# Contextual Factors and Cost Profiles Associated With Employee Turnover

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Employee turnover has long plagued the hospitality industry. In the lodging segment, turnover rates have been shown to average about 60 percent annually for line-level employees (Woods, Heck, and Sciarini 1998) and about 25 percent for managerial positions (Smith Travel Research, Tracey, and Tews 2002). This concern is even greater in other hospitality contexts, such as quick-service restaurants, where mean employee turnover runs in excess of 120 percent.[1]

Employee turnover has been and continues to be a particularly prolific area of research, with many publications on the topic. Evidence suggests that turnover is triggered by dissatisfaction with such factors as relationships with supervisors, job content, working conditions, and pay (Griffeth, Horn, and Gaertner 2000). While other factors may influence an individual's decision to leave, such as the competitive conditions of the local market, it is clear that management has direct control over many of the most important drivers of employee turnover.

The cost of employee turnover has received considerable attention. Efforts to develop cost-benefit and related models have been particularly helpful in identifying the economic impact of employee turnover (Cascio 2000; Sturman et al. 2003). In the hospitality industry, there are two primary financial implications of this ongoing problem. First, employee turnover may compromise the consistency and quality of customer service, directly damaging revenue and profitability. Employees who are planning on departing may not be motivated to perform at adequate levels, and it takes time for new staff to acquire the knowledge and skills necessary to be proficient in their essential duties and responsibilities. Variance in service quality is often a function of time on the job; it is virtually impossible for newly hired employees to provide the same levels of service as veterans who have mastered their tasks. Moreover, the stress created by short-timers and employees who have left may limit the remaining employees' ability to meet guest expectations and can create burnout, which further exacerbates and perpetuates the problem.

[1] www.morebusiness.com/running_your_business/management/d968034020.brc_August_30,_2006.

The second implication is that expenses typically increase as a result of employee turnover. The many direct and indirect costs associated with replacing staff can be sorted into hard costs, soft costs, and opportunity costs. Hard costs, such as newspaper advertisements, have a direct financial impact on the organization and are accounted for as expenses. Soft costs, such as the time it takes to interview applicants, will not show up on an income statement; but those costs arise, for example, when managers are distracted from other value-added activities. Opportunity costs, such as missed sales, usually go unmeasured altogether but can be substantial. Given that such costs may considerably diminish profitability (Simons and Hinkin 2001), it is imperative to effectively manage employee turnover.

Studying the ways in which firms spend money on replacing employees allows us to identify targets for change that may reduce the overall costs. The costs of turnover are heavily influenced by the ways in which firms allocate their resources to attract, develop, and retain employees. For example, if a firm does not invest wisely to recruit quality applicants, it may have to increase its expenditures on selection or training procedures. Likewise, failure to select high-caliber employees due to ineffective recruiting efforts may result in poor job and organization fit, which in turn increases turnover and the associated costs.

The purposes of this study are to analyze the costs of turnover and to examine the activities that relate to turnover. First, we will examine the costs of turnover across several job- and property-related variables. We will compare the total cost of turnover and five cost categories for the following: jobs with high complexity and those with low complexity, chain-affiliated properties and independent properties, properties with high room rates and those with low rates, properties with high occupancy and those with low occupancy, and properties with a relatively high number of rooms and those with relatively few rooms. Any differences that are found may provide insights regarding the nature and influences of turnover and help direct attention to specific areas of concern. Second, we compare the specific activities associated with replacing employees in properties with low total turnover costs and high total turnover costs. This particular area of inquiry will generate information regarding the HR policies and practices that may contribute most to the costs of employee turnover and, thus, offer prescription for mitigating the potential negative consequences of this important problem.

## The Costs of Turnover

Research has identified the following five major cost categories that contribute to the total cost of replacing an employee: predeparture, recruitment, selection, orientation and training, and lost productivity (for a more detailed discussion of these categories, see Hinkin and Tracey 2000, 2006).

*Predeparture*

These are the costs that are incurred once an employee has given notice. One of the easiest predeparture costs to track—and that which provides important information regarding the causes of turnover—is the amount of time that is spent preparing for and conducting exit interviews. This category also includes the time spent on other administrative activities, such as procedures associated with filing unemployment insurance (when applicable), change-of-status processing, and similar requirements. Finally, any costs associated with severance packages are part of predeparture expenses. By multiplying the hourly wage rates by the amount of time spent by various individuals involved in each of these activities, it is possible to generate a fairly accurate estimate of predeparture costs. The same procedures can then be used for each of the other activities involved in replacing employees.

