CHAPTER 1: INTRODUCTION

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CHAPTER 1: INTRODUCTION

Chapter Overview

The chapter opens with a brief introduction to the meaning and concept of employee turnover and retention. This is followed by an overview of non-profit organizations, the chosen sector for this study. It then lays down the scenario of staff turnover & retention in non-profit sector in India. Next, it discusses the significance and objectives of this study. At the end it gives an overview of research framework followed for the present study.

1.1. Employee Turnover and Retention: Meaning and Concept

Researchers have long been interested in employee turnover and retention issues. Steers and Mowday (1981), observed that some of the early studies on turnover can be traced to authors like Brayfield and Crockett (1955) who discussed the impact of employee attitudes on turnover, and March and Simon (1958) who focused on job satisfaction and job commitment as the primary drivers of turnover. By 1980, there were over 1000 published articles in reputed journals on the subject of turnover (Steers & Mowday 1981). This number has increased manifold over the years (Barrick & Zimmerman, 2005). This demonstrates the interest that turnover has attracted as a subject of inquiry by researchers.

According to Ivancevich and Glueck (1989), employee turnover is the net result of the exit of some employees and entrance of others to the organization. Singh et al. (1994) also define staff turnover as the rate of change in the working staffs of a concern during a definite period. Kossen (1991) defined the staff turnover as the amount of movement in and out (of employees) in an organization. Loquercio et al. (2006) observed that staff turnover is the proportion of staff leaving in a given time period but prior to the anticipated end of their contract. Employee turnover is the rotation of workers around the labor market, between firms, jobs and occupations, and between the states of employment and unemployment (Abassi & Hollman, 2000). Employee turnover, as defined by Hom and Griffeth (1994), is “voluntary terminations of members from organizations”. Staff turnover that can occur in any organization might be either voluntary or involuntary. Voluntary turnover refers to
termination initiated by employees while involuntary turnover is the one in which employee has no choice in the termination as it might be due to long term sickness, death, moving overseas, or employer-initiated termination. (Heneman, 1998). A number of terms have been used for employee turnover, such as quits, attrition, exits, mobility, migration or succession (Morrell et. al, 2004). It, however becomes important to distinguish between situations where employees leave on their own, and where employees are asked to leave the organization. There are three fundamental characteristics of turnover viz. voluntariness, avoidability and functionality (Morrell et al., 2001). Though there are many causes for employee turnover in an organization, all of those do not have negative impact on the well-being of an organization. Organizations should differentiate between voluntary and involuntary turnover and take actions on the one under their control (Loquercio et al., 2006).

Voluntary turnovers are those caused by the employee out of his/ her own choice (e.g. to take job in other organization for better salary) while involuntary turnovers are because of the decision of management (e.g. dismissal for gross misconduct). In general, all resignations not formally initiated by employers are voluntary resignations. Voluntary turnovers are further distinguished by functional and dysfunctional turnovers. Functional turnovers are the resignation of substandard performers and dysfunctional turnovers refer to the exit of effective performers. Dysfunctional turnover is of greatest concern to the management due to its negative impact on the organization’s general performance. Dysfunctional turnover could be further classified into avoidable turnover (caused by lower compensation, poor working conditions etc.) and unavoidable turnovers (like family moves, serious illness, death etc.) over which the organization has little or no influence (Griffeth & Hom, 2001). Therefore, management should accord special attention to avoidable turnover over which it has control, as a strategy for improving staff retention. However, the domain of the present study is only voluntary form of turnover as this is an area that merits serious research attention.

Employee turnover costs organization needless expenses (Buck & Watson, 2002). Replacements and training expenses have a direct impact on organizational costs, productivity and performance, and as such, an increasing number of organizations are now recognizing employee retention as a key strategic issue (Glen, 2006). The
main purpose of retention is to prevent the loss of competent employees from the organization as this could have adverse effect on productivity and service delivery (Samuel & Chipunza, 2009). The Harvard Business Essentials (2002) defined retention as the converse of turnover, being voluntary and involuntary. It is a voluntary move by an organization to create an environment which engages employees for a long term (Chaminade, 2007). From a managerial perspective, the attraction and retention of high-quality employees is more important today than ever before. A number of trends (e.g., globalization, increase in knowledge work, accelerating rate of technological advancement) make it vital that firms acquire and retain human capital. While there are important differences across countries, analysis of the costs of turnover as well as labor shortages in critical industries across the globe have emphasized the importance of retaining key employees for organizational success (Hinkin & Tracey, 2000).

