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PUTTING A COST ON LABOUR TURNOVER IN THE AUSTRALIAN ACCOMMODATION INDUSTRY

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ABSTRACT

The tourism industry is a major employer in Australia and has particular significance in regional areas. A great benefit of the accommodation sector of the tourism industry is that it creates a range of employment opportunities. However, this benefit is also a weakness when labour costs and availability are under pressure. This research on labour turnover and cost in Australia was undertaken with a purpose of offering an insight into this vital issue for the accommodation industry. An on-line survey was utilised to collect data from 64 hotels. The research shows major costs being attributed to labour turnover. These are costs which both the industry and individual operators should examine closely as they impact substantially on the operating costs and profitability of these businesses. The research findings have contributed to the development of the policy agenda of the accommodation industry in Australia and the need for accommodation businesses to re-visit and analyse their own labour and cost experience.

Keywords: Labour Turnover Costs, Hotels, Australia
INTRODUCTION

The pivotal role of employees in the quality of service and organisational effectiveness is well recognised by researchers and practitioners’ alike. Labour retention is a challenge for contemporary Human Resource Management (HRM) strategies and practices. Labour turnover represents a significant loss of investment in human capital, training and quality. High staff turnover in hotels is a major factor affecting workplace efficiency, productivity and cost structure (Deery and Shaw, 1997; Lashley and Chaplain, 1999).

Since the early 1970’s, tourism has emerged as a significant industry for Australia. In 2006/07, the industry contributed A$38,935 million or 3.7% of gross domestic product (Australian Bureau of Statistics (ABS), 2008a). Increases in inbound tourism in the 1980’s and 1990’s resulted in a building boom of hotels, resorts, and related infrastructure such as golf courses and retail facilities, and the sector became a significant employer of labour. In 2006/07, Australia’s accommodation sector comprises of 5,891 businesses, which collectively employed 96,000 people and generated a total income of A$9,876 million (ABS, 2008b). Similar to other tourism related industries, the accommodation sector is facing difficulties of attracting and retaining staff. A recent parliament inquiry into workforce challenges facing the Australian tourism sector has revealed that the staff turnover rate in some hospitality positions exceeded 80%. The inquiry thus recommended an investigation into staff turnover costs to help the industry bodies comprehend the benefits of retaining existing staff (House of Representatives, Standing Committee on Employment, Workplace Relations and Workforce Participation, 2007).

In light of the important relationship between labour retention, skills development, quality of service and broader hotel profit strategies, the Tourism and Transport Forum (TTF), Australia and the Sustainable Tourism Cooperative Research Centre
(STCRC), Australia commissioned this research into labour turnover in the Australian hotel industry. The research sought to investigate the following issues as they shape hotel HRM practice and the management of labour retention, namely:

- Assess the extent of labour turnover;
- Examine the structure and regulation of turnover within hotels;
- Assess the actual dollar cost of turnover; and
- Examine the accountability structures associated with turnover.

This research presents figures, using the data provided by 64 four and five star hotels, on the actual cost of labour turnover in the Australian accommodation industry.

A BRIEF REVIEW OF LITERATURE

Hospitality industry tends to be labour intensive and around the world this industry has been confronted with high level of labour turnover (Bridir, 2002; Brien, 2004). This is mainly caused by the low-skilled and low-paying nature of most tourism and hospitality jobs that are also associated with poor working hours and offering little job satisfaction and career advancement (Aksu, 2004; Hinkin and Tracey, 2000). Attracting and retaining quality employees have been challenges for the industry and Australia is no exception (House of Representatives, Standing Committee on Employment, Workplace Relations and Workforce Participation, 2007).

Levels of employee turnover have wide cost ramifications. In Australia over the last decade, there has been the added pressure on hotel returns. Hotels are expected to perform financially so that they become an attractive form of investment. Profitability has not been strong industry wide and increased yield has become the mantra of senior managers. The Bureau of Tourism Research estimates that the rate of return to be just over 12%, which is significantly lower than the all industries average of 15.2% (Department of Industry, Tourism and Resources, 2005). In this financial climate, the
utilisation of labour is becoming ever more critical and the wastage of human capital through unnecessary turnover is an element of critical importance to the bottom line performance.

