Staff Retention in the Luxury Hotel Sector in Australia: Essential, but not Necessary!

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In the context of an increasingly tight labour market, the issue of not only attracting but, more importantly, retaining staff is becoming more pronounced. These issues have been well publicised in such sectors as health and mining, where the skills shortage has been instrumental in attracting skilled migrants. However, hospitality is one sector that has experienced voluntary, high labour turnover for quite some time. Many jobs are short term, unskilled and contingent, so turnover is to be expected. However, in the 4/5 star hotel sector, dominated by multinational corporations, there have been concerns raised within the industry around staff recruitment and staff retention. Previous studies (Knox & Walsh 2005; Timo & Davidson 2005) have highlighted a paradox that appears to be evident, while the industry makes such claims, labour use strategies are generally centred on cost minimisation and labour flexibility strategies that in themselves are not inimical to staff retention. Drawing from information generated by industry reports, Australian Bureau of Statistics (ABS) data and workplace agreements in the hotel sector, this paper provides a closer look at the reasons for staff turnover within the industry and whether the concerns about staff retention are matched by the workplace agreements. The paper presents a preliminary investigation into the strategies (or not) that the larger industry players are employing to facilitate staff retention.

Introduction

Hospitality businesses are a vital part of the overall tourism industry, which, in Australia accounts for adding an estimated $8 billion annually to national GDP (HMAA 2006). The industry is labour intensive, highly competitive and currently exhibiting a number of characteristics that have government and industry bodies concerned over its long-term sustainability, the most prominent of which being high levels of voluntary turnover and the perceived lack of labour retention practices that exist within the industry. Previously, the demand for jobs within the industry far outweighed the supply. Employers had little problem finding suitable staff and although turnover was comparatively high across the industry, recently vacated positions were quickly filled. Currently, however, the nation is impacted by a significant shortage of skills. This shortage is common across a number of industries including the hospitality sector. Even more significant however is the decreasing pool of labour from which organisations within the industry can draw. This added to low unemployment and continuing high levels of turnover is creating substantial costs for organisations, significantly impacting on the bottom line in an industry where cost minimisation is the primary strategic focus.

Several explanations for such high turnover have been offered including: the highly contingent nature of the workforce including a high incidence of employees aged between 15 and 24, the low skilled nature of many of the jobs and lower than average earnings experienced by much of the workforce. More specifically however, the primary causes for low staff retention are attributed to the lack of consideration given to particular human resource management practices that are held to have positive influence on staff retention. Such practices include the lack of consideration given to training and skill development and the reported low incidence of challenging jobs that lead to
career progression. Therefore there is growing evidence to suggest that it is not simply the inherent nature of the industry itself that is attributable to turnover but rather the lack of engagement of human resource management practices that may facilitate staff retention. Conclusions from a recent government enquiry into the state of the industry reflect this position and put forward the verdict that rather than continuing to ignore the issue, it is “a change in attitude [that] needs to come from industry itself” (The Parliament of the Commonwealth of Australia).

The Hospitality Sector
The hospitality sector is located within the wider tourism industry. Although generally, a high growth industry, tourism can be affected by political, economic and environmental factors in both favourable and negative ways. Therefore, the industry must be resilient enough to cope with at times, polarised demand patterns created by external influences. Tracking tourism data across time provides an indication of the volatility of demand. For example, data published by the United Nations World Tourism Organisation (UNWTO), demonstrates that the Australian industry experienced a significant increase of tourism arrivals in 2000 when the nation played host to the summer Olympic games. However, by 2003, a substantial reduction in tourism arrivals was recorded as the industry suffered the impact of the Asian economic crisis, conflict in Iraq and the outbreak of Sudden Acute Respiratory Syndrome (SARS). Over time, additional negative key influences have resulted from avian influenza, economic position/s of country of origin, geological events such as Tsunamis and earthquakes, and, the volatility of aviation fuel prices (UNWTO various years).

