

Employee Turnover... And How it Harms Five-Star Service

Research Whitepaper

The retention of talented and experienced employees is one of the biggest challenges facing organizations in the Asia-Pacific region today. The challenge is driven in part by the globalization of the labor markets. Demographic changes are another factor, as the aging of the workforce is shrinking the supply of experienced talent in most developed countries. At the same time, employers in countries like China and Singapore are finding it extremely difficult to attract and retain staff simply because of the enormous demand for talent in their rapidly growing economies. For the Hospitality industry, maintaining high levels of customer service has never been more difficult.

This whitepaper will look at ways to improve employee retention, and prevent Five-Star service levels from falling to Three-Star service levels.



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Introduction

For many of the world's most admired companies, the ability to attract and retain talented employees was the single most reliable predictor of excellence, according to *Fortune* magazine. It may also be the Hospitality industry's single-most important challenge of this decade. In many industries, an organization's core product could include electronics, paper, automotive, or chemicals. In these companies, customer service is an ancillary function meant to support the organization's core product. In the Hospitality industry, however, customer service *is* the core product. And so whenever Hospitality organizations endure people issues, such as staff turnover, it creates significant disruptions to the quality and delivery of that Hospitality product. It also threatens the customer loyalty effort as well. Hotels just cannot afford to lose staff if they intend on being competitive in this market.

Why Do They Go?

Many executives and managers operate under the assumption that their staff can be retained by increasing their salaries. These organizations find themselves increasing wages and the benefits, only to see their people leaving regardless. Many organizations are learning the hard way that increased compensation is not enough to keep their employees from leaving. The reason for this is



simple: people do not stay for money. When they are unfulfilled at their job, they may demand more money, but it will still not keep them for long. All employees have an inner "higher need" that also needs to be satisfied, though they may not realize it. There are many studies that prove this to be true. Here are some interesting insights on the reasons why employees quit:

- The single most important determinant of an individual's performance and commitment to stay with the organization is the relationship with his or her immediate manager. Workers leave their manager far more often than they leave their organization. (*The Hay Group and Gallup*)
- A study of 900 workers in Asia (primarily China, Singapore, Malaysia and Thailand) found that 72% of the respondents considered Career Opportunity to be "extremely important" or "very important" for employee satisfaction. (*TMS Asia-Pacific Salary Survey*)
- Fifty percent or more of work satisfaction is determined by the relationship a staff member has with his or her immediate manager. (*Beverly Kaye*)
- According to *Gallup*, the top three reasons employees leave their jobs are
 1. Lack of faith in the leadership or vision of the company

"These exceptional properties provide a memorable experience through virtually flawless service and the finest of amenities. Staff are intuitive, engaging and passionate, and eagerly deliver service above and beyond the guests' expectations."

- Forbes Five-Star Hotel Criteria Manual

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2. Concern with the way management is treating people
 3. The lack of management support for areas such as performance reviews and employee development
- Of 20,000 workers who had just left an employer, the supervisor's behavior was the main reason people quit. (*Saratoga Institute*)
 - A study of workers across 350 organizations revealed that what employees want is (1) leaders they trust and who treat them fairly as individuals; and (2) leaders who show care and concern for them. (*Talent Keepers*)
 - In the most comprehensive study ever done in the area of retention, researchers found that earnings and benefits have a 2% impact on job satisfaction, while job quality and workplace support have a combined 70% impact. (*Family and Work Institute*)

In short, employees leave the organizations when the work culture is in an unhealthy or negative state. This type of culture is sometimes called a disengaged culture, or in extreme cases, a toxic culture. The finding that workers often leave because of a direct supervisor indicates that the supervisor has failed to create core-relationships, and ultimately, a productive work culture.

Part of the problem is that most senior managers and executives are not really aware of the condition their work culture is in. These senior managers are not in direct contact with the employees, and they depend on their line supervisors to inform them of the what is happening within the culture. Very often, the senior leaders of the organization do not get the information they need to properly manage and support the needs of the work culture, and the result is that eventually, the work environment starts to become disengaged. As that trend continues, and the disengagement deepens, employees leave. By contrast, the ultimate goal is to create a culture of employee engagement. This type of culture is absolutely essential to achieve Five-Star levels of customer service.



A recent survey of more than 3,000 employees by research firms ISR & Hewitt Associates has found some alarmingly low levels of employee engagement, commitment and motivation in China, Malaysia, Singapore and Thailand. The finding is that up to half of the employees were either disillusioned with their employer, or in a state of complete disengagement.

The reality with these disengaged work cultures is that they will not be very productive, nor will they be very customer-focused. The organization will be challenged to

Worth Considering:

- **What steps does your organization take to evaluate your work culture?**
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succeed as the service culture begins to deteriorate to a non-service culture. Many employees will leave the organization, including those talented employees that were effective at delivering Five-Star service, and successfully building customer relationships.