Hinkin and Tracey (2000) noted that even for jobs that do not require high level of skills, a retention strategy can positively affect the engagement, turnover and ultimately financial performance, especially, for positions that involve interaction with customers. When a significant share of employees only stays for a limited time with a company, often that is a pointer towards underlying problems that need to be explored and addressed by determining the most adequate measures. In response, managers have implemented HR policies and practices to actively reduce avoidable and undesirable turnover (Fulmer et al., 2003; Hom et al., 2008; Kacmar et al., 2006; Michaels et al., 2001). Given the development of new managerial approaches to retention, labor market dynamism, and evolution in research methodology and technology, it is not surprising that turnover continues to be a vibrant field of research despite more than 1500 academic studies addressing the topic.

1.2 Non-Profit Organizations: An Overview

A non-profit organization is a group organized for purposes other than merely generating profit and the purpose is to serve the society’s interests. Non-profit organizations share a set of similarities that distinguish them from government and business entities and make it reasonable to consider them as a group. Non-profit
organizations exist to make a difference in society (Drucker, 1992) with key importance placed on organizational mission and values (Drucker, 1989; O’Connell, 1988; O’Neill & Young, 1988).

In this context, the term Non-Governmental Organizations (NGO) has also been used by researchers (Lewis, 2009). The World Bank defines Non-Governmental Organizations as ‘private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development’ (World Bank Operational Directive, 1989). An NGO is a citizen-based association that operates independently of government, usually to deliver resources or serve some social or political purpose. The work undertaken by NGOs is wide-ranging but NGO roles can be usefully analyzed as having three main components: implementer, catalyst, and partner (Lewis, 2007).

The term Non-Governmental Organization is often used to refer to any non-profit, voluntary citizens’ group which is organized on a local, national or international level. The world of NGOs contains a wide variety of labels. While the term ‘NGO’ is widely used, there are also many other overlapping terms used such as ‘non-profit,’ ‘voluntary,’ and ‘civil society’ organizations (Lewis, 2009). Thus, it is clear that the terms Non-Government Organization (NGO) and Non-Profit Organization (NPO) are interchangeably used.

Task-oriented and driven by people with a common interest, NPOs perform a variety of service and humanitarian functions, bring citizen concerns to Governments, advocate and monitor policies and encourage political participation through provision of information. Many of these NPOs are organized around specific issues, such as human rights, environment or health. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements.

As a voluntary organization, an NPO is not required to exist by law, but is formed by private initiative, resulting from voluntary actions of individuals. As a non-profit organization, an NPO is not operated for the primary purpose of carrying on a trade or business, although profits may be generated for the mission of the organization. A more accurate term may be non-profit distributing, in that any
surplus that is generated is to be used solely to help the organization fulfil its mission and objectives, with no part of the net earnings of the NPO to be distributed to the benefit of the directors, officers, members, or employees of the NPO, or any private persons, other than reasonable compensation for services rendered. In effect, NPOs are organizations that are neither part of the government sector nor part of the business sector. For such reasons, they are sometimes referred to being part of the 'third sector' in society. (Salamon & Anheier, 1992)

Vakil (1997) states that NPOs are self-governing, private, not-for-profit organizations that are geared to improving the quality of life for disadvantaged people. One can therefore contrast NPOs with other types of ‘third sector’ groups such as trade unions, organizations concerned with arts or sports, and professional associations.

Despite the fact that NPOs are neither run by government, nor driven by the profit motive, there are nevertheless some NPOs that receive high levels of government funding, and others that seek to generate profits to plough back into their work (Lewis, 2009). Cousins (1991), laid down that among the wide variety of roles that NPOs play, the following six can be identified as important:

1. Development and Operation of Infrastructure
2. Supporting Innovation, Demonstration and Pilot Projects
3. Facilitating Communication
4. Technical Assistance and Training
5. Research, Monitoring and Evaluation
6. Advocacy for and with the Poor.

