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# Cornell Hospitality Report

The Cost of Employee Turnover:  
When the Devil Is in the Details

by J. Bruce Tracey, Ph.D., and Timothy R. Hinkin, Ph.D.





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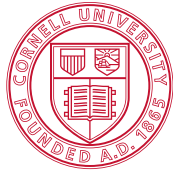
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## EXECUTIVE SUMMARY

**E**mployee turnover continues to be a concern for many hospitality firms. To gain insights about the relative costs of different aspects of turnover, we first compared the costs of turnover for different hotel types. Based on data gathered from 33 U.S. hotels, we found that the costs of turnover were generally higher for: (1) higher complexity jobs; (2) independent properties; (3) properties with relatively high room rates; (4) large properties; (5) high-occupancy properties; (6) properties in markets with a high cost-of-living index; and (7) properties in markets with a high unemployment rate. We also examined the relative effects of actions taken to replace departing staff, and found that the damage to productivity caused by the inexperience of new employees is the greatest contributor to the overall costs of turnover.

# The Costs of Employee Turnover:

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**E**mployee turnover is a vexing problem that has plagued the hospitality industry for many years. In the lodging business, turnover rates have been shown to be about 60 percent annually for line-level employees,<sup>1</sup> and about 25 percent for managerial positions.<sup>2</sup> This concern is even greater in other hospitality contexts such as quick-service restaurants where employee turnover is typically in excess of 120 percent.<sup>3</sup>

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<sup>1</sup> R.H. Woods, W. Heck, and M. Sciarini, *Turnover and Diversity in the Lodging Industry* (East Lansing, MI: American Hotel Foundation, 1998).

<sup>2</sup> Smith Travel Research, J.B. Tracey, and M.J. Tews, *Hospitality Compensation and Benefits Survey* (New York: American Hotel and Lodging Educational Foundation, 2002).

<sup>3</sup> Found at: [www.morebusiness.com/running\\_your\\_business/management/d968034020.brc](http://www.morebusiness.com/running_your_business/management/d968034020.brc), August 30, 2006.

For hospitality firms, employee turnover may compromise the consistency and quality of customer service, resulting in direct reductions of 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 members to acquire the knowledge and skills necessary to be proficient in their essential duties and responsibilities. Moreover, the stress on remaining staff members may limit their ability to meet guests' expectations and can create burnout that further exacerbates and perpetuates the problem.

Moreover, operating expenses are likely to increase as a result of employee turnover. The many direct and indirect costs associated with replacing staff members include hard costs, soft costs, and opportunity costs. Hard costs, such as paid help-wanted advertisements, have a direct financial impact on the organization and are accounted for as expenses. Soft costs, such as the time it takes to interview applicants, will not show up on an income statement but distract managers from other value-added activities. Opportunity costs, such as missed sales, usually go unmeasured altogether but can be considerable. Given that such costs may substantially diminish profitability,<sup>4</sup> it is imperative to effectively manage employee turnover.

A lot can be learned about the consequences of turnover by understanding the ways in which firms allocate their resources to attract, select, and train new staff. For example, if a firm does not use the most effective means for recruiting high quality applicants it may greatly increase its expenditures on selection or training procedures. Thus, if we know more about the ways in which firms spend money on replacing employees, we can identify targets for change that may reduce the overall costs of turnover.

With this matter of costs in mind, this report has a two-fold purpose. First, we will examine the costs of turnover across several job-, property-, and market-related variables. Second, we will examine the extent to which the specific activities associated with replacing employees can be linked to lower or higher total costs of turnover. This particular area of inquiry will provide a finer degree of prescriptive

<sup>4</sup> T. Simons and T.R. Hinkin, "The Impact of Turnover on Hotel Profits: A Test Across Multiple Hotels," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 4 (August 2001), pp. 65-69.

information for making improvements and reducing the overall impact of employee turnover.