The turnover rate, especially in Asia, is as high as 60% annually. In last year's *TMS Asia-Pacific Salary Survey* of the Travel & Tourism industry, 39% of the 900 respondents had been with their current employer less than 12 months, and 83% had been with their current employer

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According to a Market-Metrix report appearing in Hotel Management Asia magazine in 2011, a poor experience with a member of the staff is responsible for 68% of customers' change in hotel brands.

for less than 5 years. It's very difficult to build a strong culture of service excellence when your talented employees continue to leave. Consistent levels of talent and development are necessary for creating extraordinary customer service. Inconsistent talent will not be connected to the organization, nor to each other. Most importantly they will not be connected to customers and guests. The impact of this culture challenge to hotels and resorts is very significant, and it is how the Hospitality industry loses customer loyalty.

It is well documented that hotel staff failures have the biggest negative impact on guest loyalty. According to a Market-Metrix report appearing in Hotel Management Asia magazine in 2011, a poor experience with a member of the staff is responsible for 68% of customers' change in hotel brands. A staff problem has more impact on customer loyalty than a problem with billing, reservations, facilities, amenities, or the hotel room itself. A "loyal" customer can still be lost to a competitor if there is a lapse in their experience with hotel staff. Considering the lifetime economic value of a loyal customer, the financial loss can be significant for the brand.

There are other real costs associated to attrition and turnover, namely recruiting, hiring, training, and lost productivity. Consider:

- The overall cost of replacing an employee is estimated to amount to between 1.0 and 2.5 times his or her yearly salary. *(Ken Blanchard)*

This puts the replacement cost of a worker earning an annual salary of 20,000 (USD/SD/HKD/RM) at somewhere between 20,000 and 50,000 (USD/SD/HKD/RM). The final cost of losing any given individual depends on the position, role, talent/skill level, and seniority. The cost

of losing a high-potential or high-value employee naturally is higher than for most other positions.

Getting Them to Stay.

Given the substantial research that demonstrates how work-

ers leave over issues other than compensation, it is important to note that compensation and benefits are indeed important factors in attracting and keeping talented employees. However, compensation only goes so far, and it will help keep talented workers only until they realize the other important aspects of the work environment are missing. Furthermore, even if compensation gets them to stay, it will not be enough to ensure you get a passionate effort from the employees. That motivation must come from other sources within. Here are three factors that will achieve the retention objective:

1. Leadership

A great working culture begins with leadership. And leadership begins at the top. Senior executives must demonstrate their commitment to staff by their actions. When managers and executives walk their talk, they build trust within the organization. This sense of integrity is what promotes the building of trust within the culture, and is the foundation of leadership. The result is a culture of



When it comes to training, Hospitality executives must rethink employee retention: If you want your best people to stay, prepare them to leave.

respect and recognition and acknowledgement. Commitment to a vision, supporting their staff toward achieving the vision, and inspiring and motivating people is what creates a committed culture of performance and employee engagement. If there is one aspect of an organization that fosters customer engagement and loyalty, it is employee engagement. If the employees are not engaged, they will not engage guests.

2. Beginning With The Right People

Retention really begins in the hiring process. Employees are hired not only for knowledge, skills and abilities, but for core values and motivation, which is often just as important as competence. Someone who is not a good fit with the culture may end up being rejected by the organization, or leaving. It is often said, that people are hired for their skills, but fired for their attitude.

In his book *Good to Great*, Jim Collins profiled a number of companies that demonstrated exceptional performance. One of the characteristics that were common to all of these organizations was that they focused on getting

“the right people on the bus”. Success means hiring the right people, and placing them into the right roles. Certain jobs require certain mentalities and natural abilities. We

Worth Considering:

- Is your organization developing its “leadership pipeline”?
- How is your hi-performance and hi-potential talent being identified?

often refer to this as “employee alignment”. For example, a good project manager must have a mental bias toward time management, deadlines, and tasking. To be successful as a project manager, that focus on deadlines is more important than their focus on people skills.

All that being said, finding the right people to put into the right roles is easier said than done. Too many organiza-



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tions do not spend enough time evaluating and assessing their candidates. The recruiting process typically involves a series of semi-formal, unstructured interviews with a number of individuals, and if the candidate says what the interviewers want to hear, they are offered the job. The reality however, is that many of these candidates are not as well-suited to customer service as they need to be, and the Hospitality organizations settle for mediocrity. This reality also explains why the failure rates of new hires ranges from 20% to 40%. In these cases, turnover is an inevitability as soon as the candidate is hired. In short, Hospitality organizations must do what they can to ensure that they are hiring Hospitality-focused individuals who have a passion for connecting to other people.

