

Labour Turnover & Costs in the Australian Accommodation Industry



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Acknowledgements

**Project Reference Panel
and Participants:**

The research for this project was undertaken by the Griffith Business School at Griffith University, a Sustainable Tourism CRC (STCRC) member.

The authors of the detailed project papers are Professor Michael Davidson and Dr Nils Timo. Research assistance was provided by Natasha Currant and Scott Richardson.

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Foreword

The tourism industry is a major employer in Australia and has particular significance in regional areas.

A great benefit of the Accommodation sector of the tourism industry is that it creates a range of employment opportunities. However, this benefit is also a weakness when labour costs and availability are under pressure.

With a view to offering an insight into this vital production component for the Accommodation industry, TTF Australia together with the Sustainable Tourism Cooperative Research Centre, has supported research by the Griffith Business School at Griffith University to undertake an examination of a "cost and activity" area of significant sensitivity for the industry.

For the first time, this research places a cost on labour turnover in the Accommodation industry. It shows factors contributing to staff leaving an accommodation employer, the costs of recruiting staff, and the cost of training staff.

The research shows major costs being attributed to labour turnover. These are costs which both the industry and individual operators should examine closely as they impact substantially on the operating costs and profitability of these businesses. It indicates that the levels of service, experience and value to consumers may also be impacted.

Can the Accommodation industry lose 40% of its managers in one year and still maintain managerial continuity, efficiency and be profitable? These are all issues that we as an industry need to address.

TTF Australia extends its thanks to the significant number of its Member Hotels who participated in this research.

Through this study TTF Australia and the Sustainable Tourism CRC hope to have contributed to the development of the policy agenda of the Accommodation industry. The results provide clear evidence for the need for accommodation businesses to visit and analyse their own labour and cost experience.

A handwritten signature in black ink, appearing to read 'Chris Brown', with a long horizontal line extending to the right.

CHRISTOPHER BROWN *Managing Director & CEO, TTF Australia*

Background

Since the early 1970's, tourism has emerged as a significant industry for Australia. In 2005 the industry contributed 8.7% of gross domestic product (Department of Industry, Tourism and Resources, 2005).

Increases in inbound tourism in the 1980's and 1990's resulted in a building boom in hotels, resorts, and related infrastructure such as golf courses and retail facilities, and this sector became significant employers of labour.

The tourism industry is Australia's largest service export industry and contributes significantly to the national economy. Tourism generates \$75 billion in consumption and accounts for \$32.6 billion of total Gross Domestic Product (ATSA 2004-05). The national tourism industry directly employs more than 550,000 people in Australia (1 in 17 jobs or 5.6% of the workforce). Tourism employment has increased by 8.1% between 1997-98 and 2004-05.

In light of the important relationship between labour retention, skills development, quality of service and broader hotel profit strategies, TTF Australia and the Sustainable Tourism Cooperative Research Centre (STCRC) commissioned this research into labour retention and turnover in the Australian hotel industry. The research sought to investigate the following issues as they shape hotel human resource management practice and the management of labour retention, namely:

- Hotel demographic issues;
- Assessing the extent of labour turnover;
- Identifying the 'push' and 'pull' factors impacting on hotel turnover;
- Examining the structure and regulation of turnover within hotels;
- Assessing the actual dollar cost of turnover;
- Examining the accountability structures associated with turnover; and
- Exploring best management practice in relation to managing labour retention.

The findings in the report are drawn from TTF Members operating residential hotels. The respondents were Human Resource (HR) Managers.

Methodology

For the purposes of this research, the definition of accommodation is derived from the ABS (2006) methodology; that encompasses 4 to 5 star accommodation and that provides accommodation as a core business.

An on-line survey was prepared based on a concept proposal from Griffith University and the Project Reference Panel. It was tested by an industry-based reference group of senior hotel industry human resource managers from both corporate head offices and individual properties.

The survey comprised 5 sections requiring responses on:

- Hotel background;
- Hotel employee demographics;
- Hotel seasonality and turnover characteristics;
- Hotel turnover costs by establishment; and
- Recruitment and selection.

Process

The survey was distributed online directly to TTF Members or through corporate head offices of hotel companies that are Members of TTF. Responses were received from 64 hotels.

The survey responses were received over a three-month period in late 2005.

