEW THEIR HUMAN RESOURCES STRATEGIES

Does the leisure and tourism workforce need to be rescued? Considering the industry contributes 10.4% of global GDP, supporting one in ten jobs on the planetⁱ, we can affirm that the tourism industry is one of the principal job providers. Furthermore, business recovery is expected to be slow: the UNWTO has estimated a 20%-30% global decline in international tourist arrivalsⁱⁱ

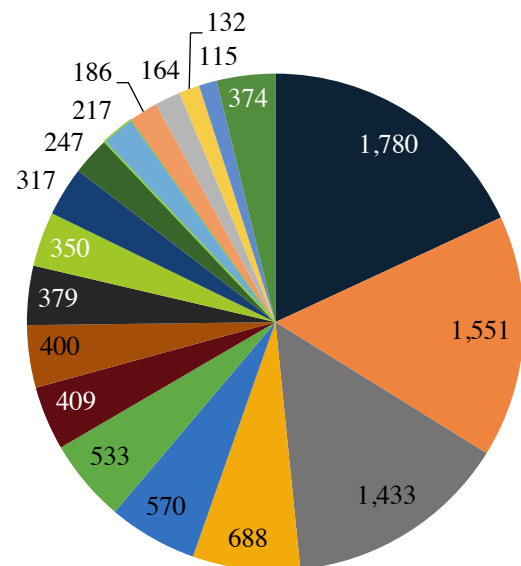
Major hotel chains are reducing their workforce. The business is performing 50% below normal levels in the European market and Asia Pacific, excluding Chinaⁱⁱⁱ; Marriott's CEO Arne Sorenson said that the hotel's business was running almost 75% below normal levels. This is the reason behind Marriott's decision cutting off two-thirds of its 4,000 corporate employees at the Bethesda, Maryland head office, which means approximately two-thirds of corporate staff abroad will also be furloughed.

All the way down to the hotel operation level, the international brands are facing the critical issue of redundancy during this current COVID-19 crisis, regardless of each owner specific cash flow situation.

WHAT ARE YOUR UNDERLYING DRIVERS FOR RETENTION OR DOWNSIZING STRATEGIES?

This article will navigate through the upsides and the downsides of these two strategies: retention or downsizing. We will provide you with examples and reflections that you may find useful to evaluate your best actions.

The underlying variables of the post-COVID-19 business plan are related to economic and governmental policies, and they are not consistent worldwide. Therefore, in this document, we are not going to provide our opinion nor recommendations. Nevertheless, our hotel asset management team can provide best practices and adapted approaches to each particular hotel.



- China
- USA
- India
- Germany
- Japan
- Thailand
- Spain
- Indonesia
- UK
- Vietnam
- Brazil
- Italy
- France
- Mexico
- Singapore
- United Arab Emirates
- Saudi Arabia
- Others

Data: to justify why the tourism industry is a principal source of employment, above there is a description by principal destinations of the number (in thousands) of employees in accommodation services for visitors: hotels, other accommodation and similar establishments.

STRATEGY ONE: TO AVOID COVID-19 LAYOFFS

✓ PRO “INSTILLING LOYALTY AMONG YOUR STAFF”

The corporate value of international hotel brands includes the relevant element of employee caring. For example, Marriott states that they put people first, and their value is “Take care of our associates and they will take care of our customers.” Besides the written contract, the hotel chains have built psychological contracts with their employee that creates unwritten expectations in the employment relationship.

As such, the handling of employee-related issues would determine if the psychological contract is perceived as being kept or breached. The breach can severely damage the motivation and performance of the staff.

In this hyper-connected world, information about mishandling labour-related issues could be quickly propagated and damage the employer branding of the hotel chains. However, it could be an opportunity for hotel chains to show that they care for the well-being of their employees. For instance, Hilton has announced that it will team up with 30 leading companies to provide temporary jobs, in addition to the common practice of covering health benefits. Furthermore, Accor will allocate EUR 70 million in a fund: to cover those employees without medical insurance or social security that present COVID-19 health issues and to support front-line healthcare professionals & non-profit organizations. The fund is raised from the unpaid year 2019 dividends.