To be effective at customer service, people skills take precedent over all other skills. Creating the emotional connection within minutes of the initial encounter with a guest is how great customer service begins. The individual must be confident, they must have a strong sense of team, they must be skilled in communications and empathy, and they must be detail oriented. When all of these skills and attributes come together, the result is a “customer service ambassador” that is fully capable of delivering Five-Star levels of customer service.

3. Upward Mobility

When it comes to training, Hospitality executives must rethink employee retention: If you want your best people to stay, prepare them to leave.

One of the best advantages of having strong leadership in the organization is their focus on developing their organizations. These organizations create learning environments, career paths, and upward mobility. This is an important element of a high retention work environment. Employees want to be set up for success, and they look for guidance on how to perform what is expected of them. Training should begin on the first day of their hire with orientation, and it should be ongoing from there. By developing employees’ personal and professional skills, they will feel as if the organization is fostering their career and their future. By supporting employees’ dreams and

Worth Considering:

- How does your organization assess its new-hire candidates?
 - Is there certainty that all of your employees are in the right roles?
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goals, the organization can create strong internal motivations to build skills and competencies that the organization benefits from. People can easily sense when leadership is truly interested in their long-term aspirations, and this builds strong loyalty and trust.



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A Case Study.

One of the finest examples of a Hospitality organization that has created significant levels of success in various aspects of their operation is The Ritz-Carlton Hotel Company. This organization succeeds at achieving Five-Star levels of customer service, and they have high levels of guest loyalty and financial performance to show for it. The Ritz-Carlton Hotel Company also has achieved significant levels of employee satisfaction and engagement. Finally, The Ritz Carlton Hotel Company is the only hotel chain to have earned the Malcolm Baldrige National Quality Award in the US for performance excellence. Given the challenges in the economy and in the labor market, there is much to be said for achieving this level of consistent performance. Consider these aspects to how The Ritz-Carlton approaches their operating model:

1. Leadership: Beginning with the President of The Ritz Carlton, there is a deep commitment in the leadership to create and maintain a culture of trust, respect, and dignity for their employees. Although this commitment begins with the company President, it is very visibly demonstrated at all levels of management down to the line supervisors.

2. Hiring: The Ritz-Carlton has an extremely intensive candidate evaluation process, and only the individuals with the very best fit and deepest commitment are selected. The interviews and assessments are meant to definitively ascertain which candidates have the natural instincts and talent to connect and serve customers and guests. The process is long and arduous, but the success rate of The Ritz-Carlton hiring process is extraordinary.



THE RITZ-CARLTON®
HOTEL COMPANY, L.L.C.

"The company pays on the same level as other luxury hotels. Wages and benefits are not our biggest perk. Working at the hotel is the biggest perk—a special environment, where you know you are respected and your leaders look out for you."

– Simon Cooper, former President and COO of The Ritz-Carlton Hotel Company.

3. Training: Every employee at The Ritz-Carlton organization gets approximately 150 to 200 hours of training per year. That averages to 3 to 4 hours every week. Every individual Ritz-Carlton Hotel has a Director of Training on staff to focus on employee development. This commitment to developing employees' knowledge is virtually unheard of. The result is that employees are exceptionally skilled, knowledgeable, and successful in their roles.

What is the final result of the Ritz-Carlton model?

Consider that while the Hospitality industry averages employee turnover rates of 30 to 40 percent, The Ritz-Carlton hotels average 14 to 16 percent employee turnover rates. Most importantly, approximately 60 percent of its current employees have been with the organization for more than five years, and over 30 percent have been with the organization for over eight years. This includes The Ritz Carlton Hotels in the high-turnover markets of Singapore, Malaysia, and Shanghai, PRC. Imagine what the organization gains by having so many employees with deep levels of customer service experience. It fosters a depth of knowledge that creates competitive advantage for the organization.

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Conclusion In the global competition for talent, successful retention requires organizations to shift from a mindset of keeping their employees from leaving the company, to one of continuously *attracting* them. The approach of creating trust and supporting lifelong careers is about enticing talented people to stay. This investment approach to talent management fosters stronger loyalties to organizations than other approaches, including salary raises. The research shows that companies that want talented employees to stay should offer significant opportunities for them to enhance their skills and abilities, and advance their careers. People are more inclined to stay when they perceive that the opportunities and experiences they have with their current employers expand their career options. Despite their increased value and employability in the external labor market, employees will be inclined to keep their beneficial relationships with their current employers. Ironically, the more a company prepares their staff to leave, the longer they are likely to stay.

About Impromas Corporation

Established in March 1998, Impromas Corporation Sdn Bhd is built on the founding principle of providing education and skills training for the service industry. With education and skill training, our main focus is in the recruitment of students exclusively for Dimensions International College, Singapore.

About Gaming Hospitality Experts

Gaming Hospitality Experts provides assessment, development, and consulting solutions that enable our clients to definitively measure and manage their talent. If you would like to talk about how we can assist you become a high performance organization, please refer to the contact information below.

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