



TFG
ASSET
MANAGEMENT

Appreciating Properties

The Impact of Staff Turnover

on a Hotel's Income Statement

White Paper prepared by
TFG Asset Management



About TFG Asset Management

TFG Asset Management specialises in hotel asset management and its primary objective is to maximise the hotel owner's return on investment. The company assists with managing every aspect of a completed hotel development and acts as an intermediary between owner and operator, with a view to aligning the interests and profitability of both parties.

TFG Asset Management currently manages three hotel apartments and one hotel offering a total of 1,404 keys and will add six new hotels to its hospitality portfolio by the end of 2019. The company employs an experienced Asset Management team and partners with some of the world's leading hospitality brand operators in order to position and manage its hospitality projects with future growth in mind.

TFG Asset Management's main roles include the daily control of hotel operations and the provision of strategic solutions to enhance revenue generation and property values, ensuring they exceed owner expectations.

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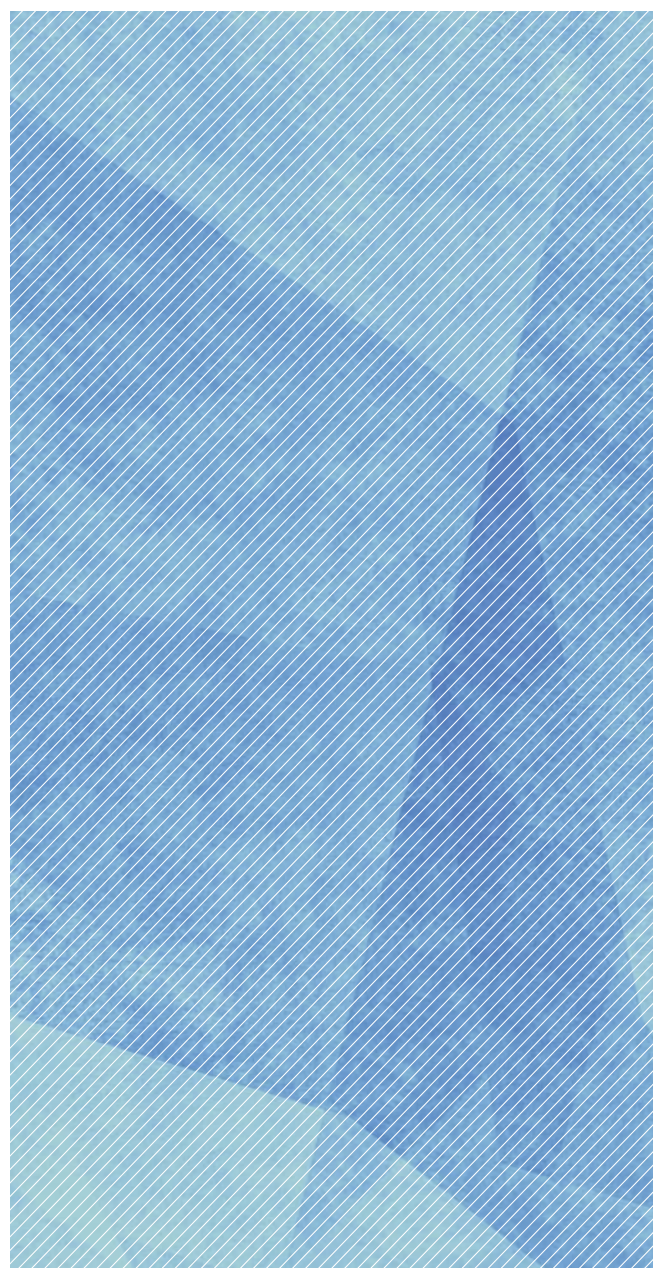
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- 1) **Ms. Marianne Albalkhi**
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- 2) **Mr. Wael El Behi**
General Manager at First Central Hotel Apartments
- 3) **Ms. Feryal Haddon**
Cluster Director of Human Resources at Hilton Dubai Jumeirah, Hilton Dubai The Walk and Hilton Dubai Creek
- 4) **Ms. Jennifer Hodsoll**
Regional Human Resources Manager, Managed Hotels, MEA Wyndham Hotel Group
- 5) **Mr. Matthew Mee**
Managing Director, Middle East, Chartered Institute of Personnel and Development (CIPD)
- 6) **Ms. Frances Smith**, Vice President Human Resources, Middle East & Asia of Movenpick Hotel Group

We would also like to thank students at the Emirates Academy of Hospitality Management for contributing to the write-up of this research. In alphabetical order, they are:

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2. Introduction & Objectives

Dubai's hospitality sector is recognised as one of the emirate's most dynamic and fastest-growing industries. Approximately 28,000 new hotel rooms are expected to come online in Dubai by the end of 2018, reflecting an average growth rate of 12.5% per annum (John, 2015). In parallel with this progress, the labour market is witnessing strong growth. The hospitality industry alone anticipates 110,000 new jobs will be created in the sector in the run-up to 2020, when Dubai hosts the World Expo (Bouyamourn & Sahoo, 2014). In a market with such vast opportunities, job seekers have considerable options, making it challenging for hoteliers to attract and retain top talent. The shortage of skilled labour poses another issue because a labour-intensive industry such as hospitality requires a proficient workforce in order to remain competitive.

Employee turnover in the UAE's hospitality industry measures approximately 25% - 30%, which is a significant figure and can be attributed mainly to deteriorating staff loyalty. Employees, particularly entry level, are willing to change jobs for a marginal pay rise, raising costs for their current employer when sourcing a replacement. Recruitment and ongoing costs include visas, accommodation, staff meals and training. Loss of intellectual capital and potentially business partners, constitute intangible costs. According to Jennifer Hodsoll, Regional Human Resources Manager at Wyndham Hotel Group, from her previous experience working with different international hotel operators in the region, a 30% staff turnover rate comprising line employees and executives (80% and 20% respectively) can potentially cost 1.3 million dirhams per annum. It is important to mitigate this risk in the best interests of all stakeholders, but particularly for the hotel operator, owner and asset manager.

It is equally important to note that a very low turnover rate is also undesirable. According to Marianne Albalkhi, Director of Human Resources at Fairmont Bab Al Bahr, Abu Dhabi, while a productive, dynamic environment is important for retaining staff, an operator must encourage and welcome fresh ideas from newcomers. This strategy enables the organisation to adapt quickly to radical changes in the market. Albalkhi maintains that high staff turnover is not necessarily an indicator of poor people management – it can simply be an indication that some employees are open to changes and new challenges. Targeting a 100% retention rate may also pose challenges, particularly in a dynamic hospitality market such as Dubai's, where creativity is essential to success. Therefore, it is also important to recognise that functional turnover (which is the turnover of poor performers) is favourable despite the associated costs that arise (Steed & Shinnar, 2008). It is equally imperative that companies recognise their top talent and retain them.

In this white paper, TFG Asset Management analyses the hospitality labour market in Dubai and identifies the main challenges facing operators in retaining elite staff. We have conducted extensive research to assess the impact of staff turnover on a hotel's profitability, and as a result, developed relevant strategies to mitigate such challenges. Through field research, we have consulted six experienced Hospitality Managers (HMs) to gain a deeper and more precise understanding of the main issues. In addition, we refer to the results of Emirates Academy of Hospitality Management's (EAM) research study "How can we increase productivity in hotels so that we all benefit?", which surveyed 3,000 hotel staff in Dubai. The questionnaire can be found in Appendix 1 (page 36).



"A 30% turnover staff turnover rate comprising line employees and executives can potentially cost AED1.3m p.a."

3. Hotel Staff Turnover

Jack Welch, former chairman and CEO of GE (General Electric) once said: “There are three measurements that tell you nearly everything you need to know about your organisation’s overall performance: employee engagement, customer satisfaction, and cash flow. It goes without saying that no company, small or large, can win over the long run without energised employees who believe in the mission and understand how to achieve it.”

There are several ways to measure employees’ level of engagement and productivity. One of the best methods is to monitor staff turnover over a designated period. A high turnover rate suggests employees are generally dissatisfied and disengaged with the company. It is one of the most widely used Key Performance Indicators (KPI) among HR departments.

Our survey of industry stakeholders reveals the average staff turnover rate exceeds 30% per annum in the UAE.

3.1 Staff turnover calculation

The asset manager, who is appointed by the hotel owner, is responsible for optimising profits. The asset manager understands that staff are the hotel’s most valuable asset. A high staff turnover rate can directly impact a hotel’s profitability due to the costs associated with recruiting, training and mentoring new employees until they reach full productivity.

It is important to identify how to calculate the turnover rate and to define the parameters of a satisfactory ratio in the market. In this study, TFG Asset Management observed a lack of consistency in the method used to calculate this ratio in Dubai. Additionally, hoteliers appear to be largely unaware of the potential impact of high staff turnover on their financial performance and may be more inclined to address the issue if they can quantify the effect it has on their bottom line.

The method used for calculating staff turnover differs among hoteliers, depending on their objectives. If it is their aim to detect and analyse turnover problems then they will consider both involuntary turnover (employee termination) and voluntary turnover (employees who leave of their own accord). If the company wants to assess all costs associated with staff turnover they should also consider internal transfers, promotions, retirement, planned layoffs, etc. (Steed & Shinnar, 2008). The majority of HMs interviewed for this research employed the former method, noting that they measure turnover on a quarterly and an annual basis.

Thus, the calculation utilised by most of the HMs is:

Total number of separations (involuntary staff turnover + voluntary staff turnover)

Average number of employees during the surveyed period x 100

Appendix 2 (page 38) is a precise turnover calculation worksheet employed by Steed and Shinnar to help detect and analyse any turnover issues. It may also be used as a tool to plan for the number of staff a manager anticipates will be required at various times throughout the year.

Factors affecting a staff member's voluntary departure

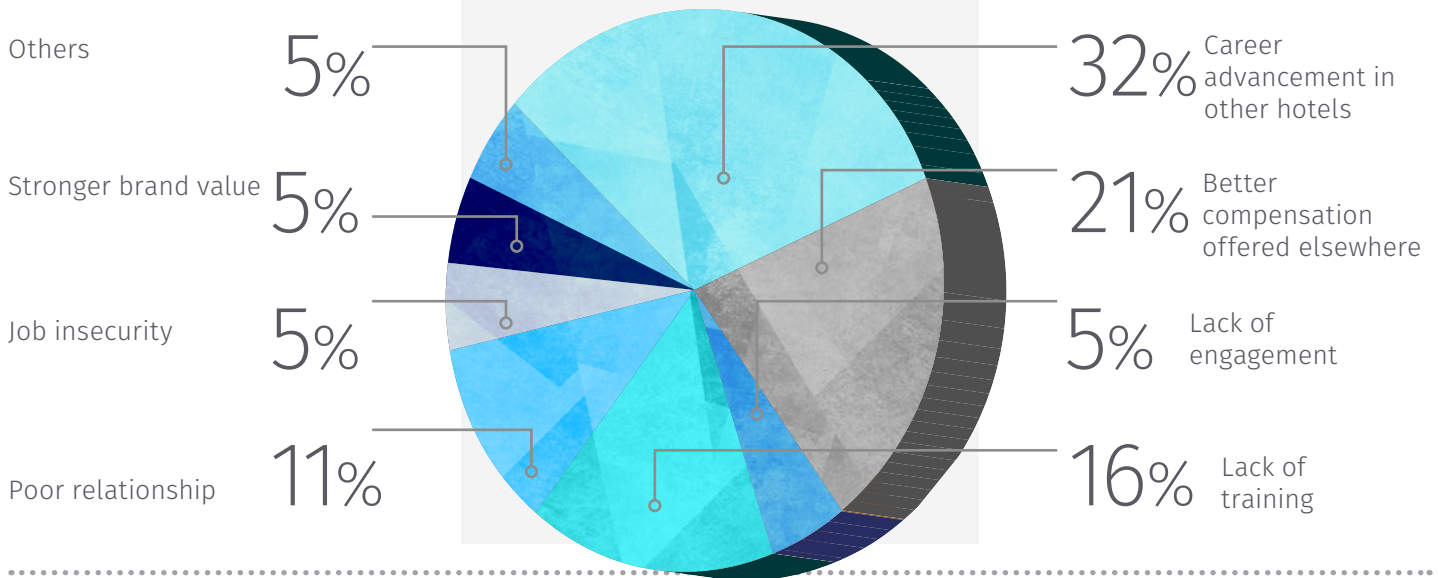


Figure 1: Factors affecting a staff member's voluntary departure

3.2 Factors affecting employees' intent

TFG Asset Management collated factors affecting employees' intent into three categories 1) Push factors, 2) Pull factors, and 3) External factors. Figure 1 summarises the main factors reported during the interviews with the HMs:

3.2.1 Push factors

The following push factors are the main causes cited by departing employees. These factors are controllable and the company can address them by doing an in-depth analysis of each issue.

