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Development and Use of a Web-based Tool to Measure the
Costs of Employee Turnover: Preliminary Findings

by Tim Hinkin, Ph.D., and Bruce Tracey, Ph.D.





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Development and Use of a Web-Based Tool to Measure the Costs of Employee Turnover:

Preliminary Findings

By Timothy R. Hinkin and J. Bruce Tracey

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Employee turnover continues to be one of the most vexing and costly challenges in the hospitality industry. Despite the obvious expense of turnover, few studies have attempted to account for the diverse costs associated with replacing staff. Rather than estimate the cost of turnover, the web-based tool described in this report compiles the specific costs of turnover in the following five categories: pre-departure costs, recruiting costs, selection costs, orientation and training costs, and the cost of lost productivity.

Looking specifically at turnover among front-desk associates, recruiting constitutes a substantial portion of turnover costs. The greatest expense, however, that of lost front-desk productivity, may also be the most overlooked. A case study that examines one hotel company's fast-track management-training program for college graduates found that training costs are a substantial portion of the hiring process—an expense that is magnified by a 25-percent attrition of trainees. Both with the web-based data and the case study, the effects of turnover on existing employees and supervisors appear to be given shorter shrift than they deserve. Further participants in the web-based study would be instrumental in solidifying the costs of turnover for the lodging industry.

Development and Use of a Web-Based Tool to Measure the Costs of Employee Turnover: Preliminary Findings

By Timothy R. Hinkin and J. Bruce Tracey

Employee turnover continues to be a topic of considerable interest to the hospitality industry, in large part because voluntary employee turnover is considered to be a symptom of underlying problems. The common explanation for turnover is that it is triggered by job dissatisfaction coming primarily from poor relationships with supervisors and dislike of the work itself. In contrast, inadequate compensation is usually a secondary cause. Thus, it is apparent that management has control over some of the factors that influence employee turnover. Our hope is that by better understanding the costs associated with turnover managers will make the effort to deal with the underlying causes, resulting in a more satisfied and productive work force and a more profitable organization.

The stream of research of which this report is part was initiated in the late-1990s with a telephone call from a human-resources manager of a major hotel company. He faced the undesirable possibility of losing an excellent executive chef due to corporate policies intended to save money. The executive chef, who had been with the company for more than five years, wanted to leave his position in Portland, Oregon, for a similar position in Nashville, Tennessee. To control expenses, however, the company had placed a moratorium on providing moving expenses for any employees but top executives, a policy which meant no relocation funds for this executive chef. The human-resources manager asked us whether there was any way to compute the cost of replacing this employee. His objective was to show his superiors at the

corporate office that it would be cheaper to pay the \$5,000 moving expenses to transfer the chef to Nashville than to replace this valuable employee. At the time we could not provide an answer, the HR manager lost his argument, and the chef left the company to pursue opportunities outside of Portland. Following that incident, we began to investigate the ways to measure the costs of employee turnover. In this paper, we will briefly discuss research on the cost of hospitality-industry employee turnover, present a methodology to compute those costs, and introduce the web-based Cost of Turnover Evaluator, which we developed.¹

¹ T.R. Hinkin and J.B. Tracey, "The Turnover Cost Evaluator," Center for Hospitality Research Tool, Cornell University School of Hotel Administration, 2005 (www.hotelschool.cornell.edu/chr/research/turnover/).

Previous Research

Employee retention is an important issue for hospitality industry managers because of the constant drain that turnover places on their time and the resulting deterioration of service quality. In recent years line-level employee turnover in the U.S. lodging industry averaged over 60 percent annually.² The variance in service quality is often a function of an employee's time on the job. It is virtually impossible for newly hired employees to provide the same levels of service as those who have mastered their tasks. Employee retention has been shown to improve both guest satisfaction and organization profitability.³ While the benefits of employee retention are substantial, the costs associated with employee turnover are also considerable.⁴ The hard costs of turnover, such as newspaper advertisements, have a direct financial impact on the organization and are accounted for as expenses. Soft costs, such as lower productivity of exiting employees, do not show up directly on an income statement but almost certainly diminish profitability. Similarly, opportunity costs, such as missed sales, usually go unmeasured but again must reduce revenue.

