FACTORS CONTRIBUTING TO MANAGEMENT STAFF TURNOVER IN SMEP DTM LIMITED KENYA

BY

TABBY N. KARAGU

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DECLARATION

I declare that this project is my original work and has not been presented for an award of a degree in any other university.

Signature: ______________________________ Date____________________

STUDENT: TABBY N KARAGU

This research project has been submitted for examination with my approval as the University Supervisor**.**

Signature.. Date:...

SUPERVISOR: PROFESOR K'OBONYO

UNIVERSITY OF NAIROBI

DEDICATION

This work is dedicated to my family, my husband Sebastian and children Abigail and Barnabas for your sincere support and understanding during the long hours I spent away from home working on this project.

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I am so grateful to God for the opportunity He gave me to undertake a Masters degree at the University of Nairobi and for His providence since I did not lack school fees for the two years I was in school. I sincerely owe every success and achievement I have ever had to Him.

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May the Lord richly bless you all.

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ABSTRACT

Employee turnover is a key competitive parameter in today's business world characterized by its turbulent operating environment. Companies today generally do recognize the contribution that their employees play in delivering the organization's goals and objectives and as a result they put much effort in reducing the rate of turnover. The study sought to establish the factors that contribute to management turnover at Small and Micro Enterprise Programme (SMEP). In attempting to achieve the objective, a case study approach was adopted. The population of the study consisted of all management staff at SMEP who was 64 in total. The study used primary data that was collected through an interview guide and interviews were made with six identified respondents that were considered to be privy with the research objectives. The data obtained from the interview guide was analyzed using qualitative analysis. Content analysis was adopted in this study because the researcher was able to describe, interpret and criticize the subject matter of the research since it would have been difficult to do so numerically. The findings of the study showed that the rate of Management staff turnover was portraying negatively on the organization's reputation, destabilized the organization's operations, and as a result had the risk of making the organization loose sensitive information to the competitor. Several factors were found to be contributing to the high level of employee turnover. These factors ranged from what was considered as unfair remuneration distribution, organization leadership, job satisfaction, inadequate training and development programs and setting of high targets that are not achievable. Understanding voluntary turnover has multiple direct and indirect costs incurred and firms when implementing changes should be aware that this might result in increased turnover, partly because changes in the pattern of work are likely to result in a greater incidence of shocks. There is need for microfinance businesses to re-visit and analyse their own labour and cost experience. They should not only identify reasons why staffs leave, but also what might make them stay. An industry-wide study into labour recruitment and retention would greatly advance knowledge of the cause of turnover and the status of HRM practice in the Kenyan microfinance sector.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In today's rapidly changing business world, employees are critical for business success and as such, high attrition rates reduce profits and hold back growth at the company level while at the national level, the economy will be affected. The effects of the employee turnover will be even more pronounced if the employees leaving the organization hold senior management positions in the organization. Managers as a group tend by nature to possess sets of skills that, in circumstances of satisfactory development, equip them for work in numerous companies (Dess and Shaw, 2009). The development of these management skills through training, for example, has a general rather than a specific nature, and this, according to classical labour theory, discourages companies from investing in this type of training.

Labour is a significant cost and the leakage of human capital through unnecessary turnover is an element of critical importance to bottom line performance. Several studies on staff turnover have been done and as a result there are models that have been developed such as image theory, embeddedness and the unfolding model. It follows therefore that organizations should put in place effective mechanism through which to limit the level of employee turnover that an organizations witnesses (Aksu, 2004). As a result, a number of Human Resource Management (HRM) practices have been suggested as potential solutions for turnover, such as investment in training, offering organisational support, adopting innovative recruitment and selection processes, offering better career opportunities and adopting measures to increase job satisfaction and commitment (Walsh and Taylor, 2007).

According to Maertz and Griffeth (2004), the perceived desirability of movement is determined by job satisfaction, which is a function of a wide range of job characteristics. High levels of job dissatisfaction have been rampant at SMEP DTM Ltd and this has resulted to increased rates of turnover. According to Carbery *et al.,* (2003), the management turnover intentions are affected largely by psychological, perceptual and affective factors rather than by the characteristics of the employees or organization. It is also noted that compared with other cadres of employees, management turnover has been reported as being lower than that of the operational employees and this may be attributable to the relatively higher level of dedication among organizational managers and the high investment made by organizations in their managers.

Voluntary turnover incurs significant cost, both in terms of direct costs such as replacement, recruitment and selection, temporary staff, management time, and also indirect costs such as morale, pressure on remaining staff, costs of learning, product/service quality, organizational memory and the loss of social capital (Dess and Shaw, 2009). Although these costs are a feature of involuntary turnover in cases such as downsizing, or where employees are made redundant, turnover is more commonly voluntary. Additionally, whereas in downsizing programmes, the more able employees are retained, when it comes to voluntary turnover, the best performers are also more likely to find alternative employment, and thus leave (Jackofsky et al., 2006).

1.1.1. Employee Turnover

Employee Turnover is the ratio of the number of workers that had to be replaced in a given time period to the average number of workers (Agnes, 2009). In simpler terms, employee turnover is the series of actions that it takes from the employee leaving to his or her being replaced. It is often utilized as an indicator of company performance and can easily be observed negatively towards the organization’s efficiency and effectiveness (Glebbeek and Bax, 2004). An annual turnover of 25% is considered to be normal. However, a turnover rate of 100% would be considered as a major problem and excessive employee turnover in an organization is a sign of existence of internal problems (Armstrong, 2001). Certain professional skills take a long time to build with enormous organizational resources and loss of such professionals has profound negative impact on the organization.

Some level of employee turnover is desirable because if all employees stayed and the organization grew steadily, most employees would be on top of their salary ranges and the salary expense would be extremely high. Turnover is also desirable because new employees bring with them new ideas, approaches, different abilities and new attitudes, which keep the organization from stagnation (Cascio, 1982). Yoder and Staudohor (2002) argued that where an employee leaves an organization, it has a variety of effects that not only impact on the organization but also the individual employees and wider society.

