

The Impact of Labour Turnover on Survival of Small and Medium Scale

Enterprises: Evidence from Nigeria

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Abstract

Small and medium scale enterprises all over the world are now looked upon as the engine room of the economy. Governments especially in developing countries are becoming aware of the importance of this sector in the growth of their economies, hence attention are been given to this sector especially in the provision of funds, reduction of legal and bureaucratic bottlenecks involved in incorporation of small scale businesses, provision of manpower training to small scale business owner and other ancillary services that not only will enhance survival but assist in alleviating the level of poverty prevalent to the lower class and the poor in their economies. It is against this background that this study empirically investigated the impact of labour turnover on survival of small and medium scale enterprises in Nigeria. Samples of fifty SMEs were used for the study and survival proxies such as profit after tax, age and size as dependent variables. The study adopted the two-variable regression models to test the study propositions. The results obtained indicate that labour turnover has positive and significant impact on age and size but was positive and non-significant on profitability of SMEs in Nigeria. The study therefore recommends that, business owners should ensure that workers are not turned over but should be retained. This will ensure their survival in business.

Keywords: Labour Turnover, SMEs, Survival

1.0 Introduction

Two basic factors and agents are essential in the production of goods and services. The two factors are land and capital and agents are the entrepreneur and labour. The entrepreneur provides the land and capital resources while labour works on them to transform them into finished goods and services for consumption. In this arrangement the entrepreneur, sometimes referred to as the capitalist plays a pivotal role in that he provides the productive factors and engages labour to work on them (Anyaele, 2003). The inter play of these factors and agents ensure that goods and services are produced and consumed. However in a world of limited capital where there is a predominance of one man business (sole proprietorship), the entrepreneur finds it difficult to retain labour, hence, advantages which would have accrued to the business is lost. The termination of employment by an employee or employer reduces the existing stock of labour force, while an addition by reason of fresh employment increases the stock of labour force. This is refers to labour turnover in human resources management.

There are costs involved when firms have high labour turnover and it is more costly when the firm is a small and medium scale enterprise. Hence, Easton and Goodale (2002) posit that a host of direct and indirect costs arise from the wake of each employee who voluntarily leaves an organization. Obvious expenses include the employer's recruiting, hiring, and training costs for a replacement employee. Until the vacancy is filled, employers may also face additional overtime costs; reduced productivity; increased customer queue times; lost sales and business opportunities and the likelihood of additional turnover due to the extra work shouldered by coworkers of the departing employees (Herman, 1997; McConnel, 1999; Richardson, 1999).

Given the role that SMEs plays as an engine of economic growth, high labour turnover has become a topical issue which is raising lots of concern. These concerns have lead governments and several donor agencies to emphasis creating an atmosphere conducive for survival of SMEs especially in developing countries. No wonder, Onwumere, Ibe and Ugbam (2012) posit that the specific objectives of the Nigerian government microfinance policy 2005 were basically to provide access of finance to SMEs. The idea behind such funds availability was to enable SMEs to be sustainable in the long-run. The ability of SMEs to retain available workforce will no doubt reduce labour turnover

and hence enhances sustainability. It is against these backgrounds that, this paper empirically looks at the impact of labour turnover on survival of small and medium scale enterprises in Nigeria. The remainder of this paper is structured as follows; in section two, related literature is reviewed. Section three, discusses the methodology adopted, while the presentation and analysis of data and conclusion are presented in chapter four and five respectively.

2.0 Review of Related Literature

In general, small and medium enterprises are an integral element of the informal sector in most developing countries. In the majority of cases, these enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies (Mkandawire, 1999; Cook and Nixon, 2005). Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by Liedholm and Mead (1994) and Prasad et. al. (2005).

Small and medium enterprises are looked upon as the engine of economic growth promoting economic development. Small and Medium firms have been praised over time because of the myth that they have the propensity to employ more labour since most of them have labour intensive production process than the larger enterprises. In Nigeria, Onah (2003) sees a vibrant SME sector as a necessary nursery of innovation and entrepreneurship to jump start the economy. Eneh (2005) has similarly observed that the vibrancy and growth of Eastern Nigeria economy which was adjudged the fastest growing and industrializing economy in the world in the early 1960s was anchored on the emerging SMEs.

Several studies have confirmed that small and medium scale enterprises have been a pivotal instrument of economic growth and development either in developed or developing economies. SMEs in Nigeria are not only catalyst of economic growth and development, but are also the bedrock of the nation. The last few years have witnessed important developments in the conceptualisation of the main issues relating to the small and medium enterprises sector especially the need to ensure their survival and growth. Among the problems which scholars have argued is the impact labour turnover has on survival of these SMEs.

