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A NATIONAL STUDY
**of Human Resource Practices,
Turnover, and Customer Service
in the Restaurant Industry**

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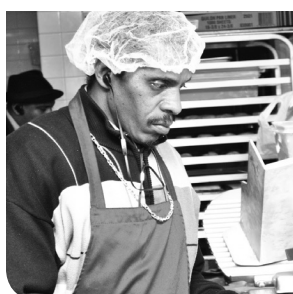
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HIGHLIGHTS

2013 National Restaurant Industry Survey

This study represents the first national employer survey of work and human resource management in the US Restaurant Industry. It documents the range of practices adopted by employers and how those practices affect turnover and employment stability—problems that are endemic across the industry. We examined management practices and outcomes in four customer segments: fine upscale dining, casual fine dining, moderately priced family restaurants, and fast food/quick service (fast food) restaurants. High levels of employee turnover are problematic in restaurants serving all four customer segments—leading to higher employee costs and lower service quality and organizational performance. In fact, our survey data demonstrates that better human resource practices can reduce employee turnover almost by half.

We surveyed restaurants in the 33 largest metropolitan areas of the country, where wages and the cost of living are likely to be higher than in smaller cities and towns—and where higher competition is likely to drive employers to invest more in employees in order to compete more effectively on quality and service. Over half of these restaurants are located in states with tipped and non-tipped minimum wage rates that are considerably higher than the federal minimum rates. Thus, the wages, human resource practices, and turnover reported by managers in this sample should represent somewhat better conditions than those found in a nationally representative study. Nonetheless, even in this sample, the proportion of restaurants that adopt better human resource (HR) practices and invest in the workforce is modest. Several findings are noteworthy.

Turnover, Tenure, and Human Resource Practices

- High turnover rates and low worker tenure are problematic in all segments of the industry, but especially in moderately priced and fast food establishments. According to our manager reports, almost one in every two fast food/quick service workers quits or is fired from their jobs each year. Said differently, almost half the fast food workforce turns over every year. The rate is 40 percent in moderately priced restaurants—slightly less than one in two—and somewhat lower in higher-end establishments. In fine dining restaurants, however, wages are higher and training periods are longer than in fast food, leading to per-employee turnover costs that are higher in fine dining.

- The costs of turnover are high. In this study, the costs of turnover are \$18,200 for an establishment with 30 employees, \$182,000 for a chain of 10 restaurants, \$1.82 million for a chain of 100 restaurants. In addition, academic research more generally confirms that establishments with lower turnover have significantly better customer satisfaction, productivity, and revenue growth compared to those with higher turnover.
- Better human resource practices dramatically reduce turnover and create a more stable, long tenured workforce. Restaurants in the highest quartile of investing in HR practices across industry segments have 26 percent annual turnover rates and their employees stay an average of 6.3 years. Restaurants in the lowest quartile, by contrast, have annual employee turnover rates of 45 percent and the typical tenure of their workers is 3.6 years.
- The most important human resource practices that significantly reduce turnover and lengthen job tenure are high relative wages, job security, longer work hours, more discretion at work, and policies for promotion from within. Investments in training are also important.

Wages, Benefits, and Human Resource Practices

- The restaurant industry workforce is older than is typically portrayed, with a large portion of employees making their careers in this sector. The age of the typical, or median employee in fine dining restaurants is 32 and in casual fine dining is 29. Even in fast food establishments, the typical employee is 24 years old—not under 20 as is often believed.
- Despite the importance of HR practices in reducing turnover, restaurants in this study across all segments generally pay low hourly wages, offer less than full-time work, provide few benefits, and allow employees little discretion in how they go about their work. They also make little use of formal selection and training practices. Employer investments in training are low across the board—with employees typically receiving about one week of initial training when they are hired—regardless of whether they work in fast food or fine dining.
- The large majority of employees in the industry work in very low-paying positions: in fast food and moderately priced restaurants, and lesser-paid positions across all segments. Here, wages, hours of work, and benefits are particularly low.
- The wage estimates in this study probably represent the higher end of the earnings spectrum because our sample draws disproportionately from states with tipped and non-tipped minimum wage rates that are considerably higher than the federal minimum wage. In this context, managers reported that the typical worker in fast food/quick service and moderately priced establishments averages 29-31 hours of work per week. In fast food restaurants, the annual pay for the typical worker is \$13,257 if she works 52 weeks

per year. In moderately-priced restaurants, the figures are \$18,720 for back-of-house and \$24,123 for front-of-house workers—earnings levels that do not provide a living wage. In casual fine dining, managers' annual wage estimates are \$20,902 (BOH) and \$34,990 (FOH), and in fine dining, \$22,932 (BOH) and \$41,184 (FOH). Note that while back-of-house workers in fine dining earn about 70 percent more than similar workers in fast food workplaces, they do not make a living wage. In addition, for employees whose wages depend primarily on tips, their daily, weekly, and monthly earnings are uncertain due to the volatility and seasonality of consumer demand in the restaurant industry. Moreover, according to the US Bureau of Labor Statistics, only about half of all restaurant workforce is employed over 50 weeks per year.



- Across all segments of the industry, benefits levels are also quite low. In the fast food and moderately priced segments, less than 20 percent of employers offer any level of paid sick leave or paid time-off; and only about one-third offer paid vacations or employer subsidized health insurance. In casual fine dining and fine dining restaurants, which employ fewer workers than other segments, employers invest more in human resource practices. Even for these workers, however, less than 30 percent of employers offer any type of paid sick leave or paid time-off and just over 50 percent in fine dining (and under 40 percent in casual fine dining) offer paid vacation or employer subsidized health insurance.
- The most substantial factor that affects wage levels is the customer segment that the restaurant serves, and most workers are employed in the lower-priced segments. Among front-of-house workers, those working in fast food or quick service make 37 percent less than do those in moderately priced restaurants, 59 percent less than those working in casual fine dining, and 73 percent less than those in upscale fine dining establishments. For back-of-house employees, those in fast food earn about 5 percent less than their counterparts in moderately priced restaurants and about 12 percent less than those in casual and upscale fine dining. In this study, however, it is notable that men comprise nearly 70 percent of the workforce in fine upscale dining, where wages and benefits are the highest.
- Wages are also higher for employees with higher levels of formal education. For employees with a college degree, those in front-of-house positions earn about 17 percent more than those with a high school degree or less. College degree workers in back-of-house positions earn 8 percent more than do workers with a high school education or less. But for employees with only some college (1-2 years), they receive no wage premium, regardless of the position they hold.
- Employee discretion at work is low in all establishments—and differences between high-end and price-focused restaurants are not substantial. Across the board, only 50 percent of managers say they allow front-of-house employees discretion in their communications with customers. That drops to about 40 percent of employers and lower with respect to handling customer requests without consulting a manager; less than 30 percent for discretion over work methods; and 20 percent or less for settling customer complaints. Opportunities for discretion and problem-solving are even lower for back-of-house workers.



1 The US Restaurant Industry Overview

The restaurant industry is one of the fastest growing and most vibrant sectors of the US economy. The industry is one of the few bright spots in an otherwise lackluster economic climate. While many other sectors continue to stagnate or decline, the restaurant industry continues to grow and add jobs to the economy. Over half of Americans eat out at a restaurant at least once per week, and 20 percent eat out two or more times per week. The industry employs over 10 million people or 9 percent of the total workforce. And the National Restaurant Association (NRA) estimates total sales revenues for 2013 at \$660.5 billion, almost double the industry's revenues in 2000 (NRA website, 2013; US DOL, BLS 2012).

The restaurant industry, however, offers some of the nation's lowest-wage jobs, with little access to benefits and career advancement. In 2012, the median wage for all restaurant workers nationwide was \$9.01; and seven of the ten lowest-paid occupations were all restaurant occupations, according to the US Department of Labor, Bureau of Labor Statistics (US DOL, BLS). Workers who earn at or below the minimum wage are highly concentrated in the restaurant industry. Of all workers earning below the minimum wage, almost half are restaurant workers (Henderson 2012; Rasmussen Reports 2011; US DOL, BLS 2012). But the industry also provides livable wages to a core segment of workers, primarily in fine dining. As the industry grows in importance and size, it is crucial to understand the structure and composition of wages and benefits in this vital sector.



