Chapter-3

Review of Literature and Related Concepts
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3.0. Introduction

The objective of this chapter is to provide a comprehensive review of literature on the cost of employee turnover, reasons for employees to stay on the job, reasons for employees to leave the job, employee preferred monetary benefits and non-monetary benefits, and employee preferred retention strategies. This chapter examines the extent to which the national and international literature addressed on the above aspects.

3.1. Sources of Literature Search

An extensive search of the international and national literature was conducted. A computer search was conducted using various databases such as EBSCO, CRISIL, DELNET, INFLIBNET, EMERALD, NDLTD and other related databases.

An online catalogue search was conducted to access the published literature. Keywords that were used to search databases included employee satisfaction, employee turnover, attrition, employee retention, monetary rewards, non-monetary rewards, employee turnover cost, position level, performance level, critical level, hotel industry, hospitality industry, etc.

Researcher also visited the library of IIM- Bangalore, Institute of Hotel Management-Bangalore, Indian Institute of Science (Department of Management Studies) and other top ranked Management Institutes of Bangalore to get previous literature about the topic of the study. A search was also done by referring various books published relating to the topic of the study.
3.2. Selected Literature Review

3.2.1. Revenue and Cost Structure of Hotels

Hotel revenues may be classified under three broad headers, namely - room revenues, food & beverages (F&B) revenues and other revenues. Room revenues are a direct function of Average Room Rates (ARRs) and Occupancy Ratios (ORs), while F&B revenues comprise of revenues from restaurants and banquets/conventions. Other revenues largely consist of income from ancillary services provided by the hotel such as telecommunication, laundry and transport. In terms of costs, employee cost is the one of the largest cost components for hotel companies.

3.2.1.1. Revenue Structure

Figure: 3.1. Percentage breakup of revenue sources of hotels in India

(Source: CRISIL Research)

Hotel revenues can be broadly classified under three headers; namely, room revenues, Food and Beverage (F&B) revenues and other revenues.
Room revenues

Revenues from rooms generally constitute about 50-55 per cent of total hotel revenues. The average operating margin for room revenues is in the range of 65-75 per cent.

F&B revenues

F&B revenues include revenues from restaurants and banquets. The share of F&B revenues in overall hotel revenues is usually in the range of 30-35 per cent. However, some hotels either by virtue of location or brand image of their restaurants have higher F&B revenues which may account for above 50 per cent of overall hotel revenues. Average operating margins for F&B revenues are in the range from 40-60 per cent.

Other Revenues

Other revenues contribute to about 10-15 per cent of overall revenues for a hotel.

3.2.1.2. Cost structure

![Percentage breakup of costs of hotels in India](Source: CRISIL Research)

Employee costs are one of the largest cost components for hotels and account for about 25-35 per cent of total operating costs. As a result, hotels have large fixed costs and marginal costs per additional guests are relatively low. For example, with regard to room revenues, hotels
incur high fixed costs in the form of employee salaries for reservations and housekeeping staff. As these costs remain largely at the same levels at higher occupancy levels the marginal cost per extra guest is extremely low. This highlights the importance of maintaining high Occupancy Ratios for hotels.

The situation is similar in the F&B department, where kitchen equipment and employee salaries account for the bulk of the cost. During times of "good business", where hotel restaurants enjoy a large number of guests, the marginal cost per additional guest is extremely low.

Other operating costs which include repairs and maintenance, travelling expenses and other expenses form approximately 45-55 per cent of the total operating costs.

Selling costs account for 5-10 per cent of total operating costs. These include advertising expenses and marketing expenses. Power and fuel cost account for 10-12 per cent of total operating costs.

### 3.3. Employee Turnover-An Overview

The hotel industry is experiencing high labour turnover worldwide. The changing demographic and socio-psychographic norms are affecting the labour segment. Gustafson (2002), in his study “Employee Turnover: a study of private clubs in USA. International” examined annual turnover rates in private clubs and the reasons that employees left their jobs, as perceived by management. Members of the Club Managers Association of America were randomly selected and surveyed. The analysis compared turnover and managers’ perceptions of reasons for turnover with: manager’s years of experience in current position; years of experience in the industry; club type; club size; and whether or not the manager had a hospitality management degree. The study concludes that it
is crucial for team managers to develop a team environment in the workplace to increase club loyalty, ultimately reducing employee turnover. The study also highlights factors within a manager’s control which are strongly limited to employee turnover in private clubs. The study reveals that loyalty to one employer is no longer the status quo. Though it may look very simple to recruit and train a talented and highly motivated employee, but it is very difficult to retain them. According to him, high industry turnover rates, increasing costs and the right labour market make employee turnover the major hindrance to the hospitality industry.

3.4. Elements of Employee Turnover Cost

Schuler and Jackson, (1987)\textsuperscript{2}, mentioned in their study, “Linking competitive strategies with human resource management practice,” that there is an important link between labour turnover and organisational transaction ‘costs’. The attacks on U.S. firms for failing to keep costs down, not maintaining quality, and ignoring innovation are misdirected, given what many firms are doing. Increasingly, these firms are pursuing competitive strategies aimed at cost reduction, quality improvement, and innovation. The goal here is to gain competitive advantage, both domestically and internationally. While the need to match the qualities of top management with the nature of the business has been widely recognized, there has been much less recognition given to the need to manage all employees in the organization with the nature of the business. The authors describe the impact of competitive strategies on all employees by means of a framework that links human resource management (HRM) practices with competitive strategies. They provide examples of the hypothesized relationships among competitive strategies, needed employee role behaviors, and HRM practices, and examine implementation issues.
Schuler, (1989)\(^3\) in his study, “Strategic human resource management,” brought out the ways of integrating frameworks of competitive strategy and human resource management practices using the rationale of needed employee role behaviors and cost and market conditions. This is then merged with business life-cycles stages creating a contingency framework for understanding the impact of strategic human resource management on industrial relations. This is done also using the rationale of cost and market conditions and needed employee role behaviors. The integrated competitive strategy-human resource management model is extended by inclusion of strategic targets and industry chain. The implications for industrial relations are laced throughout the discussion along with three sets of propositions. Implications for employers, employees, unions, and government are presented in the summary and conclusions. Here, the dynamic and proactive role of employers is placed into perspective.

Deery and Iverson, (1994)\(^4\) in their study, “Predicting organizational and union commitment: The effect of industrial relations climate,” shows that employees can be committed simultaneously to both their union and their company. Moreover, a co-operative industrial relations climate has been seen to be conducive to the existence of higher levels of commitment to both organizations. This study utilized a sample of white-collar unionists in Australia to identify whether union and company commitment could be predicted by the same factors and whether positive perceptions of the industrial relations climate were related to dual commitment. The research found no evidence of dual commitment. Furthermore, company and union commitment were predicted by different factors, and employee perceptions of a co-operative industrial relations climate were associated with higher employee commitment to the company but lower commitment to the union. The study mentioned about the intangible
transaction ‘costs’ of labour turnover associated with organizational behaviour and related ‘hygiene factors’ such as work routinisation, role conflict, poor job satisfaction, low morale, poor commitment, corrosive supervision/leadership and lack of career development that impact on employee productivity and service quality.

Lashley and Chaplain, (1999)⁵ in their study, “Labour turnover: Hidden problem – Hidden costs,” stated that labour turnover is not only a significant tangible dollar cost but also an intangible or ‘hidden’ cost associated with loss of skills and efficiency and replacement costs. In another study he also mentioned about the lost investment in training and lost staff expertise as particular examples of turnover costs and opportunity costs. The study also shows that replacement costs were between £735 and £5,008 in 1996-7.

T. Hinkin and B. Tracey, (2000)⁶ in their study, “The cost of turnover: Putting a price on the learning curve”, using past studies as a starting point, developed a computer program for assessing the cost of employee turnover. The program consists of a number of algorithms to calculate total turnover costs including not only the direct costs, such as advertising, signing bonuses and formal training, but also indirect costs, such as reduced productivity of new hires and disruption to the work effort of existing employees. Different jobs and differing labor rates create substantial variance in turnover costs; the results of the study, however, showed costs to be higher than estimates found in previous studies. The study revealed that the cost of losing one line-level employee is estimated at between $1,300 and $7,600 while the cost of managerial-level turnover is argued to be equivalent to the individual’s annual base salary.

M.C. Sturman, C.O. Trevor, J.W. Boudreau, and B.Gerhart, (2003)⁷ in their study, “Is It Worth It to Win the Talent War? Evaluating the Utility of Performance-Based Pay”, found out that turnover costs may include wasted efforts in hiring and training and the
additional time required by remaining staff to cover shifts. The authors demonstrate how, through integrating turnover and compensation research, the Boudreau and Berger (1985) staffing utility framework can be used by I-O (Industrial –Organisational) psychologists and other HR professionals to address this issue of ‘winning the talent war’. Employing a step-by-step process that combines organization-specific information about pay and performance with research on the pay-turnover linkage, the authors estimate the effects of incentive pay on employee separation patterns at various performance levels. They then use the utility framework to evaluate the financial consequences of incentive pay as an employee retention vehicle. The demonstration illustrates the limitations of standard accounting and behavioral cost-based approaches and the importance of considering both the costs and benefits associated with pay-for-performance plans. Their results suggest that traditional accounting or behavioral cost-based approaches, used alone, would have supported rejecting a potentially lucrative pay-for-performance investment. In addition, their approach should enable HR professionals to use research findings and their own data to estimate the retention patterns and subsequent financial consequences of their existing, and potential, company-specific performance-based pay policies.

Aksu, (2004)\textsuperscript{8}, in his study “\textit{Turnover costs: Research among five-star hotels in the city of Antalya, Turkey}”, revealed that the severance and leave compensation alone represented the largest constituent part of turnover cost. The study states that due to high personnel–customer interaction, turnover has special importance in the hospitality industry. The study brings out the following aspects of employee turnover: satisfied, motivated personnel comprise a major factor for successful competition among hotels; neither high nor low turnover rates are useful for hotels. The study advises each hotel to determine its tolerable turnover rates and costs and
cautions that high personnel turnover has disadvantages for hotels and personnel. In the hospitality industry, personnel turnover is generally high by comparison with other industries and has adverse effects on the morale, motivation, and job satisfaction of personnel. There are two types of personnel turnover: voluntary and involuntary.

