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An Exploratory Investigation into Voluntary Employee Turnover and  
Retention Practices in the Small Business Sector

**ABSTRACT**

Given the scant research on turnover and retention in small businesses, this study addresses the question: what factors influence voluntary employee turnover in small businesses and how do owner-managers retain key employees? This question was broken into three research objectives. Data were collected via semi-structured interviews with nine owner-managers and seven employees from eleven Australian small businesses. Findings of this study identify adverse consequences of turnover, uncover antecedents of voluntary turnover, pinpoint small business characteristics that enhance employee retention and present a suite of small business employee retention strategies. Implications of the findings for management practice are explained. Limitations of the study and their implications for future research are also discussed.

**Key words:** small and medium sized enterprises, retention, voluntary turnover

Small business success is often linked to quality employees who contribute knowledge, skills and abilities to the firm. All of these contributions maximise a business's ability to grow, remain competitive and be responsive to changes in external environments (Barrett & Mayson 2005). Despite the economic importance of the small business sector (Bateman, Clark, Eaton, Lind & Pye 2011) and the vital contributions of its key workers to small business success, relatively scant research is dedicated to human resource management in small firms (Cardon & Stevens 2004; Hornsby & Kuratko 2003). In particular, there is little in the way of research devoted to addressing how small firms can minimise the loss and enhance the retention of perhaps their most valued assets; their human resources (Baron & Hannan 2002; Cardon & Stevens 2004; Rondeau & Wagar, 2006). This gap in the literature is problematic on both theoretical and practical grounds.

Extensive research indicates that voluntary turnover of key employees can be costly, both directly and indirectly, to small businesses. When key employees leave the firm direct costs such as recruitment, training and general administration costs are incurred (Rondeau & Wagar 2006) whilst the indirect

costs such as lowered productivity and competitiveness hinder small business growth and success (Abdullah, Jauhar, Khalid, Shuib, Muhammad & Nor 2007). As Rondeau and Wagar (2006: 1) have noted, "If a high-quality employee leaves the organization, a smaller firm may be less likely to have a suitable internal candidate or lack of resources to selectively recruit on the external market." These factors highlight the importance of employee retention in small businesses.

Accordingly, there is a need for further research that focuses on employee retention strategies that are suitably aligned with the unique characteristics of small businesses. The purpose of the current study was to explore the factors that influence voluntary employee turnover in small businesses and the strategies employed to retain key employees. In doing so, findings from this study contribute to the existing but small body of research and helps to address the gap in the literature.

The current study is underpinned by the theory of the resource based view (RBV) of the firm. This theory focuses on the analysis of a firm's internal environment; more specifically it explores the value-creating potential of internal resources (Boxall & Purcell 2011). Human resources are no exception to the notion that a firm's internal resources can be sources of competitive advantage. Under this theoretical construct, employees are regarded as important resources whose knowledge, skills and abilities are highly valuable.

### **RESEARCH QUESTIONS AND OBJECTIVES**

The current study addresses the question: what factors influence voluntary employee turnover in small businesses and how do owner-managers retain key employees? The focal question was broken into the following research objectives. To explore owner-managers' and employees' perceptions of: 1) common reasons why employees voluntarily leave small businesses; 2) characteristics of the small business that might enhance retention of employees; and 3) strategies that are employed to retain key employees (owner-manager perspective only). For the purposes of this study a small business was defined as an enterprise employing less than 20 people (Small Business in Australia 2009).

## LITERATURE REVIEW

The review of the literature has identified three main features. First, the vast majority of HRM literature is dedicated to the context of large business (Cassel Clegg Gray & Nadine 2002, Cardon & Stevens 2004). On the whole, this literature suggests that larger businesses adopt a much wider range of HR practices than smaller businesses. The HR practices in larger businesses are also more sophisticated and formal. Some commentators (e.g., Gilbert & Jones 2000) contend that there are sound reasons for adopting a narrow range of mostly informal HRM practices in the small firm sector. Others point out that neglecting formal HRM practices might hinder progress toward sustainable competitive advantage in smaller firms (e.g., Hornsby & Kuratko 2003).

