

Cost of Employee Turnover - A Study Based on Critical Level of Employees of Five Star Hotels in Bangalore

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Abstract

The purpose of this study is to explore the cost of employee turnover based on the critical level of employees of five star hotels in Bangalore. Thirteen Five Star hotels of Bangalore city were approached for the purpose of the study, of which nine hotels co-operated and shared their information. The category-wise average turnover cost analysis of the various hotels reveals that the replacement hiring cost is high in the case of both highly critical level employees and low critical level employees. In the case of medium critical level employees the training new hire cost is the highest. The analysis also shows that across the table the separation cost and the loss of productivity is the least. The study also reveals that there is no significant difference in the cost of employee turnover based on the Critical Level of employees of Five Star Hotels in Bangalore. From the study we can conclude that irrespective of the critical level of employees the cost of employee turnover is a critical factor in the Human Capital Management of the Hospitality Industry. Hope this study would encourage hotel industry practitioners to monitor their costs closely, and use the information to manage human capital more effectively.

Key Words: Employee Turnover, Separation Processing Cost, Replacement Hiring Cost, Training New Hire Cost, Lost Productivity / Lost Business Cost

1. INTRODUCTION

Hotel Industry is one of the most important sources to support tourists and tourists require accommodation during their trip to any country. Taking into account the high competition, the hotel industry needs to expand in India. As human resource is the major issue in service process and in order to add more value to the service, most of the hotels established good training programs for their employees. Employee Turnover is one of the most important issues faced by the hospitality industry today. Researchers from all over the world have suggested that employee turnover is highest in the hospitality industry. Gautam (2005) in his study has shown that the average turnover level among non-management hotel employees in the US is about 50%, and about 25% for management staff. Estimates of average annual employee turnover range from around 60 to 300 percent.

In recent times it has been observed that out of the candidates who take up a career in hotel industry, a majority of them leave the industry within a year or two. This would definitely affect the cost of the labour by way of fresh recruitment, training, etc. Moreover, when there is frequent employee turnover, there is an impact on customer satisfaction and the erosion of talent would create a vacuum in the managerial spectrum which in turn would have an impact on the financial performance of the Hotel. Retention experts say hotels spend thousands of rupees every year for each new employee they must train to replace a seasoned worker who leaves.

The purpose of this study is to explore the cost of employee turnover based on the critical level of employees of five star hotels in Bangalore.

2. LITERATURE REVIEW:

2.1 The Cost of Employee Turnover in Hotel – An Overview

Employee turnover is a worrisome problem that has inundated the hospitality industry for many years. R.H. Woods, et al., (1998) in their study stated that in the lodging business, turnover rates have been shown to be about 60 percent annually for line-level employees. The study by J.B. Tracey and M.J. Tews (2002) mentioned that the turnover rates for managerial positions are about 25 percent. Another study mentioned in the morebusiness.com (2006) that this concern is even greater in other hospitality contexts such as quick-service restaurants where employee turnover is typically in excess of 120 percent.

2.2 Models on Cost of Employee Turnover

Flamholtz, (1985) in his study brought out several theoretical frameworks or models for understanding the financial implications of attrition. The following section looks at five separate industry models. [1] Let us discuss some of the models on cost of employee turnover:

2.2.1 Model One

Advantage Assessment, Inc. [2] provides a means of calculating turnover cost through their cost calculator. Their model uses the number of leavers, the annual salary for these leavers. In addition, information on hiring, including the number of applicants for each job opening and the number of employees interviewed per job opening, must be provided. Finally, the Advantage Assessment model also uses the total number of employees within the organization.

2.2.2 Model Two

Sorensen (1995) and Jones (1999) propose a similar model for calculating employee turnover costs. Their model includes three primary categories of expenses: (1) hiring costs, (2) training costs, (3) lost productivity costs. Several factors affect the amount employers spend on hiring. Hiring costs include advertising, in time and effort for reading applications, scheduling and conducting interviews, and post-employment hiring tasks. Training costs involve both orientation activities and training sessions. Sorensen (1995) also includes supervisory time spent in additional on-the-job training as a cost factor. Lost productivity is defined as the trainer's invested time in the leavers' increased procedural time.