**Hinkin and Tracey (2006)**, in their study, “Development and use of a web–based tool to measure the costs of employee turnover: Preliminary findings”, states that labour turnover is the voluntary or involuntary exiting of staff and labour, and is a direct cost to the organisation involving recruiting (including advertising), training, induction, growth and skill development and quality. The study estimate the cost of turnover, the web-based tool described in this study 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.

**Hinkin and Tracey, (2008)**, in their study, “Contextual factors and cost profiles associated with employee turnover”, stated that the costs of turnover vary based on complexity of the jobs, experiences, qualifications, and property types. They gathered data
from thirty-three U.S. hotels and found that the costs of turnover were generally higher for (1) high-complexity jobs; (2) independent properties; (3) high—average daily rate (ADR) properties; (4) large properties; and (5) high-occupancy properties. The authors also identified several activities associated with recruitment, selection, and training that were linked to lower overall costs of turnover. The study reveals that in American hotels, pre-departure costs, ranging from 1.7% to 15.1%, were generally low. In contrast, lost productivity was found to account for 47.1% to 67.6% of the total turnover cost in the US, but was relatively low in Turkey [Aksu, (2004); Hinkin and Tracey, (2008)]. According to Hinkin and Tracey, (2008), lost productivity resulted from staff turnover may account for more than two-thirds of the total turnover cost. Although the turnover rate of managerial employees is expected to be lower than that of operational staff, the cost of replacing them is much higher.

3.4.1. The Average Cost of Employee Turnover

Woods, R.H., Sciarini, M., and Heck, W (1998), in their book, “Turnover and Diversity in the Hospitality Industry”, aimed to measure turnover and diversity in the lodging industry. The impetus for this study rest in the increasing cost of turnover coupled with a tight labor market. As for diversity, this study offers a snapshot of the “state of diversity” in the lodging industry. Findings from this study can be used as a benchmark for individual properties to measure diversity initiatives. Additionally, findings from this study represent a movement toward greater consensus in calculating turnover. A total of 2,048 properties responded to the survey. The study reveals that the cost of turnover could cost a firm, between $3,000 and $10,000 for an hourly employee, and around $50,000 for a managerial employee.

Bernstein, A. (1998)11 in his study, “We want you to stay, Really”, estimated that the replacement costs alone, are over $10,000 for about half of all jobs and approximately
$30,000 for all jobs. These estimates highlight the considerable costs that can be associated with turnover.

Cascio (2000) in his study on Health Care Industry calculated that the cost of replacing 288 employees per year (in a hospital with 200 beds employing 1200 persons with a turnover rate of 2% per month) was $2,888,295.52 when all sources of costs were analyzed.

A study by Employment Policy Foundation of America on Employee Turnover–A Critical Human Resource Benchmark (2002) stated that turnover rates, which include voluntary quits and retirements, vary significantly by industry. The private-sector average, for the twelve months ending August 2002, was 25.1 percent. Industries above the average include leisure and hospitality (46.4 percent), retail trade (33.2 percent), and construction (28.2 percent). All other industries were below the average, with the lowest rates in manufacturing (16.5) and transportation (18.2 percent). The study reveals that turnover costs average 25 percent of an employee’s annual salary. Across industries, different average salary levels cause turnover costs to vary. The information industry has the highest average turnover cost at $18,615. Also above the private-sector average of $13,355 were financial activities ($17,315), professional business services ($14,975), construction ($13,935) and manufacturing ($13,880). The leisure and hospitality industry had the lowest average turnover costs ($6,495). The trade and transportation industry was next lowest ($11,820) followed by other services ($11,975) and education ($13,020). For large companies, differences in turnover rates can make large differences in costs. For a firm with 40,000 full-time employees, the difference between a 15- percent turnover rate and a 25-percent turnover rate is over $50 million annually. The difference between a 15-percent turnover rate and a 40-percent turnover rate is over $130 million annually.
Batt et al. (2005) in their study, “The Indian Call Centre Industry: National Benchmarking Report Strategy, HR Practices, & Performance,” reveals that, managers estimated that the costs to recruit, screen, and train each new employee averaged over Rs.26,000, excluding the costs of lost productivity of new employees. The study also shows that turnover averages almost 30 percent, according to the reports of managers in this study. Absenteeism averages 5.6 percent in international centres and 8.6 percent in domestic centres. Poaching is common among international centres, with managers reporting that almost 40 percent of their current workforce came from other call centres.

According to studies published by the Carey School of Business at Arizona State University, increasing worker wages is one way to prevent turnover. The research indicated that when workers were given a 15 percent wage increase, the volume of corresponding turnovers decreased by 13 percent. Most employers prefer to let someone go rather than incur a 15 percent wage increase. But a majority of research has determined that to replace a typical employee lost to turnover costs a company, on average, 150 percent of that person's base salary. Retaining someone through a wage increase - or through some other proactive investment worth the same amount - can result in higher retention levels and deliver a powerful return on the dollar. The study shows that if the company does not retain an employee who is earning $30,000 a year, it would cost them between $45,000 and $60,000 for replacing them. If a dozen of the employees who earn $35,000 a year leave, turnover costs approach $250,000 per annum, or more. Lose a total of 150 and that loss rises to more than $2,600,000. In the loss of managerial level human resources, where pay grades are higher and turnovers can cost as much as 250 percent of baseline salaries, and the financial damage skyrockets.
A study by Eric Wann (2009) on “The True Cost of Employee Turnover”, found that there are two main schools of thought. The first group puts the same dollar figure on every position and estimates that for each employee who leaves an organization that the cost to replace them is the same - usually in the range of $7,000 - 10,000 per employee. The other school of thought says that you need to take into account certain specific attributes of the position before calculating a turnover cost. These specific attributes include such areas as the employee's level of responsibility within the organization, the degree of customer contact, decision-making responsibility, years with the organization, etc. The true cost of turnover then becomes a percentage (usually between 30 - 150%) of the annual compensation of the employee leaving the organization that takes into account these specific attributes. Even at the lowest percentage (30% of the employee's annual salary) turnover cost is expensive.

3.5. Implications of Employee Turnover Cost

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.

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 classified into hard
costs, soft costs, and opportunity costs. **Hard costs** have a direct financial impact on the organization and are accounted for expenses like newspaper advertisements. **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.

Reichheld, (1996), in his book “The loyalty effect: The hidden force behind growth, profits, and lasting value”, stated that the turnover of highly skilled employees can be very expensive and disruptive for firms. Losing highly skilled professionals may lead to substantial costs associated with recruiting and re-skilling, and also hidden costs associated with difficulties in completing projects and disruptions in team-based work environments.

Simons and Hinkin (2001) in their study “The effect of employee turnover on hotel profits: A test across multiple hotels”, stated that employee turnover costs may considerably diminish profitability, therefore, it is imperative to effectively manage employee turnover. They made an analysis of gross operating profits and employee turnover rates at 98 full-service hotels at one Hotel Company yields an estimate of the actual dollar costs of employee turnover. In general, the cost of turnover increases with Average Daily Rate (ADR). That is, the cost of a 1-point increase in turnover is greater for a hotel with a high ADR than for an economy-tier property. On average for this sample, the cost in Gross Operating Profit (GOP) of a 1-point increase in turnover rose $525 with every dollar increase in ADR. Thus, for a hotel with a $125 ADR, each point increase in turnover cost another $32,750 per year in GOP. On the other hand, a hotel with an ADR of $65 would be losing just $1,250 for every additional point increase in turnover.
A study by Talentkeepers (2004) on "Employee Retention Trends", revealed that 70 percent of the organizations report increased recruitment and training expenses and poor customer service as areas directly impacted by turnover. The study brought out the fact that, the majority of organizations, 78 percent, have stated that turnover's greatest impact is in lost organizational knowledge and lower employee morale, two areas that directly affect team and organizational productivity. The study also showed that reduced profitability was cited by 54 percent of the respondents as a consequence of turnover. This study also states that losing a valued customer service employee costs more than $10,000 for 58% of the organizations in this study that calculate costs. 2.42% of organizations have costs that exceed $20,000 when they lose a customer service representative. Losing a sales person is even more costly. The study also revealed that 60% of reporting organizations reported losing a sales person costs more than $20,000 and 39% of organizations experience a cost of more than $35,000 when they lose a sales person.

American Hotel and Motels Association in their report “Compilation of Turnover Cost Studies $8.00 per hour employee in the USA”, revealed the turnover cost of $8/hour employee is $2,500 for direct and $1,600 for indirect turnover costs per departing employee.” Another study by Cornell University Hotel School shows that the turnover cost of an $8/hour Front desk Employee – in Hotel – Miami is $5,688.00 and Front desk Employee – in Hotel – New York City is $11,609.00 (http://www.sashacorp.com/turnframe.html).

### 3.6. Approaches to Employee Turnover Costing

The extent of the impact of turnover on a hotel cannot be fully understood if there is no attempt to quantify the costs. In order to give a more accurate and higher estimate of the costs of employee turnover many complex approaches have been made.
Tziner and Birati (1996)\textsuperscript{15} in their study, “Assessing employee turnover costs: A revised approach”, proposed one such framework which builds on the earlier Cascio model of separation costs, replacement costs and training costs. This framework includes:

- Direct costs incurred in the replacement process (recruiting, hiring, training and socialising new employees, including the extra effort by supervisors and co-workers to integrate them)
- Indirect costs and losses relating to interruptions in production, sales and the delivery of goods to customers
- Financial value of the estimated effect on performance as a result of the drop in morale of the remaining workforce following dysfunctional turnover.

The \textit{UK Chartered Institute of Personnel and Development} [CIPD] (2004), in their report, “Fact sheet on employee turnover and retention”, stated that it is possible to compute a ‘not less than’ figure by working out what it costs on average to replace a leaver with a new starter in each major employment category. This figure can then be multiplied by the crude turnover rate for that employee group to calculate the total annual costs of turnover. The CIPD suggests that the major turnover costs are:

- Administration of the resignation (including exit interviews)
- Recruitment costs (including advertising)
- Selection costs
- Costs of cover (temporary employees or overtime) during the vacancy period
- Administration of recruitment and selection process
- Induction training for new employees.
3.6.1. Phases of Employee Turnover and Costs

Employee turnover is a worrisome problem that has inundated the hospitality industry for many years.

