

# **How much does labour turnover cost? A case study of Kenyan Small and Medium Tour**

## **Operators**

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### **Abstract**

The hospitality industry is a service-based industry, which is highly dependent on a customer-focused approach, and a motivated and knowledgeable workforce. Any shift in human capital therefore is viewed as detrimental as its long term success. Research postulates that employee mobility is a major cost and leakage of human capital. In addition, studies have shown that labour turnover affects organizational performance, customer quality and employee productivity. Despite the adverse effect of labour turnover on growth, survival and sustainability of organizations in the hospitality industry, there is limited research on turnover costs. This paper provides an understanding of the turnover rates and direct financial costs of labour turnover in small and medium tour operators. A descriptive research design was used. Primary data was collected using a self-administered questionnaire. Stratified sampling and simple random sampling technique were used to select 30 respondents. The target populations comprised of human resource managers and owner/managers of small and medium tour operators, which are registered with the Kenya Association of Tour Operators and operating in Nairobi and its environs. The study findings indicated that tour operators experienced acute turnover rates, which are much higher than the average turnover rate in service industries. The study findings also revealed substantial replacement costs are attributed to labour turnover in small and medium tour operators. The implications of these findings for managerial practice and suggestions for further research are discussed.

Keywords:-Labour turnover, turnover costs, tour operators, SMEs, Kenya

## INTRODUCTION

The hospitality industry is a service-based industry, which is highly dependent on a customer-focused approach, and a motivated and knowledgeable workforce (Choi & Dickson, 2009). The industry relies heavily on employees in order to achieve its competitive advantage, and any shift in human capital can be detrimental as its long term success (Ton & Huckman, 2008; Chand & Katou, 2007; Harris, Tang & Tseng, 2002). Thus, labour turnover is considered a hindrance to competitiveness and efficiency in business operations (Long, Perumal & Ajagbe, 2012).

Research suggests that found that labour turnover increases economic losses and reduces job efficiency due to loss of valuable skills, experience, knowledge and “corporate memory” (Sut & Chad, 2011; Deery & Iverson, 1996). Furthermore, studies show that labour turnover compromises the quality and high standards of customer service, which negatively impacts on an organization’s profitability and long term sustainability (Tracey & Hinkin, 2008). High labour turnover in the hospitality industry, if not addressed can be detrimental to an organization (). The study seeks to focus on labour turnover on small and medium tour operators. According to the stakeholders and HR managers, filling vacant positions in the hospitality industry is quite difficult due to insufficient supply of staff and high rate of their turnover costs (Birdir, 2002). The findings of this study will provide for determining the financial resources of labour turnover which is critical in shaping HRM practices and the management of labour retention in the hospitality industry. The research findings will also contribute to the development of a policy agenda of the tour and travel operators and the overall Kenyan hospitality industry.

## **Hospitality Industry in Kenya**

The Kenyan hospitality industry is a bustling industry comprised of private and public players in various sub-sectors which ensure that tourists' needs are catered to in a holistic manner. These sub-sectors include: food and beverage services, transportation, accommodation (hotels), tourist attractions and luxury services. All these sectors are connected by the tour operators and travel agents (Bennett & Schoeman, 2005). Thus, tour operators influence tourist flows to Kenya from different destinations (Saffery, Morgan, Tulga & Warren, 2007). The main tasks of tour operators include: negotiation of rates with suppliers, booking accommodation for tourist, assisting in itinerary planning and providing local tour services (Bennett & Schoeman, 2005). Tour operators in Kenya are classified according to their owners, that is, foreign owned, locally owned by Kenyans of foreign origins and locally owned by indigenous entrepreneurs. Majority of tour operators are SMEs, earning less than \$140,000 per annum (UNCTAD, 2008).

The hospitality industry has experienced significant growth since independence. In 2009, the industry recorded the highest growth rate of 18.6% (ROK, 2009). The continued growth of the hospitality industry is attributed to strong participation and encouragement in commercial ventures, pursuit of policy objectives and attention to non-economic ramifications of tourism and the innovations in major source markets by individual tour operators (Dieke, 1992). Various policy initiatives have been formulated in an effort to actualize flagship projects under Vision 2030. Vision 2030 identifies the hospitality industry as one of the top priority sectors with the tasks of making Kenya one of the top ten long-haul tourist destinations globally (ROK, 2008). Apart from developing the Sessional Paper No. 1 of 2010 on Enhancing Sustainable Tourism in Kenya, the

Kenyan government has also developed the Tourism Act 2011 which provides for development, management, marketing and regulation of sustainable tourism and tourism related services.