In addition to the above, the very nature of the industry itself creates uneven demand patterns often influenced by seasonal variations depending on location. The highs and lows that are created by such variations place pressure on organisations to maximise profit when available and minimise costs when demand lessens. These associated factors along with the highly competitive nature of the industry result in most organisations adopting cost cutting and cost leadership strategies (Timo & Davidson 2005). This cost minimisation focus however adds a continuing challenge as management of the organisations try to balance low costs with the constant provision of quality service (Knox 2008: 231). Consequently, demand fluctuations and cost minimisation strategies require flexible human resource management practices. Thus we see specific employment characteristics, largely particular to this industry.

Workforce characteristics
Contingent workforce
The vulnerability of the sector as it relates to external influences and the seasonal nature of demand exerts a profound influence upon the structure of the workforce. For example, it is the influence of these factors that result in the tendency for organisations to operate on the basis of core staff and maintain a large pool of temporary or casual labour from which it can draw when necessary. Recent data indicate that casual employment within the sector accounts for just under 50% of all hospitality industry employment. While the use of casual labour is not unusual for the industry in a global sense, the Australian example is noted to be quite extreme. For example, the ILO, undertaking comparisons with selected European countries, reported that in Australia part-time or casual work in the service sector has been growing “faster than full-time employment…” demonstrating a relatively high incidence by international standards (ILO 2001: 61).
Skill levels
The hospitality sector plays host to a number of occupational groups with positions ranging from very low-skilled through to technical and highly skilled. These groups include back-of-house positions, through to face-to-face customer service positions. Some positions are highly technical, for example, chefs etc and require several years training before realising qualification. Depending on the size and nature of the organisation, there are a number of supervisory positions and management positions similar to those of any organisation. Generally, however, the majority of employment within the sector is located within those positions classified as lower skilled. The top three positions in terms of number of employees are kitchen hands, food and beverage attendants and (for accommodation) room attendants. The low skilled nature of these positions requires the employee to have little or no post school qualifications (apart from mandatory legislative requirements). Therefore, substantial employment within these areas go some way to explain the lower than average possession of post-school qualifications for the larger numbers of employees in the industry. In fact, this figure sits at just under 56% within the industry which is almost 10% higher than the across all industry figure (DEWR 2006).

Remuneration
In terms of income, data indicate that employees within the ‘accommodation, cafes and restaurants sector’ earn significantly less than employees across all other Australian industries. For example, ABS (2007) reports that average full time adult total earnings across all industries are $1,136 per week. In the hospitality sector however, the average full time adult total earnings are $868.40 per week.

Age
The industry is quite attractive to the younger age group. In fact 25.5% of all employees are aged between 15 and 24. This compares to an all industry average of 16% for the same age bracket (DEWR 2006). There are numerous reasons offered to explain this mix, however one significant factor is the ease of mobility that can occur within and between organisations operating within the industry. That is, once gained, the skills associated with a large number of positions within the industry are easily and readily transferred to other organisations whether they operate within the same locality, the same nation, or, internationally. This ease of skills transfer suits the younger age group for a number of reasons. First, many young people require employment mobility as they are more likely to travel abroad and can easily obtain work in other countries. Additionally, it is widely held by the younger generation that hospitality is a ‘job of entry’ into the workforce as they are ‘passing through’ on their way to a career in another industry (HMAA 2006; Woods and Macaulay, 1989).

Turnover and Retention
This transient nature of employment within the industry is captured by recent ABS labour mobility statistics whereby the percentage of employees who had been with their current employer for less than 2 years was 15.9%. This figure was reduced to 8% of employees who had been with their current employer for 10 or more years. When compared with data across all industries, the hospitality industry has the lowest proportion of workers who remain with an employer for any significant length of time and the highest levels of turnover (ABS 2006).
For the purpose of this paper, the term turnover is not inclusive of those events such as retirement or internal transfers within organisations. Nor is it concerned with involuntary methods such as dismissals and retrenchments. Rather, the term turnover is used as it relates to voluntary resignations, ie, those leaving the organisation to pursue opportunities in other organisations or industries. Davidson and Timo (2006: 3) report that data generated by their investigation suggests that the “primary reason for industry turnover was voluntary”. This finding is consistent with ABS
data. The following graph indicates that over 80% of operational staff and 60% of managerial staff exits are voluntary in nature.

