CHAPTER 10

Employee turnover: calculation of turnover rates and costs

Akin Aksu

School of Tourism and Hotel Management, Akdeniz University, 07058, Arapsuyu Campus, Antalya, Turkey

Literature review

In terms of economic perspective, service industries play critical role in world economy and as an important component of service industry, tourism industry has direct effect on service industry (Varoglu & Eser, 2006, p. 30). Today like other establishments, touristic establishments are trying to survive under conditions of high-level competition. In order to survive they are trying to realize greater economic aims (such as profitability) and social aims (supporting recruitment and raising employee motivation). In this context, employee turnover can be seen as one of the indicators of the touristic establishment's working conditions.

Because of high employee–customer interaction, turnover has special importance in the hospitality industry. In literature it is possible to see a number of publications regarding turnover motives (Robinson, 2005, p. 349). In the hospitality industry, managers must possess an awareness of their employees in terms of their feelings toward the job and satisfaction levels from their working conditions, superiors and peers (Lam *et al.*, 2001, p. 157). Satisfied and motivated employees comprise a major factor for successful competition among rivals. Satisfied and motivated employees may contribute to developing satisfied customers. There is a strong relationship between customer satisfaction and employee satisfaction in tourism industry. The success of organizations is heavily dependent on customer evaluations (Jolliffe & Farnsworth, 2003, p. 312). Customer needs and expectations will be met by providing products and services that meet or exceed their expectations. This requires work activities provided by satisfied and motivated employees. Customer satisfaction yields repeat purchases from customers within an existing establishment, just as employee satisfaction results in increased retention of workers. In other words, from the studies in the literature it can be said that organizations with low employee satisfaction levels will tend to possess higher turnover rates than those with high satisfaction levels (Wright & Bonett, 1992, p. 605). There is a close connection between employee satisfaction and length of service. Generally high levels of turnover occur for the employees with low satisfaction levels for more than 6 months (Lam *et al.*, 2001, p. 159).

In the near future keeping employees who have desired communication and interaction skills with customers will become increasingly more important (Rust *et al.*, 1996, p. 63). Since employee behaviours influence customer satisfaction, managers are realizing the importance of including "personality" factors as part of the recruitment and selection processes (Stone & Ineson, 1997, p. 216). Neither high nor low turnover

rates are useful indicators of organizational success for any specific enterprise. Instead, each touristic establishment must determine its own tolerable turnover rates and costs. In the hospitality industry, employee turnover is generally high by comparison with other industries, which may present adverse effects on the morale, motivation and job satisfaction of employees. Employee turnover may be defined as "any permanent departure beyond organizational boundaries" (Cascio, 1995, p. 581). Another definition for employee turnover may be simply stated as employee leaving an organization for whatever reason/reasons.

There are two types of employee turnover: (1) voluntary and (2) involuntary.

If an employee starts to look for a new job, this behaviour reflects his/her intention to leave the establishment, which is referred to as voluntary turnover (Ito & Brotheridge, 2005, p. 7). In this kind of turnover, employees leave establishments based on free choice. In other words, voluntary turnover can be regarded as "avoidable" turnover in some cases (Price, 2001, p. 600). Possible reasons for voluntary turnover are low salary, job dissatisfaction for the people with high expectancy levels, bad relations with superiors and colleagues, lack of job security, educational purposes for students, family purposes especially for females, better job opportunity purposes, experiencing new jobs and alternative job offers especially for skilled employee, etc. With a whole perspective to voluntary turnover, the outcome job satisfaction can be seen as vital. Job satisfaction is defined as how people feel about their jobs and job components. In this context, person-organization fit is important. Person-organization fit can be defined as a balance between individual and organizational values that will result in positive outcomes for all sides. Person-organization fit decreases employee turnover, increases organization commitment. Increasing job satisfaction and thereby decreasing employee turnover are critical tactics. Estimates calculate that separation, replacement and training costs are 1.5 to 2.5 times annual salary for each quitting employee (Rust *et al.*, 1996, p. 63). Voluntary turnover affects organizational effectiveness in reaching their goals. Therefore managers must be aware of the situation and must give support for minimizing the cost of unwanted separations (Price, 2001, p. 601). Some hospitality firms are changing their employee retention strategies and want to benefit from employee retention. After investigating 76 hotels, Simons and Mclean(2001) showed the importance of employee turnover on hotel profitability (Simons & Hinkin, 2001, p. 66).

Tourism industry operations require significant investments in labour. The success of an enterprise depends on feelings and needs of its customers, as well as employees. Hence, managers should understand the expectations of their customers and employees (Lim & Boger, 2005, pp. 59, 61). In the matter of involuntary turnover, the establishment removes employees (examples: poor performance, economic conditions, etc.). Some consider this type of turnover to be "unavoidable" turnover (Price, 2001, p. 600). Adding involuntary turnover cases because of death, illness or retirement are not suggested for inclusion of turnover calculations (Abelson & Baysinger, 1984, p. 331).

