THE EFFECT OF STAFF TURNOVER ON FINANCIAL PERFORMANCE OF PRIVATE SECURITY FIRMS IN KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

FALL 2014
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University-Africa in Nairobi for academic credit.

Signed: ___________________________ Date: _________________

Samuel N. Githinji ID: 631056

This report has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: _________________

Dr. Bernard Omboi
Assistant Prof. of Accounting

Chandaria School of Business

Signed: ___________________________ Date: _________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of the study was to assess the effect of employee turnover on the financial performance of private security firms in Kenya. The research questions were: What is the direct effect of staff turnover on the financial performance of private security firms in Kenya? What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya? What mitigation strategies do security firms have in place to manage staff turnover risks?

Descriptive research design was used for the study. The population was 30 members firms of Kenya Security Industry Association. A census study was done. Data was collected from 30 head of human resources and 30 head of finance departments of the member firms. Data was collected using a structured questionnaire. Statistical analysis was done using SPSS. Inferences were drawn using Carl Pearson Correlation Coefficient technique. The results were presented in figures and tables.

The major findings showed that concerning the direct effect of staff turnover on the financial performance of private security firms in Kenya, there was a statistically significant inverse correlation between financial performance and turnover impact on recruitment costs \( r = -0.505, p < 0.05 \) and lost productivity \( r = -0.412, p < 0.05 \).

With regards to the indirect effect of staff turnover on the financial performance of private security firms in Kenya, financial performance was significantly correlated to lost technical expertise \( r = -0.344, p < 0.05 \) and decline in service quality offered to customers \( r = -0.304, p < 0.05 \).

The findings on mitigation strategies in place to manage staff turnover risks revealed that majority (52.1%) of the respondents disagreed that training programs were offered to existing employees; 45.9% of the respondents disagreed that their security firm benchmarked salary scales with the best company in the industry; and 75.0% of the respondents disagreed that their company carried out job enlargement programs.
The study concluded that staff turnover negatively affected the financial performance of private security firms in Kenya through its impact on recruitment costs and lost productivity. Staff turnover also affected financial performance of private security firms in Kenya indirectly through lost technical expertise and decline in service quality offered to customers. Despite these negative effects, the private security firms did not have any strategies in place to mitigate negative effects of employee turnover on financial performance.

It was recommended that private security firms should invest in staff development and retention of core talent in order to contain the high staff turnover and its negative impact on financial performance. In order to preserve technical expertise and maintain the standard of service quality offered by the private security firms, there is need to come up with internal internship programs aimed at the transfer of knowledge and skills from experienced staff to less experienced staff. As a mitigation strategy to minimize negative effects of employee turnover on financial performance, the private security firms need to begin a deliberate program of job enlargement to prepare staff to immediately assume the positions left vacant in order to minimize disruptions that lead to financial loss. In order to generalize the study findings, another study that expands the study scope to include non-members of KSIA could increase the reliability of statistical estimates.
ACKNOWLEDGMENTS

I acknowledge the intellectual guidance and moral support provided by my Project Supervisor Dr. Bernard Omboi. I am also grateful to the human resource managers and heads of finance in the respective member companies of Kenya Security Industry Association for the cooperation they accorded me by filling in the questionnaires. I am equally thankful to every other institution and individuals without whose input, this project would not have been a success.
DEDICATION

I dedicate this project to my family: My wife Pilley and my two children Kelvin and Manuel whose support, encouragement and prayers enabled me to reach this far in my academic endeavours.
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<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>G4S</td>
<td>Group Four Security</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resource</td>
</tr>
<tr>
<td>ICTJ</td>
<td>International Center for Transitional Justice</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
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<td>USA</td>
<td>United States of America</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Staff turnover continue to be the subject of pervasive interest by both corporate strategists and the academia alike. Smith (2011) posits that this pervasive concern emanates partly from the recognition that turnover that is dysfunctional for the organization can be very costly and that improving its management can provide considerable savings and strategic advantage. Zanini (2007) identifies that this concern is supported by empirical literature that links employee turnover to human resource strategies in the workplace.

Cascio and Boudreau (2010) explain that turnover may be voluntary on the part of the employee (such as resignation) or involuntary (layoff or retirement). They note that most organizations focus on the incidence of voluntary employee turnover precisely because it is more controllable than involuntary turnover. Boella and Goss (2013) depict staff turnover as a key measure or index for the success of an organization’s strategic human resource management practices but also of the organization as a whole and its image as an employer of choice.

