

# LABOUR TURNOVER IN THE HOSPITALITY INDUSTRY

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## ABSTRACT

*Labour turnover are inevitable and many businesses and industries are dealing with this issue every single day. It is also a great issue in the Hospitality Industry, the intensity were varies according to the size of the establishment, some are low and many is as high as the height of their buildings. The fact also stated that workers in the hospitality industry in the early stage of their career expect to move from one job to another, creating a very low desirability of steady workplaces and the job security. Moreover, the labour turnover is very much increases when employees are far more specialised, more difficult to find and requires more training. Therefore, it is in the best interests of hospitality managers to understand the causes and the effects of turnover so that they may reduce its costs.*

**Keyword:** labour, turnover, hospitality, costs, employment

## ABSTRAK

*Perputaran tenaga kerja adalah mutlak dan tidak dapat dihindari, banyak bisnis dan industri menghadapi isu ini setiap hari. Hal ini juga merupakan isu yang besar di industri Hospitaliti, intensitasnya pun cukup bervariasi tergantung dari besar-kecil usahanya, beberapa memiliki perputaran tenaga kerja yang rendah, namun banyak juga yang tinggi setinggi bangunan usahanya. Fakta juga menyatakan bahwa para pekerja di industri Hospitaliti di awal karier mengharapkan untuk berpindah dari satu pekerjaan ke pekerjaan yang lainnya, menciptakan hasrat yang rendah terhadap tempat kerja tetap dan jaminan pekerjaan. Kemudian, perputaran pekerjaan juga meningkat pada saat para pekerja memiliki spesialisasi, sulit untuk dicari dan direkrut dan juga pekerja yang memerlukan banyak pelatihan. Oleh sebab itu hal ini harus menjadi perhatian para manager Hospitaliti untuk lebih memahami sebab dan akibat dari perputaran tenaga kerja tersebut supaya mereka bias menekan biaya-biaya yang diakibatkan dari perputaran tersebut.*

**Kata kunci:** tenaga kerja, turnover, hospitaliti, biaya, pengadaan pekerjaan

## INTRODUCTION

Every industry throughout the world has to deal with the labor turnover in its company. Labor turnover plays a significant role in keeping the company financially stable; In addition, the financial consequences of all kinds of labor turnover are quite similar in every industry, included in the hospitality industry. Additionally, in the hospitality industry has been found that there is some evidence to suggest that turnover varies by size of the company.

Labor turnover practically measures the movement of workers who goes in and out of employment within a particular company. Furthermore, concerning the interest and issue in measuring such movement take place only when working for an employer become the norm. Typically, labor turnover measured in term of the separation rate (layoffs, quits, and discharges). According to Lee-Ross (1999), “turnover can take several forms are as follow: functional or dysfunctional, voluntary or involuntary, avoidance or unavoidable. The financial consequences of all kinds of labor turnover are quite similar in every industry, included in hospitality industry”.

## METHODS

This article will discuss the cause of labor turnover both in general and in particular, and systematically analyze the method to reduce the labor turnover and the effect to the company, also the tangible and intangible costs which associated with turnover that are exorbitant and continually increasing. The complexities in dealing with labor turnover make the discussion about it interesting and challenging. The company’s policies and the manager action so-called ‘appropriate course of action’ considering the turnover issues have to be perfect and also in the perfect situation. The issue of labor turnover is major in every business, the managerial considerable time is required to cope with it.

## RESULTS AND DISCUSSIONS

### Labour Turnover

Definition: “Labour turnover is defined as the movement of people into and out of an organisation. It is convenient to measure it by recording movements out of the firm on the assumption that a leaver is eventually replaced by a new employee. The term separation is used to denote an employee who leaves for any reason”. (Graham & Bennett, 1998).

The level of turnover depends basically on the size of the establishment, larger establishment have more severe turnover problems than smaller establishment. Small businesses are not part of a larger operation such as “chains”. They are usually a single outlet, operate as a sole proprietorship, more likely to hire individuals they know and more stable. A major chain or corporation use impersonal hiring procedure and this will result in errors and attract employees that intend to move to other jobs in an attempt to gain experience or to further their career. However, the negative consequences of labour turnover are similar for establishment of all sizes (Lee-Ross, 1999).