### **Statement of the Problem**

The National Tourism Strategy 2013 -2018 posits that the hospitality industry which is dominated by SMEs experiences acute labour turnover (ROK, 2013). If high labour turnover is allowed to continue, it will negatively impact SMEs through loss of highly skilled workforce, and ultimately widespread skill gaps among existing staff (Kuria, Wanderi & Ondigi, 2011). This not only results in additional direct and intangible costs for the employer, but also negatively affects the service quality, reputation and the long term survival of SMEs in the hospitality industry (Wafula, Ondari & Lumumba, 2017). The critical shortage of high qualified staff resulting from high labour turnover has prompted considerable research on the causes of high labour turnover and possible solutions for retaining skilled workers (Kuria & Ondigi, 2012; Cheruiyot, Kimutai & Kemboi , 2017; Korir, 2018; Kuria & Ondigi, 2012) Studies on labour turnover costs are limited, and most of these studies in the hospitality industry have been conducted in the accommodation sector, specifically, hotels, resorts and restaurants (Hinkin & Tracey, 2006; Derry and Iverson, 1996; Wasmuth & Davis, 1983; Kuria, Ondigi & Wanderi, 2012). The purpose of this study was therefore to establish the direct costs of labour turnover amongst small and medium tour operators in Kenya.

### **Specific Objectives of the Study**

The specific objectives of this study were to:

1. Assess the extent of labour turnover rate in small and medium tour operators in Kenya.
2. Establish the direct costs of labour turnover in small and medium tour operators in Kenya.

## **LITERATURE REVIEW**

### **Concept of Labour Turnover**

Labour turnover is defined as “the movement of people into and out of employment within an organization” (Denvir & McMahon, 1992). Labour turnover refers to the proportion of employees who leave an organization over a set period, expressed as a percentage of total workforce numbers (CIPD, 2014). The term “turnover” is defined by Price (1977) as the ratio of the number of organizational members who have left during the period in consideration divided by the average number of people in that organization during the period. Human resource (HR) manager tend to link the term turnover to the process of filling a job vacancy, that is, the process of recruitment, selection and training (Wood, 1995).

Labour turnover rate is therefore an excellent indicator of organizational health and wellbeing, job satisfaction, employee morale and productivity (Nankervis, Compton & McCarthy, 1996). A zero percent labour turnover rate in any industry is rare, and it should not be the priority of management (Reigel, 1995). Researchers argue that regardless of good retention strategies, organizations cannot retain ‘all their employees, all the time’ due to death, ill health, changes in an employee’s personal circumstances or for other reasons that have little to do with the employer organization. A low turnover may suggest organizational stability (Mitrovska & Eftimov, 2016). A high labour turnover, however, may be detrimental to the survival and long term sustainability of an organization (Armstrong, 2009).

Labour turnover in the hospitality industry is mainly voluntary where employees leave employment at their will (Wright & Bonett, 2007). Voluntary turnover is either functional or dysfunctional. Functional turnover occurs when non-performers, relatively expensive employees and those with obsolete skills quit the organization. Some level of functional turnover is desirable as it allows organizations to bring in “new blood” with new innovative ideas and knowledge. In addition, labour turnover creates opportunities for career advancement for existing employees as they grow into roles of greater responsibilities. Dysfunctional turnover, on the other hand, represents an exodus of human capital investment from the organizations as it refers to the exit of effective performers, key individuals, innovators and individuals whose skills are difficult to fill with new hires (Walsh & Taylor, 2007).