*Recruitment*

When management decides to replace a departing employee, the next step is to account for the costs of recruitment. The 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 resumes, and similar activities. Recruiting costs vary considerably by position. Almost certainly it takes more effort and expense to create a pool of applicants for a general manager position than it does for a line cook. In addition, the quality of the labor pool will affect recruiting expenses (e.g., when labor markets are tight, costs will generally increase).

*Selection*

After an acceptable applicant pool has been generated, the next step is to identify the most suitable candidate (or candidates). Since this process involves several steps, selection can be one of the most expensive components of the replacement process. Interviewing, background and reference

checks, and travel expenses involve substantial hard and soft costs. Once again, a weak applicant pool can drive up selection costs.

*Orientation and Training*

Often new employees possess many of the skills and abilities that are necessary to be successful. However, almost everyone requires some sort of formal or informal training, if only to understand a particular company's procedures. Many firms conduct extensive programs to orient new employees to the company, their department, and their job. Similar to the previous activities, the primary costs associated with orientation and training comprise the time of those who are involved.

*Productivity Loss*

Productivity loss, the final cost category, has been shown to account for the largest percentage of the total costs, up to 70 percent in some cases (Hinkin and Tracey 2006). Perhaps the most difficult cost to *assess* and monitor, productivity can be lost in four ways, beginning with the diminished productivity of an employee who will be departing. First, 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, there is a learning curve for all jobs, and that time period is often longer than many practitioners acknowledge.[2] Productivity is lost as new employees develop proficiency during this period. Third, productivity is hurt by the disruption that occurs when new employees need assistance from peers and supervisors, whose own productivity is diminished. Finally, there may be opportunity costs associated with the vacancy, typically in the form of lost revenues or sales. It is also possible that losing a key salesperson to a competitor could hurt sales figures. In a previous study of twelve hotels, we found the turnover cost in various categories for front desk personnel (Hinkin and Tracey 2006; see Exhibit 49.1).

As noted above, recent research on the costs of turnover has focused on identifying the factors that account for the total costs of turnover (Hinkin and Tracey 2000), along with the implications of those costs for property performance (Simons and Hinkin 2001). However, it is unclear how much the costs of turnover vary as a function of job and property factors. It may be, for example, that the total cost of turnover and the cost categories (e.g., recruitment, selection, orientation) are higher for jobs

[2] 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, is more than three months and up 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).

that require higher levels of skills and abilities, compared to those which have fewer or less rigorous qualifications. In addition, the costs of turnover and associated different cost profiles may vary substantially—and may arguably be higher—for upscale and luxury properties compared to those in the midmarket, economy, or budget tier. Consequently, an examination of these and other factors may provide insights for understanding the implications of turnover for various types of hotels. Beyond that, it is important to identify which specific HR policies and practices may be associated with various employee turnover levels. For example, as noted above, exit interviews can provide important information regarding the causes of employee turnover. It is worth examining, then, whether failure to use exit interviews contributes to higher levels of employee turnover.

**Exhibit 49.1** Turnover Cost for Front Desk Personnel in 12 Hotels

| 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 |

## Studying Turnover Costs

Research on employee turnover has shown that a number of individual, organizational, and economic variables may influence an individual's decision to leave an organization (Mossholder, Sutton, and Henagan 2005; Mobley 1982; Lee et al. 2004; Morrell, Loan- Clarke, and Wilkinson 2001; Mowday, Porter, and Steers 1982). Most of the empirical work that has been published in the management literature has examined individual factors that correlate with turnover, notably job satisfaction, organizational commitment, and perceptions regarding the availability of employment options (Griffeth and Horn 2001). Surprisingly few turnover studies have been conducted in the hospitality industry. Those that have been conducted have examined the effect on turnover of individual characteristics or HR practices (for example, see Cho et al. 2006; Zivnuska et al. 2002; Milman and Ricci 2004). The study described here takes a broader view, by examining several characteristics associated with jobs and

hotels that may be associated with employee turnover. Our goal was to identify "hot spots" or critical areas of concern that will help managers and executives develop more effective means for managing turnover. Also, by comparing employee replacement policies and practices among hotels with high and low overall turnover costs, we may identify methods for reducing the overall costs of turnover.