Wasmuth and Davis (1983a) in their study, “Managing Employee Turnover”, discovered that most managers interviewed during their research carried out in the US hotel industry understood that turnover was costly; few had any strategies in mind, let alone in place for managing staff turnover. The low priority that many hospitality firms assign to the task of managing turnover is probably due to the fact that at present hotel managers have no ways to determine the impact of turnover on the bottom line. The study presents a method for costing turnover and suggests that it be used as a basis for developing viable employee-retention strategies. The authors presented evidence showing an estimate of $2,500 as the average cost of each incident of employee turnover.

Wasmuth and Davis (1983b) in another study, “Managing Employee Turnover: Why Employees leave”, stated that given typical turnover levels, employee turnover costs represent a major loss of revenue that must be controlled to maintain profitability. Developing controls on turnover costs is an especially timely strategy for offsetting the rising costs of capital goods and energy. It was pointed out that turnover costs could be reduced without large expenditures, because employee turnover is the result of a wide variety of factors that often involve the level of employees’ job satisfaction. Managerial practice, effective supervision, and sensitivity to individual aspirations, all inexpensive to adjust, can greatly improve employee morale.
Wasmuth and Davis (1983c) in another study, “Strategies for Managing Employee Turnover”, estimated that the average cost of replacing an hourly line employee was $1,500 whilst this jumped to $3,000 for salaried staff.


R.H. Woods, et al., (1998) in their study, “Turnover and Diversity in the Lodging Industry”, stated that in the lodging business, turnover rates have been shown to be about 60 percent annually for line-level employees.

J.B. Tracey and M.J. Tews (2002) in their study, “Contextual Factors and Cost Profiles Associated with Employee Turnover”, mentioned that the turnover rates for managerial positions are about 25 percent. To gain insights about the nature and expenses of specific aspects of employee turnover, the authors gathered data from thirty-three U.S. hotels and found that the costs of turnover were generally higher for (1) high-complexity jobs; (2) independent properties; (3) high—average daily rate (ADR) properties; (4) large properties; and (5) high-occupancy properties. The authors also identified several activities associated with recruitment, selection, and training that were linked to lower overall costs of turnover. The results shed new light on the nature and consequences of turnover and provide some prescriptive guidance for managing this serious operational and strategic challenge.

Another study by Cornell Hospitality Research Report appeared in morebusiness.com (2006) mentioned that the employee turnover concern is even greater in other hospitality contexts such as quick-service restaurants where employee turnover is typically in excess of 120 percent.
The employee turnover process can be divided into three phases: Separation, Acquisition and Knowledge Transfer & Training. During each of these stages, direct and indirect costs are incurred by the hotels. Direct costs are those expenses that are easily identified and associated with specific activity. Indirect costs are not as easily identified or quantified.

Separation costs are those expenses associated with the disassociation of the employee from the position. They may include actual contract buyouts, litigation costs, decreased productivity, loss of institutional knowledge and any acts of malfeasance. If any employee just leaves to take a better offer elsewhere, for example, there may only be separation costs associated with the payout of accumulated leave and the loss of productivity. If an employee becomes disgruntled for a period of time prior to departing, then an organization may experience decreased productivity from the individual (the employee peers) and incur costs associated with any ill will that the individual may exhibit towards the organization. If an employee leaves feeling that unfair treatment or discriminatory behavior was exhibited towards him or her, legal expenses may be incurred by the organization.

Acquisition costs include items related to the recruitment, selection and placement of a new individual. Advertisement costs, transactional costs for paperwork processing, lost time and productivity of the search committee, interviewing, reference checking and relocation costs are some typical examples.

Apart from separation and acquisition costs, there are expenses associated with orientation and subsequent training of the new employee. Usually it takes two to three months for a new employee to reach a basic level of competency in the new organization. In association to the direct costs associated with learning, there are the indirect costs of diminished productivity between the new hire and the former employee. In most cases, the new employee performs
below the level of his or her predecessor. The costs of this lost productivity can be very real, in some cases requiring the institution to hire another employee to “take up the slack”.

### 3.6.2. Models on Cost of Employee Turnover

There are several models for understanding the financial implications of attrition or employee turnover.

**Ammu Anantharaja (2009)**, in her study, “Causes of Attrition in BPO Companies: Study of a Mid-Size Organization in India”, stated that high costs like training cost, recruitment cost, hiring cost, lost productivity cost, cost due to personal leaving associated with attrition. There are individual components that represent direct and indirect costs associated with the separation, acquisition, and knowledge transfer / learning phases of hiring a new employee.

Fundamental turnover cost methods offer a basic means for estimating turnover cost. Although these methods may be based on estimations of cost along a number of categories, they only allow for variation based on salary. Turnover cost models use cost categories, and this categorization provides for variation. This variation, in turn, creates more precise turnover cost estimations. ([www.tcer.org](http://www.tcer.org))

The following section looks at five separate employee turnover models.

**Model One**

Advantage Assessment, Inc. ([www.advantagesassessment.com](http://www.advantagesassessment.com)) provides a means of calculating turnover cost through their cost calculator. Their model uses the number of leavers and 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.

**Model Two**

*Sorensen (1995)*[^1] in his study “*Measuring HR for success*, and *Jones (1999)*, in his study “*A Real Millennium Challenge*”, proposed 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. Productivity loss calculations usually include declines in productivity due to differences in performance between the veteran leaver and the trainee. But it would be difficult to put a monetary value on performance; therefore, they have not estimated turnover costs due to productivity.

**Model Three**

People Sense ([www.peoplesense.com](http://www.peoplesense.com)) 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 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. For position in which the new employee can easily assume the leaver’s duties, the learning curve is considered quick. A quick learning curve predicts that the new employee gain 25 percent productivity each month such that by the fourth month, the new employee is fully productive. For an average learning curve, an employee gains 25 percent productivity in the first three months and 25 percent every two months after that; a new employee must spend 9 months in a position with an average learning curve to be fully productive. For very complicated positions, gains in productivity are slower. With lengthy learning curves, the new employee achieves 25 percent productivity in the first four months and 25 percent productivity every three months following, for a total of 16 months of work (or about two years for a teacher) to achieve full productivity. 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.

Model Four

Cascio, (1987), in his book, “Costing Human Resources; The Financial Impact of Behaviour in Organisations”, proposed a model of turnover costs which specifies four types of cost involved in turnover: (1) separation costs, (2) replacement or hiring costs, (3) training costs, (4) learning curve loss. Separation costs involve a number of factors. If an organization conducts exit interviews, the cost of the interviewer’s time for preparation and the cost of the leaver’s time for the interview must be calculated. Separation costs also include the cost of
administrative functions related to the separation and any separation pay provided to the leaver (in accrued vacation, etc).

Like many other models, Cascio’s model for turnover cost includes costs related hiring new employees. These costs encompass costs for communication of availability of the position (such as advertising/ or agency fees), pre-employment administrative tasks, pre-employment testing costs. In addition, time spent by administrators on entrance interviews and staff time spent in hiring meetings comprises hiring costs. Post employment tasks and dissemination activities also contribute to the cost of hiring. Any travel costs or other expenses related to moving the new employee should be included in the hiring costs.

The training costs proposed by Cascio include both formal and informal training. Informational literature and training materials comprise part of training costs. In addition, calculations of training costs must include costs of training time for the trainer(s) and the trainee(s) during formal training. The cost of informal training encompasses the time of the supervisor or veteran employee and the time of the trainee spent on informal, on-the-job training. In addition, informal training costs must account for reduction in productivity of the supervisor or veteran employee during the informal training.

Unlike previous models that assume the new employee has lower productivity than the leaver, Cascio stipulates that productivity does not always follow this mold. He assumes that productivity differentials, he recommends using the following formula:

- Divide the leaver’s annual salary by the midpoint of the pay grade multiply this by 100
- Divide the new employee’s salary by the midpoint and multiply by 100
- Subtract the new employee’s ratio from the leaver’s ratio

If the differential results in a positive number, then a learning curve loss and loss in productivity occur creating an increase in the cost of turnover. If the differential results in the
negative number, then a learning curve gain and improvement in productivity occur creating a decrease in turnover costs.

Model Five

Model Five is a comprehensive model for calculating employee turnover. Fitz-enz, (1997)<sup>22</sup>, in his study, “It’s costly to lose good employees”, stated that a company loses about $1,000,000 with every 10 professional and managerial employees who leave their organizations. The study also states that if a company has a 10 percent after-tax profit, that's a reduction of $100,000 from the bottom line. Research at Saratoga Institute has shown that the average internal cost of turnover for exempt personnel is a minimum of one year's pay and benefits, or a maximum of two years' pay and benefits. The study also stated that the administrative tasks may specifically include processing employee records, security, and payroll. Pinkovitz, Moskal, and Green, (1997)<sup>23</sup>, in their study, “How much does your employee turnover cost?”, Bliss, (1997)<sup>24</sup>, in his study, “Cost of employee turnover”, Fitz-enz, (1998)<sup>25</sup> in his study, “Top 10 calculations for your HRIS”, and, Brown, (2000)<sup>26</sup>, in his study, “Measuring up Key human capital metrics”, proposed the model which asserts that turnover cost calculations must include termination or separation costs, hiring costs, vacancy costs, learning curve loss, and training costs. 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.

Termination costs consist of exit interview costs, if required by the organization. The cost of administrative tasks related to termination must also be taken into account. Fitz-enz, (1997), stated that the administrative tasks may specifically include processing employee records, security, and payroll. Bliss, (1997) stated that these cost should include costs related to
stoppage of payroll, benefits, deductions, Consolidated Omnibus Budget Reconciliation Act (COBRA) notification, general termination paperwork. Pinkovitz et al., (1997) stated that for eligible employees, termination costs will also include severance benefits and continuances. Pinkovitz, et al., (1997) stated that the employer also faces changes in unemployment costs. Bliss, (1997), stated that unemployment costs include the impact of turnover on unemployment premiums and any time or effort devoted to required unemployment hearings.