Another framework based on which one could understand the NPOs is ‘social enterprise’ framework. This term evokes various kinds of images and impressions among researchers and practitioners. According to Alter and Children (2000), social enterprises are driven towards innovation primarily by two forces: first, the nature of the desired social change offer benefits from innovative, entrepreneurial or enterprise-based solutions; second, the sustainability of the organization and its services is dependent on innovations in identifying various streams of income generating activities so as to diversify its funding sources. Social enterprises are hybrid organizations that have mixed characteristics of philanthropic and
commercial organizations in several aspects, such as motives, methods, goals and key stakeholders (Dees et al., 1998). Building upon this perspective, Dees et al. (1998) proposed an organizational spectrum, wherein at one end of the continuum were purely philanthropic organizations, with social organizations in the middle and purely commercial organizations at the other end of continuum. This framework propounded by Dees et al. (1998) is presented in Exhibit 1.1.

**Exhibit 1.1 : The Organizational Spectrum: Positioning of Social Enterprise**

<table>
<thead>
<tr>
<th>Category</th>
<th>Purely philanthropic</th>
<th>Social Enterprises</th>
<th>Purely Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Motives</strong></td>
<td>Appeal to goodwill</td>
<td>Mixed motives</td>
<td>Appeal to self interest</td>
</tr>
<tr>
<td><strong>Methods</strong></td>
<td>Mission driven</td>
<td>Mission &amp; market driven</td>
<td>Market driven</td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td>Social value</td>
<td>Social &amp; economic value</td>
<td>Economic value</td>
</tr>
<tr>
<td><strong>Beneficiaries</strong></td>
<td>Pay nothing</td>
<td>Pay subsidized rates, or are a mix of full payers and non-payers</td>
<td>Market – rate prices</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>Donations and grants</td>
<td>Below market capital, or a mix of donations and market rate capital</td>
<td>Market-rate capital</td>
</tr>
<tr>
<td><strong>Workforce</strong></td>
<td>Volunteers</td>
<td>Employees retained at below-market wages, or mix of volunteers, part-time and fully paid staff</td>
<td>Employees retained at market-rate compensation</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>In-kind donations</td>
<td>Acquired at special discounts, or a mix of in-kind donations and fully paid facilities</td>
<td>Acquired at market-prices</td>
</tr>
</tbody>
</table>


Since there were difficulties in clearly defining a social enterprise, as it possessed the features of both ‘non-profit’ and ‘for-profit’ organizations, Alter & Children (2000) attempted to represent social enterprises on a ‘hybrid spectrum’ (see Exhibit–1.2). The Hybrid spectrum identifies social enterprises as combining the features of non-profit and for-profit organizations. On the spectrum, hybrid organizations get defined and positioned by the degree of variations in their motives, accountability, and use of surpluses/profits.
Exhibit 1.2 : The Hybrid Spectrum: The Non-profit/ For-profit Continuum

<table>
<thead>
<tr>
<th>Traditional nonprofit organizations</th>
<th>Nonprofit with income-generating activities</th>
<th>Social enterprise</th>
<th>Socially responsible business</th>
<th>Corporation practicing social responsibility</th>
<th>Traditional for-Profit organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mission motive</td>
<td></td>
<td></td>
<td></td>
<td>• Profit-making motive</td>
<td></td>
</tr>
<tr>
<td>• Stakeholder accountability</td>
<td></td>
<td></td>
<td></td>
<td>• Shareholder accountability</td>
<td></td>
</tr>
<tr>
<td>• Income reinvested in social programs or for meeting operational costs</td>
<td></td>
<td></td>
<td></td>
<td>• Profits distributed to shareholders</td>
<td></td>
</tr>
</tbody>
</table>


There is yet another framework available for understanding the non-profit organizations, that tries to understand the nature of social organizations by specifying the sectoral affiliation of voluntary organizations and social enterprises, and the same was propounded by Westall and Chalkley (2007). As social sector organizations do not fully belong either to the public or private sector but combine features of both, they preferred to call it the ‘Third Sector’ (see Exhibit-1.3).

Even though this is not a fully homogeneous sector, Westall and Chalkley (2007) identified two major subtypes of organizations within this sector, viz.,

(i) voluntary and community organizations, and

(ii) social enterprises.

