CHAPTER 1  INTRODUCTION

1.1 Overview

What is the most challenging job for an organisation in today’s competitive world? Leadership teams in today’s corporate world are progressively mindful of the fact that the competitive advantage of organisations rests mainly upon the retention of their key employees (Kundu and Gahlawat, 2016; Umamaheswari and Krishnan, 2015; Cegarra-Leivaa et al, 2012).

Large companies may have the resources required to retain their employees. However, Small and Medium Enterprises (SMEs) may not enjoy this luxury. Hence, they need to be innovative in designing and rolling out the most suitable Employee Retention practices, which will make their employees stay with them for a longer period. The researcher was interested in studying the antecedents of Employee Retention, with specific reference to the SME sector, thereby contributing to existing body of theory and practice.

1.1.1 Employee Retention

Retention is an intended move by an organisation to create a situation which engages employees for an extended period of time. Hiring suitable candidates for the business needs is just a start to forming a robust workforce. However, the most important thing is that an organisation has to hold on to them, if they have to achieve their goals (Kumar, 2016). Organisations in all industry sectors are functioning in an extremely competitive landscape. This would mean that they retain their core employees in order to gain competitive advantage. Due to globalisation and new approaches to management, organisations are experiencing competition both at local as well as global levels in terms of market and availability of good quality workforce. In such a scenario, leaders play an important role in Employee Retention since their leadership styles influence directly on the employees’ frame of mind about the organisation (Wakabi, 2016).

To accomplish the goals of an organisation, the retention of its employees play a crucial role. The employer faces the bigger issue of retaining high performers over a longer period. The employer has to organise all his resources to retain employees. Organisations in the new upcoming sectors face the challenge of hiring the candidates with the right skill sets. This makes it all the more important for an organisation to retain its employees (Kaur and Bansal, 2015). An organisation has to retain its best employees since they are its true assets. Thus, to retain the best employees, an organisation has to come out with suitable retention strategies. Each organisation has to design its own set of retention strategies according to its own requirements (Yadav and Saxena 2015).

An individual with higher levels of employee engagement would more likely stay in an organisation (Bebe, 2016; Memon et al, 2014). An organisation will succeed depending on how it is able to attract, retain, motivate and develop its employees. Therefore, to realise quality of work life and organisational efficiency, motivation and Employee Retention act as one of the main catalysts (Saif, 2016; Sushil, 2013). Training is an effective instrument that helps an organisation to build a very dedicated, loyal and industrious workforce who
are likely to stay in the organisation for a longer period of time (Kemboi and Onyango, 2015; Mapelu, 2013).

Organisations use employer branding as a powerful weapon to attract and retain employees. Brand names of organisations may considerably impact the choice employees make to join and stay in an organisation. Hence, employers should work towards creating great employer branding for their organisations, which will help them to retain their employees at considerable ease (Ahmad and Daud, 2016; Sokro, 2012).

Employee Retention is a prerequisite for attaining success in business since undesired employee turnover has an adverse impact on an organisation’s profitability and survival (Flood, 2016; Korzynski, 2015; Doh et al, 2011; Cascio, 2000). An organisation can be undesirably affected from the operational to the strategic level, if the best employees are not retained (Scott, 2016; Cardy and Lengnick, 2011). Retaining an individual in an organisation is more crucial than hiring the person. There is no scarcity of job opportunities for a capable individual. There are many organisations in the market, which are keen to hire such employees. Hence, it becomes extremely important to treat employees with dignity and respect to retain them in an organisation (Gholston, 2015; Kavitha et al, 2011).

Retaining the best talent is a primary concern for many organisations. Workforce trends point to a forthcoming scarcity of highly skilled employees who have the requisite knowledge and skills to perform at high levels. Organisations that fail to retain high performers will be left with an understaffed, less qualified workforce that eventually will deter their ability to remain competitive (Gallardo-Gallardo and Thunnissen, 2016; Deery and Jago, 2015; Hausknecht et al, 2009). Most importantly, Employee Retention leads to satisfied employees, which in turn leads to satisfied customers, which eventually results in better profits for the organisation. This shows that investment in Employee Retention programs can have a positive influence on the bottom line of an organisation (Mandhanya, 2015; Dey, 2009).
Higher levels of employee engagement lead to higher levels of Employee Retention (Ambrosius, 2016; Bhatnagar, 2007). Employee Retention and Job Satisfaction considerably enhanced over a period of time and these enhancements were attributable to improvements made in the workplace. Some of the predictors of job satisfaction included support provided by the supervisor and positive work experiences (Bamberger et al., 2012; Mansell et al., 2006). Organisations that have processes in place to attract, develop, and retain best talent will flourish while those that do not will find it extremely difficult to continue in business (Alony, 2015; Holtom et al., 2005).