2.2.3 Model Three

People Sense [3] provides a turnover cost calculator that incorporates the three primary categories of Model Two introduces vacancy costs as contributor to the cost of turnover. The People Sense model requires the amount the amount for the leaver's annual salary and benefits. Benefits are estimated at 25 percent of the leaver's annual salary. The number of employees in the organization must also be provided.

People Sense identifies several factors that contribute to recruiting and hiring costs, including advertising, employee referral fees, recruiter(s) fees, signing bonuses. In addition, the number of weeks the position is vacant and the number of candidates screened also contribute to the hiring costs. Training costs in this model are limited to the number of hours of formal training and the cost per hour of the trainer's time. In order to determine turnover costs due to learning curve requirements of the vacant position must be estimated. In addition to hiring, training, and learning curve costs, vacancy costs also contribute to the costs of turnover according to this model. Vacancy costs comprise the wages for substitute employees during the period the position is vacant.

2.2.4 Model Four

Cascio's model of turnover costs specifies four types of cost involved in turnover: (a) separation costs, (b) replacement or hiring costs, (c) training costs, (d) learning curve loss [7]

2.2.5 Model Five

Model Five is a comprehensive model for calculating employee turnover. Described by multiple sources, this model asserts that turnover cost calculations must include termination or separation costs, hiring costs, vacancy costs, learning curve loss, and training costs (Bliss; Fitz-enz, 1997; Pinkovitz, Moskal, and Green, 1997; Fitz-enz, 1998; Brown, 2000). While each source may not define the categories in precisely the same manner, all of the aforementioned sources do include these categories in calculating the cost of employee turnover.

3. OBJECTIVE OF THE STUDY

The objective of this study is to explore the cost of employee turnover based on the critical level of employees of five star hotels in Bangalore.

3.1 Definition of Critical Employee:

The employee is in a "key" role or position within the organization and also possesses knowledge/skills that are crucial and unique. In one circumstance, the unique skills and knowledge are critical to the success of the organization and are not found in other positions in that role. In yet another circumstance, the role is altogether unique and key to the organization, and has a significant influence on performance outcomes.

3.2 Hypothesis

H_1 = There is no significant difference in the cost of employee turnover based on the Critical Level of employees of Five Star Hotels in Bangalore.

3.3 Methodology

Thirteen Five Star hotels of Bangalore city were approached for the purpose of the study, of which nine hotels co-operated and shared their information. A questionnaire was used for collecting primary information about the number of Highly Critical level, Medium Critical level, and Low Critical level category employees who left during June 2010 –May 2011 as per the HR records. The questionnaire also contained questions relating to the separation processing cost, replacement hiring cost, training new hire cost and loss of productivity/ loss of business cost, etc. Using Cascio's Model of Employee Turnover with some modifications, cost of an employee turnover is assessed from each hotel. Also from the discussions had with the HR managers of various hotels, a conclusion was drawn to give weightage for the Low Critical Level, Medium Critical level and Highly Critical level employees. As such, a Low Critical level employee weighted as 1, Medium Critical level employees weighted as 2 and Highly Critical level employee weighted as 4. The present study considered both voluntary turnover and involuntary turnover of employees of five star hotels in Bangalore. The hotels were alphabetically coded for identity reasons as promised by the researcher to the hotel management.

4. DATA ANALYSIS AND INTERPRETATION

4.1 Reliability Test

A reliability test is conducted (using SPSS) to check the internal reliability of the data. Reliability is measured through reliability co-efficient. The reliability of the

George and Mallery (2003) provide the following rules of thumb: “ $> .9$ – Excellent, $> .8$ – Good, $> .7$ – Acceptable, $> .6$ – Questionable, $> .5$ – Poor, and $< .5$ – Unacceptable”, hence the alpha values derived for questionnaire of this study was considered highly reliable.