Pinkovitz et al., (1997); Fitz-enz, (1998); Brown, (2000) revealed in their study that hiring costs are another factor contributing to turnover costs. In order to recruit for vacant positions, employers may invest in advertising, agency fees, employee referrals, /or recruiter(s) pay and benefits. Whenever applicable, hiring costs may also include travel for applicants /or staff and relocation costs. Bliss (1997) stated that to calculate hiring costs, the human resources time spent on screening resumes, reviewing candidates, and performing background checks must also be included. Pinkovitz et al., (1997) stated that hiring costs also encompass the time spent interviewing applicants and the expense for pre-employment tests. Bliss (1997) stated that the cost of applicant screenings, such as drug tests, criminal background checks, educational checks, reference checks, contribute to hiring costs. Pinkovitz et al., (1997), stated that hiring costs also cover post-employment administrative tasks such as establishing payroll, security and computer passwords, creating business cards, email connections, and conducting dissemination activities.

According to Bliss (1997); Fitz-enz, (1997); Pinkovitz et al., (1997) vacancy costs also factor into the cost of employee turnover. These costs include wages for substitute employees as well as overtime for current employees covering the vacant position. Bliss (1997) stated that
the cost of the supervisor’s time to oversee that all work is completed during the vacancy must also be included in calculations of vacancy costs.

Fitz-enz, (1997); Pinkovitz et al., (1997) stated that costs related to learning curve loss also must be included in calculations of employee turnover costs. Learning curve loss costs are the expenses associated with the time it takes for a new employee to reach full productivity. According to Bliss (1997), it takes the average employee approximately five months to reach full productivity.

According to Bliss (1997), the final category for employee turnover costs according to this model is training cost. Training costs comprise the cost of the trainer and training materials, including the cost of invested training in the leaver. Orientation activities should also be included in the cost of training.

Pinkovitz et al., (1997) stated that training cost should include informal training costs like the cost of time veteran employees spend training and assisting the new employee as well as the time the supervisor spends assigning, explaining, and reviewing, and reviewing the work of the new employee.

3.7. Employee Turnover Cost and Accountability

A reduction in employee turnover would be a significant factor in reducing hotel costs and improving labour productivity. Phillips & Connell, (2003), in their book, “Managing Employee Retention: A Strategic Accountability Approach”, states that accountability must be incorporated in a retention strategy so those who are involved can fully understand the cost of turnover. The loss of accountability problem may be particularly significant where the operating manager feels a degree of turnover is desirable. In this situation, the benefits of staff turnover may outweigh the costs of turnover. Thus, turnover may mask a range of
organisational and behavioural factors that impact on the way in which hotels account for and respond to turnover. Davidson, Guilding & Timo, (2006)\textsuperscript{27}, in their study, “Employment, flexibility and labour market practices of domestic and MNC chain luxury hotels in Australia: Where has the accountability gone?”, suggests that managing and accounting for turnover remains a vexed question for hotels that thereby adding to the burden and cost of labour turnover as there is no single point of accountability. This study investigates employment and labour market practices based on observations derived from a two-phased empirical study that has yielded quantitative and qualitative sets of empirical data from luxury 4–5 star luxury domestic and multinational corporation (MNCs) hotels located in Australia’s Brisbane-Gold Coast corridor. Indeed, there appears to be few successful strategies that achieve improved labour turnover and as Davidson at al., (2006) point out, hotel HR accountability structure remains weak with HR department baring the costs of turnover and no department ultimately responsible for minimising turnover. This is most likely because the cost of staff turnover falls outside the conventional accounting and Human Resource Management (HRM) paradigms. This signifies lost accountability and diminished internal organisational visibility for this cost. The lost accountability issue is exacerbated when we recognise that the cause for the cost originates from a different accountability unit (i.e. the area of the organisation where the employee works) to the unit that incurs much of the cost associated with staff turnover (HRM). Hotel turnover transaction ‘costs’ are then more appropriately seen in the context of this contradictory dynamic: on the one hand dysfunctional; yet on the other functional (Davidson et al. 2006).
3.8. Reasons for Employees to stay on the Job

Job Satisfaction

Job satisfaction is an important factor for the organization success. Job satisfaction has been defined in various contexts by various authors. A few are mentioned below:

Dunnette, MD (ed) (1996), in the Handbook of industrial and organizational psychology, “Nature and causes of job satisfaction”, pointed out that Job Satisfaction is “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences”.

Spector, PE (1997) stated in his study, “Job satisfaction: Application, assessment, causes, and consequences”, that Job satisfaction is “how people feel about their jobs and different aspects of their jobs”.

Robbins, SP (2005) in his book, “Essentials of organisational behavior”, defines job satisfaction as “a collection of feelings that an individual holds towards his or her job.”

Hence, job satisfaction is a set of positive feeling or emotional state that person perceived based on variety of aspects of the work itself or work environment.

3.8.1. Theoretical Perspective of job satisfaction

Two - Factor Theory (Herzberg, 1959):

Frederick Herzberg (1959) developed his theory by interviewing 200 accountants and engineers. He asked them to recall occasions when they had been satisfied and motivated and occasions when they had been dissatisfied and unmotivated. He found that different sets of factors were associated with satisfaction and with dissatisfaction—that is, a person might identify “low pay” as causing dissatisfaction but would not necessarily mention “high pay” as a cause of satisfaction. Instead, different factors—such as recognition or accomplishment—were cited as causing satisfaction and motivation.
Herzberg concluded that the traditional view of job satisfaction was incomplete. He was of the view that satisfaction and dissatisfaction are at opposite ends of a single continuum. People might be satisfied, dissatisfied, or somewhere in between. But Herzberg’s interviews had identified two different dimensions altogether: one ranging from satisfaction to no satisfaction and the other ranging from dissatisfaction to no dissatisfaction.

Herzberg argues that there are two stages in the process of motivating employees. First, manager must ensure that the hygiene factors are not poor. Pay and security must be appropriate, working conditions must be safe, technical supervision must be acceptable, and so on. By providing hygiene factors at an appropriate level, managers do not stimulate motivation but merely ensure that employees are not dissatisfied.” Employees whom managers attempt to “satisfy” through hygiene factors alone will usually do just enough to get by. Thus, managers should proceed to stage two—giving employees the opportunity to experience motivation factors such as achievement and recognition. The result is predicted to be a high level of satisfaction and motivation. Herzberg also goes a step farther than most theorists and describes exactly how to use the two factor theory in the workplace. Specifically, he recommends job enrichment. He argues that jobs should be redesigned to provide higher levels of the motivation factors.

Herzberg’s two-factor have been criticized by many researchers. One of the criticisms was that his sample was not representative of the general population and that subsequent research often failed to uphold the theory.

Robert and Lawrence (1967) 28 in his study, “Herzberg’s Dual-Factor Theory Of Job Satisfaction And Motivation: A Review Of The Evidence And A Criticism”, stated that
the 2-factor theory is an oversimplification of the relationships between motivation and satisfaction.

The dual factor theory of job satisfaction on methodological and factual grounds is evaluated in a review of the literature. Results are contrary to the proposition that satisfiers and dis-satisfiers are uni-dimensional and independent. The theory has had a major impact on managers, however, and has played a key role in increasing their awareness of motivation and its importance in the workplace.

Riley, S (2005), in his study, “Herzberg's two-factor theory of motivation applied to the motivational techniques within financial institutions”, pointed out in his study that Herzberg’s Two- Factor Theory divides motivation and job satisfaction into two groups of factors known as the motivation factors and hygiene factors. He tried to find why managers have chosen the styles they use within the workplace, whether it seems to be effective or not, and how different employees seem to respond. Through one-on-one interviews with a variety of managerial levels and positions, he hope to make some judgement about the effectiveness of the motivational styles, the productivity, and the general job satisfaction of the employees under these specific managerial levels. He stated that Hygiene factors are the ‘job context’ factors, which include company policy, supervision, relationship with supervision, work conditions, relationship with peers, salary, personal life, relationship with subordinates, status, and job security”. He also stated that the motivating factors are the six ‘job content’ factors such as achievement, recognition, work itself, responsibility, advancement, and possibility of growth. According to him giving encouragement and recognition to the employee helps them to feel more valued within the company, as well as giving a sense of achievement and responsibility.
Hodgetts, RM (2005), stated in his book, “Modern Human Relations at Work”, that hygiene Factors are the environmental related factors associated with negative feelings. On the other hand, the motivation factors are the factors associated with positive feeling. Although hygiene factors do not motivate employees, and that’s the reason their absence increases dissatisfaction.

Hartel, et al. (2007) in their book, “Human Resource Management” stated that hygiene factors are characteristics of the work environment, which minimize discomfort, and insecurity. The study states that motivation factors are the characteristics of work environment, which promotes employee growth and development. The study reveals that motivation factors encourage effort; however, an absence of these will not increase dissatisfaction as will the hygiene factors, rather, it will lead to dissatisfaction.

Therefore, the basic premise of the Two-Factor Theory is that if an employer or manager is trying to increase job satisfaction and ultimately job performance for an employee or coworker, then they need to address those factors that effect one’s job satisfaction. The most direct approach is to work on the intrinsic, job content factors.

Kerry Liberman (2005)29, President of People Perspectives, stated in his study, “Human Resources, Content Employees- Credit Union Management” that co-workers, location, benefits and supervisors were the top four reasons cited by employees for staying at their job, in that order, in 2000-2002. However, there has been a major shift. Specifically, “benefits” is now cited as the top reason for staying, followed by co-workers, location and challenging work. In an interesting turn of events that echoes the previous findings, the supervisor dropped from the No. 4 spot to No. 7 (out of 8 variables listed).Salary actually ranked No. 6 in 2000- 2002 and No. 5 in 2003-2005.
3.8.2. Job Satisfaction and Employee Behaviour and Performance

Job satisfaction can be a vital indicator of the employees’ feeling about their job.

According to Luthans (1989) in the book, “Organisational Behaviour”, stated that satisfaction can arise from three different facets: (a) emotional response to work environment, (b) relationship between expectations and outcomes; and (c) satisfaction with pay.

Rain, J.S., Lane, I.M., & Steiner, D.D., (1991)\(^{30}\) in their study, “A current look at the job satisfaction / life satisfaction relationship: Review and future considerations” stated that Satisfaction is correlated to life satisfaction which means that people who satisfied with life will tend to be satisfied with the job and people who satisfied with job will tend to be satisfied with their life.