The most common method of measuring staff turnover as identified by Armstrong (2011) is employee turnover index, which means the number leaving over a period as a percentage of the average number employed over the period. Armstrong specifies the factors that should be considered when costing employee turnover. He includes in his list, factors such as direct cost of recruiting replacements (advertising, interviewing, testing and so on); direct cost of introducing replacements (induction costs); leaving costs (payroll and HR and administration); opportunity cost of time spent by HR and line managers in recruitment, induction and training; loss of output from those leaving before they are replaced; loss of output because of delays in obtaining replacements; loss of output while new starters are on their learning curves acquiring the necessary knowledge and skills. This list elicits consensus from peers such as Casio and Boudreau (2010) who made a significant association between the costs incurred and staff turnover.
The factors listed by Armstrong (2011) resonates the view of Orrick (2008) who suggests that the quality of officers selected, trained and retained has a direct impact on the level of service provided to the organization’s constituents, and as officers leave, their attrition comes at a substantial cost to organizations and the communities they serve. Cascio and Boudreau (2012) however caution that simply mitigating the risk of employee turnover is often not the way to optimize the balance between uncertainty, risk and opportunity. He argues that if good quality replacements are readily available, it may be better to allow employees to leave, and replace them, than go to great lengths to keep them. It means that such actions should align with the overall human resource strategy.

De Grip and Sieben (2009) assert that good corporate strategies will reduce staff turnover, which, in turn, decrease recruitment and selection costs and increase organizational performance. This view is supported by Lalli (2009) who argues that high turnover of employees is a concern for organizations because failing to address the question of employee turnover can sacrifice productivity, profitability and growth of the organization. Despite the importance of corporate strategy towards the challenge of staff turnover, a paradox identified by Smith (2011) is often the unwillingness to invest in people, who then become attractive to competitors and leave, coupled with the difficulty of embedding the competencies in the culture, systems and procedures. In keeping with this train of thought, Pynes (2008) emphasize that the HR strategy must manifest in guiding and supporting the organization’s efforts to meet the changing demands of their external and internal environments.

According to Armstrong (2009), proper HR strategies are based on the understanding of the factors that affect whether or not employees leave or stay with the organization. The significance of Armstrong’s point to the private security industry cannot be overemphasized. Jones (2006) describes the nature of this industry as labour intensive, with industry reports suggesting that guarding of commercial premises form the largest single segment of the staffed service market. This is depicted by uniformed security guards present in shopping precincts, industrial estates, building sites, office complexes, hospitals, educational institutions, government buildings, public and private housing estates and leisure parks. However, Jager and Kummel (2009) point out that provision of security to citizens and properties remains a major challenge to many developing countries. They emphasize that security is a critical component in ensuring economic
recovery; without security there is no development, security is a prerequisite and paramount in guaranteeing the generation of wealth and reduction of crime and insecurity.

A report by the Kenya Institute of Policy Research and Analysis (2004) noted that inability of the state to provide adequate security, rampant inefficiencies in law enforcement agencies, expansion of property ownership (private) and dwindling public confidence with the police have contributed to the growth of private security providers in Kenya. Indeed, the International Center for Transitional Justice (ICTJ) briefing (2010) observed that in Kenya, the private security industry is one of the fastest growing sectors of the economy and it is a significant employer.

According to Mbote and Akech (2011), there are about 2000 private security firms in the country, which mostly operate in the urban areas. The industry employs about a quarter of a million people and has an annual turnover of Kenya shillings 3.2 billion. Estimates reported by Jager and Kummel (2009) indicate that there are 300,000 guards on shift during any 24-hour period. The ICTJ (2010) observes that the sector is spread across the country, although it is much more visible in urban centers than it is in rural areas. Many leading companies, both local and international, depend on private security companies to secure their investments. Jager and Kummel (2009) for instance define the private security providers as corporate endeavors that provide logistics support, training, security, intelligence work, risk analysis and much more.

Abrahamsen and Williams (2005) established that the private security sector in Kenya is dominated by approximately ten leading companies. The largest company in terms of number of employees, according to these authors, is G4S with over 15,000 employees and operations in 68 different locations across the country. Other main players include KK Security with approximately 5,000 employees, Security Group with approximately 3,800 employees, as well as BM Security, Securex, Patriotic Guards, Ultimate Security, and Armor Group, amongst others. Most of these companies operate throughout the country, although some restrict their operations to Nairobi only.

