
EFFECT OF TURNOVER ON PERFORMANCE AND EFFECTIVENESS OF HUMAN RESOURCE PRACTICES AND POLICES IN RETENTION: A CASE STUDY OF HOTEL INDUSTRY

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ABSTRACT

The incidence of high turnover rates in the hotel industry has been the subject of substantial number of studies. Much of the research has been focused on identifying the causes of turnover and formulating strategies. Little attention however, has been given to identify the actual effect of turnover on the performance of the organisation and also the effectiveness of human resource practices and policies in retaining employees. This study attempts to address the deficiency of research in this area by exploring the effect of employee turnover on different aspects of performance of the organisation and also by reviewing, how effective is the employee retention strategies followed in the industry. These aims were met through an extensive study of relevant literature and a case study. Considering the nature of the research a qualitative approach has been employed. The data was collected from both operational employees and managerial employees of a 3 star luxury hotel located in the heart of England. Which was then analysed using coding and context analysis. Finally the findings from the literature review and the case study has been discussed.

Key words: Employee turnover, Human resource practices and polices, Retention, Organisational performance

Introduction

The hospitality industry is experiencing high labour turnover globally. Changing demographics and social norms are affecting the labour pool. Loyalty to one employer is no longer the status quo (Gustafson, 2002). Recruiting the right people, training them properly and treating them well in their work may not sound like rocket science. Virtually any hotel can recruit talented and highly motivated employees. However it seems that they have difficulty in retaining them. High industry turnover rates, increasing costs and the tight labour market make employee turnover the major hindrance to the hospitality industry (Gustafson, 2002).

Employee turnover is rising sharply. Labour turnover for the hospitality industry rose to 53.4% in 2000 up from 27% in 1994 (Hotel and Catering Training Company, 1994). The staff turnover figures of several hundred per annum are not unusual for the hospitality industry. Like the turnover figures, the cost of employee turnover is also high. Every incident of turnover and replacement involves time, money and even possible loss of business (Ross, 1999). Labour turnover is problematic in the hostel industry which has already got recruitment difficulties (Rowley & Purcell, 2001). In 2008 the figures has gone up to 80%, compared to 78% in 2006 (CIPD Annual Survey Report, 2008).

The hotel industry is becoming highly competitive. Every organisation tries to keep consistency in service standards and service styles which is the key to customer retention (Chiang et al., 2005). Labour turnover damages this consistency. Apart from that the tangible and intangible cost associated with, turnover directly affects the profitability of the firm (Denvir & McMchon, 1992). Low employee turnover gives organisation a competitive advantage over others. Lashley (2001) makes the argument that in the service sector as the quality of the service delivered is used as a competitive tool in many organisations. Hence a satisfied, motivated and stable workforce is a critical success factor.

This article aims to investigate the effect of employee turnover on different aspects of performance of an organisation and also the effectiveness of employee retention strategies followed in the industry.

Literature Review

The term turnover is defined by Price (1977) as the “ratio of the number of organisational members who have left during the period being considered divided by the average number of people in that organisation during the period”. But frequently turnover is referred as the entire process associated with the filling of a vacancy. “Each time a position is vacated a new employee must be hired and trained. This replacement cycle is known as turnover” (Woods, 1995). Turnover has been studied in different dichotomies such as, avoidable-unavoidable, planned-unplanned, internal-external, functional-dysfunctional, and voluntary-involuntary (Ross, 1999; Campion, 1991; Wasmuth & Davis, 1983). However, most researchers studied voluntary turnover in depth (Denvir & McMchon, 1992).

Some of the researchers point out that the turnover is high among young employees. According to Simons, (1995) younger hotel employees ranked job security as least desired on their desired list of items. In the study conducted among employees and managers in 160 hospitality organisations Harbourne (1995) found that the turnover is particularly high among employees of age between 20 and 29. The labour turnover also depends on the size of the organisation. Smaller organisation show low employee turnover as compared to the larger organisations (Peacock, 1993; Ross, 1999). Irrespective of the size of the organisation and the cause of the turnover the labour turnover affects the performance of the organisation.

