



Management

EMPLOYEE RETENTION AND TURNOVER USING MOTIVATIONAL VARIABLES AT INDIA

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ABSTRACT

This research looked at the extent to which identified intrinsic and extrinsic motivational variables influenced the retention and reduction of employee turnover in both public and private sector organizations. The research was aimed at achieving the following objectives: identify and establish the key intrinsic and extrinsic motivational variables being used by selected public and private sector organizations in retaining their employees; determine the extent to which the identified intrinsic and extrinsic motivational variables are influencing employees' retention and turnover in the selected organizations; and make recommendations to management of the selected organizations on how to effectively retain employees and reduce turnover. The study adopted the cross-sectional survey research design, investigating the extent to which selected motivational variables influence employees' decision to either remain or quit an organization. Quantitative research design was used and this design was chosen because its findings are generalizable and the data objective. The study examined two public and two private sector organizations in India. The total population of the research comprised 1800 employees of the surveyed organizations with a sample size of 145 respondents. A self-developed questionnaire, measured on a Likert Scale was used to collect data from respondents. The questionnaire had a Cronbach alpha coefficient of $\alpha = 0.85$ suggesting that the instrument was reliable. The Chi-square test of association was used in testing the hypothesis of the study. The result showed that employees in both public and private sector organizations were, to a very large extent, influenced to stay in their respective organizations by a combination of intrinsic and extrinsic motivational factors. The following motivational variables were found to have significantly influenced employee retention in both the public and private sector organizations: training and development, challenging/interesting work, freedom for innovative thinking, and job security.

Keywords:

Employee, Retention, Turnover, Motivation, Intrinsic, Extrinsic.

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1. INTRODUCTION

Worldwide, retention of skilled employees has been of serious concern to managers in the face of ever increasing high rate of employee turnover. Today’s business environment has become very competitive thus making skilled employees the major differentiating factor for most organizations. Organizations - both public and private – rely on the expertise of their employees in order to compete favorably and indeed gain competitive advantage in the international market. However, recent studies have shown that retention of highly skilled employees has become a difficult task for managers as this category of employees are being attracted by more than one organization at a time with various kinds of incentives. Furthermore, skilled employees in South Africa are daily migrating abroad for better job conditions (Gillingham, 2008). This phenomenon is having adverse effect on investment as emigrating employees moved client’s investments offshore.

Recent survey report revealed that South African employees ranked amongst the best in the USA, Italy, Germany, Brazil and Britain (Gillingham, 2008). This perhaps explains the reason South African best and brightest employees are being constantly poached by multinational organizations such as Daimler- Crystler, BMW, Siemen, Unilever and many others. Against this background, organizations will continue to lose valuable employees to competitor organizations until managers are able to identify and apply appropriate retention strategies that will help in reducing the frequent turnover of key employees. A number of studies (Lee, 2006; Raub and Streit, 2006; Griffeth, Hom, Fink and Cohen, 1997) have linked employee turnover with recruitment sources. Others like Stovel and Bontis (2002) considered employee turnover in isolation while paying less attention to the issues of retention. Since replacing skilled employees can be problematic, the researchers in the present study assumed that managers in both the public and private sector organizations have not been able to correctly identify and apply motivational variables that can influence employees to stay in an organization. Once this is identified, managers will be able to apply these variables in reducing the high rate of employee turnover.

Given the difficulties encountered by managers in retaining their best employees as articulated above, the present study formulated the fundamental research question to be addressed as: to what extent are intrinsic and extrinsic motivational variables being used in influencing retention and reduction of turnover of employees in both public and private sector organizations?

2. REVIEW OF RELATED LITERATURE

Employee turnover occurs when employees leave their jobs and must be replaced. Replacing exiting employees is costly to organizations and destructive to service delivery. It is therefore imperative for management to reduce, to the minimum, the frequency at which employees, particularly those that are crucial to its operations leave. Retention is a voluntary move by an organization to create an environment which engages employees for long term (Chaminade, 2007). 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. However, retention of high performing employees has become more challenging for managers as this category of employees frequently move from one job to another as they are being attracted by more than one organization at a time. Hendricks (2006) notes that employees with scarce skills are in great demand by the South African government and becoming difficult to source. When these categories of employees are eventually sourced, they become even more difficult for government to retain. It is not only government that is finding it difficult retaining highly skilled employees. The private sector managers also admit that one of the most difficult aspects of their jobs is the retention of key employees in their organizations (Litheko, 2008). Most of the time when these employees move, they migrate to competing organizations with the knowledge and trade secrets acquired from their former employers thereby creating an even more critical situation for the latter (Abassi and Hollman, 2000). Empirical studies such as Stovel and Bontis (2002) have shown that employees, on average switch employers every six years. This situation demands that management should identify the reason/s for this frequent change of employment by employees. Once this reason/s has been identified, management can then device retention strategies that will help in keeping essential employees for a rather longer tenure.