As indicated by ABS statistics, the industry experiences the highest level of voluntary turnover across all industries. Research has provided some alarming figures that provide an indication of the substantial financial costs incurred by the industry as a result. For example, in the USA, annual combined (operational and management) turnover is in excess of 60%. It is estimated that replacement costs are approximately $US 3,000 – 10,000 per person for operational staff (ILO 2001; Taylor and Walsh 2005). Costs for replacing management positions however are estimated at the equivalent of a full years salary. In 43% of the cases studied this figure is between $US 51,000 and 100,000 per employee. In a further 14% of cases this figure increased to between $US100,000 and $US130,000 (Taylor & Walsh 2005: 15). Available data from Hong Kong, UK and Australia provide similar results. For example, a recent study (2006) into the costs of turnover in the Australian industry reports an annual combined turnover rate of 50.74%, and management turnover rate of 39.19% (Davidson & Timo 2006: 3). Replacement costs for operational staff were reported as approximately $9,591 per employee, while managerial staff was reported as $109,000 annually for each hotel surveyed. In total, the 64 hotels surveyed reported a combined annual employee turnover cost of $49 Million equating to 19.5% of total payroll costs (Davidson & Timo 2006:4).

Previously, high levels of turnover have been associated with operational staff. As the above graph and figures indicate however, the industry is also experiencing increases in management turnover, leading some commentators and national governments to question the ability of the industry to continue to sustain its current existence (ie ILO 2001; Taylor & Walsh 2005; Davidson & Timo 2006). For example, the ILO indicated their concern about the issue in 2001 describing the trend as ‘alarming’, and calling for national governments and industry leaders to investigate the nature of the causes (ILO 2001: 54). Warnings notwithstanding, hospitality managers however are very aware of the issues. For example, 50% of all management responses to an enquiry into the issue in the USA reported an annual turnover averaging 60%. It was noted that it is these “human-capital challenges...[that] are the problems that ‘keep them awake at night’” (Taylor and Walsh 2005: 7). In an effort to understand the nature of turnover more clearly several explanations have been offered. For example, Iverson and Deery (1997: 71) discuss the notion of the industry having a ‘turnover culture’ whereby “the acceptance of turnover is part of the work-group norm” or, that there is a belief among employees that turnover is an acceptable practice. In addition, Krackhardt and Porter (1986 cited in Iverson and Deery 1997: 79), suggest “employees are more likely to leave if they see their peers quitting” leading to the conclusion that turnover is ‘self-aggravating and self generating’ a view originally put forward by the Tavistock Institute in the 1950s and more recently represented by Denvir and McMahon (1992).
Sitting closely alongside the ‘culture’ literature is the ongoing debate regarding levels of commitment. While some, (ie Simms, Hales & Riley 1988) argue that the organisations or industry itself fails to evoke or promote commitment from their employees, others, (ie Williamson, Harris & Gent 2008) argue that it is the employees themselves that fail to commit to the organisation and industry itself. For example Williamson et al (2008: 465) commenting on data generated through ‘exit interviews’ argued that there is “little indication that the organisation has done, or failed to do, something that has resulted in the employee deciding to leave”. Therefore, they conclude, that the key to the issue is not to be found within the reasons why staff leave it is more likely to be found by investigating the reasons for lack of commitment.

Clearly, the above discussion indicates that the issue requires more than a unilateral investigation. This conclusion is supported through data obtained by the ILO (2001) that exposed a disparity between supply side and demand side evaluations. For example, it was found that employers commonly cite “the transient nature of the workforce, namely students, young mothers and young people as a whole…” as the cause of the problem, while employees cite low wages and lack of career structure, irregular and long working hours and non-standard employment conditions as the primary reasons (ILO 2001: 55-57). The results from Davidson and Timo’s (2006: 10) study further supported the demand side argument whereby “low pay, poor working hours and seeking better career opportunities elsewhere” were cited as key contributing factors.

