

THE INFLUENCE OF FUNCTIONAL FLEXIBILITY ON EMPLOYEE TURNOVER IN SMALL MEDIUM ENTERPRISES IN KENYA**Peter O. Magero**

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ABSTRACT

Employees are the main assets of the organization and it is important that their tasks are prioritized at the workplace if the organization is to get maximum benefit from them. Organizations on the other hand try to extract the best out of each employee and to make them deliver their best. The main objective of the study was to establish the influence of functional flexibility on employee turnover in SMEs in Kenya. The study focused on 4,560 SMEs in Nairobi and its selected environs namely Ruiru, Athi River and Limuru. Data were obtained through questionnaires with closed and open-ended questions. Multiple regression model and Statistical Package of Social Science (SPSS) was used to analyze the data. The study found that functional flexibility influences employee turnover in Small and Medium sized Enterprises in Kenya (SMEs) in Kenya. The study recommended that for an efficient and competitive economy, management needs flexible employees able to "switch gears" and respond to new forms of production.

Key Words: *functional flexibility, employee turnover*

Introduction

The most critical source of competitive advantage in today's knowledge economy is human talent (Bartlett & Ghoshal, 2002). Organizations today constantly wrestle with revolutionary trends: accelerating product and technological changes, global competition, deregulation, demographic changes, and at the same time, they must strive to implement trends towards a service and information society (Kane, 2000). Due to this tumultuous business environment, one of the challenges facing many business organizations is the retention of core employees. The loss

of employee is a disruptive event. Replacing employees may be costly, both in recruiting and training (Collins & Smith, 2006).

High levels of employee turnover may impede the quality, consistency and stability of services that organizations provide to clients and customers and in turn increased customer dissatisfaction (Trevor & Nyberg, 2008). Society has now become knowledge-based where clearly human capital is considered a key resource and indispensable to the survival of businesses. Increasingly, organizations are competing for the best talent employees (Porter, 2001).

Functional flexibility can be defined as the process of increasing the skill repertoire of workers in such a way that in the outcome the employees acquire the capacity to work across traditionally distinct occupational boundaries (Cordery *et al.*, 1993). Functional flexibility can have various advantages for the employer as well as for the employee. The principal arguments, often mentioned in the literature, but scarcely backed up empirically (Cordery, 1989) include the following: functional flexibility enables organizations to respond more flexibly to future changes. Against the background of turbulent and competitive international markets it is more and more important that the workforce be able to change along with product or production method changes by redeploying between activities and tasks (Atkinson, 1984). This study embarked to establish the influence of functional flexibility on employee turnover in SMEs in Kenya.

Small and Medium Enterprises in Kenya

According to the Global Economic Report (World Economic Forum, 2010) Kenya was ranked 98th Country out of 133 in global competitiveness in 2009-2010. According to World Bank Report an issue of concern for Kenya is low intellectual capital utilization by SME owners among key comparator countries that impact negatively on Gross Domestic Product (WB, 2010).

According to the Economic Survey (RoK, 2012), the SME sector contributed 79.8% of new jobs created in Kenya. Consequently, Kenya's development plans from 1989 to date put special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 1989, 1994, 1997, 2009). Job creation in this sector went up by 5.1 percent in 2011. The increase was 445,900 indicating a higher growth in absolute terms compared to the increase of 437,300 registered in 2010.

Literature Review

Mueller (1992) argues that the increasing pool of skills generates greater labour flexibility and thus reduces labor costs and improves organisational efficiency and productivity. Additionally, as people at the lower organisational levels become horizontally and especially vertically more skilled, this may, for example, lead to a reduction in supervisory personnel – and may lead to a reduction in indirect labour costs. Ulich, (1992) on the employees' side there is the presumption

that flexibility gives rise to an increase in the humanization of work, greater security of employment, and more interesting and varied work. Due to the costs, SMEs have to decide for what types of jobs it will be efficient to increase the labor skills and in what way other personnel management practices should support such investment in human capital, for example in the development of internal labor markets.

According to Atkinson (1984) functional flexibility enables managers to extend the range of tasks a worker can perform. This normally applies in core, permanent staff inside organizations as a multi-skilling scheme. The firm expects that employees can take on different functions and work between departments. For example, a hotel receptionist checks in/out guests in the morning and cleans guest rooms as a chambermaid after the morning rush. If employees were multi-skilled, this gives companies greater flexibility to act quickly and smoothly as a means of reacting to the problem of staff shortage. Functional flexibility implies that the same labor force changes its activities with the organisation, in both the short and medium term (Atkinson, 1985).