The rate of turnover is calculated by dividing the number of employees who have left the organization by the average number of employees in the organization in the accounting period. The average number of employees is achieved by adding the number of employees at the beginning and end of period and dividing the total number by two.

$$\text{Fluctuation rate} = \frac{\text{number of leavers during the calculation period}}{\text{Average number of employees}} \times 100$$

### **Labour turnover “culture” in the Hospitality Industry**

The hospitality industry is labour intensive, and around the world, the industry is characterized by high labour turnover (Birdir, 2002). The industry experiences a disproportionate

amount of turnover in part-time employees and management ranks when compared with other service industries (Dipietro & Condly, 2007). For example, management turnover is lower than that of operational employees (Carbery, Garavan, O'Brien & McDonnell, 2003). A study by Gautam (2005) found that the average turnover rate of non-management hotel employees in the US was 50% and 25% for management staff. Several studies have investigated labour turnover levels in the hospitality industry. According to the United States Bureau of Labour Statistics (2006), turnover rates in the hospitality industry was 52.2% compared to an average turnover of 23.4% across all other industries. A study by Denvir and McMahon (1992) found that the turnover levels in London hotels showed annual rates up to 200 or 300 per cent per annum depending on location, HR practices and organization culture. Kuria, Odingi and Wanderi (2012) in their study on the assessment of causes of labour turnover in three and five star rated in Kenya found that labour turnover was 68% in three star-rated hotels compared to 13% in five star-rated hotels.

### **Tangible and Intangible Costs of Turnover**

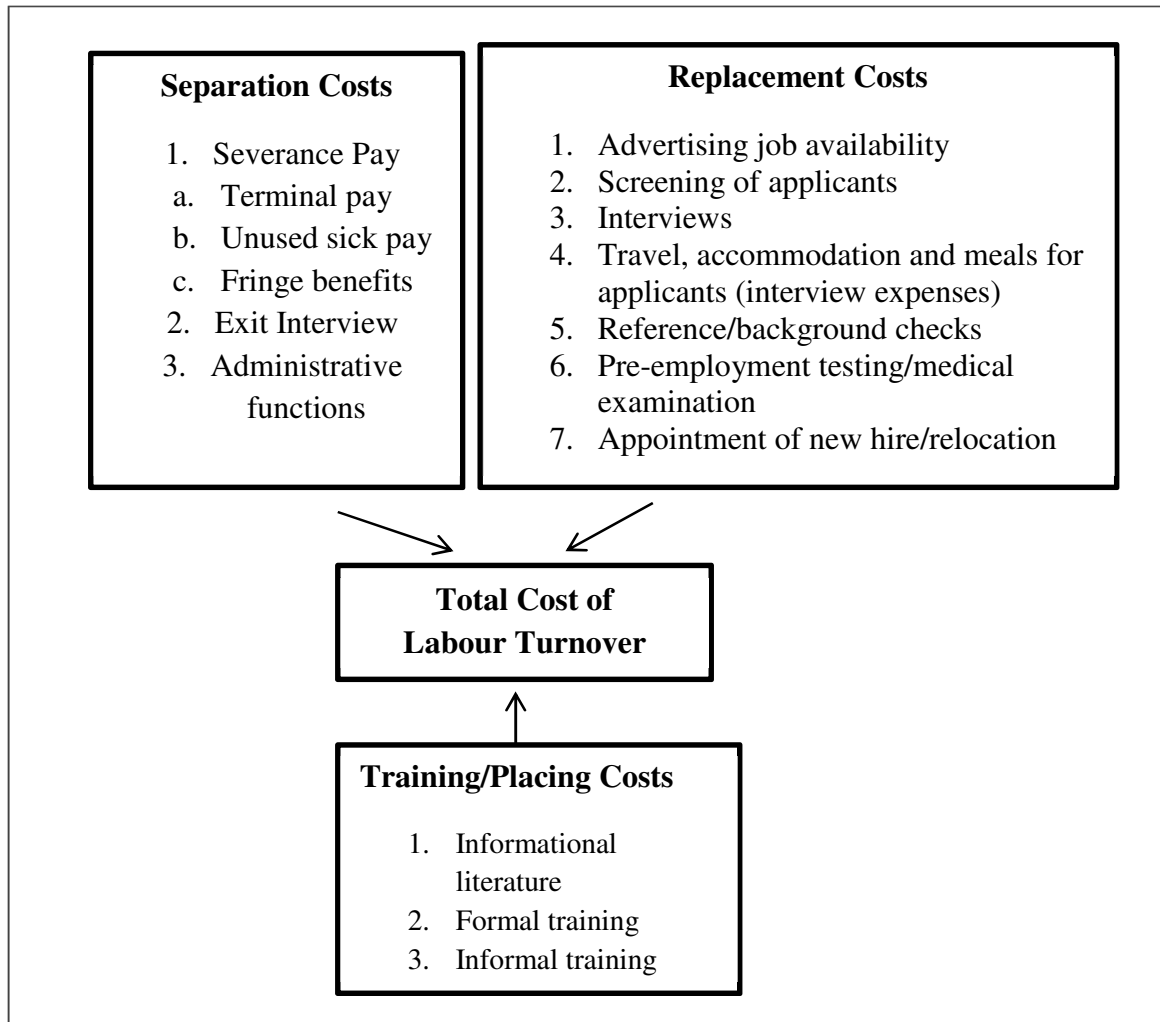
Labour turnover represents an expense in both large and small enterprises (Davidson, Timo & Wang, 2009). The typical turnover cost per employee is almost the same as an employee's annual salary. These costs can sometimes reach up to 150% of annual earnings and up to 250% for employees in managerial positions (Bliss, 2004; Tziner & Birati, 1996). Empirical studies on the turnover cost can unambiguously reduce profits if not managed properly (Kersley and Martin, 1997; Denvir & McMahon, 1992). Abel-Hamid (1989) found that labour turnover can extend a project's cost and duration by as much as 60 per cent. Hinkin and Tracey (2008) found that lost productivity resulting from labour turnover may account for more than two-thirds of the total

