

## **CREATING SUSTAINABLE EMPLOYMENT IN HOSPITALITY?**

### **ABSTRACT**

Voluntary staff turnover has been a major problem in hospitality and many hospitality employers are concerned how staff retention can be improved in an industry which is characterised by narrow profit margins, fluctuating customer demand, low pay, unsocial hours and a predominantly young, transient workforce. One New Zealand hotel has recently improved its overall turnover rates, has many long-tenure staff and has been regarded as one of the 'Best Places to Work'. Besides presenting survey findings on management strategies to enhance workplace culture and communication, it is also discussed whether this workplace example may illustrate a possible way forward in the quest to embedding sustainable employment practices in the hospitality industry.

### **KEYWORDS:**

Voluntary staff turnover, retention, sustainable hospitality employment

### **INTRODUCTION**

This paper explores the issues surrounding voluntary staff turnover and staff retention in hospitality by presenting recent research findings on staff turnover and in particular, by examining the case of the James Cook Hotel Grand Chancellor (JCHGC), winner of the 2007 JRA/Unlimited Best Places to Work (medium-large workplace). First the paper considers the context of turnover across the New Zealand economy and in the hospitality industry and presents recent research findings on exit interviews conducted in New Zealand Hotels. As voluntary staff turnover has normally been aligned with job dissatisfaction (De Cieri & Kramer, 2004: 536), there has been a recent interest in themes emanating from the literature on psychological contracts and some of these themes are presented in the paper. The paper focuses on staff perceptions at the JCHGC and empirical results from three sections of the 'Best Places to Work Survey' are analysed to illustrate how the hotel won their category through the efforts made to build a better workplace culture. The case of the JCHGC challenges the prevailing discourse of hotels being an unattractive industry in which to work. It may be a glimmer of hope in a very long dark tunnel and it raises, therefore, wider issues associated with staff turnover and retention in hospitality.

## NEW ZEALAND RESEARCH ON TURNOVER AND HOSPITALITY

Employee turnover has been a major issue in the New Zealand labour market in the new millennium (Hunt & Rasmussen, 2007; North et al., 2005; Rasmussen & Ross, 2004). Research has indicated that the voluntary staff turnover has been driven by both general factors – for example, age, low pay and employment stability – and more industry, workplace and individual specific factors. It has also indicated that employers have become quite concerned about turnover and have started to discuss and sometimes implement comprehensive retention strategies (Hunt & Rasmussen, 2007). This has clearly been the case in hospitality where voluntary staff turnover remains a major issue. For example, in the New Zealand hotel sector – the focus of this article – very high levels of staff turnover have been exacerbated by a very tight labour market across and beyond the hospitality sector as a whole. According to Statistics New Zealand (2006), the hospitality sector has a turnover rate of 29.2% for 2006 as opposed to 16.7% national average for all work sectors. However, turnover figures discussed at the 2006 New Zealand Hotel Council Conference, put hotel employee turnover as high as 60%. This very high turnover rate is occurring in a labour market with historically low unemployment of less than 4%, (Statistics New Zealand, 2007).

Many industry associations, employers, government departments and academics in New Zealand are increasingly concerned about the high levels of turnover in tourism and hospitality industries. A recent series of reports have highlighted the scope and potential damage that labour market pressures are bringing to the industry (see Williamson, Harris & Parker, 2008). These reports paint a picture of an industry of great national economic importance but currently experiencing something of an ‘employment crisis’.

Hotels are faced with the strategic human resource management challenge of very high turnover in a time of intense labour scarcity. This adds cost pressure on already narrow

margins. In purely financial terms, The Society for Human Resource Management estimates that it costs US\$3,500.00 to replace one US\$8.00 per hour employee when all costs - recruiting, interviewing, hiring, training, reduced productivity - are considered. Given that the hotel industry employees 17,000 people and has a *minimum* annual turnover average of 29.2%, the annual cost of turnover to the hotel industry comes to just over US\$17 million or NZ\$22 million at current exchange rates on the basis of the above estimate.

Addressing these issues is, therefore, a matter of increasing the industry's competitive edge, through providing a satisfying workplace for employees. In order to develop appropriate strategies, however, it is necessary to discover the perceptions of employees themselves. This is because employees are the ones who make decisions regarding voluntary turnover. Often turnover research has focused excessively on the antecedents, and has neglected the consequences and prevention of turnover, resulting in significant gaps between the conceptual research and the management practice.