For the first part of the analysis, we compare the total cost of turnover and five cost categories for the following contrasting categories: jobs with high complexity and those with low complexity; chain-affiliated and independent properties; properties with high occupancy and those with low occupancy; properties with high average daily rates and those with low ADRs; properties with a large number of rooms and those with a small number of rooms; properties in markets with high consumer prices and those with lower consumer price indices; and properties in markets with relatively high unemployment rates and those with lower unemployment rates. Any differences that are found may provide insights regarding the nature and influences of turnover, and help identify the human-resources interventions and related practices that may be taken in efforts to mitigate the potential negative consequences. For example, if we find that the costs are relatively high for high-complexity jobs then priorities can be established and efforts taken that specifically focus on individuals who work in these positions.

## The Costs of Turnover

Research has identified five major cost categories that contribute to the total cost of replacing an employee, namely, pre-departure, recruitment, selection, orientation and training, and lost productivity.<sup>5</sup>

**Pre-departure.** Pre-departure costs are incurred after an employee has given notice (or has neglected to inform the company of his or her decision to leave), but before that person actually leaves the job. One of the easiest to track of pre-departure costs—and one which provides important information regarding the causes of turnover—is the amount of time that is spent preparing for and conducting exit interviews. In addition, it is necessary to account for the time spent on other administrative activities, such as

<sup>5</sup> See: T.R. Hinkin and J.B. Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 41, No. 3 (June 2000), pp. 14-21; and T.R. Hinkin and J.B. Tracey, "Development and Use of a Web-based Tool to Measure the Costs of Employee Turnover: Preliminary Findings," *CHR Reports*, Vol. 6, No. 6 (2006; Cornell University School of Hotel Administration Center for Hospitality Research).

procedures associated with filing unemployment insurance (when applicable), change-of-status processing, and similar requirements. Finally, there may be costs associated with severance packages. By multiplying the hourly wage rates by the amount of time spent by various individuals involved in each of these activities, it is possible to generate a fairly accurate estimate of pre-departure costs. The same procedures can then be used for each of the other activities involved in replacing employees.

**Recruitment.** When a departing employee will be replaced, the next step is to account for the costs of recruitment. There are direct costs associated with promotional materials, advertising, and recruiting sources, but these expenses are typically expressed as an annual total. Thus, it is necessary to know how much is spent on an individual basis (i.e., annual expenditures divided by the total number of applicants). In addition, it is necessary to account for the administrative processing requirements involved with writing position announcements, reviewing résumés, and similar activities. Recruiting costs vary considerably by position, as it may take more effort and expense to create a pool of applicants for a general manager position than for a line cook. Moreover, the quality of the labor pool will affect recruiting expenses.

**Selection.** After an acceptable applicant pool has been generated, the next step is to identify the most suitable candidate (or candidates). Since this process involves several steps, selection can be one of the most expensive components of the replacement process. Interviewing, background and reference checks, and travel expenses involve substantial hard and soft costs. Once again, a weak applicant pool can drive up selection costs.

**Orientation and training.** While new employees usually possess skills and abilities that are necessary for success, almost everyone requires training, if only to understand a particular company's procedures. Moreover, the more complex the task, the greater the need for training. Many firms conduct extensive programs to orient new employees to the company, their department, and their job, and this initial training may last as little as a few days to several months. Similar to the previous activities, the primary costs associated with orientation and training comprise the time of those who are involved.

**Productivity loss.** Lost productivity accounts for the largest percentage of the total costs, up to 70 percent in some cases,<sup>6</sup> but it is also perhaps the most difficult to assess and monitor. Turnover hurts productivity in four possible ways, beginning with diminished productivity of an employee who will be departing. Regardless of their commitment, short timers are not likely to be as effective as employees who are

<sup>6</sup> *Ibid.*

continuing with the firm. Second, as we mentioned above, there is a learning curve for all jobs, which often is longer than many practitioners acknowledge.<sup>7</sup> Third, there are also significant disruption costs, as new employees often need assistance from peers and supervisors, which detracts from their own productivity. Finally, there may be opportunity costs associated with the vacancy, typically in the form of lost revenues or sales. It is also possible that losing a key salesperson to a competitor could have significant financial impact. We found the following costs for the various categories in a convenience sample of 12 hotels:<sup>8</sup>

Cost Category	Range	Average
Pre-departure	0%-9%	3%
Recruiting	3%-65%	20%
Selection	1%-31%	11%
Orientation and training	0%-28%	14%
Productivity loss	13%-76%	52%
<b>Total</b>	<b>\$2,604-\$14,019</b>	<b>\$5,864</b>

Our past studies have focused on identifying the factors that account for the total costs of turnover,<sup>9</sup> and other work has considered the implications of those costs for property performance.<sup>10</sup> However, the extent to which the costs of turnover vary as a function of job, property, and market-related factors has not been explored. We suspect that the total cost of turnover is highest for top-level jobs and for upscale and luxury properties.