turnover cost. The cost of labour turnover varies based on complexity of the jobs, experience, skills, location of the organization, employee relations, HR practices and organizational culture (Fair, 1992). Every time an employee leaves and has to be replaced, an organization incurs a number of direct and indirect costs: costs of separation, cost of replacement staffing, hiring costs, lost sales, low employee morale, pressure on remaining staff and loss of social capital (Hinkin & Tracey, 2006; Dess & Shaw, 2001). In addition to these costs, the organization incurs intangible costs associated with productivity costs (Lashley & Chaplain, 1999). Productivity costs are more difficult to quantify and usually account for more than two-thirds of the total turnover cost (Hinkin & Tracey, 2008).

The conceptual framework as shown in Figure 1 was based on the turnover costs components model adapted from Cascio (2000). The theoretical model distributes the cost of turnover into several categories: costs of the employees leaving the organization, costs of replacement and costs for employee training and development. Separation costs included administration costs associated with processing resignations, and dismissals, time taken up with conducting exit interviews, severance pay, benefits and gratuities. Recruitment costs constituted the cost of advertising, employment of job search agencies, time and resources spent in processing applications, staff time, travel costs and re-location for successful applicants; training and start-up costs (Cascio, 2000). Selection costs included HR interview, medical examination, applicant's travel, background and reference checks. Hiring costs included costs of induction, relocation, orientation, training, uniforms, security, information and literature necessary for new applicant. Productivity costs are defined as costs incurred when "the replacement worker has a lower skill level or needs to learn the job in order to reach the level of productivity of the original worker".



Indirect costs or productivity costs include peer disruption, errors and waste, vacancy costs, pre-departure productivity costs and supervisory costs (Cascio, 2000).



**Figure 1:** Conceptual Framework. Adapted from Cascio (2000). Costing Model of Employee Turnover

## RESEARCH METHODOLOGY

For purposes of this study, tour operators are defined as intermediaries who organize and put together holiday packages which include: arranging travel services, transport and accommodation booking (Bennett & Schoeman, 2005). The study considered both voluntary

turnover and involuntary turnover of employees who left during the period of one year. The study adopted the definition of turnover by Mobley (1982) as a phenomenon where the employee terminated its membership in the organization from which he/she earns monetary compensation.

The study adopted a descriptive research design. The target population included owner/managers and HR managers of small and medium tour operators registered with Kenya Association of Tour Operators (KATO) operating within Nairobi and its environs. Stratified sampling and simple random sampling were used in the study. Stratified sampling and simple random sampling was used to select a representative sample of 30 respondents.

Primary data was collected by means of a self – administered, semi structured questionnaire. The respondents were assured of utmost confidentiality of their responses and anonymity of the source of the information (Kothari, 2004). The questionnaires were pre-tested on 10 enterprises through convenience sampling technique. After the pre-test, any items in the questionnaire that could cause bias were modified or omitted (Mugenda & Mugenda, 2003). The study employed descriptive statistics to analyze the data. Primary data was coded, edited and then analyzed using the Statistical Package for Social Sciences (SPSS) version 20. The findings were presented in form of frequency tables and percentages.