An employee leaving a company for whatever reason must have an effect on the organization and the people that compose it. Employee turnover is expensive from a business point of view and voluntary quits which represents an exodus of human capital investment from organizations and the subsequent replacement process entails manifold costs to the organizations. These replacement costs include for example, search of the external labour market for a possible substitute, selection between competing substitutes, induction of the chosen substitute, and formal and informal training of the substitute until he or she attains performance levels equivalent to the individual who quit (John, 2000). In addition to these replacement costs, output would be affected to some extent or output would be maintained at the cost of overtime payment. Asides from economic effect, uncontrolled employee turnover can actually have social and psychological effects.

1.1.2 Factors Influencing Employee Turnover

Woods (2005) argues that high turnover is an indication of low morale and dissatisfaction amongst the employees. This view is consistent with Armstrong (2001) who contends that high turnover in an organization is an indication of a problem in that organization. High rate of employee turnover brings about negative publicity to an organization and causes dissatisfaction amongst employees resulting to negative production. The major asset of any organization and indeed a country is its human capital. Low absenteeism is associated with high job satisfaction while high turnover and absenteeism are said to be related to job dissatisfaction (Saifuddin *et al.*, 2008). Mobley (1982) theorized that job dissatisfaction leads an employee to think about quitting, which may help that employee to lead in. To evaluate the expected usefulness of searching for another job and the costs associated with quitting the current job. From the evaluation, an intention to search for alternative jobs may occur, which in turn likely leads the employee, to intend searching for alternative jobs and to the evaluation of the acceptability of any specific alternatives. From that second evaluation, the employee would likely, compare the new alternatives to the current job which in turn can lead to an intention to quit, and eventual employee turnover.

Employees switch organizations for several reasons. These reasons could be either organization related or job related. Dissatisfaction with career prospects is a major cause of turnover. More and more people need to develop their careers and need to move on, and there is little employers can do about it, especially in today's flatter organization and promotion prospects being so limited. These are the individuals who acquired portfolio of skills and may consciously change direction several times during their careers (Armstrong, 2004). To a certain degree, employers should welcome this tendency of an idea of providing 'cradle to grave' careers is no longer as relevant in the event of changeable job markets of today, and this self-planned, multi-skilling provides for the availability of a greater number of qualified people that there is still everything to be said in most organizations for maintaining a certain workforce and in this situation employers should still plan to provide opportunities for growth.

1.1.3 SMEP DTM Ltd Kenya

Microfinance is an institution whose main objective is to have as many as possible poor and near-poor households have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers (Robert *et al.*, 2004). Kenya has developed a network of microfinance institutions that extend loans to small farms, business and entrepreneurs (Waweru, 2011). There are over 100 organizations, including about 50 NGOs, practice some form of microfinance business in Kenya (Waweru, 2011). Small and Micro Enterprise Programme (SMEP) is a Christian microfinance which evolved from a Small Scale Business Enterprise (SSBE) project of the National Council of Churches of Kenya (NCCK) started in 1975. It was registered in 1999 as a company limited by guarantee. In 2009 SMEP became the first Micro Finance Institution (MFI) in Kenya to partner with Safaricom M-PESA. SMEP was licensed by Central Bank of Kenya in 2010 as a nation-wide Deposit Taking Micro Finance. In 2012, SMEP released the greatest innovation in Africa by being the first Micro Finance Institution (MFI) to provide a VISA enabled debit card to its clients. SMEP opened its door to the sale of shares to the public in 2012 where its status changed to a public company limited by shares (www. smep.co.ke). It is managed by Board of Directors and headed by a Chief Executive Officer. The organization has 6 banking halls and 35 marketing unit country wide and 300 members of staff.

SMEP's Vision is to be a model Christian provider of financial solutions to transform lives of the poor in Kenya and beyond and the Mission is to improve the quality of life of our customers through the provision of competitive market driven financial solutions (www. smep.co.ke). Staff turnover have been on the rise in the last two years with a total of 13 Managers leaving the institution. This has caused a lot of concern among the Senior Management since this was not the case in the past years.

1.2 Research Problem

High staff turnover in an organization is a major factor affecting workplace efficiency, productivity and cost structure. A low employee turnover is seen as an asset in the competitive business environment. It is therefore imperative to keep the level of employee turnover as low as possible. Empirical evidence has shown that lost productivity resulting from staff turnover may account for more than two-thirds of the total turnover cost (Hinkin and Tracey, 2008). As turnover increases, service quality may decline as it takes time and resources to back fill departing employees. It therefore becomes imperative that an organization put in place adequate mechanism that will reduce the level of employee turnover and more so its management cadre.

SMEP being in the business of lending money to the poor in Kenya relies heavily on their employees since there must be direct contact between the client and the SMEP Officer. Each Officer manages several groups of clients on a day to day basis giving them all the financial support they require. SMEP has been grappling with disengaged employees of whom some have resigned and others who have held on have little commitment to their work. This has greatly impacted on the business and tainted the image of the company and on instances where the staff moves to the competitors they move with the clients they had recruited.

