NebGuide

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Retaining Hourly Employees: Nebraska's Quick Service Restaurant Industry Dilemma

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The quick service restaurant industry is a large economic force in Nebraska, but high employee turnover has a detrimental effect on profits. Learn why employees leave and what can be done to recruit and retain qualified workers.

Introduction

Quick service restaurants, also known as fast food restaurants, are defined as foodservice establishments that have limited service and menu items. According to the definition, most have drive-thru service, no liquor sales, and do not offer table service. The restaurants rely on a narrow menu, catering to extremely price sensitive consumers who develop "habit forming" purchases through top-of-mind advertising. Quick service restaurants are also characterized as having consumer demands for foods served quickly and at the right temperature, accurate orders, and clean locations. According to the National Restaurant Association, in 2007 the quick service segment of the U.S. restaurant industry accounted for almost one-half of all commercial restaurant "eating place" sales, generating revenues exceeding $160 billion.

The overall U.S. restaurant industry is predicted to achieve more than $558 billion in sales in 2008 (National Restaurant Association, 2008). Of those sales, more than $376 billion will be sales from "eating places." These numbers are staggering when you consider that just 20 years ago the restaurant industry was achieving total sales volume just under $200 billion (National Restaurant Association, 2008).

Across the country, the foodservice industry employs over 12.8 million people and is the largest employer in the U.S. outside the government. In Nebraska, the foodservice industry employs just over 88,000 people and has sales of over $2.1 billion (National Restaurant Association, 2007), making it a large economic force in the state. If close to one-half of foodservice sales come through quick service restaurants, the quick service restaurant industry in Nebraska generates approximately $1 billion.

This NebGuide describes the quick service restaurant industry and a study conducted to determine why employees stay in the quick service restaurant business. Included are recommendations on how restaurant organizations can retain employees and the steps that should be taken to ensure that retention in the industry increases, thereby reducing costs and increasing profits in restaurant companies. With the current employment crisis, especially in the restaurant industry, this information will be helpful to industry practitioners and extension educators in developing future programming for the restaurant and hospitality industry.

Quick Service Restaurant Industry

One of the greatest concerns in the hospitality industry over the past decade has been the lack of trained managers and employees that are available. The industry relies on hourly employees that are in short supply across the country and specifically across Nebraska. As the state unemployment rate remains low, Nebraska has increasing challenges of properly staffing restaurants and foodservice establishments with qualified, well-trained individuals.

The unemployment rate in Nebraska is 3 percent, while the rest of the country is at approximately 5 percent, according to the Bureau of Labor Statistics in 2007. This rate means there are very few employable people not currently working in a job or in multiple jobs in the state. In Nebraska, approximately 36 percent of the 974,000 total jobs in 2006 were in the service industry. Many of these service jobs were in the foodservice industry.

The Nebraska Job Vacancy Report, published by the Department of Labor (2007), stated that job vacancies in the hospitality and tourism industries are increasing in the state. From the second quarter of 2006 to the second quarter of 2007, there was an 85.7 percent increase in food preparation and serving-related job openings (for a total vacancy of 7,008 jobs). These facts show there is a distinct need for a larger pool of qualified people to fill those jobs in the foodservice industry across the state and a need to improve retention in those jobs.

The Nebraska Restaurant Association calculates that an average dollar spent in a restaurant in Nebraska generates an additional $1.17 in sales for other industries in the state. This means there is a total of $2.17 spent in the Nebraska economy for every dollar spent on foodservice expenditures. Every additional $1 million spent in eating and drinking establishments brings an additional 49 jobs to the state, according to the National Restaurant Association (2007).

In the U.S., quick service restaurants are approximately 40 percent of the total number of foodservice establishments. In Nebraska that percentage would bring the number of quick service restaurants to almost 1,450 — a significant number of restaurants that need to be staffed. In general, quick service restaurants try to employ 10 to 40 hourly employees each. This means that this research could impact up to 50,000 hourly employees and their more than 3,000 managers.

Hourly Employee Retention

Throughout the past 10 years, the "turnover culture" that prevails in many hospitality organizations has increased. This concept refers to the phenomenon that some organizations accept turnover as part of the workplace culture despite the high cost of turnover. Heskett, Sasser and Schlesinger (1997) found that most organizations in the hospitality industry expect high turnover and dissatisfaction to occur because of the nature of the business and the demographics of the typical employee. The characteristics that lead to high rates of dissatisfaction and consequently employees' departure include: seasonality of the operation, prevalence of small organizations, unpleasant physical working conditions, inconvenient working hours, lack of career opportunities for front-line jobs, and low pay (Pizam & Ellis, 1999).