3.2.1.1 Poor relationships

One of the direct causes of dissatisfaction and demotivation among employees is a poor relationship with colleagues and/or direct managers. Ultimately, these factors increase the probability staff members will leave. A strong relationship between an employee, their supervisor and co-workers, fosters a positive attitude and encourages them to continue their employment (Tutuncu & Kozak, 2008).

Relationships are perceived as a direct determinant of an employee's intent to stay (Illustrated in Figure 1). Eleven percent of respondents cited poor workplace relationships as a primary reason for seeking alternative employment.

In a multi-ethnic society such as the UAE where workers come from all over the world, working relationships can be strengthened if differences are accepted, or weakened



"A high turnover rate can impact a hotel's profitability due to the cost of recruiting [and] training new employees"

if disparate interests are not appreciated. Not only do staff members interact closely at work, the nature of the UAE's hospitality industry means that many of them share accommodation. According to Frances Smith, Vice President, Human Resources – Middle East & Asia, Movenpick Hotel Group, if staff members cannot cooperate at work, the obligation to live together may magnify their dissatisfaction and discomfort and vice versa – if they cannot work together, it would make the living arrangements very strained. Relationships will be strained and can encourage a dissatisfied employee to seek alternative employment.

3.2.1.2 Lack of growth opportunities

A perceived lack of career opportunities is a primary reason for high staff turnover in many industries. The hospitality industry, which by its nature is labour-intensive, often creates intense competition among employees and reduces the opportunity for individual career progression and development.

According to Hays' Salary & Employment Report 2016, a primary cause of resignations is a lack of career development. (Diala-Mobride, 2016). Thirty-two percent of respondents to our survey (see Figure 1, page 7) stated that a lack of career opportunities in their current role was the main reason for them seeking employment elsewhere.

Employees acknowledge that career development is a long-term proposition. Issues arise when an employee's career expectations are not met by their employer. Staff will seek alternative employment if they see few opportunities for career advancement with their current employer.

The employer, according to Feryal Haddon, Cluster Director of Human Resources at Hilton Dubai Jumeirah, Hilton Dubai The Walk and Hilton Dubai Creek, tries their best to provide all staff with opportunities for promotion. The key is to identify the best talent to nurture and retain.

One issue that the Learning and Development team faces is access to adequate learning tools to attract and retain top talent. The challenge for the Hotel Asset Manager is to ensure the hotel operator provides training and development opportunities for all hotel employees to enhance their knowledge and skills in a cost-effective manner. (Deloitte University Press, 2016).

3.2.1.3 Lack of engagement in the organisation

Levels of engagement are rooted in an organisation's corporate values. High employee engagement encourages a committed organisational culture. Culture is described as the "way things are done around the company" and engagement is "how employees feel about the ways things are done" (Deloitte University Press, 2016). Low engagement can result from a lack of transparency and is an important factor that influences an employee's career choices.

According to Wael El Behi, General Manager at First Central Hotel Apartments, employees expect complete transparency in the workplace. For example, operational changes should be communicated and explained thoroughly, while key data should be provided. The majority of employees will be reluctant to embrace operational changes if the benefits of these changes are not clearly explained to them.

El Behi revealed that his employees were extremely keen to be kept informed about changes to the company's overall operations, even if the developments do not directly impact their own roles.

A corporate culture that emphasises transparency will foster a higher level of engagement between management and staff. Encouraging communication is key to developing a culture of engagement. The Hotel Asset Manager must ensure the operator embraces this approach while recognising that the best ideas can come from the simplest of concepts.

3.2.1.4 Job insecurity

El Behi noted that another influencing factor in staff turnover is a lack of job security. Typically, an employee may fear for their job when there is a lack of communication from management, particularly during periods of economic uncertainty.

If a hotel operator suddenly decides to downsize its workforce, the situation will impact all employees if management does not communicate its intentions clearly, which can lead to increased disloyalty. If the reasons are communicated in advance, staff will appreciate the clarity and may be more prepared to accept a redundancy package if such an option is available.

Job insecurity is a major source of work stress which triggers a series of negative reactions among employees. Research reveals that job insecurity can result in lower job satisfaction, decreased employee well-being, a reluctance to fully commit to the organisation, demotivation, decreased productivity and enhanced personal stress. Ultimately, it can undermine management's reputation among staff, lead to burnout and cause employees to ultimately quit (Ismail, 2015).

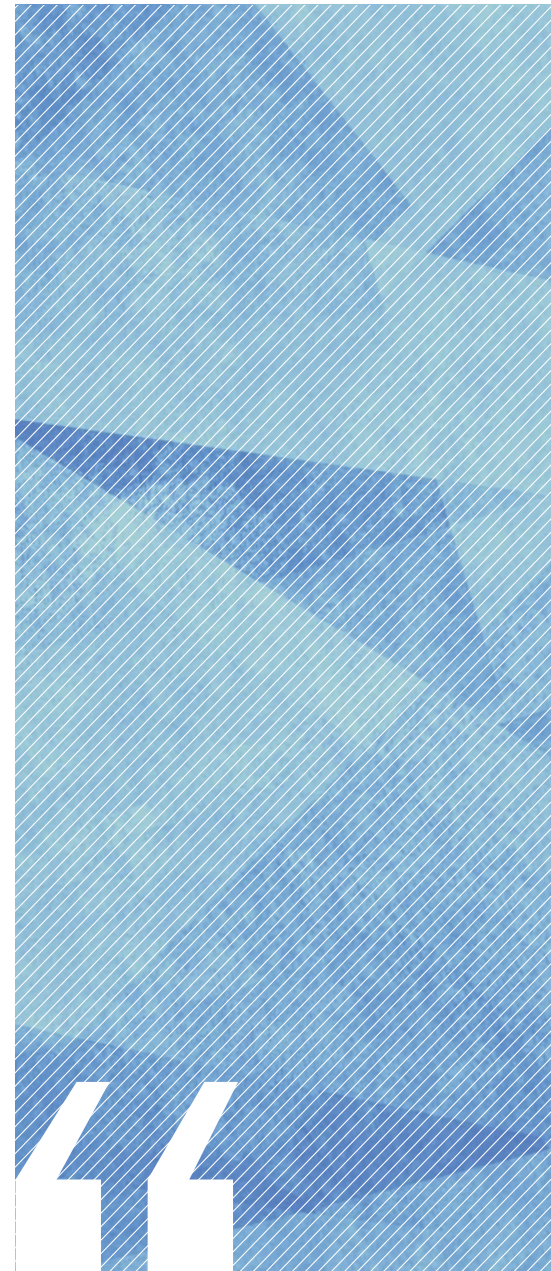
In order to reduce job insecurity among staff members, the hotel asset manager must provide strategic guidance to the operator and develop a plan that is coherently communicated, particularly when adopting policies aimed at reducing staff headcounts, for example: outsourcing, introducing new work practices and restructuring.

3.2.2 Pull factors

Pull factors are defined as the factors prompting employees to seek alternative employment. These factors are often uncontrollable.

3.2.2.1 Career advancement

According to Haddon, HR departments must appreciate the



"[Job insecurity] can undermine management's reputation ... lead to burnout and cause employees to ultimately quit"

importance of nurturing, developing and retaining top talent from an early stage so that they are motivated to grow within the organisation with a view to becoming future managers.

3.2.2.2 Higher salary and benefit

The abundant opportunities in the labour market generates higher demand for competitive financial remuneration packages. Managers should aim to develop a dynamic salary structure for staff that takes into account their job responsibilities, rewards performance and considers income benchmarks. Compensation may not be a primary motivator but it is a basic need to be fulfilled (Dobre, 2013).

Many employees are motivated by both extrinsic and intrinsic rewards. In the absence of intrinsic factors such as recognition and career advancement, employees will weigh the financial benefits and pursue a career with an organisation that offers the best compensation package.

HMs surveyed for this report agree that employees, especially entry level, are more likely to seek alternative employment for a very small increase on their current salary. In contrast, senior management personnel regard a remuneration package influential but will not base major career decisions solely on this factor.

Given the large number of new hotel openings in Dubai, it is imperative operators offer their employees incentives such as specialised training programmes, and motivate their best talent by offering them intrinsic rewards.


However, simply raising the level of financial compensation will not guarantee an employee's loyalty and hence, does not address the issue of staff turnover in the long-run.

3.2.2.3 Stronger brand value

According to Smith, hotel operators cannot solely use financial enticements to guarantee staff loyalty. Operators can instead engage employees by emphasising the value of their brands. A respected brand will generate strong customer loyalty, which can be used to entice top talent from across the industry. Numerous researchers confer that in a market of homogenous products and services, employees are the key to brand differentiation (Suikkanen, 2010).

Haddon said that in addition to the prominent values the Hilton brand is known for, the company was ranked the top hospitality company in the UAE's "Great Places to Work" survey, which helped it to attract top talent. Figure 2 (top right) presents The Employer Branding Model adapted from Gaddam, 2008.

The employer's brand bears considerable weight in attracting top quality employees. The power of the brand also directly influences the employees' satisfaction with their professional environment.



“Simply raising the level of financial compensation will not guarantee an employee's loyalty”

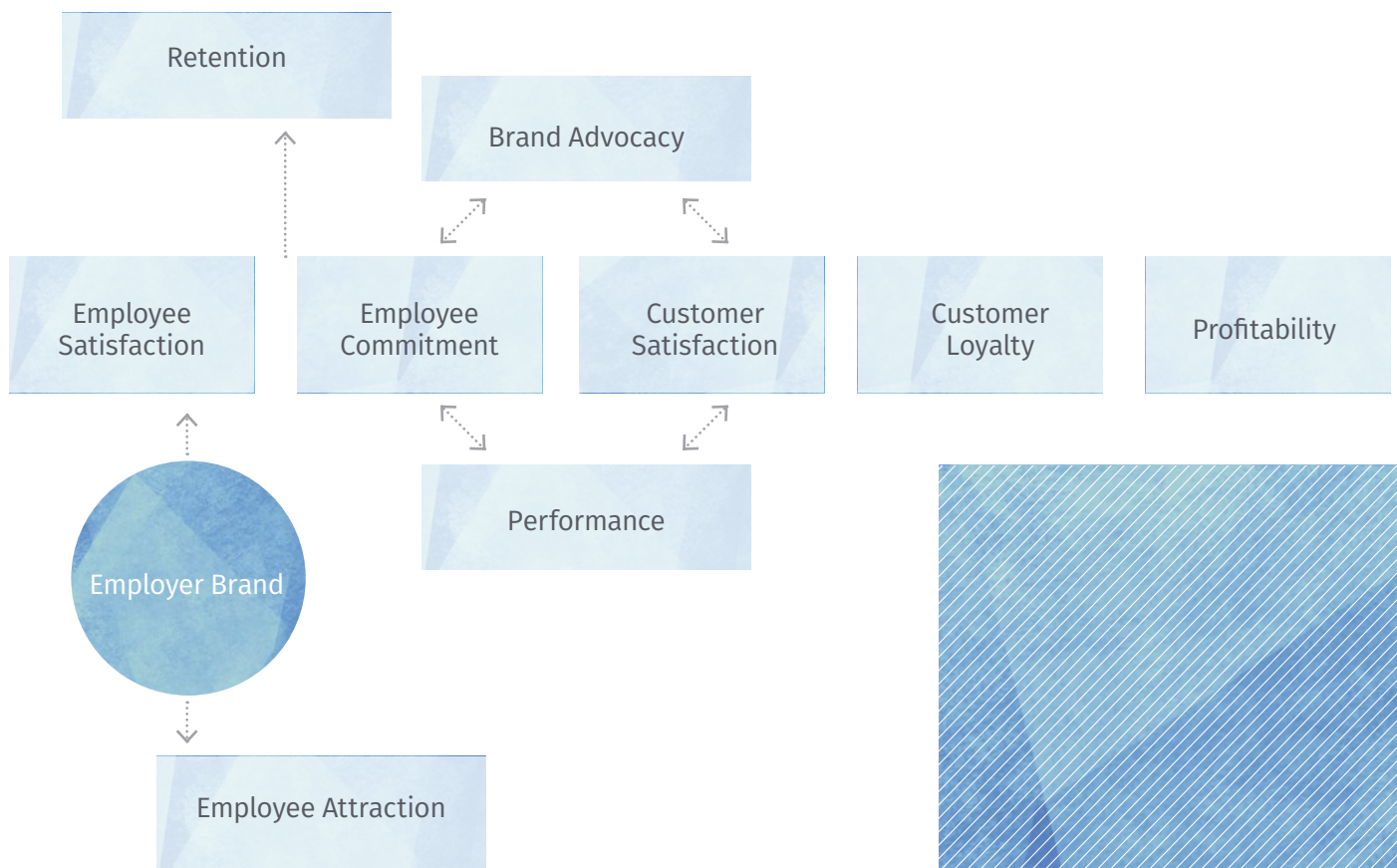


Figure 2: The Employer Branding Model (Adopted from Gaddam, 2008)

