

## Attrition in SMEs: The Causes

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### Abstract

Human Resource managers are devising ways to retain talent. The average attrition in 2010 was 10% across Indian companies, a rate that may rise to 25% in 2011-12 with improved salaries (*The Economic Times, Dec 24, 2010*). The SMEs sector in India has certainly been very prevalent of employment in recent years but one of the biggest issues it is facing is the remarkable rise in attrition rate. There could be some common attrition factors across sectors but every organization needs to know the specific reasons for attrition. Indian economy is showing a healthy progress, but employers, enjoying the bang have an offhand side i.e. “restless staff is seeking for a hotter career option leading to increase in attrition in Indian SMEs”. This paper attempts at finding the probable reasons for attrition in SMEs in India. A conceptual framework has been developed based on the results of our study to understand the relation between attrition and the factors affecting attrition. Our findings suggest some important factors that are affecting attrition in SMEs. The findings of our research may be of help for entrepreneurs to deal with attrition in their organizations.

**Keywords:** Attrition, SMEs, Entrepreneurship, Indian Economy, India

### 1. Introduction

Global staffing firm “Kelly Services” expects attrition levels to rise to 22% in 2011 and feels that employees in customer management department, team management and the niche technical roles will grab the lion's share of increments next year. These factors (attrition, salary increments, and other benefits) are called hygiene factors by the human resource management in specific cases. The official spokesperson of Kelly says "Sectors hiring first will face the monster (attrition) first, unless there are strong retention or job rotation policies".

Mr. Goel of GlobalHunt however, views attrition as healthy. He says: "A balanced attrition is healthy for an organization as it opens the avenue for fresh talent to come and create innovations which in turn can add lots of value to an organization".

Low attrition will block fresh ideas and people will become too comfortable in their approach. But, high attrition may not give an opportunity to individual and organization to understand and to optimize strength.

Broadly speaking, quick job hoppers will have difficulty to get a good job as they are not widely accepted for long term or larger roles," Mr Goel remarked. (*The Economic Times, Dec 24, 2010*). The role and importance of Small and Medium Enterprises (SMEs) in the context of India's Industrial development can be traced to Industrial Policy Resolution of 1956 which states: "*They (SSIs) provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small samples of industrial production all over the country (Planning Commission, Second Five-Year Plan, p. 47)*".

With relatively low capital investment, larger employment opportunities and unstinted official support, the SME sector maintained its momentum in the pre-reform period. In the post-liberalization era, its importance has not been undermined. Following the Ninth Five-Year Plan (1997-2002) document, it has been understood that the SME sector has matured and is in a position to make greater contribution to the national economy.

In their nature, scope and pattern, SMEs vary from country-to-country depending upon the economic, political and social environment, prevailing in that country. Broadly, SMEs are based either on the 'number of persons employed or on the amount of investment in 'fixed assets' or on both. For example, in many developed countries it is the number of employees that determines the size of an enterprise, but in a developing country such as India, the major determinant happens to be the investment size in an enterprise.

Nonetheless, the limits in terms of 'investment' and 'employment' are directly related to the state of economic development of a country. As such, a small scale unit in a developed country may be considered a large or medium-scale unit in a backward or developing country. Time-to-time revisions in these limits usually indicate performance and trends of SMEs, policies of the government and government's orientation toward the development of small-scale sector. For example, in European Union (EU), micro, small and medium-sized enterprises are crucial and provide around 65 million jobs representing two-thirds of total employment. In Japan, 81% of total employment is in SMEs, where on average one enterprise employs nine persons as opposed to four in the EU. In one of the Latin American countries, i.e., Colombia, SMEs account for 36% of all jobs and 63% of industrial jobs (Edit, 2005).

Today, attrition is one of the major problems faced by the various organizations across the globe. According to a recent survey conducted by All India Management Association (AIMA) on CEOs and HR managers of different IT organizations, it is found that attrition is the second important issue related to HR department. The impact of attrition has received considerable attention by senior management, HR professionals and industrial psychologists. It has proven to be one of the most costly and seemingly intractable human resource challenges confronting organizations.

In our paper, we have discussed relevant literature at first followed by the research gap. We then put forward data and methodology and data Analysis. Subsequently, we highlight some of the major findings of the study. We finally offer limitation to our research and future research direction with a conclusion to our research.