In the hospitality industry employee turnover is generally high by comparison with other industries. For example in Taiwan because of long working hours, rush hour stress, and frequent changes in the work shifts there is high employee turnover in the hospitality industry and of course this situation affects quality of goods and services (Huang, 2006, p. 31). According to Horton and Ghiselli (1999) there are 30 different individual factors affecting turnover (Walmsley, 2004, p. 276). In addition to individual factors affecting employee turnover, "outsourcing" and "seasonality" are two important factors affecting employee mobility. According to Center for Economic Policy Research, there is a loss of 8000 jobs per year in Germany and 2000 jobs in Austria because of outsourcing retrieved 03.08.2006 from www.ilo.org/public/english/employment/strat/download/wr04c1en.pdf.Seasonality as a second important factor, influences sector employment and leading to widespread seasonal employment. Seasonal jobs enable non-permanent jobs that will end in the near future (Jolliffe & Farnsworth, 2003, pp. 312, 313). Seasonality in the tourism industry can be defined as fluctuations in terms of demand. The tourism industry has been facing this problem for many years. The seasonality problem not only affects touristic establishments and their employees, but also governments' recruitment policies (Jolliffe & Farnsworth, 2003, p. 312).

Mullins (1992) mentioned that according to HCITB report, turnover rates were identified as 19% for managers, 55% for craftsmen, 65% for operatives and 94% for supervisors; hotels and guesthouses had the highest turnover rate with 86%. As Ladkin and Riley (1996) and Ladkin and Laws (1999) mentioned, hotel general managers change their jobs in every 2–3 years. Another study by Mccabe and Weeks (1999) shows employee turnover rates to be problematic for convention service manager positions in Australia (Mccabe, 2001, p. 494). In the restaurant business approximately half of all separations occur within the first 30 days. So this first period at the

job plays an important role in employee turnover. Perceived alienation on the part of the establishment and employee policies and practices within the establishment are important factors affecting the decision of new employee to stay or to leave. According to the Bureau of National Affairs Report for 1987 half of all employees left their jobs in the first year. Drummond (1990) reports that turnover costs can go up to $2000–$3000 for skilled employee such as line cooks and servers. Even for the minimum wages, the replacement cost of a new employee will be approximately $3700 (Lim & Boger, 2005, p. 62). The National Restaurant Association estimates turnover costs per restaurant employee to be $5000. The food-service industry employs many young workers who tend not to stay with a company for long periods of time. It has been reported that 60% of eating and drinking-place workers are 29 years old or younger (Ghiselli *et al.*, 2001, p. 29). Restaurants are generally characterized by high employee turnover rates. This industry has grown so fast (Hjalager & Andersen, 2001, p. 117) that it is faced with the problem of balancing supply and demand in terms of employment. It is not so easy to find well-trained employees. With entry level job possibilities, homogeneity of wages and hard working conditions high levels of employee turnover can be found to be normal (Bills, 1999, p. 587). Generally speaking, the working conditions of chefs' are poor (Robinson, 2005, p. 350). Together with supply and demand problem, working conditions of chefs must be taken into consideration. Another reality for restaurants is related with the image of "serving others" (Wildes, 2005, p. 214). For some employees this can be a problem that affects their leaving or staying decisions. The results of a research conducted in the USA in 1990 indicate that the cost of turn-over for a staff member was between $2900 and $4700; for top management it was between $17,000 and $20,000 (Grandone, 1994, pp. 3–6). Even in Turkey, one of the world's developing countries, employee turnover has been experienced as a problem in terms of costs. Average wages in Turkey have been lower than those in Argentina, Brazil, Greece and South Africa. Especially since 1993, the wages have continuously decreased. Between 1993 and 1998 the decreased rate of real wages was 31.8%. According to the result of one study carried out in Antalya Region of Turkey turnover costs of food and beverage managers (with 3 years' experience) were between $3906 and $11,526 (Aksu, 2004, p. 207). In fact, employee turnover is not only an economic problem; but it is also a social problem, which has become a global scenario for different industry sectors around the world.

Relative to other industries young employees are working in the hospitality industry. They have high expectations from the job and their job satisfaction levels are considered to be low. At the same time younger employees change their jobs more frequently than older workers, retrieved 03.08.2006 from www.ilo.org/public/english/employment/strat/download/wr04c4en.pdf.

Of course, these situations pose negative impacts concerning the topic of employee turnover. Age factors can be seen as the most consistent individual characteristic variable that poses a negative relationship to turnover. According to researches, older employees are more satisfied than younger ones. As a general tendency, people leave establishments because of dissatisfaction with wages, mobbing from peers or superiors, disagreement with human resources management policies, etc. One of the realities in the hospitality industry is that it does not offer attractive working conditions. Tanke (1990) found that the work is physical, hours are long, weekends and holidays are the busiest times and wages are low. These situations together with job stress naturally lead people to re-evaluate their positions in the organization. According to Survey Research Center of Michigan four types of stress are distinguished; resource inadequacy (lack of means to perform a job), role ambiguity (unclear job obligations), role conflict (inconsistent job obligations) and workload (amount of effort required by a job) (Price, 2001, p. 603). According to Kaynak (1996), many other macro (external) factors may contribute to national turnover rates, such as a nation's general economic conditions and political crises, natural disasters, etc. Micro factors (internal) related to establishment's unique conditions would include employee–establishment relations, job dissatisfaction, demoralization, etc.