*Job and Property Characteristics*

**Job Complexity:** Research has shown that an individual's satisfaction with job content is significantly related to intentions to leave and to actual quit rates (Griffeth, Horn, and Gaertner 2000). While it is important to account for employees' perceptions regarding the meaningfulness of and challenges associated with work, other job-specific factors may play a role in employee turnover and turnover costs. Specifically, we posit that high job complexity—defined in terms of the cognitive demands placed on individuals while performing their jobs and the consistency of task requirements over time—will increase turnover costs (Murphy 1989). High-complexity jobs, such as frontline positions that involve substantial discretion and managerial and professional positions, require individuals with comparatively high levels of knowledge, skill, and ability.[3] Consequently, the direct and indirect costs associated with finding and keeping high-skill employees should be higher than those for finding and keeping low-skilled individuals. For example, finding individuals for high-complexity positions may require expenditures on college recruiting and regional or national searches because the skill sets required to perform high-complexity jobs are held by comparatively few individuals (e.g., recruiter trips to college campuses, site visits for candidates to interview). In contrast, firms may spend substantially less (overall, and per applicant) to locate individuals for many types of line-level positions than for complex positions. In addition, the training costs for individuals in complex jobs are likely to be high due to the high labor costs involved, both in terms of salary and the long learning curve. Finally, the cost of lost productivity is substantial for high-complexity jobs due to the direct and strategic impact that turmoil in such jobs may have on the firm (Huselid, Beatty, and Becker 2005). So while overall turnover rates may be higher for lower complexity positions, the financial implications may be greater for more strategic, higher-complexity positions and, thus, pose a more serious threat to an organization.

**Chain Affiliation:** In addition to physical-asset requirements, hotel chains require that each affiliated property maintain certain amenity and service standards. To maintain their brand standards, chain hotels typically implement policies and programs that promote commitment among employees to deliver on the chain's service promises. Chain-affiliated properties pursue many means for enhancing

[3] Occupational Information Network (0*Net), http://online.onetcenter.org.

commitment, including offering formal development opportunities for professional growth and advancement, implementing performance- based reward and incentive programs, and providing flexible work schedules. Since one of the strongest correlates of employee turnover is organizational commitment (Mathieu and Zajac 1990; Tett and Meyer 1993; Finegold, Morhman, and Spreitzer 2002), and chain-affiliated hotel companies generally have well-developed infrastructures for supporting operational consistency and service quality (including those that may contribute to organizational commitment), it is likely that turnover costs will be lower in chain-affiliated properties than in independent properties. None of this is to say that independent hotels do not have standards of their own. We are noting that operating a chain-affiliated property has specific structures to enhance commitment that we just described that may be absent in an independent hotel.

**Room Rate:** Similar to the arguments regarding job complexity, the costs of finding and keeping employees at properties with high room rates should be higher than those of low-price hotels because employees at high-end hotels are required to deliver relatively high levels of service.

**Occupancy and Size:** Properties with high occupancy levels and those with more rooms should also have higher turnover costs than small hotels or those with low occupancy. Although there is some evidence that quit rates decline as firm size increases (due to greater opportunities and generally higher wages) (Ehrenberg and Smith 2003), larger properties and those with higher occupancy levels place greater demands on employees. There is more to know and more to do in a large, complex property. Demands of this kind may add stress, which results in lower employee commitment—a key driver of turnover. Therefore, we anticipate that the total turnover costs will be higher for high-complexity jobs and for properties that are chain-affiliated, more expensive, large, and have high occupancy rates.

## Replacement Practices and Turnover

As indicated above, researchers have found evidence that some of the policies and practices that firms use when replacing staff can mitigate turnover. For example, research in the strategic human resource management (HRM) literature has shown that "high-performance work systems," characterized, for example, by rigorous and validated selection procedures, policies for promotion from within, and incentive pay plans, are linked to lower turnover rates, higher profitability, and greater shareholder returns (Becker, Huselid, and Ulrich 2001). However, while there are certain advantages to examining "bundles" of HR practices (e.g., those that are important for creating and maintaining functional and strategic alignment), this approach does not provide an adequate level of precision regarding what practice has the greatest effect; nor does it offer a means of prescription because there

is no single best high-performance work system. The effectiveness and utility of the various policies and practices that may be embedded with such a system will vary, and thus, as Becker, Huselid, and Ulrich (2001, 19) wrote, "Each organization must customize its system to meet its own strengths and needs,"

We have seen few examinations of the link between specific HR practices and employee turnover, especially in the hospitality industry. A notable exception was a 2006 study by Cho et al. The results from this study showed that preemployment testing, incentive plans, and labor-management participation programs were related to lower employee turnover among line staff, but these policies had no effect for managerial turnover. Given the limited nature of the policies and practices that have been examined in relation to employee turnover, it is difficult to develop any firm propositions. However, the evidence from the broad strategic HRM literature (noted above) suggests that firms that adopt high-performance work systems generally invest considerably more resources in recruitment and selection and have a much more rigorous approach to training and development. In addition, the use of diagnostic measures to learn why turnover may be occurring, such as exit interviews, should also be associated with lower overall turnover costs. Thus, we predict that when comparing the HR policies and practices, those with overall lower costs will invest more in the following major cost categories: predeparture, recruitment, selection, and orientation and training.