Once employees develop a strong sense of trust and pride in the brand, their commitment to excel and become brand ambassadors increases.

3.2.3 External factors

Aside from the push and pull factors listed previously, there are uncontrollable factors that can influence staff turnover. Firstly, expatriates comprise the majority of the population in the UAE and constituted 88.5% of the total workforce in 2010 (Gulf Research Centre). Eventually, these workers will return to their home countries, making it inevitable that voluntary turnover is impacted by international mobility. Family related concerns represent the second most significant issue affecting staff turnover. Smith discloses that this is a considerable issue at Movenpick Hotel Group. Another factor influencing staff turnover is the decision by some employees to simply seek a career change and leave the hospitality industry altogether.



4. Impacts and Consequences of Voluntary Staff Turnover

TFG Asset Management conducted empirical research to analyse the direct impact of voluntary staff turnover on a hotel operation.

This research revealed that voluntary staff turnover has a direct negative impact on the hotel's financial performance. It impacts the property's performance by affecting sales revenues and the overall level of service provided. Therefore, we propose a number of assumptions that can be used to derive a precise Profit & Loss (P&L) that supports this statement. These assumptions have been applied to a hypothetical case study involving a four-star hotel in order to establish a method to measure the impact of staff turnover. For the purpose of this exercise, we assume that the hotel comprises 300 keys and 93 staff. The intangible costs that arise from reduced productivity due to staff turnover are quantified by comparing a hotel's line items under different levels of turnover.

Accordingly, the proposed model simulates the performance of the hypothetical hotel under two conditions, with high and low degrees of staff turnover. Under the base case (Scenario A), the level of turnover is marginal and measures 0-5%; therefore, full productivity, or a 100% contribution, is assumed under the condition that the hotel is able to retain its best staff.

Based on our interviews, average staff turnover in Dubai's hotel sector is approximately 30% per annum. We adapt this percentage to our alternative scenario (Scenario B), presenting the high turnover rate and loss in productivity which reduces the staff contribution to performance in comparison to the base case. The primary assumptions within the case study are highlighted below:

- 1) The hotel comprises 300 keys**
- 2) It employs 93 full-time staff**
- 3) Full productivity is assumed under Scenario A, or a staff turnover of 0-5%**
- 4) Reduced productivity is assumed under Scenario B, or a staff turnover of 30%**

In order to isolate the impact of the staff turnover ratio on the profitability of the hotel, the "ceteris paribus" concept has been applied, where it is assumed that all variables, apart from staff turnover, are fixed. In addition, the following conditions relating to the hotel must remain constant:

- 1) For every departing employee, there is a replacement within that year. The time required to find a replacement depends on the role in question**
- 2) Departing employees in both scenarios are voluntary and excellent performers**

- 3) The turnover ratio of managers to entry level positions is 1:4
- 4) All operating metrics (occupancy, ADR, RevPAR, room nights) are constant
- 5) No external market variables are considered
- 6) All departing employees hand over their notices at the beginning of the month
- 7) No vacancy period is considered

Accordingly, this study accounts for a one-month notice period for entry level employees and a three-month notice period for managers. Interviews with the HMs reveal that it takes roughly four weeks to source replacement staff for entry level roles and eight to twelve weeks for senior positions.

This study does not account for any vacancy periods under the assumption that the hotel begins to search for a replacement as soon as a termination has been filed. Therefore, the only payroll variable that is subject to change in this study is the variation in salary structures. In order to calculate the impact of staff turnover, we assume that each employee affects the revenues to varying degrees. We have allocated an approximate percentage to those whose contribution can directly impact revenues in order to quantify the impact of their departure on the hotel's financial performance. A total of 93 staff are employed in the four-star hotel which comprises 41 staff in Rooms Division, 28 in F&B, 12 in Admin & General, six in Sales & Marketing, and six in Engineering.

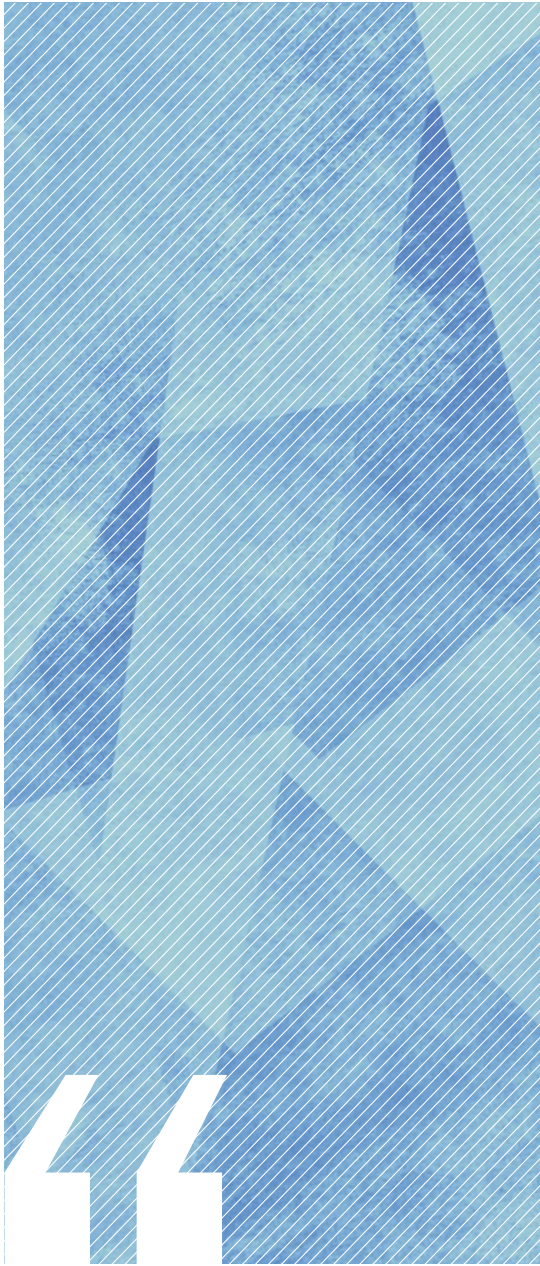
4.1 Assessing the impact on revenue

Before assessing the potential impact of staff turnover, the maximum impact that each staff member can generate on revenues should be quantified by assuming that each person is fully productive.

The impact of turnover can then be measured by quantifying the revenue loss that results from lower productivity. A staff turnover rate of 30% is assumed under Scenario B, which equates to 28 employees departing the company and being replaced annually.

4.1.1 Impact on room revenue

Room revenue is derived from the allocation that each staff member generates towards total room sales. The difference in the weight of their contribution depends on the factors that influence the nature of their role, including their level of seniority, amount of customer-facing time and duties being performed. Figure 3 (page 14) quantifies the allocation that each role generates towards total room sales.



"The impact of turnover can be measured by quantifying the revenue loss that results from lower productivity"

Room sales allocation per role

Rooms	
Rooms Division Manager	2%
Duty Manager	1%
Receptionists	1%
Reservation Manager	15%
Reservation Agent	7%
Admin & General	
General Manager	5%
Sales & Marketing	
Sales & Marketing Manager	15%
Sales Executives	10%
Marketing Executives	3%

Figure 3:
 Room sales allocation by department and role

The proposed allocation is based on our discussions with different players in the industry. Although these assumptions can be used as a prototype for other properties, the precise apportionment should be unique to every hotel because it depends upon the individual operations. Universally, the majority of room sales are produced by the hotel's Reservation and Sales departments – therefore we assume they have the largest impact on room revenues, with both the Reservation and Sales Manager generating a share of 15% respectively.

Departing employees, particularly in the Sales department, can take critical sales accounts along with them. Additionally, losing top salespeople can result in fewer new profitable accounts for the business. Both secondary studies and past experience demonstrate that hotel guests are more loyal to their sales contacts than the actual product itself (Urbancova & Linhartova, 2011).

The reservation agents and manager deal directly with group corporates and tours as well as Online Travel Agents – one of the primary room sales channels for most properties, where sales are conducted through phone calls and email bookings.

The sales department alone accounts for half of all bookings and room revenues, and deals with leisure and corporate segments. Although the front office generates a lower contribution to room sales of 1%, it is presented with the opportunity to upsell existing guests to higher product categories and sell rooms directly to walk-ins, or Frequent Independent Travellers (FIT).

“The sales department alone accounts for half of all bookings and room revenues”

4.1.2 Impact on F&B revenue

The same rationale can be applied to F&B revenue which is derived from the contribution that each staff member generates towards total F&B sales. Different weights have been allocated per employee based on their sales towards F&B, as illustrated below in Figure 4.

The F&B revenue allocations are mainly generated by the F&B and Sales departments, followed by Reservations. We assume that the Head Chef and F&B Manager produce a significant revenue portion of 10% percent while individual food service staff generate 1% each because they upsell to guests who are already seated at the restaurant and entice both in-house and walk-in diners.

The Marketing team is responsible for promoting the restaurant and devising tactics to entice customers, while the Sales and Reservations teams make a direct impact by selling rooms with F&B packages.

F&B sales allocation per role	
Rooms	
Reservation Manager	6%
Reservation Agent	2%
F&B	
Head Chef	10%
F&B Manager	10%
Sous Chef	1%
Waiter/Waitress	1%
Bartenders	2%
Runners	1%
Admin & General	
General Manager	5%
Sales & Marketing	
Sales & Marketing Manager	10%
Sales Executives	10%
Marketing Executives	3%

Figure 4:
F&B sales contribution by role

4.2 Assessing the financial impact on the level of service

If a hotel delivers sub-par service to its guests, it runs the risk of receiving negative feedback via online review sites. In the digital age, hotel operators are highly aware of the threat such criticism poses to their bottom line.





Cornell's study, which assessed the impact of a hotel's online reputation on performance, found a direct correlation between online ratings and the ADR (Anderson, 2010). A hotel which has an excellent reputation online is better positioned to command premium rates. Primary research reveals that a hotel's online reputation is predominantly based on the quality of service provided. By recognising the relationship between these variables, a revised ADR can be calculated by considering how an improvement in overall service and operational performance will positively impact a hotel's reputation among online reviewers.

The first requirement is to determine the correlation between the online rating and the level of service provided. Students at the Emirates Academy of Hospitality Management helped to conduct this study by analysing more than three hundreds reviews published by Booking.com and TripAdvisor across the three-, four- and five-star hotel categories. These results can be viewed in Appendix 3.1 (page 40).