It is important for the employees to know that an organisation is treating them with respect that they are not considered as mere numbers or statistics. Employees at every stage of the life cycle in an organisation need to believe that the work they do is important and meaningful. An organisation should encourage open and a two-way communication so that it can understand the requirements of the employees. Similarly, it should put efforts to clearly communicate its expectations to the employees as well. It is also desirable to create and sustain a culture of sincere personal interest and concern. If employee see that the organisation cares for them and their career growth, they will perform better and will display more commitment to the organisation, which will result in improved business performance (Theron et al., 2014; Smither, 2003).

The costs associated in replacing candidates have been escalating upward steadily for years. Having a fully integrated Employee Retention policy which focuses on specific retention initiatives may be one of the most effective ways to address this important issue (Chew et al., 2016; Steel et al., 2002).

The competition to retain key employees, across industry sectors, is becoming tougher. Senior management executives and Human Resource professionals spend a lot of effort, time, and money trying to figure out how to hold onto the employees from leaving their organisations. The traditional viewpoint of why people stay on a job encompasses the factors from the turnover research such as being satisfied with the job and having no suitable alternatives. People also tend to stay in an organisation due to positive feelings
about the job, support from management, immediate supervisor, peer group and seeming organisational support. If an employee likes his/her job, is committed to the organisation, and believes if the organisation is also committed to him/her, he/she might stay in that organisation for a longer period of time (Moore et al, 2016; Mitchell et al, 2001).

Employees constitute the most influential resource for an organisation to sustain long-term competitive advantage (Sang, 2015; Huselid et al, 1997). To improve Employee Retention in an organisation, employees should be sufficiently empowered (Corbin, 1993).

To retain employees, an organisation should provide motivational stimuli such as authority, challenging assignments, responsibility, and equality of pay. In addition to these, the focus should also be on to creating long-term career advancement opportunities (Shariff and Abidin, 2014; Williams and Hunter, 1991). By being receptive to the needs and wants of employees, managers and supervisors create a conducive environment which becomes inspirational for the employees. This in turn contributes to improving the Employee Retention in an organisation (Rakoczy, 1999; Goll, 1989).

### 1.1.2 Small and Medium Enterprises (SMEs)

Various dimensions are integrated in defining an SME across different countries in the world. Criteria to define an SME may include number of employees, assets, turnover and management features (Lee and McGuiggan, 2008).

In India, as per the notification of Government of India, an SME is an organisation which has investments in plant and machinery up to Rs.10 crores in manufacturing sector (or) up to Rs.5 crores in service sector (Rajpal, 2014).

Several prior studies have considered an SME to be an organisation that employs up to 250 people. For the purpose of this study, the researcher has adopted the same criteria (Lee et al, 2016; Hendrix and Salehyan, 2015; Fernandez, 2015; Chahal and Bakshi, 2014; Chahal and Kaur, 2013; Yesseleva, 2013; Iuliana et al, 2008).
1.1.3 Motivation Factors

Motivation is an internal stimulation, which guides and sustains attaining the agreed set of goals (Hamafyetto et al, 2015; Hutabarat, 2015; Ololube, 2005). Motivation remains as an abstract concept as diverse approaches yield different outcomes at different periods. There is no specific strategy which can produce definite satisfactory results in a consistent manner (Muslim et al, 2016; Halepota (2005). Some Motivation Factors, which are identified in the literature are promotion, compensation, loans, fringe benefits, job security, working conditions, achievement, growth and advancement, work schedule, job status, recognition, training and development, reward and the work itself (Yusuf, 2015; Said et al, 2015; Pule et al, 2014; Owusu, 2012; Pessaran and Tavakoli, 2011)