*Methodology*

**Data Collection and Sample:** The data for this study were collected using a web-based turnover tool we developed (Tracey and Hinkin 2005). The tool, which was launched in summer 2005, was developed to provide a means for identifying each of the major turnover cost areas listed above. The respondents—primarily HR and operations managers—volunteered to provide data for at least one position at their property. We made no direct efforts to solicit respondents beyond publicizing the existence of the tool through the marketing efforts of the research sponsor, the Center for Hospitality Research at Cornell University's School of Hotel Administration.

Complete information from thirty-three properties located throughout the United States was used as an initial basis for examining the propositions described above. About half of the properties were independent *(n* = 14) and most were nonunion *(n* = 30). Nineteen had room rates in the midmarket range or below (per standards established by Smith Travel Research; see http://www.smithtravelresearch.com/SmithTravelResearch/misc/GlossaryAds.aspx). The average number of rooms was about 180 and ranged from 20 to 720. The mean occupancy was about 70 percent and ranged from 45 to 89 percent. Most of the positions were line-level jobs in the rooms and food and

beverage divisions *(n* = 28); the balance were for supervisory and administrative positions. All data were based on the 2005 calendar year. The appendix provides a more detailed list of the properties and positions.

**Analyses:** To examine whether any of the job- and property-based factors may be linked to differences in the turnover cost categories, we divided the sample using two procedures. The first was based on "natural" or categorical comparisons. For this, we compared the cost categories for chain-affiliated hotels to independent properties and high-rate (i.e., upscale and above) against low-average daily rate (ADR) properties (i.e., midmarket and below). We also used a median-split procedure to compare the costs of turnover for job complexity, number of rooms, and occupancy and a mean-split procedure to compare the activities associated with each of the cost categories for properties with low turnover costs and those with high total turnover costs.[4]

Comparisons were expressed in terms of percentages of the total turnover cost, primarily because this approach provides insight regarding the proportional contribution or relative weight of the various cost categories for each of the comparisons. A comparison of dollar amounts by category indicates the actual spending, but it does not indicate whether that amount is high or low in comparison to other line item costs. Thus, presenting a comparison of percentages as well as raw dollar amounts provides a more instructive assessment of the relative importance of the various cost categories for each of the comparisons that were made.

*Results*

**Job Complexity:** The first set of analyses examined differences in the primary cost categories for low-complexity jobs compared to high-complexity jobs. We classified job complexity using the U.S. Department of Labor's Occupational Information Network (O*Net), one of the most comprehensive sources of information about jobs. O*Net provides a "specific vocational preparation" (SVP) value for most jobs listed in the database. The SVP score represents the amount of time it takes the new employee to demonstrate average performance in the position in question. The lower the score, the less time it takes an individual to learn and acquire the necessary knowledge, skills, and abilities required to perform the basic job, and therefore, the lower the job's complexity. The SVP values for the jobs in our

[4] A median- or mean-split is a descriptive analytic procedure that divides a sample into two approximately equal subsamples. The result provides a basis for analyzing differences in the subsamples (e.g., mean comparisons using Wests, analyses of variance, etc.). Due to missing data, a mean-split procedure was used to examine differences in the specific replacement activities in lower versus higher total turnover cost contexts.

sample ranged from about 4.0 (i.e., up to six months of preparation required) to 8.0 (i.e., more than four years up to and including ten years of preparation required).

As expected, the higher the complexity, the higher the cost of turnover. The total mean cost of turnover for lower-complexity jobs was about $5,700, compared to almost $10,000 for higher-complexity jobs (a statistically significant difference at the .1 level).[5] However, when we examined the percentage of total turnover costs for each of the primary cost categories, we found some interesting and perhaps counterintuitive findings. For the complex jobs, costs were significantly higher for predeparture, recruiting, lost productivity, and total cost. Given those findings, one might expect that properties would spend a greater proportion of their total turnover costs in selecting individuals for high-complexity jobs than for low-complexity jobs. To the contrary, we found that selection costs as a percentage of total cost of turnover for low-complexity jobs in our sample were 25.8 percent, compared to 9.6 percent for high-complexity jobs. This percentage, based on a ratio of the number of applicants interviewed divided by the number hired, suggests that if the labor pool is poor for entry-level positions, managers spend a considerable amount of time attempting to identify acceptable candidates. When unemployment rates are low, there may be fewer qualified applicants for low-complexity jobs. Thus, firms may be required to spend more time searching through the applicant pool, reviewing applications, and conducting interviews to find suitable candidates. High turnover rates can exacerbate the situation. Even when the applicant pool seems large, it may be easier to differentiate qualified candidates for complex jobs than it is to sift through a large, homogeneous applicant pool to find qualified individuals for low-level positions. In either situation, the percentage of the cost of lost productivity as a percentage of total turnover costs is substantial. For low-complexity jobs it was 55.2 percent, compared to 67.6 percent for higher-complexity jobs. The differences may be due in part to time it takes to learn the essential tasks, duties, and responsibilities of a complex position, even when the education and skill level of the new employee is relatively high.