The research confirmed that quality of service is the most influential factor in determining a hotel's online rating, outweighing other features such as the property's facilities and geographical location. The service quality ratings within the five-star category displayed the broadest results. Hotels praised for their service standards achieved an average online score of 9.7, while those criticised for their service performance received an average score of 5.1, resulting in an average variance of 4.6 points.

Similarly, four-star hotels displayed a variance in average online ratings of 4.0 points, where those with positive reviews received an average rating of 9.5 compared to 5.5 for those at the opposite end of the spectrum. Three-star hotels surveyed demonstrated the lowest average variance of 2.8 points, with positive and negative reviews averaging 9.3 and 6.5, respectively. Guests tend to be fairly critical when evaluating a hotel's service standards. In particular, guests staying at a five-star hotel will have higher expectations than those in a three-star property. Hence, poor service is likely to have a more prominent impact in the five-star segment.

By way of comparison, students at the Emirates Academy of Hospitality Management analysed online reviews in major cities including London, New York and Singapore. The only city that could draw comparisons with Dubai was New York, with negative feedback exhibiting a wider variance among five-star hotels compared to three-star hotels. This difference could be related to guests' higher expectations in these locations as well as each city's reputation for world-class hotels.

For the purpose of this study, the association between the service quality and online reputation has been established as a fixed condition required to measure the relationship between the level of service and the hotel's ADR. Hoteliers are advised to create metrics to measure the service quality and online reputation such as to monitor and analyse online reviews across all social platforms. This can be aided by using market intelligence programmes such as ReviewPro.

By applying the findings mentioned above, we assume that a hotel that delivers the best quality of service will achieve an online score of 9.5. Accordingly, we can deduce that under full productivity the hotel performs at its optimal level with the best talent. Taking into

consideration the Baumol effect (Russell, 2015), which states that top talent will excel until they reach a certain limit, in our case scenario, our optimal capability is determined to be an occupancy rate of 85%. Beyond this point, our top talents will be unable to cater to the larger number of guests and demands in the same professional manner.

Figure 5 below illustrates the impact that hotel employees have on delivering service. Research has also shown that in many instances, consumers develop relationships with employees and not the brand.

Customer-facing employees have a greater degree of responsibility for delivering service than back-office employees, because they have a greater influence on the guests' perception of the quality of service provided by the hotel.

The Executive Housekeeper carries the largest allocation (6%) because the rooms department generates 89% of revenue. In addition, we can deduce that roles that contribute more towards sales revenues will have a lower impact on the quality of service, as their main responsibilities relate to the sales process.

Service Allocation per Person	
Rooms	
Rooms Division Manager	3%
Duty Manager	1%
Receptionists	5%
Concierge	1%
Executive HSK	6%
House Keeping Supervisor	2%
Room Attendant/Cleaner	1%
F&B	
Head Chef	2%
F&B Manager	5%
Waiter/Waitress	3%
Bartenders	3%
Runners	2%
Stewards	1%
Engineering	
Chief Engineer	1%
HVAC	1%
Electrician	1%
Plumber	1%
Carpenter	1%
Helper	1%

Figure 5:
Service level allocation per role



4.3 Assessing the impact of lower productivity

When staff resign, the sales turnover declines by the respective percentage allocation assigned to each role. This subsequently results in lower productivity, which we capture in a productivity equation.

This study applies Kantor's theory that states that it can take a new employee up to two years to achieve the same levels of productivity as existing staff, and to regain the know-how, soft skills and expertise (Kantor, 2016).

We propose that the following inverse function represents a productivity equation:

$$D = 1 - ((B - C) + (C \div n))$$

D = initial contribution loss in Year 1

C = total productivity loss

B = full productivity

n = number of years to reach full productivity

The difference in total productivity (B-C) simply equals the full productivity less the total productivity loss. The total loss is distributed equally across a two-year period. This assumption applies Kantor's theory, which states that it can take up to two years for a new employee to reach full productivity.

Primary research reveals that on average, the turnover ratio for entry level and middle management to executive-level staff measured 1:6; therefore this ratio has been applied to the case study. This means that for every departing executive, four entry level staff leave their jobs. Figure 6 (below) summarises the number of departing employees by department and seniority level.

4.3.1 Room revenue productivity

Kantor's findings are applied to our case study of the 300-key, four-star hotel to arrive at the revised contribution that results from lower

Number of employees lost						
Level	Rooms	F&B	A&G	S&M	Engineering	Total
Management	2	1	1	-	-	4
Entry	7	8	2	4	3	24
Total						28

Figure 6:
 Number of departing employees under Scenario B (30% employee turnover)

productivity. In Figure 7 (below) we illustrate the impact of a 30% staff turnover rate on room revenues and summarise the loss attributed to the departing staff.

In the case study, the direct loss in sales contribution equates to 44%, with eight employees who generate room sales leaving the company. However, 44% is not the ultimate loss in room sales

	Room Sales Allocation Loss (30% Turnover)
Rooms	
Rooms Division Manager	2%
Reservation Agent	7%
Receptionists	2%
Sales & Marketing	
Sales Executives	30%
Marketing Executives	3%
Employee/contribution loss	44%

Figure 7:
Room sales contribution per role

contribution because it is assumed that there is a replacement for every departing employee. We apply the productivity equation in order to arrive at the current room sales revenue contribution under the 30% staff turnover scenario. The inverse calculation below shows that the total loss in the current year equates to the difference in total productivity plus the contribution loss in the first year.

$$1 - ((100\% - 44\%) + (44\% \div 2)) = 22\%$$

Lower productivity leads to an initial loss in room sales of 22%, which also means that the current contribution equals 78% of the original contribution under full productivity.



"Research reveals that on average, the turnover ratio for entry level ... to executive-level staff measured 1:6"

4.3.2 F&B revenue productivity

Applying the same rationale to the F&B department demonstrates how staff turnover can also have a substantial impact on F&B revenues. Figure 8 (below) illustrates the impact of a 30% staff turnover rate on F&B revenue and summarises the loss attributed to each departing staff member.

F&B Sales Allocation Loss (30% Turnover)	
Rooms	
Reservation Agent	2%
F&B	
F&B Manager	10%
Sous Chef	1%
Waiter/Waitress	3%
Sales & Marketing	
Sales Executives	30%
Marketing Executives	3%
Employee/contribution loss	49%

Figure 8:
F&B sales contribution loss per role

In the case study, the direct loss in F&B sales equates to 49%, with nine employees who generate considerable F&B revenues leaving the company. We apply the same productivity equation to arrive at the F&B sales in the first year under the 30% staff turnover scenario.

$$1 - ((100\% - 49\%) + (49\% \div 2)) = 24\%$$

Lower productivity leads to an accumulated loss in sales in the first year of 24%. Inversely, this means that F&B sales fall to 76% of the total allocation of the base case when full productivity is assumed.

4.3.3 Service productivity

Given the relationship between a hotel's quality of service and online reputation, we propose that when the quality of service is not at an optimal level the hotel's online rating declines. High turnover leads to a decline in the quality of service, which

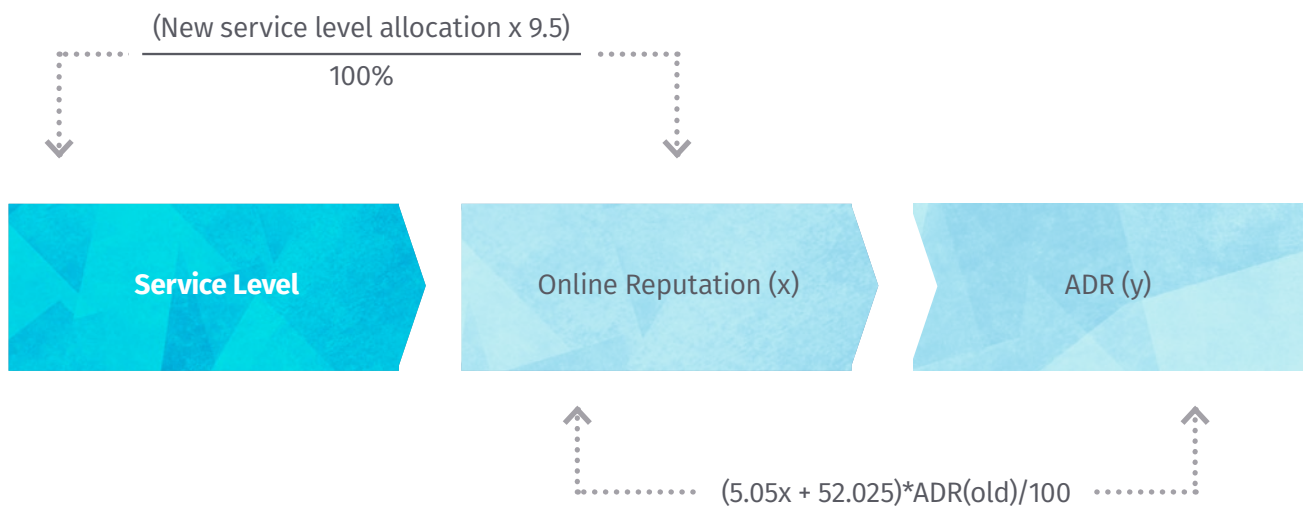


Figure 9: ADR formula resulting from the 30% turnover scenario

is reflected in the online rating and in turn, impacts the ADR. Figure 9 (above) outlines the relationship between the three variables, while Figure 10 (below) highlights the contribution loss attributed to each departing employee.

	Service Allocation Loss (30% Turnover)
Rooms	
Rooms Division Manager	3%
Receptionists	10%
Executive HSK	6%
Room Attendant/Cleaner	2%
F&B	
F&B Manager	5%
Waiter/Waitress	6%
Stewards	2%
Engineering	
HVAC	1%
Carpenter	1%
Helper	1%
Employee/contribution loss	36%

Figure 10: Service level contribution per role



Under the 30% turnover scenario, the service contribution loss measures 36%. We apply our productivity theory to arrive at the service quality contribution in the first year in the following equation:

$$1 - ((100\% - 36\%) + (36\% \div 2)) = 18\%$$

This shows that the lower productivity levels that result from high turnover causes the service quality contribution to decline 18 percentage points in the first year. Alternatively, this means that the service quality contribution is 82% of the contribution achieved in the case of full productivity.

Under the assumption that a rating of 9.5 results from a 100% contribution to the level of service, an 18 percentage-point reduction in the service quality contribution causes the rating to decline to 7.8. This calculation is carried out using the formula provided in Figure 9 (page 21).

Scenario B: Online Rating	=	Current service quality contribution	X	Scenario A: Online Rating
7.8		82%		9.5

Figure 11 (below) compares the main performance indicators in respect to both scenarios.

The second part of the equation in Figure 9 requires us to compute the ADR. According to Cornell University's study, "The impact of social media on lodging performance", an increase in the score by 1.0 point, measured using a five point Likert scale, would allow the hotel to increase its ADR by 11.2%, (Anderson, 2010).

General Stats	Hotel 0%-5% turnover rate	Hotel 30% turnover rate
Number of rooms	300	300
Total Rooms Available	109,500	109,500
Total Rooms Occupied	93,075	79,611
Occupancy %	85%	73%
ADR (AED)	350	320
RevPAR	298	233

Figure 11:
 Performance indicators under 0-5% and 30% turnover scenarios

When extrapolating these findings on a 10-point scale, an increase of 2.0 points corresponds to an 11.2% rise in ADR while a 2.0 points decrease corresponds to a 10.1% decline in ADR. By applying these findings to the relationship between online reviews and a property's ADR, the potential impact of a change in the online rating on the average rate can be quantified.

Bearing in mind the rate reduction is based on the decrease in points of online reviews, for every decline of two points, the ADR decreases by 10.1%. This relationship can be represented through a standard linear equation ($y = mx + c$). Given the online rating, the percentage decrease is represented as:

$$\Delta\% f(x) = 5.05x + 52.025$$

Cross multiplication is applied to calculate the impact of a 30% turnover on the ADR:

Scenario B: ADR	=	$((5.05 * \text{Scenario B Rating}) + 52.025)$	X	Scenario A: ADR	÷	100
320		$((5.05 * 7.8) + 52.025)$		350		100

The formula above demonstrates that a 30% staff turnover can reduce the ADR to AED 320, reflecting a decline of 8.5% compared to Scenario A.