This National Survey

This study is the first national employer survey of work and human resource management in the US restaurant industry. It is based on a telephone survey of managers in 1,150 restaurant establishments across the country. Managers in each workplace provided information on the types of customers served and restaurant characteristics. They reported the number and types of employees providing front- and back-of-the house services. For this report, front-of-house employees include servers, bartenders, hosts, bussers, runners, barbacks, and cashiers. Back-of-house employees include line cooks, prep cooks, dishwashers, and porters. For each of these groups, managers reported on their human resource practices—including staffing and selection, training and development, compensation, and the organization of work. Performance outcomes such as turnover and employment tenure were also addressed.

In this report, we provide an overview of the restaurants included in our study as well as our findings regarding the use of different management practices and their relationship to key outcomes.

FIGURE 1.1 REGIONS

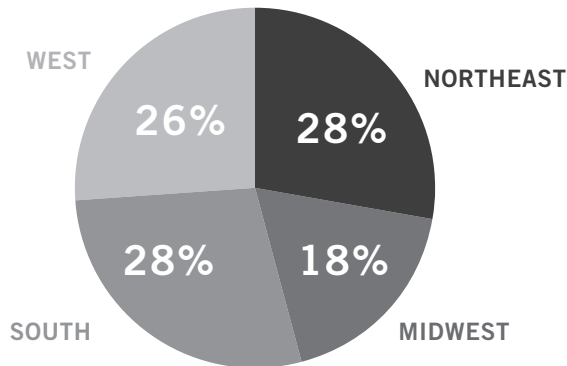
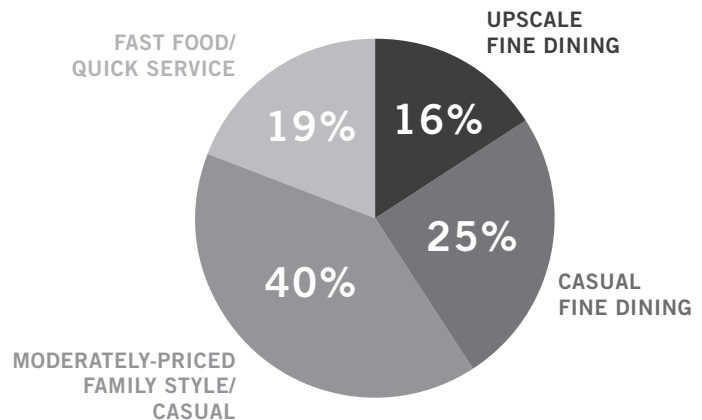


FIGURE 1.2 CUSTOMER SEGMENT



Regions and Markets

Our survey includes restaurants from different regions across the United States. As shown in Figure 1.1, 28 percent of the restaurants in the study are located in the South, 28 percent in the Northeast, 26 percent in the West, and 18 percent in the Midwest. Restaurants were sampled from the 33 largest metropolitan areas in the US by population and restaurant density. Thus, the survey findings are representative of the characteristics and management practices of restaurants in larger cities and metropolitan areas. The full list of cities included in this survey is found in Appendix 1.

In addition, unlike national data collected by the Bureau of Labor Statistics, which distinguishes 2 broad categories of restaurants (full service and limited service), we are able to differentiate wages and employment across four specific customer segments. As shown in Figure 1.2, 16 percent of the sample is in the upscale fine dining segment, 25 percent offer casual fine dining, 40 percent are moderately-priced family/causal restaurants, and 19 percent are fast food/quick service establishments. As shown in the following pages of the report, we found consistent differences in the characteristics and management practices of restaurants according to the customer segment they serve. In general, upscale fine dining restaurants, which brand themselves as offering high quality food and service, also tend to adopt better human resource practices than those found in restaurants in other segments. They tend to employ more full-time as well as older workers; invest more in recruiting, selecting, and training a high quality workforce; and offer higher pay and benefits. They are also larger and older establishments.

At the other end of the spectrum, fast food restaurants are smaller and younger and typically part of a chain of similarly branded establishments. They serve more price-conscious customers and adopt more cost-focused human resource practices. They tend to hire more part-time employees and younger workers and offer lower pay and benefits. At the same time, they do invest in recruiting and training employees as much as casual fine dining and moderately-priced family restaurants and are as likely as upscale establishments to require formal selection tests for job applicants. This is probably due to the fact that, as part of a chain with a well-known brand, the corporate HR department is more likely to standardize basic hiring and training policies. It is noteworthy, however, that restaurants in general offer little in the way of formal selection and training practices. In the following sections, we explore these differences in greater detail and discuss their implications for employee quit rates, dismissals, and turnover.

FIGURE 1.3 MEDIAN NUMBER OF SEATS AND EMPLOYEES

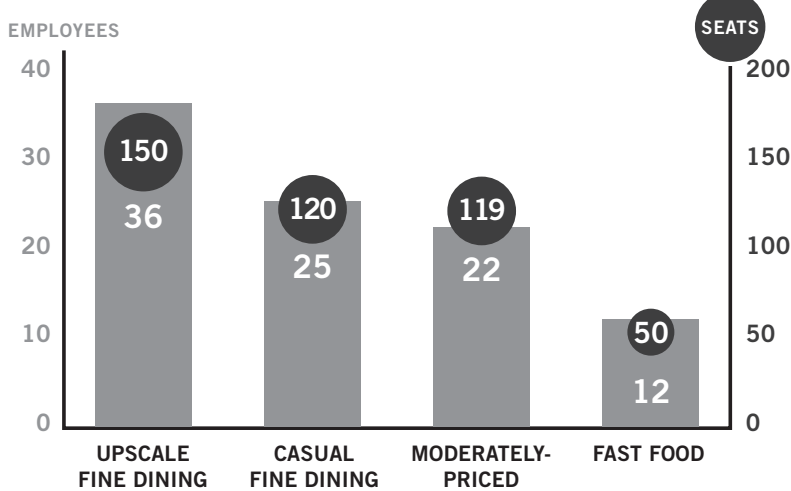
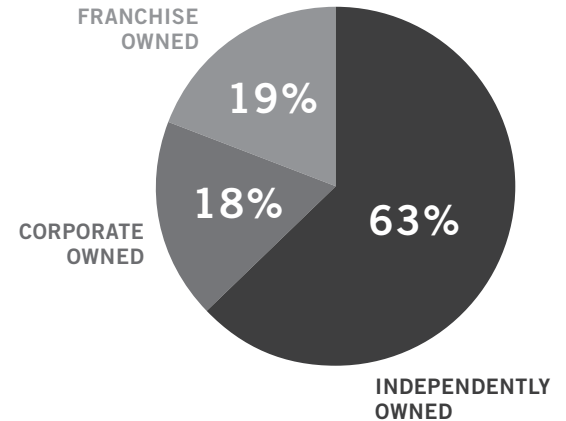


FIGURE 1.4 OWNERSHIP STRUCTURE



Establishment Characteristics

Our survey includes a wide range of restaurants in terms of their size, age, and ownership structure. The typical (or median) restaurant has 100 seats and 22 employees. By typical or median, we mean that half of the restaurants in this study are larger and half are smaller. Figure 1.3 shows that the size of restaurants varies by the customer segment the restaurant serves. Upscale fine dining restaurants are the largest in size, with a median of 150 seats and 36 employees. Casual fine dining and moderately priced family restaurants are similar, with 120 and 119 seats and 25 and 22 employees respectively. They expect people to take considerable time to eat their meals, and so they need a larger capacity if they want to reach a reasonable volume of customers in a given sitting. Fast food restaurants, by contrast, are the smallest in size, with a median of 50 seats and 12 employees. The smaller size of fast food restaurants is consistent with their strategy, which is to provide an easy-to-prepare standardized menu and maximize customer throughput via the provision of take-out options and quicker turnaround times.

The age of restaurants also varies by restaurant type. Upscale fine dining restaurants tend to be older, or more stable, while fast food establishments tend to be younger. On average, upscale fine dining restaurants are 20 years old, versus 13 years for casual fine dining, 14 years for moderately-priced restaurants, and 11 years for fast food restaurants. This pattern reflects the fact that higher-end upscale fine dining restaurants tend to be more economically stable and independently owned, while fast food restaurants are part of expanding chains that often include some degree of franchising. Franchising not only allows for faster growth but is also a relatively new phenomenon, so we should expect franchised restaurants to be, on average, younger than non-franchised operations.