Abrahamsen and Williams (2005) established that the companies vary considerably in size, with the majority being small to medium-sized, owner-managed companies,
employing less than 100 people. The majority of companies operate in only one locality or town, whereas the major companies have operations in several main towns as well as rural areas. The highest concentration of companies is in Nairobi, where there may be as many as 500 firms.

This research was undertaken among private security firms which are members of the Kenya Security Industry Association (KSIA). This association has a total of 30 security firms listed in its membership (KSIA, 2014). The aim of the association is: to establish and maintain quality standards and good practices in the industry; to provide a central forum to discuss common issues and represent the industry interests, to provide a central organization for liaison with government, police, emergency services and other organizations, to coordinate resources for commercial, professional and public education on security issues, technology and practice, and to administrate the KSIA Charter as an effective “customer assurance” programme (KSIA, 2014).

1.2 Problem Statement

The security industry is labour intensive, hence making direct labour a significant cost driver for security firms. This puts into perspective, the strategic importance of human resource in influencing the performance of firms in the sector. According to Armstrong (2009), proper human resource strategies are based on the understanding of the factors that affect whether or not employees leave or stay. Supporting this view, Phillips and Gully (2013) argue that dysfunctional employee turnover can hurt organizational performance if top performers leave and replacement cost increases. For example, it has been estimated that on average, it costs an organization one-third of a new hire’s annual salary to replace an employee (Scott and Byrd, 2012). This underscores the need raised by Boella and Goss (2013) for organizations to analyze the incidence and nature of employee turnover so that action may be taken to influence the turnover and its potential impacts on key result areas such as recruitment and training costs, on overall profitability and service quality levels.

Despite the need for organizations to assess employee turnover levels and trends, empirical research on employee turnover trends in the private security sector in Kenya and their causes and effect on the firms is sparse. One study by Kimosop (2007) presented
the results of the effects of labour turnover on organizations’ performance in Kenya private security firms. The researcher used a case study of Future Force Security Firm. The study findings indicated that the factors that influenced labour turnover were: low pay, sickness, long working hours, misconduct, and change of careers and lack of career prospects. However, it was not clear from Kimosop’s study how employee turnover affected the security firm’s performance. Several factors can affect the performance of security firms. A study by Wainaina (2014) for instance established that recruitment and selection, training and development, reward and compensation, and distress and fatigue from excessive time on job in the company sometimes led to decline in the performance of private security firms.

Kaguru and Ombui (2014) undertook a study on the factors affecting performance of private security firms in Nairobi using a case study of G4S Security Services Limited. Their findings showed that lack of a regulatory framework affected the performance of private security companies to a great extent. Given the fact that the private security industry is labour intensive as well as reports that document that the industry is characterized by a lot of turnover (Makokha, 2004), analyzing the effect of turnover on the performance of private security firms would provide the knowledge base upon which better human resource strategies can be developed. This study sought to bridge the knowledge gap by assessing the effect of staff turnover on financial performance of private security firms in Kenya.

1.3 Purpose of the Study

The purpose of the study was to assess the effect of employee turnover on the financial performance of private security firms in Kenya.

1.4 Research Questions

1.4.1 What is the direct effect of staff turnover on the financial performance of private security firms in Kenya?

1.4.2 What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya?

1.4.3 What mitigation strategies do private security firms have in place to manage staff turnover risks?
1.5 Scope of the Study

The study was limited in scope to private security firms registered with the Kenya Security Industry Association. Data was collected for the period 2009-2013 from the head of human resource as well as the head of finance of each of the security firms in question. Reference to employee turnover data spanned the last five years. The period span is very key to establish trends that yields unbiased results that can be generalised to some larger population. The research was done in the month of October 2014.

1.6 Significance of the Study

This study would be of significance to the following stakeholders within the security sector.

1.6.1 Kenya Security Industry Association

The study provides empirical data that can provide the basis for developing sustainable human resource strategies to enhance organizational learning and growth for the members of the association.

1.6.2 Private Security Companies

Private security companies in Kenya could use the findings and recommendations of this study to help them come up with progressive human resource policies relevant to the industry.

1.6.3 Human Resource Managers in the Security Industry

Human resource managers as industry practitioners would benefit from the findings of this study as it highlights the factors underlying employee turnover that may be unique to the security sector.
1.6.4 Future Researchers

Future researchers who wish to extend studies concerning employee turnover within the security industry generally, could use the report for reference purposes.

1.7 Definition of Terms

1.7.1 Employee Turnover

Armstrong (2010) defines employee turnover as the rate at which people leave an organization.

1.7.2 Human Resource Strategy

This refers to the strategy that an organization adopts for managing its people (Truss, Mankin & Kelliher, 2012).