Cappelli and Rogovsky (1994) in SMEs, there is considerable debate regarding aspects of functional flexibility because multi-skilling in the sector rarely involves diversity in the skills utilized (for example, customer care) but rather variation in the context within which they are applied.

Functional flexibility is often associated with different models of work systems such as job enlargement, job enrichment, job rotation, and semi-autonomous work groups (Cordery *et al.*, 1991; 1993), which represent a reaction to the Tayloristic work system associated with scientific management (Cappelli and Rogovsky, 1994). Job enlargement consists of expanding the field of activity horizontally, i.e. quantitatively, by extending the content of work and joining several successive work steps. Concerning job enrichment, on the other hand, the qualitative aspect is placed in the forefront. The scope of activity is expanded by enriching the tasks with decision making powers and planning and control functions, which is often accompanied by the conferring of more complex and high quality tasks. A consequence of the restructuring of the field of activity is humanization by way of reducing the extremely negatively felt repercussions of an originally high degree of specialization and monotony (Campion and McClelland, 1993).

Although to date there are almost no empirically supported insights concerning the objectives pursued by the firms in individual cases, the literature discusses a wide variety of other purposes (Joerger, 1987). There is a relative consensus about the factors of becoming acquainted with new areas of activity, augmentation and/or expansion of qualifications as well as extension of the area of employability, i.e. flexibility. Job rotation can be planned in the long term (e.g. trainee programs) but can also be organized at relatively short notice (e.g. use of stand-ins) (Kreikebaum, 1992). If the intensive use or integration of job rotation as an element of human resource development is pursued, this can support the finding of jobs corresponding to employee's abilities and interests, as well as their prospects for promotion.

According to Kleinknecht (1998) functional flexibility involves SMEs adjusting to changes in the demand for their output by an internal reorganization of workplaces based on multi-skilling, team-working and the involvement of employees in job design and the organization of work. Michie and Sheehan (2005) agrees with Kleinknecht (1998) and asserts that functional flexibility enhances the behaviour of employees in core value-creation areas and also improves the quality of working life because it reduces the monotony and repetitiveness in the workplace. Nesheim (2003) employers use human resource policies such as on-the-job training to develop the employees in the core workforce. Although, these practices entail higher labor costs, the benefits are increased loyalty to the company which can facilitate retention of core employee (Kelliher and Riley, 2003). Besides, the use of some functional flexibility practices such as multi-skilled teams may contribute to a wider dispersion of knowledge and hence improve performance (Martínez and Pe´rez, 2003).

Research Methodology

The design and sample characteristics

The study adopted a descriptive research design and used questionnaires to obtain data. The sample for the study consisted of the 456 SMEs in the various categories namely manufacturing, trade and service. A total of 456 SMEs were surveyed to ascertain the influence of workplace flexibility practices on employee turnover. This resulted into 86.0% responses rate.

The study established that majority of the SMEs about 203 (15.8 per cent) that were studied had 41 and 50 employees, followed by 98 (25.0%) in the 31-40 ranges. For comparative purposes, the two categories of between 11-50 and 51-100 were categorized as Small and Medium Enterprises respectively. The results indicated that 372 (94.9%) of the firms studied were by definition Small enterprises, while 20 (5.1%) were Medium-Enterprises. In the survey, the respondents were asked to state the age category they were in. the study established that majority of the owners, directors and managers 224 (57.1%) were between 36-45 years of age, while 168 (42.9%) were between 25 -35 years old. This result illustrates that SME owners are generally active between the ages of 25- 45.

Reliability analysis results

Cronbach alpha was calculated using SPSS. The value of the alpha coefficient was 0.7231. According to Cooper and Schindler (2008) indicated 0.7 to be an applicable reliability coefficient. Since the alpha coefficients was greater than 0.7, a conclusion was drawn that the instruments had an acceptance reliability coefficient and was appropriate for the study.

Research Findings

The study sought to measure the effect size of the constructs of workplace flexibility practices on employee turnover. The eta-squared was used within the context of ANOVA to describe the degree of relationship between a predictor or set of predictors and the dependent variable (Block & Aguinis, 2004). The study used Cohen (1988) guidelines for interpreting the eta-squared value: where equal to or larger than 0.010 denotes a small effect size, equal to or larger than 0.059 denotes a medium effect size, and equal to or larger than 0.138 denotes a large effect size.