We should also note that the costs for new employee orientation and training were quite low for both complexity categories. Together this suggests that when a capable employee leaves, there is a significant loss in productivity, yet little is invested in training to attempt to reduce the lost productivity costs and overall turnover costs. These findings, in conjunction with those noted above, suggest that a

[5] All references to statistical significance in this report were based on an analysis of variance procedure that used the various job, property, and market-related factors as independent variables and the cost of turnover categories as the dependent variables. Since the sample size was relatively small, a conservative p-value of .10 (one-tailed) was used.

more rigorous approach to sourcing, selecting, and developing new staff may have substantial benefits and would help to reduce a firm's overall turnover costs. We will address this issue in more detail below.

Exhibit 49.2 lists the costs of turnover for job complexity among the major cost categories.

**Exhibit 49.2** Job Complexity

| | Complexity | N | Mean | Percentage of Total |
|---|---|---|---|---|
| Predeparture total[a] | Low | 20 | $202.92 | 3.4 |
| | High | 10 | $967.83 | 8.1 |
| Recruiting total[a] | Low | 15 | $559.53 | 7.0 |
| | High | 7 | $1,144.93 | 6.7 |
| Selection total | Low | 20 | $1,543.40 | 25.8 |
| | High | 8 | $1,427.28 | 9.6 |
| Orientation and training total | Low | 18 | $572.33 | 8.6 |
| | High | 11 | $861.69 | 8.0 |
| Productivity total[a] | Low | 20 | $3,297.51 | 55.2 |
| | High | 11 | $7,326.90 | 67.6 |
| Total turnover cost[a] | Low | 21 | $5,693.89 | |
| | High | 12 | $9,932.05 | |

*Note:* Percentages based on total costs (not mean costs).

a. Significant difference.

**Property Characteristics:** The next set of analyses compared the costs of turnover by chain affiliation, average daily room rates, occupancy, and number of rooms. The only statistically significant difference between independent and chain-affiliated properties was in predeparture costs, which were higher for independents. However, the mean costs also trended higher for independent properties on recruiting, lost productivity, and total cost (though not significantly so). Significant differences were found according to room rates on categories of selection, lost productivity, and total cost, with high-ADR properties showing much higher costs. Interestingly, the low-price properties saw higher percentages than did high-price properties on certain categories, in terms of the percentage of total costs (and in terms of the mean cost). Those were recruitment (11.4 percent for low-rate hotels, 4.0 percent for high-rate properties) and training and orientation (11.3 percent for low-rate properties, 6.3 percent for high-rate hotels). At the same time, lost productivity costs as a percentage of total costs were lower for the low-rate hotels (55.4 percent) than for the upscale properties (65.2 percent). This suggests it is more difficult for lower-price hotels to attract quality applicants, but the required tasks may be easier to learn.

We found no significant differences on turnover expenses or percentages with regard to occupancy levels, although higher-occupancy properties did show higher mean costs on all but the predeparture cost category. Larger properties experienced significantly higher costs for selection, lost productivity, and total cost. At the same time, the percentage spent by smaller properties was greater than that of larger properties (with regard to total costs) on recruitment (14.5 percent for small properties, 3.5 percent for large hotels) and orientation and training (10.4 percent for small hotels, 7.4 percent for large hotels). Then again, the lost productivity costs as a percentage of total for small hotels were substantively less (at 52.0 percent) than for large properties (65.4 percent). This is consistent with the finding with respect to hotel rates described above. Exhibits 49.3 through 49.6 present the results for comparisons based on the property characteristics noted above.