## **2. Theoretical Background**

Employers need to keep the employees from leaving the organization in a short duration for the success of the venture. Employers want their employees to build up a lifelong relationship with the organization, contribute to the performance and success of the firm and become the force behind the growth in long term. But modest aim generally ends with sorrow. Attrition is one of the most puzzling words in the management literature today. It is because; the cause and effect relationship here is not absolute. Here, Cause and Effect relationship is affected by multiple variables and it is difficult to build an empirical model/conceptual model on the basis of experience/data. The saying, good help is hard to find, is even true these days because the job market is becoming increasingly tight (Eskildsen 2000, Hammer 2000). Employers fight to get skilled employees to maintain the prosperity of their organizations (Eskildsen and Nussler 2000). Employee satisfaction and customer satisfaction varies proportionately (Mark Parrott 2000). Growing competitiveness in the market provides pressure on the employees. These pressures generally give birth to mental agony to the employees. Mark Parrott (2000) says that today's employees pose a complete new set of challenges. As a result, tapping of talent becomes more complex. Employees that are satisfied and happy with their jobs are more dedicated and functional in customer service and business operation (Hammer 2000; Marini 2000; Denton 2000). Also it is proved that employees who are satisfied with their jobs are more productive, creative and more likely to be retained by the company (Eskildsen & Dahlgaard 2000, Kim 2000; Kirby; Lee 2000; Wagner 2000). Again researches have proved that many environmental factors play significant role in the retention of employees such as Pay and benefits, communication (Brewer 2000; Wager 2000), motivation, justice (Kirby 2000) and leisure time (Rabbit 2000; Wilson 2000). The key organizational (HR) issue being faced today by all the SMEs is attrition. Career growth, compensation and supervision are some of the pronounced reasons, contributing to attrition. Due to monotonous nature of the job, employees change their jobs frequently. The average period of job change is two years for an employee in SMEs. Factors contributing to attrition vary from small to big SMEs. Many companies feel that exit interview is the best way to control or manage attrition rate. No organization can survive without giving importance to its employees. They are the first customers and their requirements should be identified and fulfilled. Like CRM, Employee Relationship Management (ERM) is the mantra an organization should follow to retain their employees. Fulfilling the reasonable expectations of employees should be a continuous process (Anantharaja, A. 2009).

It is argued that theory-based empirical research on HRM in SMEs within the same industry enable us move towards a systematic understanding and explanation of HRM in SMEs (Tsai, Chin-Ju, 2010). SMEs align their HRM practices with their realized strategies within three configurations, namely local, international, and world-class SMEs. Regardless of their strategic choices, these SMEs achieve comparable levels of performance (Fabi, Bruno; Raymond, Louis, 2000). Due to their limited size, many small and medium enterprises (SMEs) cannot justify full-time HR professionals in their organizations. Thus, the complex and time-consuming nature of many HR activities can result in a significant drain on existing managerial resources. Professional employer organizations (PEOs), however, offer SMEs an alternative for handling their workforce by providing compensation programs, regulatory compliance, and other HR-related services.

Industrial attrition literature also shows a few factors that affect the attrition which include employee turnover, commitment, motivation, changes in work place, training and development etc. These finding are valid for the employees who stay in the organization for long time. Unfortunately, no research has attempted to see the causal relationship between the attrition during probation and the probable reasons. With an objective to find out the factors leading to attrition, we have done a detailed exploratory study in SMEs in India. Our research is specific to understand the reasons for employee attrition in SMEs during the probation period and to find ways to control attrition.

Many Researches say that the overall culture of the organization actually causes the attrition. But here again it is questionable whether an employee staying only for a few months in the organization get affected by the so called "culture". Following this puzzle, we attempted to find the probable reasons of attrition during the probation period. We took into account different time frame, different employees who left their organization

during probation period for the research.

### **3. Gap**

It is difficult to define all the possible reasons and the most promising reasons for attrition in the SMEs. We have attempted to build the gap by developing a conceptual framework and finding the intensity with which various factors impact attrition. This research is first of its kind in studying the SMEs from attrition management point of view.

### **4. Methodology & Data Collection**

This research is undertaken to assess the causes of attrition in SMEs and its remedies. The main aim of such a design is to ensure that the required data are collected objectively, accurately and economically. Primary Data: Data regarding the causes of attrition in SMEs and its remedies were collected directly by interacting with the employees of different SMEs by a structured questionnaire. Secondary Data: The secondary data was collected from the existing data, company records, and the Internet.

### **5. Research Tools**

The questionnaire used in this study was direct and structured. The types of questions asked in this questionnaire were closed-ended and open-ended, and multiple choice. To test the validity and veracity of the structure of the questionnaire and to find out whether the purpose would be fulfilled, a pilot study was conducted where a sample of 20 questions was collected to find opinions of employees about the causes of attrition in a company. The main objective of using these techniques was to understand the current process of the SMEs and whether the employees were satisfied.