High levels of employee turnover have adverse effects on the morale, motivation and job satisfaction of employees and on the level of the establishment's performance in customer interaction. The costs of recruiting and integrating new employees are considerable both direct and indirect costs. According to Rutherford (1990), the formal and informal relationships that have been established between worker and supervisor, and among peers are disrupted when someone leaves an establishment and a replacement worker enters.

Experiencing high turnover rates occasionally would not be a big problem for establishments, but having them constantly will be a real problem (Geylan, 1989, p. 87). Employee turnover has a much greater negative impact for operations needing high quality and experience. Especially for management levels, examples can be seen like a manager or responsible person

leaving the establishment during the high-season period or the strategically important season for the establishment. In such cases this kind of separation has very negative effects on the employees who continue their employment. Eren (1993) wrote that every separation means the loss of some quality and experience. In all establishments the components of turnover costs vary according to employee types. There is always a big demand for qualified and experienced employees in the hospitality industry. According to Aytek (1978), turnover of unqualified or semi-qualified employee is not a big problem for countries having an excess of human resources like in the current situation in Turkey. The costs of employee turnover are important even in entry-level positions for simple jobs. Turnover costs change according to the different positions because of the complexities of positions (Hinkin & Tracey, 2000, p. 20).

In some instances establishments may want to benefit from employee turnover. For example, they can support voluntary separation for the sake of employee savings. Or they may want to replace employees who have performed poorly. Generally, employee turnover can be viewed as a positive factor for the establishment when poor performers or dissatisfied employee leave (Geylan, 1989, p. 88).

Although it will change according to the applications of establishments and fluctuations in demand for workforce in the hospitality industry, neither high nor low turnover rates are beneficial for touristic establishments. Each organization must determine its tolerable turnover rate. In detailed research on employee turnover, some important questions can be asked (PGF, 1991, p. 9) like:

- What are the main reasons for leaving the work?
- When do the employee leave?
- Which kind of staff in the hospitality industry has the highest turnover rate?

The answers to these questions will help to understand employee turnover and will direct us to new strategies. It must be remembered that every establishment will give different answers to these questions according to their applications. If turnover reasons are carefully examined, it is possible to see that most of the reasons can easily be handled and be solved. In this context for every establishment stating the reasons and trying to solve them can become the first two steps in managing turnover. Especially human resource management practitioners must identify the reasons why people leave so that appropriate

actions may be taken. In voluntary turnover defining and trying to solve the problems by establishments is important for the rest of the employees who are in continue employment.

Related to leaving time, there is not any certain time of leaving, but in high season the rate of voluntary turnover and in low season the rate of involuntary turnover are generally high. Employee turnover can be easily experienced in every kind of staff position in the tourism industry. Both skilled, semi-skilled or non-skilled employees can be viewed as possible candidates for turnover. Skilled and semi-skilled employees always have the chance of finding other job opportunities with better conditions and non-skilled employee are generally at the top of the removing employee list during times of economic recession.

A close look to employee turnover process

According to the related literature employee turnover (voluntary or involuntary) can be seen as a physical separation and most of the studies investigated demographic aspects as important factors in the turnover process (Mobley, 1982, p. 111). Morrell *et al.* (2004) classified turnover studies in two groups: (1) labour-market school and (2) psychological school studies.

Labour-market school studies are mainly concentrated on external variables (like job alternatives, performance) affecting turnover and assume that all employees are homogeneous. With different perspective, the psychological school studies are focused on explaining of employees' behaviours (like job satisfaction, organizational commitment).

In practice, possible employee turnover process starts with selection of new employees. The first day at job is always important for the new employees. It is possible that a wrong candidate might have been selected for a position and that he/she will not be successful in the very near future. In order to facilitate correct selection decisions, practitioners should seek referrals from existing staff members. Since present employees know the current working conditions and expectations of their managers, they can help to potential employees in translating the realities about the establishment. If managers confirm referrals of present employees, there is a possibility of decreasing the number of new hires that will not assimilate to the organization (Linnehan & Blau, 2003, p. 256).

Regarding turnover, the interview process alone plays an important role in right or wrong decisions for new employees.

Unsuccessful hiring decisions may be based on the following deficiencies:

- Defining the individual characteristics in an incorrect manner.
- Having a time limitation for selecting the right employee.
- Failure to afford enough time and interest in performing recruitment and selection processes.

