

## **FACTORS AFFECTING KNOWLEDGE MANAGEMENT IN SMALL AND MEDIUM-SIZED HOTELS**

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### **ABSTRACT**

*Managing knowledge has now become an imperative to create sustainable competitive advantage. This paper addresses the question: "What are the factors that affect small and medium-sized hotels' knowledge management?" Many dimensions have been emerged. This includes both the internal and external resources available to hotels seeking to maintain daily operations and cope with their operational environment and external entities including environmental influences. An analysis of the key influential factors affecting the small and medium-sized hotels' knowledge management is presented and their resultant implications on the competitive position of them explained. The findings indicate that, for a small and medium-sized hotel to reap long-term strategic benefit from knowledge management, it should adapt the key influential factors when developing, implementing and managing its knowledge management. This suggests that properly understood and implemented knowledge management can help small and medium-sized hotels overcome problems relating to the business environment including size and resource.*

***Keywords:*** *Knowledge Management*

### **INTRODUCTION**

With the evolvement of capital based economy to knowledge based economy, knowledge has been recognised as a key firm resource. The resource-based view argues that inter-firm performance differences occur through heterogonous access to valuable resources. The knowledge-based view of the firm contends that knowledge as an input to as well as an output of production is the most important resource and only resource capable of. Both views agree that competitive advantage based on resources and capabilities is potentially more sustainable than the traditional market-based approach. It is easy to see why so many large corporations have invested so heavily in developing their knowledge management projects. Yet for similar reasons, managing knowledge is no longer the concern of just large corporations and as important to the sole operator as to the large. However, to date there has been relatively little research conducted into the application of knowledge management in small and medium-sized hotels.

While the small and medium-sized hotels make a significant economic contribution both in terms of the number of establishments and the proportion of the labour force employed by these establishments, they have inherent characteristics that affect not only for themselves as

individual businesses, but also for the hotel industry's longer-term sustainability as a whole. The majority of hotel businesses are small in size, operate with limited resources focusing on day-to-day business operation, and lack strategic planning. In such circumstances, managing knowledge is important for small and medium-sized hotels to ensure that benefits from the limited resources are appropriated. This research addresses an investigation into what are factors that affect small and medium-sized hotels' knowledge management. In the following sections, this paper first discusses current literature. Second, the methodology adopted for the study is discussed, and the key influential factors to the small and medium-sized hotels' knowledge management presented. Finally, some concluding remarks are made.

## LITERATURE REVIEW

Small and medium-sized hotels face enormous difficulty competing with their larger counterparts. The majority of the small hotel businesses operate with limited resources (Ogden 1998; Storey 1994) with lower barriers to entry (Baum et al. 1998; Hughes 1992) and there is a high turnover rate of employees (Jones and Newton 1997). The hotel industry with cafes and restaurants sector had the highest level of industry turnover of 35 per cent compared with an all industry average of 19 per cent (De Cieri and Kramar 2003), and high casual and seasonal employment (Gilder 2003; Keiser 1989). The Australian Bureau of Statistics (ABS 2004) has shown that 58.6 per cent of workers in the ABS industry classification 'accommodation, cafes, and restaurants' were employed as casuals. Hotels generally employ a high percentage of lower skilled workers (Bounchen 2002). Another important characteristic of the hotel industry is that small businesses are less likely to concentrate on long term planning or strategic direction relative to the advantages of new economies and technologies (Applebee *et al.* 2000).

Different sets of factors that can influence the success of knowledge management implementation have been suggested by various authors. Skyrme and Amidon (1997) deriving from the practices and experiences in leading knowledge management companies, outline seven key success factors: a strong link to a business imperative, a compelling vision and architecture, knowledge leadership, a knowledge creating and sharing culture, continuous learning, a well-developed technology infrastructure and systematic organisational knowledge processes. Chase's survey (1997) of 500 firms similarly finds that existing organisational culture as the major factor to the implementation of knowledge based management systems. AP&QC (1996) suggests five factors: strategy and leadership, culture, technology and measurement as enablers which can support the process of knowledge management. Based on an investigation to the factors which can influence the management of knowledge in organisations, Holsapple and Joshi (2000) describe three dimensions of influences: managerial, resource and environmental. Managerial influences include four sub-factors such as coordination, control, measurement and leadership. Resource influences include four sub-factors knowledge, human, material and financial resources. Environmental influences include more factors such as competition, markets, time pressure, governmental, and economic climates. Aside from more comprehensive inclusion of factors including the external factors, Holsapple and Joshi (2000)'s study lacks some important ingredients (e.g., culture and technology) as main factors.