Studies that have been done on the factors contributing to labour turnover include Kimosop (2007) who studied labour turnover in future force security firms. The findings were that low pay, sickness, long working hours, misconduct, change of careers, and lack of career prospects were the causes of labour turnover in the company. Wachira (2010) researched on factors that influence voluntary labour turnover in Kenya Medical Research Institute (KEMRI). The findings were that there was a low rate of promotion which was based on professional qualifications and number of years worked. Otieno (2010) researched on the causes of staff turnover in private schools in Kisumu City and established that lack of job security was cited by the most respondent as a major cause of increased staff turnover in these schools. Other causes of turnover adversely mentioned by respondents were lack of opportunity for career development, low staff compensation, existence of greener pastures elsewhere and poor employee and employer management relationship. Mulwa (2010) studied on factors that influence staff turnover in World Vision International Somalia and the findings was that staff turnover in World Vision International Somalia was due to career growth for instance from an officer to manager and from national to international position offered within the wider World Vision Partnership, higher rate of pay, better management/supervision, better location, change of work environment and need for development focus experience. Other studies have been done on employee turnover but none of the nature focused on SMEP. The study will address the following question; what are the factors contributing to management turnover in SMEP DTM Limited?

1.3 Research Objective

To establish factors that contribute to the turnover of management employees at the SMEP DTM Ltd Kenya.

1.4 Value of the Study

The findings of the study will be of value to:

Top on the list is the Micro Finance Institutions in the country who will obtain details of the factors contributing to the turnover of their employees especially the management cadre. The management of these organizations will be able to identify the factors and out and put in place necessary mechanism to control the turnover. In addition the study will be an invaluable source of material and information to the many other organizations operating in the country since they have great role to play in the country's quest to become a middle income country as envisioned in the Vision 2030. By having a satisfied working force, then these organizations and parastatals will be able to achieve their objectives much faster and also hence employee well being.

The management and staff of SMEP will find this study an invaluable source of material in developing and harnessing their human resource reward system in the present day competitive business environment. This study will provide insight on some of the challenges that may be faced in the developing the appropriate structure of retaining the management staff in harnessing their employee satisfaction. The management will strive to avoid the pitfalls and capitalize on the strengths. For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the business and its strategic position within the environment, which can assist them in determining their investment viability.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter discusses the employee turnover, models of employee turnover and the factors contributing to manager's turnover.

2.2 Theoretical Under Pinning of the Study

Over the years, a significant amount of research has been done on employee turnover to investigate aspects of employee turnover like causes and retention strategies. As a result, different models or designs have been promulgated. Different models which include different aspects of turnover followed, such as the unfolding model which focuses on decisional aspects (Ongori, 2007). The following models of employee turnover, namely the image theory, the unfolding model and the theory on embeddedness, will be discussed.

The image theory was created by Lee Roy Beach and it explains the way in which employees' process information when making a decision through different images (Beach, 1990). The fundamental principle of this theory is that individuals leave an organisation after having assessed the reason for quitting. Beach (1990) suggests that individuals do not have the cognitive ability to thoroughly analyze all incoming information. Hence, they simply compare it with more heuristic-type information – in other words, they learn from their own experience.

The image theory suggests that decision-makers use three knowledge arrangements (images) to arrange their thinking about decisions. According to this theory, some incoming facts (for example, a job offer) will be compared to these images. The first image is the value image that refers to the employee's set of significant beliefs and values concerning the job. Secondly, the employee can compare the facts or information with the trajectory image that refers to the person's particular goals that determine job behavior. Lastly, the employee may compare the facts or information with the strategic image that refers to the strategies and methods that the person views as vital in reaching job-related goals. If the incoming information has an alternative that is attuned with the images, the person will then compare the alternative with what he or she presently has. If the individual has more than one compatible alternative, he or she will further analyze the options.

Lee, et al. (2006) state that the unfolding model views incoming information as shocks (pregnancy, alternative job offers). This theory suggests that internal or external shocks will lead the individual to leave an organisation because the situation (shock) compels the employee to leave. This model introduces five paths that will lead to turnover. In Path 1, the shock activates a pre-existing writing or script with which the individual connects and this causes the individual to leave the organisation without considering an alternative or the individual’s connection with the organisation. Path 2 has a shock that triggers the person leaving, without thinking of other job alternatives. With Path 2, there is no existing script that determines the decision (Lee, et al., 2006). The incoming information is perceived as a violation of the person’s values, objectives and strategies. Path 3 includes a shock that triggers an assessment of the images of the job he or she currently has, provided the information in the shock is not in tune with the images. This path leads to intentional job search. The last two paths do not have shocks. Path 4 explains a situation where the person’s job satisfaction is so low that the person leaves without having an alternative. With Path 5, the person’s job satisfaction is low and this leads to job search, an assessment of alternatives, the intention to leave and, subsequently, turnover (Lee et al., 2006).

Feldman and Ng (2007) suggested that embeddedness refers to a number of forces that creates a feeling in people that they cannot leave an organisation. Embeddedness implies that a number of forces link an employee in a psychological and social web that includes the job-related environment as well as non-work environment (Feldman and Ng, 2007). The more connected the person is in the web, the more that person is attached to the job and the organisation. The decisive aspects of job embeddedness are referred to as links, fit and sacrifice and they are critical both on and off the job. This author further proposes that the three aspects are links to other people or activities, the fit with the other aspects in their life and the easiness with which links can be broken, particularly if they have to move to another location.

2.3 Employee Turnover

Employee turnover is a ratio comparison of the number of employees a company must replace in a given time period to the average number of total employees. A huge concern to most companies, employee turnover is a costly expense especially in lower paying job roles, for which the employee turnover rate is highest. Many factors play a role in the employee turnover rate of any company, and these can stem from both the employer and the employees. Wages, company benefits, employee attendance, and job performance are all factors that play a significant role in employee turnover. Companies take a deep interest in their employee turnover rate because it is a costly part of doing business (Beam, 2009).