Turnover occurs as a result of complex serious of factors that influences the employee attitudes and eventually results in employee turnover. Obtaining accurate information on reasons for leaving is difficult (Cullen, 2001). As per the study conducted by the Hotel and Catering training company (1994) 70% of the people gave unsocial hours and low pay as the reason for leaving. While, around 10% quoted hard work, poor career prospects, and unrewarding work and variable hours. The causes of employee turnover in general are demographic and personal characteristics, overall job satisfaction, organisation and work environment, job contents and intrinsic motivation and external environment (Ross, 1999). Boella (2000) adds these points also the nature of industry, the nature of the individual units, the nature of individual managers and high proportion of workers from the secondary labour market.

According to Wasmuth and Davis (1993) turnover resulted principally from dissatisfaction with the current job other than attraction to other job opportunities. The most frequently mentioned reasons for leaving were pay (Hinkin & Tracey, 2000). Poor quality of supervision and poor working conditions were also quoted more often (Hinkin & Tracey, 2000). These findings were repeated in the reports published by Woods and Macaulay (1989) and also by Lansing (1998).

Boella (2000) argues that employee turnover is the consequence of poor employment practices such as recruiting employees who do not have commitment for any industry from the secondary labour market (long term tourists, school leavers, students etc). Deery and Shaw (1997) gives voluntary turnover causes a different dimension by dividing them into positive and negative causes of turnover. In positive cause of turnover good or better job can be acquired by the individual and in the case of negative cause of turnover the individual dislikes the job so much and changes the current job even though there is no advantage. Looij and Benders (1995), mention to this as 'push' and 'pull' factors. The two basic ways of identifying turnover are exit interviews and attitudinal survey (Roberts, 1995). According to CIPD Annual Survey Report (2008) 94% of the respondents have used exit interviews as a tool to identify the reason for voluntary turnover. However, according to Brien (2004) exit interview is frequently swept over by the necessity to refill the newly-available position.

Organisational Performance and Turnover

Financial Performance

According to the survey conducted by the Chartered Institute of Personnel and Development (CIPD Turnover Survey Report, 2001) the cost of the staff turnover is continue to escalate. The average cost of staff turnover per leaver in 2001 was £3,933, an 11% increase on 1999. The Marriott Corporation alone estimated that each one percent increase in the turnover rates will cause an US\$ 5-15 million in lost revenue (Schlesinger, 1991). Managers are the most expensive to replace at a cost of £8,316; 17% of organizations reported paying over £10,000 to replace managerial employees (CIPD Turnover Survey Report, 2001).

Even though it is not easy to find out the total cost of labour turnover the hotel and catering training company estimated the cost of replacing the staff as £430 million per year (in 1994) for the hospitality industry (Hotel and Catering Training Company, 1994). The factors affecting this high cost are, cost associated with leaving (personal administration, payroll administration, exit interviews etc), cost of replacement (advertising, recruitment, administration of applications, short listing and interviewing, travel expenses, stationary, postage and agency commission if applicable) cost associated with transition (relief cover and overtime payments, training costs, low productivity and possible wastage during training, induction time etc) and cost of indirect nature (management and supervisory time dedicated for training, potential loss of customer satisfaction and repeated business and induction activities) (Boella & Turner, 2005; Boella, 2000; Ross, 1999; Hotel and Catering Trading Company, 1994).

Service Quality

A lot of researchers point out that the importance of service quality is increasing in the industry (Callan, 1994; Haywood, 1983; Kokko & Moilanen, 1997; Lewis, 1987; Nightingale, 1985; Pye, 1994). Service quality itself is largely dependent on the staff-customer interaction (Mattsson, 1994). In fact, the quality of service, particularly the personalised, flexible and individualised service makes the difference to the customers and determines whether he or she will return (Baum, 1995). Therefore as the need for service quality increases, the need to recruit and retain suitable employees also increases (Wilton, 2006). Most of the time high turnover results in compromised service standards, which eventually affects the overall success of the firm (Denvir & McMchon, 1992). According to the study conducted by Wilton (2006) a number of hotel managers felt that labour turnover impacted negatively on service quality. Green et al (2002) also argues that high turnover affects service quality. Where as Hinkin and Tracey (2000) point outs that employee turnover does more than reduce service quality, it also damages employee morale. As a result of continuous turnover service quality continues to decline and customers begin to stay away (Hinkin & Tracey, 2000).