The desire for career structures within the industry is reflected globally. For example, the Centre for Hospitality Research (CHR) at Cornell University have recently conducted studies into the causes for high levels of management turnover in the USA hospitality sector indicating that “hospitality professionals…are looking for challenging jobs that offer growth opportunities, competent leadership and fair compensation”, and that if this is not forthcoming, the industry will continually lose good people (Taylor and Walsh 2005: 4). The authors concluded that the retention of hospitality managers “may be linked to specific job features that enable professionals to develop their careers ‘in-house’” which may be linked to enhancement of the “individuals’ organisational and industry commitment levels and reduce their turnover intentions” (Taylor and Walsh 2005: 9).

Interestingly, these findings while published in the late 1980s, appear to have had little impact on the industry overall. This seeming lack of attention is reflected in the ILOs 2001 investigation whereby the following was offered: “truly structured careers, in which workers have genuine prospects of career development, are not numerous in the hotel, tourism and catering sector, and efforts to retain employees through incentives or promotion are the exception rather than the rule” (ILO 2001: 85).

Skill shortages and the labour market
The above discussion paints a rather gloomy picture of the industry. The volatility of demand, the seasonal nature of employment combined with low pay, little perceived career progression for all but a select few and the desire for mobility from the younger labour force all impact on the organisations ability to retain staff. Non-tangible costs such as the outflow of knowledge and skills from the industry and the consequential loss of productivity are further exacerbated by an increasingly tight labour market as low unemployment rates reduce an already depleted accessible labour pool.
It is widely recognised that in such a labour intensive industry access to available skill base and skill development is an important link with attaining competitive advantage. Previously, the demand for jobs in the hotel industry far outweighed supply which, according to Norris Stromback and Dockery (1995), resulted in little necessity for the industry to pay significant attention to increasing turnover levels. Currently however, there is a significant ‘skills shortage’ leading governments from some countries to give more attention to the training and re-training of employees in the industry (DEST 2005). A recent report into skills shortages and training within the Australian industry identifies a number of challenges that will need to be met if the industry is to meet demands and requirements. Briefly, these consist of the need for longer-term career opportunity, constraints on employers to hire apprentices and trainees, and an alignment with training and industry requirements (NQC 2005).

The growing trends of globalisation and regionalisation are forcing organisations to adopt new competitive strategies. In light of this the ILO (2001: 26) suggested that it is time for organisations to take up these challenges “in terms of investment needs and human resources development, especially with regard to training and labour mobility”. This view is reflective of the agenda of the Association of South-East Asian Nations (ASEAN) where emphasis is on Human Resource Development (HRD) in terms of increased education and training to ensure that skill levels within the industry reflect the need for quality and professionalism (ILO 2001: 27).

While investigation by the ILO (2001: 87) suggests the take up of training is generally slow within the industry, it is recognised that some of the larger organisations or MNCs operating within the industry demonstrate some trend toward training and development. For example, the Radisson Hotel Group “acknowledges that the success of the company depends on the knowledge, skills abilities motivation and dedication of its employees,” and established the ‘Radisson SAS Management School’ as a result. Further examples from the UK and the US report some measure of success as they have recognised impediments within their systems that prevents staff from moving up into management or more senior management positions. Providing external training opportunities for selected staff and implementing ‘annual readiness assessments’ for those wishing to ‘move up’ have allowed some organisations to realise some benefits of these incentives (ILO 2001: 88). Evidence however suggests that these programs are not widespread and if the situation is to improve then more needs to be done.

The Luxury Hotel Sector

Within the industry, ‘accommodation, cafes and restaurants’ account for the two largest sectors. In 2006, these two sectors combined, employed approximately 467,600 people indicating an average annual growth rate of 2.3% over the previous 10 years (DEWR 2006). Consistent growth over time demonstrates the industries resilience to bounce back from negative external influences mentioned earlier.