Second, employee retention has been included in a few studies that have examined a range of HRM issues in small firms, but only as minor components of these studies. For instance, Lewis and Coetzer (2009) studied small firm HRM practices that are related to the three broad goals of HRM: attracting, developing and maintaining an effective workforce. In regard to maintaining an effective workforce, they found the majority of surveyed firm's utilised non-financial retention practices including developing social bonds through cohesive work groups, emphasising person/organisation fit during employee selection processes and fulfilling employee affiliation needs.

Third, just three studies have explicitly focused on employee retention in small businesses. Findings of Kickul's (2001) study suggest that small businesses can enhance employee retention through adopting strategies aimed preventing breach of the psychological contract. A study by Graham, Murray and Amuso (2002) concluded that compensation and reward schemes signify an organisation's appreciation for employee efforts and this encourages individuals to remain with the firm. Wagar and Rondeau's (2006) showed that human resource practices such as rigorous selection techniques, employee assistance programs, formal training and compensation packages enhance employee retention in small businesses.

## METHOD

The current study employed an exploratory study design. An exploratory design is appropriate as there has been limited research into the area of employee turnover and retention in small businesses employing less than 20 people (or less than 20 full-time equivalents). Furthermore, this research design will provide a broad scope to yield potential new insights and establish the groundwork for future studies (Babbie 2010) on voluntary employee turnover and employee retention in small businesses.

To gather data for the study, the 16 research participants engaged in individual semi-structured interviews. The interviews were guided by a set of pre-determined questions and additional probing and open questions were asked throughout the interviews (Wengraf 2001). This approach prevented the interview from becoming too rigid, enabled the interviewer to thoroughly explore the participant's responses and gave the interviews a conversational feel. These characteristics allowed for a high level of flexibility and fostered a participant-led process, whereby respondents were given freedom to express their ideas and report on experiences.

All interviews were digitally recorded and transcribed verbatim by the researcher. To analyse the owner-manager and employee interview responses, the transcripts and hand-written notes were read repeatedly and key ideas and statements were highlighted and reflective comments made in the margins. Content analysis was used to aid in the classification of the textual interview data into the three research objectives. All phrases, sentences and statements in the interview data were reviewed in relation to these three categories and then organised into the most relevant category. To assist with the identification of central ideas (Corbin & Strauss 1998) the organised data was then reviewed to identify 'recurring regularities' (Patton 1990) and themes within each research objective.

Due to the fairly small number of study participants (16), the interview data obtained from the owner-managers and employees were combined during data analysis. This is because the current study focuses on what is common, rather than what is different, in the perceptions of the two groups of study participants. However, the data related to research objective 3 was analysed separately. As

mentioned previously, interview data about retention strategies was gathered from owner-managers only, as employee respondents are unlikely to be knowledgeable about specific retention strategies.

### **FINDINGS**

The sample consisted of nine owner-managers and seven employees. The participants were from a total of eleven small businesses (ten in Perth, Western Australia and one in Sydney, New South Wales). Owner-managers were asked to nominate employees who they regarded as key contributors to the small business. Nominated employees were then invited to participate in an interview. Owner-managers typically based their selection on the employee's length of service, knowledge and experience. Tables 1 and 2 provide profiles of the owner-manager and employee respondents who participated in the current study. The duration of business ownership figures are indicative of the owner-manager's depth of experience in the small business sector. This wealth of knowledge and experience provided the potential for valuable insights into how the phenomenon of voluntary employee turnover and retention functions in a small business environment and positively impacted on the richness of the interview data. Similarly, the majority of employee respondents have been employed with the small businesses for a period exceeding 12 months which meant that they were well-equipped to provide insights into a range of small business characteristics that can constrain or promote voluntary employee turnover.

**{Insert Table 1 and 2 here.}**

The findings of the interviews are presented as themes. In regard to reasons why employees voluntarily leave, analysis of the interviews with owner-managers and employees yielded the themes: (1) to escape from relationship conflict; (2) a lack of career progression opportunities; and (3) the informality leads to work overload and stress. Regarding the small business characteristics that enhance retention, the themes that emerged from analysis of the interviews with owner-managers and employees were: (1) the flat management structure and egalitarian work environment; and (2) the varied job duties and responsibilities. The themes that emerged from analysis of the interviews with the owner-managers relating to strategies that are employed to retain key staff were: (1) ensure that

employee personalities are compatible; (2) empower employees to succeed in their job roles; and (3) tailor remuneration packages to suit individuals. In Table 3 selected themes within each research objective are illustrated using quotations taken from interview transcripts. To maintain anonymity, identification codes are used instead of participant names.