The hotel responses represent a satisfactory distribution spread throughout Australia. Specifically replies were received from the following states and territory:

NSW.....	15
NT.....	7
QLD.....	19
SA.....	2
VIC.....	11
WA.....	4
Unidentified.....	6

A statistical software package (SPSS) was used to analyse the results using standard statistical analysis based on percentages, means and structuring the data according to identifiable groups. After initial entering of data it was checked for consistency and accuracy. The results underwent scrutiny by the researchers and TTF to ensure clarity for reporting purposes.

Respondents

This research sought information on the characteristics and costs of labour turnover in a selected sample of large Australian hotels.

The sample comprised a major proportion of hotels that described themselves as hotels (66.7%), with 28.6% describing themselves as Resort/Hotel and only a very small percentage described as motels. The majority of respondents were drawn from the larger 4 – 5 star hotels with less than one third of replies from 3 and 3.5 star properties. 4 and 5 star establishments are more likely to have a dedicated Human Resource department that employ HR professionals. Because of this, the sample was skewed toward the larger full 4 – 5 star service properties.

The majority of the hotels (refer graph on page 5) were located in or near the inner city/central business district areas and regional towns.

The location of the majority of establishments near or in inner city/CBD reflects the maturation of Australia's residential accommodation hotel industry. Operational activities are now more likely to include business and conferences, overnight business stays, visiting family and friends, as well as the more traditional tourist/leisure traveller.



Key Findings

The four to five star residential accommodation and hotel industry is a significant employer of labour. It operates in highly volatile markets. A significant factor in determining how well the industry is performing can be gauged by the effectiveness of the industry in attracting and retaining high value employees.

The data reveals that for operational employees, the overall annual turnover rate was 50.74%, which was higher than expected. The data suggests a predictable pattern of high turnover in the Restaurant/Bar, Housekeeping, Kitchen and Front Office – which also represent the largest unit of employment within a hotel. Turnover amongst executives, supervisors and departmental managers at 39.19% was also far higher than expected.

These levels of turnover suggest that both managerial and operational employees may have similar working experiences in the hotel sector and/or similar reasons for causing the high turnover figures. For example, personnel at all employment levels may be searching for better career opportunities, better pay or better internal transfer opportunities.

Labour turnover is greatest in regional and remote hotels across all employment categories as compared to inner city/CBD and suburbs. Regional labour markets are clearly more vulnerable to distance and isolation. This makes attracting and retaining employees more difficult. Remoteness, a desire to move on, limited social life, close group living, isolation, etc make attracting staff to these hotels much more difficult. In addition, Regional/Remote hotels often attract Working Holiday Maker Visa employees who seek particular travel experiences (e.g. off shore island tourism resorts) and therefore are unlikely to stay for a long period of time.

The primary reason for managerial and operational turnover was voluntary resignation, followed by an internal transfer. Performance related terminations were very low. The main motivating factors for executives, managerial and supervisory staff to change jobs, **within** the hotel industry, were better career opportunities and better working hours. Changing jobs **outside** the industry was primarily motivated by higher salaries, working hours and better career opportunities. The data suggests that higher wages and better working hours (whether less hours or more flexible or suitable hours) are the major drivers for managerial employees to leave. Similarly, operational staff seek better wages, better working hours and improved career opportunities.

The research indicated that the average cost for replacing executive, managerial and supervisory staff was \$109,909 per hotel, per annum. This figure does not include intangible costs such as the transaction costs associated with loss in quality, loss of decision making; loss of business acumen and leadership hiatus. Based on the turnover numbers identified in the 64 hotels surveyed, the estimated cost for replacing executive, managerial and supervisory staff who left was just over \$7M.

The average cost for replacing operational staff was \$9,591 per employee or \$42M in the 64 hotels surveyed during the previous 12 months in this research.

Labour turnover is a significant cost to hotels. Combining the turnover costs for executive, managerial, supervisory and operational staff (based on the results from this survey), labour turnover cost the 64 hotels \$49M. The overall cost to industry is much greater, being hundreds of millions of dollars in both tangible and intangible costs. This cost is extraordinarily high for the Australian hotel industry to continue to pay.