Turnover in many segments of the hospitality industry is quite common and has been an accepted parameter of the industry (Prewitt, 2000). The cost of turnover is great given the financial expenses of recruiting, training, and retaining employees. Increased stress caused by employee turnover also exacts an emotional cost on existing employees, supervisors, and even customers (Hinkin & Tracey, 2000). These high turnover costs create a need by hospitality practitioners to reduce voluntary, dysfunctional, and avoidable turnover and improve the retention rates of hourly employees in their organizations (Pizam & Ellis, 1999).

Several studies have investigated the quantitative costs of turnover in the hospitality industry. For example, a recent study by the National Restaurant Association of 50 companies in the hospitality industry estimated the median cost of turnover of an hourly employee at $2,494 per person. These costs include recruiting, training, and retaining a person (Pine, 2000). Other studies estimated that the cost of hourly employee turnover was approximately $3,000 (Wasmuth & Davis, 1983; Woods & Macaulay, 1989). In total, hourly employee turnover in the quick service segment of the U.S. foodservice industry is estimated to cost over $3.4 billion a year (Prewitt, 2000).

The turnover rate for the quick service segment of the restaurant industry is even higher than that for the overall restaurant industry, with the combined turnover rate of hourly and salaried employees at over 150 percent annually. Turnover in the quick service segment is typically higher than other segments of the foodservice industry due to the lower median age of the employees, limited experience of the workforce, and higher demands associated with working conditions.

Some organizations have turned to various strategies to encourage retention of hourly employees. For example, many businesses have used bonuses, benefits, promotions, training, on-the-job education, prizes, and paid time off (Susskind, et.al., 2000). Previous research on retention in the hospitality industry has focused on managers' perspectives on what causes employees to leave, and managers' opinions on what should be done to slow down the turnover in their respective organizations (Dermody, 2002; Gustafson, 2002). However, specific research on why quick service hourly employees stay or leave their jobs is limited, especially from the actual employees' perspectives. This study was done to try to understand why employees leave and what can be done by organizations to try to lower turnover in their organizations.

Why Employees Leave

In a recent study conducted in 20 quick service restaurants in Nebraska and Kansas, 500 hourly service employees were surveyed about why they stay at their current place of employment and what would cause them to go to another job. The turnover rate where these employees worked was below the national average of more than 150 percent (Ebbin, 1999) at 73.53 percent. Two hundred thirty-three surveys were completed (46.6 percent response rate) and the results give practitioners in the industry some ideas on how to improve hourly employee retention. The survey used a 1-5 scale where 1 = no value and 5 = very high value.

The findings indicated the following key reasons that an employee went to work at a specific company: 1) nice people to work with (mean = 4.63), 2) humane approach to employees (mean = 4.54), 3) hourly wage (mean = 4.51), 4) flexible working hours (mean = 4.49), and 5) clear information on the job (mean = 4.49). These are valued characteristics for employees when choosing to go to work in a certain job and/or with a specific company. It is important to note that the survey showed the overall work environment was a very important job characteristic when choosing a job, and employers should continue to enhance the workplace so that employees will choose them as an employer of choice.

The most significant characteristics that would cause an employee to leave their current job and to go to another job were: 1) better pay (mean = 4.62), 2) flexible working hours (mean = 4.22), 3) improved chance of promotion (mean = 4.06), 4) improved working hours consistency (mean = 4.02), and 5) more humane approach to employees (mean = 4.00). This shows that pay is a factor in whether an employee would actually leave their current job for another position.

This study showed that in order to initially attract an employee to go to work with a company, an organization should market the positive culture of the organization. New employees need to feel they will potentially be valued by the company. Research suggests that social and cultural factors are important to employees and these factors impact their perception of a potential new job. When these social and cultural factors are seen as positive, employees may tend not to seek other employment in the future.

Creating a Positive Work Environment — A Key to Recruitment and Retention

The current study shows that the most critical component of getting and keeping employees from moving to another company is to create a positive environment, pay the employees a fair wage, and have flexible hours that the employees feel are equitably distributed. This will help employees believe they are not just a cog in the wheel of the organization, but a person important to the goals of the organization. Showing employees how they can move up in the company and truly caring about employees as people will help managers create a positive workplace in this challenging industry.

Recommendations for Retaining Hourly Employees

Since most fast food restaurants are similar in their operations and even menu, the culture and tone of the business is what will set it apart when it comes to employee relations and relationships. It is important to ensure that businesses communicate with employees and find out what it is that they value, and then determine how that fits in with the company's values and goals. It is important for managers or supervisors to talk to employees on a regular basis to determine if the business is seen as an "employer of choice" and if it is the company that employees (past and present) hold in high regard. The goal should be to create a positive work place where people can feel valued for their contribution to the success of the business.

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