

## **Labour Turnover: One of the Key Challenges in HRM**

### **Executive Summary**

The term “employee turnover” is one of the central factors deciding the productivity of the company. The issue of employees’ turnover not only affect human resource professionals but also, the issue of labour turnover has attracted the attention of senior management and industrial psychologists. The issue of labour turnover has not spared developed countries but its effect upon organisations situated in developing countries is much worse. If there is instability within the management structure in an organisation, then employees are likely to shift to another company where they can get a stable working environment. Causes of turnover can be “Salary and Fringe benefits”, “Attitude of managers”, “Available alternative opportunities”, etc. there are advantages as well as disadvantages to employee turnover, but to an employer the disadvantages always outweigh advantages. Hence, theory of motivation can be applied in order to retain valuable employees. It cannot be denied that employees are indispensable for companies and they need to be motivated and retained in the company. Managers need to apply correct approaches so that organisations can continue to utilise their skill in attaining global competitive advantage.

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## **Introduction**

Productivity is one of the key determinants in relation to the performance of an organisation. There are a number of factors on which this productivity of a firm depends and among them employee's turnover is one of the most important which challenges the smooth running of business. Not only human resource professionals but also the issue of labour turnover has attracted the attention of senior management and industrial psychologists. Human resource management (HRM) comprises allocation of cost in order to come up with a counter approach (Shamsuzzoha and Shumon, 2007). Companies have to incur a lot on employing new workers such as organising induction and training, developing and retaining them within companies. Hence, it is the responsibility of managers and human resource professionals to retain employees and minimise workers' turnover. With the advent of globalisation, the intensified competition has made it necessary for organisations to develop new products and formulate new course of action based on the strategies created by employees (Samuel and Chipunza, 2009). Hence, it illustrates the importance of employees towards an organisation and is one of the irreplaceable factors of production (Ongori, 2007). Estimates reveal that 15% of the employees in United States quit their jobs while the rate is between (10-15) percent in OECD countries (Brown, Garino and Martin, 2007).

This paper critically evaluates the reasons behind employee turn-over with a detailed explanation of the advantages and disadvantages of labour turnover. Finally, recommendations have been presented in the paper which can be utilised by managers to retain employees.

## **Critical Analysis**

Organisational factors and job related issues are the two attributes explaining turnover rate (Arokiasamy, 2013). If there is instability within the management structure in an organisation, then employees are likely to shift to another company where they can get a stable working environment. It has been commonly observed by scholars that organisations whose production is inefficient face high turnover rate. If an organisation is able to offer stability and career growth based on the performance of the employees, then the company can expect to have lower attrition rate. Economic factors play an important role in determining a company's turnover rate (Arokiasamy, 2013). If a company in the market offers better salary and other benefits, then the firm is likely to receive more number of job applications because people always want to improve their standard of living and little higher than the market wage rate can help an individual to attain this objective.

## **Causes of Employees' Turnover**

**Job Satisfaction:** Literature on work culture and employees' behaviour has presented a direct relationship between job satisfaction and resignation. This implies that employees who are dissatisfied with their current job are more prone to quit their jobs. However, the strength of this depends on the rate of unemployment prevailing in the market. If the rate of unemployment is low in the society then the relationship is high (Saeed et al., 2014).

However, when there is high unemployment, people will tend to stick to their jobs even if they are not satisfied with their jobs because they have fewer alternatives.

**Salary and Fringe benefits:** An individual expects that in exchange for his or her services rendered in an organisation he or she will receive fair compensation in the form of salary. Wage is used by many organisations for measuring the performance of workers. Employees are required to prove their ability in order to stay longer at work otherwise they have to face the risk of losing their job because when organisations are paying, they expect that workers would be exerting 100% effort. Wage has a direct effect upon job satisfaction and many companies use payment as a means of rewarding achievement of workers (Dale-Olsen, 2006).

Fringe benefits can be defined as the indirect compensation which is provided to the employee or group of workers on the basis of organisational membership (Ongaki and Otundo, 2015). It has a direct impact on retaining employees. Companies are required to plan accordingly which benefits they are going to provide employees so that workers not only stay in the organisation but also improve their performance and contribute towards the success of the concerned company (Dale-Olsen, 2006).

**Convergence of individual and company goals:** The main task of the HR professional is to select job applicants who fit perfectly to the job role such that, there is a convergence between individual and organisational goals. Employees expect that the organisation would understand their needs. If the company fails to understand the causes of inconvenience for the employees, then they may shift to different job raising the turnover rate for the company. Almost half of the employees quitting their jobs state that, wrong fit is their reason for changing their employer (Curran, 2012).

**Available alternative opportunities:** It is an external factor which makes it difficult for organisations to retain their employees. If in the market there are vacancies in the organisations then will provide lucrative benefits so that they get more workers to fill in while making it easier for the workers to shift jobs quickly. Another external factor is unemployment rate which affects voluntary turnover (Arokiasamy, 2013). Besides external factors, researchers have observed that educational background plays an important role in triggering perception towards employment opportunities. Higher educated individuals may think that it is one of their strengths against less qualified workforce which allows them to choose from more alternative jobs.

**Unionisation:** Many scholars have illustrated that organisation where labour unions are operating, have lower rate of employee turnover. This result is achieved because labour unions are able to secure better working conditions, which make it attractive for the workers to stick to their current jobs (Bhatia, 2008).

