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Staff turnover costs: In search of accountability

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ABSTRACT

The nature of staff turnover accounting procedures in a labour intensive context has been examined by conducting interviews with twenty eight managers in large three to five star hotels and two theme parks. It was found that the main staff turnover accountability procedures adopted involve monthly departmental reporting of staff turnover percentage levels and also the conduct of exit interviews. A degree of staff turnover costing was noted, although this practice was not extensively applied. Most interviewees supported the notion of allocating staff turnover costs to those operating departments experiencing the turnover. A muted form of this practice was observed in one hotel, however most interviewees had never contemplated or heard of the practice. Agency theory has been utilized as a framework for structuring a range of observed and potential staff turnover accountability relationships.

1. Introduction

In the hospitality management and also human resource management literatures, frequent reference is made to terms such as the "cost of labour turnover" (e.g., Davidson et al., 2010, p. 460) and "turnover cost per employee" (Reynolds et al., 2004, p. 230). Examples of staff turnover costs include recruitment and training cost and also reduced productivity (Davidson et al., 2010; Hinkin and Tracey, 2008). Yet an examination of widely-used management accounting texts (e.g., Drury, 2007; Horngren et al., 2011) and hotel management accounting texts (e.g. Guilding, 2009; Jagels, 2007) and also the accounting research literature reveals no consideration given to how staff turnover costs should be accounted for. Anecdotal evidence suggests it is very rare for any business, hotel or otherwise, to maintain a "cost of staff turnover" account. This failure to financially monitor staff turnover can be expected to detract from efforts directed to reducing staff turnover levels and controlling staff turnover costs. It was this inconsistency between everyday HRM parlance and the reality of hotel accounting systems that prompted conduct of the study reported herein.

The objectives of the study are to:

- examine staff turnover accountability procedures adopted in hotels,
- explore hotel HRM perceptions of alternative staff turnover accountability procedures.

The hotel industry appears particularly appropriate for this study due to its labour intensity and high staff turnover (Davidson et al., 2006; Yang et al., 2012). Labour turnover in the hotel and food service industries has been the subject of a plethora of commentaries and research (e.g. Deery and Iverson, 1996; Jung et al., 2010; Robinson and Barron, 2007; Simons and Hinkin, 2001). As already noted, despite the intensity of this interest, the accounting fraternity has offered negligible insights with respect to how labour turnover costs can be monitored and what lines of accountability should be established as part of a strategy of labour turnover cost containment. This appears incongruous with Deery and Iverson's (1996) observation that heightened levels of competition are increasing the importance of hotels eliminating unnecessary costs.

The remainder of the paper is structured as follows. In the context of a literature review, the next section considers the nature of labour turnover costs and issues surrounding their accountability. Subsequent sections address, in turn, the empirical research method employed, the study's findings and a conclusion that elaborates on the significance and limitations of the study.

2. Literary context of study and background discussion

Considerable evidence points to the potential of staff turnover to significantly diminish hotel profitability levels. Schlesinger and Heskett (1991) report that the Marriott hotel company estimated that each percentage increase in its staff turnover rate costs between $5 and $15 million in lost revenue. In an Australian context, the Industry Assistance Commission report on Tourism

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Table 1
The costs of staff turnover.

Separation costs
Exit interviewer
Employee exit interview
Paperwork processing
Severance pay
Recruiting and attracting costs
Advertising
Search and agency fees
Internal referral fees
Managerial pre-employment administrative functions
Applicant travel
Recruiter travel
Recruiter time
Miscellaneous (correspondence, telephone, couriers)
HR pre-employment administrative functions
Selection costs
HR interview
Managerial interview
Applicant travel
Background and reference checks
Medical exam
HR administrative functions
Managerial administrative functions
Hiring costs
HR administrative functions
Managerial administrative functions
Relocation costs
Signing bonus
Orientation
Formal training
On-the-job training
Uniforms
Security
Informational literature
Lost productivity costs
Vacancy cost
Pre-departure productivity loss
Learning curve (cost incurred and lost revenue)
Errors and waste
Supervisory disruption
Peer disruption

Adapted from: Hinkin and Tracey (2000).