Room nights can be calculated using the reduced ADR and room revenue in Scenario B, resulting in a figure of 79,611. This translates to an occupancy rate of 73%, reflecting a 12 percentage-point decline over Scenario A.

4.4 Quantifying effects on revenue

In this study, we have applied two primary assumptions to assess the impact of staff turnover on the performance of a four-star, 300-key hotel. We assume that staff turnover can affect revenues and the quality of service through lower productivity, which in turn, impacts performance. In this model, total revenues decline 22%, from AED 36,585,635 to AED 28,488,278, due to lower room revenues (-22%) and F&B sales (-24%), as well as the deteriorating online reputation.

Figure 12 (page 24) compares the revenue of the case study under both levels of turnover. The full comparative P&L can be viewed in Appendix 4 (page 43).

In order to arrive at the revenues when considering the 30% staff turnover scenario, the revenue under full productivity is multiplied by



General Stats	Hotel 0%-5% turnover rate		Hotel 30% turnover rate	
Number of rooms	300		300	
Total Rooms Available	109,500		109,500	
Total Rooms Occupied	93,075		79,611	
Occupancy %	85%		73%	
ADR (AED)	350		320	
RevPAR	298		233	
No. of staff	93		65	
Revenues				
Rooms	32,576,250	89%	25,436,622	89.3%
F&B	3,292,707	9%	2,492,050	8.7%
OOD	716,678	2%	559,606	2%
Total	36,585,635	100%	28,488,278	100%

Figure 12:

Revenue in the case study under 0%-5% and 30% turnover scenarios



the current contribution calculated in section 4.3. In this case, room sales contribution is reduced to 78% of total contribution exhibited when full productivity is assumed.

Room revenue in Scenario B	=	Current room sales contribution	X	Room revenue in Scenario A
25,436,622		78%		32,576,250

The reduced revenue under the 30% turnover rate (25,436,622) is calculated by multiplying the current contribution percentage (78%) by the revenue in the base case (32,576,250), which assumes a turnover rate of 0-5%.

To calculate the impact of a 30% staff turnover rate on F&B revenue, multiply the reduced contribution by the F&B revenue in Scenario A.

F&B revenue in Scenario B	=	Current F&B sales contribution	X	F&B revenue in Scenario A
2,492,050		76%		3,292,707

Under this scenario, the model reveals that a 30% staff turnover rate causes F&B revenue to decline by 24%.

Room revenue is negatively impacted by the departure of key personnel who contribute to the room sales, due to the loss of information and data. Secondly, the service quality is also affected by the departure of key customer-facing personnel, leading to lower online ratings that may translate to a decrease in ADR.

4.5 Impact on profitability

While a reduction in the number of staff may reduce total operating expenses, any positive impact will be insufficient to offset the loss in total revenues. In this model, total expenses before Gross Operating Profit (GOP) in the base case amount to AED 19,969,838, compared to AED 18,043,948 in the 30% staff turnover scenario. Coupled with the impact on the top-line, GOP declines by approximately AED 6 million.

Hodsoll categorises the resulting costs incurred when an employee departs the company as tangible and intangible.

Tangible costs can be measured and calculated. Intangible costs are more challenging to quantify, and may include factors such as time, productivity, staff morale and customer disappointment. When assessing the impact of turnover rates on costs, the resultant effects should be evaluated thoroughly by considering both types. For this reason, the 30% staff turnover rate does not necessarily guarantee effective cost control.

Payroll

The P&L model presented in Appendix 4 (page 43) assumes that payroll accounts for 11.7% of the total revenue. A 30% staff turnover increases this margin to 14.8%, resulting in a decline of AED 53,900.

Staff-related costs

Staff-related costs depicted in Figure 3a increase from AED 3,148,966 under Scenario A to AED 3,804,222 in the case of a 30% staff turnover rate.

Accommodation


Accommodation expenses remain fixed regardless of the mobility of staff. In addition, the hotel does not intend to reduce the number of staff, therefore all rooms and facilities are utilised. The 22% reduction in total revenue results in fixed accommodation costs rising from a margin of 7.6% to 9.7% under the 30% staff turnover scenario.

Visa Costs

In the UAE, expats dominate the labour market. Therefore, the HR department is responsible for ongoing employee residency visa renewals, which accounts for 0.1% of total annual revenues. In the 30% staff turnover scenario, the hotel must bear the visa cancellation fee for each departing employee in addition to a visa application fee for each new member of staff, with visa-related costs amounting to 0.6% of total revenue.

Medical Insurance

The corporate medical insurance policy is renewed each year. Under the 30% staff turnover scenario, it is assumed that the hotel operator



"While a [fall] in staff numbers may reduce operating expenses, any positive impact will not offset the loss in total revenues"

has paid for medical insurance for all departing employees as well as new staff recruits. Accordingly, medical insurance is paid twice for every departing employee, resulting in an increase from 0.9% to 1.6% of total revenue.

Vacancy Costs

Vacancy costs refer to the amount paid to temporary replacements employed overtime (Steed & Shinnar, 2008). Even in an ideal scenario where notice is given one month in advance and a replacement is immediately found within that period, current staff are still required to work overtime to cover the work of the departing employee.

The cost is calculated by multiplying the total number of staff replaced in a specific role by the hours per week required to cover for that vacancy (extra shifts, overtime), by the hourly pay for each type of employee and by the number of weeks required (Willard, 2014). In this mode, the sum of total vacancy costs amounts to AED 67,138.

New staff members may not be well-equipped to perform the same tasks as the employee they replaced. The period of time required to fill the vacancy can be measured by multiplying the hours per week required to make up for that vacancy by the hourly pay for each type of employee (ERE, 2014). In an ideal scenario, no vacancy cost will be incurred, in comparison to the 0.2% margin that results from a situation where there is 30% staff turnover.

Termination Costs

As per UAE labour law, end of service gratuity is calculated by the period of service, where 21 days of wages for each year is paid for the first five years of employment. According to Hodsoll, a hotel employee will typically work for one company for a period of two to three years. Figure 13 (right) outlines the termination cost calculation.

Under this model, it is assumed that departing staff are employed for a duration of 2.5 years on average, which entitles each employee to 53 days of gratuity. As a result, an end of service gratuity payment in the 30% turnover scenario would amount to AED 214,498, compared to the base case, where no gratuity costs would be incurred.

Recruitment Costs

Recruitment costs comprise both tangible and intangible elements, where advertising expenses and activities would constitute hard costs. Intangible costs are incurred during the recruitment process and include the time taken by the Heads of Departments and Line Managers to complete administrative and hiring tasks, screen resumes, check references and interview candidates. All of these elements were accounted for in the model, resulting in a cost of AED 85,488.

CONCLUSION – EFFECT ON PROFITABILITY

This financial analysis demonstrates that high staff turnover has a negative impact on profitability.

While total payroll costs are lower, the effect of reduced revenues is more substantial than the marginal reduction in salaries. Other than the payroll itself, many staff-related expenses tend to rise in

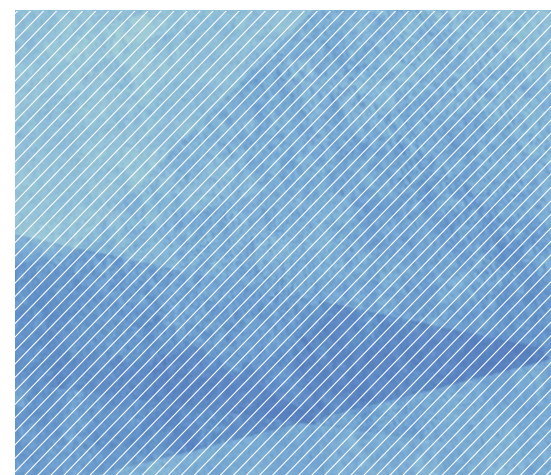
TERMINATION COST		
	No. of staff	Termination/Indemnity payment
Rooms		
Rooms Division Manager	1	34,849
Reservation Agent	1	4,356
Receptionists	2	5,277
Executive HSK	1	20,910
Room Attendant/Cleaner	4	10,455
F&B		
F&B Manager	1	17,425
Sous Chef	1	7,841
Chef de Partie	2	10,106
Waiter/Waitress	2	8,712
Cook	1	8,712
Stewards	2	4,530
Admin & General		
Chief Accountant	1	20,910
IT Coordinators	1	5,277
Payroll	1	8,712
Sales & Marketing	0	0
Sales Executives	3	26,137
Marketing Executives	1	10,455
Total Engineering		
HVAC	1	3,833
Carpenter	1	3,485
Helper	1	2,614
Total	28	214,498

Figure 13:

Termination costs according to the 30% staff turnover scenario

proportion to the staff turnover rate, and may include costs relating to medical insurance, training, vacancies, gratuity and recruitment. Intangible costs such as time, stress, lower staff morale and loss of knowledge can amplify the negative impact on Gross Profits.

As a result, the scenario comparison (presented in Appendix 4) illustrates a drop from 45.4% in the GOP margin to 37.6%, equating to a monetary loss of approximately AED 6 million.



5. Strategies to Combat Voluntary Staff Turnover



A rapidly evolving hospitality labour market that is characterised by a culturally diverse workforce requires a new organisational approach. Employers who do not consider their employees' career ambitions or aspirations will likely face issues with staff morale, resulting in high turnover. For this reason, both the asset manager and the operator must work together to apply strategies that focus on reducing staff turnover.

Strategy 1: Correct recruitment strategy

The key to reducing staff turnover starts with recruiting the best employees for the positions available, emphasising the importance of identifying the correct fit (Dewar, 2016).

In order to mitigate the risk of high turnover caused by selecting the wrong candidates, the HR department will need to establish a comprehensive recruitment process to screen each candidate carefully and understand their skill set as well as their suitability for the role.

An interviewer should challenge the candidate by asking situational questions to examine their problem-solving skills, cross-checking for references and asking them questions related to the hotel brand to analyse their understanding of the company's approach to business.

The HR department should ensure the salary package offered to candidates meets market rates. Albalkhi commented that HR professionals should assess the market and take into account the changing expectations of employees in the digital age, in order to develop new and effective HR practices.