As shown in Figure 1.4, 63 percent of the restaurants in our study are independently owned. The remaining 37 percent belong to a branded chain, with 19 percent corporate-owned and operated and 18 percent franchisee-owned and operated. Supporting the idea that restaurant types may have different growth and ownership patterns, we find that 77 percent of upscale fine dining restaurants in our study (141 out of 184) are independently owned compared to only 33 percent of fast food restaurants (70 out of 215).



2 RESTAURANT OPERATIONS

Human Resource Practices

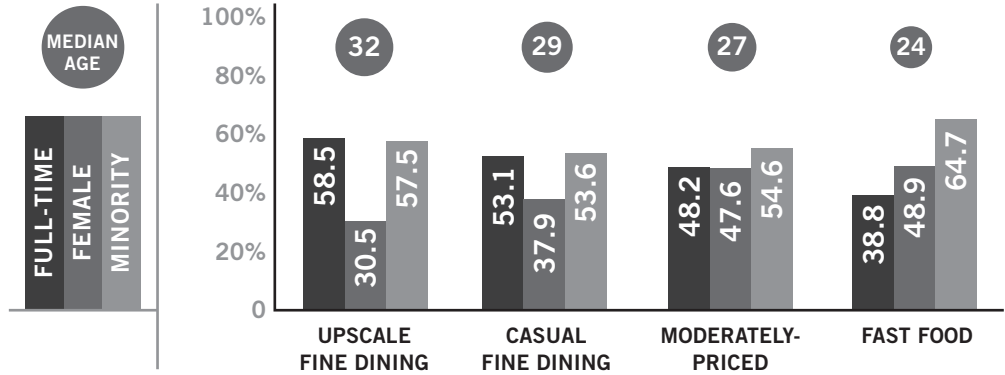
In this section, we focus on four sets of human resource practices: staffing, training and development, compensation, and the organization of work, and we show how they differ across restaurants serving the four different segments in this report. In addition, we show how restaurants adopt different human resource practices for front-of-house versus back-of-house workers.

Staffing Strategies: Employee Characteristics and Formal Selection Practices

Restaurants differ in the types of people that they choose to hire, the degree to which they use formal versus informal recruitment and selection processes, and in turn, the costs of these staffing strategies.

The characteristics of employees may be a function of both explicit staffing strategies and local labor market conditions. The characteristics of restaurant employees in our study are shown in Figure 2.1. Recall that the survey is based on the 33 largest metropolitan areas of the country. Consistent with national patterns, the vast majority of workers are people of color and women. It is notable, however, that men comprise nearly 70 percent of the workforce in fine upscale dining, where wages and benefits are the highest.

FIGURE 2.1
EMPLOYEE
CHARACTERISTICS



Also notable is the age distribution of the workforce. The typical age of workers in this study is considerably higher than the conventional view that restaurants largely hire young people who expect to move on to better careers as they get older. The median age is highest in upscale fine dining, at 32 years old, and lowest in fast food restaurants, at 24 years old. But the reported range varied from 18 to 50 years

old. Clearly, a large portion of employees are trying to make a career in these restaurant jobs.

Although fast food restaurants employ the youngest workers, as we might expect, the fact that 50 percent of employees in these restaurants are over the age of 24 indicates that fast food jobs may not be as transient as is often believed. Our survey data based on managers' reports of the age of the typical or median worker in their establishment are quite consistent with national data (Current Population Survey) collected by the US Department of Labor Bureau of Labor Statistics. A recent analysis of data on fast food workers alone found that about 30 percent of workers were less than 20 years old, 30.9 percent were between 20-24 years old, and 39.3 were over 24 years old (Schmitt and Jones 2013:1).

The proportion of full-time employees across restaurants ranges from 39 percent to 59 percent, with the lowest proportion of full-time employees found in fast food restaurants. Full-time is defined as working more than 35 hours per week. The proportion of female employees is also the highest in fast food followed by moderately-priced family restaurants.

Our survey also shows that there are not substantial differences in the average education level of workers across customer segments or jobs (front-of house or back-of-house), although the differences are statistically significant. Front-of-house employees working in upscale fine dining or causal fine dining typically have completed 13 years of education (vocational/technical training or some college without a degree), whereas back-of-house employees working in those restaurants typically have completed 12 years of education (high school diploma). Front-of-house employees in moderately-priced and fast food workplaces typically have completed 12 years of education, while back-of-house employees have completed 11 to 12 years of education. In sum, most restaurant workers have a high school education or lower; and front-of-house employees are better educated than their counterparts working in the back-of-house jobs, although the differences are small in size.

Restaurants also differ in how they deploy workers to front- and back-of-house responsibilities, as shown in Figure 2.2. Restaurants targeting high-end customer segments, such as fine dining, have separate front-of-house and back-of-house roles while those targeting lower market segments—particularly quick service or fast food—are more likely to use the same workers to perform front and back-of-house tasks. This reflects the fact that higher priced restaurants compete more on the quality of their food and service, so they require more specialized skills for food preparation versus customer service. More price-focused restaurants offer more standardized menus and service so that the skill requirements of jobs are lower and workers may more easily shift between one role or the other. This also allows fast food and quick service

restaurants to allocate labor more flexibly, thereby reducing labor costs.

The use of formal recruitment and selection processes is one way that restaurants can determine whether job candidates have the right mix of skills for the positions they are being considered for. Establishments that make greater use of these tests are likely to hire workers who better 'fit' the demands of the job. The notable finding in our study is that the overall use of these formal procedures is low—used by less than 50 percent of employers across all of the industry segments (Figure 2.3). They are more common in fine dining (46 percent of restau-

FIGURE 2.2
PERCENT OF ESTABLISHMENTS THAT SHARE FOH-BOH ROLES

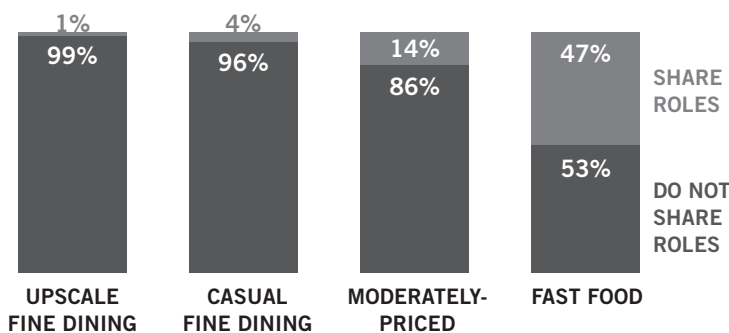
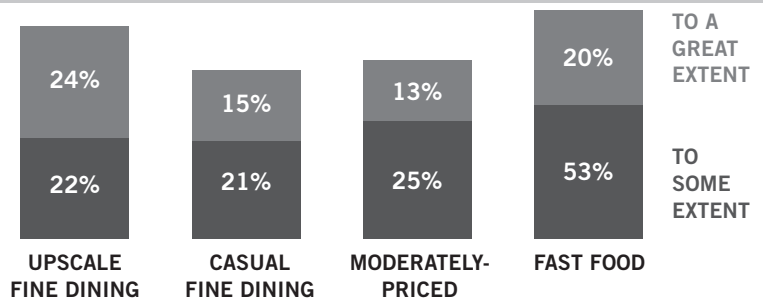


FIGURE 2.3

PERCENT OF ESTABLISHMENTS USING FORMAL SELECTION TESTS

rants), where selection is important; but also in fast food restaurants (49 percent), presumably because they are more likely to be owned by large corporate chains, where standardized hiring practices have been adopted. Our study does not allow us to report on the type of selection tests that restaurants use but it is probable that they vary by customer segment. Fine dining restaurants, for example, are likely to focus on the particular skills needed for particular jobs, while fast food restaurants may be more worried about general abilities or workforce characteristics.