Igbaria and Guimaraes (1993)\(^{31}\) in their study, “Job Satisfaction among Information Center Employees” have identified five components of job satisfaction – work, supervision, co-workers, pay and promotion.


Reichheld, F.F., (1996) mentioned in his study, “The loyalty effect: The hidden force behind growth, profits, and lasting value”, that productivity results looking at how hard employees work and how smartly they work. According to him there are three criteria that impetus how hard employees are working. They work hard when: (1) they have job pride, (2) when they find their jobs interesting and meaningful, and (3) when they are recognized for their work and benefit from the work they have accomplished.
Bartolo & Furlonger, (1999)\textsuperscript{32}, in their study, “Leadership and job satisfaction among aviation fire fighters in Australia”, stated about the links between job satisfaction and leadership behaviour in aviation fire fighters. Fifty-six fire fighters responded to the Job Descriptive Index and the Leadership Behaviour. As hypothesised, employee job satisfaction correlated with supervisor leadership behaviour, with the exception of consideration leadership and co-worker satisfaction. A new explanation, concerning level of team interaction, is proposed for the findings.

Salazar, J & Hubbard, S (2000)\textsuperscript{33}, in their study, “The relationship between empowerment and overall job satisfaction: A study of a southeastern resort. Praxis” stated that another benefit of job satisfaction is reduced turnover. Previous researches have shown that satisfied employees are more likely to stay in the organization than those who are dissatisfied. So, by focusing on what contributes to job satisfaction, an organization can reduce turnover.

Guthrie, (2001)\textsuperscript{34}, in his study “High-involvement work practices, turnover and productivity: Evidence from New Zealand”, is of the opinion that employees feel satisfied when they are provided certain degree of freedom in carrying out their tasks and taking job related decisions, and they enjoy performing jobs which demand higher levels of skills and knowledge.

Arnett, D.B., Laverie, D.A., & McLane, C. (2002)\textsuperscript{35} stated in their study, “Using job satisfaction and pride as internal-marketing tools” that, Job satisfaction can be a leading contribution factor for the success of a service industry employer. It is obvious that satisfied employees tend to lead to satisfied guests. Employees’ attitudes and opinions about their
colleagues and the work environment may make all the difference between workers' merely doing a good job and delivering exceptional guest service.

Feinstein, (2002)\(^\text{36}\) in his study, \textit{“A study of relationships between job satisfaction and organizational commitment among restaurant employees”}, tried to gain a better understanding of the relationships between job satisfaction and organizational commitment of employees at two locations of a national restaurant chain in Southern Nevada. This study also focuses on revealing homogeneous demographic characteristics these employees exhibit that affect their satisfaction level. Research was conducted through a survey instrument consisting of demographic, job-satisfaction, and organizational commitment questions adopted from the validated Minnesota Job Satisfaction and Organizational Commitment Questionnaires. The study generated a 74.5 percent response rate from 137 employees who had worked at these two foodservice operations for more than one week. Responses from the survey were statistically analyzed with several unbalanced factorial ANOVAs, one-way ANOVAs, and stepwise multiple regression analyses. Results of the study indicate that tenure had a significant (\(\alpha=.05\)) effect on several of the component scores for satisfaction; store location had a significant effect on the level of satisfaction with policies; and the level of education significantly affected satisfaction with recognition. Further, satisfaction with policies, compensation, work conditions, and advancement were found to have a significant relationship to organizational commitment.

Saker, A.H., Crossman, A. and Chinmeteepituck, P. (2003)\(^\text{37}\), in their study, \textit{“The relationships of age and length of service with job satisfaction: An examination of hotel employees in Thailand”}, stated that the satisfied workers will be more productive and stay
with the organization longer, while dissatisfied workers will be less productive and will have more tendency to quit the work in between.

By evaluating job satisfaction an organization can possibly increase positive outcomes such as employee performance and satisfaction, and may also decrease absenteeism and turnover. Job satisfaction has been found to be the most important tool for employee retention.


**Green and Tsitsianis, (2005)** in their study, “An investigation of national trends in job satisfaction in Britain and Germany”, stated that changing job insecurity does not explain the fall in job satisfaction in either country. It is found that intensification of work effort and declining task discretion account for the fall in job satisfaction in Britain. In Germany there was a modest fall in the proportion of people working the number of hours that they wanted to. However, while working too many or too few hours is a significant source of job dissatisfaction, the changes were too small to account for the fall in job satisfaction.

**Benz and Frey, (2008)**, in their study, “Being Independent Is a Great Thing: Subjective Evaluations of Self-Employment and Hierarchy” states that both job content and job security are found to affect the overall job satisfaction of employees. This paper empirically tests whether individuals attach an intrinsic value to the institutional difference between independence and hierarchy. Taking self-employment as an important case of independence, it is shown that the self-employed derive more utility from their work than people employed by an organization, irrespective of income gained or hours worked. This is evidence for procedural utility: people do not only value outcomes, but also the conditions and processes
leading to these outcomes. Individuals value independence and dislike hierarchy as such, over and above the associated outcomes.

Ivancevich, et al. (2008), in their book, “Organizational Behavior and Management” stated that if employees experience high satisfaction with their jobs, it may create a pleasurable emotional state and a positive reaction with the organization.

From the review of Wikipedia (2009) on job satisfaction it is observed that job satisfaction helps to judge the work behavior such as organizational citizenship, absenteeism, and turnover.

Rajendran and Chandramohan (2010), in their study, “Job Satisfaction- An Overview”, stated that the significance of job satisfaction can be assessed from the fact that it not only influences the efficiency of workers but also impacts job behaviour such as absenteeism, accidents, work stress and employee turnover.

3.9. Reasons for Employees to Leave the Job

Employee Turnover is the termination of employees and the hiring of other individuals to replace them. It is a complex phenomenon requiring a systematic view and an awareness of many variables within both the work and external environments.

Macy & Mirvis (1976) in their study, “A methodology for assessment of quality of work and organizational effectiveness in behavioral economic terms”, viewed turnover as “any departure beyond organizational boundaries”.

Price (1977) in his study, “The study of turnover: Examining relations at an organizational level”, defines turnover as “the degree of individual movement across the membership boundaries of a social system”. When a group of employees is considered a
social system, this definition would apply and includes accession and the hiring of new employees within an organization.

Mobley (1982) in the Trade Paper, “Employee Turnover: Causes, Consequences and Control”, gave the meaning of employee turnover as the discontinuance of membership in an organization by the person who received monetary compensation from the organization.


From the above definitions it can be concluded that the movements of employees, who received monetary compensation from the organization, by rotating around the labour market, between organizations, jobs and careers, normally present in terms of the turnover rate.

**Employee Turnover Trends:**

Mobley et al., (1979) in their study, “Review and conceptual analysis of the employee turnover process”, revealed that age, tenure, overall satisfaction, job content, intentions to remain on the job and commitment were all negatively related to turnover. Higher the age of the employee, less is the likelihood of his leaving the organization. Similarly, an employee who has spent a long time in an organization is less likely to leave because of his emotional attachment to the workplace.

Chandramohan and Vasanthikumari (2006), in their study, “Attrition: A Predicament for ITES in India”, stated that high attrition rate is a major challenge for the HR manager as many individuals (mostly fresh graduates) take it as a time-pass job.
Rick Swig (2006) in his article, “Lack of Human Capital Is Becoming Serious Issue for Hotel Owners, Operators”, states that searching and maintaining quality employees is the foremost problem facing hospitality business today. Human resource issues in the hotel business have traditionally been about training to provide guest satisfaction, which has a direct correlation with price/value, return guest ratios, brand reputation and ultimately, financial performance. There has also been a spotlight on employee satisfaction, since a happy worker presents a picture of contentment to hotel guests, which results in better delivery of service. The inverse of that is high employee turnover, which can undermine financial stability on multiple levels.

Srikant and Tyagi (2007)\textsuperscript{45}, in their study, “Attrition Management in BPO”, states that BPO companies have very different HR issues when compared to those in the brick and mortar business. 24-hour working schedules, employment of women in night shifts, higher levels of stress contribute to the already high attrition levels in the software industry. An average Indian call center employee works with a company for 11 months, whereas an average UK call center employee stays in a company for three years.

According to the Bureau of Labor Statistics in the US, turnover was reported to be highest in the trade transportation and utilities industry, followed by professional and business services (780,000), and leisure and hospitality (767,000).

Stephen, T. (2009), in his study, “Employee turnover and retention” states that employee turnover in some ways of positively benefits the organizations. For example when a poor performing employee is replaced by a more productive employee, or when a senior retirement allows the promotion or acquisition to welcome ‘fresh blood’. The more valuable the employees the more damaging the resignation, particularly when they move on to work for
competitors. Moderate levels of staff turnover can also help to reduce staff costs in organizations where business levels are unpredictable month by month. When business is slack it is straightforward to hold off filling recently created vacancies for some weeks.

3.9.1. Types of Employee Turnover

Campion, (1991)\cite{46}, in his study “Meaning and measurement of turnover: Comparison of alternative measures and recommendations for research”, studied turnover in different dichotomies such as, avoidable-unavoidable, planned-unplanned, internal-external, functional-dysfunctional, and voluntary-involuntary. Turnover data for one year (1987) were gathered from 325 former employees, 568 supervisors, 418 replacement employees, and the personnel files of a university. Analyses indicated that organizational records are deficient as a source of information, especially because of the usual practice of recording a single reason for turnover. Voluntariness may result in a classification system that is too gross for validating motivational models. Avoidability, functionality, and utility each measure unique aspects of organizational consequences, but each has limitations.

Denvir, A & McMahon, F (1992)\cite{47}, in their study, “Labor turnover in London Hotels and the cost effectiveness of preventive measures”, reviews the effect of labour turnover on organizations generally and methods used to reduce the impact of such turnover. A study of the level of turnover in four large London hotels is reported showing annual turnover rates between 58% and 112%. The varying practices of the hotels in regard to recruitment, selection, induction, and training are documented. The cost of preventative measures is given and the tentative conclusion drawn that some hotels may be spending more on prevention of labour turnover than is justified.
Voluntary Turnover:

Gomez-Mejia, Balkin, & Cardy, (1998) in their book, “Managing Human Resources”, described that voluntary turnover is the situation when an employee decides to end the relationship with the employer for personal or professional reasons. In most of the case, the decision to leave is associated with being unsatisfied with the features of current job and having attractive alternative from other organization.