In configuring knowledge management stages van der Spek and Spijkervet (1997) also include the external factors into their influential factor list. Their study suggests that the stages

in the cycle be impacted by internal and external developments. While internal factors are suggested as culture, motivation of employees, organisation, management, and information technology, examples of external factors are not suggested. With the emphasis on the need for a knowledge management strategy, Liebowitz (1999) suggests six key factors: a knowledge management strategy with support from senior leadership, a knowledge management infrastructure, knowledge ontologies and repositories, knowledge management systems and tools, incentives to encourage knowledge sharing and a supportive culture. Liebowitz's study draws from lessons learned from firms who were early adopters of knowledge management. As a knowledge management strategy it suggests the creation of a centre of expertise for every knowledge discipline or subject matter. Like Holsapple and Joshi (2000)'s study it also draws attention to the resource requirement for knowledge management in organisations that could be the important issue.

Some knowledge management studies in small and medium-sized enterprises have examined small and medium-sized enterprises' perceptions towards knowledge management and their practices and developments in the area. The comparison study carried out by McAdam and Reid (2001) illustrates the perception of knowledge management in both large organisations and small and medium-sized enterprises. In exploring knowledge management in small and medium-sized enterprises, Sparrow (2001) emphasises the need to recognise the different mental models of individuals and to share their personal understanding in the development of knowledge management processes. With the study of twelve innovative Dutch small and medium-sized enterprises from the industrial and business service sectors uit Beijerse (2000) examines the extent to which knowledge management is being practised. By investigating some of the unique knowledge management issues facing smaller firms in German industry, Wickert and Herschel (2001) discuss techniques that could be employed to acquire and retain knowledge. Shelton (2001) reports how the owner/manager of the small company introduced the idea of knowledge management to his firm. Another study in small and medium-sized enterprises' knowledge management is discussed by Matlay (2000). The study focuses on competitive advantage in organisational learning in the UK small businesses. Wong and Aspinwall (2004) characterise knowledge management in the small business environment based on literature review. Desouza and Awazu (2006) report their findings of five peculiarities at twenty-five small and medium-sized enterprises. As evident from the current literature, few attempts have been made to small and medium-sized hotels' knowledge management study.

## **METHODOLOGY**

Both primary and secondary sources have supported this research. The use of secondary data is achieved through literature review including Knowledge Management and Tourism and Hospitality Management. The literature review highlighted in this research indicates that an ample range of frameworks and models for knowledge management have been identified and formal processes have been prescribed in the large organisational setting, yet there has been little work investigating what factors affect small and medium-sized hotels' knowledge management. This necessitated the need for empirical investigations rich and in-depth data that could not derive satisfactorily from existing data. Data collection is performed through face-to-face in-depth interviews with management personnel at thirteen hotels. In order to

understand the data this study has adopted a set of qualitative analysis methods. The analysis methods include three phases of description, coding and analysis, and interpretation.

Small and medium-sized hotels follow the definition of the Australian Bureau of Statistics by level of employment. A small business in the service sector refers to less than 20 employees. Medium service enterprises are defined as having between 20 and 500 employees (ABS 2003). This research is confined to Australian small and medium-sized hotel industry in Melbourne Metropolitan region. In terms of the size (i.e., the number of employees), the hotels participated in this study are again divided into three types of small hotel businesses that are categorised as S1, S2, and S3 respectively. S1 refers to hotels that are operated by owner/manager(s), including at least one or two family members. S2 means a hotel that is operated by owner/manager(s), with at least one or two family member(s), but also employing several more staff. Type S3 refers to hotels run by the owner/manager(s), not only with at least one or two family member(s) but also employing a substantial number (more than thirteen) of staff.