**{Insert Table 3 here.}**

## DISCUSSION

### **Reasons why employees voluntarily leave (Research Objective 1)**

*Theme: Escape from relationship conflict*

Close working relationships, whether they are essential to the role or desired by the individual, more often than not involve frequent interaction between employees and with owner-managers. In some cases this interaction can be between persons who have differing views, opinions and/or personalities. The physical closeness of employees that is often seen in small business layouts can magnify these personality clashes creating tension and heightened emotions. These conflicts resonate relatively quicker in smaller and more intimate workplaces leading employees to become uncomfortable, insecure and dissatisfied not only with the concerned parties but with the working environment as a whole. Essentially employees typically don't want to work with people that they don't get along with and if the relationship cannot be improved or reconciled then an option may be to resign from the business.

*Theme: Lack of career progression opportunities*

Consistent with findings of existing research (e.g. Arnold, Bosley, Schalk & Van Overbeek 2002), findings of the interviews suggest that barriers to career progression can cause voluntary employee turnover in small businesses. As proposed by Maslow's (1954) hierarchy of needs theory, some individuals strive for self-actualisation through their work. The category self-actualisation incorporates the needs for personal growth, achievement and self-fulfilment. For some individuals, this higher-order category of needs can be achieved by professional advancement in their work through a job promotion or increased work responsibilities. However, the flat structures of small businesses typically cannot accommodate the level of professional advancement that key employees

often desire. Employee respondents in the current study claimed that limited or no growth opportunities in small businesses can prompt them to search for alternative jobs that offer greater scope to progress professionally.

*Theme: Informality leads to work overload and stress*

The literature emphasises that small businesses characteristically adopt informal human resource management practices (e.g. Down 2010; Marlow 2002). The findings of the current study were consistent with the literature, revealing that small businesses foster this informality through unstructured working arrangements and loosely defined job descriptions. Work structure provides consistency, establishes employee expectations and increases the likelihood of those expectations being met. The absence of such structure, through unstructured working arrangements and flexible job descriptions, can result in employees working unprecedented hours and fulfilling unsolicited work roles and responsibilities. In these circumstances work overload and work related stresses such as burnout are common outcomes. Outcomes such as these can reduce the amount of time that employees spend with their family and friends and adversely affect their overall health and wellbeing. Thus, in response to these undesirable circumstances, employees may seek more structured and manageable positions within a different organisation.

### **Characteristics that enhance retention (Research Objective 2)**

*Theme: Flat management structures and egalitarian work environments*

The absence of traditional tiered management structures in small businesses, gives employees at all levels relatively better access to business decision making processes. Reasoning for this is that there are typically fewer levels within small businesses that employees must go through to have their ideas heard by management personnel. The current study revealed that this approach to decision making was valued by employees as they are able contribute more to organisational performance and objectives. Complementary to this characteristic and consistent with existing literature (Storey 1994) is that employees are able to readily see the impact that their contributions have on organisational outcomes. Both of these factors help to maintain a key employee's personal affiliation and identification with the business (Schlosser & Todorovic 2006).



Consistent with findings of previous research (e.g. Barrett & Mayson 2005; Down 2010), the current study also revealed that the lack of bureaucratic structures in small businesses accommodates strong employee/manager working relationships. In small businesses, working relationships usually involve relatively more personalised forms of interaction, for example face-to-face communication between the owner-manager and employee. Interacting on professional, social and even personal levels in the work place creates a “work family” atmosphere which helps employees to feel a part of something much more than a profit-making entity. The “work family” atmosphere encourages loyalty, trust and respect amongst employees and with owner-managers and promotes a friendly atmosphere where employees feel relaxed, valued and content at work.

*Theme: Varied job duties and responsibilities*

Informality in terms of job roles and responsibilities and the associated links to workload and stress, was identified as cause of voluntary turnover. However, the variety offered by loosely defined job descriptions presented itself as a characteristic that can also enhance key employee retention. As opposed to engaging in monotonous work that can be unstimulating, small businesses traditionally expose employees to a range of roles and responsibilities either on an on-going or ad hoc basis. The benefits and disadvantages of this flexibility can be interpreted differently depending on individual preferences. However, for an employee who does not want to be pigeonholed into a single work function, this work diversity promotes continued employment with the business.