Productivity

Disgruntled employees and leavers are the main threat to productivity since they provide a poor service (Schneider & Bowen, 1992). The tendency for absenteeism is also high in this group (Ross, 1988). When an organisation is understaffed the chances for service delay and even withholding of service is high (Darmon, 1990). Which results in lose of business and customers. Employee turnover leads to a substantial lose of productivity since it breaks up of teams who used to work together (Denvir & McMchon, 1992). When a new employee is recruited the productivity will be less compared to the experienced hands (Price, 1977). The works of the remaining staff are also interrupted by the entry of a new employee because they have to train the new replacement (Louis et al., 1983). Since new staff is not familiar with the regular customers and service procedures in the organisation they tend to provide less competent and less personalised service (Darmon, 1990). In short productivity will be decreased considerably due to high employee turnover and leads the organisation to poor performance.

Competitive Performance

The introduction of new products and service will be delayed due to high turnover (Ross, 1999). The competitors take advantage of this situation and will result in lose of potential business. Turnover will also result in the competitor getting hold of the unique strategies of an organisation (Mandel & Farrel, 1992).

Employee Performance

Employee demoralisation is the biggest negative effect of labour turnover (Taylor, 1998). Due to turnover the social integration of stayer's is undermined and will stimulate more turnovers (Price, 1989). Awareness that the leaver has found a better job may change stayer's perception of their job (Hulin et al., 1985). Existing

employers lose their friends and this may cause a change in attitude towards work (O'Reilly et al., 1989).

Customer Retention

High turnover is barrier to customer retention in many ways. One of the main criteria for customer retention is the service quality. Quality of the service is adversely affected by high turnover (Yang & Cherry, 2008; Hoque, 1999; Denvir & McMchon, 1992). When the employees leave there will be a shortage which will affect the quality and the new employees may not be able keep up the standards in the beginning (Hinkin & Tracey, 2000; Lam, et al., 2002). Drop in quality of service will lead to dissatisfaction. One way to achieve strong relationship and thus long relationship is to ensure the customer is satisfied. The more customers are satisfied the stronger the relation will be. This relation will strengthen as well as the relationship longevity. Relationship longevity is great importance to any organisation both from the efficiency and profitability point. The new staffs usually tend to give less attention to the repeated guests since they are not familiar with them which will spoil the relation (Lam et al., 2002). This will result in lose of profit. There are also chances of customer following their favourite supplier to another organisation (Lam et al., 2002). Turnover in all aspects will reduce customer retention. In order to reduce turnover organisation must understand the causes of turnover.

Human Resource Policies and Practices

The competitive advantages derived from HR systems are considered as unique, and deeply embedded within firms, and are path-dependent. So they are difficult to trade or imitate. Recent researches in the U.K hotel industry suggest that the productivity and performance are clearly related to the human resource practices and policies (Hoque, 1999; Rowley & Purcell, 2001). Sound human resource practices have a significant relationship with the financial performance as well (Hinkin & Tracey, 2000). According to Hinkin and Tracey (2000) employees stick to organizations because, effective human-resources practices provide a supportive work environment that affords opportunities to grow and develop. And in return the organisation benefits from the service quality provided by the competent and loyal employees. Employee retention programs vary from hotel to hotel. According to the study conducted by Brien (2004) 88% of hotels viewed internal promotion as their major retention programme. This was followed by on-job-training (82%), health schemes (53%), professional development outside the hotel (47%), and performance bonus (29%). The human resource practices used to reduce labour turnover includes strategic measures in recruitment practices and also measures to increase the retention of the existing staff (Rowley & Purcell, 2001).

Recruitment

Recent studies show that employee selection and recruitment has become one of the top three human resource issues (Green et al., 2002). The hotel and catering international association also supports these findings (Green et al., 2002). According to the CIPD survey 86% (2008) of the organisations are experiencing recruitment difficulties. Because of the negative image of the industry among the prospective

staff, the vacancies in the hospitality sector are more difficult to fill when compared to other industries (Alleyne et al., 2006). The average recruitment cost of filling a vacancy per employee has become £4,667 (CIPD Annual Survey Report, 2008).

