

## Employee perceptions of Dollarization and the Hospitality Industry Performance.

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### ABSTRACT

*The research was conducted to explore the employee understanding of the effects of dollarization on the performance of the hospitality industry in Zimbabwe. Using a qualitative research philosophy data was collected from 25 people using semi structured questionnaires in one of Zimbabwe's renowned tourism resort, (Nyanga). Three key themes emerged that dollarization led to employee motivation, led to a positive social change and has led to improved economic performance of the country. The researchers concluded that dollarization had a positive impact on the performance of the hospitality industry in Zimbabwe and recommended that it should be allowed to continue in Zimbabwe for the good of the industry and the people.*

**Keywords:** *Dollarization, Hospitality sector Performance Zimbabwe,*

### INTRODUCTION

The performance of the Zimbabwe hospitality industry showed a downward trend from 2000 to 2008 up to the introduction of the multi-currency regime in 2009. Economic decline, political instability, capital flight and damaged infrastructure caused the hospitality sector to underperform, (Karambakuwa et al, 2011). According to Zunga (2009), intense inflationary pressure caused hospitality players to lose confidence in the Zimbabwean dollar (Z\$). Negative publicity further worsened the situation as it impacted on the travellers' perceptions of the country as a safe tourist destination. Inbound tourists reduced in numbers. Hospitality industry's contribution to gross domestic product dropped by 5 % to 2008, (Zunga; 2009) and have since increased to 11% by end of 2011 three years after dollarization.

The economic situation that prevailed resulted in no new lodgings being constructed and the existing facilities not being adequately maintained, (Zunga, 2009). Kararach, (2010) observed that there was decline in the capacity for the key productive sectors of the economy such as the hospitality. General reservation bookings dropped which resulted in the loss of rooms' revenue for many hotels. Hospitality parameters such average daily rate and revenue per available room were actually disturbed by the economic meltdown experienced from 2000 to 2008.

After the coalition government was formed in 2009 a multicurrency regime was introduced as part of the short term recovery programme (STERP). Among the accepted foreign currencies are the United States Dollar (US\$), South African Rand (SAR), British Pound and Botswana Pula. However by presenting its national budget in US\$, the Zimbabwean Government officially trades in that currency and hence will be used in this paper.

Advocates of dollarization pointed to the following points to argue a case for dollarization. It results in virtual overnight elimination of hyperinflation, there is eminent reduction in exchange rate volatility, reduction in the possibility of currency crises of devaluation and reduction in capital flight, (Chitambara, 2009). However anti dollarization advocates pinned their arguments on that dollarization causes the richer to become richer and the poor to become poorer, (Chagonda, 2012). This was empirically proven by the fact that some of the players in the sector are still affected by the pre-dollarization period as they are still paying of the debts which accumulated over the period. However some of the players are still optimistic that the introduction of dollarization will bring about more positive change.

According to the Zimbabwe Tourism Authority report for 2011, the contribution of the hospitality sector to GDP for the period of dollarization was 2009 (5%), 2010 (9.1%) and 2011 (7%). The ministry of finance pointed out that the hospitality sector is the third highest contributor to GDP. This emphasis how much the positive performance of the sector is vital to the economy of the country.

Over the past years Zimbabwe's hospitality sector suffered from intense inflationary pressure and loss of confidence in the local currency. Scholars in the past have put efforts to analyse the effects of dollarization upon dollarized states but not sector specific particularly Zimbabwe hospitality industry. Thus this sought to explore the employee understanding of the effects of dollarization on the performance of the hospitality industry in Zimbabwe. Using a case study from the hospitality industry, the results obtained will add literature on dollarization and the hospitality industry in Zimbabwe hence may be used in decision making by other hotels in the country and beyond that are a subject of dollarization. Hila and Dean 2004 wrote that dollarization is often sold as a substitute for the deeper institutional reforms needed to improve economic performance. Their arguments are based on its effects on exchange rate regime. Zunga (2009) observed that dollarization crystallise costs into hard currency with no increase in revenues to support the costs of heavy structures. According to Eichengreen (2002), the effects of dollarization on the performance of hospitality industry make it difficult without incurring the risk of being misunderstood.