**Comparing Overall Turnover Costs:** The final set of analyses compared the specific activities and cost categories associated with hotels reporting high overall turnover costs with those having low overall costs. Of specific interest were the activities associated with low overall turnover costs. Similar to the approach used above, we used a mean-split procedure to divide the sample into approximately equal subsamples (i.e., half with high overall turnover costs, half with low costs). Examining the activities and outcomes associated with turnover for the two subsamples, we found several statistically significant differences. As expected, in the predeparture category, we found that the amount of time supervisors spent on prepping for and conducting exit interviews with departing employees was associated with lower overall costs. That is, the more time supervisors spent on these two predeparture activities, the lower the overall turnover costs. Recruitment activities, including the number of hires from print media, online postings, employee referrals, and career fairs and open houses, were all related to lower turnover costs. With respect to selection, the time supervisors and peers spent on interviewing prospective employees were also associated with lower overall turnover costs. Finally, looking at orientation and training activities, we found that the time spent by peers in training new employees appears to be linked with lower overall turnover costs. Exhibit 49.7 presents the specific results from this comparison.

**Exhibit 49.3** Chain Affiliation

| | Property Type | N | Mean | Percentage of Total |
|---|---|---|---|---|
| Predeparture total[a] | Independent | 13 | $788.22 | 9.6 |
| | Chain | 17 | $205.28 | 2.6 |
| Recruiting total | Independent | 7 | $799.32 | 5.3 |
| | Chain | 15 | $720.82 | 8.2 |
| Selection total | Independent | 12 | $1,338.64 | 15.1 |
| | Chain | 16 | $1,638.92 | 19.8 |
| Orientation and training total | Independent | 13 | $500.19 | 6.1 |
| | Chain | 16 | $829.81 | 10.0 |
| Productivity total | Independent | 13 | $5,243.33 | 63.9 |
| | Chain | 18 | $4,354.61 | 59.4 |
| Total turnover cost | Independent | 14 | $7,612.25 | |
| | Chain | 19 | $6,957.09 | |

*Note:* Percentages based on total costs (not mean costs).

a. Significant difference.

**Exhibit 49.4** Room Rates

| | Average Rates | N | Mean | Percentage of Total |
|---|---|---|---|---|
| Predeparture total | Midmarket and below | 19 | $478.84 | 9.8 |
| | Upscale and above | 11 | $421.69 | 3.2 |
| Recruiting total | Midmarket and below | 14 | $748.29 | 11.4 |
| | Upscale and above | 8 | $723.29 | 4.0 |
| Selection total[a] | Midmarket and below | 18 | $623.96 | 12.1 |
| | Upscale and above | 10 | $3,105.50 | 21.3 |
| Orientation and training total | Midmarket and below | 18 | $587.78 | 11.3 |
| | Upscale and above | 11 | $836.32 | 6.3 |
| Productivity total[a] | Midmarket and below | 19 | $2,715.82 | 55.4 |
| | Upscale and above | 12 | $7,912.14 | 65.2 |
| Total turnover cost[a] | Midmarket and below | 21 | $4,434.57 | |
| | Upscale and above | 12 | $12,135.85 | |

*Note:* Percentages based on total costs (not mean costs).

a. Significant difference.

**Exhibit 49.5** Occupancy

| | Occupancy | N | Mean | Percentage of Total |
|---|---|---|---|---|
| Predeparture total | Less than 70% | 11 | $572.90 | 8.2 |
| | 70% and higher | 19 | $391.30 | 4.6 |
| Recruiting total | Less than 70% | 7 | $496.50 | 4.5 |
| | 70% and higher | 15 | $862.13 | 8.0 |
| Selection total | Less than 70% | 11 | $1,171.78 | 16.7 |
| | 70% and higher | 17 | $1,729.22 | 18.2 |
| Orientation and training total | Less than 70% | 10 | $442.50 | 5.7 |
| | 70% and higher | 19 | $808.13 | 9.5 |
| Productivity total | Less than 70% | 11 | $4,538.07 | 64.9 |
| | 70% and higher | 20 | $4,831.37 | 59.7 |
| Total turnover cost | Less than 70% | 12 | $6,417.56 | |
| | 70% and higher | 20 | $7,702.16 | |

*Note:* Percentages based on total costs (not mean costs).

**Exhibit 49.6** Number of Rooms

| | Number of Rooms | N | Mean | Percentage of Total |
|---|---|---|---|---|
| Predeparture total | Less than 108 | 14 | $782.58 | 15.1 |
| | 108 and higher | 16 | $173.78 | 1.7 |
| Recruiting total | Less than 108 | 10 | $1,050.62 | 14.5 |
| | 108 and higher | 12 | $491.77 | 3.5 |
| Selection total[a] | Less than 108 | 12 | $482.82 | 8.0 |
| | 108 and higher | 16 | $2,280.78 | 22.0 |
| Orientation and training total | Less than 108 | 12 | $627.04 | 10.4 |
| | 108 and higher | 17 | $720.88 | 7.4 |
| Productivity total[a] | Less than 108 | 13 | $2,887.38 | 52.0 |
| | 108 and higher | 18 | $4,727.30 | 65.4 |
| Total turnover cost[a] | Less than 108 | 15 | $4,821.10 | |
| | 108 and higher | 18 | $9,246.64 | |

*Note:* Percentages based on total costs (not mean costs).

a. Significant difference.

