Talent Retention: The Pressures in Malaysia SMEs

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Abstract Talents has gradually become the most important source of organization sustainability especially referring to the largest cohort in the Malaysia’s workforce, the Generation Y. This study provides in-depth understanding of employee retention through the experiences of young generation in SMEs of Malaysia. The study also discusses five main pressures of retention faced by SMEs recently and aims to contribute a literature foundation in talent retention with newly constructed independent variables of personal job fit, pay and benefits, career development and work life balance while job satisfaction serves as the mediator. By conducting this study, organization will be able to ascertain appropriate approaches in order to hire, retain and keep the top performers among Gen Ys.

Keywords Talent Retention, SMEs, Gen Ys, Turnover, Pressure

1. Introduction

In today’s volatile global economy, the changes in talent market and workforce demographic are contributing high pressures for most organization around the world and these changes of economy and workforce availability has never been seen in last few decades. The talent retention and engagement has always been brought up by researchers, top management as well as HR Professionals to address its importance. For instance, the report of 2012-2013 Talent Management and Rewards Survey which was conducted by WorldatWork and Tower Watson and were partake by 1,605 employers globally shows that almost 75% of the organizations agreed that the current top difficulties of corporate are the retaining of and attracting the core talents in organizations, especially for new generation workers[1].

The purpose of this study is to provide in-depth understanding of employee retention through the experiences of young generation in SMEs of Malaysia. To date, SMEs occupied approximately 99.2% of the total business establishments in the country or totaling 548,267 enterprises which cover a large proportion of total businesses in various sectors[2]. In addition, SMEs are contributing over 59% of employment as the prime mover of economic growth in the country[2]. However, there are limited current researches gearing specifically towards Gen Ys in SMEs workforce and exploratory scholarly literatures in developing countries such as Malaysia, Thailand or Vietnam are indeed lacking[3]. This study explores new construction which is more specific and closer to the characteristic of Gen Ys than the broad aspects which were discussed in previous studies. Therefore, in order to fill in the gaps, this study aims to develop a mature theoretical model incorporating into the contemporary situation of Gen Ys in SMEs Malaysia. Thus, it could assist to determine cause and effect of employee’s perception towards factors of retention through the pressures discussed. In addition, this study will provide additional insight into the impact of job satisfaction as a mediating factor of pay and benefits, career development, job fit and work life balance to successfully retain the new generation of employees. By conducting this study, organization will be able to ascertain appropriate approaches in order to hire, retain and keep the top performers among Gen Ys.

The following discussion comprises three parts. First is to determine the pressures affecting the talent retention. Then the continuous examination of a literature review to propose the theoretical framework. Lastly, the final part prevails the conclusion with several important implications of study.

2. Five Main Pressures

Pressure 1: Ignorant of Talents Mobility

Talent retention is essential for organizations, especially for small medium enterprise (SMEs) in order for their business to grow. However, attracting, recruiting[4], engaging, motivating and retaining talent is always hard for SMEs due to their size and lack of emphasis on staff management[5]. A lot of SMEs prefer to ignore rather than to solve the talent retention problems. Wu[6] also revealed that most SMEs believed that Human Resources issues especially in talent retention would lead to higher cost, so they did not like to invest and spend more on it. According to Kinear and Suthrland[7], mobility of the knowledge workers is a major concern of the organization in this new economy in which an organization may lose their competitive advantage without talents. Therefore, they should have prepared a budget to
retain the excellent employees in organization[6].

**Pressure 2: Shortage of Talents in SMEs**

The shortage of talent workers becomes more critical when new generations (Gen Ys) are not interested to work in SMEs. They prefer to join and work in those multinational companies (MNCs)[5] and foreign countries which offer them higher job opportunity and welfare packages. Besides that, according to Tan Sri Sulaiman Mahbob, trained and highly skilled talents in Malaysia are now working in many parts of the world, such as in China, the Middle East, Australia, Hong Kong, Japan and even Singapore[8]. Therefore, the SMEs is facing serious brain drain and shortage of qualified employees or talents. It has become the urgent concern and prioritized agenda for human resource professionals in most of the organizations[9]. Meanwhile, local and traditional businesses in SMEs who transform their business line to global market also met with shortage of talents especially those with languages ability and global working experiences. Furthermore, numerous foreign SMEs’ organizations indicated that they are having problems in investing and expending their business in Malaysia due to several market reasons such as the lacking of provision of incentives by government to support facilities development and overcome the shortage of skilled workers supply[3].