## **KEY INFLUENTIAL FACTORS**

This section explains the key influential factors affecting the small and medium-sized hotels' knowledge management under two themes: internal resources, and external resources.

### **INTERNAL RESOURCE FACTORS**

Internal resources include five factors: (i) owners/managers; (ii) employees; (iii) structure; (iv) culture; and (v) processes.

**(i) Owners/managers:** Owners/managers play a key role in making decisions on knowledge management. All the hotels interviewed in this study were operated by one or more owners/managers who had a major portion of their lives invested in them. These owners/managers dealt every aspect of their operation and hence, had a deep understanding of services and products, as well as of key business related processes and issues in the hotel. As ownership and management are combined, the management of these hotels is very much subject to the owners/managers' entrepreneurial leadership including knowledge, experience, industriousness and commitment. This entrepreneurial leadership is characteristic of these owners/managers, who took a risk by setting up the business in order to generate revenues and make a profit. It is also for propelling the hotels into a path to knowledge management. In particular, the owners/managers' commitment to growth has a significant impact on the hotel's choice of knowledge management. This issue of entrepreneurial leadership is not only a matter of owners/managers' commitment and enthusiasm. In smaller hotels (i.e., categories S1 and S2) a significant amount of knowledge is not explicit, and exists largely in the minds of the owners/managers. This knowledge and the past experiences of owners/managers' can represent a major resource for the hotels where it can be transferred as appropriate to employees and contribute to the knowledge base of the hotel as a whole.

**(ii) Employees:** The skills and capabilities of employees are vital for the success of the hotel's knowledge management. The knowledge, experiences and skills required for each employee to play his or her role within a hotel is part of its knowledge base. An important feature of employment in all the case hotels is its casual and seasonal. While partly driven by

seasonal demand it is largely the result of a cost-driven response by owners/managers to the challenges of a volatile market. Most of the case hotels employ a high percentage of lower skilled workers through a network of family members or friends. The owners/managers in those hotels seem not to greatly value any formal training acquired prior to employment. Besides, the owners/managers are generally interested in obtaining workers who are willing to work the hours required. This situation will obviously impinge upon the ability of the hotels to retain their workforce and provide quality services to customers. When even these relatively low-skilled employees leave a hotel, this can have an adverse impact on its collective knowledge resource. All the case hotels acknowledged the importance of their employees to their operation, along with the importance of in-house staff training. However, managing employees' knowledge is a challenge for the small hotels as they are less likely to have the ability to turn the tacit knowledge in employees' heads into explicit knowledge that can be accessed for the training of new employees and the maintenance of product/service standards.

**(iii) Structure:** In the case hotels in size categories S1 and S2, the structure is a flatter and less hierarchical than in their relatively large counterparts in S3. The owners/managers in both S1 and S2 hotels are responsible for checking the guests in and out, servicing their needs, and taking care of the housekeeping for the guest rooms, as well as maintaining and marketing the establishments. In these categories, total control over the hotel is in the hands of the owners/managers with or without the support of a few employees. However, if hotels move towards size category S3, the demand for knowledge-embedded products or services increases and it becomes more and more difficult for an owner/manager to do his or her job well. Due to the increased workload, some owners/managers in these hotels have had to add more personnel such as housekeeping staff, or one or more front desk staff to check in and check out the guests. In contrast to categories S1 and S2, the hotels in the S3 category tend to decentralise by allowing and empowering employees to make certain decisions without obtaining approval from a higher level manager. Each employee is given certain authority to take positive actions that lead to high quality and improved performance, so that the control of the process and quality assessment become part of everyone's job. For the smaller hotels in categories S1 and S2, their flat structural configuration along with centralisation enables to follow flexible and owner/manager-driven approach to knowledge management. In the case of hotels in the S3 category, this still applies, however, such hotels need to put more effort into facilitating the entire processes of knowledge management by educating and motivating all employees to participate in it.

