

PART 5

The Employment Relationship

Labour turnover and termination of employment

The issue of unacceptable rates of labour turnover within the hospitality industry is a subject much considered by researchers, and features in every report or study conducted into the hospitality workforce characteristics or major challenges for the sector, not just in the UK but worldwide (see Lucas, 2004: 32–34). A government report into the industry in the UK (DfEE, 2000) points to the labour shortages and skill shortages across certain jobs within the sector, noting that, ‘Best practice employers were able to keep turnover of full-time employees down to around half the industry norm of 48%.’ In its 2003 report on UK industry levels of labour turnover, the CIPD considered that, ‘highest levels (commonly in excess of 50%) are found in retailing, hotels and restaurants, (and) call centres’. These levels should be compared with a national UK average of 16% labour turnover per annum. There has been a significant amount of research into the causes and impacts of high levels of labour turnover, much of the discussion debating the advantages as well as the disadvantages or dysfunctionality of such levels. It is



important to note that there can be some advantages of a healthy level of labour turnover, such as skills development, labour market regeneration and the 'fresh blood' argument. The causes of this turnover can be many in type, exemplified by pay and conditions, lack of job satisfaction, lack of commitment, lack of training and career development, work-related stress and the plain inevitability of high turnover due to the transient nature of many hospitality workers. Management, and their style and competencies, are not exempt from blame, although managers are certainly increasingly aware of the potential costs and service quality problems associated with high turnover (Rowley and Purcell, 2001). There is also evidence that rates of turnover vary between different sectors in the industry (Deery, 2002).

It is clear that rates of labour turnover and wastage are a problem for many businesses, especially in attaining the consistency in product and service quality so desired by hospitality firms in an evermore competitive market (Hoque, 2000; Tracey and Hinkin, 2004). A study in Australian hotels by Deery and Shaw (1999) linked the turnover issue with cultural perspectives, concluding that within the sector there has developed a phenomenon which is itself a culture, a labour turnover culture. They propose that a turnover culture is typified by the acceptance of labour turnover behaviour by peers, by management and by the organizations themselves. They assert that there is a relationship between an individual worker's values and norms and the propensity to leave employment, and that a turnover culture exists where turnover behaviour is regular, accepted as the norm and may be perceived as beneficial to both the employer and employee. Deery (2002) later reports that a set of variables influence the intention of an employee to leave their employment, such as their commitment to the organization, the promotional opportunities, work difficulties and job satisfaction. The relationship between organizational culture and labour turnover is an area which would warrant further detailed research, and as discussed in Chapter 2, the significance of culture in a contemporary definition of HRM is a major factor.

It is important to distinguish between labour turnover and stability rates. Labour turnover, defined very simply, is the total number of leavers expressed as a percentage of the total number of employees in a department, unit and/or organization. Stability is defined (Hospitality Training Foundation, 1998) as the proportion of employees who stay for more than one year. These figures show that almost 80% of employees have been in their job for more than one year. This is explained by the fact that certain jobs have very high turnover rates whilst others do not.

There are of course many factors influencing labour turnover. These include

- 1 the nature of the industry itself – e.g. seasonal, limited career structures, fragmented, large number of small units
- 2 the nature of individual units – e.g. location, size, staff/work ratios
- 3 the nature of individual managers – e.g. lacking formal management training, acceptance of high labour turnover
- 4 the high proportion of workers from the secondary labour market.

In 1998 the Hospitality Training Foundation (HTF) published *Key Facts and Figures* (Davie, 1999), which reported the statistics shown in Figure 14.1.

Sector	Full-time employees		Part-time employees	
	Labour turnover (%)	Staff stability (%)	Labour turnover (%)	Staff stability (%)
Hotels	50	76	42	66
Restaurants	55	71	80	52
Pubs and bars	40	66	75	49
Canteens and catering	25	77	58	71

Figure 14.1 Labour turnover and stability in the hospitality industry
Source: Davie (1998).