**Training and Development:
Initial Training and Time to Proficiency**

Although restaurants can use formal staffing strategies to recruit qualified workers, they must also train and provide them with restaurant-specific knowledge and skills. This may include, for example, knowledge of restaurant policies and procedures, menu offerings, and prices as well as restaurant specific customer service skills.

We asked managers to report the number of hours of initial training, including orientation and job-related training, provided to a new hire. Across all customer segments, initial training is relatively low—about 40 hours in total (Figure 2.4). Some modest differences exist across employee groups, with back-of-house employees receiving more training than front-of-house employees. This is consistent with the higher cost to recruit, screen, and train a new back-of-house employee presented above. It seems to suggest that employers believe that their food preparation processes are more unique (require more specific training) than do their customer service procedures (which rely on employees’ general social skills to interact effectively with customers).

We also asked managers to report on the time it takes for new hires with little or no experience to become proficient—or fully competent—in their jobs. This is a good indicator of how much on-the-job training employees receive or need to do their work effectively. It also provides a measure of how costly it is for an employer to hire new workers—as the employer is paying full wages during the period in which the employees are less than fully productive. A brief overview (Figure 2.5) shows that even fast food workers require almost two months to become fully productive at work. This is contrary to the general perception that these jobs are low-skilled and workers are easily replaceable. In addition, there is not a large difference between front-of-house and back-of-house employees in the amount of time needed to become proficient at work.

Of course, given differences in the skill requirements of jobs across customer segments, the time to become proficient is higher for upscale restaurants compared to others. Managers report that it takes workers 11.6 weeks—almost 3 months—to become competent in upscale restaurants, compared to just over two months for casual and moderately priced restaurants and 7.3 weeks in fast food operations. But as we discuss later in this report, in fast food restaurants with particularly high turnover, 7.3 weeks to become proficient represents a considerable cost to the establishment.

FIGURE 2.4

AVERAGE HOURS OF INITIAL TRAINING

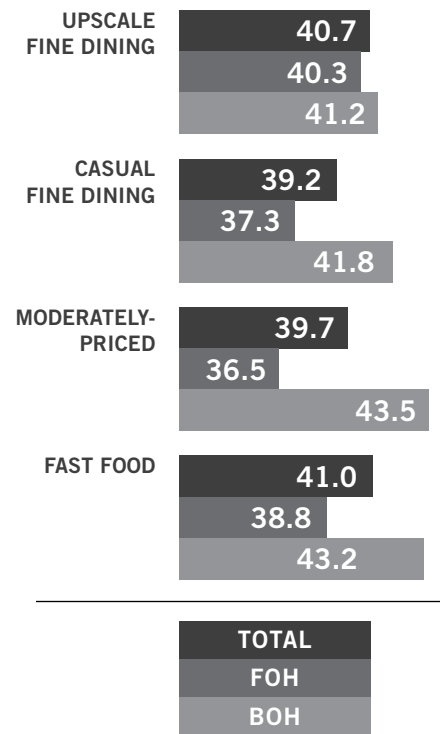
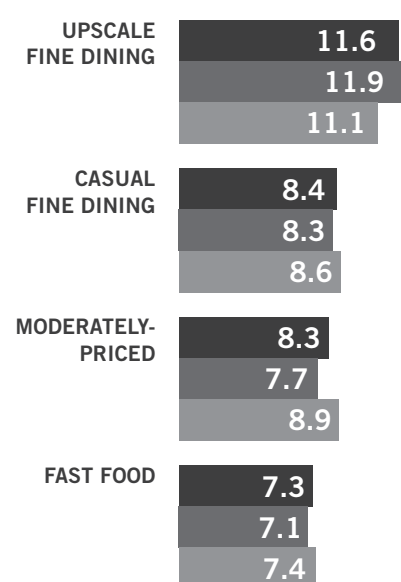


FIGURE 2.5

AVERAGE WEEKS TO PROFICIENCY



Compensation Practices: Wages, Tips, Work Hours, and Benefits

The overall earnings of restaurant workers depend on the number of hours they work each week, their hourly wage, and whether or not they receive tips. We asked managers to provide information on these aspects of employees' work hours and pay during the first half of 2013, based on the typical or median worker in their restaurant—meaning that half are paid more and half are paid less. For the typical restaurant worker in the typical or median restaurant, we calculated the average weekly earnings by multiplying the average weekly work hours and the average hourly wage. We then added in the average weekly tips they receive.

We start by discussing weekly work hours. Back-of-house employees work more hours per week than front-of-house employees across all restaurant segments (Figure 2.6). More generally, workers in higher-priced segments tend to receive more work hours than those serving lower-priced segments. Fast food workers have the lowest number of weekly work hours (on average 29). Variation in work hours plays an important role in determining the overall pay of restaurant workers.

The weekly work hours reported by managers in this study are somewhat higher than those reported in the US BLS data for 2012 and 2013, where the average hours per week for non-supervisory employees in the leisure and hospitality industry is reported at 25 hours (US DOL, BLS 2013a). The difference may be due to our survey sample, which draws on the largest metropolitan areas, where the demand for labor may be greater than in smaller cities and towns. Leisure and hospitality also covers a larger group of establishments than that found in restaurants alone.

Average hourly base wages reflect whether employees receive tips or not. The federal minimum hourly wage for non-tipped workers in 2013 is \$7.25 per hour while that for tipped employees is \$2.13 per hour. The tipped minimum wage was historically pegged between 50 and 60 percent of the full minimum wage. It was set at \$2.13 in 1991, but was delinked from the federal minimum wage in 1996 and has not increased since. If tipped employees do not earn \$7.25 per hour when their tips are taken into account, then their employers are responsible for making up the difference between their actual hourly wage and the federal minimum wage.

Twenty states have minimum hourly wage rates that are higher than the federal minimum while four states have minimums that are lower. Thirty one states have tipped minimum wage rates that exceed the federal minimum, including nine that have tipped minimums of between 60 to 100 percent of the federal minimum, and seven that have eliminated the tipped minimum wage entirely. In states where the tipped minimum wage has been eliminated, all employees must receive the state minimum wage (which is higher than the federal minimum), regardless of whether or not they earn tips. According to the BLS, the highest paid waiters, earning a median \$11.93 including tips, are in Washington, a state with no tipped minimum wage. The lowest paid waiters earn a median \$8.45 in Mississippi, where the minimum wage for tipped employees is \$2.13 (US DOL, Wage and Hour Division 2013; US DOL, BLS 2012).

FIGURE 2.6 WEEKLY WORK HOURS

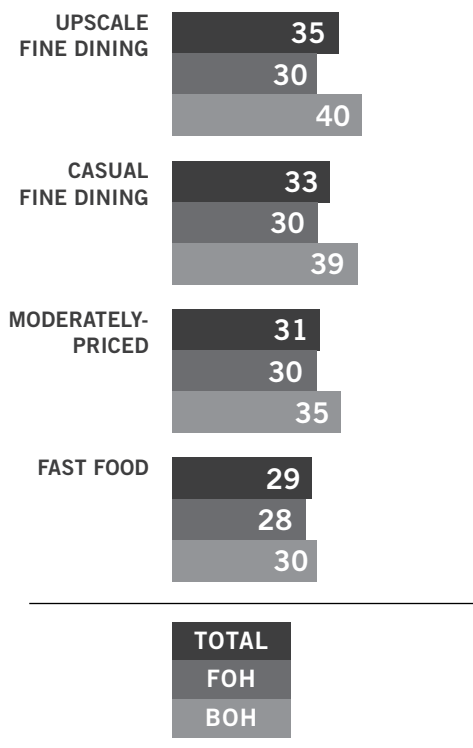
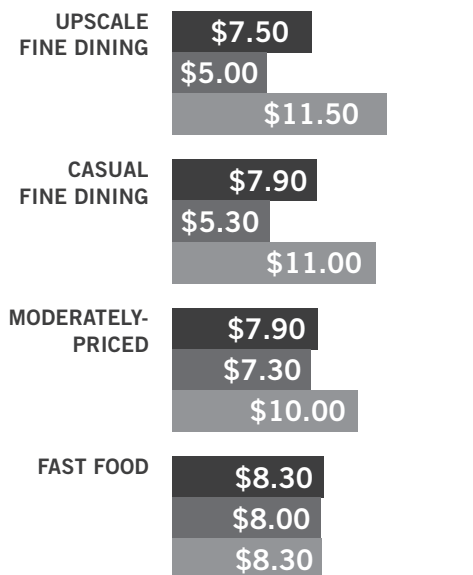


FIGURE 2.7 HOURLY WAGES \$/HOUR NOT INCLUDING TIPS



In the restaurant industry, the typical back-of-house worker does not receive tips and so the federal (or state) minimum wage applies. Similarly, the typical worker in the fast food segment does not receive tips and so is covered by the federal (or state) minimum. Thus, back-of-house and fast food workers tend to receive higher hourly wages than do tipped front-of-house workers. Our survey results reflect these patterns (Figure 2.7).