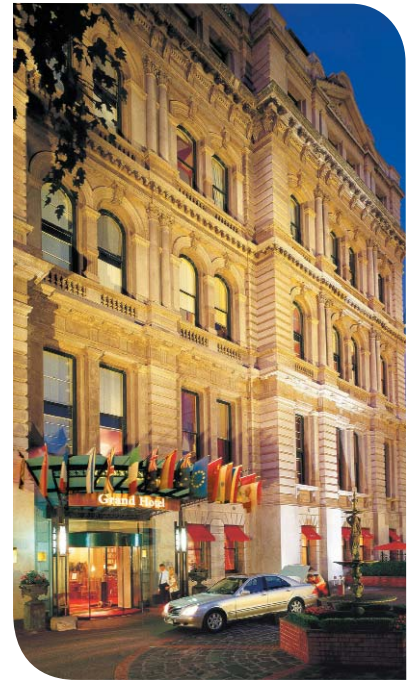
Unless the industry can absorb higher wages and improve career paths for its senior managers, 4 and 5 star hotels will continue to have levels of turnover that most other industries would perceive as unsustainable. This is not to argue that salary levels are the panacea; careers, working hours and job security are also important.

The industry's dilemma: executives, managers and supervisors are keen to advance, and salary and career opportunities become important. Anecdotally, the hotel industry has generally had limited internal career opportunities. This imposes an artificial ceiling on career growth and is one of the 'push-pull' factors affecting managerial exit behaviour.

For operational employees, hotel labour-need requirements are the result of complex environmental factors. Key factors are volume of guests; impacted not only by an individual hotel's performance but also economic conditions within Australia and in the primary inbound tourist market. A problem in service industries such as hotels, is that tools for measuring staff performance are under-developed and there is a tension between balancing labour cost and service quality.

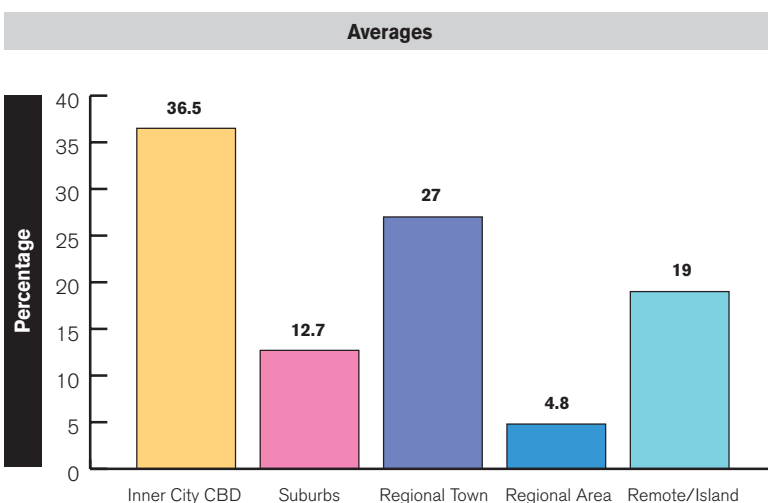
Because there is a constant need for new staff to be trained and instructed on the service standards required, the pressure of training again and again must impact upon overall service standards unless more and more is spent on training. Training is a cost in time, resources, and opportunity.

This survey has delivered a strong set of data and figures which requires the industry to identify a strategy for future human resourcing. It has also identified areas where further research is necessary to provide greater analysis e.g. training costs to better inform the industry.



Almost 75% of respondents had 100+ rooms, and the spread between establishments and room size, especially at the 100+ room level, provides a credible sample of larger hotels on which to base an analysis. The majority of the properties were run as part of a chain with a significant proportion independently owned or operated. From the overall sample size this is fairly representative of the Australian hotel industry.

Location of Hotel Establishments in Survey



Category of Staff & Turnover

The survey identified a turnover rate of 50.74% for operational employees and 39.19% turnover rate for managerial employees. Both rates were higher than previous anecdotal evidence had indicated for hotel labour turnover. This suggests that managerial and operational employees experience quite similar patterns of turnover and this pattern is often overlooked when discussing hotel turnover generally.

The hotel industry has traditionally relied on casual employees as a means of achieving both labour flexibility and for filling job vacancies. The table to the right shows that nearly one third of the staff in the surveyed hotels were casuals. Trends towards using casuals has implications for training effort (and therefore cost); human capital loss; company loyalty, brand (e.g. quality of service) and productivity. More research is required into this labour market practice in order to examine in detail the costs to an organisation. HR manager feedback indicated that casuals tend to have higher turnover because these employees have multiple jobs in order to obtain an adequate level of income.