Assuming that appropriate selection processes are in place, there are other factors that may influence possible turnover rates. For instance, a new employee may perceive an unfavourable impression of the establishment. As it was stated before, the impression and feeling of new employees starting from the first day to last day concerning the establishment will define a stay or leave decision. An external factor that influences employee turnover is known as the "opportunity" to seek positions with alternate organizations or industries. The term "opportunity" refers to the availability of alternative jobs in the local vicinity. If the employee perceives alternative jobs are better than his/her current position, he/she might resign to pursue those opportunities (Price, 2001, p. 601). Job related factors from other perspectives giving the first job to new employees is important and affects each employee directly. Giving a first job after a reasonable orientation period can be done. The first job must be easy to do and new employee must be ready for the first job. In order to reach this aim; on the job training, in-house training or orientation programmes might be suggested. In current times, many organizations are trying to improve their existing orientation programmes. A successful orientation programme must be updated, written and have standards according to the rules of the establishments and status of new employees. Together with establishment presentations, a manual (showing vision, mission and important values of the establishment) must be given. During and just after orientation periods possibly bad impressions could occur and affect stay or leave decisions of employees. Carefully organized orientation programmes enable two positive developments in the organizations; (1) turnover rates of new employees decrease and (2) the number of stayers in the establishment increases. Figure 10.1, the study of Werther and Davis (1996), shows effects of short- and long-term orientation programmes on turnover rates.

With the help of orientation programmes, new employees can learn more things in an easy way. At the same time they can understand the expectations of their management. In

reality orientation programmes provide unique opportunities for new employees to understand accepted behaviours, rules and ceremonies in their new work places. In current organizations, especially in service industries, in order to cope with employee turnover, establishments must combine organizational and individual targets. In this context, leaders must communicate their expectations to employees personally. Another thing is related with matching individual characteristics with the job requirements. For most cases in the tourism industry, the practice of recruitment of new employees in the absence character analysis can easily be witnessed.

Employee turnover can be seen as a final step of job/establishment dissatisfaction. If an employee perceives dissatisfaction he/she will have three possible steps:

1. He/she will go on obeying the rules and norms of the establishment.
2. He/she leaves the establishment.
3. He/she limits his/her performance (İncir, 1989, p. 50).

Robbins (1993) found that individuals show their dissatisfaction in different ways, as shown in Figure 10.2.

Leaving work: Means leaving of work and establishment at the same time.

Giving suggestion: Means suggestions coming from the employee in order to improve working conditions.

Loyalty: Means waiting of employee in a passive way for having an improvement in working conditions.

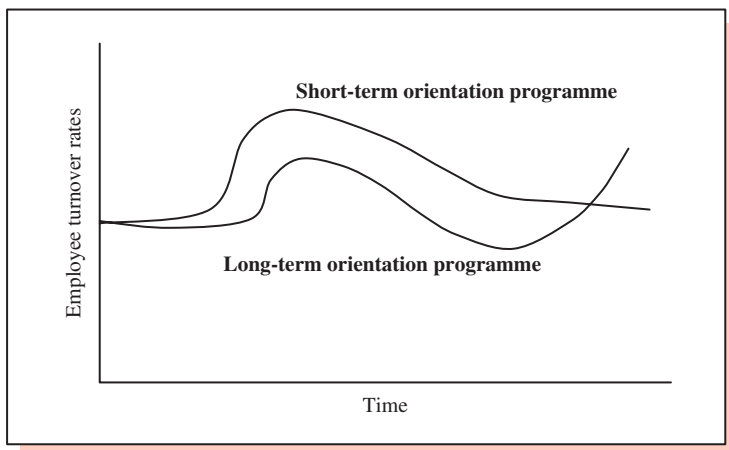

Figure 10.1
Effects of short and long term orientation programmes on turnover rates.

No interest: Watching the negative developments in the establishment in a passive way. In this situation there will be continuous absenteeism and work accidents. Employee retention is based on agreements between employees and employers. There must be idea of maintaining employment relations (Dalton *et al.*, 1982, p. 118). Both sides must make the decision of stay employed in order to continue their partnerships.

The disadvantages of turnover for establishments

According to Manley (1996), there are advantages and disadvantages of employee turnover and in order to manage turnover, developing a suitable organizational surrounding is necessary (Deery, 2002, p. 52). Despite some advantages like changing poorer performers with better ones or coming of new employees with fresh and innovative ideas (Werbel & Bedeian, 1989, p. 275), mostly employee turnover has disadvantages. Generally, high employee turnover has more disadvantages for establishments than for employees. The disadvantages for establishments are:

*High turnover increases employment costs. Here for employee costs, separation costs of terminated employees, replacement costs and training costs and productivity loss of new employees during new employee orientation period must be considered. In turnover calculations generally it is assumed for the new employees that there is a standard performance level to reach, but in practice reaching this level can change

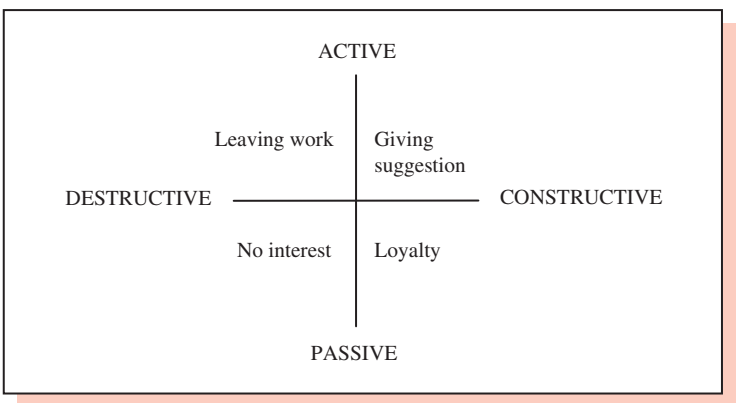

Figure 10.2
Different ways of showing dissatisfaction.

according to the position and skills of the new employee (Staw, 1980, p. 259).