In order to understand and control labour turnover and staff retention rates properly at a unit level, not only is it important to analyse these rates by department (as illustrated in Figure 14.2), but also it is necessary to look at the 'survival curve'. This is a means of identifying when labour turnover is most critical; is it occurring during the early induction period, the subsequent settling-in period or after employees have become settled? Such an analysis (Figure 14.3) can indicate causes such as poor induction or a change of supervisor or manager. Regarding induction, it has been estimated that 20% of ALL leavers leave within 0 and 6 months in post (CIPD, 2003). With such information the employer may be able to take appropriate measures.

Whilst labour turnover is analysed both by department and by length of service, the actual reasons for employees leaving need to be determined also. Some employers do little or nothing about such an analysis whereas others obtain very detailed information. Figure 14.4 shows how one of the fast food companies analyses employees' reasons for leaving.

Sampled departments	Two large London hotels		Medium-sized county town hotel
	A	B	
Kitchens	140%	80%	} 47%
Wash-up, porters	550%	135%	
Coffee shop	125%	100%	17%
Hall porters	68%	105%	0%
Housekeeping	150%	146%	28%
Weighted average <i>all</i> departments	110%	105%	40%

Figure 14.2 Labour turnover in three hotels

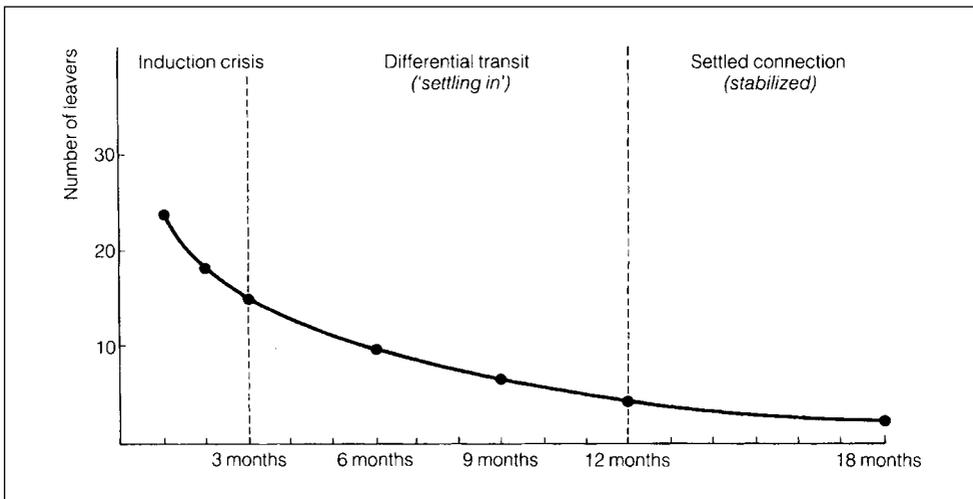


Figure 14.3 A survival curve

Codes	
1 Another job	11 Retirement*
2 Returned to college or school	12 Failure to return after leave of absence*
3 Medical reasons	13 Conclusion of temporary employment*
4 Marriage	14 Reduction in labour force*
5 Relocation	15 Unsatisfactory performance*
6 Dissatisfaction with wages	16 Misconduct*
7 Undisclosed personal reasons	17 Gross misconduct*
8 Resigned without notice	18 Absenteeism*
9 Dissatisfaction with work	19 Permanent disability*
10 Dissatisfaction with conditions	20 Death*

* Involuntary leavers

Figure 14.4 A list of reasons for leaving an employer

With such information, management may then be in a position to consider changes and improvements to their personnel practices in order to reduce labour turnover. Causes of turnover may include

- 1 wage and salary rates falling behind the rates offered by competitors
- 2 better conditions generally (such as reduction in split shifts) being offered by competitors
- 3 a decline in quality of supervision and departmental managers
- 4 recruitment, selection, induction and training practices needing improvement
- 5 unfair or uneven work distribution.

The statistical analysis of labour turnover is discussed further in Chapter 17. Both the staff turnover report itself and the information deduced from such reports are of a statistical nature, i.e. they are mainly concerned with groups and numbers of people.

The actual termination procedures adopted, however, are concerned with individuals and these are divided into two main types: voluntary, where the employees leave of their own free will, and involuntary, where the employer decides that employment should terminate. Retirement can fall into either category.