In fast food restaurants, the typical hourly wage reported by managers was \$8.30 per hour, somewhat more than the federal minimum wage and probably reflecting the fact that many establishments in our survey are located in states where the minimum wage is higher than the federal minimum. Given that fast food restaurants often do not differentiate between front-of-house and back-of-house roles and that workers receive few if any tips, front-of-house and back-of-house wage rates are quite similar in this segment.

Back-of-house workers in higher segments of the industry receive progressively higher hourly wages than those in fast food restaurants. Front-of-house workers in higher segments of the industry receive progressively lower hourly wages because their employers assume that tips will make up an increasingly larger portion of their pay.

These estimates compare favorably with national data from the current population survey administered by the Bureau of Labor Statistics (BLS). The BLS data does not breakdown wages into industry segments exactly as we do in this study. It does, however, survey limited and full service establishments; and that data is very consistent with our survey data. Within limited service establishments, primarily fast food, the median worker earned \$8.81 in 2011. Similarly, a recent analysis of data for 2010-2012, found that 70.4 percent of fast food workers over 16 years old make between \$7.26 and \$10.09 per hour (Schmitt and Jones 2013:3). BLS data for full service restaurants in the entire country for 2011 find that the median wage is \$9.13. Within full service restaurants, in the back-of-house, the median dishwasher earned \$8.79 compared to \$10.52 for cooks. In the front-of-house, the median server earned \$8.91 per hour compared to \$9.16 for bartenders, including tips (US DOL, BLS 2011). Next we turn to the average weekly tips that front-of-house workers receive based on the typical or median worker in the median restaurant. The typical fast food employee receives virtually no tips. This means that the numbers do not represent employees who earn considerably below or above the median worker. For example, they do not capture the earnings of a brand new hire who may have a probationary wage nor do they capture the earnings of a very experienced waiter who makes unusually high tips.

Those workers in fine dining receive twice the level of weekly tips as do those in moderately priced restaurants, and twenty percent more than those in casual dining (Figure 2.8).

To translate these numbers into weekly wages, we multiplied the weekly work hours of each group of employees by their hourly pay and then added in their weekly tips.

Based on these calculations, we estimate that the typical fast food worker earns an average of \$255 per week, with front-of-house workers a bit lower and back-of-house workers a bit higher (Figure 2.9). Because tips are not a major part of these workers' earnings, the dif-

FRONT-OF-HOUSE TIPS **FIGURE 2.8**
\$/WEEK

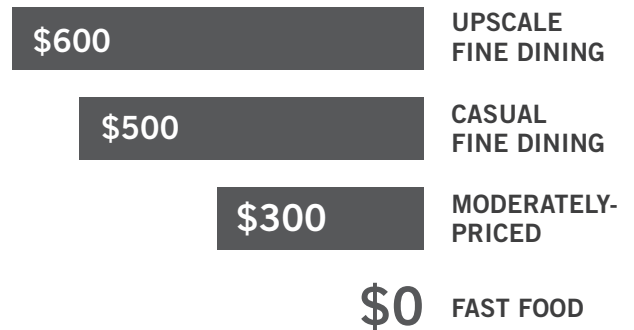
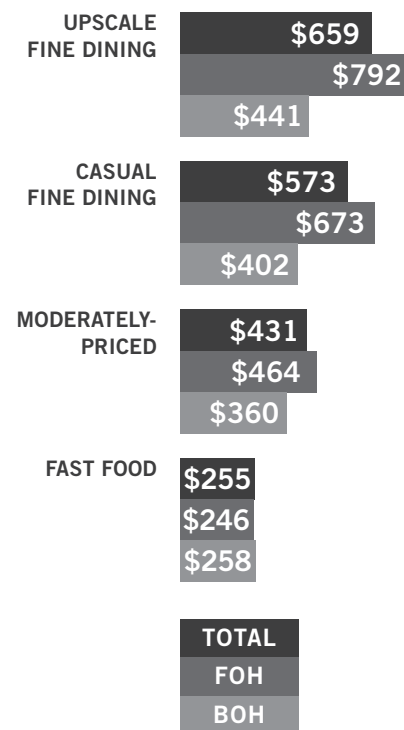


FIGURE 2.9 **WEEKLY WAGES**
\$/WEEK INCLUDING TIPS



ferences between front and back-of-house workers are small.

Back-of-house employees in moderately priced establishments earn \$360 per week, while those in casual dining earn \$402, and in fine dining, \$441. Given that the large majority of employees work in fast food or moderately priced establishments, our estimates compare favorably to the Bureau of Labor Statistics household survey for 2012, where full-time dishwashers are reported to earn \$345 per week, food preparation workers earn \$383 per week, and cooks earn \$389 per week (US BLS 2012).

Our estimates for tipped workers are considerably higher than national BLS data, which finds that the median hourly wage for tipped workers is about \$9.00 per hour. That is because over 50 percent of our sample includes restaurants in metropolitan areas and states with ‘tipped minimum wage rates’ that are more than 60 percent above the federal tipped minimum wage of \$2.13 per hour. Weekly wages including tips for front-of-house workers in our sample range from \$464 in moderately priced restaurants to \$792 in fine dining.

To put these estimates into context, we compared the weekly wages of workers in states with a tipped minimum wage of up to 40 percent above the federal minimum to those with state minimums of more than 60 percent above the federal minimum. The latter had weekly wages that were over 18 percent higher than the former. Thus, our findings suggest that a higher tipped minimum wage can substantially raise the weekly wages of tipped workers. It is also particularly important to note that the vast majority of restaurant employees do not work in the higher priced segments of the industry, where at least some workers are able to make a decent income. In the restaurant industry as a whole, the typical employee works in a moderately priced or fast food establishment, where wages are substantially lower.

Translating these weekly wages into annual wages is difficult because restaurant seasonality and high turnover rates mean that only 56 percent of the restaurant workforce is employed 50-52 weeks per year, according to the American Community Survey (ACS) conducted by the Bureau of Labor Statistics (ACS 2007-2011). For those workers who reported weeks of work in 2011, 14 percent worked less than 13 weeks, 10 percent worked 14-26 weeks; 9 percent, 27-30 weeks; 7 percent, 40-47 weeks; and 3 percent, 48-49 weeks.

For this study, we calculated annual earnings based on a 52-week schedule—thus these estimates represent the high end of what restaurant workers make each year. In fast food restaurants, the annual pay for the typical worker would be \$13,257 (\$255/52 weeks per year). In moderately-priced restaurants, the figures are \$18,720 for back-of-house and \$24,123 for front-of-house workers—neither of which provides a living wage. In casual fine dining, the annual wages are \$20,902 (BOH) and \$34,990 (FOH), and in fine dining, \$22,932 (BOH) and \$41,184 (FOH). Note that while back-of-house workers in fine dining earn about 70 percent more than similar workers in fast food workplaces, they do not make a living wage.

We did further analyses to identify variation in wages across cities in different regions and among restaurants employing different demographic groups. We found that restaurants in our study that are located in Western cities pay statistically significantly higher hourly and weekly wages than those in the other regions. This pattern probably reflects the fact most of the Western cities in the sample were located in California or Washington, which have no tipped minimum wage and have among the highest state minimum wages. In those states, all restaurant workers must receive the regular minimum wage, regardless of whether they earn tips. Restaurants that employ a higher percentage of women pay lower wages, and when we take into consideration other factors, such as regional location and customer segment differences, we still find that restaurants that employ more women pay less (for example, restaurants that employ 10 percent more women pay 2.0 percent lower wages, and these results are statistically significant).