*Although turnover periods can be seen as suitable during times for changing of organizations, especially high turnover increases the incidents of work accidents. Statistics show that especially during the orientation period of new employees, rate of work accidents are high.

*It means wasting of time, effort and money. Because employee turnover covers recruiting and selecting new employees, this topic includes all necessary works and training expenses. If an organization faces continuous high levels of turnover, the leadership may have to consider recruiting full time experts for selection and recruitment processes.

*It has an adverse effect on the morale, motivation and job satisfaction of the other employees (Sabuncuoğlu, 1988, p. 41). Touristic establishments must have positive images in their external and internal environments. High turnover rates will damage these positive images. It is well known that "mouth-to-mouth publicity" is widely used in the tourism sector worldwide. The positive image of an establishment can be mentioned by customers as well as among employees. In this context, the practices of managers can be a subject impact to customers (external customers) and employees (internal customers).

*Establishments that have high turnover rates and negative image on labour will always have problems in finding new and qualified employee. Possibly, they will have to offer much more salaries than sector salary standards to persuade workers to join the organization.

*Turnover decreases the level of social relations between individuals (Geylan, 1989, p. 90). Both voluntary and involuntary turnover will interrupt formal and informal relations of organization members. For every new employee, an orientation process will start new relations between the new employee and the rest of employees in the organization. This will have an adverse effect on building continuous and strong relations among the employees and establishment-customer long-term relations.

*Employee turnover affects learning levels of organizations in a negative way. In the learning process of any organization, retaining knowledge and experiences in the organizations and transmitting them to new employees will enable organizational learning. In employee turnover cases, if organizations have no written rules or specialization and knowledge transmitting mechanisms, they will probably suffer from negative effects of employee turnover (Rao & Argote, 2006, pp. 77, 78). Every separation will result as loses in terms of knowledge and experience.

*In the cases of unexpected turnover in high season periods, usually there will not be enough time to select, recruit and train the new employees (Darmon, 2004, p. 291). Reactions to staff shortages could result in increased short-term recruitment and reoccurring of turnover during crucial business periods.

The disadvantages of turnover for employees

The disadvantages of turnover for employees are:

*In voluntary turnover, the employee will lose his/her legal payment rights. Here legal payment rights means severance pay and leave compensation. If an establishment decides to terminate a person, it has to pay both severance pay and leave compensation.

*A terminated employee will look for new recruitment opportunities until finding a new job, he/she may have economic and social problems. Some people suggest that finding a new job and adjusting to it takes a period of approximately 1 year (Holtom *et al.*, 2005, p. 339). In addition to this, it can be thought that finding new job may take a long period of time during low season periods, generating the potential for economic crisis on the part of the unemployed worker.

*Voluntary departure results in loss of promotion opportunities. In addition to this, after finding a new job new employee has to show great effort to guarantee the retention of his/her new position.

*Terminated employees might become demoralized and may feel uncomfortable until finding a new job (Sabuncuoğlu, 1988, p. 41). In the next organization the new employee may miss the last working conditions or atmosphere when he/she makes a comparison between the previous and new organization. In addition to this another problem can be like; finding a new job in certain establishments may not fully guarantee the process of rebuilding former levels of self-confidence for employees. Retrieved 03.08.2006 from www.ilo.org/public/english/employment/skills/download/displacement.pdf.

*Turnover problem must be thought both for leavers and stayers. For leavers, changing of establishment and/or job can be stressful and for stayers this situation can decrease their satisfaction levels (Wright & Bonett, 1992, p. 603).

Short-term prescriptions for turnover

From a human resource managers' perspective, forecasting organizational labour supply and demand is important.

Especially at management levels when the costs of turnover reach high levels, monitoring and auditing of turnover are needed. Accurate forecasting, planning and applying short- and long-term prescriptions can be helpful in reducing turnover (Terborg & Lee, 1984, pp. 793–794).

Mullins (1992) wrote that according to Woods and Macaulay (1989), in reducing employee turnover establishments can follow short- and long-term prescriptions.

*Identifying the nature and character of the organization. This will be helpful in showing the possible qualification gaps between employees and the work requirements.

*Finding out why employees leave or stay. The performance of exit interviews is important. From exit interviews the working condition problems of employees or leaving reasons of employees can be identified regarding voluntary separations. According to the information learned from exit interviews, related precautions may be taken by hotel/travel agency managers. Of course, organizations cannot solve every type of problem, but at least they can reduce number of separations.

*Asking employees what they want from their jobs and providing formal opportunities for employees to voice opinions about their work.

*Developing effective recruitment, employment interviewing and orientation procedures. This will have a positive impact on new employee's image about his/her new organization.

Long-term prescriptions for turnover

*Establishing effective socialization, training and career-path development programmes. This will be helpful in combining individual and organizational targets. Also these applications make employee to be loyal to their organization.

*Developing profit sharing and incentive schemes. Motivating employees with both financial and non-financial support systems are important.