Employee turnover can be extremely devastating for any company. It makes the employers difficult to maintain a steady and successful operation. Management should have their own rating on employee turnover and measurement how this affects organizations performance. Losing a single key worker can decrease the likelihood of a project's success and can reduce investors' confidence in the firm (Grobler *et al.*, 2006). Companies incur direct and indirect expenses, which include the cost of advertising, head hunting fees, human resource costs, loss of productivity, new hire training, and customer retention, every time they have to replace an employee. These expenses can add up to anywhere from 30 to 200 percent of a single employee's annual wages or salary, depending on the industry and the job role being filled. According to (Beam, 2009) while lower paying job roles experience an overall higher average of employee turnover, they tend to cost companies less per replacement employee than do higher paying job roles. However, they incur the cost more often. For these reasons, most companies focus on employee retention strategies regardless of pay levels (Beam, 2009). Potential negative consequences of employee turnover include operational disruption, demoralization, negative public relations, personnel costs, strategic opportunity costs, and decreased social integration.

2.4 Factors Contributing to Managers Turnover

The causes of labor turnover are: morale, job satisfaction, promotion prospects, inadequate salaries, more responsibilities and working conditions, (Bryant, 2007). Labor turnover can be attributed to; job satisfaction, management style, lack of training and development opportunities, lack of career development and poor working conditions

Job satisfaction can be explained as the positive emotional state resulting from appraisal of one's job or experience. Developing more slowly over time than satisfaction and being more extensive, organizational commitment is one's identification with and loyalty to an organization (Mowday, et al., 2009). Borstorff and Marker (2007) state that employees want to achieve correspondence with the environment. Correspondence with the environment is when “the individual’s fulfilling the requirements of the environment, and the environment’s fulfilling the requirements of the individual” (Borstorff and Marker, 2007). This means that individuals will be satisfied with the job when their expertise, abilities, knowledge and skills are utilized by the organisation and when the organisation grants opportunities of advancement and rewards.

Job satisfaction is thus concerned with an employee’s perception and assessment of the job which is affected by the employee’s unique circumstances such as needs, norms and values, and expectations. If an employee has a need for career advancement, the job will be assessed in terms of how that particular need is being addressed or met. Employees will, therefore, assess the job in terms of factors which they perceive as being essential for them (Sempane, Rieger and Roodt, 2002). It is clear that job satisfaction is affected by numerous job-related factors, such as pay, benefits, relationships with supervisors, working conditions and advancement. According to Spector (1997), there is a strong link between job satisfaction and employee turnover. If the job satisfaction level is generally low, the employee turnover will be high. Hence, it is clear that more attention should be paid to turnover by institutions because “people who dislike their jobs will try to find alternative employment” (Spector, 2007).

The role of the leader has become vital, especially in an environment that is constantly changing (Cope and Waddell, 2001). The effect of leaders’ influence on workers’ work-related experience cannot be under estimated. In many cases, the caliber of the relationship between the worker and his or her immediate director is the most powerful indicator of job satisfaction. This connection between management performance, leadership, and satisfied workers is easiest seen in new workers, who generally equate their feelings about their work with the quality of their leaders. An inaccessible or insensitive management style costs an organisation both directly and indirectly. Low productivity, frustrated workers, loss of time, and money spent to enhance the confidence of the staff are reflections of workers’ attitudes.

Borstorff and Marker (2007) state that the relationship between managers and employees influences employees' decision to stay in a job as the supervisors and managers have an important impact on employee turnover. The length of time that employees stay in an organisation is largely determined by the relationship between employees and their managers (Dobbs, 2001). Employees value certain factors about managers. (Walsh and Taylor, 2007) notes that employees desire managers who know and understand them, and who treat them justly. Employees also prefer managers who can be trusted. If employees feel that their managers are fair, reasonable and supportive, levels of job satisfaction increase. When employees are supported by their managers, they are less likely to leave an institution, and employees who are allowed by managers to take part in decisions that influence their jobs tend to stay. There seems to be a strong link between participation in decision-making and job satisfaction, service delivery and decreased turnover rates. Leadership styles are at the heart of the success of an organisation and strongly influence the firm's overall performance (Rowe *et al.,* 2005). Different managers adopt different styles, and experts have argued that style of leadership is inextricably linked to the achievement of management goals and the ability of managers to motivate their team.

All organizations, private or public connect employees to execute certain activities in order to attain goals and objectives. No matter what these goals are, organizations must have competent employees to perform the tasks and to accomplish them. This is not just a matter of extensive training in task skills, but of completely new ways of thinking about work, and of working and relating with one another (Beardwell and Holden, 2001). Although well-thought-out strategies and human resource planning, recruitment and selection initially provide an organization with the required workforce, additional training is normally necessary to provide employees with job-specific skills which enable the employees to survive over time (Swanepoel et al, 2003). Training and development teaches existing employees new knowledge, skills and abilities to ensure their continued usefulness to the organization and meeting their personal desires for advancement. New employees can suffer induction crisis if they are not given adequate training when they join the organization. Lack of a well-organized training program may result in loss of employees. If employees are not properly trained on their new jobs, they may think they are not progressing rapidly enough and that advancement is slow (Swanepoel et al, 2003).

Human capital development theory suggests that the knowledge, skills and abilities possessed by individuals are components of an organization's "human capital". It presents a view of employees as organizational investments or assets that, when properly deployed, contribute to an organization's productivity (Rondeau, Williams and Wagar, 2009). Mello (2006) suggests that if an organisation considers its employees to be human assets, training and development represents an ongoing investment in these assets and one of the most significant investments an organisation can make. Rondeau *et al.*, (2009) say that by investing in their human resources, organizations are not necessarily motivated by the humanitarian objective of maximizing employee welfare or happiness, but rather they do so as a means to increase their productivity, to become more adaptable to emerging opportunities in the market place or to enhance their reputation with key stakeholders. However, while investments may increase the organization's stock of human capital, they may also enhance the attractiveness of their employees to other employers.