Noe, R.A., Hollenbeck, J.R., Gerhart, B. & Wright, P.M. (2006), in their book, “Human Resources Management”, states that voluntary turnover is the turnover that commenced by employees. This type of turnover is often occurring with the capable employees or the employees that the company would prefer to keep. Resignation or Quit and Retirement are two types of voluntary turnover.

Involuntary Turnover:

Gomez-Mejia L.R., Balkin D.B. & Cardy R.L. (1998) in their book, “Managing Human Resources”, described that an involuntary turnover occurs when manager decides to terminate the relationship with an employee due to (1) economic necessity or (2) a poor fit between the employee and the organization. Voluntary turnovers are the result of very serious and painful decision that can have a deep impact on the entire organization, especially on the employee those who loses his or her job. Discharge and layoff are 2 types of involuntary turnover.

Functional turnover: A turnover in which poor performers leave is called as functional turnover.

Dysfunctional turnover: A turnover in which good performers leave is called as dysfunctional turnover.

Avoidable turnover: A turnover that happens in avoidable circumstances is called as avoidable turnover.

Unavoidable turnover: A turnover that happens in unavoidable circumstances is called as unavoidable turnover. For eg. Employee’s death or spouse’s relocation.

3.9.2. Factors or Causes affecting employee turnover

In order to know the cause of excessive employee turnover, the causes of dysfunctional and avoidable turnover should be known. Few reasons for dysfunctional turnover may be:

- Compensation package differences
- Job and employee skill mismatch: the job may be less or more satisfying and challenging according to the employee.
- Inferior facilities, tools, etc
- Less recognition
- Less or no appreciation for work done
- Less growth opportunities
- Poor training
- Poor supervision
- Less work and life balance practices

The factors affecting employee turnover are of “pulled”, “pushed” and “outside” factors.

Pull Factors:

Torrington D., Hall L. & Taylor, S. (2002), in their book, “Human Resources Management”, states that employee leaves their current job in order to improve their life
standards and also concerning to the new benefits package which they expect to receive. In addition there are broader notions of career development, the wish to move into new areas of work for which there are better practical questions commuting time.

Brown C. (2007) in his study, “Employee Turnover: Push Factors and Pull Factors”, stated that pull factors are the series of reasons that attract the employees to a new workplace. In this category the employees satisfy with better paying job, a career advancement opportunity that they would not receive in the short term when they stayed with their present employer.

**Push Factors:**

Torrington D., Hall L. & Taylor S. (2002), in their book “Human Resources Management” stated that in some case employees will even leave without having a new job prepared. Insufficient development opportunities, boredom, ineffective supervision, low levels of employee involvement and straightforward personality’s conflicts are the most common accelerating factors for the employees to leave their job.

Loquercio D. (2006), in his study, “Turnover and Retention”, stated that employees are 'pushed' due to dissatisfaction in their current jobs to seek alternative employment. Employees start thinking about other choices, talking to recruiters, looking at the job advertisement in the newspaper, on the internet or to others.

Brown C. (2007) states that employees start thinking about other choices, talking to recruiters, looking at the job advertisement in the newspaper, on the internet or to others advertisement sources.

Brown C. (2007) in his study states that front line manager behavior has been found to be particularly risky to the level of commitment, motivation and satisfaction reported by
employees and a poor relationship with a manager is often a significant factor in employee turnover.

**Outside factors:**

Brown C. (2007) in his study states that outside factors associate to the situation in which someone leaves the organization for reasons that are mainly not related to their work. In most common cases, people involve moving away or resign when a spouse or family is relocated. Others factor includes the wish to carry out a long-term ambition to travel, pressures associated with juggling the needs of work, family and illness. To some extent this type of turnover is unavoidable, although it is possible to reduce it through the provision of career breaks, forms of flexible working and/or childcare facilities.

A study on causes of employee turnover conducted by Confederation of Indian Industries (2008) on Indian industries revealed the following facts:

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Major Causes of Employee Turnover</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Salary</td>
<td>85%</td>
</tr>
<tr>
<td>2</td>
<td>Career Advancement</td>
<td>71%</td>
</tr>
<tr>
<td>3</td>
<td>Relationship with Supervisor</td>
<td>50%</td>
</tr>
<tr>
<td>4</td>
<td>Economic Growth &amp; Talent Competition</td>
<td>44%</td>
</tr>
<tr>
<td>5</td>
<td>Job Content</td>
<td>43%</td>
</tr>
<tr>
<td>6</td>
<td>Recognition</td>
<td>33%</td>
</tr>
<tr>
<td>7</td>
<td>Training &amp; Development Opportunities</td>
<td>23%</td>
</tr>
</tbody>
</table>

Table 3.1- Major Causes for Employee Turnover
(Source: India Employee Turnover Study Research Report (CII), January 2008)

Bagiri, S. C, Babu, Suresh, Kukerti, Mohit (2010)⁴⁸, in their study, “Human Resource Practices in Hotels: A Study from the Tourist State of Uttrakhand”, stated that employees are satisfied with their compensation packages but not with the working conditions, and the employee turnover rate is relatively high. Adequate training is not often provided by the hoteliers to develop employees' operational skills. Recruitment is mainly through internal
referrals leading to high inbreeding and subsequent other human resource problems. There is a significant gap between what is expected from new employees and the skill levels of available talent pool.

3.9.3. Employee turnover in Indian Industries

A study by Confederation of Indian Industry (CII) 2008, Employee attrition is about 20-30 per cent across industries, in BPO sector it is hovering around 35% in FY 2007. The study reveals that Average Attrition Rate in Banking, Financial Services and Insurance (BFSI) sector rose from 32% in FY 2006 to 44% in FY 2007. The study also finds that the manufacturing sector is also facing an Attrition Rate of 20%.

The following table shows the Employee Turnover Percentage in Indian Companies-2010

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Location</th>
<th>Employee Turnover Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCENTURE SERVICES</td>
<td>Bangalore</td>
<td>18%</td>
</tr>
<tr>
<td>ACCLARIS BUSINESS SOLUTION</td>
<td>Kolkata</td>
<td>13%</td>
</tr>
<tr>
<td>BAJAI CAPITAL</td>
<td>Delhi</td>
<td>27%</td>
</tr>
<tr>
<td>DR REDDY’S LABORATORIES</td>
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Table 3.2-Employee Turnover Percentage in Indian Companies- 2010
(Source: The Economic Times and Great Place to Work® Institute’s India’s Best Companies to Work For- 2010)
Ramani & Raghunandan (2008)\textsuperscript{49}, in their study, “Managing attrition level in organizations”, revealed that the labour turnover is estimated of 20\%-60\% for IT firms. The study also stated that the managerial staff turnover is between 6\%-15\%, executive rank staff turnover is below 5\% and clerical and operational workers turnover is between 2\% to 10\%.

Nagadevara et al (2008)\textsuperscript{50}, in their study, “Establishing a link between employee turnover and withdrawal behaviours: application of data mining techniques”, reveals that the younger employees are more likely to turnover than older employees in early stages. This research explores the relationship of withdrawal behaviours like lateness and absenteeism, job content, tenure and demographics on employee turnover. The unique aspect of this research has been the use of five predictive data mining techniques on a sample data of 150 employees in a large software organisation. The results of the study clearly show a relationship between withdrawal behaviours and employee turnover. Age and marital status emerged as key demographic variables.

3.9.4. Employee Turnover in Hotel Industry

Deery, M.A. and Shaw, R. N. (1997)\textsuperscript{51}, in their study, “An Exploratory Analysis of Turnover Culture in the Hotel Industry in Australia”, explores the concept of turnover culture in the hotel industry, drawing on the extensive literature on both organisational culture and turnover. A questionnaire was developed and administered to non-supervisory hotel employees. Using a cluster analytic approach, nine distinct clusters of variables were produced. One cluster containing pertinent turnover and organisational culture variables was isolated from other clusters as turnover culture.
Lashley and Chaplain, (1999)\(^5\) in their study, “Labour turnover: Hidden problem – Hidden costs”, reveals that high staff turnover in hotels is a major factor affecting workplace efficiency, productivity and cost structure.

Hinkin and Tracey, (2000)\(^6\) in their study, “The cost of turnover: Putting a price on the learning curve”, and Aksu, A. A. (2004)\(^8\), in his study, “Turnover costs: Research among five-star hotels in the city of Antalya, Turkey”, stated that turnover is mainly caused by the low-skilled and low-paying nature of most tourism and hospitality jobs that are also associated with poor working hours and offering little job satisfaction and career advancement.

Bridir, (2002)\(^52\), in his study, “General manager turnover and root causes”, examined hotel and holiday village General Managers’ (GMs’) turnover and to identify root causes of GM turnover. GMs who were serving five-star hotels and first-class holiday villages operating mainly in coastal sides of Turkey (mostly the Aegean coast and the Mediterranean coast) were researched. GMs in 144 hotels and holiday villages were faxed a one-page survey instrument developed by the researcher. At the end of two rounds, out of 144 GMs, 56 responded to the instrument. Analyzing the data, it is found that GMs are quitting hotels after 3.3 years on average, and hotels tended to change GMs every 2.5 years. The main causes of GM turnover are: management conflict and problems between property owners and GMs; and GMs’ career moves.

Brien, (2004)\(^53\), in his study, “The New Zealand hotel industry: Vacancies increase while applicant numbers and calibre decrease”, shows that hospitality industry tends to be labour intensive and around the world this industry has been confronted with high level of labour turnover. This study was undertaken to identify employee recruitment and retention issues in
the New Zealand hotel industry and how and if Strategic Human Resource Management (SHRM) took place. Questionnaires were sent to 67 human resource managers of hotels who maintained hotels in excess of 75 rooms and had associated food and beverage operations. In total this involved 4,886 rooms and 2,163 equivalent fulltime employees, geographically spread throughout New Zealand. While more hotel jobs are being created, results indicate the number of applicants to jobs and caliber of applicants is dropping. Housekeeping and food and beverage positions are the highest turnover positions while qualified chefs are difficult to find. Strategic human resource planning is only undertaken by 59% of hotels and the image of the hotel industry appears negative to the external labour market.