Criteria for recruiting line staff

17% Qualification for job role

33% Attitude/Personality

17% Open-minded

33% Perfect fit with company's culture

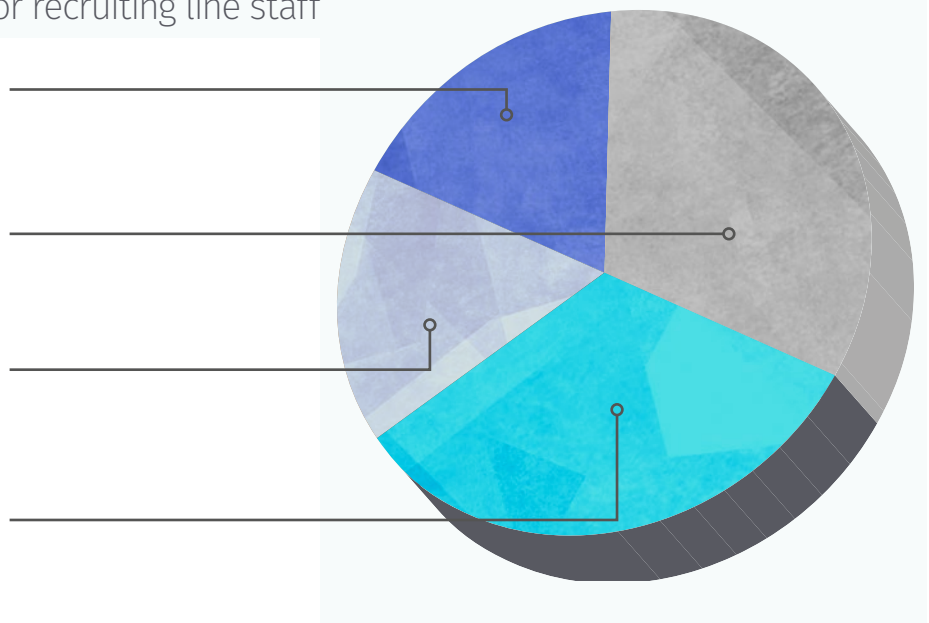


Figure 14: Criteria for recruiting line staff

Criteria for recruiting managerial staff

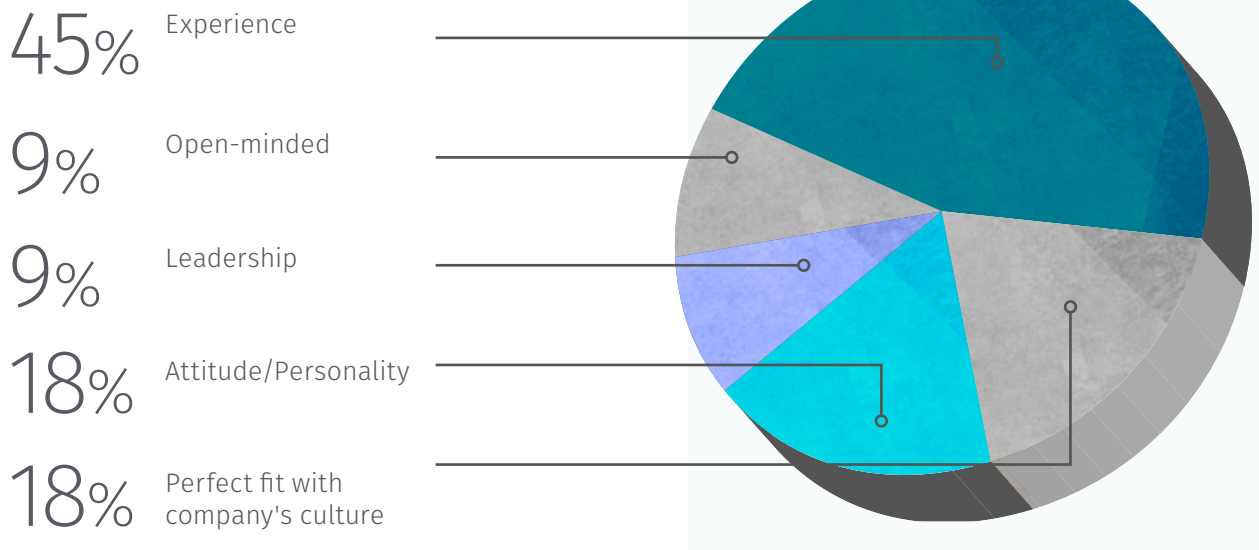


Figure 15: Criteria for recruiting managerial staff

Based on our research, Figure 14 (left) outlines the main criteria employers should consider when assessing a potential candidate for employment.

According to El Behi, previous work experience is not a prerequisite for entry level staff, as soft and hard skills can be easily acquired if the candidate has a positive attitude and career ambitions.

El Behi reiterates the importance of ensuring that the candidate's personality traits are compatible with the corporate culture. An ideal candidate will demonstrate stability and a strong work ethic. Such qualities will make the candidate less likely to depart for another company in future.

Figure 15 (above) outlines the main criteria that should be assessed when recruiting managers.

Approximately 45% of the interviewees agreed that the most important consideration when recruiting managers is their previous work experience. Qualifying for a managerial position requires the candidate to have a certain level of professional experience.

Nevertheless, other qualities such as their attitude and ability to embrace the company's culture are also heavily weighted at 18% each. Nine percent of interviewees considered leadership a mandatory attribute of a top management recruit. If employees are not convinced by their manager's ability to lead it will hamper the team's overall performance.

Albalkhi, Haddon, and Smith agreed that international hotel groups such as FRHI, Hilton Worldwide, and Movenpick Hotel Group, have successfully attracted talent through the implementation of succession planning programmes.

These hotel groups present potential employees with a path for long-term career development, which is a primary concern for young graduates. They also nurture existing talent by creating fair competition for promotion which helps to boost motivation and loyalty among employees.



"An ideal candidate will demonstrate stability and a strong work ethic ... making them less likely to depart for another company"

Succession planning reduces the need for basic training, as promoted staff already appreciate the brand's strengths and operational processes, and therefore actively embrace greater responsibility.

Haddon recommends hiring third-party agencies when recruiting for a role that requires a specialised skill set, which is often the case for positions in the F&B and engineering departments.

Strategy 2: Improve Training, Learning & Development Programmes

One of the main factors that improves a company's ability to attract top talent is the provision of customised training programmes that support professional development (Deloitte University Press, 2016).

Staff training programmes can be costly. Hoteliers may contemplate the risk of investing in career development for employees who then resign; however, retaining employees whose skills have not been cultivated may have repercussions in the future.

Albalkhi stated that all employees should have access to basic training in order to promote an understanding of the brand, its values, protocols and standards. It is imperative to note that training programmes can be expensive hence the recruitment process needs to be designed and executed correctly to minimise the risk of employing unfit candidates, who will add further costs in this respect.

It is also important for customer-facing employees to be trained to communicate with clients in a professional manner. Training staff to deliver a consistent brand message and effectively and efficiently deal with complaints will improve overall customer satisfaction.

According to Haddon, promising talent is typically identified during training exercises. At Hilton, the best talent is offered extensive training to further their career development. Haddon also mentioned that cross-training can be an opportunity for employees to be challenged outside their comfort zone, and ensure that knowledge is acquired and passed on across all departments. By constantly upgrading employees' skill sets and nurturing potential business leaders, the hotel will garner loyalty among their best talent (Deloitte University Press, 2016).

The interviews showed consensus among all HMs that training programmes are mandatory. This raises the question as to whether traditional, generic training programmes sufficiently meet the demands of a young workforce.

In regards to training programmes, forward-thinking companies have implemented creative and easy-to-use online portals and video-sharing systems. This includes building internal knowledge sharing programmes and developing mobile apps that provide employees real-time access to training modules (Deloitte University Press, 2016). However, these services may not appeal to all staff members. Hence, it is then critical to involve managers, who know their employees best, to help develop training programmes that cater most effectively to their requirements.

According to Haddon, Hilton Worldwide has implemented tailored programmes to develop its best talent. These programmes are customised to meeting their career aspirations and developing their existing strengths. Succession management at Hilton aims to develop a group of top talent managing each department. Elevator programmes prepare top graduates to enter fast-track

management programmes in various divisions, allowing them to assume roles as department heads or hotel managers upon completion of their training.

Hodsoll says video-based training programmes are used extensively at Wyndham Hotel Group. Wyndham employees benefit from regular training programmes designed to nurture their skill sets and develop their careers with the company. At Hilton, Haddon commented that Hilton University provides employees access to a variety of customised e-learning courses.

Despite the costs associated with training and development programmes, from a hotel asset manager's perspective, it has been demonstrated that the benefit of reducing staff turnover outweighs the costs of such programmes. Employees with a willingness and enthusiasm to learn are more likely to demonstrate higher levels of productivity.

Strategy 3: Rethink organisational structure

The top-down hierarchical corporate structure is gradually becoming obsolete as a business model across all industries.

The bureaucratic nature of hierarchical organisations may demotivate creative employees. In a dynamic hotel environment, it is important management nurtures and encourages creative talent.

A new organisational structure demands decentralisation, whereby all staff are motivated to produce fresh ideas designed to meet their individual and departmental goals. This approach only works when trust exists between managers and their staff.

Albalkhi asserts that hotel management must at all times be transparent in their dealings with employees. Management should brief staff about annual budgets and ensure each team member understands their department's Profit &



Employees can make suggestions

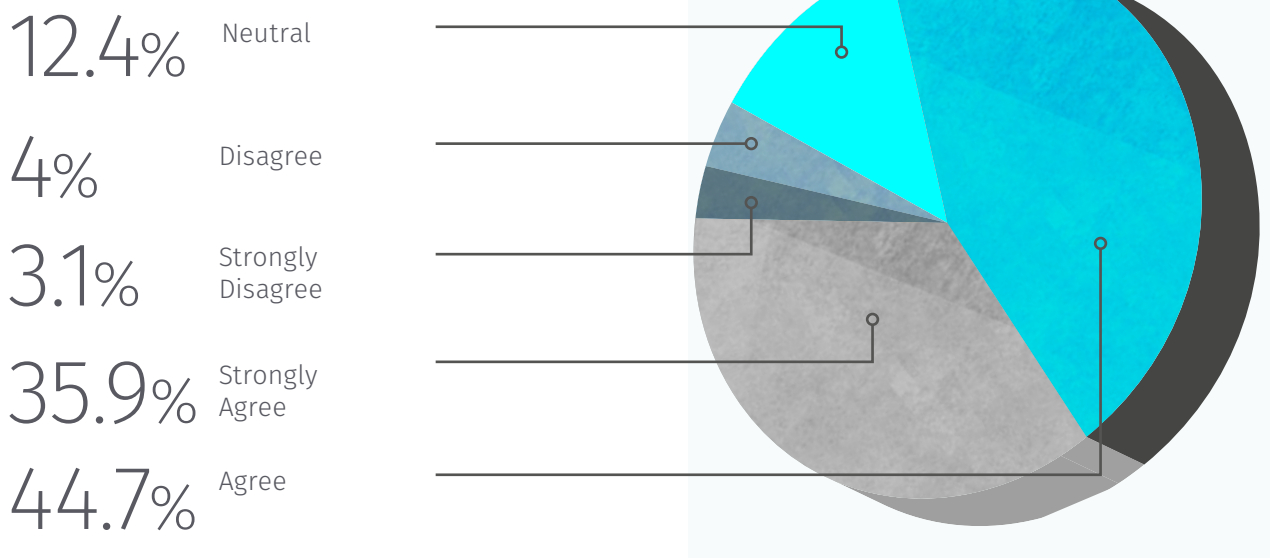


Figure 16: "Employees can make suggestions and their voices are heard" responses, section "Organisational Communication", question 21

Loss accounts. It is important to infer the notion of ownership and accountability to individual employees so they embrace their role in meeting departmental targets.

Secondly, communication should be simplified as much as possible, flattening the chain of command and eliminating bottlenecks.

Figure 16 (page 31) presents (Appendix 1, page 36 – section “Organisational Communication”) question 21, which asked employees whether they can make suggestions at their hotel and if the management is receptive to their opinions.

The vast majority (81%) of interviewees surveyed for this report agreed with this statement. This is directly linked to the element of trust between management and staff. It also reflects the benefits of increased decentralisation and the fact these employers are receptive to new ideas.

Strategy 4: Rethink the HR Management role

There is a long-standing misconception that HR Management largely assumes an administrative role. Ulrich (1997) coined the term ‘administrative expert’ whereby operational effectiveness or output is their main goal. This perception of the HR department is still considered purely administrative; that is, that they are responsible for meeting government regulations (Choi & Dickson, 2010), and ensuring overall compliance with their organisation’s internal policies (UNPAN & APS-HRMnet Africa Public Sector Human Resource Managers’ Network, 2013).

El Behi believes the HR department should be the ambassador of the brand to potential candidates. Moreover, Haddon notes that HR departments should focus on investing in talent management schemes and learning and development programmes, aside from handling administrative work such as visa applications, procedures for recruitment and termination, and arranging staff accommodation, transportation and insurance.

Albalkhi says the HR manager is an organisational architect who is responsible for ensuring operational structures are designed in a way that meets both the company’s and employees’ needs. Such models promote stronger performances in the workforce and a higher Return on Investment (ROI) for the company.

Matthew Mee, Managing Director, Middle East, Chartered Institute of Personnel and Development (CIPD), calls for a change in the way in which HR departments function, noting that they should adapt to technological advancements and leverage industry paradigm shifts. It is generally agreed that HR departments need to assume the role of a Change Agent (Ulrich, 1997). This calls for support from all departments and a shift in the organisational culture to understand and accept these changes.