Recent research based on exit interview data from New Zealand Hotels has argued that the exit interview process is failing to capture the underlying reasons for employee turnover (Williamson, Harris & Parker, 2008). The majority of employee exit interview comments presented in this research stated that nothing could be done to stop the employees from leaving and they had enjoyed their time in the hotels. These results offered little for organisations to work with and suggested that this type of exit data can add to a paralysing 'doom and gloom' turnover culture, common amongst many hospitality organisations.

The authors suggest that there may be two ways of interpreting the exit interview responses (Williamson, Harris & Parker, 2008). First, exit interviews in themselves may be incapable of providing meaningful information for hotels due to their post-facto status in the employee relationship and thus Williamson, Harris and Parker (2008) recommended feedback mechanisms that occur throughout the employment relationship. In this way, organisations

could capture and respond to problems in the employment relationship before they become terminal. Many hotels are continuing to conduct exit processes such as exit interviews, yet for them to realise the real synergies that can be gained from exit processes they need to address the suggested deficiencies. Second, the exit interview responses may indicate a more entrenched problem where the hotels do not establish a suitable psychological contract and/or employment situation with the employees and this leads to very short tenure amongst new staff (around XX % of new employees had left within the first year). In that case, it becomes a question how hotels can build suitable employment relationships in an industry which is characterised low pay, unsocial hours and a predominantly young, transient workforce. It is to this question that our example of the JCHGC hotel may contribute a number of new management strategy insights.

### **Psychological Contract Theory**

Various explanations of recent changes to employment relationships have often highlighted the importance of the theoretical notion of 'psychological contracts' (Guest, 2007; Sutton & Griffin, 2004; Tipples et al., 2007). Drawing on the seminal works of Argyris (1960), Schein (1965) and Rousseau (1989, 1995, 2001), the term 'psychological contract' describes a set of individual perceptions concerning the terms of the exchange relationship between individuals and their organizations. It can be considered as the sum of an individual's beliefs about mutual obligations, in the context of the employer-employee relationship (DelCampo, 2007). It has often been used to describe the diversity of contemporary employment relationships and to predict employees' attitudes and wellbeing (De Cuyper et al., 2008).

The psychological contract offers a metaphor, or representation, of what goes on in the workplace. It can be used as a lens to analyse the employer-employee relationship throughout the entire working relationship (Zhao et al., 2007). It may include beliefs about performance requirements, job security, training, compensation, and career development (Rousseau, 1989), but is not limited to these dimensions (Thomas, Au & Ravlin, 2003). As such, the

psychological contract conveys the reality of the situation as perceived by the parties, and may be more influential than the formal contract in affecting how employees behave in the workplace. Guest (2004) suggests that the psychological contract is based on employees' sense of fairness and trust and their belief that the employer is honouring the 'deal' between them and that, where psychological contract is positive, increased employee commitment and satisfaction will have a positive impact on business performance.

It is suggested that much of the psychological contract is established during the early working relationship. The antecedents are activated to a large extent through pre-employment experiences, recruiting practises, and in early on-the-job socialisations (Rousseau, 2001) but are also influenced by a number of other human resource practices such as performance reviews, compensation, training, and benefits (Rousseau & Greller, 1994; Lester et al., 2007). Relational contracts emphasize broad, long term, socio-emotional obligations, such as commitment and loyalty, consistent with collective interest (McLean Parks & Schmedemann, 1994), and have a pervasive effect on personal as well as work life (Thomas, Au & Ravlin, 2003).

### **Method – Best Places to Work Survey**

Each year, the Unlimited/JRA Best Places to Work Survey reveals the top organisations to work for in New Zealand. These are determined by the results of New Zealand's largest annual workplace climate-employee engagement survey which, in 2007, 207 organisations participated in. JRA uses a three-component model of employee engagement to describe the active use of emotions, cognitions and behaviours that together help describe the level of 'connectedness' that employees may experience with their organisation and the level of contribution an employee makes to the organisation's success as a result of that connectedness (JRA, 2007). The JRA model is based upon the academic literature and specific models of engagement provided by Kahn (1990) and May, Gilson and Harter (2004).