Demographics & Turnover Statistics

Total Staff Turnover

Employee Category	Total Number	Total Turnover	Total % Turnover
Managerial Employees	1919	752	39.19%
Operational Employees (including Casuals)	8627	4378	50.74%
Total Employees (including Casuals)	10546	5130	48.64%

Turnover by Group

Staff Category	Total Number Employed	Total Turnover Number	Total Turnover %
Management Level			
Executives	275	101	36.73%
Department Managers	660	271	41.06%
Supervisors	984	380	38.62%
Total Managerial Employees	1919	752	39.19%
Operational Level			
Full-time Employees	3816)	Split not possible within data collected
Part-time Employees	1411)	
Casuals	3400)	
Total Operational Staff	8627	4378	50.74%

Turnover by Category

Category	Total Turnover Number	% of Total Turnover
Executives	101	1.97
Department Managers	271	5.29
Supervisors	380	7.42
HR Staff	45	0.87
Sales & Marketing	88	1.71
Front Office	575	11.22
Kitchen	810	15.81
Restaurant / Bar	1318	25.73
Housekeeping	991	19.35
Administration & Finance	112	2.18
Maintenance / Grounds	169	3.30
Sport / Other	107	2.08
Gaming	58	0.95
Health	105	2.05
Total	5130	100.00

Labour Turnover by Geographical Location

Category	Inner City/ CBD/Suburbs		Regional Town/ Area/Remote/ Island	
	Total Number of Turnover	% Turnover Rate of Total Turnover for Location	Total Number of Turnover	% Turnover Rate of Total Turnover for Location
Executives	46	2.42	55	1.70
Department Managers	103	5.42	168	5.20
Supervisors	145	7.63	235	7.28
HR Staff	20	1.05	25	0.77
Sales & Marketing	60	3.16	28	0.87
Front Office	260	13.68	315	9.75
Kitchen	221	11.63	589	18.24
Restaurant / Bar	590	31.05	728	22.54
Housekeeping	330	17.37	661	20.46
Administration & Finance	59	3.11	53	1.64
Maintenance / Grounds	34	1.79	135	4.18
Sport / Other	6	0.32	101	3.13
Gaming	6	0.32	52	1.61
Health / Spa & Fitness	20	1.05	85	2.63
Total employees that left	1900	100.00	3230	100.00
Total turnover rate of managerial employees	28.11%		52.46%	
Total turnover rate of operational employees	33.65%		71.91%	
Total turnover rate of managerial and operational employees	32.66%		68.32%	

Reasons for Departure

Reason for Leaving	Number	Reason as a % of total managerial turnover	Number	Reason as a % of operational turnover
	Management		Operational	
Voluntary Resignation	510	67.82%	3791	86.59%
Termination	79	10.50%	252	5.76%
Redundancy	15	1.99%	20	0.46%
Retirement	7	0.93%	17	0.39%
Internal Group Transfer	141	18.75%	298	6.81%
Total Number	752	100.00%	4378	100.00%

Geographical Location and Labour Turnover

Regional/Remote hotels are at a disadvantage in relation to staff retention, experiencing a rate of labour turnover that is more than twice the level of CBD/inner city hotels. It has been an industry accepted norm that in general the Regional/Remote hotels find it harder to attract and maintain staff. The survey results confirm this assumption. Remoteness, a desire to move on, limited social life, close group living, isolation, etc make attracting staff to these hotels much more difficult. In addition, Regional/Remote hotels often attract large numbers of Working Holiday Maker Visa employees who seek particular travel experiences (e.g. off shore island tourism resorts) and therefore are unlikely to stay other than for a short while.

Reasons for Departure

The table shown at left concludes that the main reason for movement in senior employees is either voluntary resignation or internal transfer. The research also showed that for operational employees, 87% resigned voluntarily. Labour turnover is a loss of human capital. Voluntary resignation represents a significant issue for hotels to address.

Hotel Turnover Costs

Two questions in the survey focused on ascertaining the actual costs involved in labour turnover. Where respondents did not provide sufficient data, statistical estimation techniques were used. Respondents were able to be more precise on direct costs. Categories where response rates were low were excluded from the averaging calculations.

Labour turnover is a significant cost to hotels. In this survey of 64 hotels, the cost over the 12-month period for labour replacement was A\$49M.