Cornell professors William Wasmuth and Stanley Davis published what we believe is the first study examining the cost of employee turnover in the hospitality industry, a three-year study of voluntary employee turnover in five departments in each of 20 hotels located in North America and Europe.⁵ The five departments were accounting, engineering, food and beverage, front office, and housekeeping. Turnover averaged 60 percent overall, but it was disproportionately

² R.H. Woods, W. Heck, and M. Sciarini, *Turnover and Diversity in the Lodging Industry* (Washington, DC: American Hotel Foundation, 1998).

³ T. Simons and T.R. Hinkin, "The Impact of Turnover on Hotel Profits: A Test across Multiple Hotels," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 4 (August 2001), pp. 65-69.

⁴ T.R. Hinkin and J.B. Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 41, No. 3 (June 2000), pp. 14-21.

⁵ W.J. Wasmuth and S.W. Davis, "Managing Employee Turnover," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 24, No. 1 (May 1983), pp. 15-22.

above that average in food and beverage, front office, and housekeeping. Using a model adapted from Cascio, Wasmuth and Davis estimated that the average cost of replacing an hourly line employee was \$1,500, while that amount jumped to \$3,000 for a salaried staff member.⁶ In the late '80s a study estimated turnover costs to be about \$2,500 for an hourly employee.⁷ None of those estimates focused on specific positions, however.

We thought that it would be beneficial to develop a model that could accurately account for all of the costs associated with voluntary turnover for any individual position. The benefit of such a model for practicing managers is that they would have better information on which to make staffing, compensation, and training decisions. The benefit for us is that we could create a normative database for turnover rates, training practices, turnover costs, and a number of other human-resources-management practices.

Five Costs of Turnover

In 1999 we developed a software program that would allow us quickly and accurately to calculate the cost of turnover for any given position. We first developed comprehensive formulas and algorithms to complete a model that was both accurate and credible to practicing managers. Based primarily on the work of Cascio and Wasmuth and Davis, we developed an expanded model consisting of the following five cost categories: pre-departure, recruitment, selection, orientation and training, and productivity loss. Each category comprises several cost formulas that when combined provide a reasonable estimate of the total cost of turnover. Following is a brief description of each of the five categories.

Pre-departure

These are the costs that are incurred after an employee has given notice. One of the easiest pre-departure costs

⁶ Figures not adjusted for inflation. See: W.F. Cascio, *Costing Human Resources* (Boston: Kent Publishing, 1982); and Wasmuth & Davis pp. 15-22.

⁷ R.H. Woods and J. Maculay, "Costs for Turnover: Retention Plans That Work," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 30, No. 1 (May 1989), pp. 79-90.

to track—and one that provides important information regarding the causes of turnover—is the amount of time that is spent preparing for and conducting exit interviews. That time tally includes other administrative activities, such as administrative procedures associated with unemployment insurance, change-of-status processing, and similar human-resources requirements. We also include costs associated with severance packages in this category. By multiplying the hourly wage rates by the amount of time spent by various individuals in each of the activities, it is possible to generate a fairly accurate estimate of pre-departure costs. The same procedures can then be used for each of the other activities involved in replacing employees.

Recruiting

Once it is determined that an employee who is leaving will be replaced, the next step is to account for the costs of recruitment. Direct costs associated with promotional materials, advertising, and recruiting sources are typically expressed as an annual total. Thus, it is necessary to know how much is spent on an individual basis (e.g., annual expenditures divided by the total number of applicants). In addition, it is necessary to account for the administrative processing requirements involved with writing position announcements, reviewing résumés, and similar activities. Recruiting costs vary considerably by position. It may take a lot more effort and expense to create a pool of applicants for a general manager position than for a line cook. The quality of the available labor pool will affect recruiting expenses. For example, if no one qualified applies the search will have to be repeated.