The hypothesis is advanced, and empirically evaluated, that long-term employment relationships in large firms stem from the greater capacity of large employers to provide job opportunities within the enterprise and the power probability of business failure facing large producers. In addition to directly lowering turnover, these factors act to raise the expected returns from

on-the-job training as the expected duration of the employment relationship increases. As a result, large firms will invest in higher levels of on-the-job training that in turn inhibits turnover. Mobility is further reduced by large firms hiring employees with lower mobility tendencies and paying mobility-inhibiting wage premium and fringe benefits in order to protect their training investments.

Hospitality industry has been characterised as having excessive level of labour turnover. With the increasingly high costs of replacing employees, it is in the best interests of hospitality managers to understand the causes and the effects of turnover so that they may reduce its costs. Labour costs for Hospitality industry include wages paid to hourly employees, salaries paid to management and supervisory staff, and employee benefits for all employees. For example, in the United States, the average labour cost is typically 25-40%.

## Measurement of Labour Turnover

There are two common formulae used for measuring labour turnover:

A- The separation or wastage rate, which express the number of separations during a period (usually one year) as a percentage of the average number employed during that period:

$$\frac{\text{Number of separation during period}}{\text{Average number employed during period}} \times 100$$

B- The labour stability index, which shows the percentage of the employees who have had at least one year's service:

$$\frac{\text{Employees with at least one year's service}}{\text{Number of employees employed one year ago}} \times 100$$

A variation on the labour stability index is the "fringe turnover index":

$$\frac{\text{Number of employees who joined and left within one year}}{\text{Average number employed during the year}} \times 100$$

(the above formulas are adapted from Graham & Bennett 1998)

Labour turnover costs may or may not decrease average employment in a partial equilibrium model of labour demand depending on the form of the revenue function, on the rates of discount and of labour attrition, and on the relative size of hiring and firing costs. If discount and attrition rates are strictly positive, firing costs may well increase average employment even when hiring costs reduce it. The labour turnover increase when employees more specialised, more difficult to find and require more training. It is made up of some or all of the following components:

- Lower production during learning period
- Lost production while the employee is being replaced
- Payment or other employees at overtime rates while waiting for replacement
- Possible diversion of efforts of more highly skilled employees while waiting for replacement
- Cost of scrap and spoiled work while job is being learned
- Cost of recruitment, selection and medical examination
- Training cost
- Administrative cost of removing from and adding to payroll

## **Reduction of Labour Turnover within Hospitality Industry**

Recently many researchers have been conducted related to methods of curbing turnover in the small and medium sized sector of hospitality industry. These researches recommend that turnover rate can be reduced by:

- Provision of job security via long term contracts (Simms, Hales and Riley, 1998)
- Strategically place induction programmes highlighting the organisation's aim for long term employment (Denvir and McMahon, 1992)
- Provision of selected benefits (retirement plans, group vision insurance, etc.) however, other benefits, such as, child care, transportation, did not have any effect on turnover (Ohlin and West 1993)
- Availability of internal labour market (hire-from-within policy) since these promotes employee commitment (Woods and Macauley, 1989)
- Availability of supervisory and management career-path programmes (Woods and Macauley, 1989)
- Union loyalty-employee's commitment to a local union (Deery, Iverson and Erwin, 1994; Iverson and Macauley 1997)
- Hiring of older employees (Harbourne, 1995, cited in Lee-Ross, 1999)

Iverson and Deery (1997) summarise the findings of their study along with the research of others and conclude that the hospitality industry tends to create and reinforce a turnover culture. Employees enter believing their career will be limited. This position may be countered by establishing promotion from within organisation and by encouraging union membership among workers. They also state that other methods could be adopted such as, recruitment and selection method, realistic job preview, bio-data collection and personality test (Lee-Ross, 1999).

## **CONCLUSIONS**

Every business in the world has to deal with labour turnover along with its impact, especially in the hospitality industry where labour turnover tends to be higher than any other industries, because of the rapid growth of this particular industry. However, as this article has discussed before, there are formulas that can measure the labour turnover. The fact that workers in hospitality industry in early stage of their career expect to move from one job to another, resulting the low desirability placed on job security. Nonetheless, there are some positive impacts such as, new workers could add new flavour to the atmosphere, and could bring new ideas. The company have to measure the labour turnover periodically, and come up with some policy, which will keep the labour turnover level at the safe and affordable level. Commonly, the consequence of having a high labour turnover is mainly financial. The methods to reduce the level of labour turnover such as, providing the job security for the long-term contract, placing induction programmes highlighting the organisation's aim for long-term employment, etc, could be used effectively to keep it at the right level. The ability of a company in the hospitality industry to keep their labour turnover's level steady, neither too high nor too low, maybe a key to a future success.

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