**Strategies to retain staff (Research Objective 3)**

*Theme: Ensure that employee personalities are compatible*

One can assume that there is a preference on the part of employees to work with people that they get along with. Considering that some employees may spend more time with their colleagues at work than they do with their family and friends, owner-managers reported the importance of key employees feeling comfortable and content with their colleagues noting that poor work relationships can ultimately ruin employee job satisfaction and trigger intended or actual turnover. It is not surprising then that owner-managers aim to ensure that new and existing employees are compatible with one another. One approach to this is screening new employees in the selection process to assess whether

their personality traits will suit the personalities of existing key employees and the organisational culture. The second approach is concerned with “airing” out disagreements before they escalate with a view to maintaining positive workplace dynamics.

*Theme: Empower employees to succeed in their job roles*

This retention strategy focuses on providing employees with the resources they require to achieve work-related objectives. These objectives include professional growth, acquisition of qualifications or completing a project. Employees able to meet their need for achievement in the workplace are likely to report high levels of job satisfaction and work motivation (Herzberg, 1987). Empowerment also instils a sense of personal fulfilment and encourages employees to take ownership of their work. The current study revealed a number of ways that owner-managers in the sample empowered their key employees. These include: offering opportunities for paid training and development; allocating work that employees enjoy and excel in; giving employees autonomy in their jobs; and involving key employees in business decision making. Owner-managers reported that these empowerment techniques heighten employee interest in and commitment to their work and in the business as a whole.

*Theme: Tailor remuneration packages to suit individuals*

A reward that appeals to one employee may not appeal to another and so the benefit of the remuneration, in terms of its impact on retention, is lost. The current study found that small businesses respond to this issue by understanding the preferences and desires of the individual and then tailoring the rewards accordingly. The relevance of this approach to retention is that it recognises employee efforts, with financial or non-financial benefits that are personally worthwhile. Additionally, this approach to remuneration is reflective of owner-managers taking a keen interest in their employees. This in itself can please employees by observing that the owner-manager values them as an individual and not just a business asset.

### **IMPLICATIONS FOR PRACTICE**

Findings of the current study emphasise the importance of owner-managers understanding their key employees at an interpersonal level. The findings for all ROs relate in some way to the significance of workplace emotions and group dynamics in small businesses. This finding suggests that rational elements such as pay and benefits are just part contributors to effective employee retention. The other part is concerned with owner-managers giving individualised consideration for internalised or implicit aspects such as interpersonal relationships and belongingness. Thus, small business practitioners can further improve their retention strategies by taking measures to keep their employees satisfied, not only financially, but also by attending to their emotional and social needs as well.

There were a number of small business characteristics that were recognised as initiators of voluntary turnover, for example, unstructured work tasks. However, evidence in the current study also suggests that these same characteristics can also promote employee retention. This discovery suggests that small business practitioners should reassess the role that 'negative' small business characteristics play in voluntary employee turnover and retention. Consistent with the theory of social information processing (Pfeffer & Salancik 1977) which postulates that attitudes and behaviours are partly based on the information embedded in social contexts, small business practitioners should look at ways to position employees to view traditionally 'negative' business characteristics from a positive viewpoint. For example, the respondents in the current study claimed that fulfilling varied and additional work tasks due to loosely defined job descriptions can lead to work overload. This negative attitude towards job variety can be altered if owner-managers persuasively communicate the *benefits* of job variety such as skill and knowledge development and diversified instead of monotonous work.

### **LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

This study has limitations that tend to be commonly found in exploratory studies, such as a small sample size, a wide scope and the use of convenience sampling. A further limitation of the current study was that the owner-manager's responses appeared to be affected by social desirability bias (Blackmon & Maylor 2005). This bias was evident in the full responses owner-managers gave when

asked to report on the attractive aspects of working at their small business. Similarly, employee respondents were understandably cautious when responding to questions about factors that could potentially influence them to voluntarily leave the small business. Techniques that can be applied in future research to reduce social desirability bias include reassuring participants, pre-interview, about the confidentiality and anonymity of their responses and conducting interviews outside of the work place in a more relaxed environment where employee behaviour is less likely to be constrained by workplace norms.