Selection

After an acceptable applicant pool has been generated for a particular position, the next step is to identify the most suitable candidate. Since this process involves interviewing, background and reference checks, and travel expenses, selection can be one of the most expensive components of the replacement process. Once again, a weak applicant pool can drive up selection costs.

Orientation and Training

Although new employees typically possess many of the skills and abilities that are necessary to be successful, almost everyone requires training, if only to understand a particular company's procedures. The more complex the task, the greater the need for training. Many firms conduct extensive programs to orient new hires to the company, the department, and the job. Similar to the previous activities, the primary costs associated with orientation and training involve the time of those who are involved.

Productivity Loss

The final cost category, lost productivity, is perhaps the most difficult to assess and monitor. Turnover hurts productivity in four possible ways, beginning with the diminished productivity of an employee who will be departing. Regardless of their commitment, short timers are not likely to be as productive as employees who are continuing with the firm. Second, as we mentioned above, new employees experience a learning curve before they become proficient in their position. We want to emphasize that this learning curve is often longer than many practitioners acknowledge.⁸ Third, the productivity of existing employees, both peers and supervisors, is disrupted when they aid new employees—a process that is naturally a part of on-the-job training. Finally, the firm may experience opportunity costs associated with the vacancy, typically in the form of lost revenues or sales.

The Initial Study

Once we had developed the computer program based on the above considerations, the next step was to collect data. We conducted the initial study with four large full-service hotels, two in Miami that were operated by a large management firm, and two in New York that were owned by a major hotel corporation.⁹ We felt that observing two comparable hotels in each of two distinct markets would lend validity to our findings. We examined a number of positions, but for purposes of illustration we will focus this discussion on the front-office-associate position, for which we collected data at all four properties. We chose this position because the front-office staff in most full-service hotels is usually large, the tasks are fairly complex, and turnover is frequently high. Because of its high guest contact, this position is viewed as having a strong influence on guest satisfaction.¹⁰

To ensure that our data were accurate and reliable, we conducted 30-minute interviews with at least four front-office associates and a supervisor from each hotel. We asked each participant to estimate the time taken and cost for each of the categories described above. We then aggregated the responses to arrive at an average cost of turnover for that position. We found that the cost of turnover in Miami was

⁸ For example, the Occupational Information Network, a warehouse of information about jobs that is maintained by the U.S. Department of Labor, shows that the specific vocational-preparation score for a restaurant cook, which reflects the time it takes the average new employee to reach average levels of proficiency, ranges from three to two years, depending on the work context and other factors that may influence knowledge and skill acquisition (<http://online.onetcenter.org/link/summary/35-2014.00>).

⁹ See: Hinkin and Tracey, pp. 14-21.

¹⁰ M.D. Hartline, B.R. Wooldridge, and K.C. Jones, "Guest Perceptions of Hotel Quality: Determining which Employee Groups Count Most," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 44, No. 1 (February 2003), pp. 43-52.

The cost of turnover at the front desk came to one-third of salary, including direct costs and productivity loss.

\$5,700 at one hotel and \$6,000 in the other. In New York those figures were \$11,600 at one hotel and \$12,900 at the other. The difference in turnover expense between the two cities was primarily due to differential wages and benefits, which averaged around \$10.00 per hour in Miami and over \$20.00 per hour in New York. Computing an average annual salary based on these wages, we found that the cost of turnover was approximately 30 percent of the total salary. We found that we were able to compute the costs accurately, but the program and methodology were cumbersome. We decided that it would be useful to develop a web-based tool that could be used by practicing managers.