By implication, the overall cost to industry is much greater and runs into hundreds of millions of dollars in both tangible and intangible costs. Hotel labour turnover may be the most significant factor affecting hotel profitability, service quality and skills training. There should be further analysis of the management, time, and costs spent in training new employees and the implications it has on hotel business operations.



Hotel Turnover Costs

Cost of Replacing Executives, Managers and Supervisors Per Hotel Per Annum

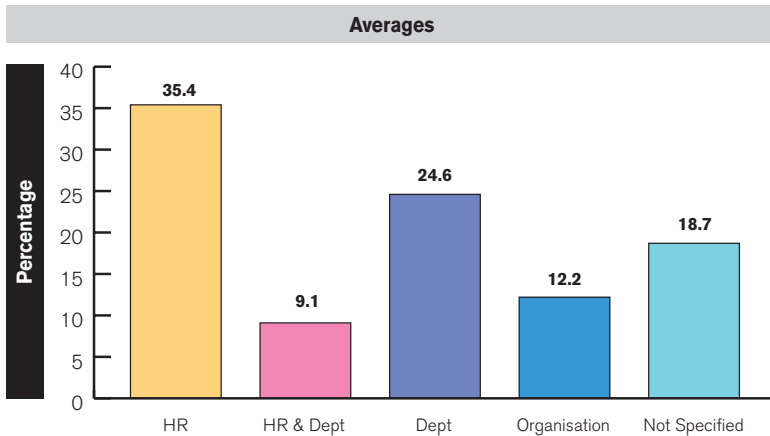
Cost	Average Cost Per Responded Establishment
Advertising for replacement executives, managers/supervisors	\$8,931
Management time spent interviewing & selecting employees	\$14,417
Management time and expenses spent on training new employees	\$28,841
Agency fees	\$13,895
Contract staffing*	\$13,400
Uniforms	\$10,800
Selection tests*	\$4,071
Legal/law*	\$3,357
Relocation expenses	\$9,141
Medical*	\$3,056
Total	\$109,909

*Low response rates were identified for these items

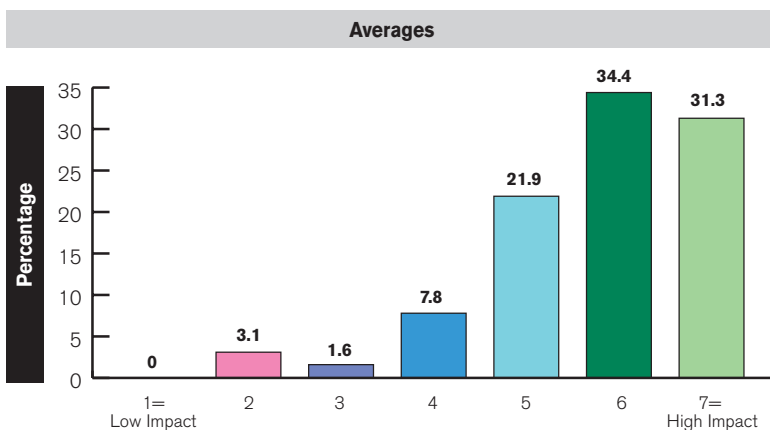
Cost of Replacing Each Operational Staff Member

Cost	Average Cost Per Operational Employee
Advertising for replacement operational employees	\$1,186
Management time spent interviewing & selecting employees	\$2,519
Management time and expenses spent on training new employees	\$2,921
Agency Fees	\$2,400
Uniforms	\$565
Total	\$9,591

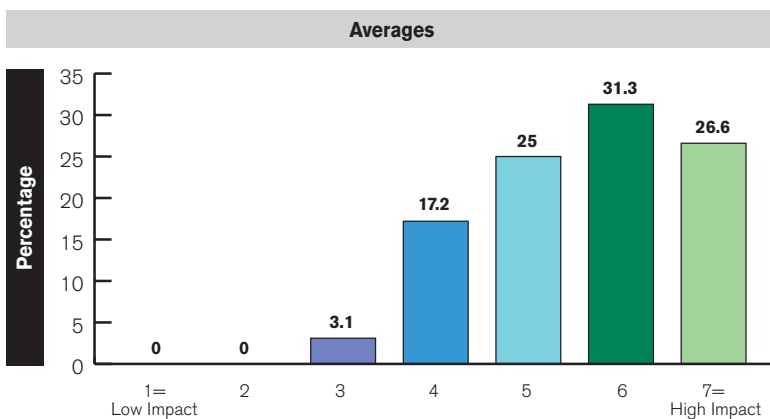
Departments that have Line Budget Accountability for Meeting the Costs of Replacing Employees



Impact of Turnover on Service Quality



Impact of Turnover on Productivity



Most respondents noted labour turnover as having a major impact on the service quality of their operations. The results indicate a constant need for new staff to be trained and instructed on the service standards required. The incremental pressure of training again and again must impact upon overall service standards unless more is spent on training. Training is a cost in time, resources and is also an opportunity cost.