### Studying the Details of Turnover Expenses

Using a web-based turnover tool, we gathered data from 33 properties located throughout the United States. About half of the properties were independent ( $n = 14$ ) and most were non-union ( $n = 30$ ). Nineteen had ADRs in the mid-market range or below (per standards established by Smith Travel Research in 2005). The average number of rooms was about 180 and ranged from 20 to 720, and the mean occupancy was 69.6 percent. Most of the positions were line-level jobs in the rooms and food and beverage divisions ( $n = 28$ ); the balance were for supervisory and administrative positions. We should emphasize that although this sample represents a reasonable cross-section of U.S. properties, because of the sample size, our results should be interpreted cautiously.

<sup>7</sup> For example, the Occupational Information Network, a warehouse of information about jobs that is maintained by the U.S. Department of Labor, shows that the specific vocational preparation score for a restaurant cook, which reflects the time it takes the average new employee to reach average levels of proficiency, is over three months and up to two years, depending on the work context and other factors that may influence knowledge and skill acquisition (<http://online.onetcenter.org/link/summary/35-2014.00>).

<sup>8</sup> Hinkin and Tracey (2006), *op.cit.*

<sup>9</sup> Hinkin and Tracey (2000), *op.cit.*

<sup>10</sup> Simons and Hinkin, *op.cit.*



To examine whether any of the job-, organization-, or market-based factors may be linked to differences in the turnover cost categories, we divided the sample using two procedures. First, we split the data into two roughly equivalent sub-samples using “natural” or categorical comparisons, and then compared the sub-samples on each of the primary costs associated with turnover. Specifically, we compared the cost categories for chain-affiliated properties and independent properties, and for high ADR (i.e., upscale and above) and low ADR properties (i.e., mid-market and below).<sup>11</sup> We then used a median-split procedure to divide the data set to make the same comparisons based on high job complexity and low job complexity, size (i.e., number of rooms), occupancy, consumer price index; and unemployment rate. Finally, we used a mean-split procedure to divide the sample and compare the activities associated with each of the cost categories for low total turnover costs and high total costs.<sup>12</sup>

## The Results

**Job complexity.** The first set of analyses examined differences in the primary cost categories for low complexity jobs with those of high complexity jobs. Job complexity was classified using the U.S. Department of Labor’s Occupational Information Network, O\*Net, one of most comprehensive sources of information about jobs. O\*Net provides a “specific vocational preparation” (SVP) value for most jobs listed in the data base. The SVP score represents the amount of time it takes the average employee to demonstrate average performance in a particular position. The SVP values for the jobs in our sample ranged from 4.0 or less (i.e., up to six months of preparation required) to 8.0 (i.e., over four years of preparation required).

As expected, the higher the job complexity, the higher the cost of turnover. The total cost of turnover for relatively low-complexity jobs was about \$5,700, compared to almost \$10,000 for high-complexity jobs (a statistically significant difference).<sup>13</sup> However, when we examined the percentage of total turnover costs for each of the primary cost categories,

<sup>11</sup> In addition to information about turnover costs and activities associated with replacement, the web-based turnover tool asks respondents to provide information about their property, which included chain affiliation, ADR, and annual average occupancy.

<sup>12</sup> A median- or mean-split is a descriptive analytic procedure which divides a sample into two approximately equal sub-samples. The result provides a basis for analyzing differences in the sub-samples (e.g., mean comparisons using t-tests, analyses of variance). Due to missing data, a mean split procedure was used to compare differences in the specific replacement activities in low-turnover-cost hotels and high-total-turnover-cost properties.