The important link between labour turnover and organisational transaction ‘costs’ is being addressed in literature that attempts to define the links between employee relations/HRM practices and broader business outcomes (Schuler, 1989; Schuler and Jackson, 1987). At its simplest, labour turnover is the voluntary or involuntary exiting of staff and labour, and is a direct cost to the organisation involving recruiting (including advertising), training, induction, growth and skill development and quality (Hinkin and Tracey 2006). Labour turnover is therefore not only a significant tangible dollar cost but also an intangible or ‘hidden’ cost associated with loss of skills and efficiency and replacement costs (Lashley and Chaplain, 1999). Lashley (2000) refers to lost investment in training and lost staff expertise as particular examples of turnover costs and opportunity costs.

There are scholars who point to more intangible transaction ‘costs’ of labour turnover associated with organizational behaviour and related ‘hygiene factors’ such as work routinisation, role conflict, poor job satisfaction, low morale, poor commitment, corrosive supervision/leadership and lack of career development that impact on employee productivity and service quality (Deery and Iverson, 1994), and how that adversely impacts on hotel effectiveness, quality and service standards (Davidson, et al. 2001a, 2001b, and 2001c). Lost productivity resulted from staff turnover may account for more than two-thirds of the total turnover cost (Hinkin and Tracey, 2008).

A reduction in employee turnover would be a significant factor in reducing hotel costs and improving labour productivity. Yet, the research suggests that managing and accounting for turnover remains a vexed question for hotels that thereby adding to the burden and cost of labour turnover as there is no single point of accountability (Davidson, Guilding & Timo, 2006). Indeed, there appears to be few successful strategies that achieve improved labour turnover and as Davidson at al., (2006) point
hotel HR accountability structure remains weak with HR department baring the costs of turnover and no department ultimately responsible for minimising turnover. This is most likely because the cost of staff turnover falls outside the conventional accounting and HRM paradigms. This signifies lost accountability and diminished internal organisational visibility for this cost. The lost accountability issue is exacerbated when we recognise that the cause for the cost originates from a different accountability unit (i.e. the area of the organisation where the employee works) to the unit that incurs much of the cost associated with staff turnover (HRM). Accountability therefore must be incorporated in a retention strategy so those who are involved can fully understand the cost of turnover (Phillips & Connell, 2003).

Other researchers suggest that a turnover ‘culture’ is artificially manufactured in order to meet ill defined but nevertheless accepted organisational objectives. Labour turnover can form part of a broader cost minimisation strategy through retrenchment, redundancy and downsizing, however, these strategies can also be used as a positive measure, promoting creativity by removing ‘dead wood’ (Nicholls and Buergmeister, 1993). Timo (1996) noted that labour turnover can also be used as a disciplinary mechanism through involuntary terminations or the threat of termination, be used for maintaining work discipline or as a quality control device attracting ‘fresh new faces’ and encouraging poor performers to leave (Timo, 1999; Hollenbeck and Williams, 1986). The loss of accountability problem may be particularly significant where the operating manager feels a degree of turnover is desirable. In this situation, the benefits of staff turnover may outweigh the costs of turnover. Thus, turnover may mask a range of organisational and behavioural factors that impact on the way in which hotels account for and respond to turnover. Hotel turnover transaction ‘costs’ are then more appropriately seen in the context of this contradictory dynamic: on the one hand dysfunctional; yet on the other functional (Davidson et al. 2006).

Different business environments, labour regulatory regimes, and cultures determine that the rate of turnover and its costs vary across the globe. Europeans, partly due to a higher unemployment rate, are much less likely to change jobs than the Americans,
whilst voluntary turnover is almost non-existent in some parts of the world (Tanova and Holtom, in press, as cited in Holtom, Mitchell, Lee, and Eberly, 2008). In American hotels, pre-departure costs, ranging from 1.7 to 15.1%, were generally low (Hinkin and Tracey, 2008), but for Turkish hotels, severance and leave compensation alone represented the largest constituent part of turnover cost (Aksu, 2004). In contrast, lost productivity was found to account for 47.1% to 67.6% of the total turnover cost in the US, but was relatively low in Turkey (Aksu, 2004; Hinkin and Tracey, 2008). The costs of turnover also vary based on complexity of the jobs, experiences, qualifications, and property types (Aksu, 2004; Hinkin and Tracey, 2000, 2006, 2008). Although the turnover rate of managerial employees is expected to be lower than that of operational staff, the cost of replacing them is much higher.