Turnover costs are often accounted to the HR department rather than operational departments of the establishments surveyed. This 'camouflages' the actual cost of high turnover in each department. The lack of cost accountability reduces the ability to track turnover costs and does not allow hotel owners and operators to use turnover costs to develop effective department-based turnover prevention strategies.

Most respondents indicated labour turnover had a high impact upon their hotel productivity. Labour turnover is adversely related to service quality and productivity. In order for hotels to maintain standards and reduce costs, the hotels must paradoxically invest more in training as human capital is constantly lost. This implies a significant impediment to the operation of any hotel.

An individual's attitude, personality/ appearance and customer service/ selling skills are the major factors for HR personnel when replacing labour.

Job-related skills such as previous experience (5.81), references (5.63) and qualifications (4.68) were rated lower than attitude (6.7), personality & appearance (6.5) and customer service (6.38). This suggests that hotel HR employees see the business as operating in a 'retail service' paradigm where customer service interaction and attitude is seen as important, or more important than, skills and qualifications when recruiting staff.

78.3% of respondents are experiencing staff shortages and labour recruitment problems. This reinforces the issues that are connected to labour turnover detailed throughout this report.

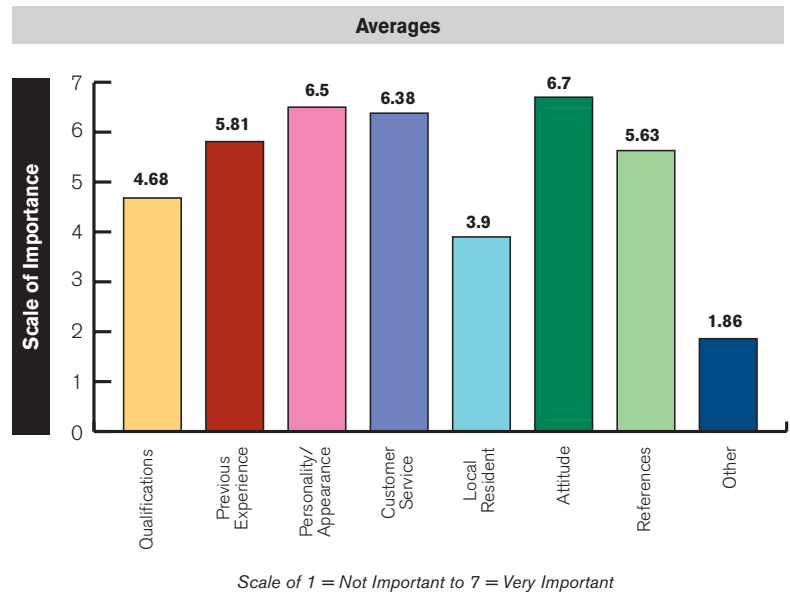
Factors that contributed to labour shortages indicate (and confirm the perception) that the industry has a significant problem with low pay. The industry also has problems with working hours and lack of appropriate skills. The difficulties in attracting suitable labour and the resultant hotel labour shortages create complex issues for both HR and other hotel personnel to manage.

Consistent with the turnover levels is the proportion of payroll spent on training. In 2000 18.7% of respondents spent 4% plus on training, however, by 2004 this had risen to 28.2%. There has also been a 7% drop in the "don't know" category suggesting organisations are monitoring training costs more closely.

