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MASTER OF BUSINESS ADMINISTRATION

**EMPLOYEE RETENTION IN SMES (AMALL, MEDIUM
ENTERPRICES) IN SHANGDONG, CHINA**

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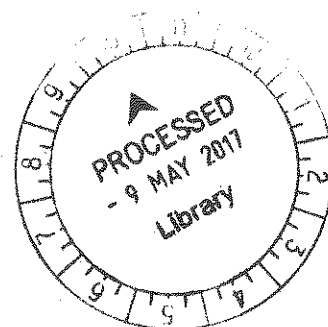
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Declaration

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

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Abstract

Small and medium-size enterprises (SMEs) of China play an important role in employment and economic development, it not only promote the economic vitality, and also create works and improve people's lives (Shi, 2013). However, SMEs have a high employee turnover rate, therefore, the purpose of this study is to determine the factors that influence the employee retention, and the relationship between Dependent Variable (employee retention) and Independent Variable (pay and reward, training, career development), along with the mediating effect of employee engagement.

The literature review on employee retention was made to determine within which theoretical frameworks it is relevant to discuss the issue of employee retention, and it stated that retention can be influenced in the sphere of performance appraisals, training and promotion opportunities, rewards and etc based on HRM theory.

Based on convenience sampling, the sample size 384 was choose to collect information by distributing 512 online questionnaire according to Krejcie and Morgan's (1970) guideline, and use the SPSS to analyze the data. The findings indicated that the pay and reward, training, career development have positive relationship with employee retention, while, employee engagement is also having influence on the retention in SMEs in Shangdong, China.

Key words: employees retention, pay and rewards, training and career development, employee engagement.

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Chapter 1: Introduction

1.0 Chapter Overview

The chapter provides an introduction of the research topic about employee retention for Small and Medium Enterprises (SMEs) in Shangdong, China. First of all, it will make an illustration of the research background, the following is the problem statement of the study. After the problem statement it will explain the research objectives and the research questions. This chapter also show the significance of study (Academe and Industry) and the scope of the study, as well as the limitations of study will be addressed accordingly. At end of the chapter, it state that the operational definitions relative to the research and organization of chapters.

1.1 Research Background

Employee Retention refers to the techniques employed by the management to help the employees stay with the organization for a longer period of time (Iqbal and Hashmi, 2015). The strategies of employee retention are benefit for motivating the employees so that employees can contribute to the company effectively and stay with the company for the maximum time (Al-Emadi et al., 2015). The company' sincere efforts must make the employees' learning and growth in the current works and make employees to enjoy work.

At present, employee retention has become a major issue for organization, especially small and medium-sized enterprises (SMEs). There has formed a tendency that an employee usually move to other company for better prospects

(Cunningham and Rowley, 2010). The company's training, lucrative salary, rewards, work environment, career development and work life balance are some of the factors which prompt an employee to look for a new job (Cegarra-Leiva et al., 2012). When a professional employee want to move to other organization, it is the responsibility of the the human resource team and manager to find out the exact reasons and to solve it (Cunningham and Rowley, 2010).

Why Employee Retention is Need and Importance for a company, there are some reasons as follows:

Hiring process is not very easy for organization. The HR select few individuals from online recruitment website or other way to attend the preliminary interviews, and then through a series of tests and evaluate choose employee to join the company, eventually give the new employee three to six months probation period to judge whether new employees are fit for the organization or not (Chin-Ju, 2010). Hence, to recruit the employees is a time consuming process, if the organization can't retain employees for a longer period of time, the organization would waste a lot of manpower and resources; in other words, it is necessary to retain employees for organizations.

Each company invests a lot of money and time in grooming a new employee and make employees understand the company's culture and ready to work (Fejfarová and Urbancová, 2016). A new employee is completely raw, the management must to train new staff better for overall development. When an employee leaves an organization to other company, it means the company lose of time and money (Jie, 2010). In order to find the employee for the same

vacancy, the HR has to start the recruitment process again. Finding a right employee is not easy work for HR, but when the employee leaves, all efforts go waste (Chin-Ju, 2010). Hence, it is important to understand retention to reduce costs and wastages.

When an employee leaves from the present company, it is more likely means that the employee would join the competitors. In this situation, employees usually take all the policies, strategies and project from the current company to the new one (Cegarra-Leiva et al., 2012). Employees take away the important information, statistics and data, even leak the secrets of the company. It is essential that the new employee sign a document about confidentiality agreement to protect the company's information security (Jie, 2010). Strict policy can prevents the employees joining organization's competitors, this is an effective method to retain the employees (Fejfarová and Urbancová, 2016).

The employees working for a long time in one company are more familiar with the organization's guidelines, policies and employees will adjust themselves better (Lin, 2012). Those employees have a better performance than employees who change works frequently. Spending a long time in a company, employees understanding the organization better and contribute to the company effectively (Mohamed et.al., 2013).