## LITERATURE REVIEW

Dollarization is the adoption of the United States Dollar by the authorities of a country outside United States as the legal tender and the official currency, (Leavell *et al*, 2003). This concept of dollarization can also be referred to as currency substitution and assert substitution (Ortiz, 1983). Schuler (2005) and Hila and Dean (2004) postulate that the concept of dollarization is closely related to a kind of fixed exchange rate system, this implies that a country has chosen to abandon its own currency as its own means of payment or exchange for all transaction purposes. In other words, it is a means of saving in hard currency that is assert substitution, (Alvarez Plata and Garcia-herrero, 2007). Therefore dollarization can also be equated to eurorisation or randification which is the use the same foreign currency in all trading asserts and holding of asserts within a region or country

Dollarization normally takes one of the three acknowledged forms as guided by the degree of legislation in a country or area. Thus dollarization is not just an act but also a process by which a country undergoes until it is fully dollarize, (Schuler, 2005). According to Hila and Dean (2004) there a three stages to dollarization that is unofficial, semi-official and official dollarization.

### Unofficial dollarization

Unofficial dollarization which is also known as De facto dollarization is the spontaneous adoption of the dollar by the general public without support from government legislation, a process which was underway in Zimbabwe from 2000 to 2009, (Chitambara, 2009). Chitambara (2009) argues that unofficial dollarization may also take the guise of currency substitution, assert substitution and liability substitution. This implies circulation of foreign currency among the general public without the approval from the officials such that if one is found in possession of foreign currency will be arrested. During this period foreign currency will be dominating in the black market.

### Semi-official dollarization

During semi-official dollarization countries use foreign currency as secondary legal tender. However the foreign currency circulates widely within the country. Semi-officially dollarized countries maintain a domestic central bank and conduct their own monetary policy, (Ronnholm, 2007). This therefore means that foreign currency will be partially permitted to be used alongside the domestic currency. Prices will be tagged in either foreign currency or domestic currency this allows monetary institutions to erect foreign licensed shops. For instance in 2008 the Reserve Bank of Zimbabwe (RBZ) announced foreign licensed shops that were allowed carry out business using foreign currency. Among the licensed businesses some were from the hospitality industry.

### **Official dollarization**

Official dollarization may sometimes be referred to de jure, (Kutan *et al*, 2012). Official dollarization entails government legitimisation which may range from simply declaring the dollar to be the legal tender to withdrawing all the domestic currency and abolishing all other legal tender, (Schuler, 2005). Chitambara (2009) further states that full dollarization is when foreign currency becomes the exclusive legal tender fulfilling the basic functions of money. This is the process that is currently underway in Zimbabwe. In February 2009 the Ministry of Finance announced a multicurrency approach where by two foreign currencies were accepted that is the United States dollar (US\$) and South African Rand (SAR). The Zimbabwean dollar (ZWD) was totally eliminated from circulation.

Therefore dollarization is the process that actually starts from de facto to de-jure dollarization. According to Schuler (2005) dollarization is used in varying senses that mean everything from the widespread currency to official approval for the use of the foreign currency.

According to Bogetic (2000) there are several forms of dollarization. Dollarization can be divided into several forms which can be monetary, deposit, financial and real dollarization. Monetary dollarization is the use of foreign currency and deposits in parallel with national currency for example United States Dollar and the Euro. Financial dollarization is the use of foreign currency in financial transaction and real dollarization is the use of foreign currency for wages goods and services. To this point one might be tempted to conclude that Zimbabwe is a fully dollarized state which has under went all the processes, types and forms of dollarization.

### **Why Dollarize**

Generally dollarization has advantages to both the companies and the nation at large. According Kararach *et al* (2010) rampant inflation was stabilized. This in turn stabilized the overall economy, sustained the buying power of the Zimbabwean people and allowed the nation as whole to experience significant economic growth. The long term economic planning is easier to do under the stable currency and the hope is that the dollar will attract foreign direct investment that was elusive during the hyperinflationary era. After dollarization generally all manufacturing industries in Zimbabwe started showing positive changes, (Mutengezanwa *et al*, 2012).

Despite the much heralded positive impacts of dollarization, they should not be overemphasized as it too has disadvantages. Among the notable ones are that, firstly by eliminating local currency, Governments can no longer make their own monetary decisions in terms of monetary policy and fiscal policy. Secondly, Nations lose competitive advantage to its trading partners, in that, unlike its trading partners it cannot make its goods cheaper in the world-wide market by devaluing its currency thus it has lost the monetary sovereignty. The third disadvantage is that in countries like Ecuador the analysts suggest that dollarization does nothing to address the core problems that were dragging Ecuador 's economy such as the nation's woeful lack of infrastructure, lack of investment ,expensive credit, low level of technology and high cost of production this impedes recovery of the productive sector, (Mutengezanwa *et al*, 2012).

