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Stakeholder theory: investigating the five Is of service productivity

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ABSTRACT

This paper investigates productivity within the service sector. Stakeholder theory was used to explore service productivity due to the dynamic service characteristic of simultaneity. The study identified service productivity stakeholders within the hotel sector, then investigated the stakeholder influence, impact, interest, involvement and importance in relation to service productivity by examining a case survey of thirteen hotel managers in Australia.

It was found that there are three clusters of stakeholders which directly and indirectly relate to service productivity in hotel businesses. The significant difference to manufacturing productivity is that the customer, a key stakeholder, has the stakeholder salience to affect service productivity. Thus service productivity strategy and measures need to include the customer as a key stakeholder.

Keywords: productivity, services sector, stakeholder theory, operations management, quality

Lewis discusses ‘the power of productivity [and] shows how the income level of a country is determined by the productivity of its largest industries’ (2006: 3). With the increase and importance of service sector industries globally, two issues are immediately raised. Firstly, the significant growth in service industries, for example in Australia the service sector now accounts for 77% of GDP and 85% employment, and secondly, the recognition that productivity research has been undertaken extensively in the manufacturing sector however, there is a productivity research void in the service sector (Avkiran 2002; Grönroos & Ojasalo 2004; Nankervis, Milton-Smith, Miyamoto & Taylor 2005; OECD 2008; Schmenner 2004). When considering service sector industries, tourism is cited as being one of the world’s largest industries; also it is a service industry (UNWTO 2008). Thus it is relevant and timely to examine the concept of productivity within the service sector and in particular within the tourism industry.

This provides scope for the examination of productivity from both economics and managerial disciplines, however, 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’. Thus, to investigate service productivity within a large industry, a staged approach is required. This empirical study was initiated to investigate senior managers within the hotel sector, being a key sector of the tourism industry, to gain an understanding of
their views of service productivity and their stakeholders, and thus develop a framework for further research.

**LITERATURE REVIEW**

**Productivity**

Productivity is discussed at the national level in economic growth terms, at an organisational level as an efficiency focus of inputs over outputs, and at a company resources level in terms of performance, and thus has been examined in varying fields such as economics, business administration and industrial engineering (Gummersson 1998; Avkiran 2002; Grönroos & Ojasalo 2004; Schmenner 2004; Farrell 2006). Hill notes that ‘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’ (2004: 565). It is important to note that most concepts and definitions ascribed to productivity have been developed primarily on the basis of secondary industry models of productivity. Mill (1989:277) defines productivity in the service sector as “Productivity measures in services therefore tend to measure both the ability of the operation to *produce* and *sell* the service”. Grönroos and Ojasalo claim ‘Productivity is a concept used to manage production efficiency in manufacturing’ (2004: 414). However, given that the nature of service industries is different to that of manufacturing, the need to question the relevance of existing productivity concepts is established. Grönroos and Ojasalo support this by explaining 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’ (2004: 414). This presents the need to identify who is involved (McGuire, 1999), and establish how they influence the service production processes (Avgeropoulos, 1998). Therefore, productivity in service sector organisations warrants further investigation as to the relevance and applicability of existing productivity concepts and the relationship of service stakeholders and systems.

**Services Sector**
Fisher (1935) an economist, first presented the concept of a tertiary sector of industries in Australia, however the sector is now usually referred to as the service or services sector. The distribution of the labour force across the agricultural, manufacturing and service sectors 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 sectors. These trends in employment distribution across industry sectors can are also exhibited on a global basis, with the service sector now contributing over two-thirds of all employment in developed countries (Nankervis et al. 2005; UNWTO 2008).

Some of the key characteristics cited as differentiating services from other sectors are the issues of simultaneity in production and consumption, the location of production and consumption activities, the issues of capacity and perishability of product and service inventory, the issue of heterogeneity and homogeneity of products and services, and the relative tangibility and intangibility of products and services and their defining characteristics (Grönroos 2000; Grönroos & Ojasalo 2004; Lovelock et al. 2004; Schmenner 2004; Nankervis et al. 2005). One of the larger bodies of research coming out of the services management and marketing literature is that of service quality. Notably, the work performed by Parasuraman, Zeithaml, and Berry (1985, 1988, 1994) in the area producing the SERQUAL, accepted widely as the bench mark instrument still used and cited by many.