In additional regression analyses that take into account regional location, establishment size, ownership structures, management practices, and demographic characteristics, we found that the education



level of employees has a significant relationship with wage levels. For employees with a college degree, those in front-of-house positions earn about 17 percent more than those with a high school degree or less. College degree workers in back-of-house positions earn 8 percent more than do workers with a high school education or less. But for employees with only some college (1-2 years), they receive no wage premium, regardless of the position they hold.

More importantly, in these analyses, the most substantial factor that significantly affects wages is the customer segment that the restaurant serves. The most substantial factor that significantly affects wage levels is the customer segment that the restaurant serves. Among front-of-house workers, those working in fast food or quick service make 37 percent less than do those in moderately priced restaurants, 59 percent less than those working in casual fine dining, and 73 percent less than those in upscale fine dining establishments. For back-of-house employees, those in fast food earn about 5 percent less than their counterparts in moderately priced restaurants and about 12 percent less than those in casual and upscale fine dining. It is important to remember that most workers are employed in the lower or price-conscious segments of the industry, and the vast majority are people of color and women. In this study, it is also notable that men comprise nearly 70 percent of the workforce in fine upscale dining, where wages and benefits are the highest.

Benefits are also an important part of overall compensation, but the restaurant industry has traditionally offered few benefits to employees. There are many possible reasons for this, including the fact that restaurant workers are often part-time, seasonal, student, or immigrant workers who are viewed as temporary and who have little bargaining power. These patterns are evident in our survey data. The only commonly-offered benefit is free or discounted meals. More than 90 percent of all managers reported providing free or discounted meals to their employees.

A very basic benefit—paid sick leave—is available to employees in only a minority of restaurants, ranging from 14 percent of fast food establishments to 27 percent of upscale restaurants. Similarly, paid time off is provided in only 16 percent of fast food restaurants and about 30 percent of upscale and casual dining workplaces. Paid vacation time is offered in only about one-third of fast food restaurants, 36 to 39 percent of casual and moderate priced restaurants, and just over 50 percent of fine dining establishments. Finally, between 28 percent and 54 percent of establishments provide some level of subsidized health insurance, depending on the customer segment served (Figure 2.10).

These reported benefit levels are in the range of those reported in other surveys, such as the Center for Disease Control’s National Health Interview Survey (2011), which found that only 20 percent of restaurant workers have access to paid sick days (Minnesota Population Center and State Health Access Data Assistance Center 2012). Our survey estimates may also be somewhat higher because our survey covers the 33 largest metropolitan areas of the country, where the cost of living is higher than smaller cities and towns.

These results should also be interpreted with caution because we were only able to collect information on whether or not a benefit is available at a given workplace, not on the level of the benefit (for example, how many days of sick leave are offered per year) nor which employees or what percentage of employees have access to the benefit. Given that benefits are offered in only a minority of establishments, however, we would expect that where benefits exist, the level of benefits offered—such as the number of paid sick days—is relatively low.

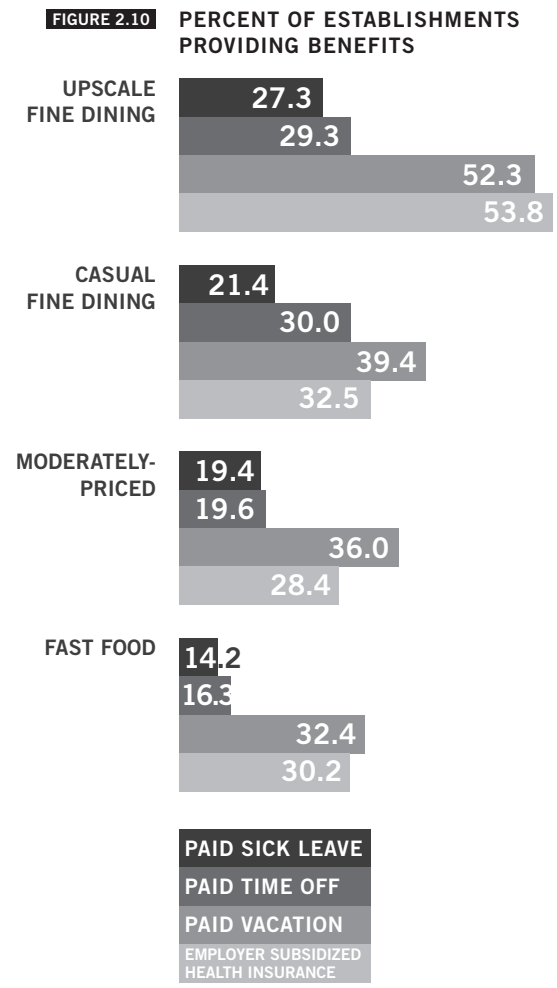


FIGURE 2.11 FOH EMPLOYEE DISCRETION

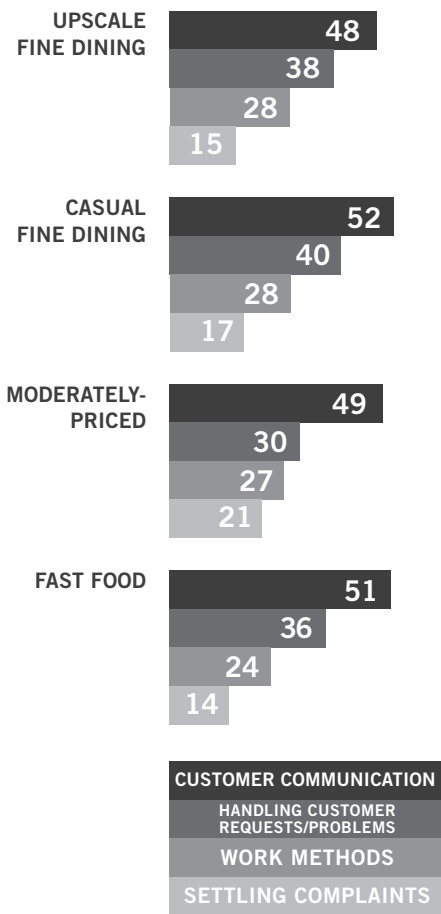
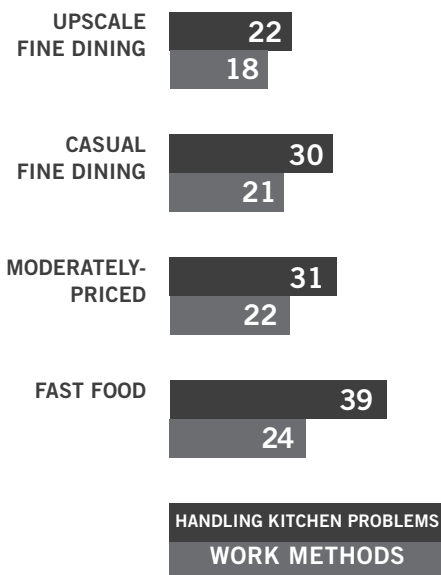


FIGURE 2.12 BOH EMPLOYEE DISCRETION



The Organization of Work: Employee Discretion

A key aspect of work is the level of discretion that employees have to decide how to do their jobs. Research in other industries has shown that companies that provide employees with higher levels of discretion and opportunities for involvement have lower turnover and better quality service.

We surveyed four types of discretion among front-of-house workers: discretion over what employees say to a customer (customer communication), over handling additional customer requests or problems that arise unexpectedly (handling customer requests/problems), over work methods or procedures (work methods), and over settling customer complaints without referral to a supervisor (settling complaints). Figure 2.11 shows the proportion of restaurants that indicate that front-of-house employees have a lot or a great deal of discretion over each of these dimensions of their work. The findings are somewhat surprising. Overall, only about 50 percent of managers report that employees have discretion over a basic part of their job: how they communicate with customers. Beyond this, discretion over other dimensions of work is lower, even in fine dining establishments. Only forty percent or fewer report that employees have discretion over solving customer problems; less than 30 percent allow employee discretion over work methods, and less than 20 percent give employees discretion to settle customer complaints. Surprisingly, upscale fine dining managers offered the least discretion to employees, suggesting they believe that tight control over work procedures is the source of high quality production and service.