Studies on turnover cost in the accommodation sector are limited (Hinkin and Tracey, 2006) and most of them have been conducted in the US. The only published study on Australia was conducted in 1996, which suggests that costs of employee turnover are high and exponential according to skill ranging from A$4,000-5,000 for a room attendant and Food & Beverage Waiter; A$9,000-10,000 for a Chef; and A$12,500 for a managerial position (Deery and Iverson, 1996). An unpublished Queensland hotel industry study showed that amongst the hotels surveyed in 2002, there were 5,294 employees employed and 2,383 terminations representing an average turnover rate of 44.9% per annum. The lowest turnover for a hotel was 27.5% per annum with the highest being 59.4% per annum (*Hotel HR Group Managers, Cairns, personal communication, June 2003). Employee replacement costs are estimated to account for up to a third of hotel HRM departmental budgets (*HR Manager, Gold Coast hotel, personal communication, June 2003).

Industry professionals put employee turnover rates between 30% and 50% and sometimes 300% per annum depending upon location, employee relations/HRM practices adopted and the culture of the hotel (*Hotel HR Group Managers, Cairns, personal communication, June 2003). Nation-wide estimates of turnover rate in the hotel industry, presented in the parliamentary inquiry into workforce changes facing
the Australian tourism sector, ranged from 39% to 84% depending on job types (House of Representatives, Standing Committee on Employment, Workplace Relations and Workforce Participation, 2007)

All these estimates highlight the labour retention problem facing Australian accommodation sector. A timely investigation into the costs of turnover is essential in understanding the impact of turnover and how a desirable turnover rate may be achieved through strategic HRM.

RESEARCH METHOD

For the purposes of this research, the definition of accommodation is derived from the ABS (2006) methodology that encompasses four to five star accommodations that provide accommodation as a core business. An on-line survey was prepared based on a concept proposal drawn from labour turnover literature. It was pilot tested by an eight person industry-based reference group of senior hotel industry HR managers from both corporate head offices and individual properties. The survey consists of five sections including:

- Hotel background;
- Hotel employee categories;
- Hotel seasonality and turnover characteristics; and
- Hotel turnover costs by establishment.

The survey was distributed on-line directly to 190 hotels that were either TTF Members or through corporate head offices of hotel companies that are members of TTF who is the major lobby group for the tourism and transport industries in Australia. These hotels represent a fair proportion of the 1,593 four and five star accommodation establishments in Australia with 15 or more rooms (ABS, 2008c).
During a three-month period, responses were received from 64 hotels across Australia, giving a response rate of 29.6%. The survey was completed by the HR director or manager of each property. The Statistical Package for Social Sciences (SPSS) was used to analyse the results using standard statistical analysis techniques for percentages, means and structuring the data according to identifiable groups.

FINDINGS AND DISCUSSIONS

The majority of the hotels (See Figure 1) were located in or near the inner city/central business district areas and regional towns. Almost 75% of respondents had 100+ rooms, and the spread between establishments and room size, especially at the 100+ room level, provides a credible sample of larger hotels for analysis. The majority of the properties were run as part of a chain. However, a significant proportion were independently owned or operated. The overall sample is fairly representative of the Australian hotel industry.

Figure 1: Location of Hotel Establishments

The survey identified a turnover rate of 50.74% for operational employees and 39.19% turnover rate for managerial employees (see Table 1). The hotel industry has
traditionally relied on casual employees as a means of achieving both labour flexibility and for filling job vacancies. Casuials were nearly one third of the staff in the surveyed hotels. HR managers’ feedback indicated that casuals tend to have higher turnover because these employees have multiple jobs in order to obtain an adequate level of income. Trends towards using casuals has implications for the training effort (and therefore cost), human capital loss, company loyalty, brand (e.g. quality of service) and productivity. More research is required into this labour market practice in order to examine the full cost implications.