Whilst acknowledging these achievements in quality research, there is growing discussion from researchers questioning the isolation of quality research with regards to its integration with productivity, as together they provide an indication of the efficiencies and effectiveness of the operations of the organisation (Kandampully, Mok & Sparks 2001; Grönroos & Ojasalo 2004; Hill 2004). However, the research undertaken within the area of productivity, and in particular service productivity, is of considerable lesser proportion than that of quality research (Grönroos 2000; Grönroos & Ojasalo 2004; Lovelock et al. 2004; Schmenner 2004). This gap in the literature presents the need to investigate the
concept of service productivity and to develop the knowledge base related to productivity due to the interconnectedness of the concepts or service quality and productivity service within the growing service sector. Likewise, due to services simultaneity (Parasuraman et al. 1985, 1988, 1994; Grönroos & Ojasalo 2004), it is important to examine the impact of the stakeholder/customers with regards to quality, and productivity of the organisation.

**Stakeholder theory**

Given the nature of the service sector and the significance of stakeholders in services (Grönroos & Ojasalo 2004), and to gain an understanding of service sector productivity, stakeholder theory (Freeman 1984) was adopted to investigate the significance of stakeholder performance in the business in terms of operational efficiencies and effectiveness and hence its 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 which espoused value maximization for shareholders to consideration for maximizing the wellbeing of all stakeholders connected to the company. In discussing stakeholder theory of corporations, Donaldson and Preston (1995:65) claimed that ‘that stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power and normative validity’. 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 four groups being those of ‘customers, employees, suppliers and stockholders’ that are considered as the primary stakeholders have formal, official and contractual relationships with the organisation. It would appear to be of interest for the organization to examine the
stakeholders as to any relative importance of these stakeholders groups with regards to productivity of the organisation. Mitchell (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 salience as a function of the above three attributes. As Pearson (2005) suggests that there are a range of stakeholders, and Mitchell (1997) suggests that they impose a relationship with an organisation, it would be of interest to establish if these stakeholders have an interest in the organisation’s service productivity.

Due to the nature of service sector organisations for example in terms of simultaneity, service stakeholders have the ability to directly and indirectly affect labour productivity, and operational efficiency and effectiveness measures, whilst also being a source of competitive advantage to service industries. This presents the opportunity to investigate key stakeholder influences within the concept of productivity within service organisations. Pearson (2005: 74) concurs with this 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 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).

The role of 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 presents the need for managers to identify stakeholders, their influences, impacts, and involvement, then nominate the zones or boundaries within which the organisation is prepared to allow these stakeholders to operate or be involved in the operations of the
organisation and hence to understand their realm of influence in productivity within the organisation
(Johnson 1994; Johnson & Clarke 2004).

This research project sought to identify a significant service industry due to the increasing importance of
service sector and investigate productivity within the sector (Lewis 2006). To do this, stakeholder theory
was thought as being appropriate due to the growing acceptance of the theory (Agle et al. 2008). Secondly,
due to definitional inconsistencies, service stakeholders need to be clearly identified/defined
(Pearson 2004), then the key stakeholders concepts of productivity within their organisation need to be
investigated. Further research can then be undertaken to identify the characteristics of service productivity
and then empirical research implemented to develop service productivity theory.

METHODS

The aim of this study was to investigate service productivity using stakeholder theory by undertaking a
case survey qualitative study that involved structured interviews of hotel managers. Managers were asked
to nominate the key stakeholders involved in productivity in their hotel, who influenced productivity,
potentially impacted productivity, was interested in productivity, and was their a hierarchy or stakeholder
importance ranking? The case survey method 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. The structured interview
instrument was developed from a literature review of productivity studies in the service and
manufacturing sectors.

Due to the diverse composition of the accommodation sector, for the purposes of the project, it was
desirable to delineate the sampling frame to 4 and 5 star rated hotel properties as being representative of
similar operational activities and constraints, with the star rating as a quasi representation of this commonly 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 the large size accommodation range (not SMEs), located in three states in Australia, and located in city locations with a cross section of corporate and leisure markets and willing to be involved in the research project.

The respondents were selected via a convenience sample and thoroughly briefed prior to the interview with regards to the purpose of the research project, the reason for the data collection, the time and place when the interview was to take place and issues pertaining to confidentiality and anonymity. The semi-structured interview questions were forwarded to the participants prior to the interview. The interviews each took between 1-2 hours. All respondents involved in the interviews completed the task individually on a voluntary basis. An interview protocol was established and followed for each of the thirteen interviews. It detailed the following areas: organisation profile, background to interviewee, business and organisational issues and outcomes, and future trends. The interviews were analysed using the qualitative data analysis package NVivo (v7). Whilst accepting that case studies were the best method for undertaking this research project, it is important to note the limitations of the method, such as the selection of the cases and number of cases, so as to provide an appropriate context to present the project. (Yin 2003).