Lack of opportunity for advancement or growth can cause a high turnover rate for any organization. If the job is basically a dead-end proposition, this should be explained before hiring so as not to mislead the employee. The job should be described precisely, without raising false hopes for growth and advancement in the position. Since employees generally want to do a good job, it follows that they also want to be appreciated and recognized for their works. Even the most seasoned employee needs to be told what he or she is doing right once in a while (Shamsuzzoha, 2007). Lack of opportunity for advancement through seniority or otherwise may result in dissatisfaction that simmers in an employee's mind until he or she finally quit. In the case of jobs having no real future, applicants should receive a full explanation before they are hired. If an organization does not have chances for promotion of their employees, they may quickly lose this resource to others. Promotion chances gives the degree of potential occupational mobility within an organization. Promotional chances reduces turnover since an employee can stay on hopefully eyeing a vacancy. Promotion of staff is motivator in the sense that an employee is satisfied even as he performs his duties. With job satisfaction turnover is highly reduced (Cascio, 2002).

Commitment towards the organisation is degraded if there is a perception of under handed methods in promotion activities (Mosadeghrad, Ferlie and Rosenberg, 2008). Employees demonstrate greater levels of satisfaction and commitment if they are given many opportunities for personal as well as professional growth in their organisation. Satisfaction arising from promotion determines employees' attitudes toward the organization's promotion policies and practices. In addition to this, Bajpai and Srivastava (2004) postulate that promotion provides employees with opportunities for personal growth, more responsibilities and increased social status. Research indicates that employees who observe that promotion decisions are made in a fair and just manner are most likely to experience job satisfaction.

The most common reason for employee turnover rate being so high is the salary scale because employees are usually in search of jobs that pay well. Those who are desperate for a job may take the first one that comes along to carry them through while searching for better paying employment. Employees also tend to leave a company because of unsatisfactory performance appraisals. Low pay is good reason as to why an employee may be lacking in performance (William, Potts (2010). Wages and salaries are recognized to be a significant, but complex, multi-dimensional predictor of job satisfaction. According to Smith, Kendall and Hulin (2009), employees are satisfied with the compensation when the current pay is better than the desired pay. However, despite the fact that there is ample proof of a relationship between turnover rates and pay levels, other factors need to be considered such as fairness in the administration of pay, differences in the importance of pay and the outcomes of performance pay systems (Heneman and Judge, 2000). Where wage policies are poorly designed and where salaries are not competitive, turnover is higher.

Inadequate or unsound wage classification structure may cause dissatisfaction and may result in resignation. Pay problems arise because of uncompetitive, inequitable or unfair pay systems. New employees often wonder why they receive less money than an associated that is apparently performing the job functions. Voluntary turnover is mostly by those in search of higher pay. When the economy is doing well, exit interviews show that people resign for better pay elsewhere. In a well performing economy the availability of alternative jobs plays a major role in the staff turnover. The Gallup Organization conducted an extensive study of 80,000 managers to analyze the factors contributing to the quality of the workplace. The study finds that employee satisfaction and job retention can be achieved through recognition. Of the 12 dimensions employed in the survey, recognition and praise rank fourth. Employee turnover is due to a lack of recognition and reward, recognition helps in retaining the sincere employee and saves time and money to recruit new people and it also encourages other workers to do a good job. Hard to believe, yet motivation is achieved through recognition. Recognition and reward are differentiated by Hansen, et al. (2002), who note that 'intrinsic motivations driven by the particular behavior of extrinsic motivation and strategic recognition needed by an organisation while implementing the reward strategy'.

Working conditions have a modest effect on job satisfaction. If working conditions are good (clean, attractive) employees will find it easier to carry out their jobs. If working conditions are poor (hot, noisy) personnel will find it more difficult to get things done (Hansen, et al, 2002). Employee working conditions play an important role in an organizations ability to attract retain and motivate good employees, hence a cause of employee turnover. In relation to the above, Schwartz (2004) adds that those working conditions, which include physical and psychological factors surrounding a job, vary in importance as a motivator and the absence of such motivating factors, employees and in this case teachers will exit. Eric, et al, (2002) argue that while clearly important, employee salaries are not all that matter. They show that employee preferences cut across a range of job and organization conditions may be just as important as salary in the retention decision.

Some employees jump from company to company because they prefer a working environment that is suitable for them. "If working conditions are substandard or the workplace lacks important facilities, such as proper lighting, furniture, clean restrooms, and other health and safety provisions, employees won't be willing to put up with the inconvenience for long." If an employee finds an appropriate work environment which is suitable for them in a specific company, they may work in that same organization for several years (Handelsman, 2009).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the proposed research design, the target population, data collection instruments and the techniques for data analysis.

3.2 Research Design

The research design was a case study. The reason for this choice is based on the knowledge that case studies are the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships. Furthermore, they provide a holistic understanding of the phenomena (Kitay and Callus, 1998). According to Cooper and Schindler (2001), case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The study used a case study as a strategy research in order to understand or explain the phenomena, which are the factors contributing to turnover among the management staff in SMEP DTM limited, by placing them in their wider context, which is the specific company within the micro finance industry.

A case study is an in-depth study of a particular research problem rather than a sweeping statistical survey as it narrows down a very broad field of research into one or a few easily researchable examples. It allows for testing whether a specific theory and model actually applies to phenomena in the real world. It is a useful design when not much is known about a phenomenon as it allows a researcher to use one or more of the several research methods depending on the circumstances. Further, it is the most appropriate design when the focus of study is one organization.

3.3 Data collection

The study used primary data which was collected using an interview guide. An interview guide is a set of questions that the interviewer asks the respondent. The respondents that were interviewed consisted of top management in SMEP DTM limited in charge of marketing and business development, regional team leaders, information technology, operations manager, risk and fraud detection, human resource management and administration, legal department, internal audit team and the Chief Executive Officer. The total number was eleven.

3.4 Data analysis

Various analytic procedures provide a way of drawing inductive inferences from data and distinguishing the phenomenon of interest from the statistical fluctuations present in the data. A content analysis technique was used to obtain meaning from the data. Patton et al., (2003), Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It is a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. It involves observation and detailed description of objects, items or things that comprise the object of study.