While functional turnover (that is, bad performers leave, good performers stay) can help reduce suboptimal organizational performance (Stovel and Bontis, 2002), high turnover can be detrimental to the organization's productivity. This can result in the loss of business patronage and relationships, and can even jeopardize the realization of organizational goals. On the other hand, Abassi and Hollman (2000) argue that dysfunctional turnover (that is, good performers leave, bad performers stay) damages the organization through decreased innovation, delayed services, improper implementation of new programmes and degenerated productivity. Such activities can radically affect the ability of organizations to prosper in today's competitive economy, leaving even the most ambitious organizations unable to succeed due to their inability to retain the right employees (Stovel and Bontis, 2002). Existing literature (Abassi and Hollman, 2000; Hewitts Associates, 2006; Sherman et al. 2006) highlight reasons for employee turnover in the organizations: hiring practices; managerial style; lack of recognition; lack of competitive compensation system; toxic workplace environments. Others include lack of interesting work; lack of job security; lack of promotion and inadequate training and development opportunities, amongst others. These are intrinsic and extrinsic motivational factors which can assist managers to influence employee retention in their organizations. The problem, however, is that managers have failed in identifying and properly using these variables as retention strategies thereby resulting in the prevailing high turnover rate in the organizations. Turnover is not only destructive to organizations, it is also costly. Every time an employee quits, a replacement must be recruited, selected, trained and permitted time on the job to gain experience. Apart from the costs that are directly associated with recruiting and training a new employee, other indirect costs exist. Bliss (2007) and Sutherland (2004) contend that organizations lost productivity, social capital and suffer customer defection when a productive employee quits. Knowledge, skills and contacts that a departing employee takes out of the organization constitutes a huge loss. These attributes are, in most cases, lost to a competitor organization that may use this to gain competitive advantage. Ramlall (2003) estimates the cost of employee turnover as 150% of an individual employee's annual salary. This cost can be substantial especially when high profile employees or high number of employees is involved.

3. THEORETICAL OVERVIEW

Herzberg (1959) two factor theory as cited in Bassett-Jones and Lloyd (2005) provided a theoretical background for this study. Herzberg argued that employees are motivated by internal values rather than values that are external to the work. In other words, motivation is internally generated and is propelled by variables that are intrinsic to the work which Herzberg called “motivators”. These intrinsic variables include achievement, recognition, the work itself, responsibility, advancement, and growth. Conversely, certain factors cause dissatisfying experiences to employees; these factors largely results from non-job related variables (extrinsic). These variables were referred to by Herzberg as “hygiene” factors which, although does not motivate employees; nevertheless, they must be present in the workplace to make employees happy. The dissatisfies are company policies, salary, co-worker relationships, and supervisory styles (Bassett-Jones and Lloyd, 2005, p.929). Herzberg (1959) as cited in Bassett-Jones and Lloyd (2005) argued further that, eliminating the causes of dissatisfaction (through hygiene factors) would not result in a state of satisfaction; instead, it would result in a neutral state. Motivation would only occur as a result of the use of intrinsic factors.

Empirical studies (Kinnear and Sutherland, 2001; Meudell and Rodham, 1998; Maertz and Griffeth, 2004) have, however revealed that extrinsic factors such as competitive salary, good interpersonal relationships, friendly working environment, and job security were cited by employees as key motivational variables that influenced their retention in the organizations. The implication of this therefore is that management should not rely only on intrinsic variables to influence employee retention; rather, a combination of both intrinsic and extrinsic variables should be considered as an effective retention strategy.

4. RESULTS

The Chi-square value for training and development in the public sector was $X^2(4) = 11.41$ with an associated p-value of 0.02 while the private sector had a Chi-square value of $X^2(4) = 10.59$ and a p-value of 0.03. The result provided strong evidence of an association between training and development and employee retention. There was also strong evidence of an association between job security and employee retention. In the public service, job security had a Chi-square value of $X^2(4) = 8.15$ and an associated p-value of 0.04 while the private sector had $X^2(4) = 9.90$ and an associated p-value of 0.04. Challenging/interesting work in the public sector had a Chi-square value of $X^2(4) = 11.09$ and an associated p-value of 0.03 while the private sector had a Chi-square value of $X^2(4) = 10.71$ with an associated p-value of 0.03. The result provided strong evidence of an association between challenging/interesting work and employee retention.