Table 1: Turnover by Group

<table>
<thead>
<tr>
<th>Staff Category</th>
<th>Total Number Employed</th>
<th>Total Turnover Number</th>
<th>Total Turnover %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives</td>
<td>275</td>
<td>101</td>
<td>36.73%</td>
</tr>
<tr>
<td>Department Managers</td>
<td>860</td>
<td>271</td>
<td>41.06%</td>
</tr>
<tr>
<td>Supervisors</td>
<td>984</td>
<td>380</td>
<td>38.62%</td>
</tr>
<tr>
<td>Total Managerial Employees</td>
<td>1919</td>
<td>752</td>
<td>39.19%</td>
</tr>
<tr>
<td>Operational Level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time Employees</td>
<td>3816</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time Employees</td>
<td>1,411</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casuals</td>
<td>3,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operational Staff</td>
<td>6,627</td>
<td>4,379</td>
<td>50.74%</td>
</tr>
</tbody>
</table>

The data suggests a predictable pattern of high turnover in the Restaurant/Bar, Housekeeping, Kitchen and Front Office areas (See Table 2). They also represent the largest unit of employment within a hotel. What was unanticipated was the 39.19% turnover rate amongst executives, supervisors and departmental managers, which was far higher than expected. This suggests that managerial and operational employees may experience similar patterns of turnover and this pattern is often overlooked when discussing hotel turnover generally.
Table 3 shows turnover by geographic location. Regional/Remote hotels are at a disadvantage in relation to staff retention, experiencing a rate of labour turnover that is more than twice the level of CBD/inner city hotels. It has been an industry accepted norm that in general the Regional/Remote hotels find it harder to attract and maintain staff. The survey results confirm this assumption. Remoteness, a desire to move on, limited social life, close group living, isolation, etc make attracting staff to these hotels much more difficult. In addition, Regional/Remote hotels often attract large numbers of Working Holiday Visa employees who seek particular travel experiences (e.g. off shore island tourism resorts) and therefore are unlikely to stay other than for a short while.
Two questions in the survey focused on ascertaining the actual costs involved in labour turnover and the results are displayed in Table 4 and Table 5. Respondents were able to be more precise on direct costs. Categories where response rates were low were excluded from the averaging calculations. The data in Table 4 illustrates the complexity of the bundling of factors that make up the cost of labour turnover. The average cost for replacing executive, managerial and supervisory staff was A$109,909 per annum per establishment, which if multiplied by the number of hotels that took part in this survey (n=64), provides an estimated cost of just over A$7 million per annum for replacing executive, managerial and supervisory staff. This amount does not include intangible costs such as the transaction costs associated with loss in quality, loss of decision making, loss of business acumen and leadership hiatus.
Table 4: Cost of Replacing Executives, Managers and Supervisors per Hotel per Annum

<table>
<thead>
<tr>
<th>Cost</th>
<th>Average Cost Per Responded Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management time and expenses spent on training new employees</td>
<td>$23,841</td>
</tr>
<tr>
<td>Management time spent interviewing &amp; selecting employees</td>
<td>$14,417</td>
</tr>
<tr>
<td>Agency fees</td>
<td>$13,895</td>
</tr>
<tr>
<td>Contract staffing *</td>
<td>$13,400</td>
</tr>
<tr>
<td>Uniforms</td>
<td>$10,800</td>
</tr>
<tr>
<td>Relocation expenses</td>
<td>$6,141</td>
</tr>
<tr>
<td>Advertising for replacement executives, managers/supervisors</td>
<td>$5,931</td>
</tr>
<tr>
<td>Selection tests *</td>
<td>$4,071</td>
</tr>
<tr>
<td>Legal/flaw *</td>
<td>$3,357</td>
</tr>
<tr>
<td>Medical *</td>
<td>$3,056</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$109,909</strong></td>
</tr>
</tbody>
</table>

*Low response rates were identified for these items.

The data in Table 5 suggests that the average cost for replacing an operational employee was A$9,591. Multiplying this figure by the number of operational employees that have left over the past 12 months according to the survey (n=4378), produces an estimated cost of just under A$42 million per annum for replacing operational employees.