**Pressure 3: High Turnover Rate**

Turnover is another pressure contributing the impediment for SMEs growth[5]. Despite various efforts taken by the organization, employee’s turnover rate still remain at the critical level as reported by most of the researches and surveys[10]. According to Hewitt’s survey report, voluntary employee turnover rate in Malaysia is growing progressively since year 2008 with 9.3% to 10.1% for year 2009 and 13% for year 2010[11]. Malaysian Employers Federation (MEF) recent report shows that the average yearly employee turnover rate of executives in 2011 is 20.88%[12]. The report also indicated that the turnover rate of Generation Y is the highest group among the workforce and it shows that the loyalty of young generation (Gen Ys) to the organization is low[12]. Today, job hopping becomes a norm among Gen Ys which they are mobile and capable of grabbing better position and benefits. The new generation is hard to express their loyalty to only one employer in their career.

Meanwhile, employee turnover will incur high direct and indirect costs to the organization. For instance, the direct costs includes costs expenses and time to recruit or interview the new employees[13], premium salary offered to attract the new candidates and training cost for new employees[14]. The indirect cost which organizations are mainly concerned about is their losses of intellectual capital which the knowledge and experiences have flown out the organization[13]. When talents are leaving, low productivity and performance to the organization will also be identified as an indirect cost[15]. A few of the researchers survey showed that the estimated cost of employee’s turnover is approximately 20%-500% of those leaving employee’s annual salary as well as in Malaysia[16][12]. In line with that, Kotze and Roodt[17] explained that losing good employees will impact the company morale such that employees who remain will feel de-motivated and their job satisfaction will decrease. If this condition continues, they will be distracted and some of them may tend to follow their colleagues to leave for the new opportunity. Therefore, the increased employee turnover problem greatly impacts the business operation whereby it does not only diminished organization effectiveness but impede the capacity to meet organization’s goals[10]. For the low operation costs industry such as SMEs will be affected significantly from the consequences brought by the high turnover rate.

**Pressure 4: Retention of Gen Ys**

Another new critical talent issue alerting the employers is that many of them are struggling to find effective ways to retain new generation talent known as Generation Y (Gen Ys) or Millennials who are on the average age of 35 years old and below in the workforce[18]. In Malaysia, Gen Ys comprised of over 40% of the country’s population. As the number of Gen Ys are getting larger, the understanding of the unique and strength of them is important to integrate them successfully with other generation in the workplace. They are the new generation of workforce and it will be a new challenge for the employers in terms of new work behavior and attitudes, and the tactic to retain them. For instance, the motivation factors might be different from previous generation like Generation X and Baby Boomers. They are more demanding, have higher expectation and prefer the flexibility in the job[19]. Based on The United Kingdom’s Chartered Institute of Personnel and Development (CIPD) 2007[20] report, half of the employers are facing difficulties to retain their talented employees especially the new generation workforce. This is because the Gen Ys want things to be fast and efficient with modern technology and the growing environment. Besides that, the Gen Ys generally have higher academic qualification and skill compared to previous generation. Moreover, Gumz and Dashukewich[4] revealed that Gen Ys expects greater flexibility in their career and seeks for balance between families and work. If these values are not satisfied, they will have the intention to leave the job. Puybaraud[21] argues that Gen Ys are highly ambitious and aim for high achievement. They know how to plan for their future career path and develop themselves with different types of training. Thus, organizations need to understand more about Gen Ys who will be leading and changing the organizations in the future. Therefore, employers should look for solutions to narrow the generation gaps in an organization[22] especially in managing their relationship between each group of generation.