Labour turnover is the flow of manpower into and out of an organization (Fapohunda, 1980). The inflow of manpower is referred to as accession and the outflow as separation (leaving). Separation may be in the form of quits, discharges, lay-offs, retirement, leaves of absence and even death. Accession on the other hand has to do with replacements and new hires. Running a successful organization requires finding, retaining and motivating the right employees. Current changes in the economic and demographic structure of societies, such as the increased role of knowledge, the ageing of the workforce. Further increase the importance of the management of the (internally and externally) available human resources. This holds for all organisations, irrespective of their size.

Labour turnover is an important and pervasive feature of the labour market. Labour turnover affects both workers and firms. Workers experience disruption, the need to learn new job-specific skills and find different career prospects (Chow et al. (1999), Tran and Perloff (2002), Roy (2002), Theodossiou (2002), Gautier et al. (2002), Taplin et al. (2003), Clark (2004) and Leuven (2005). Firms, on the other hand, lose job-specific skills, suffer disruption in production and incur the costs of hiring and training new workers. Incoming workers, however, may be better educated, more skilled and have greater initiative and enthusiasm than those who leave. This has affected survival not only for small firms but large one as well.

While Schlicht (1978) showed that natural unemployment is induced by excessive labour mobility in the face of high turnover costs, Salop (1979), developed the wage model which explained that the impact of turnover on firms is mostly based on wages in which firms choose wages so as to minimise the marginal cost of labour, balancing the marginal effect of higher wages against the marginal reduction in training costs induced by higher wages and Burdett and Mortensen (1998) show that firms paying high wages and making low profits per worker experience low turnover, while firms paying low wages and making high profits have high turnover.

Brown, Hamilton and Medoff (1990) explored the theoretical predictions of an extension to the model of Salop (1979) developed by Garino and Martin (2007), which distinguishes between newly hired and incumbent workers,

since the latter have more job-specific human capital but may have less general human capital. A higher turnover rate implies that the proportion of new hires in the workforce is larger. If this causes a sufficiently large increase in productivity then an increase in turnover can increase profits. Garino and Martin (2007) show that this effect is possible, but only when firms do not unilaterally choose the wage for example when the wage is negotiated with a union or set nationally. When the firm chooses the wage unilaterally, as in Salop's original model, the impact of turnover on profits is negative. In order to test the predictions from this theoretical framework, they analyzed cross-section, establishment-level data from the 2004 Workplace and Employee Relations Survey (WERS) in order to ascertain the nature of the relationship between turnover and measures of firm performance. Their findings support the inverse relationship predicted by Salop (1979) if firms are able to choose wages unilaterally, which confirms our theoretical priors. Furthermore, where firms do not set wages unilaterally, therefore, there empirical analysis generally supports a positive relationship between the quit rate and firm performance.

It could be seen that most economic literature available on the impact of labour turnover on the performance of the firm has been based on selected factors such as wages, employees' working conditions, employees' environment etc. Lacuna exists on the impact of labour turnover on survival adopting profit after tax, age and sizes of the firm as survival proxies, hence the need for this study.

3.0 Methodology

Our study adopted the survey research design and the non probability convenience sampling method was used to collate data from fifty (50) SMEs in Enugu State. The relevant data included; Net profit; age size of employees, size (share capital), and the Number of staff (labour turnover) of the SMEs for the period under study. Table 3.1 presents the data used in this study.

Table 3.1: Summary of Proxies from Sampled SMEs

SMEs	Profit After Tax (N)m (A)	Age (B)	Size (Total Assets) (C) (N)m	Labour Turnover
SME 1	1,207,400	10	1,877,283	0.333
SME 2	139,794	10	1,299,268	0.410
SME 3	395,731	5	1,319,907	0.313
SME 4	701,307	9	969,334	0.267
SME 5	664,895	20	1,026,553	0.410
SME 6	802,910	17	2,845,143	0.089
SME 7	589,950	12	1,847,671	0.709
SME 8	434,117	2	1,692,370	0.348
SME 9	317,728	18	1,525,837	0.524
SME 10	74,488	16	707,595	1.097
SME 11	628,017	15	8,737,949	0.571
SME 12	609,943	5	6,594,540	0.333
SME 13	531,776	3	4,233,325	0.323
SME 14	199,687	8	2,811,063	0.442
SME 15	155,445	9	2,452,274	0.720
SME 16	29,721	10	622,215	0.611
SME 17	22,013	11	512,867	0.469
SME 18	22,754	5	524,641	0.018
SME 19	14,237	11	478,393	0.293
SME 20	14,355	8	344,608	0.344
SME 21	195,683	9	669,882	0.145
SME 22	118,484	14	474,084	0.419
SME 23	231,382	13	386,920	0.136
SME 24	242,807	5	301,683	0.297
SME 25	218,913	6	179,563	0.073
SME 26	2,596,533	20	14,436,466	0.550