Table 5: Average Cost of Replacing each Operational Staff Member

<table>
<thead>
<tr>
<th>Cost</th>
<th>Average Cost Per Operational Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising for replacement operational employees</td>
<td>$1,186</td>
</tr>
<tr>
<td>Management time spent interviewing &amp; selecting employees</td>
<td>$2,019</td>
</tr>
<tr>
<td>Management time and expenses spent on training new employees</td>
<td>$9,921</td>
</tr>
<tr>
<td>Agency Fees</td>
<td>$2,400</td>
</tr>
<tr>
<td>Uniforms</td>
<td>$666</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$9,591</strong></td>
</tr>
</tbody>
</table>
In this survey of 64 hotels, the total cost over the 12-month period for labour replacement was A$49 million, suggesting labour turnover as a significant cost to hotels. As discussed previously, the costs of turnover are likely to accrue to the operating department, however in practice, the costs will accrue primarily in the HR department (i.e., the administration costs associated with severance of the departing employee, position advertising and the administrative costs of induction associated with the new employee). As a result, it might be particularly desirable that HRM turnover costs are charged back to the operating department, especially when the operating manager feels some turnover is desirable.

**Figure 2: Departments that Have Line Budget Accountability for Meeting the Costs of Replacing Employees**

Consistent with earlier findings based on a regional sample (Davidson et al., 2006), the data in Figure 2 suggests that turnover costs are often accounted to the HR department rather than operational departments of the establishments surveyed. This ‘camouflages’ the actual cost of high turnover in each department. The lack of cost accountability reduces the ability to track turnover costs and does not allow hotel owners and operators to use turnover costs to develop effective department-based turnover prevention strategies.

This study provides details on the employee turnover problem and was able to quantify some of the costs. Research into this area needs to be continuous in order to
ascertain whether any progress in reducing this problem has been made. It is also hoped that the outcomes of this study will provide a base line and thus make some contribution to our knowledge in this area.

**SUMMARY**

This report presents findings drawn from a survey of TTF Australia members. The questions explored the issues of labour turnover in the accommodation industry in Australia. In particular, it looks at employment categories, hotel location and turnover characteristics, and hotel turnover costs.

The data reveals that for operational employees, the overall annual turnover rate was 50.74%, which was higher than expected. The data suggests a predictable pattern of high turnover in the Restaurant/Bar, Housekeeping, Kitchen and Front Office – which also represent the largest unit of employment within a hotel. Turnover amongst executives, supervisors and departmental managers at 39.19% was also far higher than expected. These levels of turnover suggest that both managerial and operational employees may have similar working experiences in the hotel sector and/or similar reasons for causing the high turnover figures. For example, personnel at all employment levels may be searching for better career opportunities, better pay or better internal transfer opportunities. Additional research is need in this regard. Labour turnover is greatest in regional and remote hotels across all employment categories compared to those in inner city/CBD and suburbs. Regional labour markets are clearly more vulnerable to distance and isolation. This makes attracting and retaining employees more difficult.

The research indicated that, without including intangible costs (e.g. loss productivity and service quality), the average cost for replacing executive, managerial and supervisory staff was A$109,909 per hotel, per annum. Based on the turnover numbers identified in the 64 hotels surveyed, the estimated total cost for replacing
executive, managerial and supervisory staff was just over A$7 million. The average cost for replacing operational staff was A$9,591 per employee or $42 million in the 64 hotels surveyed during the previous 12 months in this research. Combining the turnover costs for executive, managerial, supervisory and operational staff (based on the results from this survey), labour turnover cost the 64 hotels $49 million. By implication, the overall cost to industry is much greater and runs into hundreds of millions of dollars in both tangible and intangible costs. This cost is extraordinarily high for the Australian hotel industry to continue to pay.

Hotel labour turnover may be the most significant factor affecting hotel profitability, service quality and skills training. This research focused on tangible turnover costs, there should be further analysis of the management, time, and costs spent in training new employees and the implications it has on hotel business operations. There should also be further analysis of intangible costs associated with labour turnover.

REFERENCES