Voluntary termination

Most often this arises where an employee has the opportunity to take other employment that offers more attractive conditions. But, because employees leaving voluntarily have not been dismissed by the employer, they are probably the employees that an employer would most like to retain. It is for this reason that these employees should be interviewed to determine their reasons for leaving. The exit interview may reveal specific information regarding conditions of employment, competitors' conditions and the quality or otherwise of supervision, training and selection procedures. Finally, a well-conducted exit interview can ensure that employees leave on good terms. Ex-employees are, after all, to some extent an employer's ambassadors, broadcasting the employer's reputation among other potential employees. In some cases it may be advisable to supplement an exit interview by talking to a departing employee's past supervisor in order to check the reasons given by the employee.

Involuntary terminations

In this industry, along with some others, dismissal is often used as the first remedy for a variety of ills, rather than being used as the last. In fact, in some sectors of the industry dismissals may be quite indiscriminate; for example, it is common practice for the entire bar staff to be dismissed because of bad liquor stock results. The innocent suffer the same fate (dismissal) as the guilty.

One recognizes that pilferage in this industry is a serious problem, but other measures such as more methodical selection, checking of references, better conditions of employment and better career prospects, along with stricter and more accurate means of control, may be better solutions than indiscriminate sackings.

The dismissal of an employee is a very serious measure, particularly now that the law provides employees with protection against unfair dismissal. The law on dismissals is dealt with in more detail in Chapter 16. The most common reasons for dismissal are

- 1 lack of ability
- 2 conduct such as late arrival, absenteeism or disobedience
- 3 personality.

In all cases when dismissal is contemplated, other remedies should be considered first; for example, lack of ability may well be the fault of the employer because they did not select or place the employee carefully enough, or because they did not provide appropriate training. Secondly, tighter discipline could possibly overcome the problem and a discussion with the employee to discover the underlying causes would possibly be helpful (Figure 14.5). In the third case, if it is a clash of personalities, and if the organization is big enough, a transfer may be the solution.

On the other hand, once a decision is made to terminate employment it must always be borne in mind that the employer may have to prove in an industrial

tribunal that the dismissal was 'fair' as laid down by the Employment Rights Act 1996. Documentary evidence, therefore, of unsatisfactory work or behaviour, and of warnings given may be vital in proving the case. It is important, therefore, to operate a formal system of warnings that can be used as a last resort by the employer should they be called to an industrial tribunal. Typical warnings could look like those shown in Figure 14.5.

<p>RECORD OF VERBAL WARNING Disciplinary Procedure (Forte Hotels)</p> <p>Employee's name:</p> <p>Hotel:.....</p> <p>Department:</p> <p>Position:</p> <p>I have had reason to issue a verbal warning to the above employee in respect of:</p> <p>Signed: Supervisor/Head of Department/Manager</p> <p>Date:.....</p> <p>To be retained on the employee's personal record file, and removed at the end of six months if there is no further offence.</p>
<p>FIRST WRITTEN WARNING – CONDUCT Disciplinary Procedure</p> <p>Employee's name:</p> <p>Hotel:.....</p> <p>Department:</p> <p>Position:</p> <p>Further to your interview on (date), regarding the following offence, I have cause to issue you a first written warning as to your future conduct.</p> <p>Details and date of offence.....</p> <p>In the event of a recurrence or continuance of the above, or any other breach of discipline within twelve months, you will be issued with a final warning and thereafter will be liable, should there be no improvement in your record, to disciplinary action, which could include dismissal.</p> <p>Signed: Manager</p> <p>Date:.....</p> <p>A copy of this warning will be retained in your personal file, but will be removed at the end of twelve months if your conduct has been satisfactory during that period.</p> <p>I confirm that I have received a copy of this written warning.</p> <p>Signed:</p> <p>Date:.....</p>

Figure 14.5 Examples of written warnings
Source: All examples reproduced by courtesy of Forte Hotels.

FIRST WRITTEN WARNING – PERFORMANCE Disciplinary Procedure

Employee's name:

Hotel:

Department:

Position:

I regret I have to warn you that considerable improvement must occur in your performance as set out below. Assistance and guidance will be given to you to achieve the required standard, but unless this is reached within the period specified, you will be issued with a final warning, and thereafter will be liable, should there be no improvement in your performance, to dismissal.

Area of sub-standard performance	Details of improvement required
.....