1.1.4 Hygiene Factors

Hygiene factors are work contextual in nature. Their existence creates an environment for doing work. However, factors by themselves cannot motivate people to work (Bawoleh et al, 2015; Butler, 2014). The factors associated with work considered to be hygiene include policies, and administration, interpersonal relations with supervisors, salary, working conditions, status, security and interpersonal relations with peers (Akgunduz et al, 2016; Borralha et al, 2016; Dhevabanchachai and Wattanacharoensil, 2013; Bhattacharyya, 2009; Sledge et al, 2008).
1.1.5 Job Satisfaction

Job satisfaction is a positive emotion about one’s job resulting from an assessment of its features (Adeyeye et al., 2015; Nazafar, 2011; Robbins & Judge, 2007). Job satisfaction is described as the overall positive feelings that people have towards their jobs (Adeola and Olumide, 2016; Guo et al., 2015; Arnold and Feldman, 1986). Job satisfaction is termed as an enjoyable emotional state ensuing from the evaluation of one's job experiences (Yousef, 2016; Locke, 1976). Job satisfaction is the variance between the rewards employees actually get and the rewards they believe they should get (Kurland and Hasson-Gilad, 2015; Hsu, 2009; Robbins, 1996).

1.1.6 Organisational Commitment

Organisational Commitment can be defined as the employees’ strong confidence in and acceptance of an organisation’s objectives and principles, effort on behalf of the organisation to reach these goals and strong aspiration to sustain association in the organisation (Meyer, 2015; Ahmed et al., 2015; Hunt and Morgan, 1994). Commitment is how employees sense about a given goal and how they react to it. It will be influenced by the intentions and deeds of the employees. Employees may have multiple commitments outside of their office premises. It could be in the form of political, social, family and religious commitments. An organisation should be sensitive of these external commitments of an employee, otherwise it can result in weakening the organisational commitments of the employee (Onnis and Pryce, 2016; Du Plessis and Sukumaran, 2015; Wright and Kehoe, 2008).

1.1.7 Intention to Stay

An employee is keen to stay in an organisation when the personal interests can be satisfied better by the present organisation than the alternative organisation elsewhere (Güler, 2016; Hooi and Leong, 2015: Sanjeevkumar, 2012; Shaw et al. 1998). Intention to Stay in an
organisation is a positive aspect. The Intention to Stay is what makes employees be willing and work in the organisation (Gilbert et al, 2015; Chang et al, 2011; Liu, 2000).

1.2 Research Motivation

Though Employee Retention is a common problem for both large companies and SMEs, companies in the SME sector get affected very badly when employees leave them and they may find it difficult to get proper replacement of resources on time. Therefore, Employee Retention is a key concern area for SME Owner-Managers (Barrett and Mayson, 2005; Hornsby and Kuratko, 1990). However, very little research has been conducted into the area of Employee Retention in the SME sector (Wagar and Rondeau, 2006; Cardon and Stevens, 2004). It has been observed that though Employee Retention may be important in all organisations, there is very little direction provided in terms of what needs to be done in SMEs to retain key staff’ (Gialuisi and Coetzer, 2013; Wagar and Grant, 2008).

This is the primary reason why the researcher chose to study Employee Retention in the SME sector.

After carefully reviewing several theories related to Employee Retention, two of the most suitable theories have been considered as the base theories for the purpose of this study. They are:

1. Herzberg’s Two-Factor Theory (or) Motivation-Hygiene Theory

Frederick Herzberg developed this Theory in year 1959.

As per this theory, `Motivation Factors’ lead to `Job Satisfaction’ and `Hygiene Factors’ prevent dissatisfaction.

2. Job Embeddedness Theory

Mitchell et al developed this Theory in year 2001.
This Theory explains the correlation among `Job Satisfaction`, `Organisational Commitment`, `Intention to Stay (or Leave)` and `Employee Retention (or Turnover)`.

1.3 Purpose of the Study

SMEs are the strength of the economy in many nations. They often constitute more than 90% of all the companies or enterprises in many nations around the world (Cull et al. 2006; Ozgulbas et al. 2006; Poon and Swatman 1999). However, despite their pervasiveness, they are the most vulnerable and highly accountable to competition from likely organised and large companies.

SMEs continue to dominate as the core of economic growth and therefore, their resilience is important to be competitive in the global market of the twenty-first century. SMEs continue to drive the economy as well in many countries (Gunasekaran et al, 2011). Worldwide, SMEs are playing a fundamental role in economic development. Its unique story of just development and easy access to resources has expanded the scope and coverage of small entrepreneurs (Rajpal, 2014).