According to the findings in Table 1, it is clear that SMEs practice of not deploying employees across a wide range of tasks (Eta squared = 1.01) and the practice of employees doing monotonous single jobs (eta squared = 0.09) were within the range 0.06 and 0.14 benchmark (Cohen, 1992), so they all have large effect size on employee turnover in SMEs.

Table 1: Descriptive Analysis of functional Flexibility Practices Constructs Effect on Employee Turnover in SMEs

	Eta	Eta Squared
Non existence of practice of deploying employees across a wide range of tasks	1.005	1.01
The practice of employees doing monotonous single jobs	0.315	.099

The study also sought to test the hypothesis that Functional flexibility has no significant influence on employee turnover in SMEs in Kenya. To test this hypothesis which had the null hypothesis that functional flexibility has no significant influence on employee turnover in SMEs in Kenya, the study sought to establish whether employee turnover has a linear dependence on the independent variables (functional flexibility). The study established a correlation value of 0.346. This depicts a very good linear dependence between dependence on the independent variables. An R-square value of 0.120 was established and adjusted to 0.116. The coefficient of determination depicts that functional flexibility brings about 12.0% variations in employee turnover. The coefficient of determination (R^2), further, shows a strong relationship as the value of R^2 is greater than 0.1 ($R^2 < 0.1$). Durbin Watson value of 2.169 was established illustrating lack of autocorrelation in the model residuals.

Table 2: Relationship between functional flexibility and Employee turnover

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	Sig
.346 ^a	.120	.116	.23484	2.169	.0011

a. Predictors: (Constant), Functional Flexibility

Analysis of Variance (ANOVA) for functional flexibility and employee turnover

From the ANOVA statistics in Table 3, indicates the linear regression F-test results and with F= 7.802, and 391 degrees of freedom, and the critical values for F-test (1, 391, at 0.05 alpha is 3.84) is less than the computed F-value, then we reject the null hypothesis and conclude that there is a linear relationship between the variable functional flexibility (FF) and employee turnover in SMEs.

Table 3: Analysis of variance (ANOVA^b)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.303	1	11.303	7.802	.005 ^a
Residual	564.973	390	1.449		
Total	576.276	391			

a - Predictors: (Constant), Functional Flexibility (FF)

b - Dependent Variable: Employee Turnover

Coefficient of regression between Functional Flexibility (FF) and employee turnover

The study conducted a regression analysis so as to establish the influence of functional flexibility on employee turnover.

Table 4: Coefficients^a

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.690	0.148		18.179	0.000
Functional Flexibility	0.165	0.117	0.140	1.411	.002

a - Dependent Variable: Employee Turnover

The study conducted a regression analysis so as to establish the influence of functional flexibility on employee turnover. The regression equation ($Y = \beta_0 + \beta_1 X_1 + \varepsilon$) was:

$$Y = 2.690 + 0.165X_1 + \varepsilon$$

Whereby: Y = Employee Turnover and X_1 = Functional Flexibility

The coefficient of the constant term is 2.690. The sign borne by the regression coefficient of constant is positive implying at zero performance of the independent variable, the employee turnover increases. It is estimated from the result that one unit change in functional flexibility on the average, will lead to 0.165 variations in effect on employee turnover.

Conclusions and Recommendations

This study confirmed that functional flexibility influences employee turnover in SMEs in Kenya. Further, the study demonstrated that the practice of not giving employees' discretion to improve the work processes, lack of the practice of the SMEs not enabling employees acquire/learn new skills and the management practice of not reviewing the work processes contribute to employee turnover in the SMEs. Rousseau (1995) suggest that functional flexibility should involve training and developing personnel, empowering personnel, perhaps through team work, and use of the productive powers of employees by appealing to their intrinsic motivation. This can be done by job enrichment, job enlargement and or job rotation (Baron and Kreps, 1999). In addition to increasing commitment, these instruments also increase the functional flexibility of the work organization.

In view of the current research findings, the current study observations present several recommendations on theory, policy, and practice. Specifically, the study recommends that as a result of the globalization of world economies, rapid technological changes and the increasing demand for new products and services, many organizations need to be more flexible. For an efficient and competitive economy, management needs flexible employees able to "switch gears" and respond to new forms of production.

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