According to a report by Hindu Business Line, (May 10, 2005), the Indian hotel industry is facing a manpower crunch especially at the entry and junior management levels. More than half of the students, who pass out from catering institutes, are not interested in getting into the hospitality industry. Attrition rate among the management level would be about 7 per cent.

According to a Times of India report (http://timesofindia.indiatimes.com), the attrition rate in the hotel industry would be around 40-50 % by 2010, the main reasons are commonwealth games as their would be dearth of skilled labour. Most of the young professionals are going abroad and especially to cruise liners as the pay packages are 4-5 times higher than that offered in Indian hotels.

A study conducted by an industry chamber located in New Delhi reveals that the attrition rate in the hospitality industry in India is set to double to nearly 50 per cent by 2010, up from the earlier 25 per cent growing at an alarming rate of 10 per cent per annum.

In a report by Express hospitality (www.expresshospitality.com), according to VP-operations, Orchid Hotels, Mumbai, "Majority of the hotels in Mumbai are experiencing 100
per cent turnover in key functional areas, which does affect the bottom-line, as the cost of attrition is high. HR manager, The Park, Chennai, says, "At the junior level, the turnover has been around 40 per cent, while mid-level management is around 25 per cent and senior level is at 5 to 10 per cent." The real culprits for the mass exodus in the hotel industry are an assortment of service industry competition like cruise-liners, retail industry, BPOs, real estate, and overseas exposure in the Middle East, London and Europe. Most GMs and HR heads in hotels across Chennai, Bangalore, Delhi and Mumbai confirmed that while attrition levels remains at 18-25 per cent per annum, the real picture is far more grave.

A survey conducted by Ajilon Office (www.ajilon.com) 2004, a national specialty staffing and recruiting services firm of America stated the top five reasons for an employee to leave the job as more money, better benefits, more opportunities for career growth, less stressor pressure and wanting a change of pace.

### 3.10. Employee Satisfaction and Monetary Benefits and Non-monetary Benefits

An organization has to balance reasonably the monetary rewards / benefits and the non-monetary rewards / benefits. Effective rewards / benefits system requires not only that the absolute level of compensation paid by an organization compares favourably but also requires that it satisfies the principle of internal equity and equity with job content.

Pitfield (1950), in his book, “Business Organization” explained that bonus provide greater benefits for output above a certain agreed level. He also posited non-monetary incentives as fringe benefits made available to staff and are regarded as an addition to wages and salaries. It consists of direct and indirect benefits. The direct benefit may include profit-sharing, sick pay,
pension schemes, etc. the indirect benefits may include welfare amenities, social and recreational facilities, etc.

Ubeku (1975) in his book, “Personnel management”, stated that ‘the key to understanding of human behavior is knowledge of human needs’. People work in order to satisfy their needs and these needs can be met through monetary incentives. Monetary incentives are repayment in cash and in money form for a given work done by employees in the organisation. Monetary incentives take variety of forms and include wages, salary, allowances, bonus, etc.

Gellerman (1976) in his book, “Managers and Subordinates”, insisted that pay, if only it could be properly packaged would somehow bring about the desired approach to work.

Adam (1999), in his book, “Advances in Experimental Psychology”, argued that employee’s perception of his pay in relation to other employees of similar status could affect the satisfaction, which he gets from the job. From his work, when there is a discrepancy between what he gets and his efforts in relation to what employees of similar status gets, the employee become dissatisfied with the job.

Murray, (1999), in his study, “Job satisfaction of professional and para professional library staff at the University of North Carolina”, stated that while earlier generations viewed their jobs predominantly as a source of income, today’s employees see their careers as more.

Cole (2000), in his book, “Personal Management”, stated that benefits are forms of compensation beyond wages for time worked, including various protection, man’s services, pay for time not worked, and income supplements. Such benefits include housing allowance, transport allowance. According to him, a salary system can best be considered as a mechanism by which an organization plans how to attract, retain, reward and motivate its
salaried employees to provide a fair reward to those performing specified roles, to provide an
incentive for employees and to keep pace with inflation.

Management”, has stated that money is not a motivating factor for employees (assuming that
basic needs are being met) and that other factors such as job satisfaction, respect,
advancement, work environment, and so on, are much more important in influencing
employee attraction, motivation and retention.

Kepner et al (2003), in their book, “The Role of Monetary and Non-monetary incentives
in the Workplace As influence by career stage” explained that the purpose of monetary
incentives is to reward employees for excellent performance through money. They noted that
monetary incentives include profit sharing, project bonuses, stock options, warrants and
scheduled bonuses (e.g. Christmas and performance-linked and additional paid vacation). The
purpose of non-monetary incentives is to reward associates for excellent job performance
through opportunities. Non- monetary incentives include flexible work hours, training,
pleasant work environment and sabbaticals. Employees encounter problems, frustrations, and
anxieties in their work environment where certain incentives are de-emphasized.

Jeffrey (2003), in his study, “The Benefits of Tangible, Non-Monetary Incentives” on
behalf of the Society of Incentives & Travel Executives (SITE) foundation, found that while
most people stated a strong preference for cash, their performance was markedly better when
in pursuit of a non-cash incentive. Participants working toward a noncash incentive improved
by 38.6% relative to the no incentive condition and showed significantly better improvement
than the 14.6% lift created by the cash incentive. He also cites three major benefits of non-
monetary benefits; Separability, Memory Value and Trophy Value. A study conducted in a
public sector organisation in Turkey suggested that employees valued non-monetary benefits as much as monetary benefits. The employees claimed that the usage of non-monetary benefits was inadequate in their organisation and that they look forward to such initiatives.

Bonke and Browning, (2003), in their study, “The distribution of well-being and income within the household”, stated that measures taken by the organization to enhance the well-being of its employee contribute to job satisfaction. Today more and more companies are offering spouse relocation assistance as an employee benefit. Other benefits provided by organizations may include vacations and recreation facilities to the employees and their family members. Some organizations even go to the extent of involving family members of their employees in company celebrations.

Yavuz (2004), in his study, “The use of non-monetary incentives as a motivational tool: a survey study in a public organization in Turkey”, claimed that employees prefer job related non-monetary benefits more than social or any other tangible non-monetary incentive. The purpose of this study is to demonstrate to what extent non-monetary incentives are utilized in the public sector of Turkey and whether non-monetary incentives have the potential to increase the motivation of public employees as much as the monetary incentives.

A survey conducted by Ajilon Office (www.ajilon.com) 2004, a specialty staffing and recruiting services firm of America stated the following as the top five reasons for an employee to stay on their job, being paid well, liking their co-workers, having job security/ or building equity / seniority and having good benefits such as medical/ dental insurance and pensions plans.

Sonawane, Pragya (2008)54, in his study, “Non-monetary benefits: employee choices & organizational practices”, stated that non-monetary benefits are the formal reward platforms
whereby a token is given to employees for recognising their efforts or/and achievements.’ His study brings an interesting view that employees did not perceive recognition as sincere when given by an estranged senior. He states that when an organisation's reward philosophy supported an extensive configuration of non-monetary benefits and when the organisation believed in recognising and celebrating achievements, the employees also tend to value the benefits more. In his study Sonawane also found that employees give more emphasis to informal programs such as tokens and praise or a note of thanks from senior manager. The study describes the phenomenon and discusses the perspectives of employees as well as the employers and compares the approaches of Indian and foreign multinationals in the Fast Moving Consumer Goods (FMCG) sector.

3.11. Employee Retention strategies

Employee retention can be defined as the effort by an employer to keep desirable workers in order to meet business objectives.

Wetprasit, (2006), in his study, “Impact of work-related determinants on job satisfaction and retention intentions in Thai spa industry”, investigated the impacts of work related variables on employee job satisfaction and retention intention in the context of spa services. A constructed questionnaire consisting of 64 items, accompanied by in-depth interviews, was employed. A sample of 37 spas was surveyed in Chiang Mai (5), Phuket (15), and Bangkok (17) which represented the North, South, and Central region of Thailand respectively. A total of 747 spa employees participated in the survey. Factor analysis, ANOVA and multiple regression analysis were used. He stated that it has been often found that the highest performing workers find good alternatives and are the first to leave. Hence, organizations should devise a strategy for keeping their valuable assets (employees) satisfied.
3.11.1. Strategic Initiatives for Job Satisfaction and Employee Retention:

**Stress Management:** Elangovan (2001)\(^55\), in his study, “Causal ordering of stress, satisfaction and commitment, and intention to quit: A structural equations analysis”, has indicated strong causal links between stress and job satisfaction (higher stress leads to lower satisfaction). Role ambiguity and role conflict, identified as role stressors have been reported to be negatively associated with job satisfaction.

Firth et al., (2004)\(^56\), in their study on retail salespeople, “How can managers reduce employee intention to quit?”, found that job stressors (e.g. work overload, job ambiguity) are the factors that trigger the chain of psychological states that lead to intention to quit. They suggested that supervisor support can reduce the impact of stressors on psychological states and intentions to quit. Monitoring workloads and supervisor-subordinate relationships by management may not only reduce stress but increase job satisfaction and commitment to the organisation.

**Career Development Plans:** Wetprasit (2006) feels that money no more seems to be the prime motivator. Rather, people enquire about career prospects in an organization before applying for a job. To improve retention, companies should adopt career development policies in alignment with the needs of the employees.

supervisors in the residential construction industry”, Voisard, (2008)\textsuperscript{58}, in his study, “Employee empowerment and employee satisfaction in the workplace”, stated that employee empowerment practices positively affect employee satisfaction. Employees can be empowered through involvement, which in turn is possible through greater emphasis on collective bargaining, continuous improvement of team performances and suggestion schemes.

Positive work experiences: Testa et al., (1998)\textsuperscript{59}, in their study, “Linking job satisfaction and customer satisfaction in the cruise industry: implications for hospitality and travel organizations”, stated that employee’s satisfaction with his organization, his supervisor and work environment has been found to contribute to the employee’s appraisal of his work experiences and work related behavior. An organization should foster a culture where people grow and learn and discover the joy of working together.

Pay for performance: Griffeth et al., (2000)\textsuperscript{60}, in their study “A meta analysis of antecedents and correlates of employee turnover: update, moderator tests and research implications for the next millennium”, have concluded from their studies that when high performers receive inadequate remuneration/rewards, they look out for alternative employment. Performance based pay systems are increasingly becoming more popular among employees.