*Establishing child-care facilities and support services to attract older workers. Giving employees meaningful work is also needed. Currently, working employees are interested in social, non-financial benefits, as well as financial benefits associated with employment in their organizations. They may compare applications of their establishments with other establishments in the same or different sector.

*Maintaining competitive pay scales. This has two important benefits. One benefit is important for an organization by enabling continuous work performance of employees and the other benefit is needed for employees to be recognized for superior performance.

*Culture of belonging must be created for the employees (Deery, 2002, p. 52). If employees feel themselves as part of organizations, they will try to do their best.

Short-term prescriptions can be evaluated within a year and long-term prescriptions can be thought for a period of more than 1 year. Both short- and long-term prescriptions will help to find out the current working conditions in an establishment and will help to decrease the employee turnover rate.

In the literature on employee turnover, Katz (1964) argues that turnover can be a measure of organizational productivity. The higher the overall job dissatisfaction, the higher the turnover (Bass & Edward, 1979, p. 73). Beside this view, some other research can be given on employee turnover for the hospitality industry covering such topics as the rate, cost and causes of turnover. Regarding various strategies for managing turnover, Wasmuth and Davis (1983) collected data through interviews with 200 general managers, executive assistants and managers in a sample of 20 large national and international hotels in North America and Europe. For investigating the magnitude and underlying causes of absenteeism and voluntary turnover a pilot study was conducted among 62 hotel human resources managers in Central Florida (Pizam & Thornburg, 2000, p. 211). Related to the turnover subject in the tourism area, short period of hotel work and temporary positions must be taken into consideration. For short period of hotel work, an example can be thought as temporary request of employee for working for some time in tourism industry and for temporary leaving. For example, the temporary work of a female employee in a sector might be intended until her child/children grow up can be given. This situation can easily occur since the industry has not been successful in providing good working hours, etc. Both examples play important roles in turnover in tourism industry.

Calculation of turnover rates

In calculation of employee turnover rates, there are different methods in related literature. Having different methods coming from different ways of looking various aspects of turnover. One common calculation of turnover rate is based on number

of separated employees. According to this calculation rate of turnover can be seen as:

$$\text{Employee turnover rate} = \frac{\text{Number of separated employees}}{\text{Average number of employees}} \times 100$$

Note: Here separations include quits, lay-offs, etc.

Average number of employees (for wholeyear working establishments) can be calculated as:

$$\text{Average number of employees} = \frac{\text{Number of employees in the first day of the year} + \text{number of employees in the last day of the year}}{2}$$

(Sabuncuoğlu, 2000, p. 40).

From the calculation it can be asked that what will be the calculation of average number for seasonally working touristic establishments? Then the answer will be,

$$\text{Average number of employees} = \frac{\text{Number of employees in the first day of season} + \text{number of employees in the last day of season}}{2}$$

Another common calculation of turnover rate is based on number of recruited employees. According to this calculation rate of turnover can be seen as:

$$\text{Employee turnover rate} = \frac{\text{Number of recruited employees}}{\text{Average number of employees}} \times 100$$

Here the vital question is which of the calculation method will be used for turnover rates. The answer will be change according to the situation of the establishment. By months if the establishment has the same number of employees/increase in the number of employees then it will use the calculation for recruited employees. If the establishment has a decrease in the number of employee then it will use the calculation for

separated employees. Every establishment can make this comparison in terms of employee numbers on a monthly or yearly basis. In literature it is possible to see other different calculation methods for turnover, but the most practical ones are those that calculate recruited/separated employees.

Generally, calculating of employee turnover rates use easy and systematic formulas to provide valuable information to the establishments. Having continuous calculation on a monthly or yearly basis give the opportunity of comparing rates with other establishments and tourism sector averages. In addition to the calculation of turnover rates, knowing types of turnover (voluntary or involuntary turnover) will give more accurate results.

Simpler calculation of turnover rates may not provide meaningful information for establishments. For example having 15% turnover can be evaluated as; 15 terminations out of 100 or, 1 termination out of 100 for 15 times. In order to have meaningful results, beside calculation of turnover rates, calculation of stability indexes are also needed for human resource managers of establishments.

Stability index is based on the number of stayers (employees) in one work period. It can be calculated as follows:

$$\text{Stability index} = \frac{\text{The number of employees working for last year}}{\text{The number of employees recruited one year ago}} \times 100$$

Normally this index does not give information about new employees, but human resource managers can benefit from this information together with turnover rates. Another stability index can be given as follows:

$$\text{Stability index} = \frac{n}{\text{Number of average employees}} \times 100$$

Here n means: the number of employees working for one or more years in the same establishment.

Based on turnover rates, indexes and costs every, touristic establishment may define its tolerable figures. In this context, there must be optimal turnover when separation, replacement and training efforts were evaluated. From Figure 10.3 optimal turnover details can be seen.