**(iv) Culture:** The culture of a hotel is the shared beliefs, norms, values, practices, and behaviours of both owners/managers and employees. It reflects the things that the owners/managers and employees value, and the way they relate to one another within the hotel in working together on a daily basis to get things done. As most of the hotels in this study are small in size, their culture is open and flexible, enabling shorter chains of communication in the hotel. The culture in such hotels is also very positive in relation to sharing and exchanging knowledge. This is largely owing to the role of owners/managers and their willingness to share their knowledge with employees. Aside from the owners/managers' behaviour, it is also important for employees to behave the right way. In the case hotels, in addition to appropriate behaviour on the part of both owners/managers and staff, the cultivation of a flexible open

culture has been dependent on flat centralised structures, rather than on those that are decentralised. The centralised decision making process is the result of owners/managers, personally performing all management functions in the business. The open flexible and sharing culture also makes it easier for the hotels to achieve effective implementation of their paths to knowledge management. Accordingly, the smaller hotels (i.e., categories S1 and S2) are more flexible with regard to changes than are their relatively larger counter parts (i.e., category S3). This could be advantageous for the smaller hotels. However, as decision-making power remains almost totally centred on owners/managers, the potential for managerial rigidity in the face of change, due to their business experience and personality traits, can be a possible hurdle when implementing knowledge management approaches.

**(iv) Processes:** Processes are governed by policies and sets of rules and supported by procedures that are the step-by-step instructions and logic for accomplishing a process. Processes include daily routines and tasks within the hotel, governed by policies, rules, functions and procedures. A great deal of interdependence exists among these processes in the delivery of products/services. For example, hotel work revolves around functions and ongoing activities that support the business. Functions can be decomposed into other sub-functions and eventually, into processes that perform specific tasks. The hotels in the category S3 recognise the need to standardise their approach to the provision of products/services in order to minimise re-work and errors which have the potential to annoy their customers. They also have implemented systems to formalise processes that previously relied on employee know-how. Unlike category S3 hotels, the smaller ones (i.e., categories S1 and S2) have simpler and fewer processes. Processes at the hotels in categories S1 and S2 are more flexible and adaptable to change than those in category S3. There is less formalisation and standardisation in the smaller hotels. Their operations are also smaller and less complicated. This means that there are fewer detailed rules and procedures and a higher level of autonomy. As hotel size increases such as the S3 category hotels, several hotels have begun to empower employees and supervisors to make decisions that typically have been made by owners/managers.

## **EXTERNAL RESOURCE FACTORS**

External resources that impact on knowledge management in the case hotels include: (i) customers; (ii) competitors; (iii) business partners; (iv) technology; and (v) environment.

**(i) Customers:** All the case hotels are customer-oriented and seek to interact closely with their customers. They have come to realise that the key to achievement of their goals is meeting the needs and wants of customers. Customer demand forces the hotels to develop improved or new service specifications for existing and potential customers. Indeed, customers have played significant roles in initiating improvements to products/services, both in the delivery of modified products and services, and of new ones as hotels have sought to differentiate themselves from the competition. Customer feedback also directly and indirectly pushes the hotels to lower cost structures or to provide more flexible options. The constant monitoring of customer opinion in order to understand it correctly, and prompt action in response, has been important to the winning of repeat customers. As the majority of the hotels operate in a niche market targeting a limited population of customers, such efforts at customer satisfaction influence their knowledge

management through management procedures, structures and the modification of internal operations.

**(ii) Competitors:** While attempting to remain attuned to the needs and wants of their customers, the hotels watch the moves of their competitors closely. As the business environment become increasingly more competitive, hotels have little choice but to respond competitively. In such a competitive market, developing a successfully proven business concept and employing mass media advertising are often beyond the resources of those smaller hotels in categories S1 and S2. Commonly, these hotels try to make a suitable match to competitors' offerings so as to satisfy their customers. In order to match the offerings of competitors, owners/managers in S1 and S2 hotels are more likely to be flexible in managing cost structures and customer relations. This approach at least helps with the survival of the business. Those hotels in category S3 are less concerned with the competition per se than those of categories S1 and S2. This is because hotels in S3 offer a more sophisticated range of services, including the delivery of knowledge-embedded products/services, than just delivering physical products/services. As a result, these enjoy a competitive advantage not available to those S1 and S2 category hotels delivering products/services. Nevertheless, all the hotels investigated, irrespective of size, are strongly subject to the pressure of competition, as they seek to knowledge management. Commonly, also they lack suitable means to respond in terms of a shortage of market knowledge and competence.