**Pressure 5: Compensation Forces**

According to the survey conducted by the Manpower of Malaysia, compensation is the most important driving forces to retain Gen Ys. Bartlett[23] also argued that the growing numbers of entry of Gen Ys into the labour market raised a new challenge for corporate managers who must compete with these global talented young professionals who would
bring different values and expectations into the workforce. Besides that, if their needs are not fulfilled, they will just look elsewhere for other jobs. Gen Ys are known to be the most demanding group ever, where salary and benefits being one of the cause why their job satisfaction and motivation is low. They have the intention to leave the organization easily when they did not receive any promotion and increment[6]. Unfortunately, Malaysia is still slow in providing sufficient incentives and benefits to attract large numbers of talents to contribute to the nation especially in the SMEs[24]. In addition, the younger workers tend to have more flexible schedules and balance their time between work, friends and family. The work life balance principles become a benchmark and conditions when searching a job[25]. When talent wars become international, many local talents will look for better jobs opportunities around the world. Hence, this will generate a higher employee turnover rate.

3. Literature Review

Generation Y (Gen Ys)

The new generation worker (Gen Ys) is a new cohort who had joined the workforce for around ten years. They are on average below 35 years old in the workforce[26]. According to the Department of Statistics Malaysia (2012)[27], the number of Gen Ys employees is approximately 8 million or 62% in Malaysia workforce. They will soon become the largest generation who ultimately dominate the workplace. Their different values and expectations will create the new corporate opinion and culture in the workplace. They are highly educated, knowledgeable, skillful, able to multitask and have greater interaction with people from different background (St.[28][21]. They tend to be comfortable to collaborate with each other and work well in groups[29]. They also adapt easier in multi-cultural environment and connected closely to the diverse international workforce which can instigate more opportunities for their career[30].

Talent Retention

In the present era, top talent becomes the competitive differentiator who can impact the organization to either thriving or declining their competitiveness in the market. Generally, talents refer to the individuals who have the ability, special skills, experience and knowledge to meet the current and future needs of organization[31]. These talented employees mostly are young generation (Gen Ys). They have various characteristics and life perception such as strong career mind and ambitious, always looking for professional development, fast track career growth and desires for quick money[32]. They don’t have high loyalty to their organization. They are ready to hop their jobs at any time and to anywhere that can fulfill their ambitions and needs[32]. Therefore, to align with that, many organizations aptly endeavor to retain top talents by offering different packages of opportunity such as personal growth and development, attractive job scope, affable work environment, strong value-driven management, generous remuneration and etc[16].

Person Job Fit

O’Reilly, Chatman and Caldwell[33] indicated that person-job fit refers to compatibility of employee’s knowledge, skills and abilities (KSA) with the job demand. Generally, person-job fit is divided into two perspectives which are the needs-supplies perspective and demand-abilities perspective[34]. Needs-supplies perspective explains the desires of employees (e.g. interest, goals, pay, and values) are fulfilled by the job provided while demand-abilities perspective represents that employee exploit their individual’s KSA attaining the job requirement[34][35]. The high level of person-job fit happens when needs-supplies and demand-abilities perspectives match perfectly[34]. Most of the researches agreed that person-job fit is positively related to job satisfaction and retention[35][36][37] and the Meta Analysis conducted by Kristof-Brown, et al.[36] concurred that as well. Therefore, employer has to identify and classified their roles to fit their job well. Evidence also shows that poor person-job fit among young talents will result in low level of job satisfaction and motivation[38]. Thus, it will lead to the intention of employees to leave the organization.

H1: Person job fit affects job satisfaction
H2: Person job fit affects talent retention

Pay and Benefits

Pay is a type of direct payment that employees receive in exchange to the equal value of their contribution[39]. Payment can be in various modes such as salary or wages[40], bonuses, various allowances[39] and other forms of remuneration. Pay normally involved money. As Payne and Brinkman[41] said, “money is not everything, but it is the first thing”. Therefore, money acts as the tool to retain young talents and increase their job satisfaction in organization[42]. The productivity will increase when employee’s satisfaction is high and they are willing to contribute everything to the organization[42].