SME 27	1,077,496	21	11,711,961	0.286
SME 28	1,617,263	20	10,850,004	1.538
SME 29	1,616,457	19	16,818,583	1.750
SME 30	2,167,249	11	9,452,494	1.097
SME 31	2,452,427	13	109,855,351	1.186
SME 32	1,763,706	14	58,869,455	0.717
SME 33	1,119,047	12	42,041,615	0.238
SME 34	626,865	11	40,985,814	2.200
SME 35	387,430	12	31,090,399	2.25
SME 36	8,331,599	9	15,342,204	0.403
SME 37	5,441,899	4	10,816,368	0.391
SME 38	5,660,329	6	11,572,200	0.125
SME 39	5,303,128	15	10,531,760	1.882
SME 40	3,835,493	18	9,079,343	0.425
SME 41	417,962	12	3,429,738	0.618
SME 42	208,318	11	2,676,969	0.750
SME 43	211,470	9	2,300,418	0.842
SME 44	101,759	7	986,923	0.136
SME 45	91,139	5	933,016	0.157
SME 46	872,532	8	4,310,442	0.591
SME 47	697,751	4	4,273,495	0.519
SME 48	525,944	8	9,318,660	0.875
SME 49	434,132	9	6,006,343	0.688
SME 50	220,737	7	9,917,170	0.686

Source: Field Survey 2012

It could be observed from the above table that SMEs 36 had the highest Profit after tax, it recorded a PAT of N8,331,599, this was followed by SMEs 38 which had a PAT of N5,660,329 while SMEs 19 and 20 had the lowest PAT, it was N14,237 and N14,355 respectively. It was also revealed from the table that SMEs 27 has been in existence for 21 years, this was followed by SMEs 5, 26 and 28. The SME that had the shortest year of existence was SME 8. For size that depended on the total assets of the SMEs, SMEs 31 had the highest Total Assets while SMEs 24 had the least Total Assets.

3.1 Description of Research Variables

Independent Variable:

Labour Turnover: The rate at which an employer gains and losses employees. Simple ways to describe it are "how long employees tend to stay" or "the rate of traffic through the revolving door." Turnover is measured for individual companies and for their industry as a whole. If an employer is said to have a high turnover relative to its competitors, it means that employees of that company have a shorter average tenure than those of other companies in the same industry. High turnover may be harmful to a company's productivity if skilled workers are often leaving and the worker population contains a high percentage of novice workers (Zuber, 2001), it will be represented as;

$$\text{Labour Turnover} = \frac{\text{No of Employees that had left the firm}}{\text{No of Employee that had stayed over the same period}}$$

Profitability: The state or condition of yielding a financial profit or gain. In this study profitability of SMEs will be measured by the reported Profit after Tax (Naude, 1998). In this study, we measured profitability by taking the natural logarithm of Profit after tax as reported the SMEs surveyed.

Age: The empirical evidence have shown that while younger firms may have a higher propensity to generate jobs than older SMEs, this is to some extent offset by their lower survival chances. However, within the context of such a

survival of SMEs, young growing firms may need particular kinds of support which could be offered within the context of policies designed to encourage and support growing businesses at different stages of development (David and David, 1998) Thus in this research, age will be represented by the no of years the business have been in existence. Hence, we will take the natural logarithm of the SMEs age as a proxy for Age.

Size: The SMEs sector plays a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country. Further, in recent years the SME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. In this research the size will be represented by the Total Assets of each SME (Steel, 1994). The natural logarithm of total assets will represent the measure for size.

3.2 Model Specification

The two-variable regression equation was used to empirically determine the impact of labour turnover on profitability, age and size of SMEs. The justification for adopting this analytical technique is based on the following premise on the Ordinary Least Square (OLS) been assumed to be the best linear unbiased estimator (Gujarati, 1995) and it has minimum variance (Onwumere, 2005),

Hence, the equation is stated thus as:

$$Y = B_1 + B_2X_2 + u \dots\dots\dots (1)$$

where, Y =dependent variable; X =explanatory variable; B₁ =intercept of Y; B₂ =slope coefficients; U =stochastic variables (Gujarati, 1995).

Therefore, in writing the model equation, the following proxies and symbols was used in this paper.