Accommodation and Training (1995) estimated that the average cost of staff turnover ranges from $AUS 4000 for a room attendant to around $AUS 16,000 for a senior manager (cited in Deery and Iverson, 1996). Huselid (1995) observed a strong association between lower levels of staff turnover and higher levels of sales, market value and profitability. Despite concerns over the deleterious effects of staff turnover, Pizam and Thornburg (2000) noted an absence of studies directed to determining the costs of hotel staff turnover.

More recently, there appears to have been increased attention directed to the hotel staff turnover cost issue. Hinkin and Tracey (2000) documented hidden costs associated with hotel staff turnover and developed a model that estimated the cost of employees departing from a range of positions. The model was structured around five broad cost categories, each with several cost sub-categories (see Table 1). From this model, Hinkin and Tracey estimated that for a hotel with 30 front desk employees commanding a remuneration of $12 per hour, a 50% staff turnover level would generate $150,000 annual departmental costs. In a subsequent work, Hinkin and Tracey (2006) found the average cost to replace front desk personnel to be $5864. More recently, Davidson et al. (2010) conducted a survey of Australian hotel HR managers to estimate the costs of executive and manager staff turnover as well as the cost of operational staff turnover. The following ten categories of executive and manager staff turnover costs were identified in the survey questionnaire: replacement advertising, time spent interviewing and selecting replacements, training costs, agency fees, contract staffing, uniforms, selection tests, legal costs, relocation expenses, and medicals. Their analysis of operating level staff turnover costs was based on a subset of these categories. From this analysis, Davidson et al. estimated the average cost of replacing an operating level hotel employee to be AUS$ 9591. Further, support for the materiality of staff turnover costs comes from Simons and Hinkin (2001) who documented a statistically significant negative association between staff turnover levels and hotel profitability.

Table 2
Push and pull causes of staff turnover.

Push factors	Pull factors
Lack of training	More money
Discontent with superiors	Better hours
Poor organizational image	Permanent employment
Poor terms and conditions	Alternative employment
Uneven work patterns	Improved career prospects
Poor pay	Improved training and development
Unsuitable hours of work	Empowerment
Lack of autonomy	

Adapted from: Lashley (2000).

Glebbeek and Bax (2004) note that much of the general management and HRM staff turnover literatures have been dominated by investigations into determinants of staff turnover. This also appears to be the case with respect to the hospitality management literature. Amongst the antecedent factors that have been noted as affecting turnover in the hospitality sector are: proportion of temporary and young staff, proportion of female staff, limited training, role conflict, lack of work autonomy and low rates of pay (Deery and Shaw, 1999; Hinkin and Tracey, 2008; Pizam and Thornburg, 2000; Yang, 2010). In addition, Deery and Iverson (1996) conclude that the presence of a turnover culture is a key factor affecting an employee's predisposition to leave an organization. Rowley and Purcell (2001) noted that hospitality managers regard an 18-month to two-year working engagement as a satisfactory return on recruitment costs and investment in training.

A problem with managing labour turnover arises from the fact that the bulk of the turnover costs are implicit rather than explicit (Hinkin and Tracey, 2008; Lashley and Chaplain, 1999). Lashley (2000) provides an overview of push and pull factors associated with employee turnover. Push factors concern experiences within the firm causing an employee to leave, and pull factors relate to particular attractions associated with working elsewhere. These factors are summarized in Table 2. With the possible exception of issues related to training, it appears that the 'push' factors lying behind staff turnover are predominantly traceable to the department in which an employee works and a case can therefore be made for holding operating managers accountable for the cost of staff turnover stemming from 'push' factors. It would appear inappropriate, however, to attempt to hold a manager accountable for that portion of staff turnover that is attributable to 'pull' factors.

We see the absence of discussion relating to the cost of staff turnover in the accounting literature as signifying it is a cost object that lies outside the conventional accounting paradigm. This suggests deficient cost accountability and a reduced level of internal organizational visibility for staff turnover. This shortcoming appears exacerbated when we recognize that the cost is caused by a different accountability unit (i.e., the area of the organization where the employee works) to the unit that bears a significant proportion of staff turnover costs, i.e., the human resource (HR) department (Lashley, 2000). On a priori grounds, it would appear that this problem is likely to be particularly manifest in cases where the operating manager feels a degree of turnover is desirable. This is because while the manager may reap some benefit from the turnover, he or she is buffered from being charged the full costs associated with the turnover, as much of the turnover cost is charged to another