**(iii) Business Partners:** Business partners are an important factor as hotels address the issue of knowledge management. Several case hotels in category S3 are proactive in working with a wide range of business partners. This cooperation with competitors for the core business functions (e.g., referrals), and with suppliers for example, pertaining to outsourcing related matters (e.g., laundry, cleaning, technical support, foods and beverages). It also involves interaction with hotel industry associations in order to promote their own establishments, and with businesses which run customer loyalty and/or promotion programs. Owners/managers in those hotels view that such relationships help to support their business. In addition, they point out that their relationships with both intermediaries and aggregators are important external sources for smoothing their paths to knowledge management. As part of a distribution channel, the intermediaries (e.g., travel agents) help the hotels to access customers by acting as information brokers, providing customers with relevant information and booking facilities. They are the professional connection between the hotels and their customers, mainly based on the electronic infrastructure of the central reservation systems/global distribution systems. Furthermore, the products/services of hotels are often sold as part of a travel package that comprises several elements from different service/product providers. Other business partners include tour operators who act as a single point of access to services, thus offering the possibility of lowering market information costs for hotels.

**(iv) Technology:** The use of technology provides the hotels with many opportunities. While few hotels stresses technology as an issue that is of major importance, all the hotels clearly use a mix of traditional (e.g., telephone, fax and copy machine) and modern technology (e.g., Internet, email systems or their own websites) to facilitate activities to knowledge management. The case hotels in categories S1 and S2 heavily rely on traditional technologies, while those in category S3 are already in the use of modern ones. In particular, the use of modern technology

at the hotels has enhanced the way they operate the business. Along with the use of such technologies, the face-to-face communication channel still dominates the facilitation of knowledge management. This involves communication between customers and employees, among employees, and between the hotel and the external entities. This provides the platform for the entire activities of acquisition, dissemination, use and creation of knowledge. In most cases, both the traditional and the modern technologies, as communication channels, complement the roles of the hotel employees and external entities rather than replacing them.

**(v) Environment:** Various entities, events or circumstances in the external environment can impact upon hotels and have an influence on their knowledge management. The high level of external uncertainty renders the hotels potentially vulnerable and susceptible to changes in their business. Examples include economic downturn, natural disaster, outbreaks of disease and legislative and regulative changes involving government and government agencies at federal, state and local level. Currently, all the hotels are affected by rises in the interest rates and in oil prices. A couple of hotels which deal with customers from overseas are also concerned with natural disasters and/or disease outbreaks in countries from which the customers depart. As an important external entity, government plays two major roles in that it provides support and regulates operations. The former entails Destination Marketing and Management whereby government promotes travel destinations to wider communities and facilitates the forming of extensive cooperative networks with various products/services providers. This kind of assistance from the government and also the states and the local councils is particularly beneficial to hotels who are interested in offering products/services to overseas markets, in that the supporting organisations offer a range of marketing opportunities, market knowledge and advice in the tourism businesses. It is important for the hotels to take opportunity of these services, particularly if they wish to expand their market to include international travellers. In the development and application of regulatory frameworks, government mandates the hotels to comply with requirements, for example, for health and safety and quality management accreditation schemes within the hospitality industry.

## CONCLUSIONS

Knowledge management can be influenced by a broad range of factors in the growth vision of the hotels. A better understanding of the factors pertaining to the potentially strategic dimension to knowledge management could help the hotels to break the vicious circle of resource constraints and market vulnerability by enabling them to compete on more sustainable terms. This paper provides such influential factors that affect small and medium-sized hotels' knowledge management. As properly understood and implemented knowledge management can help small and medium-sized hotels overcome problems relating to the business environment including size and resource, the hotels need to develop on the basis of not only their internal resources and capabilities, but also the externally available resources by realising the value of knowledge management.

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