<sup>13</sup> All references to statistical significance in this report were based on an analysis of variance procedure which used the various job, property, and market-related factors as independent variables, and the cost-of-turnover categories as the dependent variables. Since the sample size was relatively small, a conservative *p*-value of .10 (one-tailed) was used.

## EXHIBIT 1

### Comparison based on job complexity

	Complexity	N	Mean	% of Total
Pre-Departure Total	Low	20	\$202.92	3.4
	High	10	\$967.83	8.1
Recruiting Total	Low	15	\$559.53	7.0
	High	7	\$1,144.93	6.7
Selection Total	Low	20	\$1,543.40	25.8
	High	8	\$1,427.28	9.6
Orientation Total	Low	18	\$572.33	8.6
	High	11	\$861.69	8.0
Productivity Total	Low	20	\$3,297.51	55.2
	High	11	\$7,326.90	67.6
Total Turnover Cost	Low	21	\$5,693.89	
	High	12	\$9,932.05	

Note: Percentages based on total costs (not mean costs).

we found some interesting and perhaps counterintuitive findings. One might expect that hotels would spend a greater proportion of turnover-related money in selecting individuals for high-complexity jobs than for low-complexity jobs. To the contrary, we found that the percentage of selection costs for low-complexity jobs was 25.8 percent of the total costs, compared to 9.6 percent for high-complexity jobs. One explanation for this difference is that there may be many fewer qualified applicants for low-complexity jobs. Thus, firms may be required to spend more time sifting through the applicant pool (e.g., reviewing applications, conducting interviews) to find suitable candidates. As might be expected, though, the percentage of the cost of lost productivity (compared to total turnover costs) for low-complexity jobs was 55.2 percent, compared to 67.6 percent for high-complexity jobs, which may be due in part to the differences in the time it takes to learn the essential tasks, duties, and responsibilities of complex jobs (beyond initial employee orientation).

We should also note another unexpected finding, namely, that the costs for recruitment and new employee orientation and training were quite low across both complexity categories. This finding, in conjunction with those noted above, suggests that a more rigorous approach to finding, selecting, and developing new staff may have substantial benefits and help reduce a firm’s overall turnover costs. We will address this issue in more detail below. Exhibit 1 lists the costs of turnover for job complexity across each of the major cost categories.

**EXHIBIT 2****Comparison based on chain affiliation**

	Property Type	N	Mean	% of Total
Pre-Departure Total	Independent	13	\$788.22	9.6
	Chain	17	\$205.28	2.6
Recruiting Total	Independent	7	\$799.32	5.3
	Chain	15	\$720.82	8.2
Selection Total	Independent	12	\$1,338.64	15.1
	Chain	16	\$1,638.92	19.8
Orientation Total	Independent	13	\$500.19	6.1
	Chain	16	\$829.81	10.0
Productivity Total	Independent	13	\$5,243.33	63.9
	Chain	18	\$4,354.61	59.4
<b>Total Turnover Cost</b>	<b>Independent</b>	<b>14</b>	<b>\$7,612.25</b>	
	<b>Chain</b>	<b>19</b>	<b>\$6,957.09</b>	

Note: Percentages based on total costs (not mean costs).

**EXHIBIT 3****Comparison based on hotel occupancy**

	Occupancy	N	Mean	% of Total
Pre-Departure Total	Less than 70%	11	\$572.90	8.2
	70% and Higher	19	\$391.30	4.6
Recruiting Total	Less than 70%	7	\$496.50	4.5
	70% and Higher	15	\$862.13	8.0
Selection Total	Less than 70%	11	\$1,171.78	16.7
	70% and Higher	17	\$1,729.22	18.2
Orientation Total	Less than 70%	10	\$442.50	5.7
	70% and Higher	19	\$808.13	9.5
Productivity Total	Less than 70%	11	\$4,538.07	64.9
	70% and Higher	20	\$4,831.37	59.7
<b>Total Turnover Cost</b>	<b>Less than 70%</b>	<b>12</b>	<b>\$6,417.56</b>	
	<b>70% and Higher</b>	<b>20</b>	<b>\$7,702.16</b>	

Note: Percentages based on total costs (not mean costs).