### **Dollarization and the hospitality industry**

Hospitality has been defined as the act of receiving guest in a generous and cordial manner, (Jones and Siag, 2009). The industry comprises businesses that offers guest home away from home. According to Andrews *et al*, (2007) hospitality can also be defined by its scope, mission and providers. Another view by Page and Connell (2009) states that the concept of hospitality underpins much of what tourist experiences as a traveller namely the consumption of food, drink and accommodation away from the home environment. It therefore comprises a wide range of businesses each of which is dedicated to the services of people away from home. Jones and Siag (2009) identified the following as some key activities that defines hospitality, accommodation, food and beverages, meetings and events, gaming, entertainment and recreation, travel and tourism and visitor information services.

Dollarization has considerable effects on economic sectors of the country such as the manufacturing sectors, agricultural sector, banking sector and hospitality sector, (Hila and Dean, 2004). The effects of dollarization can be felt in the form of fixed exchange rate, (Ronnholm, 2007; Zunga, 2009; and Magenzo, 2006), increased investment and low interest rates, (Makina 2009; Ronnholm, 2007), economic growth, (Chitambara, 2009; Lucas 2009), income, unemployment and inflation.

According to Zunga, (2009) there was a strong comeback in the Zimbabwean Hospitality industry since dollarization. Occupancy grew by 32% from the period before dollarization. Foreign arrivals improved and now

contribute 32% of room nights from 27%. The local arrivals grew by 36% from 2009 to 2011. From June 2010 occupancy rose to over 50% and this trend has been maintained to end of 2011.

A close look at dollarization and the performance of the economy indicates that dollarization has varied effects on the performance of the hospitality sector. A number of other factors such as legal changes, technology, competition, political environment, weather and climatic conditions and globalisation were identified, (Page and Connell, 2012). In Zimbabwe few studies have been done on effects of dollarization but none has been specific to the performance of the hospitality sector. Hence this study will fill this gap and add more literature to that already existing on dollarization and hospitality sector performance.

## RESEARCH DESIGN

The study was based upon twenty five semi structured interviews, (Dunn, 2005) with hospitality industry employees. Four were managers and 21 were general employees from various departments of a Hospitality establishment in the Resort area of Nyanga, Zimbabwe. The respondents were purposefully selected from management and general staff with emphasis on representation of all departments and levels within the hotel, (Valentine, 2005). A target of thirty was made but only twenty five could be interviewed.

The study was done during a one week visit to the Hotel in September 2011. The data was later analysed thematically, (Brouder, 2012, Quinn Patton, 2002). The interviews followed a preset order of introduction, gathering of general information about the institution and the individuals. Interviews then placed emphasis on the main issues of the study which were, dollarization in general, dollarization impacts, factors that affect hospitality industry performance, the major challenges being faced despite performance of industry and opinions on continued dollarization. With each interview lasting between thirty minutes and one hour thirty minutes, enough time was allowed to avoid rushing respondents and allowing them time to share everything they wanted to share on the phenomena under investigation. Data collected was immediately transcribed and filtered to remove irrelevant material soon after the interview. Data analysis was done after all the twenty five respondents were interviewed. Using manual coding emerging themes were identified and presented and discussed below.

The study showed a major limitation in being based on one hospitality establishment located in the resort area of Nyanga in Zimbabwe. Whilst hospitality establishments share a lot, by virtue of location city and resort hotels are affected differently by external forces. However the essence of this study was to explore the understanding of the effects of dollarization on the performance of the hospitality industry in Zimbabwe which anyone in the hospitality industry can give. Future studies can be done to see if the understanding is different among city hotels to those of resort hotels.

The name of the establishment is not mentioned to protect its anonymity and that of its employees who participated in the study. Nyanga is a huge and immense area consisting of a town, a few villages, the Rhodes Nyanga National Park, the highest mountain (Mount Nyangani) as well as the highest waterfall in Zimbabwe (Mtarazi Falls). There are also vast archeological remains such as pathways, structures, ruins and iron artifacts that are found scattered amongst the open plains. Nyanga is rich of tourists' facilities and activities that include hiking, trout fishing, game viewing, golfing, nature walks, historical and educational tourism among others. Nyanga is located in the Nyanga District of Manicaland Province in Zimbabwe. It has an estimated population of 119 370 people, and is one of many tourist resorts in Zimbabwe.

## RESULTS

The results of the interviews showed three main themes that relate to dollarization and the performance of the hospitality industry. The three themes are dollarization is a source of motivation, dollarization is desirable for positive social change and lastly dollarization leads to improved economic performance. Interviewee direct statements are presented to exemplify their real feelings. However it is the total analysis of the material that was used to come up with the three themes which represent strongest themes relating to the phenomenon under investigation in Nyanga.