- Labour Turnover = LabT
- Profitability = LogPAT
- Age = LogAGE
- Size = LogSIZE
- a = Regression equation intercept
- b = Regression equation coefficient
- μ = error term

We therefore rewrite equation (1) to suit the study proposition (1) that Labour turnover do not have positive significant impact on profitability of SMEs, it was represented as:

$$\text{LogNP} = a + b \text{LabT} + \mu \dots\dots\dots (2)$$

Also we made a second proposition (proposition 2) that labour turnover do not have positive significant impact on SMEs age, it was represented as;

$$\text{LogAGE} = a + b \text{LabT} + \mu \dots\dots\dots (3)$$

Lastly, we made a third proposition (proposition 3) that labour turnover do not have positive significant impact on SMEs size, it is represented as;

$$\text{LogSIZE} = a + b \text{LabT} + \mu \dots\dots\dots (4)$$

4.0 Results/Analysis

Table 4.1 Summaries the results of the analyses from the three a prior statements.

Table 4.1 SPSS Model Summaries of Results

Particular	Proposition 1	Proposition 2	Proposition 3
R (Correlation Coefficient)	.250 ^a	.360 ^a	.537 ^a
R2 (Coefficient of Determination)	.062	.129	.288
t-value of Independent Variable	1.786	2.671	4.410
Unstandardized Coefficients			
Constant	5.437	.882	6.092
β (LabT) of Independent Variable	.319	.157	.685
Standardized Coefficients			
B	.250	.360	4.410
Durbin Watson	.682	1.593	.958

Source: See Appendix

From table 4.1, it is evident that labour turnover has a positive non-significant impact on the profitability of SMEs in Nigeria. This is revealed by the coefficient of labour turnover (0.319) which is positively signed and with a t-value of 1.786. The result also indicates there is a positive correlation between labour turnover and profitability. The coefficient of determination R^2 indicates that 6.2% of the variations in the dependent variable are explained in the independent variable. This indicates that there are other factors not captured by the model that has an impact on profitability of SMEs. The Durbin Watson (d) test statistic was 0.682.

The result as revealed from table 4.1 and with respect to our second proposition that, labour turnover does not have positive significant impact on age of small and medium scale enterprises. It was revealed that the impact of labour turnover on the age of small and medium scale enterprises was positive significant. A t-value of 2.671 indicates significant impact and the coefficient of labour turnover as 0.157. Also, as revealed from the result there was a positive relationship between labour turnover and age of small and medium scale enterprises. This was revealed by the correlation coefficient (R) having a positive value as indicated by the beta value of the independent variable. The variations observed in the dependent variables as a result of the changes in the independent variable captured by the model were 12.9%. Again, the implication is that there are other variables not captured by the model that have an impact on age of SMEs. The Durbin Watson (d) test statistic was 1.593.

For our last proposition which states that labour turnover does not have positive significant impact on size of small and medium scale enterprises, the result table 4.1 shows that labour turnover has positive significant impact on size of small and medium scale enterprises in Nigeria (t-value = 4.410, coefficient of labour turnover = 0.685). As also revealed from the result, there was a positive relationship between labour turnover and size of small and medium scale enterprises in Nigeria as indicated by the correlation coefficient (R) which was positive as indicated by a positive beta coefficient of the independent variable. The variations observed and captured by our model was 28.8%. Though, this was higher when compared with proposition one and two, it also revealed that there are other variables that have an impact on size of small and medium scale enterprises apart from labour turnover. The Durbin Watson (d) test statistic was 0.958.

5.0 Conclusion/Policy Implication/Recommendation

Small and medium scale enterprises all over the world are now looked upon as the engine room of the economy. Governments especially in developing countries are becoming aware of the importance of this sector in the growth of their economies, hence attention is being given to this sector especially in the provision of funds, reduction of legal and bureaucratic bottlenecks involved in incorporation of small scale businesses, provision of manpower training to small scale business owner and other ancillary services that not only will enhance survival but assist in alleviating the level of poverty prevalent to the lower class and the poor in their economies. However, it have been observed that apart from these government policies aimed at ensuring growth and sustainability of small and medium scale

enterprise, small scale business owners also have a role to play in ensuring survival and sustainability. Labour as input resources is important in ensuring survival and sustainability. It was against this background that this paper empirically examined the impact of labour turnover on the survival of small and medium scale enterprise in Nigeria using three variables that indicates survival such as profitability, the age or how long the small and medium scale enterprises have existed and the size as indicated by the total assets of the SMEs. The results obtained indicates that labour turnover has positive and significant impact on the survival of small and medium scale enterprises on two survival indicator viz; age and size but was positive and non-significant on profitability. The implication for small and medium scale firms indicate that labour turnover will impact on the profitability, age and size of these scale business hence survival. Therefore, small and medium scale businesses as a matter of survival must ensure that, workforces are retain if there are to survive.

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