**Influence of co-workers:** In 2002, a research was conducted by L.J. Price and J. F. Tuttle which presented the influence of co-workers as one of the important reasons behind employee turnover. An employee is psychologically influenced to change his or her job because one or more co-workers are intended to leave their current job. The intention of co-

workers to leave their current job acts as a social pressure upon workers and makes them to take a step in the same direction (Arokiasamy, 2013).

**Attitude of managers:** The supervisors and managers have a decisive role in changing the rate of turnover by influencing employees' decision. If employees have a cordial relation with their managers then they prefer to stay in the company for longer period of time. However, if employees perceive that their manager is partial to certain employees and their biasness affects their career promotions, then workers lose interest in their job and look for companies with better working environment.

#### **Advantages of labour turnover**

Many employers believe that employees' turnover has a negative impact on the workplace. However, there are advantages that accrue to the organisation as a result of employee turnover.

**Talent Infusion and Efficiency:** Both voluntary and involuntary turnover, result in infusion of talent within an organisation. It has been observed by scholars that employees who quit their jobs either voluntarily or involuntarily are not always top performers of their company, rather they are those work force which leaves on average in terms of performance. When a company decides to lay-off their workers, these workers are the ones to be the first victim because they are responsible for consuming valuable resources of the company without effective contribution. Hence, turnover of these employees create opportunities for entrepreneurs to appoint talented employees and increase their skill quotient. This in turn increases efficiency because new employees can bring about fresh strategy for achieving more success.

**Cost saving through lower Benefit Rates:** When tenured employees leave their job, then the company no longer have to incur high wages of those employees reducing operation cost of the company. The cost of maintaining seasoned employees is higher in terms of benefits and turnover allows employers to restructure their compensation for new staff. Hence, it improves the opportunity for organisations to save from the high salaried tenured employees and invest the same in further development of the company, where the latter can lower the contribution rates. Tenured employees are normally older in age for whom, the company has to pay health care premiums and when they quit their jobs, the company can experience lower benefit cost.

#### **Disadvantages of labour turnover**

**Increased workload:** On the event of high employee turnover rates, it increases the workload on existing workers within the company. 63.33% of the employees in the construction industry have expressed that they feel extensive workload upon turnover (Thomas, 2015).

**Training and development cost:** When a company has to recruit new workers, the company needs to provide time and training so that the fresh staff can adapt to the concerned organisational culture (Saridakis and Cooper, 2016). However, this needs additional cost for the company to undertake so that the skill of those employees can be utilised by the firm to achieve success.

**Low morale:** A company which faces high turnover rates have been found to have weak morale. The spirit of a company resides in the bonding of employees and their shared values. In case of high attrition, it becomes highly difficult for the companies to align their performance with the essence of the vision of the company.

**Affecting productivity:** It has been observed by the researchers that high attrition rate reflects lower level of productivity for the workers. When a worker works on a particular task, over the years he or she develops the required expertise in that field and his or her opinion is valuable in terms of changing any aspect of the process of production. When such employees leave their job, the productivity of the company gets affected because it requires time and money to hire a replacement (Siljander, 2008).

## **Conclusions & Recommendations**

It is very important for the firms to understand the reasons why employees are leaving their organisation and the managers can play an important role in identifying the early signs like, loss of interest in work, frequent absenteeism, sudden changed in attitude towards colleagues, etc. so that they can save their company from high turnover. Job satisfaction and salary are very important determinants affecting attrition rate of a company. Employees are indispensable for companies and they need to be motivated and retained in the company, so that the organisation can continue to utilise their skill in attaining competitive advantage in the global arena. Following recommendations can be applied by the managers in order to secure retention of employees:

### **Recommendations**

There are theories that can render the required help to the employers so that they can motivate their employees to lower the turnover rate experienced by them. Employee motivational theories work towards creation of models that can be applied by the managers based on the situation, which can help the organisation to develop and further increase productivity, accountability and loyalty among workers so that they stay in their job for a longer period of time.

### **Management by Objectives**

According to the theory of Management by Objective (MOB), when employees are involved in setting goals and objectives for their company, then they are motivated to achieve them with greater rigour (Koontz, 2010). Managers instead of using command and control can follow MOB philosophy while making decisions. They can develop an open platform while requesting all the employees to take part and help in devising the best strategy towards ensuring success of the organisation. This can bring forth self-motivated employees; otherwise the company may lose those employees who prefer to get themselves recognised in exchange of quality performance.

### **Expectancy Theory**

According to this theory, in order to motivate employees managers would require to recognise and reward the effort of the former (Koontz, and Wehrich, 2006). The employers

can adopt a compensation structure which allows employees to get as much as they perform. It can significantly motivate them to work more since they will receive their fair share of benefit. The benefit may be in terms of commission or vacation sponsored by the company, etc. High performing employees need to be provided quick accession in their career so that they stay in their current employment.

### **Hierarchy of Needs**

Abraham Maslow proposed the theory of Hierarchy of Needs stating that there are five stages, ranging from basic needs to personal growth and career development that are required to be fulfilled by the employers to enhance commitment among workers (McGuire, 2012). If the requirements of employees are not taken care of, then they would look for alternatives which can offer them better compensation to satisfy their needs.

### **Theory X and Theory Y**

Theory X and Theory Y depict the extreme ends of the scale of motivation. Theory X states that employees are inherently averse to work and needs external motivation in order to increase their performance. On the other hand, Theory Y states that workers can be internally motivated to use their skill and talent so that they can secure better outcome for the company's interest (Schermerhorn, Jr., 2010). The managers need to observe the behaviour of the employees before adopting either approach. For example, self-motivating workers can leave a company if they are forced to work under autocratic decision-making process.



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