### **Dollarization is a source of motivation**

Respondents highlighted that dollarization has been a source of motivation for them. This they explained using real examples of what has changed at work that makes them happy to wake up and go to work. Employees sighted "provision of sequential meals since dollarization" as opposed to skipped meals as they became costly before dollarization. The management indicated that since dollarization the establishment has been able to "provide laptops for management". This action was non existent during the hyperinflationary era as they were considered as "fills and unnecessarily expensive". The employees gave various opinions on how they are being

motivated since dollarization. Sighted examples are “the provision of uniforms in replacement of old that was bought long before dollarization, increased tipping from customers, provision of social gatherings platforms such as transport for sporting activities”.

Apart from direct personal benefits that motivated employees, respondents highlighted that dollarization has motivated them through notable workplace changes. They noted that since dollarization “the late payment of salaries became a thing of the past, and the organisation was able to do renovations to the establishment”.

#### **Dollarization is desirable for positive social change**

During the pre-dollarization era real wages were “fast deteriorating due to hyperinflation”. During the semi official dollarization period “real wages lost value and people became very poor as they were being paid in local currency yet goods were available in shops licensed to trade in foreign currency”. However during the official dollarization period “real wages gained value and people can now budget and plan in advance”. As a result families stabilised as continued search for food ended with the “ability to buy” Respondents indicated that with dollarization they are now able to “send their children to school, buy food , clothing, send money to their rural homes and save for eventualities” something that was unthinkable during the hyperinflationary period before dollarization.

The management indicated that since dollarization eight new employees were recruited in the organisation whilst staff turnover went down by 30% as the reasons for leaving work were erased overnight upon dollarization. However the new recruits were on contract basis. The need to recruit was because of improved business due to “increased propensity to travel and subsequent travel by domestic tourists”. Some of the respondents even said “I can now travel in and around Zimbabwe with my family” showing the increase in domestic tourism.

#### **Dollarization leads to improved economic performance**

The third and final theme to emerge was that dollarization leads to improved economic performance. This was exemplified by various statements that bordered around inflation, investment among others. The management highlighted that since dollarization there has been low inflation of approximately 4.3%. This rate allows businesses and people to make informed “investment and consumption decisions”. Management also talked about “fairly low borrowing interest rates” which they say allows businesses to “borrow, invest, recoup and remain with some profit”. For example upon dollarization there was “direct investment from a new company that started to renovate using both capital and borrowed funds”.

As the macroeconomic environment improved after dollarization distinct markets emerged from which the organisation managed to “identify its own target market share”. Unlike in the past when they were “targeting anyone and everyone, now marketing is centred on attracting conference business”.

### **DISCUSSION**

Motivational theorists such as Frederick W. Taylor (1856-1917), Maslow (1908-70) and Frederick Herzberg (1959) believe that motivated employees go an extra mile serving their organization. Motivated employees are committed to work and their organizations hence less staff turnover. There is improved knowledge sharing and service delivery to the customers, (Sikroria and Srivastava, 2012; Lin, 2007; Meyer *et al*, 2004; Mak and Sockel, 2001). The improved employee performance due to motivation leads to overall organizational performance.

Motivational theorists agree with social exchange theorists like Lawler (2001) in that social exchanges can create a sense of shared responsibility to service settings, and predict that inseparability produces customer perceptions of shared responsibility for service outcomes, resulting in greater emotions. When emotions are positive, there should be increased loyalty to the service provider, (Lawler *et al*, 2008; Sierra, McQuitty, 2005). Thus motivated employees are expected to have positive views of their organisation and hence exhibit positive greater emotions for the success of their organisation which is a positive that can attributed to dollarization.

According to Chang (2000) dollarization can only be effective if combined with other factors. In this study respondents indicated that there was investment, refurbishment and general improvement in conditions of service. Whilst these may be seen as results of dollarization, they can also be complimentary factors to dollarization in getting the organisation in shape hence leading to improved organisation performance post dollarization. This was supported by Dorez (2012) who said that in Ecuador dollarization stabilised prices and increased international trade. Thus dollarization can compliment other factors to be effective.

## CONCLUSION

The objective of the study was to explore the employee understanding of the effects of dollarization on the performance of the hospitality industry in Zimbabwe. The results of the study indicates that dollarization has brought happiness among hospitality employees, has brought about positive social change among hospitality staff and organisations and has caused great economic positive change which has lead to improved performance of the hospitality industry in Zimbabwe. As a result the researchers concluded that dollarization had a positive impact on the performance of the hospitality industry in Zimbabwe. Thus the researchers recommended that dollarization be allowed to continue in Zimbabwe for the good of the industry and the people.

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