Thus according to the Third Sector framework, both the above kinds of organizations were in the nature of non-profit organizations.
For social enterprises, the major part of their funds comes from such income-generating activities, whereas for volunteer/community organizations, the major source of funds is donations from individuals or organizations. Therefore, even if income is generated by social enterprises, it is ploughed back into the operations and pooled with the donated funds, essentially maintaining the non-profit nature of such organizations. Thus non-profit organizations fall under the categorization of Third Sector organizations.

A number of characteristics of these non-profit organizations have been uncovered by researchers. Some of the these are:

- Non-profit organizations are generally accountable to a number of stakeholders, rather than mainly to shareholders as for private companies (Murray & Tassie, 1994). Almost all are dependent to some extent on public fund-raising (Herman, 1994).
• Voluntarism is an essential ingredient (Hudson, 1999) with the sector based fundamentally on choice rather than compulsion (Mason, 1996; Paton, 1992).

• Unlike the private sector, there is generally a separation of customers from funders (Herman, 1994; Paton and Cornforth, 1992) or of 'recipients' from 'purchasers' (Hansmann, 1980).

• Non-profit organizations operate in a complex operating environment with a range of legal and financial constraints (such as issues of tax deductibility, governance, etc.), often in addition to other regulation (Billis, 1993; O’Neill and Young, 1988).

• Many non-profit organizations have an ideological commitment to community involvement (Mason, 1996) and participatory decision-making (Paton and Cornforth, 1992).

• Non-profit organizations are subject to a range of success criteria, often with a high degree of ambiguity compared with, for example, “profit” for the business sector (Murray and Tassie, 1994; O’Neill and Young, 1988; Paton and Cornforth, 1992). While it is true that most non-profits spend much of their time worrying about money (Drucker, 1989), profit is not the objective of their operations (Anthony, 1977).

• Many non-profit organizations are open to innovation and may be highly responsive to changing societal needs (Mason, 1996; Commonwealth of Australia, 2001). In particular, they are able to fill market “gaps”, i.e. providing services that would not otherwise be provided (Herman, 1994).

• Many non-profit organizations stress the importance of their organizational 'culture' and its connection to the organization’s cause, leading to perceived constraints in action and decision making (Paton and Cornforth, 1992).

• Non-profit organizations meet the needs of individuals for expressive behavior (Mason, 1996). There is usually a high degree of staff commitment to public service and affinity with the organization’s 'cause', often shown by an acceptance of lower wages (O’Connell, 1988; Paton, 1992).
1.3 Employee Turnover and Retention in Non-profit Sector

One of the major factors that determine the success of NPOs is the availability and commitment of efficient and effective human resources. In fact, any organization to achieve its objectives needs to have staff that are competent enough to execute their responsibilities in a professional manner and dedicated to the organizational objectives. Therefore, the human resource management system should be well formulated and implemented to ensure that they hire and maintain employees which contribute to the successful accomplishment of organizational objectives. Among other things, retention of talented employees is a major problem being faced by International NPOs (Debebe, 2007).

Any organization whether it is profit making or not desires to retain its efficient and productive staff for the maximum possible period. However employees leave the organization due to internal and external factors that may or may not be avoidable. Staff turnover is a warning sign of low morale and it is the amount of movement in and out of employees in an organization. In general employees leave their jobs either voluntarily by their own decision or forced to leave by the decision of the employer (Taylor, 1997). As the result of excessive turnover, organizations incur additional costs and holdup their performance (Timothy et al., 2000). When humanitarian organizations face high staff turnover they will be behind the schedule in utilizing budget and will be unable to implement quality programs for their beneficiaries. As a consequence their relationship with donors, regulatory bodies and beneficiaries will be affected, and existing staff may feel stressed out due to the additional responsibilities to cover the vacant posts (Loquercio, et al., 2006). It is believed that a certain amount of staff turnover is acceptable to most organizations so as to inject new blood in the organization that can bring new ideas and experiences of performing a job. Moreover, some organizations use acceptable limited staff turnover to promote subordinates to the higher positions (Griffeth & Hom, 2001). However, if the rate of turnover is beyond the acceptable level, it becomes a challenge for senior managers and the organization as well. Research indicates that the total cost of turnover is about 150% of an employees' salary (Ramlall, 2003).