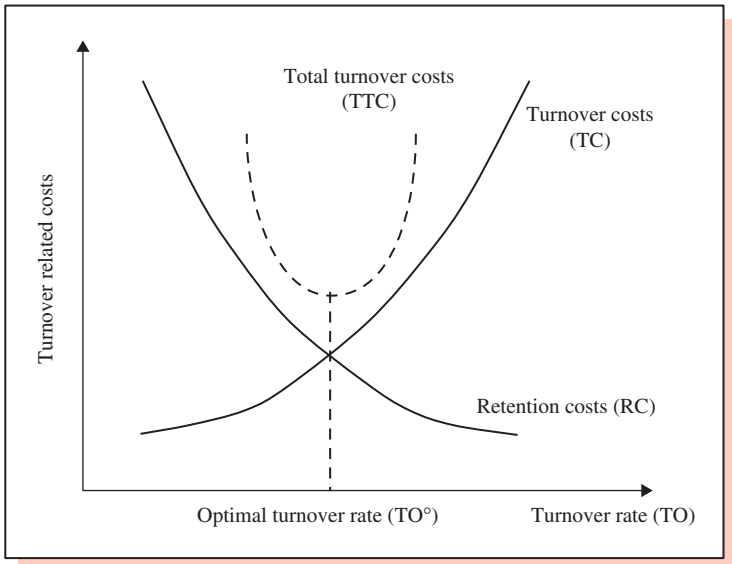

Figure 10.3
Optimal turnover (*Source*: Abelson & Baysinger, 1984, p. 333).

Figure 10.3 shows costs of turnover (separation, replacement and training) which was symbolized with (TC). In addition to this, retention costs (like increasing compensation) in order to decrease turnover was symbolized with (RC). If managers want to decrease turnover, it means increasing of retention costs. Therefore retention costs and turnover costs can be evaluated in opposite poles. Defining optimal costs is vital for the organizations. In Figure 10.3, total turnover costs were symbolized with (TTC). As shown, TTC was a U-shaped function.

Calculation of turnover costs

Before determining costs of employee turnover, it will be better to mention training and turnover relation in details. According to literature; there is a positive connection between employee turnover and investment in training in two ways: (1) an organization with high turnover will invest more in training in order to replace the skills of outgoing employee or to increase employee loyalty in the future and (2) an organization experiences higher turnover because the trained employees leave the organization for better paid jobs or working conditions where they can use their capacity better. When we determine costs of

employee turnover, there are three main components according to Cascio (1995, pp. 582, 583).

1. Separation costs
2. Replacement costs
3. Training costs

Note: As a general information, it will be better to mention that both for voluntary and involuntary turnover most of the cost components are the same. Only for voluntary turnover separation pay (see "Separation pay") will be omitted from the calculations. Separation pay can be severance pay and/or leave compensation. This payment will change according to country's legal applications.

The sum of these three cost components represents the total turnover costs. Benefiting from Cascio (1995), turnover costs can also be showed in formulas.

Separation costs

1. Exit interview
2. Administrative functions related to termination (example removal of the employee from the payroll, termination of benefits, etc.)
3. Separation pay
4. Increased unemployment tax

Exit interview

$$\text{Cost of interviewer's time} = \left[\begin{array}{l}\text{Time required of interviewer prior to interview} \\ + \\ \text{Time required for interview}\end{array}\right] \times \text{interviewer's pay rate}$$

$$\text{Cost of time for terminated employee} = \begin{array}{l}\text{Time required for terminated employee's interview} \\ \times \text{Pay rate of employee}\end{array}$$

Administrative functions

$$\text{Cost of administrative functions} = \begin{array}{l}\text{Time required for administrative functions} \\ \times \text{Pay rate of responsible person}\end{array}$$

Separation pay

All legal payments by establishments to terminated employee.

Increased unemployment tax

Replacement cost analysis formulas

1. Communicating job availability
2. Preemployment administrative functions (accepting applications and checking references)
3. Entrance interview
4. Testing and/or other types of assessment procedures
5. Employee meetings
6. Travel and moving expenses (travel for all applicants and travel plus moving expenses for all new hires)
7. Postemployment acquisition and dissemination of information (all the activities associated with in-processing new employee)
8. Medical examinations

Communicating job availability

It changes according to the communication methods used. For newspaper advertisements it can be limited with advertisement fee and for direct applications it will have no cost.

Preemployment administrative functions

$$\text{Preemployment administrative functions} = \begin{matrix}\text{Time required for preemployment} \\ \text{administrative functions} \\ \times \text{Pay rate of responsible person}\end{matrix}$$

In some establishments preemployment administrative functions like accepting applications and checking references can be done simultaneously with the entrance interviews.

Entrance interview

$$\text{Entrance interview} = \left[\begin{matrix}\text{Time required} \\ \text{of interviewer} \\ \text{prior to interview}\end{matrix} + \begin{matrix}\text{Time required} \\ \text{for interview}\end{matrix}\right] \times \text{Interviewer's pay rate}$$

Generally human resources manager and related department manager are responsible for entrance interviews.

Testing and/or other types of assessment procedures

$$\text{Testing costs} = \begin{array}{l}\text{Time required for testing} \\ \times \text{Pay rate of responsible person}\end{array}$$

Testing costs can change according to the testing methods.

Cost of employee meetings

$$\text{Cost of employee meetings} = \begin{array}{l}\text{Time required for responsible} \\ \text{employee for meeting} \\ \times \text{Pay rate of responsible employee}\end{array}$$

For employee meetings human resources manager and related department manager come together in order to accept applicant to the job.