The determination to maintain a positive attitude towards staff caring and experience throughout the crisis is crucial for the recovery phase. There is no doubt that the different hotel brands will restart the competition for the talents in the industry once the market starts to recover, and good employer branding can be a competitive edge. Besides employees do not forget when you support them during tough periods.

– CON “ADDING SUBSTANTIAL PRESSURE TO YOUR CASH FLOW”

When occupancy is plummeting to single digits, cash flow management has become the lifeline of nearly all the hotels. As labour cost regardless of the hotel category, generally represents the largest component, of operational expenses, multiple hotel chains including Marriott, Hilton, Hyatt, Accor, and MGM have announced furloughing schemes as a component of their COVID-19 responses, to slash costs. Furthermore, these hotel chains have also declared a different degree of pay cuts for the remaining employees. For example, CEOs put a halt to cash dividends and reduced salaries to senior executive teams by 50%^{iv}.

The cost-saving exercise should be conducted in a way that allows the hotel to recover quickly once the demand comes back. A salary cut policy is required at every level to survive; in other words, we all need to tighten our belts until the ramp-up stage.

The significance is that, if the termination of the employment contract is not an option, some businesses may be only left with one choice: a total shut down. When planning different financial scenarios, it is essential to manage the working capital for the short term and medium term. Owners need to start pro-active discussions

with their banks or other investors to increase their debt service (we published another article specifically on this topic).

On the 28th of March, the Wujiang Hotel Chain, an emerging hotel chain that was formed under the investment of C-trip last year, was the first hotel chain to collapse in this crisis. Xiaodong Ma, the CEO of this hotel chain, has announced they will terminate all employment contracts by the 30th of April^v. There is no doubt that the ban on unilateral termination of employment contracts in China during the lockdown has greatly contributed to the downfall of this one-year-old hotel chain^{vi}.

STRATEGY 2: TO EXECUTE COVID-19 LAYOFFS

✓ PRO “TEAM OPTIMISATION AND TRANSFORMATION”

The drastic drop in business has forced many hotels into a minimum level of operation. At the same time, the crisis has made it easier for the operators to identify who are the core staff, and who are the weaker team players. We all know that layoffs are necessary and open up an opportunity to review the organization to optimize productivity, reduce long term costs, and often improve the overall operation/guest experience.

In addition, the human resources department should optimize the workforce according to several variables that will impact the labour cost structure:

- ✓ Adjust the business plan with several tentative re-opening dates
- ✓ Adapt the workforce to different ramp-up occupancy level
- ✓ Reorganize F&B team to the gradual opening of the various outlets (same apply to other operating departments)
- ✓ The well-being of employees: motivation, training (e.g., new hygiene procedures), and reassure the team after this challenging period

– CON “CONSIDERATION OF RECRUITMENT & RE-TRAINING COSTS, AND REPUTATION”

As China’s economy is slowly shifting towards recovery mode, many labour-intensive companies, including hotels, have found themselves short of workforce. The reason for this labour shortage varies; but one of the reasons was that some employees were reluctant to return for fear of infection.

Since 2016, many industry analysts have been expressing concerns over a labour shortage at all levels, especially in the operational departments. This phenomenon is highly detrimental to the industry, as hotels’ operation requires a set of expertise in every department. The labour shortage can be statistically proven by the increasing labour cost percentage at hotels.

Also, other than payroll there is a key factor that justifies the value of raising the labour costs, this is training. When hotel management executes a training plan for different levels of staff, costs included in this are the training materials, supplies, certification programs, and instructor fees. A thorough training will have a direct positive impact on productivity, customer satisfaction, revenue growth through upselling, and enhance employee satisfaction that leads to lower turnover.

