EMPLOYEE RETENTION IN THE QUICK SERVICE INDUSTRY

Service Operations Management Track

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Table of Contents

Abstract

This research explores a key dimension of effective leadership. The Quick service industry for years has focused on keeping their workforce in fear of shortages that surmount to lost profits and possible loss of market share. Quick service companies can retain their most desirable employees by recognizing their contributions to the organization. Recognition is an effective leadership tool that involves motivating employees, involves the acknowledgement of efforts and creativity and willingness of employees to exert extra effort. This research focuses on the retention challenges facing today's quick service organizations.

Introduction

The biggest problem that continues to plague the quick service industry and creates major drains of profit and human resources is employee turnover. According to the Bureau of National Affairs' Fourth Quarter 2000 " Report on Employee Turnover," the annualized turnover rate of employees was 16%. These same turnover numbers as related to the quick service industry are employees 150% and management 20%. The cost of turnover as compiled by the Society for Human Resource Management (Staff, 2000) shares that an average cost of replacing an employee is equal to their annual salary plus benefits. This creates a tremendous challenge for managers in the quick service industry to retain their employees.

In the aftermath of industry downsizing, employee loyalty is also on the decline. According to the workforce commitment index (2000) there has been an 11% decline in worker commitment. Customer service workers have been at the lowest of this index (Stum, 2000). An indicator of the magnitude of this issue is the fact that Taco Bell found their outlets with the lowest employee turnover produced up to 50% more in sales.

This research focuses on employee retention and motivation in the quick service industry. More importantly, our research reflects that one of the key dimensions for effective leadership in the workplace that results in lower turnover is reinforcing and motivating others to encourage superior performance. Many in management may think that we have heard enough when it comes to the subject of recognition. Managers in the quick service industry recognize that there is no secret: employee recognition creates employee satisfaction. The big question is what combination works best.

The idea that employee recognition can serve as a powerful reward is not new. Herzberg (1966) noted that consistent use and frequently applied formal and informal recognition programs provide management with a powerful tool to influence employees to live the company's values and implement its focused mission. Herzberg recognized the importance of reinforcing behaviors that contribute to the organizations success. Specifically by reinforcing expected behaviors, leaders can signal to their employees that their efforts are noticed and appreciated.

Research and surveys indicates that recognition by leaders is in fact a turnover deterrent. What is important is to reveal that there are different and unequal forms of recognition. Considering the high turnover in the quick service industry and low unemployment, the industry is headed for greater challenges ahead unless key leaders train their managers regarding recognition and creating cultures of caring.

Literature Review

One consistent agreement throughout the cited research is that recognition is an emotional need. Emotions are the impulses that cause us to act. Anger, fear, joy, sadness, madness, happiness and love trigger us to act in different ways. Cirilli (1998), an industrial author, shares that we all have two almond shaped pieces of tissue in the brain that store and generate emotional flavor of all data. This part of the brain is called the amygdala, which gives us the impulse to act. It is the physical location in the brain where motivation is derived. The amygdala will ensure that your feelings are not left at home.

Psychologists term the basic unit of social interaction a stroke. The term was derived from the stroking act of a mother to her newborn to fulfill the needs of comfort, love and security (i.e., recognition). The infant cannot speak the words because the thinking part of the brain is not yet developed, but it does experience feelings through the amygdala that: I am special, I matter, I am important, I have worth, and somebody cares. When the thinking brain grows as the infant grows the need for recognition transforms into role related actions such as I have meaning, I want to contribute, I can contribute, I am important and yes I still need recognition (Cirilli, 1998).

Gordon (1999) supports recognition as a reinforcement theory. Reinforcement theory encompasses the use of recognition to reinforce desired behaviors in the workplace. Recognition being public or personal then in turn motivates the employee to try to be repetitious in behavior to continue a flow of reinforcement or recognition (1999).

Considerable basic research supports the foundation that non-financial rewards can be a strong leadership tool and can have a significant, positive relationship with organizational performance. In recent meta-analysis studies over the past twenty years, it was found that social rewards (recognition and attention) had as big an impact on employee performance as did monetary rewards (Stajkovic & Luthans, 1997). In particular, results of the analysis indicated that service organizations, which used recognition as part of their behavior, found on average a 15 percent performance improvement. When recognition was combined with performance feedback the results included an average increase of 41 percent in manufacturing and 30 percent in service organizations (Luthans & Stajkovic, 1999).

A survey conducted by the Society of Incentive Travel Executives found that 63% of the respondents ranked “a pat on the back” as a meaningful incentive (Lovio-George,1992). In another survey examining the value of 65 potential incentives, four out of the top five rewards ranked by employees as the most motivating were initiated by their manager, based upon performance, and required little or no money.

Although the surveys all defined non-financial rewards a little differently, the common thread is that they do not cost anything. According to Graham and Unruh (1990), these powerful non-financial incentives can be operational zed as follows:

- A manager personally congratulating an employee for a job well done.
- A manager writing a personal note for good performance.
- A manager publicly recognizing an employee for good performance.
- A manager holds morale-building meetings to celebrate successes.

