Should Lemon Tree Hotels Attempt to Replicate Its Inclusion-based Human Resources Strategy in the U.S. Market?
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Abstract: This teaching case examines the question of whether Lemon Tree Hotels, India’s leading midscale hotel operator, should attempt to replicate its highly successful, inclusion-based human resources strategy in the U.S. market. The strategy focuses on recruiting, training, and hiring workers with disabilities to work alongside non-disabled staff throughout various areas of hotel operations. Among the groups targeted for employment are individuals with speech, hearing, and vision impairments, orthopaedic disabilities (i.e., amputees), and intellectual challenges such as autism and Down syndrome. In recent years, Lemon Tree has expanded its outreach to individuals from economically and socially marginalized sectors of society, including orphans raised in institutions and victims of acid attacks. Today, nearly 20 percent of Lemon Tree’s 5,000-strong workforce is comprised of such “opportunity-deprived individuals,” and the company aims to increase this number to 45 percent by 2025. The case is set in mid-2019. Ms. Aradhana Lal, vice president of sustainability initiatives, is contemplating a conversation she had earlier in the day with the company’s managing director. The executive informed her that he is considering expanding Lemon Tree’s international footprint by entering the U.S. market and wants her advice on whether it is possible to replicate the company’s HR strategy there. Lal finds the idea intriguing yet sees major strategic, financial, and operational challenges. She considers how to respond to her boss.

Key words: human resources, disability, inclusion, sustainability, internationalization

Introduction:

It was not easy to catch Aradhana Lal by surprise. The vice president of sustainability initiatives for Lemon Tree Hotels, India’s largest and fastest-growing mid-market hotel chain was an industry veteran who felt that she had seen it all during her two and a half decades in the industry. However, the conversation she had had earlier in the day with Patanjali (Patu) Keswani, the company’s founder and managing director, had truly caught her off guard. Keswani stopped by her office on the way to lunch and told her he is considering expanding Lemon Tree’s international footprint by entering the U.S. market. That was certainly a stunner. The real surprise, however, was what came next. The boss revealed that he would like to replicate Lemon Tree’s highly lauded HR strategy (Inclusion Program) in the U.S. market and wanted to know whether she thought it was feasible. The idea, he confided, was to open a flagship property in a major city such as New York or Los Angeles that Lemon Tree would lease and manage, and then gradually expand the brand into other American cities. Get back to me within 48 hours he said as he briskly exited her office.
Lemon Tree Hotels

Lemon Tree Hotels Ltd. is India’s leading mid-market hotel chain and the third largest hotelier overall with 58 properties and 6,000 rooms across 35 cities. The company focuses primarily on the mid-market segment, where it competes with its Lemon Tree Hotels brand, yet it also has a presence in the economy segment with its Red Fox brand, and in the upper mid-market segment with its Lemon Tree Premier brand. Moreover, in 2019, Lemon Tree inaugurated a new upper scale brand -- Aurika Hotels & Resorts -- to compete against the likes of Vivanta by Taj from Indian Hotels Company, Westin from Marriott-Starwood, Courtyard by Marriott, and Crown Plaza from Intercontinental (Baggonkar, 2019). Lemon Tree owns and operates roughly 65 percent of its hotels, although the company’s plans call for more leasing and managing of the properties owned by others in order to remain “asset light” (Kumar, 2018).

The New Delhi-based hotel company is the brainchild of Patu Keswani, a former hotel executive with the Taj Group and management consultant with A.T. Kearney. Keswani founded Lemon Tree in 2002 on the hunch that the market for mid-priced hotels was poised to explode, owing to India’s economic dynamism and the growing popularity of business and leisure travel. At the time, India’s hotel industry was bifurcated, with a glut of five-star luxury properties that catered to foreign business people and an abundance of one- and two-star economy lodgings geared to budget-minded travelers. There were few offerings in the middle. Keswani sought to fill this void, while offering customers superior value for the money. “All I wanted to do was build a hotel and give 60% of what a 5-star hotel gives at 30% of the costs,” he stated (Tandon, 2018).

Keswani opened his first hotel in 2004 – a 49-room property in the city of Gurgaon, a fast-growing New Delhi satellite. That hotel turned a quick profit, affirming the Lemon Tree managing director’s intuition. Two years later, Lemon Tree received a $75 million investment from private equity firm Warburg Pincus. Flush with capital, the company began building hotels in cities such as New Delhi, Goa, and Pune (Dhir and Sushil, 2019). The company tapped into additional resources in 2012 when it formed a joint venture with Dutch pension fund APG, using those funds to build 35 new hotels. Lemon Tree raised an additional $160 million in March 2018 with an initial public offering and used a portion of those funds to acquire mid-market competitor Keys Hotels (Chaturvedi, 2019).