CHAPTER FOUR

ANALYSIS FINDINGS AND DISCUSSION

4.1: Introduction

The research objective was to establish the factors that contribute to turnover among the management staff at SMEP DTM Ltd. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

This part of the interview guide was intended to ascertain the attributes of the six respondents. The six respondents comprised the top tier managers of the micro finance institution. All the respondents interviewed had university degrees with 4 of them having a Masters degree in various business fields that have relevance in the banking industry. Their work experience span a total of two to eight years in various departments ranging from finance management, bank operation, risk management, legal as well as marketing within the organization and other banks in the country. This group of respondents can be considered to have competitive skills and experience which will make them prime targets for movement to other organizations and therefore be in a better position to explain the factors that cause senior level managers to exit the organization. In addition, the views of both genders were represented in the respondents interviewed because two of them were female against four men meaning that factors influencing turnover that are gender based will be reflected in the answers to the interview guide.

4.2.1 Senior Staff Employee Turnover

The researcher also wished to establish from the respondents whether employee turnover in the top cadre of employees was considered a problem at SMEP. The result was that of the 6 respondents interviewed, five of who had been with the organization for more than a year indeed acknowledged that senior level staff turnover was a problem to the organization due to the disruptive effect that it has in the operations of the organization. They highlighted the movement of staff to competitors in the industry have far reaching consequences to SMEP, especially the transfer of organizations strategies to the competitors. In addition, they noted that most of those staff that leave SMEP have undergone training and development programs and in most cases the organization will have funded such programs and thus losing such key resources becomes a major setback to the organization. The respondents identifies different reasons that cause the employee to leave SMEP and these include the desire to seek for greener pastures, further studies, failure to cope with change, malpractices, fraud, career progression and the search for higher remuneration, company operation policy that is not compatible with an individual's principles as well as inadequate decision making in the organization.

On being asked what the effect of management staff turnover has on the operations of the organization, the respondents identified various consequences that included the interference of business continuity and loss of customers resulting to massive loan default which in return affect the profitability of the organization. The respondents pointed out that most of the senior staffs are involved in one way or another in the development and rolling out of various products and with the exiting of the said staff, the development of the product and its implementation will be affected. A high employee turnover irrespective of the staff cadre will portray a negative image of the organization, destabilizing of the organizations operations, and there is a risk of losing sensitive information to the competitor. Another respondent also pointed out that a high turnover comes with increased recruitment costs/ time and breakdown in strategy implementation. Generally and as summed up by two of the respondents, employee turnover destabilizes the organization in that the strategic plan will not be implemented for a long time and therefore lagging the company behind. This finding will be similar to that made by Lashley and Chaplain (2002) that high staff turnover in hotels is a major factor affecting workplace efficiency, productivity and hotel cost structure. The hotel labour market has a dual face; on the one hand, it is difficult to attract suitable labour; and on the other, it has relatively high levels of turnover representing a significant loss of investment in human capital, training and quality and therefore, labour turnover represents a challenge for contemporary HRM strategies and practices.

4.3 Factors Influencing Management Turnover at SMEP

This section of the interview guide sought to identify the major factors that influence the management staff at SMEP to leave the organization. From the answers provided, the causes of the employee turnover among the management staff can be categorized as voluntary and non-voluntary factors. The voluntary labour turnover arises out of an employee's own volition and come due to changes in the demands of the external job environment, individual employee personal element and the job satisfaction element.

4.3.1 Voluntary Factors Influencing Employee Turnover

a) Unsatisfactorily Remuneration

The element of unsatisfactory pay was pointed out by two of the respondents that it is one of the significant causes of management turnover in SMEP. They noted that there is no uniformity between management staff remunerations packages within the organization and their pay is unfair in comparison with other similar organizations in the industry. This convinces the employees that their current employment arrangements are not fair and are not as attractive as alternatives in the market when they relate to the skills that they currently posses. One of the interviewees gave an example of a manager who left after learning that a similar position in a competitor firm offered a much better pay and decided to leave in the year 2011. This finding therefore means that there exists a link between pay and retention – if the company continues to ignore the importance of fairness in the remuneration packages, it will continue to lose more management staff. This finding though not new, will be similar to that of Griffeth et al., (2000) and might lead to yet another question of whether an organization might be losing its best staff because they have the skills and abilities to obtain jobs which attract higher wages elsewhere or they don’t find satisfaction in the current job.

b) Job Satisfaction

Employee job satisfaction came out as another factor that led to management turnover at SMEP. As pointed out by Richard (2003) job satisfaction is a positive attitude towards one’s job and people are said to experience job satisfaction when their work matches their needs and interests, and when working conditions and rewards are satisfactory, and when the employees like their co-workers. The respondents appreciated that managers and generally the organizations’ shareholders hope employees experience job satisfaction since it is believed that it will in turn lead to better customer service. However, the study did not confirm the relationship between the level of employee satisfaction and customer satisfaction. Therefore the study findings was that where employees find that their work does not match their needs or they are not happy with their working conditions, more tend to leave the organisation. Despite this finding, it contradicts the other findings such as one by Jason, (2001) who found that job satisfaction was not a significant predictor of voluntary turnover.

c) Training and Development

The next significant predictor of labour turnover among the management staff at SMEP was found to be inadequate training and development. The respondents pointed out that selective granting of training and development programs to certain employees affected the morale of the other employees and might lead to them leaving the organization. It is expected that organizations where employees are satisfied with their career development, stay because they believe they have a long-term future with the company. This means that the selection process of suitable employees for development opportunities will affect the level of the management turnover, such that, a process that is seen to be fair among all employees will be a source of contentment among the employees and vice versa. However, one of the respondents had a different view that with increased skills and training provided to employees, it makes them more marketable in the labour market. In addition to the development opportunities enhancing employee confidence, the additional skills release more opportunities outside as well as inside the company.