4.2 Employee Turnover Cost Analysis

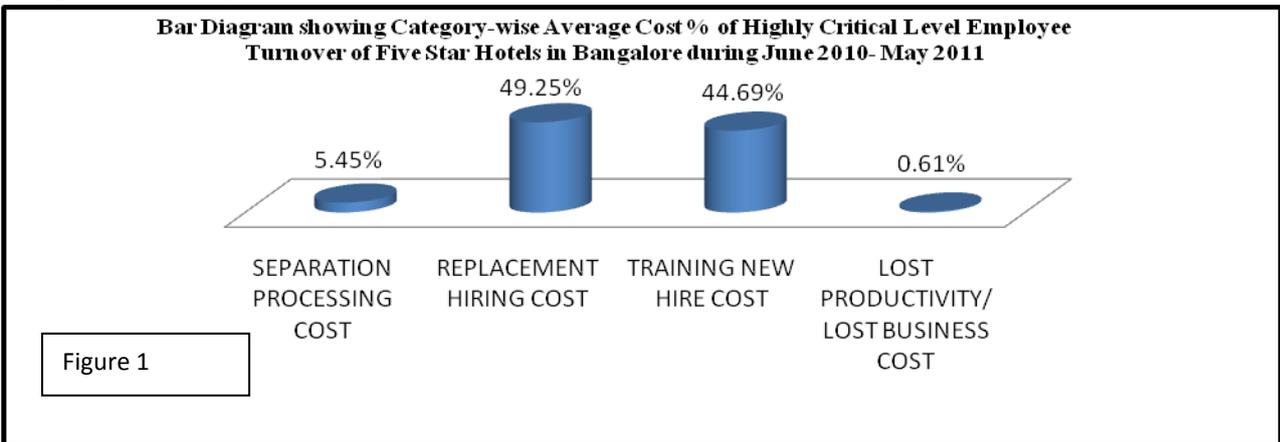
The following section discusses the employee turnover cost of the nine hotels surveyed based on the employee critical levels. Data collected from the hotels have been tabulated as separation processing cost, replacement hiring cost, training new hire cost, and loss of

scales used in the study was measured using Cronbach’s Alpha. It is a widely used measure of reliability [17]. Cronbach’s Alpha is a test of the consistency of responses to all the items in a measure. The test reveals that there is significant correlation regarding the turnover cost of the three levels of employees

Reliability Coefficients	3 items
Cronbach’s Alpha (α)	0.8188

The Bar diagram (Figure 1) shows category-wise average turnover cost percentage of highly critical level employees of five star hotels in Bangalore during June 2010- May 2011.

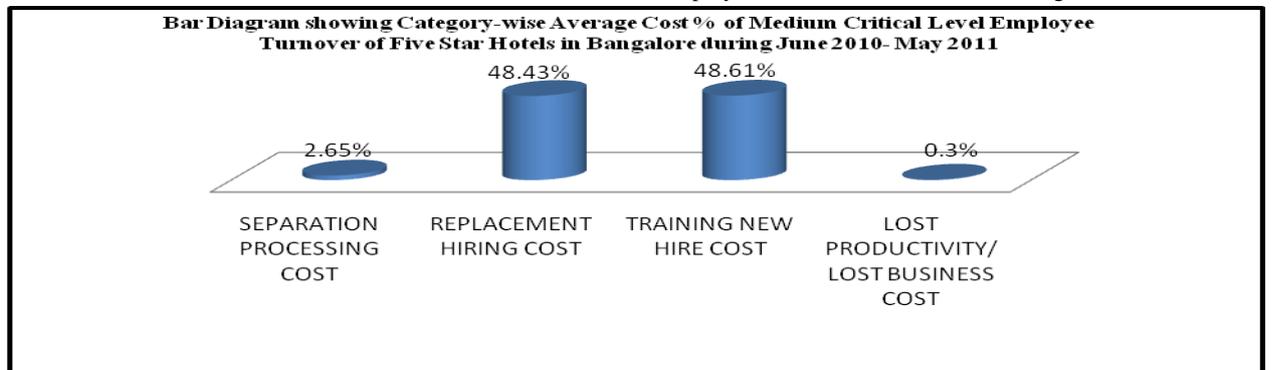
From the diagram, we can infer that the replacement hiring cost constitutes around 49.25% of the total employee turnover cost. The second highest element of employee turnover cost of highly critical level employees is the training new hire cost which constitutes 44.69% of



productivity/ loss of business cost, etc. Number of employees left based on their position level has been collected and tabulated to find the average employee turnover cost of each hotel. An average cost analysis on various elements of turnover cost of employees and analysis of cost per employee turnover of hotels in Bangalore is undertaken.