As 2019 drew to a close, Lemon Tree appeared to be in an enviable position. It enjoyed an average occupancy rate of nearly 80 percent at its hotels – some 5 to 10 percent higher than the industry average (Iyer, 2019). Moreover, a shortage of rooms at the national level was driving room prices ever higher and boosting operating margins. The company’s expansion drive, meanwhile, continued apace. Lemon Tree’s executives were particularly excited about the company’s foray into the upper scale market. Its first Aurika property in Udaipur opened its doors in late 2019 to much fanfare and the company aimed to open three others within 24 months, including a signature property in Mumbai that would be among the largest in all of India (Baggonkar, 2019). If things went as planned, by 2021 Lemon Tree’s portfolio would comprise 88 hotels with 8,800 rooms, accounting for roughly 14 percent of India’s inventory (Kumar, 2019).
The Inclusion Program

A cornerstone of Lemon Tree’s success has been its Inclusion Program, which focuses on recruiting, training, and hiring people with physical and mental disabilities (PWDs) to work alongside non-disabled staff throughout various areas of hotel operations – from housekeeping to hotel reception.

The program began almost by chance in 2007, when the company hired two hearing-impaired individuals to work as kitchen helpers. That move led to an emotional meeting between Keswani and the mother of one of the employees. Fighting back tears and clutching an enormous bouquet of flowers, the mother profusely thanked Keswani for giving her child a chance at a “dignified life” and invited him to attend the child’s wedding – a ceremony made possible by his employment. Shortly thereafter, Keswani instructed his executive team to ramp up the program, with a goal of hiring 100 hearing- and speech-impaired workers by 2011 (Kazmin, 2018). Initially, these “differently abled” workers assumed back office roles in the hotels, where direct guest interaction was limited. Over time, however, as the program expanded, workers were given customer-facing roles at reception and in restaurant service.

Lemon Tree has received numerous accolades and awards for its Inclusion Program, including the National Award by the President of India for Best Employer of Persons with Disabilities and the Asian Human Capital Award. It is perennially ranked as among the best companies to work for in India (Dhir and Sushil, 2019).

While Lemon Tree advertises its commitment to the triple bottom line (i.e., profit, planet, and people), the company insists that its Inclusion Program is neither charity nor corporate social responsibility. Rather, it is an integral part of its business model and a source of competitive advantage. Chief among the benefits is enhanced worker productivity. For example, Lemon Tree reports that its hearing-impaired housekeeping staff are able to clean 3-5 more rooms on average per shift than their non-hearing-impaired co-workers. In the restaurant, meanwhile, hearing-impaired employees are faster to notice customers attempting to attract the server’s attention. Other benefits include increased employee morale and engagement, lower worker turnover (roughly 25 percent per year at Lemon Tree vs. 60 percent industry-wide), and high levels of customer loyalty (Kazmin, 2018).

Lemon Tree admits that there are significant costs associated with recruiting and training opportunity-deprived individuals. The entire staff, for example, is required to learn Indian sign language and pass a proficiency test. Additionally, workers without disabilities undergo extensive “sensitization training” to learn how to work effectively with their disabled co-workers. Yet many of these costs, Lemon Tree states, are borne by non-governmental organization (NGO) partners.

Diversity and Inclusion: A Growth Industry

There has been a major push by global companies in recent years to expand and broaden their diversity and inclusion (D&I) initiatives. Indeed, the Boston Consulting Group surveyed large companies in 14 countries in 2018 and found that 96 to 98
percent of them had D&I programs in place – a significant increase from just five years earlier (Krentz, 2019). There is good reason for the growth of D&I programs. Research shows that corporate D&I leaders not only achieve better financial results than their industry peers, they may experience benefits in the areas of decision making, innovation, talent acquisition and retention (Holger, 2019). While most corporate D&I programs have focused on the hiring and promotion of women, racial and ethnic minorities, and members of the LGBT community (as well as outreach to minority vendors, clients and other business partners), there has been growing employer interest in recruiting PWDs.