d) Workload

The degree to which employees consider that they have manageable workload was also identified as yet another factor that affects management turnover at SMEP. The respondents highlighted that in situations where the staffs had unachievable targets, the excess pressure of delivery causes some to opt out of the organization. This might suggest that organizational programmes aiming to simplify work and processes might be counter-productive because employees at the management level will wish to be more involved in various duties in the organization since it will lead to the uninspired staff to leave the firm. The setting of high target objectives has also been identified as a source of management turnover in the organization. The respondents noted that if the organization sets objectives that might be challenging for the employees to achieve, the failure to achieve the same in a given period and the pressure to the staff that comes with this can cause some of the staff to move to other organizations. Frustrations and heightened stress levels also came out as another predictor of employee turnover at SMEP. The respondents suggested that assignment of manageable workload will help in easing such pressures and also adoption of a flexible working schedule. The environment which does not allow flexibility in decision making affects the productivity of employees and this comes about due to the management not being able to distribute work and supervise accordingly.

e) Leadership

The organizations leadership was envisaged in the interview as an affect to employee turnover. On the question on how the respondents felt the leadership style affected the retention level of management staff, the responses from the respondents was varied. They acknowledged that the organization leadership supported management staff by offering advisory services, employment of 'soft' issues like appreciation, recognition and offering financial rewards. However, some of the respondents observed that though they felt that the leadership of the organization had inputted a lot in the maintenance of the employee's wellbeing over time, they noted that it seemed that not all of them appreciated the gesture from the organization.

f) Management Style

On the issue of whether the management style affects the level of employee turnover at SMEP, the views of the respondents was varied. Some of the respondents were of the view that the management style had no relationship with employee exit. This is inconsistent with other studies such as Dess and Shaw (2001) and also Morrel (2006). It also came out that senior management dislike a slow decision making leadership and that a lack of a proactive leadership that fails to address the underlying issues in a given case will lead to exiting of staff. Further, it also came out that a more democratic leadership regime will result in more retention than an authoritative leadership style. They argued that management staff prefers a situation where their ideas and suggestion are assessed and if found to be in order, they need to be implemented. By implementing such ideas, they observed that this will motivate the staff and therefore reduce the level of employee turnover. Employee contribution and ideas in the running of an organization came out therefore as an important predictor of management turnover at SMEP and this consequently is affected by the style of leadership adopted by the organization.

4.3.2 Non-Voluntary Factors Influencing Employee Turnover

The level of employee turnover is also affected by other non voluntary factors that are outside the control of the employee. The researcher wished to establish from the respondents what non-voluntary factors lead to the management staff exiting the organization. The responses to the questions were as varied as the number of respondents targeted. They pointed out that since all the staff serve a three year renewable contract, some of them are not renewed and with this comes the exiting of such a staff. Another reason that causes management employees to exit SMEP is due to their inability to achieve the set target. Performance contracting and its consequent failure of staff to achieve the set target were noted as yet another cause of exiting by the staff. They pointed that the organization has adopted performance contracting where staff are expected to meet certain set objectives. However, failure to meet the objectives has seen some management staff leave the organization. It was though noted that the organization has been stringent in enforcing non attainment of the targets such that over 5 managers have been dismissed, a level that was considered to be high. Other respondents pointed that failure by the organization to meet agreed upon terms in the firm has also lead to some mangers exiting SMEP. They gave an example where managers had to leave due to the organization failing to confirm the employees after 6 months in probation despite having agreed of the same during the recruitment stage.

Another non-voluntary cause of management turnover that is witnessed at SMEP is involvement in fraud and integrity related issues. The organization has been forced to dismiss several management staff who had engaged in fraudulent activities some of such employees have been reported to the police for investigation and interrogation. The respondent stated that it’s unfortunate that some of the trusted managers had misappropriated funds and in return the organization had lost a lot of money. The organization has a policy of summarily dismissing staff who misuse the company’s money. The respondent also mentioned though a rare occurrence where managers had to leave due to health related issue. The company’s policy gives employees who have medical conditions hindering them to attend to their normal duties a 3 months sick off with full pay, 3 months half pay and thereafter one can be dismissed on medical grounds. This policy, the respondents, considered to be a fair time frame since they recognized the importance of the functioning of the organization and that a long absence from duty disrupts the normal operations of the firm.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The results were largely on the factors that contribute to turnover among the management staff at SMEP DTM Ltd. The researcher obtained data by interviewing several respondents on whom the facilitated the attainment of the said objectives.

More so, the disruptive effect on the firms operation is more felt if it involves senior management that have accumulated much experience and the accomplishment of the organizations strategies depends on them. The management staffs have in most cases undergone many training courses that involve huge financial implications to the firm and the loss of such investment to a firm has both financial and moral implications. several reasons were identified that cause the employee to leave SMEP and these include the desire to seek for greener pastures, further studies, failure to cope with change, malpractices, fraud, career progression and the search for higher remuneration, company operation policy that is not compatible with an individual’s principles as well as inadequate decision making in the organization. It was noted that a high employee turnover portray a negative image on the organization, destabilizes the organizations operations, and also has a risk of losing sensitive information to the competitor.

The fairness of employee pay in comparison with other similar organizations in the industry was found to have an effect in the level of management turnover in the organization. This was found to be more registered on those staff with more experience and technical know – how in a particular field. Employee job satisfaction came out as major factor that led to management turnover at SMEP. Inadequate training and development programs on employees were also found to yet another factor that contributed to turnover. The respondents pointed out that failure to give adequate training and development programs to employees affected their morale and might lead to them leaving the organization. It is expected that organizations in which employees are satisfied with their career development programs stay more and have a long-term future with the company. This means that the selection process of suitable employees for development opportunities will affect the level of the management turnover, such that, a process that is seen to be fair among all employees will be a source of contentment among the employees and vice versa.