Travel and moving expenses

Travel and moving expenses may change according to the travel options. If there is an invitation for the applicant out of city then establishment must pay his/her travel and moving expenses.

Postemployment acquisition and dissemination of information

$$\begin{array}{l}\text{Postemployment} \\ \text{acquistion and} \\ \text{of information}\end{array} = \begin{array}{l}\text{Time required for the process} \\ \times \text{Pay rate of responsible employee}\end{array}$$

It means all the activities associated with in-processing new personnel.

Medical examinations

$$\begin{array}{l}\text{Medical} \\ \text{examinations}\end{array} = \begin{array}{l}\text{Time required for medical examinations} \\ \times \text{Pay rate of responsible person}\end{array}$$

The total cost of medical examinations for new employee is paid by the establishment.

Training costs (orientation)

1. Informational literature
2. Instruction in a formal training programme
3. Instruction by employee assignment (on-the-job training)

Total training costs for new employee include both inside and outside the establishment.

Note: In calculating the turnover costs for establishments, the gross monthly wages of employees must be divided by 30 to find the daily figures. Then the daily figures must be converted to hourly wages. In formulas hourly wages can be used for calculations.

Conclusion

As Lynn (2002) stated, giving the causes, rates and costs of turnover, managers of touristic establishments will understand the importance of turnover problems and can make their decisions according to the priority of the subject.

Although the same cost components exist, different turnover costs can occur for the establishments because of their wages, human resource policies and applications. Calculating only the turnover costs is insufficient. For detailed information, establishments must have statistics related to their monthly and yearly turnover costs, the reasons for turnover and turnover rates according to departmental distribution. Having accurate and detailed figures about turnover and then making correct applications drawn from them, unsatisfactory turnover rates can be avoided and/or decreased.

Especially for involuntary turnover organizations must be very careful, because this kind of turnover generally serves as a red flag to potential or current employees of a company. For organizations having constantly high involuntary turnover rates, recruitment of new employee could become a serious problem in the future.

The hospitality industry was not perceived as an attractive industry to work in by employee because of its long working hours, lack of job guarantees, poor communication possibilities between colleagues, low wages and limited training possibilities. Of course these negative aspects affect employees directly or indirectly. One example can be given for limited training

opportunities. Sometimes these kinds of applications may lead employees to seek skills in other establishments (Deery & Shaw, 1998, p. 376). Responsible managers and governments have to re-check human resource policies at micro and macro levels appropriate to the needs and expectations of employee.

In the process of involuntary turnover, managers of touristic establishments must orient the employees starting from pre-layoff step to layoff step. This effort must be seen as social responsibility of management teams.

At macro and micro levels, labour unions can promote stability of employees by using their social dialogue opportunities with governments and employers' unions/representatives. As is generally known, union employees earn more than average and they have better working conditions retrieved 03.08.2006 from www.ilo.org/public/english/employment/strat/download/wr04c4en.pdf.

By time, with the increase in the number of labour unions will be resulted with a decrease in employee turnover rates.

Voluntary turnover can be seen as a final step of dissatisfied employees and separation of these employees will affect productivity of organizations in a negative way. In this context the human resource policies, regulations, quality of work life, job-employee balance in hotels become important in attaining employee satisfaction. Establishments should give the same value to their employees as they do to their customers. Especially in the tourism industry, managers must see "taking care of people" as same process for customers, as well as for their present employees.

New employees must identify themselves with the other employees and must obey the rules and values of their new organizations. If they can manage accepting new organizations as part of himself/herself, this will bring possible success in their future careers (Dick *et al.*, 2004, p. 352).

Within human resources management perspective, every touristic establishment must have suitable recruitment policies in terms of quality and quantity. If an organization wants to survive for a long time then it must orient all its policies like investment, recruitment, innovation, etc. in order to reach this aim. With labour-intensive aspect, employees play a very important role in the success of organizations. With current technology in the tourism industry, still it is not possible to give service to customers with 100% technology. This means organizations must still cooperate with human beings.

In evaluating the results and causes of employee turnover, managers/owners of touristic establishments generally think that every separation has different reason. In fact, in some of

turnover cases it is possible to find common reasons of turnover. In this context, managers must have collective studies to find common reasons. Common reasons can show right ways in managing turnover problems.

As a retention strategy, a new trend initiated by certain employers is to provide family-friendly policies towards employees. It is possible to see financial support for child care (Batt & Valcour, 2003, p. 190) and different forms of social activities. Establishments have already reported the benefits of these policies and have increased the number of family-friendly activities.

Regarding job possibilities in tourism industry may be it will be better to investigate current jobs in terms of employee expectations. Are current jobs useful for individual development of employees? Did they meet expectations of employees in general? The tourism industry is developing new job opportunities to new/potential employees on an annual basis. But the general images of some current jobs and working conditions can be discussed.

Finally, tourism managers must separate avoidable and unavoidable (in other words; voluntary and involuntary) turnover (Holtom *et al.*, 2005, p. 338) and always compare the costs of retaining employees.

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