Employees in the private sector were significantly influenced by setting performance targets for subordinates with a Chi-square value of $X^2(4) = 20.52$ and an associated p-value of 0.00. The variable had no significant influence in the public sector with a Chi-square value of $X^2(4) = 7.07$ with an associated p-value of 0.13.

Recognition/reward for good performance significantly influenced retention in the private sector at a Chi-square value of 19.81 and an associated p-value of 0.00 while the variable did not significantly influenced retention in the public sector at a Chi-square value of $X^2(4) = 7.76$ and

an associated p-value of 0.10 in the public sector. Salary package significantly influenced retention in the public sector at a Chi-square value of $X^2(4) = 22.99$ and an associated p-value of 0.00. The variable had a Chi-square value of $X^2(4) = 4.03$ and an associated p-value of 0.25 in the private sector meaning that the variable did not have any significant influence on retention. Performance bonus/commission had a Chi-square value of $X^2(4) = 39.93$ and an associated p-value of 0.00 showing a significant influence on retention in the private sector. The variable however did not significantly influenced retention in the public sector at a Chi-square value of $X^2(4) = 2.11$ and an associated p-value of 0.72.

The results also show that terminal/pension benefits had significant influence on retention in the public sector at a Chi-square value of $X^2(4) = 94.00$ and an associated p-value of 0.00 without a corresponding significance in the private sector at a Chi-square value of $X^2(4) = 0.19$ and an associated p-value of 0.98 respectively. Cutting-edge technology significantly influenced retention in the private sector at a Chi-square value of $X^2(4) = 13.13$ and an associated p-value of 0.00. The variable did not significantly influence retention in the public service at a Chi-square value of $X^2(4) = 9.19$ and an associated p-value of 0.06 in the public service. Interpersonal relationship did not influence retention in both the public and private sectors at Chi-square values of $X^2(4) = 9.01$ and an associated p-value of 0.06 and of

Table 1: Levels of significance between the overall variable and intrinsic motivational variables.

	Motivational variables	Public Sector p-value x ² value		Private Sector p-value x ² value	
1	Sense of belonging to the organisation	0.04	9.91	0.02	12.23
2	Freedom for innovative thinking	0.00	15.35	0.03	9.16
3	Provision of health & wellness programmes	0.00	14.18	0.61	1.81
4	Setting performance target for Subordinates	0.13	7.07	0.00	20.52
5	Job security	0.04	8.15	0.04	9.90
6	Training & development opportunities	0.02	11.41	0.03	10.59
7	Recognition/reward for good performance	0.10	7.76	0.00	19.81
8	Promotion based on performance	0.28	5.08	0.05	7.44
9	Work autonomy	0.98	0.41	0.56	3.02
10	Mentoring	0.42	3.90	0.00	20.54
11	Challenging/interesting work	0.03	11.09	0.03	10.71
12	Participation in decision making process	0.08	8.27	0.79	1.71
13	Flexible work arrangement	0.24	5.46	0.04	9.90

P<0.05 level of significance

Table 2: Levels of significance between the overall variable and extrinsic motivational variables

	Motivational variables	Public sector p-value x ² value		Private sector p-value x ² value	
1	Salary package	0.00	22.99	0.25	4.03
2	Performance bonus/commission	0.72	2.11	0.00	39.93
3	Good terminal benefit/pension	0.00	94.00	0.98	0.19
4	Cutting-edge technology	0.06	9.19	0.00	13.13
5	Interpersonal relationships	0.06	9.01	0.56	2.98

$P < 0.05$ level of significance.

$X^2(4) = 2.98$ and an associated p-value of 0.56 respectively.

As indicated in Tables 1 and 2, while some intrinsic and extrinsic variables significantly influenced retention in both public and private sector organizations, some did not. Thus, the results of the study could not totally accept or reject the hypothesis of the study as stated.

5. DISCUSSION

The broad objective of the study as earlier stated was to identify and establish the key intrinsic and extrinsic motivational variables being used by selected public and private sector organizations in retaining their employees. Similarly, the study sought to determine the extent to which the identified intrinsic and extrinsic motivational variables are influencing employees' retention and turnover in the selected organizations. The findings of the present study will assist managers in the formulation of effective retention policies using appropriate motivational variables. In addition, the study will bridge the gap in literature and advance the frontiers of knowledge. The study found the following intrinsic motivational variables to have significantly influenced retention amongst employees in both public and private sector organizations: training and development; sense of belonging to the organization; job security; challenging/ interesting work; and freedom for innovative thinking. The results are consistent with previous research findings. For example, Smit and Cronje (2002) and Hay (1999) found training and development as one of the major retention strategies being used by managers in retaining their best employees. Hay (1999) argues that lack of training and development of employees' skills was the largest determinant of turnover in organizations. However, some authors express contrary opinion from the finding of the present study. Bussin (2002) contends that constant training and development of employees' skills can indeed facilitate their early turnover instead of reinforcing their retention. Providing employees with the latest training and development opportunities raises their market value thus increasing their mobility. The findings of the present study can however be explained in terms of the importance attached to employee training and development by the India government. India has developed one of the most comprehensive national skills development systems in the world with the appropriate legislative and policy frameworks to back it up. Such legislation and policies include the Skills Development Act (Act 97 of 1998); the Skills Development Levies Act (Act 9 of 1999); and the National Skills Development Strategy (2001) amongst others.