## **DATA FINDINGS AND DISCUSSIONS**

The study findings indicated that majority of the respondents (67.7%) were male while the minority (33.3%) were female. The majority of the respondents (48.2%) were married, another

(37%) were single and yet another 14.8% were divorced. Finally, the majority (33.3%) of the respondents were university degree holders, while 29.6% were diploma holder, another 18.6% were certificate holders while 18.5% were postgraduate degree holders.

### **Assessment of the labour turnover rates in small and medium tour operators**

The study sought to find out the labour turnover rate in small and medium tour operators in Kenya for a period covering 12 months. The study findings revealed that the majority (63%) of the respondents had experienced high levels of labour turnover, while 27% had experienced medium levels of turnover, another 10% had low levels of labour turnover. The study findings also indicated the average labour turnover rate of 60.8 % for employees at operational level and a rate of 32.3% for employees at managerial level. The study findings demonstrated that most of the small and medium tour operators in Kenya experienced high labour turnover. In addition, that the turnover rate of employees at operational level was higher than the turnover rate of employees at managerial level. The result is in agreement with the findings in a study by Davidson, Timo and Wang (2009) which found that labour turnover rate of 50.74% in Australian accommodation industry was higher than expected, and that the turnover rate was lower amongst executives, supervisors and departmental managers than in other employment categories.

### **Employee Turnover Cost Analysis**

The study sought to establish the direct costs (replacement costs, separation costs, training costs) of the small and medium tour operators within a period of one year. The study findings as shown

in Table 1 revealed that replacement costs constituted 57.8% of the total turnover cost compared to separation costs which constituted 22.4% of the total turnover costs. Training costs comprised only 19.8% of the total turnover costs. The study findings showed that the average total cost of turnover was Kshs 57,710,000/=. Finally, the study findings indicate significant difference in two costs: screening and entrance interviewing (17.4%) and formal training (5.2%).

The findings revealed that the average direct cost of labour turnover was substantial which may lead to an increase in administrative costs of small and medium tour operators in Kenya. In addition, the results revealed that small and medium tour operators were spending more money in testing the knowledge, skills and abilities of employees to ensure that a qualified candidate was hired and less money is being invested in formal training of newly hired employees. The study results are inconsistent with the findings of a study by McKinney, Bartlett and Mulvaney (2007) which found that separation costs were higher than replacement costs of employees in Illinois Public Park and recreation offices.

**Table 1: Average cost of replacing employees per annum**

Type	Expense	Costs per annum in KES	Percentage
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<b>Replacement costs</b>	Advertisement	6,000,000	10.4
	Screening and entrance interviewing	10,050,000	17.4
	Interview expenses	4,700,000	8.1
	Reference/background checks	3,450,000	6.0
	Pre-employment testing	5,575,000	9.7
	Appointment procedures for new hires	3,585,000	6.2
<b>Separation costs</b>	Severance pay	5,300,000	9.2
	Exit interview costs	3,400,000	5.9
	Administrative costs	4,200,000	7.3
<b>Training costs</b>	Informative literature	3,600,000	6.2
	Formal training	3,000,000	5.2
	Informal training	4,850,000	8.4
	<b>Total</b>	<b>57,710,000</b>	<b>100</b>

### **Conclusion and Recommendation**

From the study findings, it can be concluded that the direct costs of labour turnover small and medium tour operators are substantially high. It can also be concluded that employees in the operational level are more likely to quit their organizations than employees in the managerial level. Finally, it can be concluded that high replacement costs are attributed to labour turnover in small and medium tour operators in Kenya. It is recommended that small and medium tour operators need to seriously address wastage levels through reforming internal HR practices.

### **Suggestions for Further Research**

The present study has a number of limitations that need to be addressed in further research studies. First, the study focused on direct turnover costs of Kenya's small and medium tour operators operating in Nairobi and its environs, which affect generalization of the study findings to other services industries and regions in Kenya. There is need for research in other sub-sectors

of the hospitality industry before establishing a general theory on the labour turnover in the hospitality industry. Secondly, whilst this study focused on tangible costs of turnover, there is a need to examine both tangible and intangible costs of turnover which will provide a better picture of the total costs of labour turnover. Finally, future research should seek to employ longitudinal research design to track turnover costs in the hospitality industry.

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