Setting of high target objectives was also identified as a source of management turnover in the organization. The setting of unachievable or which can be achieved after long struggle become a source of demotivators in the organisation staff and if not managed well, can cause the staff to exit the firms. It therefore became imperative that an organization should be able to set objectives that are specific, measurable and achievable. Frustrations and heightened stress levels also came out as another predictor of employee turnover at SMEP.

Apart from the voluntary factors that cause employees to exit the organization, a number of non-voluntary factors were also identified to cause the exiting of employees. It was found out that since the management staffs are employed on contract basis and upon the expiry of their contract period, some of them are not renewed and with this comes the exiting of such a staff. Another non-voluntary cause of management turnover though it was said to be rare was due to natural causes such as death and sicknesses that make the performance of duties by the employee untenable. Absence from duty by employees for a long period of time w causes inconvenience to other employees and the organization as a whole and therefore discharging of services to the customers is affected. However, the organization has a policy of allowing an employee 3 months full pay, 3 months half pay and thereafter one can be dismissed on medical grounds.

5.2 Conclusion

From the research findings and the answers to the research questions, some conclusions can be, made about the study.

Employees of an organization are considered as an important resource for the realization of the firm’s objectives and every effort should therefore be made to train and retain them at the same time. As an important resource, employees at all levels look for better pay, working conditions, training and career prospects and this can help in stemming exit of staff. In furtherance of the organizations objective, companies allocate substantial amount of funds towards training and development programs for its employees. From such investment, it is hoped that the organization will be able to retain the said staff and generate adequate return from the investment. However, it is also known that attaining 100% employee retention is difficult and therefore it becomes imperative that the organization initiates programs aimed at retaining the staff. These programs will be initiated if the factors that cause employees to exit are in the first place identified.

Several factors have been identified to contribute to employee turnover and include generational change, emotional labour, burnout, organisational culture, climate and commitment, leadership style, training and development programs in the organization as well as a lack of attainment of the set targets. It is therefore important that the organization identifies the relevant predictors of employee turnover in order to develop appropriate mechanisms of dealing with the causes. Understanding voluntary turnover is important because when people choose to leave there are multiple direct and indirect costs that firms incur. Implementation of change may result in increased turnover, partly because changes in the pattern of work are likely to result in a greater incidence of shocks. As well as understanding the role that shocks play in quitting, firms need to be aware of the avoidability of turnover. Greater understanding of turnover, can allow for targeted intervention.

5.3 Recommendation

There is need for microfinance businesses to re-visit and analyse their own labour and cost experience. They should not only identify reasons why staff leaves, but also what might make them stay. An industry-wide study into labour recruitment and retention would greatly advance knowledge of the cause of turnover and the status of HRM practice in the Kenyan microfinance sector. These insights may help develop a more effective talent management system both within the industry and individual firms. Efforts should also be made to charge the turnover costs to the operating departments, which may prompt a re-examination of employment practices and begin to stem this waste of human capital and financial resources.

As a way to reduce cost of managing turnover, firms should simultaneously measure and manage turnover. Measuring will involve such things as: surveys, consultation processes, intra- and extra-firm career guidance, exit interviews and leaver profiling. Managing is needed in key operational areas to minimize the effects of change to key business areas. Both elements are important to negotiate the complexities inherent in implementing widespread change. To improve on the core competencies emanating from the organizations human resources an organization need to institute performance management system and train key staff on administration of the system, review the job descriptions, personnel policies and reward system. All such steps are aimed at motivating the staff to get the best out of them in order to achieve the organizations objectives and step level of exit from the organization.

5.4 Suggestions for Further Research

Further research could be carried out in this area on the adverse impact of turnover on productivity and service quality. Whilst this study focused on the factors leading to management turnover, there is a need for further analysis of the management time, costs spent in training new employees, and the implications for operations as well as the impacts of intangible costs and employee performance.

5.5 Limitations

A limitation is that the findings are based on one single microfinance institution which may not apply to other players in the banking industry in Kenya.

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APPENDIX I: INTERVIEW GUIDE

1. What current position in the organization do you hold? ______________________________
2. For how long have you been working in the company? ______________________________
3. Approximately how many management staff have left since you joined the company? _____
4. What could be the reasons for employee turnover in the company?
5. What effect does management staff turnover has to the organization?
6. Are managers allowed to take part in decisions that influence their jobs?
7. Does the top leadership of the company know and understand, the management staff of the company and treats them justly?
8. Does the top managers shows interest in the well-being of employees and is supportive and sensitive towards employees emotionally in order to increase employee job satisfaction thus reduced turnover?
9. How does management style of the company contribute to turnover among the management staff?
10. Does change in Senior Managers impact the rate of turnover in anyway among the management staff?
11. Does the company ensure that the management staff are trained and offered development opportunities to provide employees with job-specific skills which enable the employees to survive over time?
12. Are mangers sufficiently trained before they assume their responsibilities?
13. Has turnover in the company increased as a result of management staff not being trained properly, or feeling that demands are being made upon them which they can reasonably be expected to fulfill without proper training?
14. Has career advancement in the company contribute to turnover among the management staff in the company?
15. How does unfavorable promotions in the company contribute to management staff turnover?
16. How has lack of opportunity for advancement or growth in the company contributed to employee turnover?
17. How has the rewards been offered by the company to the management staff contributed to their turnover?

18. Has unsatisfactory performance appraisals contributed to the management staff turnover in the company?
19. How has poorly designed wage policies and uncompetitive salaries contributed to management staff turnover?
20. How has the working conditions in the company played a role in the management staff turnover?
21. How does insufficient flexibility in scheduling and unmanageable workload contributed to management staff turnover?