Each employee needs time to adjust with others. A member of team must to know all the team members, be friendly and trust each other, and thus, when team members have unity and cooperation to deal with something, the company can get the maximum benefit (Jie, 2010). When a new employee replaces an old employee, the team will appear some problems. Employee will find it difficult

to get along well with others. It is a challenge for everyone to adjust with new employee and trust him. It is a human nature to compare a new employee with the previous employees (Lin, 2012).

It is essential for the company to retain valuable employees. Each company needs talented and hardworking employees, the employee can create something different with other company. If all the top performers leaves, no organization can survive (Fejfarová and Urbancová, 2016).

The organization must understand the difference between an employee and a valuable employee, organizations' sincere efforts must be made to encourage the employees stay happy in the current company and don't look for a new company (Al-Emadi et al., 2015). Consequently, given the importance of employee retention, this study aimed to ascertain the factors influencing employee retention in SMEs of Shandong, China, as culturally, the region may differ from previous studies Cegarra-Leiva et al. (2012)-- Spanish, Shore (2013)-- South Korean.

1.2 Problem Statement

Small and medium-size enterprises (SMEs) of China play an important role in employment and economic development, it forming the most of the country's private investors (Cunningham and Rowley, 2010). According to the China Association of Small and Medium Enterprises (2012), the number of SMEs registered in China exceeded 70 million and contributed to 58.5% of gross domestic product (GDP), 68% of exports, 75 % of new jobs and 50% of tax revenues every year. The Minister of Industry and Information Technology Li

Yizhong (2012) said that SMEs occupied 99% of China's registered enterprises, and the output during the Jan- Sep period this year amount to about 60% of the country's GDP. Shi (2013) stated that SMEs promote the economic vitality, more importantly, it also create works and improve people's lives.

Although the SMEs create lots of job opportunities for employee, the HRM is very important to small and medium-size enterprises. SMEs can get all the advantages with the effective human resource management and do better than companies with less effective HR practices (Chin-Ju, 2010). For example, researchers studied 168 fast-growth SMEs, and then provided that successful high-growth SMEs placed greater importance on pays and rewards, career and development, recruitment packages, and training than other firms (Cegarra-Leiva et al., 2012). Those findings indicated that human resource activities have a positive influence on performance in SMEs (Cunningham and Rowley, 2010). In addition, for many SMEs, effective HRM is also a criteria for getting and keeping big customers. Today, all the business must abide by international quality standards (ISO-9000 requirements), this means even smaller businesses must attend to the human resource processes, to determine the HR policies and whether the firm need changes or not, for example, job design and training (Fejfarová and Urbancová, 2016).

However, SMEs face many challenges and the biggest issue is employee retention (high employee turnover rate). The small firms often lack of legitimacy and resources in the market so that firms face some threats to existence. Particular challenges arise in training, retaining, career and development for employee, and motivating employees (Pingle, 2014). SMEs usually have no formal training system in human resources management and also don't have a

good structures. Therefore, in order to solve those problem, SMEs need to attract and retain the right employees (Schmelter et al., 2014).

From what has been discussed above, SMEs is very important for a country, the employee retention is very vital for SMEs. In order to solve this serious problem, the SMEs in Shangdong, China as the research range, to research the factors that influence the employee retention and the relationship between the factors and employee retention.

1.3 Research objective

Recently, employee retention become more and more important for company, at the same time, the employee turnover issue is very serious. According to Cunningham (2010), there is a strong need to research the SMEs because SMEs are the key drivers and engines of economic growth of a country. Therefore, this research focus on investigating the factors that influence employee retention in SMEs.

Sekaran and Bougie (2011) state that a clear research objectives is very important for researcher to guide the whole research. Cooper and Schindler (2011) say that once the research objectives had been ensured, the researcher need to find the research question and then serve as the development of the assumptions for the research.

With all the mentioned above, there are three main objectives to achieve in this research as follows:

Research objective 1: To analyze the relationship between pay and rewards and employee retention in SMEs in Shangdong, China.

Research objective 2: To analyze the relationship between training and employee retention in SMEs in Shangdong, China.

Research objective 3: To analyze the relationship between career development and employee retention in SMEs in Shangdong, China.

Research objective 4: To study the mediating effect of Employee Engagement on the relationship between the factors and employee retention in SMEs in Shangdong, China.

1.4 Research question

This research focuses on exploring the influences of factors to retain employees in SMEs, a successful SME want have a good employee retention have to know what company's policies attract employees effective. Based on the research objectives be mentioned above, there are some key research questions as follows:

Research question 1: What is the relationship between pay and rewards and employee retention in SMEs in Shandong, China?

Research question 2: What is the relationship between training and employee retention in SMEs in Shandong, China?

Research question 3: What is the relationship between career development and employee retention in SMEs in Shandong, China?

Research question 4: What role does Employee Engagement play in influencing the relationship between factors and the retention of employees in SMEs in Shangdong, China?