There are numerous reasons for the sudden interest on the part of employers in the disabled. First, in a tight labor market, marked by a “war for talent” and ever escalating salaries, the disabled represent a promising and relatively untapped labor pool. According to Accenture, there are more than 15 million working-age Americans with visible and non-visible disabilities, many of which are unemployed or underemployed (Jerdee, 2019). Second, employers are beginning to recognize that far from being liabilities, PWDs can positively affect the workplace environment and enhance performance. Such individuals are characteristically punctual, hardworking, dedicated, and persistent – all of which can lead to greater productivity, reduced absenteeism, and lower turnover (Kendall and Karns, 2018). In addition, some research suggests that businesses that hire PWDs may experience enhanced financial performance. A 2018 study of 140 U.S. companies by Accenture, for example, found that companies offering the most inclusive working environment for disabled workers achieved 28% higher revenue, 30% greater economic profit margins, and twice the net income of their industry peers over a recent three-year period (Accenture, 2018).

While the focus of most corporate disability inclusion programs has been hiring workers with speech, hearing, and vision impairments, a growing number of companies -- particularly in the high tech sector -- have begun recruiting those with neurological conditions such as autism spectrum disorder, dyspraxia (a neurologically based physical disorder), and dyslexia. Such individuals often have a special talent for performing complex mathematical calculations or enhanced memory and pattern recognition skills -- what experts refer to as “splinter skills.”

Among the companies that have begun tapping into this talent pool are Microsoft, SAP, HP, Ernst & Young, and JP Morgan Chase (Sardon, 2019). Writing in the Harvard Business Review, Austin and Pisani (2017) note that companies that have embraced “neurodiversity” are experiencing a wide range of benefits including reputational enhancements, productivity gains, quality improvements, increases in innovative capabilities, and greater employee engagement.

Disability Inclusion within the U.S. Hotel Sector

Amongst U.S. hotel groups, Marriott International is arguably the leader in the disability inclusion space. The Bethesda, Maryland-based company began its D&I initiatives in 1969 with the establishment of the Marriott Foundation for People with Disabilities (Marriott Foundation, 2019). The Foundation provides grants to organizations like Bridges from School to Work (BSW) that offer workforce training to
young PWDs. BSW has served more than 20,000 young people since its inception (Marriott Foundation, 2019). Additionally, Marriott has established 18 regional Diversity and Inclusion Councils and Associate Networks that seek out potential recruits from the ranks of the disabled and other underrepresented groups. Individual Marriott properties, meanwhile, have their own D&I initiatives. The Chicago Marriott, for example, has a longstanding partnership with the International Association of Machinists Center for Administering Rehabilitation and Employment Services (IAM CARES) to provide training to more than two dozen disabled individuals each year (Kalargyrou & Volis, 2014). DiversityInc ranked Marriott International #7 in its 2018 list of Top Companies for People with Disabilities (DiversityInc, 2018).

Another hotel industry D&I leader is Hilton Worldwide. Like Marriott, the McLean, Virginia-based hotel operator has created regional inclusion councils to oversee outreach to PWDs and other minority groups. Hilton also has established an Executive Inclusion Council (EIC) comprised of the company’s most senior leaders. The EIC, which reports directly to the company’s president and CEO, provides oversight of its diversity and inclusion initiatives. DiversityInc ranked Hilton #6 in its 2018 list of Top Companies for People with Disabilities (DiversityInc, 2018).

The Hyatt Hotels Corporation is another hospitality sector D&I leader. The Chicago-based company has seven Diversity Business Resource Groups (DBRG), one of which -- (disABILITIES) -- is geared to recruiting and promoting people with physical and mental disabilities. Hyatt also has a longstanding partnership with the non-profit Hands on Educational Services to provide vocational training and placement assistance to PWDs. Begun in 1998 at a Hyatt Hotel in Tampa, Florida, the partnership has expanded to over 30 Hyatt properties in nine states. The program offers job-readiness training, job coaching, job placement services, and on-the-job training to individuals across a wide range of areas, including culinary, engineering, housekeeping, and guest services. More than 1,500 people have received training since the program’s inception and Hyatt has extended job offers to several hundred program graduates (U.S. Department of Education, 2018).

While the aforementioned hotel chains are clearly committed to increasing the ranks of the disabled within their organizations and creating an inclusive work environment, none of their initiatives arguably comes close to Lemon Tree’s Inclusion Program in scale or scope. Perhaps the closest analogue to what Lemon Tree is doing in the hospitality sector, albeit on a much smaller scale, is a pilot project that coffee retailer Starbucks launched in 2016 in Kuala Lumpur, Malaysia. That project involved creating a Signing Store staffed almost exclusively by deaf and hearing-impaired employees. The project was so well received that Starbucks brought the concept to the U.S. in 2018, opening a Signing Store in Washington, D.C. near Gallaudet University. The U.S. store requires that all employees – deaf and hearing alike – be proficient in American Sign Language (ASL). Customers that do not know ASL can communicate their orders using tablets and two-way digital displays (Purdy, 2018). In 2019, Starbucks announced plans to roll out a third Signing Store in China (Wilson, 2019).
The U.S. Hotel Industry