Job Restructuring: Griffin (1991)\textsuperscript{61}, in his study, “Effects of work redesign on employee perceptions, attitudes and behaviors: a long-term investigation”, has found positive association between job redesign and employee attitudes (job satisfaction and commitment). Enrichment of jobs in such a way as to make them challenging and interesting is another intervention towards achieving job satisfaction.
Spreitzer, G.M. and Mishra, A.K. (2002)\textsuperscript{62}, in their study, “To stay or to go? Voluntary survivor turnover following an organizational downsizing”, have identified job variety and autonomy as contributors to job redesign. The theoretical model is tested on a sample of aerospace employees who survived an organizational downsizing. Ugboro, (2006)\textsuperscript{63}, in his study, “Organizational Commitment, Job Redesign, Employee Empowerment and Intent to quit among survivors of Restructuring and Downsizing”, revealed that empowerment and job redesign have proved to be effective organizational interventions for employee retention.

**Promotion and Training opportunities:** Redundancy of skills has been cited as one of the reasons for employee turnover, thereby indicating the necessity for training, re-training and multi-skill training. Much value is attached by employees to the availability of training opportunities which would prepare them for future roles.

**Perceived supervisor support:** Ismail et al., (2010)\textsuperscript{64}, in their study, “Linking Participative and consultative Leadership styles to Organizational Commitment as an antecedent of job satisfaction”, concluded that participative and consultative leadership styles have been found to be positively and significantly correlated to job satisfaction and indirectly related to organizational commitment. Also employees often look up to their supervisors for sympathetic help with personal problems.

**Mentoring:** Matelic, (2001)\textsuperscript{65}, in his study, “Mentoring Tradition: what research tells us about meaning of mentoring?” stated that providing individual attention to employees’ personal and work-related problems by supervisors (mentors) improves the level of satisfaction. One-to-one sessions between employees and line managers allow greater scope for discussion about roles and objectives. Mentors should be committed in providing upward
mobility and support to a protege’s professional career at one end and personal development on the other.

**Reward and Recognition:** Mohrman et al., (1995) in their book, “Creating high performance Organization”, stated that rewards, higher recognition of achievement and appreciation by the supervisor and peer group, increases the employee satisfaction.

**Fair Performance Appraisal with Feedback:** Employees need to be communicated about the performance evaluation criteria and adequate feedback along with suggestions to improve performance should be tactfully delivered.

**Work-Life Balance:** Landauer, (1997) in his study, “bottom-line benefits of work/life programs”, stated that implementing work-family policies helps to ease family demands, and by doing so, reduces employee absenteeism and turnover. Baltes, et al., (1999), “Flexible and compressed work week schedules: A meta-analysis of their effects on work-related criteria”, stated that initiatives such as telecommuting, flexi time, job-sharing, shorter work weeks and on-site child care centers will provide better work-life balance.

A Canadian study by Lum et al (1998), “Explaining nursing turnover intent: job satisfaction, pay satisfaction or organizational commitment?” assessed the impact of certain pay policies upon the turnover intentions of pediatric nurses. Two types of salary supplements were introduced – bonuses to intensive care nurses only and a 5 per cent salary differential for all staff nurses to reduce turnover. The supplements were structured in such a way as to have the most favourable influence on the senior staff nurses who were presumed to be the most experienced and those most valuable employees. Satisfaction with pay had both direct and indirect effects on turnover intent. They found that although pay satisfaction (unlike job satisfaction) was significantly associated with reducing intended turnover, its
indirect effect upon turnover intent, mediated through job satisfaction and organisational commitment was weaker. In particular, nurses with greater experience were more satisfied with their pay and were less likely to leave, which was the anticipated effect of the salary supplements. The anecdotal evidence showed that the senior nurses perceived the pay supplements to be an important recognition of their contribution to the organisation.

A study by Incomes Data Services (IDS) (2004)⁶⁹, “Improving staff retention” suggests that where there is a general turnover problem within the organisation, companies often take a holistic approach aimed at fully engaging with staff. This may encompass a wide range of measures such as:

• improving recruitment procedures to ensure candidates receive a realistic impression of the company and the job
• supporting new recruits during the critical first few weeks in the job
• providing clear career paths, interesting work and support for personal development
• considering work-life balance issues
• keeping pay in line with appropriate market rates
• offering an attractive employee benefits package
• creating a pleasant working environment
• communicating and consulting effectively with employees

Davies et al, (2001)⁷⁰, in their study, “The role of appraisal, remuneration and training in improving staff relations in the Western Australian accommodation industry: a comparative study”, examined the effect of three human resource strategies performance appraisal, salary and benefit strategies, and training and development initiatives in the Western Australian accommodation industry. The authors concluded that only training and development indicated a reduced turnover of employees. By means of a survey it was found that improved HR practices can lead to an improvement in staff relations, an improvement in
quality, commitment and productivity on the part of the employee, and can also work towards reducing labour turnover, hence not only saving the organisation money in recruitment and induction costs, but also improving profitability.

3.11.2. Employee Retention Practices

Kaplan, R., & Norton, D. (2001), in their study, “The strategy-focused organization: How balanced scorecard companies thrive in the new business environment”, and Phillips, J. J. & Connell, A. O. (2003), in their study, “Managing Employee Retention: A strategic Accountability Approach”, suggests that effective practices in a number of areas can be especially powerful in enabling an organization to achieve its retention goals. These practice areas include:

- **Recruitment.** Their study suggests that recruitment practices strongly influence turnover. Research shows that presenting applicants with a realistic job preview during the recruitment process has a positive effect on retention of the new hires.

- **Selection.** The use of biographical data (bio-data) is an especially effective technique for handling the selection process. Bio-data empirically identifies life experiences that tend to differentiate those who stay with an organization and those who quit. Research suggests that life experience associated with people who stay may include significant tenure on previous jobs, educational experience, involvement and leadership in career-related clubs and organizations, and early work experiences. Assessing “fit” for the organization (with the job and the organization and its culture) can also shed light on the compatibility of an individual with the work environment.

- **Socialization.** Turnover is often high among new employees. Research has shown that socialization practices—delivered via a strategic on boarding and assimilation program—
can help new hires become embedded in the company and, thus, more likely to stay. These practices include shared and individualized learning experiences, formal and informal activities that help people get to know one another, and the assignment of more seasoned employees as role models for new hires.

- **Training and development.** The research shows that if people are not given opportunities to continually update their skills, they are more inclined to leave. However, training and development is a double-edged sword as training may make employees more marketable, increasing the ease with which they can be recruited by rival organizations.

- **Compensation and rewards.** The study shows that pay levels and satisfaction are only modest predictors of an employee’s decision to leave the organization; however, a company has three possible strategies:
  1. Lead the market with respect to compensation and rewards.
  2. Tailor rewards to individual needs in a person-based pay structure.
  3. Explicitly link rewards to retention (e.g., attach vacation hours to seniority, offer retention bonuses or stock options to longer-term employees, or link defined benefit plan payouts to years of service).

- **Supervision.** Research suggests that fair treatment by a supervisor was the most important determinant of retention. This would lead a company to focus on supervisory and management development and communication skill building.

- **Employee engagement.** It has been observed that engaged employees are satisfied with their jobs, enjoy their work and the organization, believe that their job is important, take pride in their company, and believe that their employer values their contributions. One
study found that highly engaged employees were five times less likely to quit than employees who were not engaged.

3.11.3. Employee Retention in Hotels

In the hotel industry, manpower is the greatest asset that an organization can have. Furthermore, high attrition rates incur major costs to the hotel including recruiting expenses, training expenses, unemployment insurance and guest service of a quality less than one has been striving for. Employee turnover is very high (approximately 50%). There are heavy visible and invisible costs involved in this. A vacant position till it is filled there is more work for the remaining employees. In case of hotels where customer satisfaction is more significant the employers cannot compromise on this even though there is shortage of staff. The employee turnover leads to customer dissatisfaction which in turn causes the biggest expense i.e. loss of productivity- up to 70 percent of the total cost in some cases.

Jeffrey Pfeffer (1998), in his book, “The Human Equation: Building Profits by Putting People First”, states that companies that manage its people right will outperform companies that don’t by 30 to 40 percent. Researchers at University of Pennsylvania found that spending 10 percent of a company's revenue on capital improvements increased productivity by 3.9 percent. But investing that same amount in developing the employee will result in increased productivity more than double the amount, i.e., to a whopping 8.5 percent.

3.12. Summary

The purpose of this chapter was to review the literature on cost of employee turnover at various levels, reasons for employees to stay on the job, reasons for employees to leave the job, monetary benefits and non-monetary benefits preferred by employees, and the retention strategies preferred by employees in Indian Hotel Industry. The literature review undertaken
has given the following conclusions. Most studies on cost of employee turnover have been done in Australia, USA and UK. There are no studies found relating to the cost of employee turnover at various levels of employees in Indian Hotels. There are no studies found which compare the reasons stated by employees to stay on the job and reasons for employees to stay on the job perceived by heads of the departments of the Indian Hotels. Similarly, there are no studies found which compare the reasons stated by employees to leave the job and reasons for employees to leave the job perceived by heads of the departments of the Indian Hotels. Though there are many studies which shows the various types of monetary benefits and non-monetary benefits given to employees, there are no literature found on employee preferred monetary benefits and non-monetary benefits in Indian Hotels. Similarly, there are studies which talks about the employee retention programmes followed by the employers, there are no studies found which shows the employee preferred retention strategies in Indian hotels.

Taking these gaps in the existing literature into consideration the current study aims to find the Cost of Employee Turnover at various levels (position level, performance level and critical level) of employees in Five Star Hotels in Karnataka. The study also tries to find the gap between the reasons stated by employees to stay in their present job and reasons for employees to stay on their present job perceived by the heads of the departments of Five Star Hotels in Karnataka. The study tries to find the gap between the reasons stated by employees to leave their present job and the reason for employees to leave their present job perceived by the heads of the department of Five Star Hotels in Karnataka. The study also aims to ascertain the most preferred monetary benefits and non-monetary benefits by the employees of Five Star Hotels in Karnataka. The study also tries to find the most preferred retention strategies by employees of Five Star Hotels in Karnataka.
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