### **6. Sample Size**

The scope of the study is limited to employees of different SMEs. The numbers of respondents are 120. Responses were collected at Hyderabad and Ahmadabad in 25 engineering /manufacturing SMEs and 25 food processing SMEs. Employees are one of the most critical stakeholders of an organization. Thus understanding the behavior of the employees is critical for organizational success. The contextual implications that most researchers have ignored earlier, we have tried to incorporate in our research. In the first step, broadly the qualitative research has been carried out. A total of 50 respondents have been interviewed across various organizations. The type of sampling used is mostly random. Researchers have approached a set of organizations and interviewed employees in all levels of management to ensure representation across various layers of management. Critical incidence technique is used to understand the perception of employees towards their employers. The interviews had dual purpose. The primary purpose is to understand various factors that influence employees' behaviors which might lead to attrition. Again the researchers also wanted to see whether demographic variables play a role. Employees were asked to recall various instances where they felt that the behavior shown by their employers was not fair. Most of the respondents cited similar sort of incidences and believed that most of the commitments made during the recruitment haven't been fulfilled.

The key points have been listed immediately after the interview to maintain consistency in result with 24 hours rule by Eisenhardt and Bourgeois (1988). The Cohen Kappa co-efficient is calculated based on coding done by two independent coders so as to identify different themes based on the responses from the interview. High inter coder reliability (Cohen Kappa co-efficient = 0.75) has been achieved.

## 6. Data Analysis and Findings Analysis

In the second phase of the research, researchers concentrated on constructing a theoretical frame work which will be useful for small scale entrepreneurs to understand the causes of attrition specific to their SMEs.

The component matrix (Refer to Table: 3) has extracted five factors. The attributes in each factor have been mentioned below.

**FACTOR1:** Malleable working hours, availability of resources, working situation = **WORKING CONDITION**

**FACTOR2:** Pressure from entrepreneur, high pressure of sales, monotonous job, vague targets, undistinguishable responsibility, multiple bosses = **NATURE OF WORK**

**FACTOR3:** Cooperative peers, Cooperative supervisors, Feedback mechanism, Approachable supervisor, Permissible faults, Tolerance level = **ORGANIZATIONAL PHILOSOPHY**

**FACTOR4:** Remuneration at par with other company, Payment on time = **SALARY**

**FACTOR5:** Scope for career growth, Scope for skill development = **CAREER PROGRESSION**

After identifying the factors, we tried to find out the most important factors that are actually leading to attrition in SMEs. Respondents were asked to rate the factors on a five point scale. (Refer Table no: 3)

After running a regression analysis of the factors affecting attrition with the factors, obtained after factor analysis, we got the following regression equation.

**Factors affecting Attrition level= 4.00+0.665\* WORKING CONDITION + 0.143\* NATURE OF WORK +0.483\* ORGANIZATIONAL PHILOSOPHY +.211\* SALARY + 0.510\* CAREER PROGRESSION**

From the above equation it can be inferred very easily that the most important factor for the respondents is the “condition of the workplace”. We have contributed (In contrary to earlier researches) here showing that not the culture of the SME but the *working condition* in the SME makes employees to move out of a SME.

The regression output has been attached (Refer to Table no: 4).

The value of the R square is 0.972 (adjusted R square is .954) which shows that the model is able to explain 97.2% of the variance in dependent variable (Refer Table No: 5).

Based on the equations, the theoretical frame work has been developed (Refer Figure 1).

In SMEs, attrition is due to the Working condition, Organizational Philosophy and Career Progression.

From the regression equation it is clear that most important concern for a SME Employee is the Working Condition. It is a very important finding in context of SMEs as employees are giving higher importance to procedural justice. Again Organizational philosophy which is closely related to culture and interactive justice is considered to be much more important than Salary that includes both tangible and intangible benefits. To retain the employees and to lower attrition, employers’ primary focus should be towards ensuring both interactive and procedural justice. Again salary and benefit which many entrepreneurs believe to be the most important cause of attrition seems to be less important in comparison to many other factors.

## 7. Limitation of the Study and Scope for Future research:

Although the research has many interesting findings, it has couple of limitations. First of all, the research is carried out only in two major cities. Thus more data may impact the findings of the study. Again research is lacking quantitative generalization. Thus researchers in future may concentrate on addressing these two areas of research. We have considered only two set of SMEs. Story may be different for other set of SMEs (such as artificial jewellery, cottage etc).