The U.S. hotel industry is an important economic engine, generating approximately $218 billion in revenue in 2018 (STR, 2018). The industry, which employs over 2 million people, has enjoyed strong growth and steady revenue gains since 2010, with occupancy rates in 2018 rising to a record 66.2 percent (Deloitte, 2019). Analysts expect the sector’s expansion to continue through 2022 (Hoisington, 2019). Five hotel companies dominate the U.S. market, accounting for nearly half of all hotel room inventory: Marriott, Hilton, Intercontinental, Wyndham, and Choice. Each of these companies manages a variety of brands, ranging from midscale to luxury.

Leisure travel accounts for roughly 60 percent of the U.S. hotel sector’s demand, with business travel accounting for most of the remainder (Segel & Woodbury, 2017). Whereas leisure travelers tend to gravitate toward budget hotels offering few amenities and pricey resorts offering all-inclusive packages, business travelers tend to patronize midscale and upper-midscale properties. Indeed, upper-scale hotels like Marriott and Hyatt report that business travel accounts for roughly three-quarters of room demand (Segel & Woodbury, 2017). Among the leading brands in the midscale space are Windgate by Wyndham, La Quinta Inns & Suites, and Best Western. Brand leaders in the upper-midscale segment include Farfield by Marriott, Hampton by Hilton, Holiday Inn, Holiday Inn Express, and Best Western Plus.

In choosing where to stay, business travelers tend to value factors such as location (i.e., proximity to airports and city centers), cleanliness of facilities, suitability of meeting facilities, quality of staff service, healthy food and fitness options, safety and security, quality of amenities such as breakfast, parking, and Wi-Fi, and price-to-value relationship (Airoldi, 2019). Based on these and other factors, Farfield by Marriott received the highest marks in the upper-midscale category in a recent survey of business travelers conducted by Business Travel News, whereas Wingate by Windham scored the highest in the midscale segment (Airoldi, 2019).

In recent years, hotel rewards programs have emerged as a key driver of growth in the midscale and upper midscale sectors. As with airlines and rental car agencies, hoteliers use these programs to encourage direct bookings on their websites (rather than via third parties) and to build loyalty among consumers. Best Western, for example, which operates nearly 2,000 properties around the world, has seen its loyalty program business jump to 48 percent from 4 percent in the last 15 years (Airoldi, 2019).

Opportunities and Benefits of International Expansion

Ms. Lal could see numerous opportunities and benefits associated with entering the U.S. hotel market. Foremost among them was the chance for Lemon Tree to generate attractive financial returns for its shareholders and establish itself as a truly global hospitality player. After all, the U.S. was the world’s most lucrative hotel market with annual gross bookings exceeding $185 billion and record high occupancy rates (Deloitte, 2019).
While demand was strong in all market categories – from midscale to luxury -- the former continued to outperform, with occupancy rates rising nearly five times as fast as those in other segments during the first five months of 2019 (Clark, 2019). Although it would take time for Lemon Tree to establish its brand in the U.S., it could benefit immediately by catering to Indians traveling abroad for work and pleasure. As Keswani observed: “26 million Indians fly out of India every year. And this is expected to double in the next five years. These guys stay 3-5 days in places they visit… so if I have loyal members why should I not have hotels in these cities?” (Iyer, 2019).

Another benefit of entering the U.S. market was that it would give Lemon Tree something of a first-mover advantage in the hospitality sector’s disability inclusion space, as none of the U.S. majors was pursuing an HR strategy that focused on putting large numbers of PWDs in front-line roles. Although there was no guarantee that Lemon Tree’s U.S. hotel guests would embrace the idea of being greeted by deaf employees proffering welcome messages written on notepads or served meals by waiters with Down’s syndrome, it was reasonable to assume that many would welcome such interactions. After all, a 2017 survey by the National Business and Disability Council found that two-thirds of American consumers would purchase goods and services from businesses that features PWDs in their advertising (Jerdee, 2019). Meanwhile, there was a growing body of academic literature suggesting that inclusion-based employment policies could lead to increased sales (Miethlich & Oldenburg, 2019; Lindsay et al, 2018) and higher levels of customer loyalty and satisfaction (Lindsay et al, 2018; Kalargyrou, 2014; Kendall & Karns, 2018).