The Web-based Project

For the past two years we have been working on developing a web-based computer program that would allow users to compute costs associated with turnover in their own organization. The program is now available for use at no charge by visiting the Cornell University Center for Hospitality Research website, www.chr.cornell.edu, under “Tools for the Hospitality Industry.” The only requirement is that the user register by creating his or her own password (without revealing the identity of the property). The purpose of the web-based tool is two-fold. First, it is a tool that managers can use to calculate the costs of turnover for positions at their own property using their own data. They can then create “what if” scenarios to determine how much an increase or decrease in the turnover rate might affect the overall cost. For example, one could compute the costs with a turnover rate of 30 percent, 40 percent, and 50 percent, or one could assume different training expenses. Second, and perhaps more important, it will allow us to develop industry norms for turnover-related factors such as wages, training duration, recruiting practices, drug testing, orientation programs, and many other human-resources practices, in addition to finding the cost of turnover for a variety of positions, price points, and locations. During fall 2005 we began aggregating data from the first months of use. For the study explained below, we again focus on the front-office position. We were curious to find out the proportion of total turnover costs

that were incurred in each of the five categories described above. Twelve individual properties had completely filled in the data for this position—eight chain-affiliated hotels and four independent properties. Two each categorized themselves as luxury or upscale, seven as mid-market, and one as economy. The hotels were widely diverse, varying in size from 35 to 375 rooms, in average daily rate from \$61 to \$237, and in wages from \$7 per hour to \$15 per hour (average wage was \$10.10 for the departing employee). All were non-union. We found the following:

Cost Category	Range	Average
Predeparture	0%–9%	3%
Recruiting	3%–65%	20%
Selection	1%–31%	11%
Orientation and training	0%–28%	14%
Productivity loss	13%–76%	52%
Total	\$2,604–\$14,019	\$5,864

There was a .69 correlation between wage rates and overall turnover cost; in addition, wages were correlated at .68 with average daily rate (ADR). The properties with higher room rates paid their employees more, but, interestingly, there was no significant relationship between ADR and overall cost of turnover.

First, we were struck by how consistent the overall average was with our previous study. The average wage of \$10.10 in our web-based survey was similar to that of the Miami hotels we observed. Predeparture costs were the lowest of any category, with four of the twelve properties reporting that they did not account for this type of expense at all. Recruiting costs, in contrast, were substantial for most of the properties. Moreover, the variance for this expense was high (ranging from 3% to 65%), a range that may reflect differences in the competitiveness of the properties’ labor markets. Selection costs, with the second-lowest average cost, consisted primarily of interviewing and background checks. Perhaps most surprising was the relatively low percentage of funds spent on orientation and training, a finding that was consistent across the twelve properties. Because the

front-office position is an important and demanding job that requires a fairly high level of skill, we anticipated that the cost percentage for orientation and training would be higher than what we found. This finding suggests that far more attention should be given to investments in new-employee orientation and training than is currently the case. We think that a more thoughtful and carefully considered strategy for bringing new employees on board would reduce long-term turnover costs.

Finally, of greatest interest to us was the high percentage of costs associated with productivity losses. These losses stem from disruption of peers and supervisors, cost of errors, vacancy costs, and costs associated with the effects of the learning curve. These are the unstated costs of turnover that are often ignored or overlooked—and virtually never tallied. A closer examination of responses to this expense category showed that the average new employee was 58-percent proficient and took an average of ten days to attain proficiency. As noted above, the time taken to achieve proficiency may be substantially longer than this estimate suggests. Thus, this cost may actually be higher than the current results demonstrate. With respect to disruption, a manager would lose an average of 8 percent of her productivity for a period of 11 days. Supervisors would lose 13 percent of their productivity for six days, while a peer would lose 20 percent of his productivity for an average of 16 days. What this means is that when new employees are hired, they not only perform at a level below the former worker, but they also create turbulence that diminishes the performance of those around them.

A Case Study

Next, we applied the methodology in another setting to demonstrate how the tool and the concepts can be applied. A major hospitality organization, which recruits heavily at five target colleges, has recently developed a “fast track” leadership-development program for high-potential graduates. Recruiting begins in October with career fairs at each college. The company sends two representatives from its corporate office for two nights to give an informational presentation, in the process offering students snacks and beverages, brochures, and ancillary materials. The recruiters may also conduct some informal interviews while they are on campus. In February the company sends several corporate representatives to each school for three days to conduct forty to fifty 30-minute screening interviews. Once twelve to fifteen high-ability individuals have been identified at each college, they are given a psychological-profile test by a third-party human-resources specialist. The dozen or so students who succeed on this test are then invited to one of the company’s properties to join 30 to 40 other students from the four other universities for a three-day assessment center. This event is also attended by five or six corporate human-resources

managers and five or six operations managers (the managers’ salaries average \$60,000). Following the assessment center the corporate managers determine which of the students they wish to offer “fast track” positions. The firm typically makes offers to fewer than half of the students, and the yield rate is approximately 50 percent. Thus, the company hires 10 to 15 candidates out of the prospective leadership group. Assuming 12 graduates are hired, the following is our calculation of how much it cost to recruit and select each new hire.