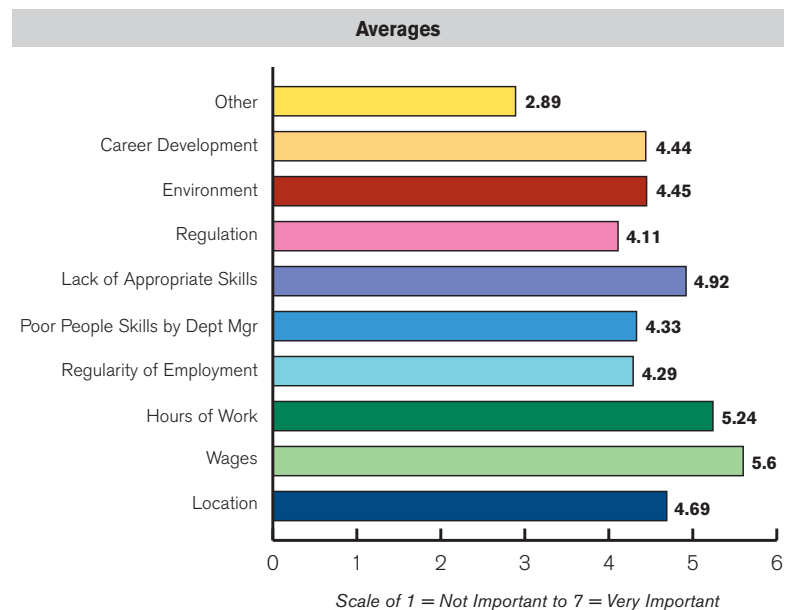


Recruitment & Selection

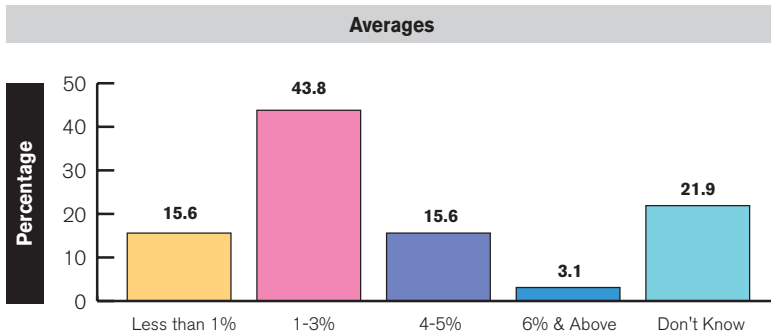
Importance of Factors when Recruiting and Selecting New Employees



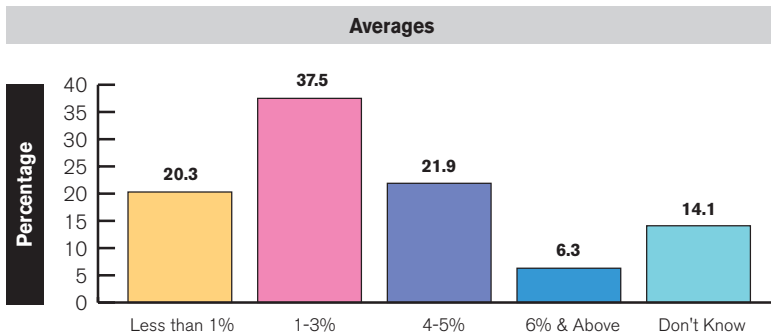
Factors Contributing to Labour Shortages and Recruitment Problems