Figure 2.12 shows the level of discretion over work methods and handling kitchen problems that managers say they allow for back-of-house employees. Only one-third of restaurants give their back-of-house employees the discretion to influence work methods or handle kitchen problems. The pattern that upscale fine dining restaurants are less likely to offer discretion also applies here.

Low levels of discretion are problematic if restaurants seek to provide high quality service because employees need to be able to respond on the spot to customer requests, according to the academic research on this topic. It is front-line workers who are most likely to uncover problems in the course of their daily work, and in turn, offer solutions. However, the results of this study show that employee discretion is not a common feature for restaurant jobs. Total quality management research, for example, emphasizes that more discretion and employee involvement in decision-making is the key to identifying and solving problems and customizing service to meet the particular demands of consumers. And empirical research in strategic human resource management consistently finds that establishments have lower turnover and better service and productivity when they give employees greater discretion to solve problems in the course of doing their jobs—rather than refer problems to supervisors who have less direct knowledge of work processes and customer demands.

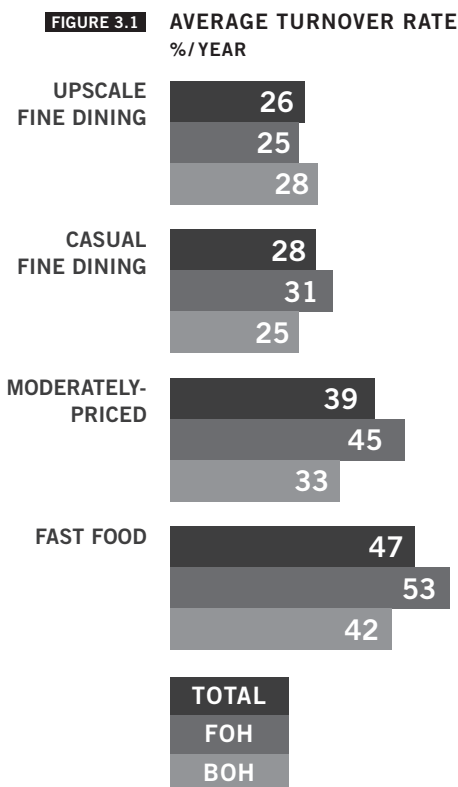
3 RESTAURANT PERFORMANCE

How Do Management Practices Affect Turnover?

High turnover is a major problem in the restaurant industry, and high turnover rates lead to higher costs of recruitment and training, lower productivity, and lower service quality. A large body of academic research has shown that high turnover rates have substantial negative effects on the operational and financial performance of companies. For organizations, turnover is costly for several reasons. First, it raises labor costs—the costs of selecting, recruiting, and training replacements—which include both the labor time invested by managers as well as new hires.

Second, turnover leads to the loss of firm-specific human capital. Compared to experienced workers, new employees are less proficient, so they typically have lower levels of quality or productivity. Newly hired restaurant workers are less familiar with menus, service offerings, and the extent to which meals may be customized. And they have not built relationships with long term customers, who expect their preferences to be known. Third, longer-term employees are likely to be more loyal or committed to an organization than new employees (Meyer, Stanley, Herscovitch, & Topolnytsky 2002), which translates into higher levels of motivation to work harder for organizational success.

Fourth, high turnover leads to overall disruption of operations—shifting attention and resources of managers and co-workers away from productive activities to the training and socialization of new employees (Batt 2002; Leana & Van Buren III 1999; Shaw, Duffy, Johnson & Lockhart 2005). Time devoted to these tasks represents opportunity costs to managers and employees, who could spend that time on innovations to improve customer relations, product or service offerings, or market share. A growing body of empirical research has shown that organizations with high turnover rates have significantly lower organizational performance, as measured by such outcomes as profits and sales (Batt 2002; McElroy, Morrow & Rude 2001; Simons & Hinkin 2001); operational performance including quality and productivity (Appelbaum, Bailey, Berg, & Kalleberg 2000; Arthur 1994; Huselid 1995; MacDuffie 1995) customer-related outcomes such as wait times (Kacmar et al 2006; Peterson & Luthans 2006); perceptions of service quality (Hausknecht, Trevor & Howard 2009) and customer satisfaction (Batt & Colvin 2011). These studies also show how investment in human resources reduces turnover and improves organizational performance. The combined costs of hiring, training, and replacing one worker is expensive, even in what appear to be relatively routine service jobs. For example, in a national study of US call centers,





these costs equaled about two months of a typical worker’s pay, not including the effects of lost productivity (Holman, Batt, & Holtgrewe 2007: 37).

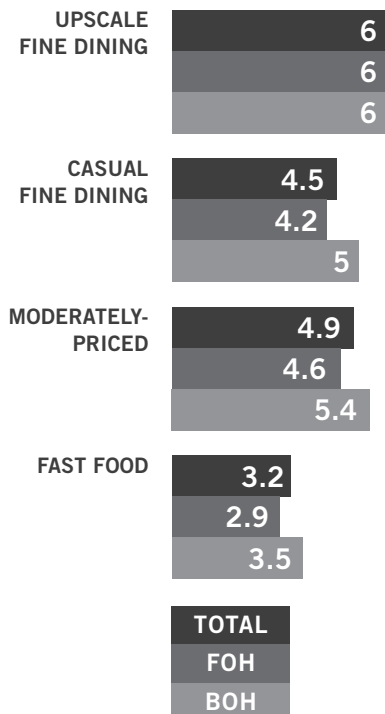
Turnover rates are measured as the percentage of employees who leave the workplace voluntarily (quit) or involuntarily (dismissal) in a given year. Whether voluntary or involuntary, employee turnover has an important effect on restaurant performance because replacing employees incurs costs associated with recruiting, selecting, and training new employees, in addition to forgone productivity until new hires become fully proficient in their jobs. Restaurants that participated in this study reported annual turnover rates of between 25 and 53 percent, with the lowest for upscale fine dining restaurants and the highest for fast food/quick service workplaces. This means that one in four employees working in upscale fine dining and one out of two employees in fast food/quick service leave their workplace every year. The quit rate of front-of-house employees is higher than that of back-of-house employees for most restaurants, with the exception of upscale fine dining.

Note that these rates are somewhat lower than those reported by the Bureau of Labor Statistics for the hospitality industry in general, which were estimated at 62.7 percent in 2012. The difference is due to the fact that our survey only covers the largest metropolitan areas and is not weighted by the proportion of people employed in different segments of the industry. The BLS data are a nationally representative sample of employees, and the largest group works in fastfood or the low end of the industry where turnover rates are higher.

Turnover, in the form of quits and dismissals, affects the tenure of employees or the average length of service in each restaurant. In general, restaurants with a higher rate of annual turnover have a lower tenured workforce, while restaurants with a lower rate of turnover have a higher tenured workforce. Thus, upscale fine dining restaurants, with the lowest relative turnover rates compared to restaurants serving other segments, have the highest employee tenure—or the most stable and experienced workforce. Figure 3.2 shows the average tenure of the typical restaurant worker in this study. In upscale fine dining restaurants, the typical employee stays an average of almost 6 years. Again, this suggests these restaurant jobs are not just a temporary stepping stone on the way to better jobs; rather, employees are building their careers in the restaurant industry. Average employee tenure for casual fine dining and moderately-priced family style/casual restaurants is reported at between 4.5 years to 4.9 years. It should be noted that back-of-house employees tend to stay longer than front-of-house employees by 5-7 months. This may be due to the better labor market opportunities that front-of-house workers have. Finally, as one might expect, employee tenure for fast food/quick service worksites is the shortest, ranging from 2.9 to 3.5 years.

The costs of turnover are high. They include the costs to replace an employee as well as the lost productivity of new hires. In the current study, we asked managers how much it cost to hire, train, and replace an employee who quits. We also calculated the cost of lost wages during the time when new hires have not yet reached proficiency. Recall that managers in this study reported

FIGURE 3.2 AVERAGE TENURE IN YEARS



that it takes an average of between about 7.3 and 11.6 weeks for new hires to become fully proficient at work, depending on the restaurant segment. Assuming that employees are steadily learning their jobs during that time, they achieve only 50 percent productivity but are paid 100 percent of their hours. Note also that because it takes much longer for an employee in fine dining to become proficient, the per-employee costs of turnover are considerably higher.