FINDINGS AND DISCUSSION

This study sought to undertake a stakeholder analysis in 4/5 star hotel properties so as to provide the framework for investigating service productivity. To identify stakeholders within the hotel industry, managers were asked who they considered to be the key stakeholders within their organisation. The significant attributes of hotel stakeholders were then investigated. The results of the case survey indicate that managers consider a diverse range of internal and external groups as key stakeholders being associated with service productivity within their hotels. Figure 1 provides a summary of the responses
from the case survey. With the acknowledgment that there are a range of stakeholders directly and indirectly connected to a business, the organisation needs to understand the importance or hierarchy of the stakeholders so as to create value productively (Donaldson and Preston 1995, Angle et al. 2008). Due to the number of external and internal stakeholders in organisations, the individual groupings could be insufficient or of insignificant importance within themselves to effect any examination of productivity. However, when considering the characteristic of simultaneity is services (Lovelock et al. 2004); the role of some stakeholders may take on more or less importance in relation to service productivity outcomes. Pearson (2005: 86) states that ‘understanding how the interactions between various organisational resources affect the delivery of services (output) is invaluable in the increasingly competitive services domain’.

Figure 1 shows the identified hotel stakeholders clustered in three groups according to the study findings. Cluster 1 consists of the key stakeholders nominated by hotel managers as being directly involved in service productivity in the hotel (Freeman 1984; Avgeropoulos 1998; Pearson 2005; Angle et al. 2008). This finding concurs with other studies, however the characteristic of service simultaneity brings the customer into the organisation as an internal stakeholder. Cluster 2 represents the organisations in terms of service productivity which can influence or impact of service productivity via legal or industry necessity, and cluster 3 includes organisations that via the responsibility principle (Angle et al. 2008) that indirectly or to a lesser extent are considered as stakeholders in service productivity.

Once the nominated stakeholders were identified and mapped, information was sought as to stakeholder involvement, influence, impact, interest and importance in terms of service productivity within the hotel organisations. The results indicated that hotel managers considered all employees or staff to be important stakeholders involved in hotel service productivity however with varying levels of involvement. Service
productivity planning was undertaken via line managers, reported to department heads and to general manager where it was reported that managers viewed service productivity primarily on the basis of labour costs. 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. 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’.

All respondents stated that they considered customers/guests to be key stakeholders when considering service productivity in the hotel industry. These findings concur with Pearson (2004), Grönroos & Ojasalo (2004) and Angle et al (2008) who consider customers as key stakeholders in service sector businesses. Due to the characteristic of simultaneity in service operations (Lovelock, Patterson, & Walker, 2004; Grönroos, 2000), 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 as they are often involved in not only the consumption of the service, in the production of the service in real time. McGuire (1999:326) concurs with this, stating that ‘Compared to service quality, the customer’s role in service productivity has received little attention’. If involved in the simultaneity of production and consumption, the customer may consequently have the ability to consciously or otherwise influence the operations, and hence the service productivity of the business regardless of the way in which the operations manager may have designed or established the processes. Avgeropoulos (1998: 610) concurs with this by suggesting that the overall role or significance of stakeholders to any organisation is ‘…by virtue of their ability to influence it’. The result of this is that stakeholders with obvious influence in business processes need to
be a consideration in the productivity equation. Avgeropoulos (1998: 610) acknowledges the interest of stakeholders when defining stakeholders as ‘…all the people (and organisations) that have an interest in a company, and that may influence the company or be influenced by its activities’ and notes that the number of stakeholders and their complexity of interdependence are likely to increase over the life span of the organisation, thus making it worthy of examining which stakeholders are interested in the service business’. Donaldson and Preston (1995) also question the dynamic nature of stakeholders both in the short and long term.