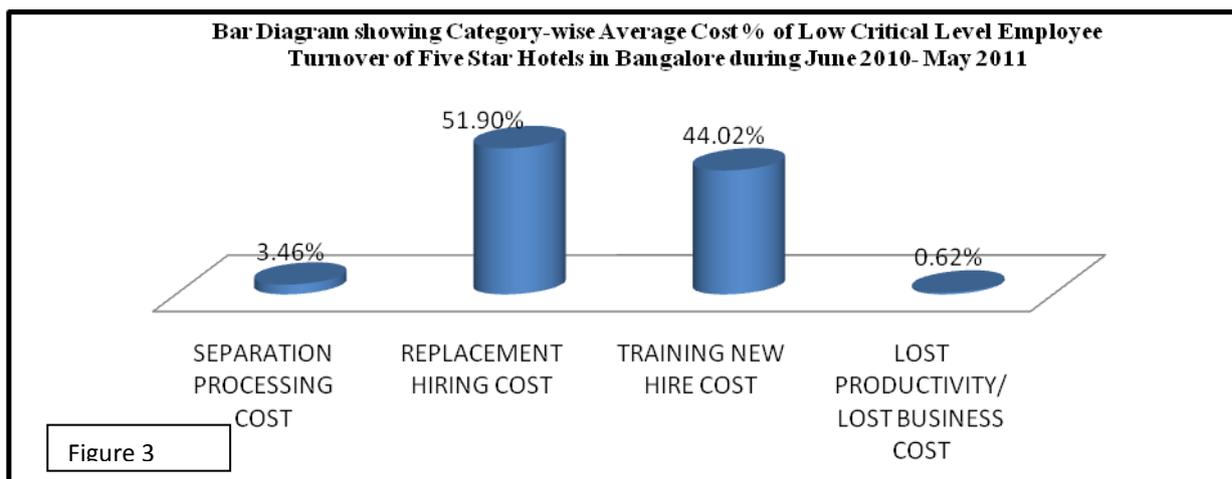
the total employee turnover cost.

The Bar diagram (Figure 2) shows the category-wise average turnover cost percentage of medium critical level employees of five star hotels in Bangalore during June 2010-May 2011. The bar diagram shows that the Training New Hire Cost is around 48.61% of the total employee turnover cost. The second highest element of



employee turnover cost of medium critical level employee is replacement hiring cost which constitutes 48.43% of the total employee turnover cost.

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The bar diagram (Figure 3) narrates the various elements of employee turnover cost of low critical level employees of various hotels surveyed. Here we can interpret that the replacement hiring cost of low critical level employee is the largest element of employee turnover cost. The bar

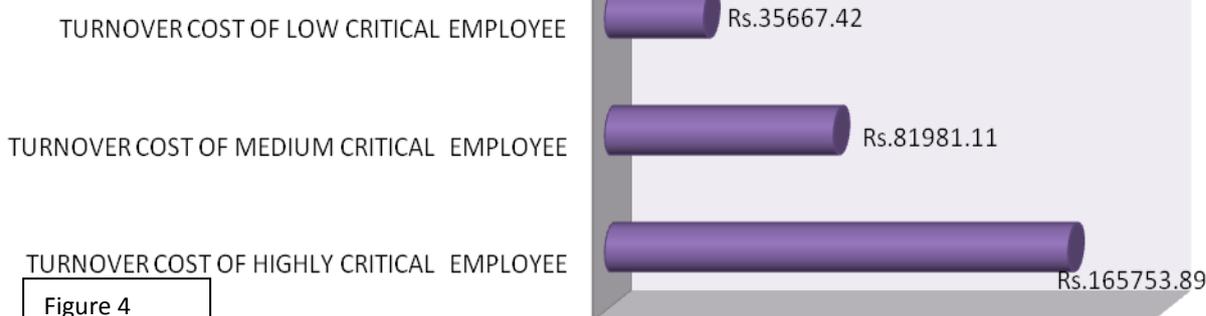
diagram reveals that this amount is around 51.90% of the total employee turnover cost. The second highest element of employee turnover cost of low critical level employee is the training new hire cost which constitutes 44.02% of the total employee turnover cost.

