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IMPLEMENTING TOTAL REWARD STRATEGIES TO IMPROVE EMPLOYEE RETENTION IN HOSPITALITY

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Abstract

Hospitality industry faces many difficulties with retention of the labour force which creates numerous challenges for human resource (HR) departments in these companies. At the beginning of every tourist season, employers in hospitality in Croatia have a challenging task to attract sufficient seasonal workers. In many cases, hospitality companies are forced to employ non-skilled workers and train them for the job which leads to additional costs and decreases productivity. However, this paper argues that by implementing appropriate reward management practices the level of employee turnover could be decreased. Specifically, this paper develops total reward strategy that could be used by employers in hospitality industry to decrease employee turnover and increase employee retention.

Keywords: *Labour Force, Hospitality Industry, Motivation, Acknowledgment, Croatia*

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1. INTRODUCTION

Specific features of hospitality industry labour market such as seasonality, “safe port” role, lower wages, night shifts, overtime work in peak season etc. lead to low retention of labour force in hospitality industry. Although certain level of employee turnover is accepted and necessary, excessive turnover is usually considered as a negative occurrence for an employer. For example, research estimated that a one standard deviation increase in collective turnover shrinks yearly profit by 8.9% (Hom et al., 2017). In hospitality sector, employee turnover is often at much higher levels compared to other industries (Simons and Hinkin, 2001). Loss of skilled workers, in addition to several direct or indirect costs, has the potential to impact service quality, which could cause additional loss of performance for the organization (Holston-Okae and Mush, 2018). Therefore, for the hospitality sector it is especially important to foster employee loyalty. Managers have at disposal several tools to decrease attrition and turnover, including employee rewards (De Gieter and Hofmans, 2015). Employee compensation is a part of human resource management (HRM), a field of great managerial concern. Previous findings indicate that employee compensation can be utilized by firms in the hospitality sector as a management tool to enhance short-term performance (revenue growth) and long-term profitability gains (Kim and Jang, 2020).

The purpose of this paper was specifically to emphasize the role of reward systems in supporting employee motivation and labor force retention in hospitality industry. The objective of the paper is to examine whether compensation system can be used to increase employee retention. Although a general compensation-motivation and performance relationship is well understood and examined, this paper provides a focus on specific industry – hospitality.

2. FEATURES OF LABOR MARKET IN HOSPITALITY INDUSTRY

2.1. Employment in Hospitality Industry

The majority of features of the labor market in hospitality industry are a consequence of the specificities of the tourist market. The main characteristics of employment in the hospitality industry include seasonal employment, a high proportion of employees with an average lower level of education and qualifications, a high level of female workforce and a higher average age of employees (Pirjevec and Kesar, 2002:139). For a better understanding, mentioned characteristics are explained in more detail.

One of the main features of the hospitality labor market, as stated by Riley (in Baum, ed., 1993), is seasonal employment as a consequence of the seasonality of tourism. In the period from June to September, Croatia achieves 91% of overnight stays (DZS, 2022a:44). Due to that, the demand for labor force increases significantly in the summer months, which leads to seasonal employment. Most of the company's employees usually work only during the season and do not receive additional education or undergo the necessary training for the work they do, because the employer considers that it is not worth investing in employees who will not stay in the company for more than one season. This can ultimately have a negative impact on the company, given that the human factor plays an important, and often crucial, role in the provision of services in tourism.

The domination of the female workforce can be attributed to the fact that a large part of the jobs in hospitality correspond to the female workforce by their basic characteristics (e.g. the female workforce predominates in the housekeeping department, food and beverage department, and administration in hotels). The higher average age of employees and the high proportion of employees with an average lower level of education and qualifications are the result of a large number of jobs that are quite easy to learn and do not require special qualifications, which enables the employment of those employees who, due to their age, are unable to perform jobs in other economic branches and activities. Due to the described characteristics, hospitality industry, in the context of employment is often mentioned as a "safe harbor" (e.g. Szivas, Riley, Airey, 2003), which, on the one hand, has a positive effect on the entire economy, while, on the other hand, it can negatively reflect on the quality of services provided in hospitality industry. Riley (in Baum, ed., 1993) mentions several additional features that can be attributed to the labor market in the hospitality industry, such as: transferability of skills from organization to organization, rigidity within organizations (employees do not change jobs within the organization, except in case of promotion) and a large share of jobs that are very easy to learn and do not require special qualifications. In addition to the described specifics, it is also necessary to mention the working hours in tourism, which are very different from other labor markets, as they include weekend and night work. Also, people employed in tourism are usually not able to use their annual vacation in the summer months, considering that tourist traffic is the highest at that time, which is why tourism employers need all their employees then.

2.2. Overview of Employees in Hospitality Industry in Croatia

In order to provide an insight into the general characteristics of employees in the hospitality industry in Croatia, as well as the difference compared to the total number of employees in Croatia, authors provided the data from the Croatian National Bureau of Statistics. In March 2022, the share of employees in the activities of providing accommodation, preparing and serving food in the total number of employees in Croatia was 4.9%, while in August this share increased to 7.2% (DZS, 2022b). Jobs in tourism, and thus also in the hospitality industry, "are closely related to man and the quality of his work, and there are very few jobs that have been successfully replaced by technical substitutes on the development path of tourism so far" (Čavlek et al., 2011:274). Within the hospitality industry, there are numerous occupations; some of them are specific for hospitality industry, while others are also found within other industries. In order to understand the complexity of the hospitality industry, key occupations are presented below in accordance with the National Classification of Occupations (NKZ).