Turnover rates in NPO sector have been reported to be very high, the figure for Oxfam Great Britain being 60% (Emergency Publication Net Work (EPN), 2005).
The International and the National non-profit organizations (NPOs) working in the developing countries admitted turnover was a problem at various rates ranging from 0% to 39 % in a case study conducted by People in Aid (2007) covering Kenya, Honduras, India and Pakistan. According to CIPD (The Chartered Institute of Personnel and Development, UK) report, turnover rate (2005, 2006) for volunteers and staff of VCO (a Non-profit organization in UK) were higher at (15.9% and 18.9 %) than public sector (11.5 % and 13.3%) respectively. Similarly, Loquerico et al.(2006) based on their qualitative studies with 15 NPOs found the employee turnover to be higher in humanitarian sector than other sectors.

1.4 Rationale of the Study

Organizations world over are now increasingly realizing the importance of retaining their talented workforce. The acquisition, development and retention of talent form the basis for developing competitive advantage in many industries and countries (Pfeffer, 1994, 2005). And while it may appear to be easily predicted by macro-economic data, decades of research suggest that a rich understanding of individual behavior under constantly evolving global and local conditions will require additional research effort. Non profit organizations’ success can be measured mainly through delivery of quality services to their beneficiaries/customers. This can be achieved through designing of well formulated plans and programs, allocation of sufficient funds and materials, assignment and retention of committed and competent staff. Due to a high level of staff turnover in humanitarian organizations, they have been losing their experienced employees who have better relationship with donors, beneficiaries, controlling authorities and other stakeholders. Therefore, the non financial cost of staff turnover is beyond the expectation of such organizations. (Debebe, 2007).

In the light of the above scenario, a study of what attracts an employees to an NPO and what causes them to leave becomes very important. An extensive literature review in the field of employee turnover in organizations reveals that while enough information and knowledge exists in the context of business organizations, there is hardly any research work that has been carried out in the context of non-profit organizations, especially in India. In the Indian context, while not many research
studies exist on the subject of turnover and retention in the non-profit sector, the challenges faced by this sector are no different from other countries. Indian non-profit organizations reported employee turnover rates between 20 to 34% (People in Aid, 2007).

Thus, this study is relevant as well as timely, considering the growing problem related to employee turnover and retention in non-profit (or Development Sector) organizations. In the Indian context, there is a need to investigate the reasons as to what factors attract employees to join a non-profit organization and what factors serve as the cause for the same set of employees to leave the organization. This study aims at investigating both the issues. By studying the factors that attract one to join a non-profit organization and factors that cause one to leave it, this study provides insights into the employee dynamics of Non-Profit Sector. The results are expected to help NPOs in India in attracting and retaining the talents required to effectively run such organizations.

1.5 Objectives of the Study

The primary objective of the study is:

To investigate the perception of employee in the non-profit sector on the importance of Job Attractiveness Factors (i.e., Hygiene, Motivation and Mission Attachment factors) and Employee Turnover Factors (Job Content and Job Context).

The primary objective can be broken down into three categories of sub-objectives.

Category I: Investigating the factors that attract an employee and factors that cause employee turnover in non-profit organizations:

- To investigate the perception of employees on factors that attract one to join an organization in the non-profit sector.
- To investigate the perception of employees on factors that may lead to leaving an organization in the non-profit sector.
Category II: To assess differences on *Job Attractiveness factors* and *Employee Turnover factors* *vis-a-vis* employee and organizational characteristics

- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **gender**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **age**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **designation level**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **experience in present position**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **overall experience**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of **size of organization**.
- To assess differences in perceptions of employees on *Job Attractiveness factors* and *Employee Turnover factors* on the basis of the organization’s **country of origin**.

Category III: To establish association between *Job Attractiveness factors* and *Employee Turnover factors* with those employee and organizational characteristics on which significant differences were observed.

**1.6 Research Framework**

The research framework and procedure followed in the present study has been illustrated in Exhibit 1.4.
Exhibit 1.4: Research Framework

1. Conceptualization of Research Work
2. Literature Review
3. Identification of Research Gap
   - Pilot Study
   - Questionnaire Development
   - Identification of Research Constructs
4. Data Collection
   - Data Cleaning and Compilation
5. Data Analysis
   - Discussion and Conclusions
   - Reporting of Findings
6. Managerial Implications
7. Directions for Future Research