The questionnaire for the unlimited/JRA Best Places to Work Survey 2007 has 60 questions phrased as statements, all using a 5 point rating scale (ranging from 'Strongly Agree' to 'Strongly Disagree'). Questions are grouped into the following 10 sections:

- Culture and Values
- Communication and Cooperation
- My Team
- Learning and Development
- Reward and Recognition
- Common Purpose
- The Person I Report To
- My Job
- Performance and Feedback
- Overall Perceptions (Employee Engagement)

In addition, there are three open-ended questions at the end of the survey. This paper reports findings related to the JCHGC hotel from the Culture and Values, Common Purpose, and Communication and Cooperation sections of the 2007 survey. The JCHGC hotel is located in the heart of a major commercial and retail district of New Zealand and is a four star full services hotel with 260 rooms and suites. While essentially a corporate and government hotel, it caters to the business, leisure and tourism markets. Opened in 1972, the hotel has undergone a major refurbishment during the last five years. Today it has 181 staff members, up from 160 last year as a result of increased business. A feature of special interest for this research is the number of long serving staff, with 50 of the 181 staff having worked at the hotel for more than five years. According to the hotel, a lower than industry average staff turnover rate enables experienced staff to deliver service of a consistency high standard.<sup>1</sup>

Although the survey can be completed online, due to the nature of the workforce, the JCHGC administered the survey in hardcopy option. Rooms were made available for staff to confidentially complete the survey, and they were given a stamped addressed envelope to post the survey themselves. Hence, until the results were received, management were not aware of how many staff had completed the survey. The response numbers for the survey when administered in 2007 was 130 staff (72%), up considerably from the 98 respondents (61%) when the survey was administered in 2006.

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<sup>1</sup> The hotel was profiled in 2007 case study research on New Zealand workplaces by the Department of Labour (see: <http://www.dol.govt.nz/workplaceproductivity/productivity/case-studies/james-cook.asp>) One of the authors was part of the case study research team.

## **Findings and Discussion**

In 2006, the JCHGC entered for the first time the JRA/Unlimited Best Places to Work Survey. As a newcomer, the results were promising: JCHGC became a finalist and they were only 1.3 points away from the winner in their category. In 2007, there was a dramatic increase with the so-called Performance Index up more than 4%, compared to 2006 results. In the medium-large workplace category the JCHGC won two awards - The Best Place to Work in New Zealand and Most Improved Workplace.

In terms of turnover and retention, the JCHGC score well: not only have they less turnover compared to their main competitors but the hotel has also many staff with long tenure. Over 50 staff at the JCHGC have stayed for more than five years and nine staff have been employed there for over 25 years.

### ***Culture, Values and a Common Purpose***

The many long-tenure staff indicates that the JCHGC has managed to retain staff in the past. However, many recent changes have been associated with the appointment of John Primmer as General Manager of the JCHGC in 2001 and a adoption of more flexible and communicative management practices. The emphasis has been on creating a more inclusive team culture which signals the importance the work of frontline staff (see Figure 1).

### **Figure 1: Culture and Values**

As shown in Figure 1, the JCHGC improved across all categories between 2006 and 2007. An integrated part of this have probably been a number of incentives that the hotel has put in place to show staff that their efforts for the hotel are valued. They have a range of benefits including subsidised car parking, free meals, complementary accommodation on employment anniversaries, etc. They also have in place a scratchy card system where staff receive cards for doing a job well and cards can be saved and then traded in for petrol or grocery vouchers.

The fact the General Manager and other managers will perform front-line work also demonstrates a culture of 'walking the talk' in regard to customer service and elevates the status of this work. Seeing managers actively performing front line work has contributed to staff recognising the importance of high levels of customer service for achieving the vision of the organisation and how it is going to get there (88.4 percent of respondents in 2007). It also signals to all employees something vital about the culture of the organisation "as the collective sum of beliefs, values, meanings and assumptions that are shared by a social group..." (Ogbonna and Harris, 2002). A positive organisational culture also builds the organisation's reputation as an employer, which can reduce recruitment costs as potential employees approach the hotel in a proactive manner and/or staff become active recruiters amongst their own network. Over 87% said they felt a sense of belonging to the organisation.