### CONCLUSION

There are limited studies dedicated to investigating voluntary employee turnover and retention in a small business context. The findings from the exploratory study contribute to the small body of literature by exploring the causes for voluntary employee turnover in small businesses and the retention strategies that small businesses employ to retain their employees. The findings indicate that an escape from relationship conflict and informality in terms of work duties are common antecedents for turnover whilst flat management structures and varied job duties and responsibilities can promote employee retention. Maintaining compatibility amongst employee personalities and tailoring remuneration packages to suit individuals were revealed as popular employee retention strategies in the sampled small businesses. Some of the findings in the current study have been widely discussed in the literature whilst others cast light on relatively under-explored causes of voluntary employee turnover and employee retention strategies. These under-explored areas should be examined in greater depth in future larger-scale qualitative or quantitative studies.

Clearly, more empirical studies are needed to further enhance the understanding of employee turnover and retention in small businesses. In such future work, turnover and retention theory, and small business theory, will need to be complemented by insights from a range of other theoretical perspectives. The theory of social information processing (Pfeffer & Salancik 1977), job design theory (Hackman & Oldham 1980) and organisational support theory (Rhoades & Eisenberger 2002) may be especially helpful in arriving at a deeper and more fine-grained understanding of the research topic.

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Table 1:

## Profile of Owner-manager Respondents

Participant Code	Gender	Duration of ownership	Products and Services	Number of Employees
OM1	M	10 years	Bamboo flooring product sales and installation	31 (15 FTE)
OM2	M	40 years	Car sales and mechanical service and repairs	6
OM3	M	10 years	Management consulting and assurance services	10 (6 FTE)
OM4	F	13 years	Clothing manufacturing	6
OM5	M	12 years	Food and beverage	14
OM6	M	20 years	Hairdressing	7 (6 FTE)
OM7	M	6 years	Real Estate sales	11 (9 FTE)
OM8	F	30 years	Life coaching, detox and weight loss, remedial therapy and massage	4
OM9	M	6 years	Supplement wholesaling and sales	2 (1.5 FTE)

Table 2:

## Profile of Employee Respondents

Participant Code	Gender	Employment Duration	Position Title	Key Duties
EM1	F	5 years	Sales Consultant	Product sales
EM2	M	10 years	Senior Motor Mechanic	Motor vehicle repairs
EM3	F	4 years	Senior Hairdresser	Colouring and cutting specialist Trainer
EM4	M	1 year	Pharmacist	Medicine dispensary
EM5	M	6 years	Real Estate Agent	Property sales
EM6	M	6 years	National Sales and Marketing Manager	Sales and marketing
EM7	F	7 months	Administration Support Officer	Customer service and liaison, accounts receivable and data entry

Table 3:

## Themes and Illustrative Quotations

Theme	Illustrative Quotation
Escape from relationship conflict	<i>“One of the downsides I guess of being involved in a small business is that if you do have conflict then it does get magnified quite a bit. I’ve found that in other small businesses, certainly not here, that the employers have been pretty tough to work for and it does create a bit of animosity between the staff and the business” (EM6)</i>
Lack of career progression opportunities	<i>“If you wanted to grow or improve your position you would have to go because there is nowhere to move up” (EM1)</i>
Flat management structures and egalitarian work environments	<i>“It’s a very flat structure so the hierarchy is not there [like] in a traditional consulting practice where there is a manager and the manager then communicates with the partner and the partner will then communicate everything down and the graduate is too scared to speak with them” (OM3)</i>
Varied job duties and responsibilities	<i>“That’s the beauty of being here is that I’ve gone back to having that variety in my role in the dozen different things that I do which makes it much more enjoyable rather than just doing sales day in day out” (EM6)</i>
Ensure that employee personalities are compatible	<i>“If people feel safe at work and you introduce someone who brings about some negative stuff, which we’ve had, the whole things starts to go bad...What I’ve come to understand over time is that people want to work with people they like” (OM1)</i>
Tailor remuneration packages to suit individuals	<i>“What we do every 6 months is look at how much money we’ve generated off each individual and what they’ve cost us both in their salary but also in other costs such as training or whatever it may be. And we look at their attitude and what they’ve done and their willingness to actually be flexible... We’ve got our ears out for what interests people and we just store that away and when we come to talk about remuneration and bonuses we say, “Well why don’t we do that instead of this?” I think they appreciate our willingness to actually do that” (OM3)</i>