Table 1. Key Occupations in the Hospitality Industry

Occupation
Chief and executive directors/chief and executive directors
Directors of business and administrative units
Financial directors
Directors of human resources
Directors of program policy and planning
Business and administrative directors
Directors of sales and marketing
Director of publicity and public relations
Directors of research and development
Directors in tourism, catering, retail trade and other service occupations
Directors of hotels and camps
Directors of restaurants and related catering establishments
Administrative officers
Clerks for doing business with customers
Officers for providing information to clients
Hotel receptionists
Service and trade occupations
Cooks
Waiters
Bartenders
Domestic occupations/housekeepers/housekeepers
Employees for cleaning and maintenance in offices, hotels and other facilities
Hosts/hostesses
Cleaners, laundresses, housekeepers and related occupations
Domestic occupations in offices, hotels and other facilities
Hand washers/hand washers of cars, windows, laundry and related occupations
Washers and ironers

Helpers in food preparation
Kitchen assistant/kitchen assistants

Source: Adapted according to the Classification of the Agency for Vocational and Adult Education (2012: 88,89)

Each occupation listed in the table requires specific knowledge and skills which should be improved throughout the entire period of employment, due to the fact that “hospitality industry requires service employees to deliver superior service that is customized to satisfy various customers’ needs” (Cheng, J.-C., and O-Yang, Y., 2018:79). However, several characteristics of employees in the hospitality industry in Croatia are not in favour of employees’ intention to stay in the industry. The average annual number of working hours in the hospitality industry is higher than the average for the Republic of Croatia, while the number of overtime hours is lower. In reality, a large number of overtime hours in the hospitality industry is not listed because of legal restrictions. Due to that, overtime is not paid additionally, or is not recorded in order to avoid paying contributions. The average monthly net salary paid per employee for legal entities in Croatia in 2020 was 875 euros, while in the hospitality industry was 686 euros (DZS, 2022b), which is even 21% lower than the average.

Despite the fact that the working conditions in the hospitality industry are often difficult and unfavorable, primarily due to the seasonal nature of the business, a large number of working hours per week during the season and work on weekends, it is clear that this activity employs an increasing number of people from year to year, and due to its characteristics it provides an opportunity for the part of the workforce that is unable to find employment in other workplaces. The growing trend of share of employees in hospitality industry has already led to a shortage of labor force in the hospitality industry during the season, which has led to the importation of labor force. Although foreign labour force can cover seasonal shortage, this should not be a long-term solution for several reasons: ignorance of the language and culture, ignorance of the destination's offer, outflow of earned funds... Accordingly, it should be in the interest of employers to hire as much domestic labor force as possible and retain them in the company not only for one season, but for as long as possible. In order to achieve this goal, employers should tend to have satisfied workers. Turnover intention largely depends on job satisfaction which can be improved by managerial style and reward strategies which represent both challenges and opportunities to industry stakeholders” (Zopiatis, Constanti, and Theocharous, 2014). Key role in this process can be attributed to motivation and reward system of the company.

3. TOTAL REWARD MODEL AND ITS POSSIBLE EFFECTS ON HOSPITALITY INDUSTRY

3.1. Motivation in Hospitality Industry

The correlation between HRM practices and firm performance is mediated by employee motivation (Jiang et al., 2012), thus one of key decisions made by hospitality firms is the design of its compensation strategy intended to attract, retain and motivate employees (Torres and Adler, 2012). However, motivating employees in the hospitality sector can be a challenging task for HR managers as the sector employs personnel of different status, educational background and job complexity thus a tailored approach might be necessary to increase employee motivation and performance (Namasivayam et al., 2007; Lundberg et al., 2009; Maroudas et al., 2013). Yet, although high employee motivation is important, Holston-Okae and Mush (2018) found that employee motivation was not predictor of turnover intention, indicating that different set of factors might be responsible for employee motivation and turnover.

Although some of earlier researches argued that for simple jobs performed by low skilled workers extrinsic motivation might be more effective, more recent research has found intrinsic motivation even more relevant in the context of motivation of hotel employees and managers (Zopiatis and Constanti, 2007; Putra et al., 2017). Furthermore, the research done by Babakus, Yavas, and Karatepe (2017) showed that some reward system is negatively related to turnover intention, meaning that when reward system adequate employees have a lower turnover intention. In such circumstances when both extrinsic and intrinsic motivation could be relevant for overall employee motivation, it would be advisable to exploit the benefits of the total rewards approach for employee motivation.