**Property characteristics.** The next set of analyses compared the costs of turnover across the following four property characteristics: chain affiliation, occupancy, average daily rate, and number of rooms. No statistically significant differences were found for independent hotels compared to chain-affiliated properties in any of the major turnover-cost categories, although the mean costs were higher for independent properties for pre-departure, recruiting, lost productivity, and total cost. Similarly, although no statistically significant differences were found between low-occupancy properties and high-occupancy properties, high-occupancy properties showed higher mean costs than did low-occupancy properties on all categories except pre-departure. On the other hand, the differences were significant when we compared hotels with high ADRs and those with low average ADRs on selection, lost productivity, and total costs, with those expenses being much higher for hotels with high ADRs. Interestingly, compared to high-ADR properties, the low-ADR properties spent a greater percentage of total costs (and were higher on mean cost) on recruitment (i.e., 11.4% versus 4.0%) and training and orientation (i.e., 11.3% versus 6.3%). Yet the low-ADR hotels recorded lower lost productivity costs as a percentage of total costs than did the high-ADR hotels (i.e., 55.4% versus 65.2%). Similar results were found for comparisons of large and small properties, with large properties experiencing significantly higher costs for selection, lost productivity, and total cost than small properties. Then again, taken as a percentage of total costs, small properties spent more than did large properties on recruitment (i.e., 14.5% versus 3.5%) and training and orientation (10.4% versus 7.4%). Even so, the small hotels' lost productivity costs as a percentage of the total were substantively smaller than those of large hotels (i.e., 52.0% versus 65.4%). Exhibits 2 through 5 present the results for comparisons based on the property characteristics noted above.

**Market characteristics.** The next set of analyses compared the cost-of-turnover categories according to the following market-wide factors: high or low cost of living (based on the market CPI at the end of 2005), and high or low unemployment rates. High cost-of-living markets had significantly higher costs than did low cost-of-living markets for pre-departure, lost productivity, and total cost. Indeed, as would be expected, properties in high CPI markets showed much higher average costs for all cost-of-turnover categories. The comparison based on unemployment rates, however, generated no statistically significant differences and no consistent pattern of results. Pre-departure, recruitment, and orientation costs were higher for properties in markets with low unemployment rates, while selection, lost productivity, and total turnover costs were higher for properties in markets with high unemployment rates. Exhibits 6 and 7 (on the

following pages) present the results for CPI and unemployment rate comparisons.

**Comparing overall turnover costs.** The final set of analyses compared the specific activities and cost categories associated with high overall turnover costs as compared to low overall costs. Of specific interest were the replacement activities that may be associated with relatively low overall turnover costs. Similar to the procedures used above, we used a mean split to divide the sample into approximately equal sub-samples of properties with relatively high turnover costs and those with low overall costs. Then we compared all of the activities and outcomes associated with turnover for the two subsamples. For the pre-departure category, we found that the more time supervisors spent on prepping for and conducting exit interviews with departing employees the lower the overall turnover costs. Staffing activities that were associated with lower overall costs were the number of hires from print media, on-line postings, employee referrals, and career fairs and open houses, as well as the time supervisors and peers spent on interviewing prospective employees. With regard to training, we found that greater time spent by peers in training new employees appears to be linked with lower overall turnover costs. Exhibit 8 (also overleaf) presents the specific results from this comparison.

## Discussion

As have previous researchers, we found that the cost of lost productivity was the highest item among all of the costs associated with turnover.<sup>14</sup> In our hotel sample, the range of cost due to lost productivity was 47.1 percent to 67.6 percent of the total costs of turnover. Also consistent with previous research, we found that pre-departure costs were generally the lowest of the total cost of turnover (ranging from 1.7 percent to 15.1 percent). However, when we compared the cost categories across the various job, property, and market-related factors, we found that in some cases, pre-departure costs accounted for a greater percentage of the total turnover cost than did other cost categories. This finding suggests that considerable time and effort was invested in exit interviews. To the extent that such interviews determine the reasons for turnover, this activity may reduce its overall costs.