The HR department must develop and implement new approaches to motivate employees. Based on Deloitte University Press’s recent publication “The Global Human Capital Trends 2016”, skills in the following areas are required:

- 1) Organisational networks** – to analyse, build and develop the existing talent and expertise
- 2) Team-building and team-leader** – develop potential team leaders who can later develop people
- 3) Employee engagement and culture** – Understand, the current culture at the hotel and propose improvements to the workplace culture
- 4) Analytics and Statistics** – HR professionals must be proactive in

studying the market trends and embracing changes. Mee suggested that HR must be proactive in benchmarking them with the market KPIs

5) Crafting experience – HR professionals are the brand ambassadors. They need to find the most effective way to communicate brand value to current and potential employees (Deloitte University Press, 2016)

Hodsoll suggested that HR managers should enhance their general knowledge by analysing updated theories, case studies and best practices in the market by obtaining certificates and accreditation. Hotel management should consider the option to invest in the HR function by supporting management to attain CIPD accreditation.

According to Mee, at CIPD, HR professionals can acquire new skills that will benefit their entire HR department. They should focus on renewing and developing their professional capabilities by upgrading their skill sets.

HR professionals employ a range of tools and KPIs to measure the overall performance of their company's workforce. According to Mee, HR functions should take a holistic approach to Human Capital analytics – and spend time seeking to understand the impact, correlation and causation of HR metrics on overall business performance. Multi-dimensional analysis is critical if organisations are going to extract value from workforce insights – in general the best approach is to try to focus efforts on helping to understand and solve specific business problems. In general, within the hospitality industry, it probably makes sense to focus key efforts on specific workforce clusters that are guest or customer facing – as trends within these groups (e.g. recruitment and Attrition, Engagement levels, Productivity, Learning & Development, Reward & Recognition etc.) are more likely to have a direct impact on revenues and customer advocacy.

At Movenpick Hotel Group, Smith uses the employee Net Promoter Score (eNPS) which is a tool that helps management measure the degree of engagement within the organisation. The eNPS identifies the willingness of staff to recommend the company as a place to work to others, allowing the manager to infer whether the issue of disengagement exists (Durinski, n.d).

Some HR departments like Wyndham Hotel Group also use the Balanced Scorecard as a tool to track staff performance.

Haddon says Hilton conducts regular surveys to measure the level of employee satisfaction. On-boarding surveys are conducted during a new staff member's initial days with the company to assess their overall impression of the accommodation and facilities provided. After their first 30 days with the company, they are requested to complete another survey where they are encouraged to provide honest feedback and recommendations.

According to Haddon, the exit interview is also a useful tool for exposing discontent within an organisation. If an employee cites a lack of leadership as the reason for their departure, the HR department should investigate further.


At Wyndham Hotel Group, Hodsoll also presents a Good Luck Card when an employee decides to leave as a small gesture to end the relationship on a positive note.

An innovative HR department that can easily adapt to trends is more likely to retain employees as it protects their best interests. Reducing staff turnover will naturally improve a company's standing and drive revenues.



"An innovative HR department that can easily adapt to trends is more likely to retain employees"

6. Conclusion



The rapid evolution of the labour market is forcing the hospitality sector to change the way it manages and retains employees. Over the past 12 months, a number of researchers have considered the potential impact of Millennials reshaping the workforce. This growing labour demographic has its own set of expectations of employment, and has a growing reputation for seeking alternative employment if certain expectations are not met by their existing employer. In the UAE, the issue of frequent movement of labour within the workforce is magnified, creating a number of challenges for the management of human capital. The two main factors that influence this behaviour are; 1) the ease of entry, whereby expatriates comprise the majority of the workforce and 2) abundant opportunities in the hospitality sector as the country (particularly Dubai) adds thousands of new rooms to existing supply to meet the expected demands of World Expo 2020.

The empirical research findings and interviews with HMs presented in this report clearly highlight the implications of a high voluntary turnover rate which leads to a negative impact on top-line performance and ultimately reduces bottom-line profits. HR departments have traditionally struggled to justify the importance of valuing human capital within the business as existing metrics have often failed to provide a clear indication of the potential impact employees can have, not only on the bottom line, but on service quality and brand reputation. This report has identified that the costs incurred are both tangible and intangible. The former comprises replacement costs that may constitute recruitment advertisements or hiring recruitment consultants, uniforms, training programmes, visa applications, and an array of termination costs. Intangible costs, leading to sub-optimal productivity, can materialise throughout the duration of employment, including the time required to reach optimal productivity, ability to embrace the corporate culture or declining staff morale. When employees are not performing to their full potential, overall service levels will be affected and brand reputation may suffer, ultimately creating further costs to the organisation. There are also a number of costs associated with a departing employee, particularly when that staff member has excelled in their role.

However, it is also imperative to bear in mind that voluntary staff turnover does not necessarily guarantee that the hotel's Income Statement will be negatively impacted. In fact, a retention rate of more than 90% creates an environment that may shelter poor performers, which will adversely impact the organisation. In a fast-paced, dynamic market, new ideas and creativity should be welcomed. An organisation will struggle to be innovative if it fails to attract new talent.

Strategies to combat high voluntary staff turnover need to be well planned and be sure to measure return on investment. As a starting point, HR teams should seek to understand if voluntary turnover is acceptable or whether a trend is negatively impacting business performance. It is difficult to draw conclusions from an arbitrary turnover figure – as the impact of this depends and the roles and individuals who have left the organisation. For example, if all of a company's high performers, in business critical roles were to leave the business this would probably be a big problem – however, if all low performers in non-critical roles leave this could be considered as a good news. On this

basis significant shifts in workforce investment should therefore be quantified upfront. For example, when putting together a business case for improved remuneration packages or accommodation investment, HR teams should seek to model how this investment will pay back over time versus the converse impact of not making this change. Businesses should look to place particular emphasis to understand the workforce clusters they are trying to impact and how and why proposed changes will maximise ROI.

The radical changes occurring in the hospitality sector should encourage HR professionals to rethink their approach to recruitment and staff retention. Firstly, they should assess how their HR department functions. HR employees should be encouraged to adopt a more dynamic approach to their work – to consider themselves change agents who are able to manage market shifts and propose strategies that are in the best interests of the workforce. Successful HR strategies will require 'buy in' from departmental managers and leaders if they are to be effectively integrated into an organisational culture.

In order to further reduce the impact of a "brain drain" crisis, HR should not be the only department held accountable for people management. Senior management will also need to consider how they operate and whether their strategies are meeting the demands of their workforce.

Have you accepted changes in the workforce and are you ready to reshape your people culture?



"The radical changes occurring in the hospitality sector should encourage a [new approach] to recruitment and staff retention"

Appendices

Appendix 1

Questionnaire Obtained from EAH

Hotel Code: _____

Instructions: For questions 1 through 47 please circle the number which you feel is most appropriate.

Organisational Commitment

In this section I want you to think about your commitment to this hotel.

	1	2	3	4	5
1. I am willing to put in a great deal of effort, beyond that normally expected, in order to help this hotel be successful	1	2	3	4	5
2. I would do almost any job asked of me in order to keep working for this hotel	1	2	3	4	5
3. I find that my values and this hotel's values are very similar	1	2	3	4	5
4. I would be happy to work for a different hotel as long as my responsibilities were similar	1	2	3	4	5
5. This hotel really inspires the very best in me in the way of job performance	1	2	3	4	5
6. If my present job changed very much to my detriment, I would leave this hotel	1	2	3	4	5
7. I am extremely glad that I chose this hotel to work for, over other jobs that I could have taken	1	2	3	4	5
8. For me, this is the best of all possible hotels to work for	1	2	3	4	5
9. I tell my friends that this hotel is a great place to work	1	2	3	4	5
10. I feel very strong loyalty to this hotel	1	2	3	4	5
11. I really care about the future of this hotel	1	2	3	4	5
12. There's not too much to be gained by continuing to work with this hotel	1	2	3	4	5

Organisational Communication

In this section I want you to think about the communication within this hotel.

	1	2	3	4	5
13. I receive information about changes that happen in this hotel	1	2	3	4	5
14. The communication between people and departments in this hotel makes me feel part of a positive hotel community	1	2	3	4	5
15. Written communication in this hotel is relevant and helps me do my job better	1	2	3	4	5
16. Meetings we have are informative	1	2	3	4	5
17. The hotel formally and informally communicates with me about how I am doing in my job	1	2	3	4	5
18. The communication I receive about all sorts of things in this hotel is about right – not too much or too little	1	2	3	4	5
19. There is lots of informal communication between my colleagues (not job related or from management)	1	2	3	4	5
20. I am encouraged to communicate with whoever I need to, to do my job	1	2	3	4	5
21. I know that I can make suggestions about how to improve things and they are listened to	1	2	3	4	5

Influence

In this section I want you to think about who in this hotel influences you and how you are influenced.

	1	2	3	4	5
22. People use facts and figures to influence me about any new job they want me to do	1	2	3	4	5
23. I am influenced to do something by a reward that I might get, e.g. a pay rise	1	2	3	4	5
24. I am influenced to do something when I know it is hotel policy	1	2	3	4	5
25. People offer to do something for me in exchange for me doing something for them	1	2	3	4	5
26. People take time to explain why something has to be done a particular way	1	2	3	4	5
27. I achieve more when working with people who are high achievers	1	2	3	4	5
28. I do not like being ordered to do something (unnecessarily)	1	2	3	4	5
29. I often feel pressured to do certain things due to lack of planning	1	2	3	4	5
30. People are always prepared to help me to get things done	1	2	3	4	5
31. I am encouraged to ask questions and provide suggestions to improve the way things are done	1	2	3	4	5
32. People use threats and warnings to get things done	1	2	3	4	5
33. I am motivated to achieve more in this hotel because of the way everyone works together	1	2	3	4	5

Trust

In this section I want you to think about who you trust and general trust in this hotel.

	1	2	3	4	5
34. My colleagues will keep the promises they make	1	2	3	4	5
35. My colleagues actions and behaviours are not consistent	1	2	3	4	5
36. My colleagues really look out for what is important to each other	1	2	3	4	5
37. I think that the people in this hotel will not breach any trust to get ahead	1	2	3	4	5

Strongly disagree
Disagree
Neither disagree or agree
Agree
Strongly agree

38. My colleagues express their true feelings about important issues	1	2	3	4	5
39. It is best to share information with my colleagues	1	2	3	4	5
40. My colleagues would not knowingly do anything to hurt this hotel	1	2	3	4	5
41. My colleagues are open and up front with me	1	2	3	4	5
42. My work colleagues' needs and desires are very important to each other	1	2	3	4	5
43. I can count on my work colleagues to help me if I have difficulties with my job	1	2	3	4	5
44. If I make a mistake, my work colleagues are willing to 'forgive and forget'	1	2	3	4	5
45. There are only a few people in this hotel I can trust completely	1	2	3	4	5
46. If I am not careful, other people in this hotel will take advantage of me	1	2	3	4	5
47. My work colleagues trust me	1	2	3	4	5

Social Relations

In this section I want you to think about your relations with others in this hotel. (Please circle the response that best reflects your answer).

48. How many 'close friends' would you say you have (this refers to both people you work with and people you do not work with)?	0-4	5-9	10-19	20-49	50 or more
49. How many of these close friends are people you work with in this hotel?	0-2	3-5	6-10	10 or more	
50. How often do you get together to socialise with your work colleagues after work?	Never	1-2 times a week	3-5 times a week	6-7 times a week	
51. How many of the work colleagues that you socially interact with, speak the same language as you do?	I don't socialise with colleagues outside work	0-2	3-5	6-10	10 or more
52. Do you look forward to being with the people you work with at this hotel?	Yes	Sometimes	No		
53. Do you feel that you are part of a 'hotel community' while at work?	Yes	No			

And finally...

We would like to know a bit about you. Remember we do not know your name so we cannot identify you.

(Please circle the response that best reflects your answer).