3.2. Overview of Total Rewards Model

Total rewards approach offers a unique reward strategy as it includes both traditional elements like salary, variable pay and benefits, but also intangible non-cash elements such as career opportunities, learning and development, the intrinsic motivation provided by the work itself, and the quality of working life provided by the organisation (Armstrong and Murlis, 2004: 11). This model consists of five components, each of which includes programs and practices that collectively define an organization's strategy to build a productive, inspired and committed workforce (WorldatWork, 2020). Financial rewards include remuneration, benefits,

performance and recognition and non-financial rewards consist of work-life balance and development and career opportunities. Previous research of these elements revealed that financial rewards (benefits, performance and recognition, remuneration, career, in that order) would lead to employee retention, but that non-financial rewards (career advancement, learning and work-life balance) were also important and should not be neglected (Bussin et al., 2017).

Figure 1. Elements of the Total Rewards Model



Source: WorldatWork (2020)

Developing a comprehensive model of employee compensation in the hospitality industry should take into consideration previous research findings indicating that, in addition to financial incentives, improved workplace conditions or possibilities for personal development led to employee satisfaction and attracting and retaining employees (Maroudas et al., 2013; Holston-Okae and Mush, 2018). For example, Maroudas et al. (2013) research showed that hotel employees especially appreciate education and training possibilities through different seminars organized by the employer. Research on seasonal workers motivation showed that factors with the greatest impact on work motivation include growth factors such as feedback, information, responsibility and training/knowledge, while typical hygiene (extrinsic factors) were not found as important (Lundberg et al., 2009). Namasivayam et al. (2007) revealed that direct compensation (i.e. base pay or merit pay) fully mediates the relationship between indirect compensation (benefits) and performance in the hotel industry. Recent meta-analysis of relevant retention strategies in hospitality industry revealed that employee satisfaction is crucial for retention, where four factors led to satisfaction: sustainable positive work environment; sustainable growth opportunities; sustainable & effective communication; and sustainable & effective recruitment and selection practices (Ghani et al., 2022). Similar intrinsic sources of

employee retention in hospitality industry were reported by Dogonyaro (2021), for example training and career development, but this research in low-income country revealed that work conditions and employee welfare, remuneration and compensation and reward and recognition also act as relevant sources of employee retention. Additionally, as new generations will be entering the hospitality industry workforce, it might be necessary to additionally examine generation-related sources of retention and motivation (Frye et al., 2020).

4. CONCLUSIONS

4.1. Theoretical Implications

High employee turnover has been a continuing concern for managers in the hospitality industry. Low retention rates lead to problems with customers, decreasing service quality and increasing overall labour costs (Frye et al., 2020). This paper reviewed total rewards model as a tool to decrease employee turnover in the context of the hospitality industry. Previous research indicates that when it comes to motivating employees in the hospitality industry, employees' sources of motivation diverge (Zopiatis and Constanti, 2007; Putra et al., 2017; Frye et al. 2020). Although extrinsic rewards were of importance for the general satisfaction of the workers at their place of work, in order to motivate employees, and especially to retain them, the results suggest that the growth needs needed to be fulfilled as well (Ghani et al., 2022). This shows that traditional material compensation alone is insufficient for long-term employee retention. Additionally, employers in hospitality industry should tailor their compensation strategies to specific employee groups, both in terms of occupations and generations, which was also confirmed by previous research. For example, findings of the previous research done by Gursoy et al. (2008) showed that Baby Boomers are willing to wait their turn for promotions and rewards, and are very loyal. On the other hand, Gen X-ers expect immediate recognition through title, praise, promotion, and pay, which leads to conclusion that total reward strategy will become necessity, not an option for all new generations. Likewise, Hausknecht et al. (2009) developed a content model of 12 retention factors in the leisure and hospitality industry, in the context of previous theory and research. The most frequently mentioned reasons for staying with employer included job satisfaction, extrinsic rewards, constituent attachments, organizational commitment, and organizational prestige. These findings thus also highlight the importance of differentiating human resource management practices in order to retain valued employees.

4.2. Practical Implications

According to findings presented in this paper, hospitality managers should be aware that for attracting and motivating low-skilled workers with seasonal employment, securing adequate base pay and/or possibility of variable compensation is not sufficient. In addition to tangible compensation, employers should pay close attention to intrinsic motivation and provide employees with supportive leadership, feedback, adequate organizational culture and allowing them to show their potentials even within simpler jobs they perform. For expert positions, it is advisable that employers pursue with the general compensation trends on the market, and whenever possible, offering above market levels of intangible motivation to employees.

Ultimately, managers should be aware that rewards can take both tangible and intangible forms, and that the appropriate mix of the two is a necessary requirement to increase employee motivation and decrease turnover especially in the tight labour markets. Adopting the total reward model to compensation would be an operational response to this requirement.

4.3. Research Limitations and Future Research Directions

The main limitation of the research is the absence of the primary research which should include both employers and employees. All findings in this paper should be tested with valid empirical research. This would provide valid information on the topic and empirical research is desirable to enable new findings and recommendations for the future. However, it would be advisable that the type of the hospitality job is taken into account, as jobs in hospitality range from simple low-skilled jobs to expert positions and generalizations are not possible. Special attention should be given to low-skilled jobs as these create the highest percentage of jobs in hospitality and employers have most problems with retaining this employee profile.

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