TABLE-1 - HOTEL-WISE EMPLOYEE CRITICAL LEVEL BASED TURNOVER COST IN FIVE STAR HOTELS IN BANGALORE (JUNE 2010- MAY 2011)			
HOTELS ↓ COST →	TURNOVER COST OF HIGHLY CRITICAL LEVEL EMPLOYEES (Rs.)	TURNOVER COST OF MEDIUM CRITICAL LEVEL EMPLOYEES (Rs.)	TURNOVER COST OF LOW CRITICAL LEVEL EMPLOYEES (Rs.)
HOTEL-A	39,92,940	19,52,104	17,52,457
HOTEL-B	51,72,888	8,83,176	4,41,588
HOTEL-C	40,74,624	22,63,680	11,31,840
HOTEL-D	19,60,000	15,40,000	25,90,000
HOTEL-E	18,71,792	13,67,848	26,05,160
HOTEL-F	2,51,82,360	98,33,112	28,18,026
HOTEL-G	5,74,900	5,17,410	4,88,665
HOTEL-H	43,42,800	62,04,000	20,68,000
HOTEL-I	20,56,600	13,44,700	66,48,700
Total	4,92,28,904	2,59,06,030	2,05,44,436
No. of Employee left	#297	#316	#576
Cost of turnover per employee	1,65,753.89	81,981.11	35,667.42

Table- 1 reveals that Hotel-F has highest cost of employee turnover (Rs. 2,51,82,360) in case of highly critical level employees and Hotel- B has the second highest employee turnover cost of highly critical level employee (Rs. 51,72,888). Hotel- G recorded the least cost of employee turnover (Rs. 574900) regarding the highly critical level employee category. Similarly, Hotel-F recorded the high cost of employee turnover in the case of medium critical

level employee (Rs. 98,33,112) and Hotel-H recorded the second highest employee turnover cost of medium critical level employee (Rs. 62,04,000). Hotel- G recorded the least cost of employee turnover (Rs. 5,17,410) regarding the medium critical level employee category. In the case of low critical level employees Hotel- F recorded the highest Rs. 28,18,026 as the cost of employee turnover. Hotel -B recorded the least cost of employee turnover (Rs. 4,41,588) in the case of lower level employees

Critical Level Based Cost of Turnover of an Employee in Five Star Hotels in Bangalore during June 2010 - May 2011



From the figure 4 we can interpret that the turnover cost of a Low Critical employee is Rs. 35,667.42/-, the turnover cost of a Medium Critical employee is Rs. 81,981.11/-, and the turnover cost of a Highly Critical employee is Rs. 1,65,753.89/-

4.3 Test of Hypothesis

H₁ = There is no significant difference in the cost of employee turnover based on the critical level of employees of Five Star Hotels in Bangalore.

In order to test the hypothesis regarding the cost of employee turnover based on Critical Level a one-way ANOVA (Analysis of Variance) test has been adopted.

ANOVA is used to compare the means of more than two populations. The F-statistics obtained from ANOVA only tells whether there is any significant difference in the mean values of the different groups. In case of more than two levels, F-statistic does not tell us the exact way in which the dependent variable differs by the levels of factor(s). To gain a deeper understanding of the subject a multiple comparison can be done using Post Hoc Test (Tukey's Honestly Significant Difference [HSD]). Normally post hoc test is initiated when the mean difference is statistically significant.