54. Your gender is:	Female	Male		59. Your work area/position in this hotel:	Food and Beverage Operations (including kitchen and stewarding)	Food and Beverage Supervisor/Manager
55. Your age band is:	18-20	21-25	26-30		Rooms Division Operations (including Front Office, Housekeeping and Engineering)	Rooms Division Supervisor/Manager
	31-35	36-40	45-45		Administration (including General Management, Human Resources, Finance)	Sales
56. Your country of birth is:	Indian	Filipino	Bangladesh	60. How long have you worked for this hotel?	Less than 3 months	3-6 months
	Pakistan	Nepal	Chinese		7-12 months	Between 1 and 2 years
	UK	Australia	US		Between 2 and 3 years	Between 3 and 4 years
	German	Swedish	Emirati		Between 4 and 5 years	More than 5 years
57. Your residency status is:	Company Sponsorship/Visa					
	Local Resident (Emirati)					
	NOC					
	Other					
58. What is your highest formal qualification?	No formal qualifications	Certificate				
	Diploma	Degree				
	Postgraduate Diploma	Masters Degree				
	Doctorate					

Thank you for completing this questionnaire
Please put this questionnaire into the provided envelope and drop it into your nearest post box. No postage is required.

Appendix 2

Turnover Calculation Worksheet

	Average Number			Manager Separations		Non -manager Separations
	Managers(1)	Non- Managers(1)	Total Employees	Planned Number(2)	Unplanned Number(2)	Planned Number(2)
Rooms						
FOH *						
BOH *						
Total						
F&B						
FOH*						
BOH*						
Total						
Other						
G&A**						
SP&A**						
Prop Op**						
Total						

(1) Number at beginning of quarter plus number at end of quarter divided by two

(2) Planned includes anticipated promotions/transfers, retirements, and reductions in force. Unplanned represents unanticipated events that incur immediate costs to replace employee. List 2 main reasons below. Planned and unplanned does not include gross misconduct separations

(3) Gross misconduct represents serious company violations, such as theft, fighting, willful destruction of property, etc

Appendix 3

Impact of Comments Relating to Service Quality

3.1 Hotels in Dubai

DUBAI						
5* hotels		4* hotels		3* hotels		
Negative	Positive	Negative	Positive	Negative	Positive	
2.9	10.0	6.3	10.0	7.4	9.6	
5.8	8.8	5.4	9.6	6.7	8.3	
5.0	10.0	7.1	9.2	6.3	9.2	
3.8	10.0	5.0	9.6	7.5	9.6	
2.9	9.6	3.8	10.0	3.8	10.0	
4.2	9.2	4.6	9.2	5.0	9.0	
3.8	10.0	4.5	9.2	5.8	8.8	
6.7	10.0	3.3	10.0	5.8	10.0	
4.6	8.8	5.8	9.6	6.7	8.8	
4.2	10.0	2.9	9.2	5.4	8.5	
3.3	10.0	6.7	8.3	5.0	10.0	
7.5	10.0	4.2	10.0	6.7	9.6	
4.6	10.0	6.7	9.6	3.8	10.0	
4.2	10.0	3.3	10.0	7.1	10.0	
6.3	10.0	5.8	9.2	7.5	10.0	
6.7	9.6	7.5	10.0	5.8	7.9	
5.8	9.6	3.3	8.3	5.4	8.3	
6.3	9.6	4.5	10.0	7.5	9.2	
5.0	10.0	7.9	10.0	7.9	8.5	
5.4	10.0	5.0	7.7	7.1	9.6	
5.8	9.6	6.3	9.6	9.6	8.8	
5.0	10.0	6.3	10.0	6.3	10.0	
2.9	9.6	2.5	8.8	6.7	9.2	
6.3	10.0	5.4	8.8	7.1	9.6	
7.5	9.2	7.1	10.0	6.7	9.2	
6.3	10.0	7.9	9.6	6.7	10.0	
5.4	8.8	7.1	10.0	7.5	8.8	
5.4	10.0	7.5	10.0	6.7	10.0	
Average	5.1	9.7	5.5	9.5	6.5	9.3
Effect	4.6		4.0		2.8	

3.2 Hotels in London

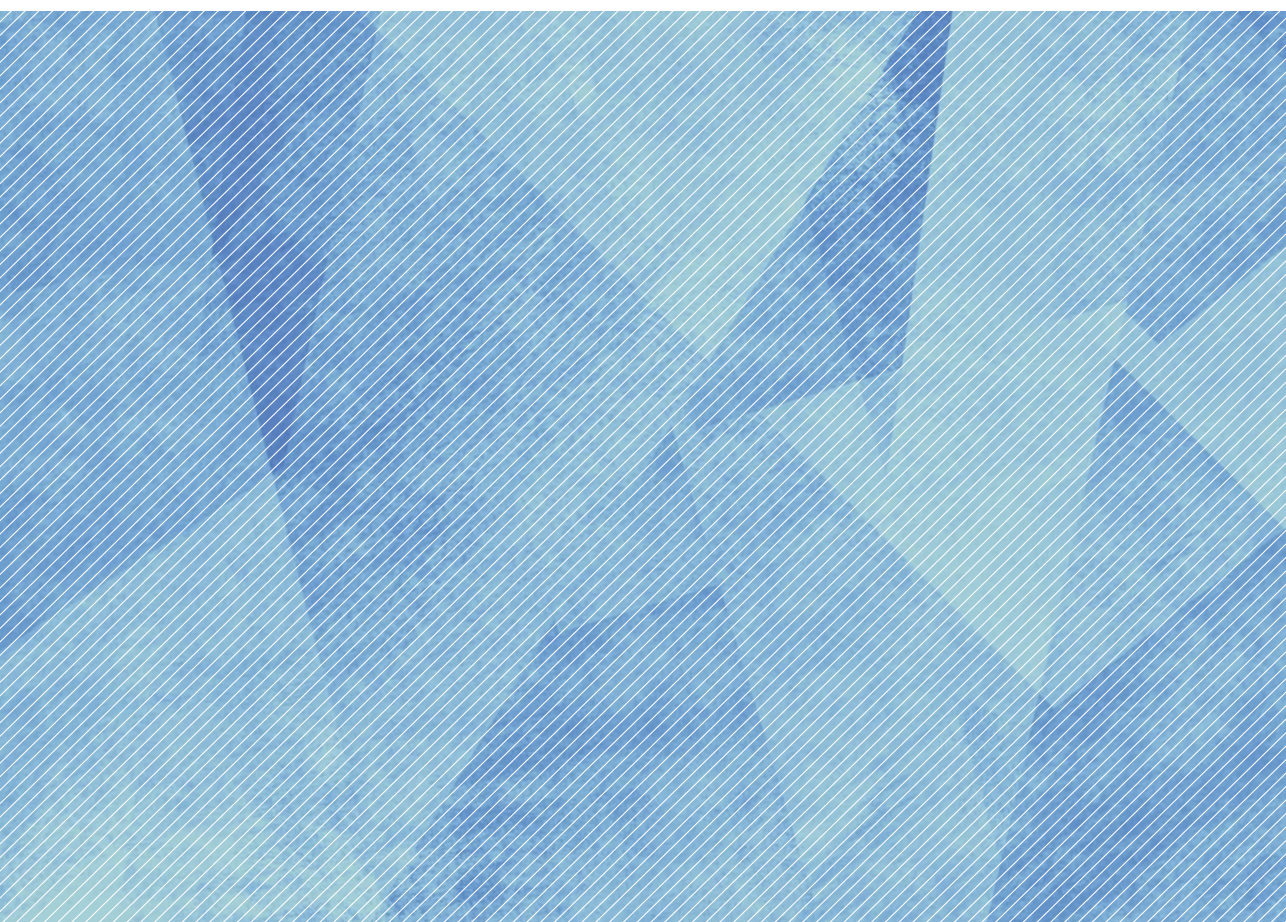
LONDON					
5* hotels		4* hotels		3* hotels	
Negative	Positive	Negative	Positive	Negative	Positive
7.1	7.9	7.5	9.6	6.3	8.8
7.5	9.6	8.5	7.5	5.8	10.0
4.2	10.0	8.8	10.0	5.0	9.6
8.6	7.5	6.3	9.2		
6.3	8.3				
4.6	10.0				
7.1	9.6				
5.4	9.2				
8.8	9.6				
Average	6.6	9.1	7.8	9.1	5.7
Effect	2.5		1.3		3.8

3.3 Hotels in New York

NEW YORK					
5* hotels		4* hotels		3* hotels	
Negative	Positive	Negative	Positive	Negative	Positive
6.7	9.6	7.1	9.6	8.8	9.2
6.3	10.0	8.3	9.6	4.6	8.8
3.8	9.2	7.1	9.2	5.3	8.3
3.8	8.8	2.5	10.0	8.3	10.0
4.7	10.0	5.5	8.3	8.8	7.9
3.8	9.6	5.4	8.8	7.5	10.0
7.1	8.8	6.7	9.6	5.4	8.8
7.9	8.3	7.1	10.0	4.0	8.3
3.8	9.6	6.7	9.2		
2.5	10.0	3.8	10.0		
6.3	8.3				
6.3	10.0				
5.4	9.6				
8.3	8.3				
7.1	9.6				
Average	5.6	9.3	6.0	9.4	6.6
Effect	3.7		3.4		2.3

3.4 Hotels in Singapore

SINGAPORE					
5* hotels		4* hotels		3* hotels	
Negative	Positive	Negative	Positive	Negative	Positive
10.0	9.6	5.0	10.0	9.2	9.2
5.8	8.3	3.3	8.8	5.0	8.8
8.3	10.0	6.7	10.0	8.0	10.0
		7.5	9.2	5.4	8.8
		6.3	8.3	5.4	9.6
		5.4	9.6	7.1	8.3
		5.4	9.6	5.8	10.0
		6.3	9.2	7.1	7.9
				7.1	8.8
				10.0	10.0
Average	8.0	9.3	5.7	9.3	7.01
Effect		1.3		3.6	2.13



Appendix 4

Hypothetical P&L – Impact of Staff Turnover on Top-Line and Bottom-Line

GENERAL STATS	HOTEL 0%-5% TURNOVER RATE		HOTEL 30% TURNOVER RATE	
Rooms				
No. of rooms	300		300	
Total Rooms Available	109,500		109,500	
Total Rooms Occupied	93,075		79,611	
Occupancy %	85%		73%	
ADR (AED)	350		320	
RevPAR	298		233	
Revenues				
Rooms	32,576,250	89.0%	25,436,622	89.3%
F&B	3,292,707	9.0%	2,492,050	8.7%
OOD	716,678	2.0%	559,606	2.0%
Total	36,585,635	100.0%	28,488,278	100.0%
Cost				
F&B	1,152,447	3.2%	872,218	3.1%
Payroll				
Rooms	1,369,200	3.7%	1,344,400	4.7%
F&B	1,130,400	3.1%	1,123,400	3.9%
Admin & General	1,008,000	2.8%	996,100	3.5%
Sales & Marketing	504,000	1.4%	493,800	1.7%
Engineering & Maintenance	260,400	0.7%	260,400	0.9%
Total Cost & Payroll	5,424,447	14.8%	5,090,318	17.9%
Operating expenses				
Admin & General	2,403,676	6.6%	1,871,680	6.6%
Sales & Marketing	731,713	2.0%	569,766	2.0%
Energy Cost	4,968,329	13.6%	3,868,708	13.6%
Repair & Maintenance	1,243,912	3.4%	1,243,912	3.4%
Room Costs	2,048,796	5.6%	1,595,344	5.6%
Staff related cost				
Accommodation	2,777,601	7.6%	2,777,601	9.7%
Visa Cost	30,365	0.1%	176,679	0.6%
Medical Insurance	341,000	0.9%	443,667	1.6%
Vacancy Cost	0	0.0%	67,138	0.2%
Training Cost	0	0.0%	39,153	0.1%
Termination Cost	0	0.0%	214,498	0.8%
Recruitment Cost	0	0.0%	85,488	0.3%
Total Operating Expenses	14,545,391	39.8%	12,953,631	44.5%
GOP	16,615,796	45.4%	10,444,329	37.7%

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