The present study presents a strong evidence of association between job security and employee retention. This finding is not strange given the socio-economic stability and psychological well-being of employees that is associated with a stable employment. The above assumption is however not supported by contemporary literature. Job security is not a retention antecedent for the new generation of skilled employees (Amar, 2004, p. 97). To this category of employees, job security is a positive feedback of their labour market worth and this makes them look for a daily proof that their work matters to the organization. This provides employees with a sense of security because, to them, if they are doing a good job, they are secured, if not with their present employers, then with another one. The significant influence presented by challenging/ interesting work on retention in the present study can be related to the early arguments of Herzberg (1954) that motivators are those aspects of the job that make people want to perform and provide

employees with satisfaction. Accordingly, job characteristics should be able to arouse employee's interest in taking on a particular job because it is exciting, satisfying, or personally challenging. Respondents in the present study might have experienced the above attributes in their jobs for the variable to have attracted such a significant influence on their retention. Another aspect of the present research study shows that the following motivational variables were found to have significant influence on employee retention in one sector without a corresponding significance on the other sector. These variables include goal setting techniques; promotion system based on performance; recognition and rewards for good performance; and employee mentoring. Goal setting techniques as a retention strategy was found to be more popular among private sector organizations. The practice enables individual employees to assess their contribution to the attainment of organizational goals. High performing employees can use this technique as a basis to negotiate for higher salaries or accelerated promotion while employers also can increase overall productivity using this technique. This, perhaps explain why this variable did not influence retention in the public sector where salary increments and promotions are regulated by collective bargaining processes and service rules and regulations. Productivity is not measured in terms of individual employee contribution because public sector organizations are service driven and does not depend on profit maximization to survive.

Similarly, recognition and reward for good performance was found to have significantly influenced retention of employees in the private sector organizations but not so in the public sector. Employees, especially those with esteem and self-actualization drives want to be appreciated and rewarded, not necessarily with money, but by openly acknowledging their achievements and contribution to the attainment of organizational goals and objectives. This concurs with the findings by Johnson (2000) which shows that two-thirds of respondents in the research admitted that lack of appreciation was the major factor in driving them to leave their organizations. Public sector organizations were not significantly influenced by this variable perhaps, as a result of certain aspects of the Public Service Regulations which allow for employees to be rewarded financially for good performance and valuable suggestions.

6. MANAGERIAL IMPLICATIONS

Firstly, retention policy in the public sector should incorporate some aspects of the private sector practices which encourage retention and enhance productivity. Such practices include the introduction of a performance-based promotion system rather than the present situation in which employees are promoted based on seniority rather than performance. The practice can demotivate young, innovative and hard working professionals to leave for the private sector. Opportunity for public sector employees to earn performance bonuses should also be devised. This will encourage productivity and enhance retention. Secondly, organizations should invest heavily in the education, training and development of their employees. Training and development appealed greatly to employees in both sectors and remain one of the best ways of retaining key employees. Employees' performances are enhanced through training and development and this encourages retention especially in a programmed training system where the training programmer is tailored towards employees' career progression in the organization. Some of these training programmers can be designed for self-actualization in order to appeal to executive career officers who are no longer motivated by money but by their status in society. Employee training is also an indication of management commitment to building a life-long

relationship with the employees thereby influencing their turnover decisions. Lastly, management in private sector organizations should encourage goal-setting technique and work autonomy in the execution of tasks by employees. This will provide a more objective performance appraisal method and present employees with challenging work opportunities and make employees more innovative and independent in the execution of their tasks.

7. CONCLUSION

Given the growing needs for organizations to retain its best employees in the face of competition, the findings of the study suggest that certain variables are crucial in influencing employees' decision to either leave or remain in an organization. Such variables include training and development, recognition/reward for good performance, a competitive salary package and job security. Nonetheless, the importance of other variables should not be under-estimated when formulating a retention policy. It is only a comprehensive blend of intrinsic and extrinsic motivational variables that can enhance retention and reduce the high rate of employee turnover in our various organizations.

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