Approximate Proportion of Payroll Spent on Training in 2000



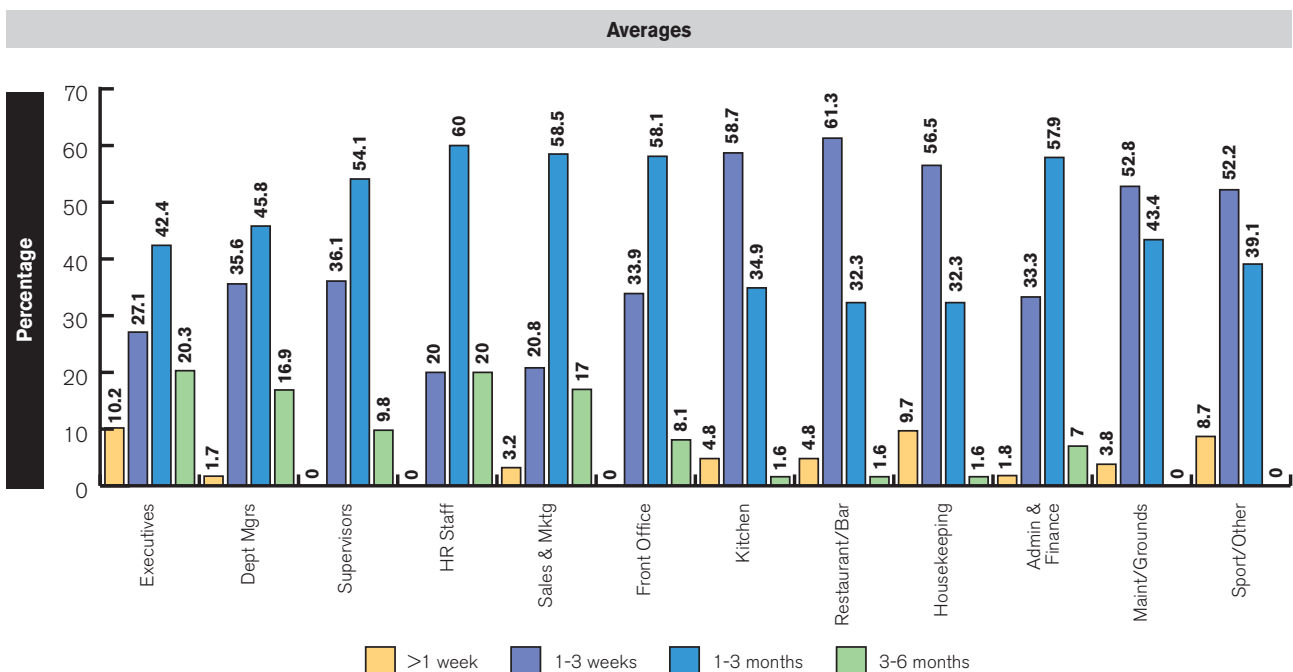
Approximate Proportion of Payroll Spent on Training in 2004



The table below confirms a consistent pattern of managerial and administration employees requiring a longer period of time before they become proficient as opposed to operational level employees. Hotels have generally short periods for achieving training and skills proficiency. Overall, between 1 to 3 months was the average period indicated by respondents for developing proficiency. It further confirms a sector that manages its current labour issues by accepting a supply of flexible and mobile workers. It does not suggest a sector currently planning for the retention of its employees.

Overall, the results portray an industry where turnover is endemic and such high turnover has significant flow-on in terms of cost, training, service and productivity.

How long does it take for new staff employed in each of the following classifications to become proficient and competent to do their work without supervision?





Labour Turnover & Costs in the Australian Accommodation Industry

This report presents findings drawn from a survey of TTF Australia members. The questions explored the issues of labour turnover in the accommodation industry in Australia.

In particular, it looks at employee demographics, hotel location and turnover characteristics, hotel turnover costs and recruitment.

Where to from here? The key findings present an outline of an industry which must begin to structure a labour supply strategy. What does the hotel sector need to do to combat the findings and address the issues? Is Australian personnel practice and concerns better or worse than the hotel sector in other countries?

Over the course of the next year TTF Australia will evaluate the potential of further research into this critical cost area for Australian businesses and investment decisions.

Key Findings

- **Overall Hotel Labour Turnover is 48.64%. This reflects Managerial Turnover of 39.19% and Operational Level Turnover of 50.74%.**
- **The vast majority of labour turnover is brought about by voluntary resignation.**
- **Major causative factors for employee turnover according to the Human Resource respondents are: Low Pay, Poor Working Hours and Seeking Better Career Opportunities elsewhere.**
- **The annual cost of replacing Managerial Employees was \$109,909 per hotel.**
- **The annual cost of replacing Operational Employees was \$9,591 per employee.**
- **The annual cost of turnover (\$49M) equates to 19.5% of the 64 surveyed hotels total payroll costs (\$250M).**
- **Labour shortages are prevalent according to 78.3% of respondents.**

While every care has been taken in preparing this report, TTF Australia, Sustainable Tourism CRC (including its related entities, partners, staff and agents) and Griffith Business School, each disclaims all liability arising to the maximum extent permitted by law for any loss or damage (whether direct or indirect) incurred as a result of any person, company or other entity acting or relying on information in this Report. This report is general in nature and readers of this report should obtain independent advice specific to their own situation.

This report is available free of charge on the TTF Australia website: www.ttf.org.au

The detailed Project Papers are available from the authors, Professor Michael Davidson and Dr Nils Timo at Griffith Business School - www.griffith.edu.au/gbs



A U S T R A L I A
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