Signed:

Manager

Date:

Date by which performance will be reviewed:

A copy of this warning will be retained in your personal file, but will be removed at the end of twelve months if your conduct has been satisfactory during that period.

I confirm that I have received a copy of this written warning.

Signed:

Date:

FINAL WARNING – PERFORMANCE Disciplinary Procedure

Employee's name:

Hotel:

Department:

Position:

I regret to have to tell you that following the written warning regarding your performance given to you on there has been no improvement in your performance. This is therefore a final warning and if there is no improvement by you will be liable to dismissal.

Signed:

Manager

Date:

A copy of this warning will be retained on your personal file but will be removed at the end of twelve months if your conduct has been satisfactory during that period.

I confirm that I have received a copy of this written warning.

Signed:

Date:

Figure 14.5 *continued*

FINAL WARNING – CONDUCT Disciplinary Procedure

Employee's name:

Hotel:

Department:

Position:

Further to your interview on (date), I have cause to issue a second and final warning as to your future conduct.

Details and date of offence

Any recurrence or continuance of the above, or any other breach of discipline within twelve months, will lead to disciplinary action, which could include dismissal.

Signed: Manager

Date:

A copy of this warning will be retained in your personal file, but will be removed at the end of twelve months if your conduct has been satisfactory during that period.

I confirm that I have received a copy of this written warning.

Signed:

Date:

STATEMENT OF DISCIPLINARY ACTION Disciplinary Procedure

Employee's name:

Hotel:

Department:

Position:

Further to your interview on (date), it has been decided that the following disciplinary action will be taken (delete as appropriate).

- 1. Dismissal with weeks notice
- 2. Summary dismissal for gross misconduct

Details and date of offence

If you wish to appeal against this disciplinary action you have a right to do so in accordance with the Disciplinary Procedure. The Personnel Officer is available to advise you how to do this.

Signed:

Position:

Date:

TO BE SIGNED BY THE EMPLOYEE

Right of Appeal

I acknowledge that I have received a copy of this statement. I understand that I have the right of appeal against this disciplinary action which *I do/do not wish to take up. Any appeal must be made within 5 working days of the date of dismissal.

Signed: Date:

*Delete as appropriate

Figure 14.5 continued

Redundancy

The other main form of involuntary termination is of course redundancy. This is where a job is eliminated owing to such things as changes in methods, or mergers. In this case the law lays down certain minimal payments to be made to the employee. In addition to this payment some employers, recognizing the inadequacy of the amounts awarded by the redundancy legislation, allow what is known sometimes as 'severance pay'. This is additional to redundancy pay and is usually calculated by using some formula that recognizes age, service and present earnings. Employers must recognize, however, that redundancies are sometimes the fault of their own lack of forward planning. If planning, and this includes human resource planning, is conducted thoroughly, many redundancies can be avoided by allowing natural wastage to reduce the labour force. But once it becomes apparent that redundancies are unavoidable this fact should be discussed with employee representatives so that plans for a properly phased rundown can be agreed (as laid down in employment protection legislation). This may include voluntary early retirements and compensation payments for voluntary terminations, and may also include special counselling and other services for the employees made redundant. In some cases it may be essential to keep employees working to a certain date, in which case special 'incentive payments' for them to stay in the job will have to be agreed.

Retirement

The last type of termination is, of course, when a person goes into retirement; and these days some of the more enlightened employers recognize that their responsibility extends beyond providing a pension and the proverbial gold watch. In fact, they provide some form of pre-retirement preparation that enables an individual to adjust to completely changed circumstances, because not only does he or she suddenly have greatly-increased free time but income may drop considerably and contact with friends and colleagues may be reduced. This preparation may take the form of a steadily reducing working week with attendance at a pre-retirement course. In addition, companies such as Granada run pensioner support schemes, whereby the company continues to maintain an interest in their pensioners through visits and other company benefits schemes.