### ***Communication and Cooperation***

The importance of working as a team is particularly evident from the JCHGC 2007 JRA Best Places to Work results where they have increased over the entirety of section detailing Communication and Co-operation (by an average of 9 percent across all questions). A staggering 94.2 percent of respondents said that they understood what was expected of them in their job. The importance of cooperation is highlighted with over 85 per cent of respondents acknowledging in the 2007 survey that they can rely on the support of others, that cooperation between teams is encouraged (87.4 percent) and that people share ideas and knowledge freely (86.2 percent).

### **Figure 2: Communication and Cooperation**

Employee commitment and 'buy-in' come primarily not from telling but from listening. Two-way communication, both formal and informal, is essential as a form of reality check and a basis for building mutual trust. Every two months they have a staff briefing; this is for all



staff to come and see how well the hotel has been doing over the last quarter and also how they measure up next to our competitors. John presents this information to the staff and two members of the hotel's Steering Committee (executive management) host the event and provide staff with information on their own department; i.e. what their job involves and who makes up their team. Staff briefings are pivotal in the respect that it encourages interdepartmental communication and reaffirms the sense of team work that is the biggest contributor to our success.

Organizations that fulfil psychological contracts are communicating to their employees that they are a valuable asset which the organization does not wish to lose. However, organizations should not assumed that once they have succeeded in getting their employees to perceive a relationship psychological contract, they longer have to worry about providing additional explanation for managerial decision making. There is an intense feeling of all employees being 'one team', with a high emphasis on teamwork, cross training and hands on management. This is evident from the 2007 results from the open ending questions. A large majority of staff listed the following as "the one thing, more than anything else, that makes this organisation a great place to work"; Family environment, team work and the people."

Organizational sources, including colleagues and the social context signal commitments and obligations to employees through such things as overt statements, expressions of policy, and references to history or reputation. Of course, how individuals interpret these messages influences the psychological contract more than the messages actually sent (Rousseau, 1995, Thomas, Au and Ravlin, 2003). The response numbers for the survey when administered in 2007 was 130 staff (72%), up considerably from the 98 respondents when the survey was administered in 2006. The increased response rate was due to management acknowledging the benefits of placing 4<sup>th</sup> in the category in 2006, the first time they entered, and encouraging staff to complete the survey so they can continue to benchmark their engagement levels against other organisations of a similar size. Management made changes such as promptly

renovating the staff room in response to feedback given by staff in the open-ended questions of the 2006 survey, thus demonstrating that management do value and will act on staff feedback.

## **Conclusion and Implications**

The hotel's survey scores become more remarkable when considering that the hotel was benchmarked against organisations with larger HR teams and greater resources to reward staff. The results indicate that it is possible to build a more inclusive workplace culture which can coincide with below (industry) average turnover rates and a stronger employment brand.

The literature on the psychological contract has made significant contributions to our understanding of the exchange relationship between employees and their employer. However, Thomas, Au and Ravlin (2003: 451) has argued that the influence of cultural differences on perceptions of the employment relationship has largely been neglected. Thus, further research is required to examine the influence on the psychological contract of gender and ethnicity played out through collectivist behaviour in the hotel. Given the profile of hotel workers, regarding age, language ability and cultural diversity, the intersectionality of these factors can be very powerful in the development and maintenance of the relational contract. Additionally, the interactions between management and employees need to be explored in more detail beyond the traditional manifestations. "Most research on promises has focused on spoken or written communication. Far less attention has been given to promises implied by management actions or human resource practices" (Rousseau, 2001, p.533). *Implied promises* over a working relationship may be difficult to capture through any mechanism, especially with a workforce that has high numbers of young, immigrant and low skill workers. It may be necessary to rely on considerable testing and experimentation in order to establish comprehensive measures of employee perceptions of implied promises.

By choosing to enter the JRA Best Places to Work Survey, the James Cook Hotel has involved itself in a process and generated employee feedback that can be contrasted favourably with the processes and employee feedback from exit interview research (Williamson, Harris & Parker 2008). The Best Places to Work Survey provides an interesting example of the advantages to organisations of engaging in employee feedback throughout the employment relationship, as opposed to relying on post-facto responses from an exit interview process. As literature suggests that much of the psychological contract is formed early in the employment relationship, it would seem logical that relying more on early intervention feedback mechanisms, such as those found in the Best Places to Work Survey, would prove advantageous to many organisations (Rousseau, 2001). The results for the James Cook hotel would seem to support this approach.