Benefits are defined as the indirect payment which employees receive indirectly from employers[43]. It is in the form of legal requirement or volunteered benefits. For instance, benefits include medical leave, retirement plan, annual leave, life insurance, sick assistance, rewards, recognition, travel holiday and etc[39]. According to[43], pay and benefits are positively and significantly related to job satisfaction and negatively with the turnover intention. In fact, a lot of organizations in Asia still focus on offering good remuneration pay and benefits as their prime retention strategy to reduce the turnover of high performers and young talents[41].

H3: Pay & benefits affects job satisfaction
H4: Pay & benefits affects talent retention

Career Development

Career development refers to the continuous process of developing and refining the career goals[44] where the organization provides opportunities to enhance employees’
personal abilities, skills, knowledge as well as their potential[45] throughout their career lifespan. According to Shea[14], the old retention practices such as money or financial incentives are not the alternatives to retain the talents especially the young generation (Gen Ys). Therefore, the non-financial incentives such as training and career development might become the key factor of their retention[14]. Ko[46] indicates that organization annual turnover rate will be reducing after implementation of the career development program in organization. Choi and Dickson’s[47] also supported that employees’ satisfaction level and retention rate were improving after organization began to care about employee’s career development. Therefore, training opportunities and career development have stronger impact on job satisfaction and retention among employees today.

H5: Career development affects job satisfaction
H6: Career development affects talent retention

Work Life Balance

Work life balance (WLB) is the new concept for young generation to achieve the equilibrium between their personal lifestyle and working life[48]. They prefer flexibility to conduct their lives among social and family[49]. Today, along with the changes in technology and employee personal value, most organizations begin to concern about this matter and try to re-organize the employees working structure[48] by setting more flexible work-routine schedule. Employees now have more authority to manage their work like planning, scheduling and allocating the work resources[50]. According to McGrew and Heidtman[51], in order to ensure the competitiveness and sustainability in today business environment, WLB practices can help employer to attract and retain talented workforce. Rupashree and Shivganesh[52] reveal that WLB are positively related to job satisfaction where the WLB practices can reduce the work-family conflict of employees. When job satisfaction increases, the young talents will tend to retain in their existing job position and be fully committed.

H7: Work life balance affects job satisfaction
H8: Work life balance affects talent retention

Job Satisfaction

Job satisfaction is a feeling of employee whether they like or dislike their existing position[53]. Schultz and Schultz[54] proposed that the happy employee always hold positive behavior towards their job. Practically, according to Ellickson and Logsdon[55], high job satisfaction will engage and retain the talented employees who can enhance organizational effectiveness and reduce the employee’s turnover rate. In the contrary, employees who have low job satisfaction will result in negative outcomes such as low customers’ satisfaction and high turnover rate which will harm the organizational productivity[56]. Furthermore, numerous researchers had agreed that when appropriate employee retention strategies have been adopted, employees are more likely to remain and contribute to their organization due to their high job satisfaction[57]. In fact, job satisfaction and talent retention have significant positive relationship and therefore the higher employee’s job satisfaction, the lower employee’s turnover and higher talents retention rate.

H9: Job satisfaction affects talent retention

4. Proposed Framework

According to the above literature review and pressures discussed, a tridimensional relationship framework is established to examine the relationship between pay & benefits, career development, job fit and work life balance towards job satisfaction and talent retention. Figure 1 illustrates the research framework of this study.

5. Conclusions

Theoretically, this study has contributed an implication in talent retention literature by providing a better understanding about pressures in current business environment especially in Malaysia SMEs. It also put forward the new construction which closes with new generation (Gen Ys) characteristics towards job satisfaction and talent retention. Through the new construction such as pay and benefits, career development, job fit and work life balance, this study proposed a theoretical framework to examine their relationship between job satisfaction and talent retention. In future, this study will continue further into empirical study by collecting appropriate data and uses Structural Equation Modeling (SEM) as prime analysis method.

REFERENCES


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