Another interesting result was the difference in cost profiles among various categories, particularly in connection with job complexity. These findings showed that properties spent considerably more as a percentage of the total turnover cost on selection for low complexity jobs than for high complexity jobs (i.e., 25.8% versus 9.6%). This percentage, based on a ratio of the number of applicants interviewed divided by the number hired, suggests that the labor pool is poor for

<sup>14</sup> Hinkin and Tracey (2006), *op.cit.*

**TABLE 4**

### Comparison based on ADR

	Price Point	N	Mean	% of Total
Pre-Departure Total	Mid-Mkt and Below	19	\$478.84	9.8
	Upscale and Above	11	\$421.69	3.2
Recruiting Total	Mid-Mkt and Below	14	\$748.29	11.4
	Upscale and Above	8	\$723.29	4.0
Selection Total	Mid-Mkt and Below	18	\$623.96	12.1
	Upscale and Above	10	\$3,105.50	21.3
Orientation Total	Mid-Mkt and Below	18	\$587.78	11.3
	Upscale and Above	11	\$836.32	6.3
Productivity Total	Mid-Mkt and Below	19	\$2,715.82	55.4
	Upscale and Above	12	\$7,912.14	65.2
<b>Total Turnover Cost</b>	Mid-Mkt and Below	<b>21</b>	<b>\$4,434.57</b>	
	Upscale and Above	<b>12</b>	<b>\$12,135.85</b>	

Note: Percentages based on total costs (not mean costs).

**EXHIBIT 5**

### Comparison based on number of rooms

	Number of Rooms	N	Mean	% of Total
Pre-Departure Total	Less than 108	14	\$782.58	15.1
	108 and Higher	16	\$173.78	1.7
Recruiting Total	Less than 108	10	\$1,050.62	14.5
	108 and Higher	12	\$491.77	3.5
Selection Total	Less than 108	12	\$482.82	8.0
	108 and Higher	16	\$2,280.78	22.0
Orientation Total	Less than 108	12	\$627.04	10.4
	108 and Higher	17	\$720.88	7.4
Productivity Total	Less than 108	13	\$2,887.38	52.0
	108 and Higher	18	\$4,727.30	65.4
<b>Total Turnover Cost</b>	Less than 108	<b>15</b>	<b>\$4,821.10</b>	
	108 and Higher	<b>18</b>	<b>\$9,246.64</b>	

Note: Percentages based on total costs (not mean costs).

**EXHIBIT 6****Comparison based on consumer price index**

	CPI	N	Mean	% of Total
Pre-Departure Total	Low	13	\$96.21	1.8
	High	17	\$734.46	7.5
Recruiting Total	Low	8	\$669.92	7.6
	High	13	\$847.34	6.6
Selection Total	Low	12	\$860.21	14.6
	High	15	\$2,127.59	19.1
Orientation Total	Low	13	\$690.00	12.7
	High	15	\$717.44	6.4
Productivity Total	Low	15	\$2,986.61	47.1
	High	15	\$6,744.88	60.4
<b>Total Turnover Cost</b>	<b>Low</b>	<b>15</b>	<b>\$4,713.45</b>	
	<b>High</b>	<b>17</b>	<b>\$9,844.11</b>	

Note: Percentages based on total costs (not mean costs).

**EXHIBIT 7****Comparison based on unemployment levels**

	Unemployment	N	Mean	% of Total
Pre-Departure Total	Low	14	\$543.29	8.7
	High	16	\$383.16	4.1
Recruiting Total	Low	11	\$924.36	11.7
	High	10	\$620.68	4.1
Selection Total	Low	11	\$719.34	9.1
	High	16	\$2,145.23	22.8
Orientation Total	Low	13	\$823.92	12.3
	High	15	\$601.37	6.0
Productivity Total	Low	14	\$3,634.23	58.2
	High	16	\$5,943.32	63.0
<b>Total Turnover Cost</b>	<b>Low</b>	<b>16</b>	<b>\$5,454.81</b>	
	<b>High</b>	<b>16</b>	<b>\$9,844.11</b>	

Note: Percentages based on total costs (not mean costs).

entry-level positions and that managers spend a considerable amount of time identifying acceptable candidates. The labor pool for high-level jobs is smaller than that of low-skill jobs, but the high-level pool contains proportionately more qualified applicants. Consistent with expectations, the low complexity jobs had lower cost of lost productivity than did the high-skill jobs (i.e., 55.2% versus 67.6%). We also found that the overall turnover costs were lower when both supervisors and peers spent considerable time on the interviewing process. These findings suggest that the failure to use rigorous and comprehensive selection procedures may be a key contributor to the turnover problem.