However, the content of the Best Places to Work Survey and the wider context of the hospitality industry suggest are more challenging set of questions for the James Cook Hotel. A focus on positive workplace culture, cooperation, values and great communication has resulted in favourable employee feedback, national recognition as a superior employer and a lower than average labour turnover rate. This would suggest that service quality is being maintained and bottom line business goals can be achieved. Still, the turnover rate for the hotel is only modestly lower than the average for the industry. There appears to be two types of problems – one related to the specific internal labour market of the JCHGC and one related to the hospitality labour market experienced by many new employees in the industry.

A two level system appears operating in the JCHGC, with a core of long-serving, older, “anchor” employees who manage a high-turnover, younger, transient group. The later transient employees represent the reality of a low-pay, poor conditions, casualised industry. The concern is that this fits with the turnover issues experienced across the hospitality industry which seems to be trapped in a downward cycle of low yield, low pay and high labour turnover. The transient, uncommitted employees that are increasingly attracted to

these types of conditions can create an endless churn that could gradually grind down the older, core “anchors”. These aging “anchors” are also prone to leave due to poaching and retirement. This raises the question how long the current positive employment situation can last at the JCHGC without more fundamental changes to work organisation, remuneration and career opportunities. In terms of hotels and hospitality generally, it relates to more fundamental concerns about sustaining service quality and employment relationships with an employment approach which appears unsustainable in tight labour market. Again, more fundamental changes to work organisation, remuneration and career opportunities appear necessary.

Based in this discussion, further research is called for. While the Best Places to Work Survey data demonstrates that employers can make a difference through positive culture and communication practices, questions remain as to the long term sustainability of this organisation success, given some of the structural challenges in the wider hospitality labour market.

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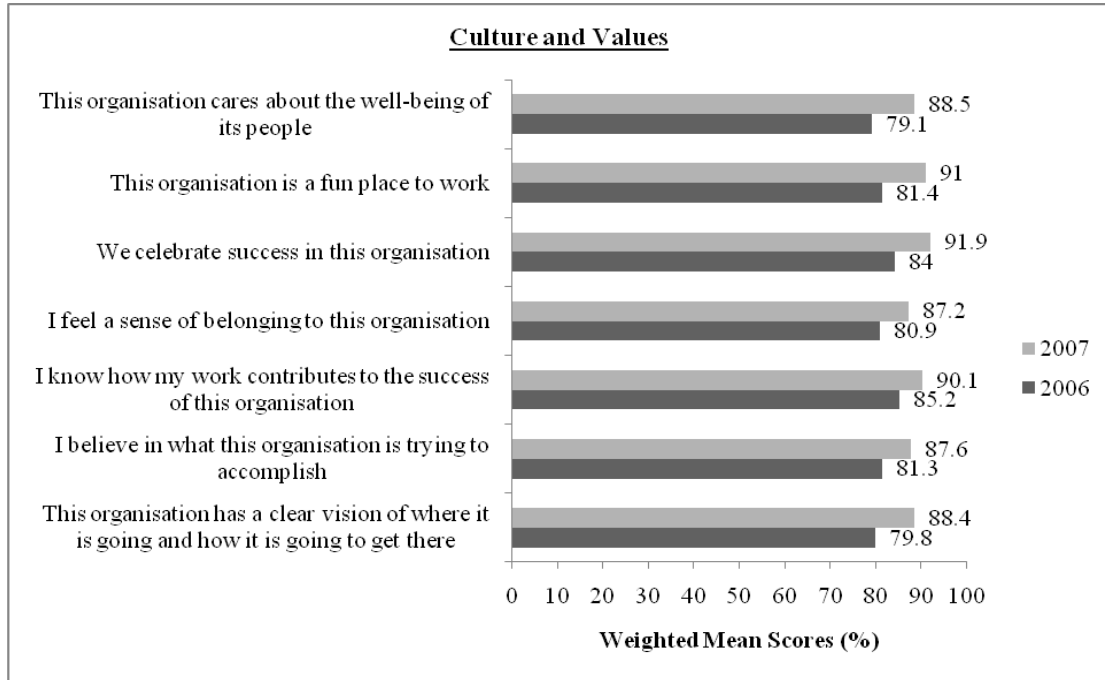
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**Figure 1: Culture and Values**





**Figure 2: Communication and Cooperation**