**Exhibit 49.7** Line Item Comparisons

| | Overall Cost of Turnover | N | Amount |
|---|---|---|---|
| Predeparture | | | |
| Supervisor prep hours | Low | 7 | 0.57 |
| | High | 9 | 0.11 |
| Supervisor exit interview hours | Low | 8 | 0.94 |
| | High | 9 | 0.11 |
| Recruiting | | | |
| Print media hires | Low | 14 | 46.36 |
| | High | 9 | 6.67 |
| Online hires | Low | 4 | 19.25 |
| | High | 9 | 5.56 |
| Employee referral hires | Low | 5 | 7.20 |
| | High | 8 | 0.63 |
| Career fair/open house hires | Low | 5 | 29.00 |
| | High | 8 | 0.25 |
| Selection | | | |
| Number of supervisor interviews | Low | 9 | 2.78 |
| | High | 9 | 0.78 |
| Number of peer interviews | Low | 3 | 16.67 |
| | High | 8 | 0.00 |
| Orientation and training | | | |
| Peer training hours | Low | 13 | 28.46 |
| | High | 11 | 9.73 |

## Discussion

Similar to previous research findings, the cost of lost productivity was the highest among all of the cost categories, ranging from 47.1 to 67.6 percent of total turnover costs for this sample (Hinkin and Tracey 2006). Also consistent with previous research, we found that predeparture costs were generally the lowest (ranging from 1.7 to 15.1 percent of total costs). Focusing on statistically significant differences, it costs almost twice as much to replace an employee who is competent at a complex task than one who has mastered a simple task. Higher-end and larger properties have higher selection, lost productivity, and total turnover costs than do their lower-rate and smaller counterparts. The property-

size finding reinforces the results found with task complexity. As operations grow more sophisticated, properties larger, and tasks more complex, it simply becomes more expensive to replace productive employees—as much as $12,000 per employee. Most of the increased costs are composed of recruiting expenses and lost productivity, owing to the steep learning curve for complex operations (regardless of the skill and education level of the new employee). We found no statistically significant differences in turnover expenses based on chain affiliation or occupancy rates, although there were noticeable differences, as predicted in our propositions.

We are convinced that with a larger sample, several of these differences would be statistically significant. We did find statistically significant differences when comparing high- and low-turnover costs. Use of exit interviews, proactive recruitment practices, supervisor and peer interviews, and peer training were all more commonly used by hotels found in the low-turnover cost category. Clearly, investing in these sound human resources practices is effective in diminishing turnover costs.

Perhaps one of the most surprising findings of the study was the relatively low percentage spent on orientation and training, particularly when lost productivity costs were so high. One interesting point is that low overall turnover costs were associated with peer involvement in new employee training. It appears that companies focus much more money and attention on selecting employees than they do on providing training once they are hired. Perhaps if more money were invested in training, lost productivity costs could be substantially reduced.

## Conclusion

This study yielded several interesting results. Overall, we found that the cost of turnover is generally highest for complex jobs in large upscale hotels. However, the costs vary substantially for different property types. Even though that finding may seem intuitively logical, the costs can be considerable, in excess of $12,000 for positions such as front-desk associate, concierge, or restaurant supervisor. For midlevel and upper-level managers and sales staff, the costs would be even higher. We also learned that a disproportionately large percentage of the overall turnover costs are spent on selection for low-complexity jobs. What this means is that managers spend a great amount of time locating and hiring qualified entry level employees. As we discussed above, this is likely due to a poor quality applicant pool and high rates of turnover for those positions.

It is important to emphasize that the disruption associated with replacing employees has many negative consequences. As noted initially, turnover may pose a serious threat to service quality. Moreover, the demands placed on those who are directly involved in replacing employees may

exacerbate the problem. Frontline supervisors in particular may be required to spend additional, perhaps excessive time, working with new staff. Such a continual extra effort may jeopardize their own performance and drive them to seek other employment opportunities. Finally, if positions go unfilled for a considerable amount of time, there may also be substantial hard costs associated with overtime.