A similar result was found when comparing independent and chain-affiliated properties. Chain-affiliated hotels spent a bit more on selection than did independents (i.e., 19.8% versus 15.1%) and had slightly lower costs for productivity loss (i.e., 59.4% versus 63.9%). Moreover, the overall costs of turnover were less for chain-affiliated hotels than for independent properties (i.e., average of \$6,957.09 versus \$7,612.25). Thus, the branded hotels may be benefiting from a more effective hiring process.

However, our results also show that time and effort spent on selection may not be sufficient to control turnover costs. Properties with relatively high ADRs and large properties had higher selection costs as a percentage of the total cost of turnover than did low-room-rate and small hotels (i.e., 21.3 percent for high rate properties and 22.0 percent for large properties), but also had higher lost productivity costs than low-ADR hotels (i.e., 65.2% versus 55.4%) and small properties (i.e., 65.4% versus 52.0%). In these cases, reductions in the cost of lost productivity may be the result of effective recruiting and new employee orientation and training efforts (manifested, in part, in higher costs for those activities). The combination of these two costs for low-ADR properties was 22.7 percent of the total costs of turnover, compared to 10.3 percent for high-ADR properties. The costs for recruiting and training and orientation for small properties was 24.9 percent of the total cost of turnover,

**EXHIBIT 8****Line-item comparisons**

	Overall Cost of Turnover	N	Amount
<b>Pre-Departure</b>			
Supervisor Prep Hours	Low	7	0.57
	High	9	0.11
Supervisor Exit Interview Hours	Low	8	0.94
	High	9	0.11
<b>Staffing</b>			
Print Media Hires	Low	14	46.36
	High	9	6.67
On-line Hires	Low	4	19.25
	High	9	5.56
Employee Referral Hires	Low	5	7.20
	High	8	0.63
Career Fair or Open House Hires	Low	5	29.00
	High	8	0.25
Number of Supervisor Interviews	Low	9	2.78
	High	9	0.78
Number of Peer Interviews	Low	3	16.67
	High	8	0.00
<b>Training</b>			
Peer Training Hours	Low	13	28.46
	High	11	9.73

compared to 10.9 percent for large properties. Similar results were found when comparing properties in lower and higher cost-of-living markets. Moreover, firms had lower overall turnover costs when they generated more hires from print media, on-line postings, employee referrals, and job fairs and open houses and, as noted above, involved peers in new employee orientation and training. Thus, while applying rigorous standards when making a selection decision is important, it may be even more critical to locate and develop human capital.

Perhaps most surprising was the relatively low percentage spent on orientation and training. In the same vein, we note that lower overall turnover costs were associated with peer involvement in new employee training. Thus, it appears that focusing attention on ways to bolster the processes by which firms attract and develop employees, particularly for those who fill more challenging and difficult positions, may reduce the overall cost of turnover.

### Conclusion

This study yielded several interesting results. Overall, we found that the cost of turnover is generally highest for complex jobs in large upscale hotels which operate in high cost of living locations. However, the costs vary significantly across property types and locations.

Employee turnover will continue to be a critical concern in the hospitality industry for the foreseeable future. To thrive in the competitive hotel environment, it is imperative to understand the nature and consequences of employee turnover. We know that it affects both revenue and expenses, ultimately reducing profitability. By understanding the costs of turnover and factors that may influence turnover, efforts can be taken to design and implement better policies and procedures for attracting, developing, and retaining quality employees. We hope that this report encourages industry practitioners to monitor their costs closely, and use the information to manage human capital more effectively. ■

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