However, whilst most stakeholder theorists (Freeman 1989, Pearson 2005, Angle et al. 2008) considered shareholders as a key stakeholder group, and two managers considered shareholders as stakeholders as having any relevance to service productivity, with only half of the respondents considering the owners of the property as potential stakeholders in service productivity and these in terms of forecasting and resource allocation. The management company was considered a stakeholder in service productivity by a number of hotels which all belonged to chain group operations. This was due to the policies and procedures of chain groups which are often designed at headquarters, often in overseas locations, however implemented in a different geographical and cultural location. Additionally, a number of respondents discussed the practice of ‘levying’ funds from hotel properties for various marketing efforts across the chain, where the results were not necessarily equated across properties, thus some benefited and others did not. Therefore it was considered as adversely affecting their productivity as the marketing strategy and budget could have been used more effectively if designed specifically for local service productivity operations.

Whilst three-quarters of the managers reported suppliers as being a key stakeholder, it was noted that on the whole hotel managers did not consider them as an important group, with comments such as the involvement of suppliers are of ‘decreasing importance over the years’, and ‘not important as stakeholders as they are not interested in our service productivity’. Additionally, one manager stated that
suppliers are only important as stakeholders in terms of their ‘local and intra-state sponsorship’ and ‘quality of their products which in turns can influence our quality and productivity’. Half the respondents considered state tourism bodies and 50% considered state convention bureau (tourism intermediaries) as key stakeholders as they provide the guests in the hotel supply chain. These hotels tended to be those with a large corporate market and relied on the marketing activities of tourism and convention bureaux. The effectiveness of these stakeholders influenced and impacted on the efficiency of the hotel. Hotels with strong local or intrastate markets did not consider these organisations important as stakeholders in direct service productivity, however did consider them important in terms of the development of networks. Therefore the nature of the relationship of the stakeholder related to the guest profile in terms of efficiency of operations. The development of a repeat customer market provided an ‘educated’ or ‘trained’ guest who knew how the hotel worked, thus adding to the service productivity of the hotel. Due to the inseparability of the production and consumption service productivity needs to be considered in the context of how the staff and how the customers may impact on the operations and how the operations may impact or create value for both staff and the customer. State tourism bodies were mentioned by over two-thirds of respondents as stakeholders with influence on service productivity, however it was noted that the nature of the stakeholder relationship was in the less tangible level of information sharing and industry support as opposed to operational efficiency on the floor.

Whilst most stakeholder theorists do not consider competitors as stakeholders, most hotel managers discussed a range of competitors as stakeholders in terms of their ability to either create value for the hotel customers or detract from it. Businesses located in or near the hotel precinct that add to the total package for the guest, such as attractions and recreation facilities were considered stakeholders in so much as their operations have the potential to impact on the hotel’s service productivity through such things as perceived association of quality. The local community at the origin of markets can also be considered a stakeholder in service productivity. For example, the provision of sponsorship for communities can be identified indirectly in terms of corporate social responsibility or as Freeman (cited in
Angle et al. 2008) discusses the integration of the ‘responsibility principle’ in stakeholder theory and thus related to service productivity. Or it could be more directly related to service productivity in terms of impacting on the development of a particular profile of customer.

CONCLUSION

This study investigated service productivity in terms of stakeholder attributes (Mitchell et al. 1997). The findings of this study indicated that in the context of service productivity, stakeholder power relates to the ability of the stakeholder to influence or impact on the service organisations service productivity. The key for this is the characteristic of service simultaneity, whereby stakeholders such as customers are involved in the service process and hence have the ability to impact on and influence service productivity as the processes cannot be isolated from customers such as in manufacturing processes. The question of customer involvement or isolation in service processes and how these impact on service productivity could be developed for future research. When investigating stakeholder legitimacy in service organisations, the involvement and interests of stakeholders varied with regards to service productivity. The study found that customers were involved in both the production and consumption of services, and hence had involvement in the service productivity of the organisation. Stakeholder versus managerial responsibility for this involvement and resultant service productivity could be investigated in future studies. The findings indicated that the attribute of urgency or importance issues can arise and thus can impact service productivity. An organisation therefore needs to identify priorities in dealing with stakeholders in service processes so as to maximize service productivity.

Stakeholder theory focuses on the multiplicity of ways that companies are about people creating value for each other (Freeman cited in Angle et al 2008). This study found that the customer was identified as being a key stakeholder in service productivity, and due to issues of simultaneity are involved in service processes and have the ability to impact, and influence service productivity. This indicates to the service organisation that when considering the concept of service productivity, they need to recognise this
involvement. The challenge for business is to identify, and duly recognize the importance of stakeholder relationships in service productivity so as to create value for both the organisation and nominated stakeholders, in an ever increasingly intangible business environment of service and experience.

REFERENCES


Larsson (1993)


Figure 1: Key stakeholder salience for hotel productivity