The purpose of this study is to examine the influence of Motivation Factors, Hygiene Factors, Job Satisfaction, Organisational Commitment, and Intention to Stay on Employee Retention, controlling for gender and years of service in an organisation.

The unit of analysis is “Individual Employee” working in the respective SMEs. The reason for choosing individual employee as the unit of analysis is because I am trying to address the issue of Employee Retention from the perspective of the individual employee.

The study is expected to contribute to SME owner-managers and HR professionals in understanding the factors which impact Employee Retention in the SME sector. This will help them to focus on the right set of retention practices and initiatives to retain the employees in their organisations.
This study has resulted in the following contributions:

Though there are many prior studies which have used Herzberg’s Two-Factor Theory and Job Embeddedness Theory separately, this is the first study which has used both these theories simultaneously in a single study to examine the antecedents of Employee Retention. This study can be viewed as an extension of the two theories, thus contributing to the existing body of literature on Employee Retention.

Investigation of antecedents of Employee Retention in the SME sector with various factors such as Motivation Factors, Hygiene Factors, Job Satisfaction, Organisational Commitment and Intention to Stay is a significant contribution of this study to literature on Employee Retention that will serve to bridge the gap in Employee Retention literature.
1.4 Research Objectives

The objectives of this study can be specified as follows:

To identify the antecedents of Employee Retention with specific reference to the SME sector

- To examine, analyse and synthesize from the existing body of knowledge the following:
  - Motivation Factors
  - Hygiene Factors
  - Job Satisfaction
  - Organisational Commitment
  - Intention to Stay
  - Employee Retention in large companies
  - SME Sector
  - Employee Retention in the SME sector

- To develop an integrated framework which can be used as a theoretical basis to study Employee Retention

- To identify and suggest Employee Retention methods to enable the SME sector to be more competitive in the business environment. By doing so, contribute to the
theory and practice regarding the Employee Retention approaches in SMEs from the perspective of Human Resource Management

Figure 1.1 explains the various stages of this study

The findings of this study significantly contribute to the theory and practice in the area of Employee Retention with respect to the SME sector and Human Resources (HR) research.
**Figure 1.1: Stages of Study**

- **Problem Definition and Research Design**
  - Research Motivation(s)
  - Research Question
  - Research Objectives
  - Scope - Employee Retention in the SME sector

- **Theoretical Foundation**
  - Employee Retention in large companies and SMEs
  - Motivation Factors, Hygiene Factors, Job Satisfaction, Organisational Commitment and Intention to Stay
  - Theories

- **Research Model and Instrument Development**
  - Develop Research Model
  - Populate list of items
  - Check applicability of items in the SME context through field interviews
  - Develop survey instrument
  - Pre-test and Pilot study

- **Data Collection**
  - Reach out to prospective participants through various sources
  - Distribute survey instrument
  - Collect the filled-in responses
  - Compilation of raw data

- **Testing the Model and Validation**
  - Check for threshold values for all relevant validity and reliability measures
  - Validate reflective measurement model
  - Analysis and deletion of instruments / variables where necessary with grounded discussion and relevant literature
  - Validate structural model. Perform bootstrapping for significance testing
  - Perform blindfolding and check predictive relevance of the model

- **Interpret Results**
  - Hypotheses supported and not supported
  - Discussion based on findings
  - Limitations and identification of pointers for further research
1.5 Organisation of the Dissertation

This dissertation is organised into several chapters with a logical connection and flow.

- This is the introductory chapter

- Chapter two presents the detailed literature review on Employee Retention in large companies as well as SMEs, which includes Herzberg’s Two-Factor Theory and Job Embeddedness Theory

- Chapter three develops an integral research model and hypotheses describing relationships amongst various constructs that influence Employee Retention in the SME sector

- Chapter four discusses the research design and the methodology.

- Chapter five presents the analysis and results where the hypotheses are tested using PLS and the result of the data analysis are presented

- Chapter six highlights the findings and discusses the results in detail

- Chapter seven discusses implications for SME owner-managers, Employees and HR professionals working in SME sector, presents the limitations and concludes the study with recommendations for future research.