Recruiting: Career fair	(\$3,200 X 5)	\$16,000
Selection: Screening interviews	(\$3,550 X 5)	\$17,750
Selection: Psychological Profile		\$ 2,500
Selection: Assessment Center	—Students	\$25,000
	—Managers	\$ 5,400
Operations and HR Overhead		\$13,800
<hr/>		
Total		\$88,450
Cost per 12 hires		\$6,704

Each of the students who is hired is offered a premium salary, a signing bonus, and moving costs—all of which can add another \$7,000 to \$10,000 per hire. The new hires then enter a specialized training program at their individual property. That means the costs for orientation and training may reach \$10,000 per hire (although the actual cost depends on the property and individual). Even though these are talented individuals, they are being groomed for complex tasks and the learning curve is relatively steep. Beyond the cost of hiring these leadership candidates, if the program loses one of them within the first six months of employment, the combined cost of the lost investment and an equivalent replacement candidate would mean a replacement cost of at least \$20,000. That eventuality is not a distant probability, given that turnover among this group has been approximately 25 percent in the two years since the program began. The most frequent reasons given for quitting were a bad relationship with the supervisor and lack of challenging work. In recognition of these concerns, the company is revising its training program and placing the new hires with hand-picked managers to ensure a smooth transition.

Seeking More Data

In developing the initial program and the subsequent web-based version, we have been able to build on the work of Cascio and Davis and Wasmuth to make an accurate computation of the costs associated with voluntary turnover, rather than merely estimate those costs. With that calculation, we have learned that the costs vary significantly from position to position and that high-skill positions incur the greatest costs. In several independent samples we found that for front-office staff the cost of turnover was approximately one-third of annual salary. This figure could be generalizable

Many hotels devote little money to orientation and training—feeding a vicious turnover cycle.

as a “rule of thumb,” and more research needs to be done to confirm this relationship. Although the cost of disruption when new employees join an organization is given little consideration, we learned that it is consistently high. Disruption of this kind would diminish service quality because it puts pressure on supervisory employees who must spend extra time completing their work. The problems of overworked employees and diminished service will be even worse if there is a high degree of employee “churning,” that is, rapid turnover before new hires gain competency. The same damage occurs if positions go unfilled for a considerable amount of time. In addition to the struggle of existing employees, there may also be substantial hard overtime costs.

We learned that recruiting and selection practices can be costly. As a consequence, companies need to ensure that new hires are appropriately socialized into the organization—the better to retain them. Our study showed that many hotels devote little money or attention to orientation and training. Indeed, the expectation of rapid turnover feeds this vicious cycle. Managers don’t want to invest in employees whom they expect to leave, with the result of reduced

service quality. We believe that if companies realized the costs incurred from turnover they might design compensation systems for managers that contained a component for employee retention. Overall, we hope that managers can begin to appreciate the “hidden” costs of employee turnover and work toward eliminating its causes.

At this time our study’s implications remain limited. While we feel confident with the front-desk samples, we have not yet been able to obtain a critical mass of data for many positions. Perhaps our web interface is too complex or lengthy for users, or we may be asking for information that is not easily available to the respondent. Visitors from over 1,000 properties have begun the calculations, but we have complete data for fewer than 100 positions. Over the next several months we will elicit feedback and suggestions from users to make the program more useful and user friendly. We are encouraged about the level of interest, however, and look forward to developing a database that will promote better understanding of human-resources practices in the hospitality industry. ■

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