Exit interviews

The importance of interviewing employees when they leave was touched upon briefly earlier in this chapter, but it cannot be overemphasized that the numbers and types of people leaving an organization are one critical indication of the success or otherwise of an employer's human resource policy. Employees leaving can be a valuable source from which to learn where improvements in personnel practice can be made. With few exceptions, therefore, all employees should be interviewed before their departure, in order to

- 1 learn the real reasons for their departure (unless these are patently obvious)
- 2 pinpoint trouble spots and causes of irritation and frustration

- 3 inform employees of all their benefits and rights, such as pensions and insurance. Pensioners will need to know what rights they retain, such as insurances, holidays and discount purchasing facilities.
- 4 explain the make-up of the final pay cheque, including such items as holiday pay
- 5 hand over the P45 or obtain a forwarding address
- 6 collect any company property that may be outstanding, such as cash advances, equipment, uniforms, protective clothing
- 7 part on friendly terms, if possible, so that ex-employees act as ambassadors.

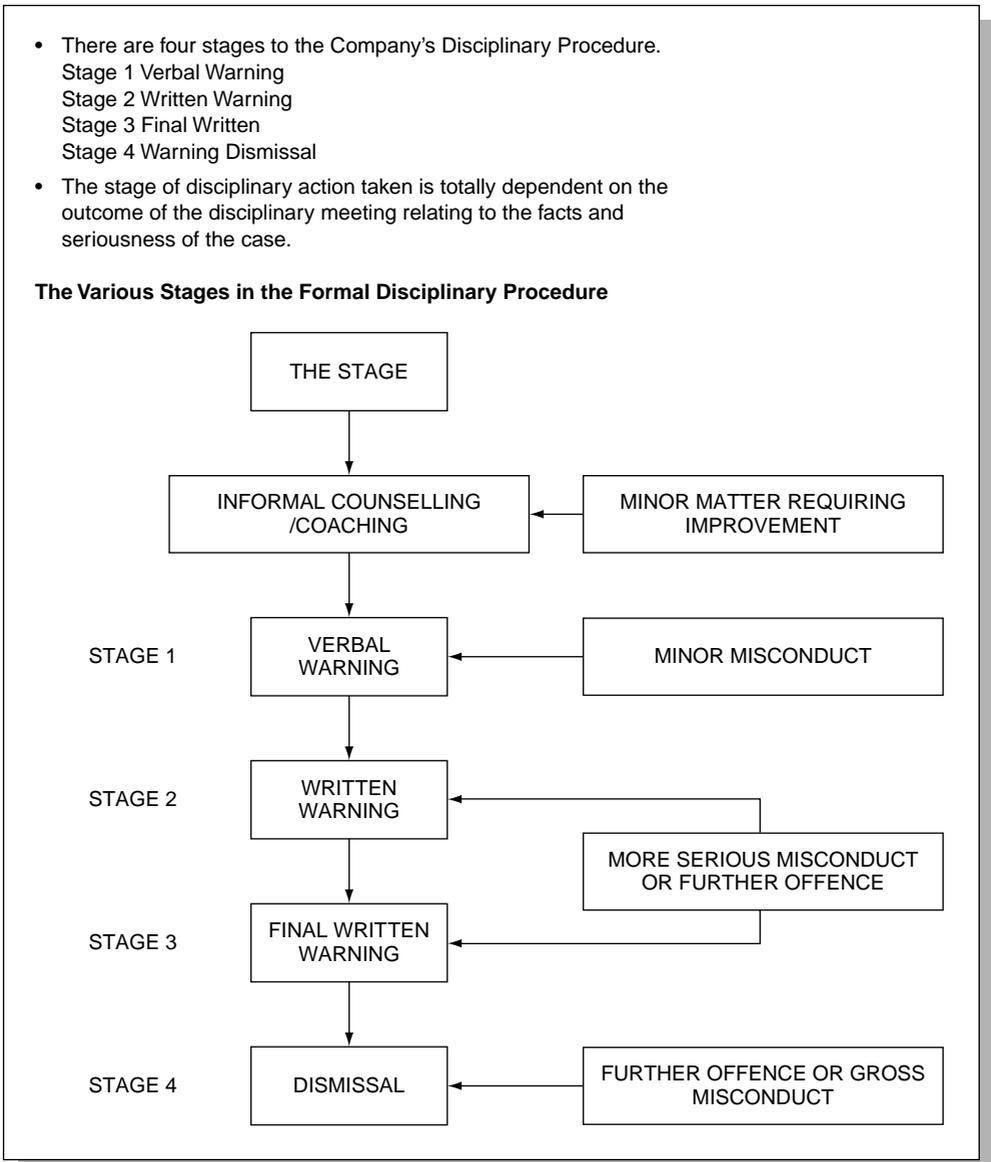


Figure 14.6 Marriott Hotel's disciplinary procedure

Source: Reproduced by courtesy of Marriott Hotels.