One-way- ANOVA Output on Critical level turnover cost of employees

Table 2 Descriptives- Critical level based turnover cost of employees

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Highly Critical	9	54,69,878.22	75,41,098.037	25,13,699.346	-3,26,722.86	112,66,479.31	5,74,900	251,82,360
Medium Critical	9	28,78,447.78	30,95,239.278	10,31,746.426	4,99,236.25	52,57,659.30	5,17,410	9833112
Low Critical	9	22,82,715.11	18,64,367.557	6,21,455.852	8,49,635.35	37,15,794.88	4,41,588	6648700
Total	27	35,43,680.37	48,48,003.201	9,32,998.651	16,25,874.18	54,61,486.56	4,41,588	251,82,360

Table 3 ANOVA-Critical level based turnover cost of employees

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	5,16,85,25,35,66,064.200	2	2,58,42,62,67,83,032.140	1.109	.346
Within Groups	55,93,96,25,74,20,550.000	24	2,33,08,17,73,92,522.910		
Total	61,10,81,51,09,86,614.000	26			

The ANOVA table (Table 3) reveals that the between-group mean square is 2,58,42,62,67,83,032.140 (5,16,85,25,35,66,064.200/ 2), and the within-group mean square is 233,08,17,73,92,522.910 (55,93,96,25,74,20,550.000/ 24). The F-ratio is 1.109 (2,58,42,62,67,83,032.140/2,33,08,17,73,92,522.910), and the p-value (.346) > .05. Since the P (Sig.) value is more than 0.05, we can accept the hypothesis. Hence, we conclude that there is no significant difference in the cost

of employee turnover based on the critical level of employees of Five Star Hotels in Karnataka.

Post Hoc Tests: In this case the p-value is 0.346 (which is above the significance level of 0.05). However, for more precision a post hoc test is undertaken.

Post Hoc Test (Tukey HSD) Output on Critical level based turnover cost of employees

Table 4 Multiple Comparisons-Dependent Variable: Critical level based turnover cost of employees

		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
(I) Critical level of employees of hotels	(J) Critical level of employees of hotels				Lower Bound	Upper Bound
Highly Critical	Medium Critical	25,91,430.44	22,75,872.355	.500	-30,92,076.27	82,74,937.16
	Low Critical	31,87,163.11	22,75,872.355	.357	-24,96,343.61	88,70,669.83
Medium Critical	Highly Critical	-25,91,430.44	22,75,872.355	.500	-82,74,937.16	30,92,076.27
	Low Critical	5,95,732.67	22,75,872.355	.963	-50,87,774.05	62,79,239.39
Low Critical	Highly Critical	-31,87,163.11	22,75,872.355	.357	-88,70,669.83	24,96,343.61
	Medium Critical	-5,95,732.67	22,75,872.355	.963	-62,79,239.39	50,87,774.05

A Post-hoc test (Table-4) using Tukey’s HSD (Honestly Significant Difference) is done, whereas 95% confidence interval is constructed for each difference. If this interval contains zero, the various groups do not differ. The Post-hoc tests (Tukey’s HSD) reveal that all of the intervals contain zero, hence the mean cost of employee turnover based on critical level of all the nine hotels is significantly not different. Also the Sig. value is more than 0.05, hence the mean cost of employee turnover based on critical level of all the nine hotels is significant not different.

5. CONCLUSION

The purpose of this study is to explore the cost of employee turnover based on the critical level of employees of five star hotels in Bangalore. The category-wise average turnover cost analysis of the various hotels reveals that the replacement hiring cost is high in the case of both highly critical level employees and low critical level employees. In the case of medium critical level employees the training new hire cost is the highest. The analysis also shows that across the table the separation cost and the loss of productivity is the least. The study also reveals that there is no significant difference in the cost of employee turnover based on the

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Critical Level of employees of Five Star Hotels in Bangalore. Employee turnover will continue to be a serious concern in the hospitality industry for the foreseeable future. In order to thrive in the competitive hotel environment, it is imperative to understand the nature and consequences of employee turnover at various critical levels. 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. Hope this study would encourage hotel industry practitioners to monitor their employee turnover costs closely, and use the information to manage human capital more effectively.

6. FURTHER RESEARCH

This study was limited to only Five Star Hotels in Bangalore which are functional before 2009-10. Future study can be made in relation to other star category hotels also. Also research can be extended to find department-wise cost of employee turnover in hotels. The current study has taken into account only the cost of employee turnover based on the critical level of employees in five star hotels in Bangalore.

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