A key feature of the ‘accommodation, cafes and restaurant’ sector is the high incidence of small business (those employing less than 10 people). However, while significant in number, small businesses across the industry contribute to only a relatively small proportion of total industry income and employment. Rather, it is the larger players 50+ employees), often multinational chain hotels, operating within the 4-5 star categories at the luxury end of the sector, that are predominately responsible for the generation of income and employment. While relatively few in number, approximately 1.2% of all businesses, ABS (2004) data indicate that organisations operating within this category are responsible for over 55% of industry employment.
The nature of establishments operating within the higher end or luxury sector is to provide exceptional facilities and customer service to their guests. Employment within these hotels takes a variety of forms. As indicated by the primary sector award and reflected in selected Enterprise Bargaining Agreements (EBAs) the position classifications are typified along a grading system. Grades range from levels 1 through to 10. Levels 1-5/6 are attributed to operational staff and typically have the following characteristics. Levels 1-3 include back of house and food and beverage attendants. These positions are both reasonably low skilled, and low paid. Level 4 positions reflect some supervisory status and those positions at level 5-6 reflect technical status, for example chefs etc. The higher levels are generally reserved for management positions. Inline with the diversity of skill and position requirements within the luxury hotel sector it is more likely that only these larger hotels have significant HRM departments (Hoque 2000).

While some commentators suggest that turnover percentages are somewhat reduced within these organisations, evidence presented so far (for example Davidson and Timo) clearly demonstrate that the cost of turnover remains highly significant. Further, research conducted by Simons and Hinkin (2001) suggested that the financial cost of turnover per head has a much larger influence on gross operating profit when the average daily room cost is greater, leading to an indication that hotels operating in the higher service categories “should be especially concerned about the issue – even where turnover rates may already be comparatively low” (Simons and Hinkin 2001: 69)

Evidence
The data for analysis was extracted from Enterprise Bargaining Agreements (EBAs) publicly available through the Workplace Authority website, and, Australian Workplace Agreements (AWAs) obtained from a CD purchased from the Workplace Authority. Searches for those organisations with more than 100 employees yielded 9 EBAs and 72 AWAs to be used for analysis. All agreements were lodged with the authority in either 2006-2007. The average period of agreement was 3 years. Only two agreements recognised the primary hospitality union (Liquor Hospitality and Miscellaneous LHMU) as a party to the agreement. Areas for analysis included; the wording of the agreements objectives, career progression, training and development, performance appraisal and rostering arrangements.

Results
The inclusion of agreement objectives was more evident within the EBAs. The primary focus of the majority of objectives however emphasised financial performance rather than employment related factors. Indeed, only 3 were constructed around employee development while the primary objectives of the remainder concerned key business interest ie profit, shareholders etc. While the 3 that articulated employee related objectives all indicated that the organisation was committed to career paths and employee development, only one articulated commitment to attracting and retaining key staff.

Collectively, the agreements identified 9 areas linked to career progression. Included, were: skill consolidation, training, multi-skilling, problem resolution, knowledge sharing, upholding of service standards, competency based and recognition by manager. Three of the 9 EBAs provided for automatic competency based progression from level 1 to level 3. While 7 of the 9 agreements made provision for career progression, only the 2 unionised agreements recognised 8 of the 9 areas listed above. The other 5 identified 2 or less. Of the 72 AWAs only 1 mentioned career progression. All 9 EBAs and just over half of all AWAs signalled that employees would be provided ‘required company training’. In 97% of cases, this form of training was ‘on the job’ and directly related to job requirements. There was a strong association between this form of training and the lower levels 1-3 of the organisation with little or no mention of training for the higher levels.
Not surprisingly, over 95% of cases indicated that rostering arrangements would be over a 7 day period. In over 40% of these cases rosters covered 24 hour per day. The majority of organisations rostering 24/7 had implemented an annualised salary arrangement whereby weekend, shift and often public holiday penalty rates were absorbed into the arrangement resulting in the removal of financial incentive for staff to work non-traditional hours.

Conclusion
Clearly, the hospitality industry is experiencing increased pressure from economic forces to curb the increasingly high turnover rates by focusing on adopting measures to retain staff. Research undertaken so far indicates clear linkages between strategic HR practices such as career progression, training and regular performance appraisal and potential staff retention. While the above analysis does not provide a comprehensive review of the application of such practices, it does indicate that for those organisations involved, the take up rate remains slow at the very least. The significant financial drains created by such high levels of staff turnover, continue to be a problem for organisations operating in the industry. While an inspection of industrial instruments provide a starting point, there is clearly a need for further research if a deeper understanding of these issues is to be gained.

References