In actual practice, Nelson (1995) cites the effectiveness of the travel related services “ Great Performers” employee recognition program. The company began to feature employees on posters with a statement of their major accomplishments. The program has helped increase the company’s net income by 500% over an 11-year period and increased their return on equity to 28%.

According to Verespej (1998), Chevron Chemical’s recognition program has been very effective. At Chevron the “Bringing out the Best” program has been implemented to recognize employees immediately for a job well done. Employees report that they are very pleased with the program. In fact, a recent survey showed that Chevron's employees ranked the new system as very successful or good. Jeffrey states that, of all the data collected on over 100,000 employees nationwide representing a wide variety of industries indicated that they prefer specific day-to-day recognition of their contributions over a raise or bonus. Even more important, those surveyed indicated that recognition for work resulted in their best effort (1998).

At The Ohio State University, researchers studied the effectiveness of leadership styles in what they termed “initiating structure” (task oriented) and “consideration” (employee oriented) leadership behaviors. They found that employee turnover rates were lowest and employee satisfaction highest under leaders who were rated high in the consideration category. Conversely, the leaders who had high structure ratings and low consideration rating showed the highest turnover and the highest grievances (Stoner, Freemen, & Gilbert, 1995).

Researchers at the University of Michigan found a different result. They distinguished between production centered and employee centered managers. Production centered managers set rigid work standards, organized tasks down to the last detail, prescribed work methods to be followed, and closely supervised employees work. Employee centered managers encouraged employee participation in goal setting, and help inspire high performance by trust and respect. The Michigan studies found that the most productive work groups tended to have leaders who were employee-centered rather than production centered (Stoner, Freemen, & Gilbert, 1995). They also found that the most effective leaders had used forms of recognition and encouraged employees to set and achieve high performance goals.

One study conducted in the 90s reviewed turnover of the part time positions in supermarkets and restaurants. The Cornell University study revealed that one of the major reasons for turnover was based upon part timers being ignored and not recognized by their direct supervisor (Duff, 1992). Managers must reinforce performance in both full-time and part-time employees. This is especially true in an industry reliant on part-time employees.

Analysis

The quick service industry today represents restaurants that average over a million dollars per year and a workforce of 70% part-time workers. In this industry a majority of the employees are part-time employees between the ages of 16-24 and are being replaced 1.5 times a year (Restaurant News, 2001). Managers in the stores have to train the teams over and over again and this creates 20-25% management turnover. Turnover has a major domino effect on lost profits, lost customers, and lost market share. The restaurant business has been so focused on recruiting, advertising, and competing with one another, they forgot to focus on the people business. The reverse of the formula is: if the quick service operators focused on keeping the employees, the payoffs are enormous. Robert Darwin, founder of several successful companies, including Scandinavia Design Inc., stated: "There's only one thing that counts in business; building the self-esteem of your employees. Nothing else matters, because what they feel about themselves is what they give to your customers".

Our employees are actual customers themselves. The two largest retention issues facing the quick service industry as noted by the Restaurant News (2001) are; *relationship with supervisor and employees being recognized for performance*. Industry leaders reflect that if their turnover could decrease by 50% their long-term profits could increase by as much as 10-15%. Recognition in business is not about rewards, bonus checks, personal days, or safety awards. Recognition is about personal recognition of an employee on a day-to-day basis.

Our research has designated that two types can drive recognition. The role of work-related recognition and the second is self- worth recognition. Role related recognition is when we recognize someone for a job they performed. Self-worth recognition is acknowledgement of an employee outside or inside the work setting, such as an everyday greeting.

As an example, one would think that employee recognition would be extremely difficult especially in organization of non-profit stature. Luthans (2000) conducted many surveys surrounding non-profit organizations. The respondents had to comment on a proposed recognition program – the respondents represented a cross section of the organization including management, maintenance, support staff, and front line employees. The first question dealt with employee need to be recognized in for their work. Results indicated that 96% of the respondents commented that a need existed. Question two addressed the need of the respondents to judge what criteria should to be used to recognize employees. The survey revealed the following that: 1) 81% stated quality of work, 72% for work performance, 66% work contribution, and 64% for length of service.

This study supports the foundation that recognition can be a very powerful reward for employees. Most interesting in this survey was the hand written comments regarding question two. The respondents indicated that social rewards were highly valued. A sample of these comments were: just someone saying thank you", "more respect", " a nice note", a personal letter from the boss or a special thanks. The implications of the survey would be to realize the importance of utilizing various types of recognition when reinforcing value added behaviors.

The survey was conducted in 30 Franchise Taco Bell restaurants in the Tampa Florida area using the same questionnaire used in the non-profit sector. Of the 575 respondents, 93% indicated that recognition was important. The response to the second question included: 89% for quality, 74% for speed, 70% for attendance, and 65% for service time. The results were very similar to the earlier nation-wide survey. Additionally, hand written comments reflected a faster and more immediate need of recognition in the workplace because of part time workers.