Many researchers argue that recruitment and retention are linked (Auston, 1994; Mercer, 1998; Mullins, 1997; Simons & Enz, 1995). Recruitment includes attracting a pool of potential candidates from which a candidate for the position can be chosen (Cullen, 2001). Human resource managers use a pool of potential strategies and techniques such as job analysis, interviewing techniques, induction, OJT, incentives to ensure that the right person is recruited in the first place (Auston, 1994; Baker, 1999; Barrett, 1995; Enz & Siguaw, 2000; Ferris et al., 2002; Mullins, 1985; Nickson & Wood, 2000; Scanlon, 1995; Walsh, 2001). According to J. W. Marriott “finding and keeping people has never been easy” (Brien, 2004, p.67). Ironically, the database of information about how to find and keep employees grows day by day (Brien, 2004).

In an attempt to overcome recruitment difficulties, organisations are taking a number of different approaches. Appointing people who have the potential to grow but don't currently have all that's required is the most popular initiative (75% of the organisations) taken (CIPD Annual Survey Report, 2008). Majority of managers cited that they use internal advertising and word of mouth as recruitment methods, and also internet, agencies and newspaper advertising to recruit employees (Connolly & McGing, 2007). The common practices in recruitment and selection of employees includes using psychological tests as the norm for the selection of staff, deliberate use of realistic job previews during recruitment and selection, trainability as a major selection criteria and a formal system for communicating the values and systems in the company to new staff (Hoque, 1999). In the selection process behaviour based questions are used more often now a day's than before since they provide information which goes beyond the opinion of the candidate and are less biased (Janz et al., 1986). According to the General Manager of the Sheraton Skyline, London, Flavio Bucciarelli, “You can always train people to have the right skills but you cannot train them to have the right attitude. That is why we have developed a recruitment method that emphasizes behaviour rather than skill” (Sheraton Skyline reaches for the stars, 2006). Once the new employee is found, the next challenge is to retain.

Retention

The issues surrounding retention of employees have also been well researched and documented (Bonn & Forbringer, 1992; Chung-Herrera et al, 2003; Dermady & Holloway, 1998; Enz and Siguaw, 2000; Walsh, 2001). Even though, organisations reported having the same level of employee retention difficulties as last year. This has actually gone up to 80%, compared with 78% in 2006 (CIPD Annual Survey Report, 2008). Retention is the reduction of staff mobility through a range of financial and motivational incentives so that staff increases their length of service with any company (Denvir & McMchon, 1992). The retention of competitive, talented and knowledgeable employee is a competitive advantage for any organisation (Sigler, 1999; Cheng & Brown, 1998; King, 1997). Staff stability enables any organisation to improve the service standards, and also to achieve consistency in customer

care (Rowley & Purcell, 2001). According to Chiang et al (2005) high employee retention is linked closely to employee satisfaction and internal quality of working environment contributes most to the employee satisfaction.

Employers use a range of measures to enhance employee retention such as training, career development, flexible work practices, in kind benefits, financial incentives, the working environment, organisational identity and the portfolio approach (Bell & Winters, 1993; Bonn & Forbringer, 1992; Hogan, 1992). According to the CIPD survey (2008) the most frequently cited actions taken by organisations to address retention is increasing pay (53%) followed by increasing learning and development opportunities (46%) and improving selection techniques in the first place (46%).

Employees are motivated through material stimuli such as cash bonuses and fringe benefits (Lucas et al., 2004). According to the study conducted by Namasivayama et al (2007) firms that emphasize the availability of benefits to their employees are worth 7.3% more than comparable firms that do not emphasize benefits as part of a total reward system. Their study also point out that employees who participated in benefit programs were more likely to stay in the organization than others. Inclusion of appropriate benefit packages has an important effect on organizational performance (Boella, 2000).

Training is one of those factors which helps in increasing the employee commitment and promotes long term employment (Rowley & Purcell, 2001). In an industry where recruitment is an issue, training employees may benefit the organization in terms of decreasing employee turnover rates (Furunes, 2005). A number of other international researches also emphasize training as a part of an employee-retention strategy (Bell & Winters, 1993; Dittman, 1999; Huselid, 1995; Wildes, 2002). According to Chiang et al (2005) there is a positive relationship among training, job satisfaction and intention to stay.