## 8. Conclusion

Attrition is a major problem faced by many SMEs in India. The probable reasons of attrition, although cannot be modeled explicitly, are important to find for success of the SME sector. Healthy employee group

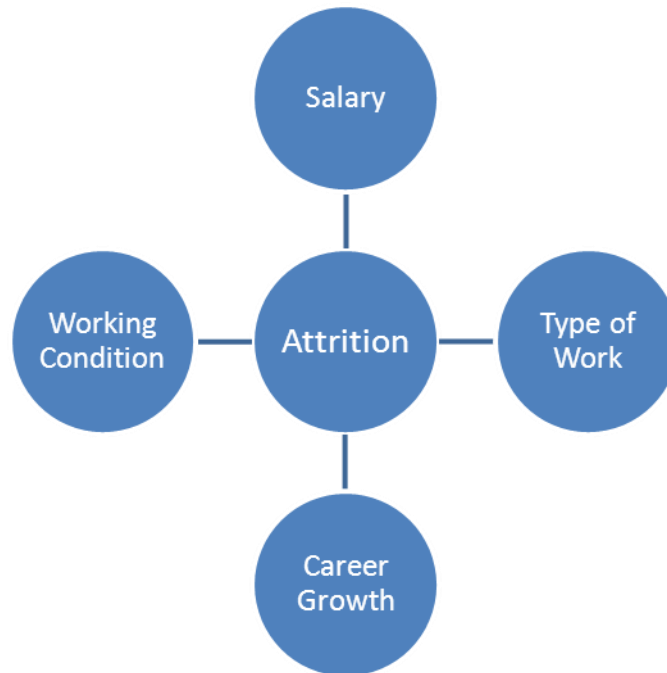
can contribute towards profitable growth of the SMEs. This research opens up new avenue for the study of attrition in SMEs and segments “attrition study” from the case in other national and multinational organizations. This research provides an arena for the SMEs administration to revisits the employee retention strategies. Modifying the working condition can be one of the easiest steps for SMEs to do so that attrition can be controlled. Step by step implementation of retention strategies can help SMEs to get full control on attrition in near future.

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**Figure 1. The theoretical framework**



	EMPLOYEES
SAMPLE SIZE	120
SECTOR	
MANUFACTURING	30
FOOD PROCESSING	30
SERVICE	30
MEDIA & PUBLISHING	30
GENDER	
MALE	80
FEMALE	40
MANAGEMENT LEVEL	
TOP	30
MIDDLE	30
JUNIOR	60

Table 1: Demographic profiling of the Respondents

	RESPONDENTS	PERCENTAGE
AVAILABILITY OF RESOURCES	13	20%
CAREER GROWTH	15	18%
SALARY	11	36%
WORKING CONDITION	4	14%
SUPPORT FROM THE MANAGEMENT	5	9%
BEHAVIOR OF PEERS	2	5%

Table 2: Themes

**Component Matrix**

	Component				
	1	2	3	4	5
Malleablehours	.668	-.315	.256	-.296	-.529
Avilibilityresources	.654	.056	.526	-.258	.129
Wrksituation	.468	.145	.415	-.126	-.260
Highsalepr	.045	.925	.262	-.256	.289
Monowrk	.385	.686	.379	-.556	-.090
uncertatargets	.356	.915	-.164	-.165	.089
undstngusalesponsibiliti	.314	.917	-.160	-.165	-.096
multbos	.458	.765	.013	-.006	.489
Cooperativeers	.376	-.460	.689	.289	.456
Cooperativesuper	.089	-.199	.989	.156	-.369
Feedbackmech	.456	-.226	.869	.126	.125
permissiblfault	.018	-.020	.756	-.664	-.264
tolerancelev	-.366	-.389	.789	-.484	-.088
Remuerationwitcomany	.189	.279	-.093	.918	.256
paymentontime	-.161	-.256	-.126	.745	.656
scopeskilldev	.142	-.185	.685	.248	-.658
Training	-.557	.078	-.365	.256	.789

Extraction Method: Principal Component Analysis.

Table 3: Factor Analysis Output

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
1 (Constant)	4.000	1.000		0.007
REGR factor score 1 for analysis 1	.665	.000	.254	0.062
REGR factor score 2 for analysis 1	.143	.000	.042	0.060
REGR factor score 3 for analysis 1	.483	.000	.593	0.055
REGR factor score 4 for analysis 1	.211	.000	.583	0.082
REGR factor score 5 for analysis 1	.510	.000	.492	0.025

a. Dependent Variable Motivation level

Table 4: The regression output

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1.	.986	.972	.954	.26094	.396	42.680	1	3	.007

Dependent Variable: motivation level

Table 5: Dependent Variable: motivation level

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