Entering the U.S. market also had a strategic rationale. It would allow Lemon Tree to keep pace with rival Oyo Hotels and Homes. Oyo had entered the U.S. market in early 2019 and had quickly grown its network to over 50 hotels in 35 U.S. cities. Backed by significant venture capital, Oyo had unveiled plans in early 2019 to invest $300 million to acquire talent, technology, and renovate properties in major U.S. cities such as New York, Los Angeles, and San Francisco. Oyo’s youthful CEO Ritesh Agarwal boasted of its plans to add five new U.S. properties to its network every day in 2019 (Clark, 2019).

Finally, Lal presumed that the U.S. government offered special programs to incentivize employers to hire PWDs. She vaguely recalled hearing a colleague from a major U.S. hotel chain discuss the Disabled Access Credit (DAC) and Work Opportunity Tax Credit (WOTC) programs at a conference a few years back. Perhaps Lemon Tree could avail itself of these and other programs too.

**Challenges and Risks**

While the promise of the U.S. market was undeniable, there were major challenges and risks associated with internationalization. For one, the market was crowded, with 16 hotels per 1,000 persons, as compared to only 1.2 in India (Iyer, 2019). The U.S. was also an expensive market to operate in, with real estate, labor, and healthcare prices in major cities far exceeding those in India. And while rival Oyo had successfully made the leap into the U.S. market, it had a very different business model than Lemon Tree. Oyo also had the benefit of $1.5 billion in venture capital
from partners such as SoftBank and Sequoia Capital. Lemon Tree had neither those same partners nor resources. Moreover, Lemon Tree had ambitious expansion plans at home that would stretch its resources thin. The company aimed to increase its room inventory in India by 60 percent within two years and expand to 143 cities by 2025. It was also entering the fast-growing rental housing segment and rolling out an ambitious loyalty program involving partnerships with airlines and retailers (Iyer, 2019). On top of that, it was exploring new overseas opportunities in Dubai, Nepal and Bhutan. Could it realistically carry out all of these initiatives while tackling the U.S. market too?

There were other reasons for caution. Lemon Tree had limited knowledge of the U.S. hotel sector and American labor laws. Moreover, it had few, if any, non-governmental partners. This was an especially important consideration given that Lemon Tree relied on an extensive array of Indian NGOs to recruit and train its PWDs, each specializing in assisting individuals with different physical or mental challenges. For example, the Noida Deaf Society and the Sai Swayam Society provided Lemon Tree with speech- and hearing-impaired job candidates; Efficor provided recruits with orthopaedic disabilities; Dialogue in the Dark provided candidates with vision-impairments; and Muskaan sourced recruits with intellectual disabilities. Organizations such as Dr. Reddy’s Foundation and Vidya, meanwhile, provided Lemon Tree with job prospects from socially and economically marginalized communities. Beyond that, Lemon Tree had relationships with dozens of schools, colleges, and vocational centers across the country (Srinivasan et al, 2018). Establishing a similar network of partner relationships in the U.S. could take months if not years.

Then, of course, there was the issue of talent acquisition. If Lemon Tree were to replicate its Inclusion Program in the U.S., it would need to hire and train dozens, if not hundreds, of PWDs, as well as non-disabled staff. Moreover, it would need to find a way to retain these workers given the high turnover rate in the U.S. leisure and hospitality sector – roughly 75 percent annually vs. about 40 percent for all industries (Donnelley & Joseph, 2012). Furthermore, the company would need to bring on board a cadre of human resources leaders who could oversee the various skilling, sensitization, and job mapping initiatives and transfer Lemon Tree’s unique company culture to the new affiliate. All of this seemed quite daunting.

The Decision

Ms. Lal took a deep breath and considered what advice she should offer her boss. On the one hand, international expansion offered a golden opportunity to prove what Keswani had been saying all along – that it was possible to simultaneously pursue profits while achieving ambitious social goals and contributing to “nation-building.” It also offered an opportunity to change dozens of lives by giving people the dignity of a job – and perhaps many more if Lemon Tree’s model proved successful and was adopted by other industry players. On the other hand, the expansion idea seemed fraught with risks and challenges. As Lal rose from her chair, she could not help but wonder whether the U.S. market offered fertile soil for Lemon Tree’s bold human resources strategy to take root.
Methodology

The information in this case is based on interviews conducted by the author with Lemon Tree Hotel executives Aradhana Lal (vice president – brand, communications, and sustainability initiatives), R. Hari (general manager, human resources), and Kuntal Vegad (deputy manager, learning and development) in March 2019 at the Lemon Tree Premier – Delhi Airport Hotel in New Delhi. Additional research was gathered by searching Proquest for published literature since 2000 in the subject areas of business, economics, management, and hospitality management using the following keywords: social inclusion, disability, disability management, employment of persons with disabilities.

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