It is logical to interpret similar situations that would occur in other sectors in the recovery phase; keeping the current staff may be a sound strategy for minimizing the cost of rehiring. As hotels in China rely on the domestic labour force, it can be estimated that the increase in hiring cost after the crisis can be even steeper for countries, which are mainly relying on foreign labour.

Last but not least, owners and operators should consider that downsizing has a reputational risk, especially if the crisis is short. Before making any decision, it is important to consider the following: What are the hotels core values? How do owners and operators want to be recognized in the market? How will this impact in the recovery period?

The list of pros and cons of each strategy seems to be limitless, and we are only listing out the general considerations. As such, please do not hesitate to share with us your thoughts and considerations on your staff retention and downsizing strategies.

We encourage you to start planning the labour cost structure, to adapt your staff level according to the operation immediate needs, and to consider the reputational risk. Please contact us at info@globalassetsolutions.com, we would be delighted to offer you our assistance and tailor-make an action and implementation plan for optimal future reopening.

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Global Asset Solutions, your key partner in hotel asset management, has partnered with a team of five students and one alumna from Ecole Hôtelière de Lausanne, recognized by industry leaders as the best hospitality school in the world. Together, we are working on compiling the best practices to help hotel owners and operators navigate through the COVID-19 crisis. By combining diligent research, expert opinions, and our own experiences, we will be publishing the best practices on the most current topics facing our industry. Team APAC is composed of Paloma Guerra, Mingze Li, and Zhaoyu Zhu, while Eliana Levine, Larina Maira Laube, and Vani van Nielen make up our Team EU & US and Remy Rein (EHL Lecturer).

Co-Published with Alex Sogno (CEO - Senior Hotel Asset Manager at Global Asset Solutions). Mr. Sogno began his career in New York City after graduating with honors at Ecole Hôtelière de Lausanne, Switzerland. He joined HVS International New York, and he established a new venture at the Cushman & Wakefield headquarters in Manhattan. In 2005, Mr. Sogno began working for Kingdom Hotel Investments (KHI), founded by HRH Prince Al-Walid bin Talal bin Abdul Aziz Al Saud member of the Saudi Royal family, and asset managed various hotels including Four Seasons, Fairmont, Raffles, Mövenpick, and Swissôtel. He also participated to the Initial Public Offering (IPO) of KHI at the London Stock Exchange as well as the Dubai International Financial Exchange. Mr. Sogno is also the co-writer of the 'Hotel Asset Management' textbook second edition published by the Hospitality Asset Managers Association (HAMA), the American Hotel & Lodging Education Institute, and the University of Denver. He is the Founder of the Hospitality Asset Managers Association Asia Pacific (HAMA AP) and Middle East Africa (HAMA MEA).

SOURCES OF INFORMATION

ⁱ Global Rescue and World Travel & Tourism Council: Crisis Readiness - October 2019.

ⁱⁱ <https://www.unwto.org/news/international-tourism-arrivals-could-fall-in-2020>

ⁱⁱⁱ Oxford Economics webinar: European tourism losses and potential rebound webinar

^{iv} <https://www.cnbc.com/2020/03/13/workforce-wire-coronavirus-heres-what-every-major-company-is-doing-about-the-pandemic.html>

^v Retrieved from TravelDaily, a leading media for tourism-related news in China:

<https://www.traveldaily.cn/article/136909>

^{vi} On 24 January 2020, the Ministry of Human Resource and Social Security of China mandated that employers are not allowed to unilaterally terminate employment contracts if the employee cannot attend at work due to quarantine. Also, employers must pay for the full salary for the working employees and pay the local minimum wage for the employees staying at home. Source: https://www.thepaper.cn/newsDetail_forward_5622863

Graph page 1: Compendium of Tourism Statistics UNWTO 2014 – 2018 and Statista. Other countries are (in thousands): Chile 34, Australia 86, Argentina 80, Greece 72, New Zealand 34.