Who dismisses?

When the need arises to dismiss an employee, the question of who actually dismisses also arises. Many line managers feel that they need to have this right as a support to, and indication of, their authority. Others, on the other hand, would dearly like to abdicate the responsibility to someone else such as a personnel officer. However, because line managers, in the last resort, are responsible for the results of their departments, they should carry this burden and they should make the decision assisted and guided by specialists, where they are employed, such as personnel officers. In many circumstances it is best for the 'grandfather' principle to be applied to dismissals. This means that no person can dismiss subordinates without the approval of his own superior. Furthermore, in large organizations the approval of the personnel officer or department should also be obtained because they will know if any opportunities exist for an employee about to be dismissed or if legal consequences are likely. It has now become common practice in many companies for the right to dismiss to be held by the unit manager only, with the subordinate having the right to suspend and no more. Figure 14.6 illustrates one company's disciplinary procedure through its various stages.

Costs of labour turnover

Assessing the costs of labour turnover is extremely difficult. It is relatively simple to identify the factors that need to be taken into account but to put a cost to them is not so easy. For example, to include the costs of a manager's time is debatable because one has to know what they would have been doing if they had not been interviewing an applicant. Major costs can be analysed as including

- 1 costs associated with Leaving – personnel administration, payroll administration, exit interviewing
- 2 costs associated with Replacement – direct costs such as advertising and recruitment, selection processes including administration of applications, shortlisting and interviewing, agency commission if applicable, possibly travel expenses, postage and stationery
- 3 costs associated with Transition – direct and indirect costs such as relief cover and overtime payments, training costs, low productivity during training, possible wastage during training, induction time
- 4 costs of an indirect nature – such as management and supervisory time dedicated to the recruitment, selection and induction activities, and the potential loss in customer satisfaction and repeat business.

The CIPD (2001) estimates the overall average cost of turnover per employee to be around £4000, with naturally the highest costs being for managerial positions and skilled professionals such as highly sought-after heads of department with very special experience and competencies. Following a nationwide survey, the CIPD estimates that the labour turnover cost per leaver in the retail, hotel and leisure sectors to range from £5000–6000 for managerial/professional posts to £1500 for an operative. The report also highlighted that 68% of the sample (483 organizations out of the 605 surveyed) indicated that labour turnover had a negative effect on business performance. Note, however, that 5% of the companies actually declared a positive effect of some level of turnover, mainly due to the 'fresh blood' argument, as discussed in the introductory section of this chapter.

The HTF published the following data concerning the average costs of replacing hospitality sector employees (Davie, 1999):

Operative	£500
Craft and skilled	£1652
Clerical	£1746
Technical	£3671
Professional	£4861
Managerial	£5008

It would be a sanguine exercise for any business, large or small, to estimate the cost of replacing leavers and assess the impact on sales and profitability as a result. Each business is different and circumstances cannot be overgeneralized but often the cost of labour turnover is disregarded even by those managers who scrutinize in great detail their financial reports for every possible saving in operating costs. Labour turnover is undoubtedly a measure or barometer of the success or otherwise of HRM practices and line management approaches to employee relations and, where the rate is higher than is acceptable, can be of great concern to the customer and their desire for consistency in the quality of product and service and even the behavioural aspects of recognition being known by name by the employee in the service encounter. At the very least, management and HRM professionals must monitor and analyse the reasons for turnover and take action where discernible and negative trends are evident.

Further Reading and References

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Questions

- 1 Describe how labour turnover may be measured, and discuss the different reasons for termination of employment.
- 2 Discuss the key ways in which labour turnover may be reduced.
- 3 Discuss what external factors may influence labour turnover, and the concept of a labour turnover culture.
- 4 Discuss the proposition that high labour turnover is not always a bad thing.
- 5 Evaluate the approach to managing labour turnover and terminations which is used by an employer you know well.