From the literature it is obvious that there is no specific guideline or formula for employee retention that will succeed in each and every situation. As Brien (2004) says the success of retention strategies appears to depend on property location, management and company culture. In contrast to the numerous human resource strategies put forward by researchers are the studies of Riely (1990) who actually studied what managers actually did when faced with voluntary turnover. Railey (1990) found that “do nothing” and “ask them to reconsider without promise” are most common. He also found that around 60% of the employees who resigned within the first year were offered nothing.

Methodology

The objective of this research is to review the human resource practices and policies and their effectiveness to retain the employees and also the effect of employee turnover on different aspects of performance of the organisation in the hotel industry. This research analysis would be employed a qualitative approach. Since most of the key factors in the research are subjective it will be very difficult to interpret through quantitative approach so a qualitative approach is suitable. Taking into account the nature of the study, it has been decided that the best strategy to

implement the empirical research would be case study since they are particularly suited for analyzing complex organizational process (Thereon et al., 2007).

The case study will be carried out in a 3 star luxury hotel located in the peak district in the heart of England. The case study deals with the 4 core operational departments, front office, house keeping, food and beverage service, food production. The methods employed are open interviews and questionnaire. Even though it is an open interview pre coded elements has been used. The structure of the questionnaire will be composed by open ended questions and a few close ended questions. The population addressed by the questionnaire will be operational level employees in all the departments and the population addressed with interview will be the managers of all the departments as well as human resource manager.

Since the interviews are open and the questionnaire is also open ended coding has been used to analyze the data and was done manually to find out the patterns, eliminate the invalid, to identify themes and to divide the research material into units. After the coding a context analysis is also carried out.

Discussion

The Effect of Turnover on Organisational Performance

The literature reviewed shows that all the organisational performance is negatively affected by employee turnover. Even though, the case study revealed that not every performance is affected by the employee turnover. The effect of turnover depends on the person who leaves. For example, when a poor performer leaves it is good for the organisation and good for the staff moral on the other hand when a good member of staff leaves it has a negative effect on the organisation. Yet another finding was that the effect of turnover is related to rate of turnover. If the rate of turnover is very less there is hardly any effect but as the turnover rate goes up there is a negative effect on the organisation.

The main reasons given by people who argue turnover has a negative effect is, the longer the staff stays they get to know the customers and their expectations and are also able to deliver the required standards. And when a new member of staff comes in instead they tend to make mistakes in the training period and the mistakes cost in some ways. Brien, (2004), Hinkin and Tracey, (2000) and Payne, (1997) shares a similar view. On the other hand people who point out that turnover has a positive effect argues that when an organisation have long term staff that may become complacent or get bored of the repeated work or there will be other problems and as a result organisation wont be able to keep up the high standard. There is also another fact that having new staff in the team brings new life and enthusiasm to the entire team. The result of the case study doesn't prove that having long serving staff makes the business any better. What makes the business better is training, caring and doing what you do, doing it better than any body else.

Financial performance of the organisation is affected by turnover because of the different costs (cost of hiring, cost of training and cost on selling) involved in it. All though some of the respondents pointed out that since each new person employed can go back on the minimum wage if an organisation can turn over the

staff in every 6 months it will keep the staff wages lower. Productivity is affected slightly by employee turnover but cross training of staff in different sections of the department and a good training system will help in reducing the effect of turnover. Whether the turnover affect the existing staff positively or negatively highly depends on the person who leaves the organisation.

On the other hand the result of the case study also revealed that customer retention, customer satisfaction, service standards and competitive performance of the organization will not be affected by employee turnover if the organization is able to maintain the consistency and high standard of the product and the attitude of the organization. This could be achieved by having proper training system and people to carry out them, strict practice in staff allocation and recruiting people with customer skills and are above average intelligence. So the conclusion can be drawn as the turnover has some avoidable and unavoidable effect on the performance of an organisation. The effect on financial performance, existing staff and productivity can only be reduced however the effect of turnover on customer retention, customer satisfaction, service standards and competitive performance can be avoided with the help of proper training system and people to carry out them, strict practice in staff allocation and recruiting