Recent examples in retail industries have shown the costs associated with employee turnover and the benefits of employee retention. For example, in March 2007, Circuit City laid off thirty-four hundred skilled employees because—at $10 to $11 per hour—they were deemed to be too highly paid. By May the company was losing business to competitors who had retained their experienced, trained employees.[6] In contrast, Costco pays its employees above-average wages and provides excellent benefits, resulting in employee productivity that outpaces the competition, turnover rates less than half of the industry average, and greater profits.[7]

Because employee turnover will continue to be a critical concern in the hospitality industry for the foreseeable future, understanding the nature and costs of employee turnover is important. We know that turnover reduces revenue and increases expenses. We also know that turnover can be reduced though positive relationships between managers and subordinates and by fitting the right person to the job. By understanding the costs of turnover and factors that may influence turnover, efforts can be taken to design and implement better policies and procedures for attracting, developing, and retaining quality employees. We hope that this study encourages industry practitioners to monitor their costs closely and use the information to manage human capital more effectively.

[6] http://www.washingtonpost.com/wp-dyn/content/article/2007/05/01/AR2007050101623.html.
[7] http://www.laborresearch.org/print.php?id=391; Wall Street Journal, March 26, 2004.

# Appendix: Property Characteristics

| Affiliation | Price Segment | Rooms | Occupancy | Property Type | Union Status | Location | Position |
|---|---|---|---|---|---|---|---|
| Independent | Midmarket | 100 | 70 | Timeshare | Nonunion | Suburban | Sales assistant |
| Independent | Luxury | 76 | 76 | Standard | Nonunion | Urban | Front-desk agent |
| Independent | Midmarket | 96 | 85 | Resort | Nonunion | Resort | Front-desk agent |
| Independent | Luxury | 20 | 85 | Standard | Nonunion | Urban | Front-desk agent |
| Independent | Midmarket | 20 | 85 | Standard | Nonunion | Suburban | Restaurant manager |
| Chain | Midmarket | 48 | 70 | Standard | Nonunion | Highway | Front-desk agent |
| Chain | Midmarket | 212 | 57 | Standard | Nonunion | Highway | Room attendant |
| Chain | Midmarket | 169 | 65 | Motel | Nonunion | Highway | Room attendant |
| Independent | Upscale | 161 | 58 | Resort | Nonunion | Suburban | Accounting assistant |
| Chain | Midmarket | 148 | 57 | Standard | Nonunion | Suburban | Front-desk agent |
| Chain | Upscale | 533 | 75 | Convention | Nonunion | Urban | Revenue manager |
| Independent | Midmarket | 20 | 70 | Resort | Nonunion | Resort | Receptionist |
| Independent | Economy | 35 | 50 | Motel | Nonunion | Suburban | Front-desk agent |
| Independent | Luxury | 300 | 45 | Resort | Nonunion | Resort | N/A |
| Chain | Luxury | 400 | 89 | Standard | Nonunion | Urban | Spa host |
| Chain | Upscale | 100 | 70 | Standard | Union | Highway | Sales assistant |
| Chain | Midmarket | 70 | 75 | Standard | Nonunion | Highway | Front-desk agent |
| Chain | Midmarket | 200 | 56 | All suite | Nonunion | Airport | Front-desk agent |
| Chain | Economy | 49 | 50 | Motel | Nonunion | Highway | Front-desk agent |
| Chain | Economy | 56 | 59.5 | Motel | Nonunion | Highway | Room attendant |
| Independent | Upscale | 481 | 88 | Timeshare | Nonunion | Resort | Front-desk agent |
| Chain | Midmarket | 115 | 87 | Motel | Nonunion | Resort | Front-desk agent |
| Chain | Midmarket | 105 | 83 | Motel | Nonunion | Resort | Night auditor |
| Chain | Midmarket | 92 | 85 | Motel | Nonunion | Resort | Room inspector |
| Independent | Luxury | 146 | 75 | Villa/condo | Nonunion | Resort | Front-desk agent |
| Chain | Midmarket | 104 | 85 | Standard | Nonunion | Highway | Front-desk agent |
| Chain | Luxury | 172 | 70 | Standard | Nonunion | Urban | Luggage attendant |
| Independent | Midmarket | 720 | 45 | Villa/Condo | Nonunion | Resort | Food server |
| Independent | Midmarket | 100 | 60 | Standard | Union | Urban | Administrative assistant |
| Chain | Midmarket | 90 | 74 | Standard | Nonunion | Suburban | Front-desk agent |
| Chain | Luxury | 537 | 78 | Standard | Union | Urban | Front-desk agent |
| Independent | Midmarket | 250 | 52 | Resort | Union | Resort | N/A |
| Chain | Upscale | 357 | 72 | Standard | Nonunion | Urban | Food server |

*Note:* Position indicates the title of the person who contributed data from the property in question. Nope; the position is NOT the title of the respondent; rather, this is the position for which we received the cost data.

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