These two comparative surveys support the theory that personal and public forms of recognition appear to be at the top of the list. Employees want their supervisors to make a recognize them. Most want recognition to be personal and accomplished with sincerity and effort. Personal and public recognition can bring employee satisfaction, commitment, and loyalty to new heights. According to Dee Hansford, an Orlando, Florida based recognition consultant and founding board member of the Chicago based national Association for Employee Recognition, "The powerful impact of peer recognition is greatly underestimated by organizations. We all need and want to know the work we do is important, and to have validated (publicly) is one of the greatest sources of satisfaction we can have. Public or peer recognition that's personal in nature answers those deep needs we all have of belonging and contributing to something worthwhile".

Nelson (1997) indicates that each form of recognition has value to it, and therefor it is important to use a variety of approaches. According to Nelson, money does not have the same value as recognition. Money has no trophy value and is quickly forgotten, whereas public or personal recognition can create a feeling and memory that may last for a long time.

The good news is that employee recognition and creativity does not have to be expensive and can be used in small or large companies. It does, however, have to be consistent and looked at as a long-term commitment, not a short-term fix. Discontinued or partial recognition can do more harm than if no effort was made at all. Also, if the recognition is not linked to performance or has no performance; it has no meaning. Rosalind Jeffries of HR Focus has compiled some characteristics of effective recognition systems (1998):

- *Timely* - recognition should be given as close as possible to the performance being acknowledged.
- *Proportional -* do not overdo the small stuff. All good performance should be recognized, but in varying degrees.
- *Sincere* **-** truly gives the recognition with sincerity.
- *Persona l-* every employee is different. Try to fit the personality of the employee being honored.
- *Celebration* - find opportunities that are non-structured to celebrate recognition.

One of the challenges in recognition as discussed by authors James M. Kouzes and Barry Z. Possner (1999) is that only 50 percent of managers actually give recognition for high performance. Equally concerning are data that indicate that up to 40% of the nations workers feel they never get recognized for outstanding performance. Kouzes and Possner explain that this has a lot to do with fear and emotion. Furthermore, it means that many managers are afraid to show their emotions. This may be a form of showing our vulnerability to others and this can be difficult for many people and impossible for others.

According to Hansford (1999), giving personal praise is a learned skill. There are many companies that need to spend more time on training their management to recognize employee contributions. One way the human resource department can reinforce the value and importance of personal employee recognition is to build it into the performance management system and make managers accountable for supporting this behavior(Davidson, 2000).   One of the ideas that many organizations use is to seek and study nonprofit organizations as a group role model when relating with motivation. With less money, non-profit organizations depend on the passion, commitment, and social conscience of their employees (Gale, 2000).

In 2001 many of quick service chains have moved into and support various types of recognition programs. Many programs have been designed to improve morale and many quick service restaurants are now tracking their turnover religiously.   Some of the programs in the market today inclusive of McDonald's, Burger King, Taco Bell, Pizza Hut, and KFC are:

- Training managers and key executives to implement recognition in annual budgets and part of training programs.
- Recognition programs that include a focus of immediate recognition day-to-day and also weekly. Many of the quick service entities have daily recognition cards and weekly prizes for the employees. The big factors are posting their pictures and results.
- Employee of the month programs.
- Monthly celebrations.
- Immediate recognition for employees who demonstrate good customer service.

Many of the listed chains attest to the fact that they are starting to see some turnover reduction by the use of the programs in 2001 and are projecting lower turnover for 2002.   The chains have also instituted bonus programs for various levels in the organization to incent the lower turnover by use of the programs.

Future Analysis

Future analysis regarding recognition and its relationship to turnover is imperative in the quick service industry.   Research comparing organizations that adopt a strong employee recognition program with those who select other forms of motivation could prove valuable to the industry. This research is the beginning of an extensive look at the quick service industry in South Florida. Current research is measuring the turnover rate with employee recognition programs in place versus those without an identified recognition program.

Conclusion

The growing research and results of many surveys provide considerable support for the importance of employee recognition as an effective leadership tool. These conclusions hold true for many industries, not just the quick service feature.   The quick service industry has a direct correlation of sales, profits as compared to employee turnover. This research indicates that it is important for quick service chains to write a "recognition manual" for the operations groups that carry equal weight to the "operations manual".

Many of the results and conclusions from the data enclosed reveals that employees place a high value on personalized, specific, and instant social rewards such as attention, recognition, and appreciation.   The quick service industry has introduced many programs of recognition, however the catalyst for success is not the program, it is the supervisor or leader paying attention to the employees and the emotional side.

As leaders continue to look for ways to meet the productivity, motivation, and retention challenges of today's organizations, the increased recognition of their human resources must be of primary importance.   As discussed, employee recognition can be highly effective and motivational while costing the organization little or nothing to implement. To summarize a point made by Nelson (1994), if you give your employees a choice, the thing they say that will have the greatest, most significant impact is a personal spontaneous and sincere thank you for a job well done.   The takeaway here is not to diminish or detract from the importance of other types of rewards such as monetary incentives. Rather, this research and supporting results, point out that important, but often overlooked, simple, but sincere recognition is a potent tool for effective leadership.

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