Based on these estimates and the turnover rates reported in our study, we calculated that costs of turnover at a small moderately priced restaurant of 30 employees would equal about \$18,200 per year. If the restaurant was part of a chain of 10 restaurants, it would cost \$182,000 per year. If it was part of a large chain of 100 restaurants, the company would absorb \$1.82 million in costs.

How Investment in Human Resources Reduces Turnover

Given the high levels of turnover in restaurants, it is important to identify which human resource (HR) practices reduce or increase employee turnover and tenure. We performed multivariate regression analyses to help us identify the effects of each HR practice on these outcomes, after taking into account all other factors. For example, we compared restaurants with similar size and age, with the same customer segment and ownership structure, and in the same region. This allows us to compare apples to apples rather than apples and oranges. Table 3.1 shows the top five HR practices that are the most critical for reducing turnover and increasing tenure.¹

TABLE 3.1 THE IMPORTANCE OF HR PRACTICES²

RANK	TOTAL		FRONT-OF-HOUSE		BACK-OF-HOUSE	
	TURNOVER	TENURE	TURNOVER	TENURE	TURNOVER	TENURE
1	Job security	Hourly wages / Tips	Job security	Hourly wages	Work hours	Job security
2	Hourly wages	Job security	Promotion from within	Tips	Hourly wages	Hourly wages
3	Discretion	Discretion	Hourly wages	Work hours	Discretion	Discretion
4	Promotion from within	Work hours	Discretion	Promotion from within	Benefits	Work hours
5	Benefits	Benefits	Benefits	Discretion	—	Benefits

In general, hourly wages and job security are the most important factors that influence employee turnover and tenure, along with the number of work hours and discretion that employees have at work, and promotion from within policies. The amount of training the employers provide is also important.

We also analyzed how investment in a bundle of coherent work and human resources practices influences employee turnover and tenure. A large body of academic research has shown that employers that invest more in their workforce—by offering training, creating jobs that allow employees greater discre-

¹ All of these factors were statistically significant in our regressions. The factors are ranked from 1 to 5 based on which factors had the largest effect in magnitude on tenure or turnover.

² Job security is measured as the percentage of full time employees at the establishments.

FIGURE 3.3 TURNOVER BY HIGH INVOLVEMENT SYSTEM QUARTILES

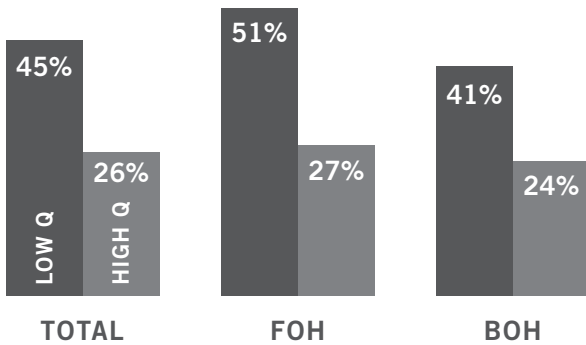
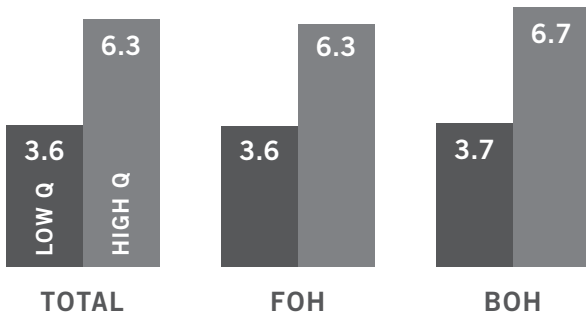


FIGURE 3.4 TENURE BY HIGH INVOLVEMENT SYSTEM QUARTILES



tion, and offering high relative compensation and job security—have significantly lower turnover rates, which translates into higher productivity and customer satisfaction. These practices are often referred to as ‘high involvement’ or ‘high performance’ practices. In other words, taking the ‘high road’ to workforce management pays off in business terms (Combs, Liu, Hall, & Ketchen, 2006).

To examine the relationship between high involvement practices and turnover and tenure, we created an additive index of HR practices by standardizing each HR practice and taking the mean of all practices. We compared the turnover and tenure rate between restaurants that scored in the lowest quartile in investment in HR practices and those that scored in the highest quartile. Figures 3.3 and 3.4 show that investments in HR practices have substantial and significant pay-offs in terms of lower turnover and higher tenure. For example, restaurants in the lowest quartile of investing in HR practices have annual employee turnover of between 41 percent and 51 percent—significantly higher than the turnover rates of 24 to 27 percent for restaurants in the highest quartile.

Investment in HR practices has a similar effect on employment stability, or tenure. In low quartile restaurants that invest little in HR practices, employees typically stay for only 3.6 years. By contrast, those in the top quartile of investing in HR practices have almost twice the level of employment stability—with the typical employee staying 6.3 years or more.

In sum, human capital investments pay off in the restaurant industry. Restaurants do better when they offer training; organize work so that employees can use their skills effectively; and provide higher than average pay, benefits, and working hours. These restaurants create the kind of stable and experienced workforce that is capable of solving problems on the job, providing excellent customer service, and is motivated to improve performance. As consumers become more sophisticated in their tastes and demands for service, those restaurants that neglect investments in their workforce may find themselves less able to compete in the current economy.

4 Conclusion

The restaurant industry has become an increasingly important sector in the US economy—in terms of its contribution to GDP, its services to consumers, and its employment of workers. Millions of individual workers and their families depend on restaurant work as their primary source of income—not as a secondary source. And millions of Americans whose lives have become increasingly demanding rely heavily on restaurants rather than home-cooked meals.

This national study highlights the range of management practices in the industry. Despite the increasing importance of this industry to the economy and society, investment in human resource practices has failed to keep up. The majority of workers in the industry receive low wages, few benefits, and insufficient work hours. Low investment in human resources translates into high levels of employee turnover and workforce instability, which are costly and problematic for providing the kind of service that customers demand—even in price-conscious restaurants. At the same time, some restaurants do invest in their employees, and the investment pays off by building a more skilled and stable workforce capable of high productivity and high quality service that produces a strong and loyal customer base.

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APPENDIX 1

Core Based Statistical Areas (CBSA) Surveyed

NORTHEAST

Boston-Cambridge-Quincy, MA-NH
Bridgeport-Stamford-Norwalk, CT
New York-Northern New Jersey-Long Island, NY-NJ-PA
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD
Pittsburgh, PA
Providence-New Bedford-Fall River, RI-MA

SOUTH

Atlanta-Sandy Springs-Marietta, GA
Dallas-Fort Worth-Arlington, TX
Baltimore-Towson, MD
Houston-Sugar Land-Baytown, TX
Kansas City, MO-KS
Miami-Fort Lauderdale-Pompano Beach
Orlando-Kissimmee-Sanford, FL
San Antonio-New Braunfels, TX
Tampa-St. Petersburg-Clearwater, FL
Washington-Arlington-Alexandria, DC-VA-MD-WV

MIDWEST

Chicago-Joliet-Naperville, IL-IN-WI
Cincinnati-Middletown, OH-KY-IN
Cleveland-Elyria-Mentor, OH
Detroit-Warren-Livonia, MI
Minneapolis-St. Paul-Bloomington, MN-WI
St. Louis, MO-IL

WEST

Denver-Aurora-Broomfield, CO
Las Vegas-Paradise, NV
Los Angeles-Long Beach-Santa Ana, CA
Phoenix-Mesa-Glendale, AZ
Portland-Vancouver-Hillsboro, OR-WA
Riverside-San Bernardino-Ontario, CA
San Francisco-Oakland-Fremont, CA
Sacramento-Arden-Arcade-Roseville, CA
San Diego-Carlsbad-San Marcos, CA
San Jose-Sunnyvale-Santa Clara, CA
Seattle-Tacoma-Bellevue, WA



A NATIONAL STUDY
of Human Resource Practices,
Turnover, and Customer Service
in the Restaurant Industry



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