Causes of Turnover

The key discussion in the literature highlights pay (Hinkin & Tracey, 2000) as the major cause of turnover. Poor quality of supervision and poor working conditions were also quoted more often (Hinkin & Tracey, 2000). The other major reasons of turnover mentioned in the literature are limited opportunity for advancement (Stalcup & Pearson, 2001), poor performance that does not meet the standards and expectations of the employer (Stalcup & Pearson, 2001), the pre employment expectations were not met by the organisation (Ross, 1999), returning to school or college (Boella, 2000), unsociable hours (Hotel and Catering Training Company, 1994) conflict with the managers (Gustafson, 2002) and stress and burnout (Rowley & Purcell, 2001)

The views of employees on the reasons they would leave the current organisation shows similarity to the major reasons of turnover identified from literature review. 96% of the respondents said better career opportunities and financial benefits will be a valid reason to move to another organisation followed by 48% of the respondents felt that stress and poor working environment can act as a cause of turnover. However the evidence from interviews conducted point out the major cause of the turnover in the case study organisation is because of recruiting long term tourists and students followed by the location of the organisation.

According to the study conducted by Hotel and Catering training company (1994) the main (70% of respondents) reason given for leaving was unsocial hours and low pay. Even though this case study verifies the latter unsociable hours was one of the least cited reasons for leaving the organisation. This could be because of the particular location of the organisation

The Human Resource Practices and Policies and Their Effectiveness

The literature highlights that employers use a range of measures to enhance employee retention such as training, career development, flexible work practices, in kind benefits, financial incentives, the working environment, organisational identity and the portfolio approach (Bell & Winters, 1993; Bonn & Forbringer, 1992; Hogan, 1992). According to the CIPD survey (2008) the most frequently cited actions taken by organisations to address retention is increasing pay (53%) followed by increasing learning and development opportunities (46%) and improving selection techniques in the first place (46%). The human resource policies of the case study organisation gives importance to interpersonal relation between the employee and management and providing a good working environment rather than giving financial benefits. However the organisation also provides the basic financial benefits that any other organisation provides. From the case study it could be concluded that the policy of the organisation is not to retain the staff but to maintain consistency and high standard of service. Hence the human resource practices and policies of the organisation is aimed to provide a good working environment not to prevent them from leaving the organisation. This is based on the argument that the staff will move on when they are ready to move on or if they are not happy. And if the organisation has a bunch of people who stay because of these benefits then as times pass by as a result of people getting more comfortable, or board the standards slowly start to decline.

Evidences from the case study suggest that the human resource practices and policies of the case study organization are effective in retaining the employees. All the managers of the organization has more than 3 years of service and 56% of operational staff have more than 2 year of service. 96% of the operational level staff of the organisation is satisfied with the job. 80% of the operational staff agrees the pay and benefits given in the organisation are good. 79.17% of the staff said their expectations were met. This actually shows that the human resource practices and policies followed in the organisation are actually effective in retaining employees. So it could be summed up from the case study that, if the organisation concentrates on recruiting quality labour which goes along with the rest of the team and provide a good working environment the organisation will be automatically able to retain the employees.

Conclusion

The overall aim of this research was to review the effectiveness of human resource practices and policies in retaining the employees and to analysis the effect of turnover on organisational performance. The main conclusion that can be drawn is that the actual cause of turnover differs from organisation to organisation and is directly related to the characteristics of the organisation as well as the practices and procedures of the organisation. So when addressing the issue of employee turnover rather than giving benefits and pay raise the micro and macro environment of the organisation has to be considered first. It is obvious from the discussion carried out above that some effect of turnover on the performance of

an organisation can be reduced and some others can be avoided. The effect on financial performance, existing staff and productivity can only be reduced, however the effect of turnover on customer retention, customer satisfaction, service standards and competitive performance can be avoided with the help of proper training system and people to carry out them, strict practice in staff allocation and recruiting. It is also evident that organisations have to concentrate mainly on the product to maintain consistency and high standards rather than trying to maintain the person who delivers it. For achieving that proper training and a good working environment has to be provided.

The result of the case study also revealed, that employees can be retained by recruiting quality labour, which goes along with the rest of the team and by provide a good working environment. The human resource policies and practices based on interpersonal relation between the employee and management, which are also aimed to provide a good working environment rather than giving financial benefits proved to be effective in retaining the employees.

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