1.7.3 Corporate Strategy

Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities (Husted & Allen, 2010, p. 192).

1.7.4 Private Security Companies

Private security companies can be defined as companies that provide security services for a profit, such as guards to business premises, public buildings and residential areas (Jager and Kummel, 2009).
1.8 Chapter Summary

This chapter has presented the background concerning staff turnover. It has introduced the challenge of staff turnover within the security sector. It has also stated the problem of the study and raised the research questions. Further, it has provided the scope within which the research was limited. Similarly, it has explained the significance of the research to various industry stakeholders. Lastly, the chapter has defined the operating terms that will be used.

The rest of the report is outlined as follows:

Chapter two provides the theoretical framework of the study as well as review empirical literature related to staff turnover. The chapter then identifies the literature gap as well as present the conceptual framework that guided the study.

Chapter three describes the methodology that was used to undertake the study. This entailed a discussion of the research design, the population and sampling design, the data collection methods, research procedures and data collection methods.

Chapter four presents the results and findings of the study. The chapter contains a descriptive analysis of the respondents’ general data. The chapter also presents the results of inferential analysis.

Chapter five begins by summarizing the research. The chapter then makes a discussion of the findings and compares with the literature. Finally, the chapter draws conclusions and recommendations based on the discussions.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter reviews literature related to staff turnover and its effects on organizational performance. The chapter is thematically presented as per the study variables and research questions. The first section reviews literature on the direct effect of staff turnover on the financial performance of private security firms. The second section presents literature on the indirect effect of staff turnover on the financial performance of private security firms. The last section discusses the mitigation strategies private security firms have in place to manage staff turnover risks.

2.2 The direct effect of staff turnover on financial performance of private security firms

2.2.1 Recruitment costs
Recruitment is defined as those organization activities (such as choosing recruiting process, developing recruitment ads, and deciding how much will be spent) that influence the number and types of individuals who apply for a position – and also affect applicant’s decisions about whether or not to accept a job offer (Gatewood, Field and Barrick, 2010). Gatewood et al. (2010) report studies which indicate that recruitment and selection practices are related to productivity and quality of workers. Estimates of replacement cost for a key employee range from 30 percent to 200 percent of annual salary (Sartain and Finney, 2003). Banfield and Kay (2008) suggest that recruitment and selection decisions are important because: each employment decision can add to, or subtract from, the overall quality of the workforce. The ability of managers to continuously generate greater levels of added value from each employee is heavily influenced by what each new recruit brings into the organization and what each is capable of becoming. Employees who fail to meet the performance and behavioural expectations of managers can have a detrimental impact on the performance of others.

Direct effects of employee turnover on firm financial performance manifest when costs of recruitment and training are taken into consideration (Davidson, Sweeney and Stampfl,
The authors argue that even more significant are the opportunity costs of having hired the wrong person while allowing a better applicant to slip through the selection net. Empirical evidence has shown that lost productivity resulting from employee turnover may account for more than two-thirds of the total turnover cost (Hinkin and Tracey, 2008). Racz (2000) observes that the direct costs of employee turnover constitute about 15–30% of total costs associated with lost employees. Part of the recruitment cost incurred by firms as a result of employee turnover is job advertising, which is defined as the act of posting and communicating an open job vacancy on various media vehicles such as daily newspapers, trade journals, radio stations or television channels (Wimmers, 2009).

Marsh and Mannari (2008) observe that there are other costs that emanate from employee turnover. Some of such costs are derived from a number of different sources, a few of which include: recruitment and replacements of employees including administrative expenses, advertising, screening and interviewing, and services associated with selection, such as security checks, processing of references, and, possibly, psychological testing; administrative hiring costs.

### 2.2.2 Training costs

Training is needed to give employees the information and industry-specific skills as well as firm knowledge necessary to perform their jobs (Carsen, 2005). Armstrong (2008) argues that learning and development programs should be developed and introduced that: gives employees the competence and confidence to achieve expected performance standards; enhance existing skills and competencies; ensure that new employees quickly acquire and learn the basic skills and knowledge needed to make a good start in their jobs. Training costs vary with the type of training. Some of these are on-the-job training, orientation training and career development training (Appiah, 2010). On the job training refers to new or inexperienced employees learning through observing peers or managers performing the job and trying to imitate their behavior. This type of training often has limited associated costs. It can be useful for training newly hired employees, upgrading experienced employees skills when new technology is introduced, cross training employees within a department or work unit, and orienting transferred or promoted employees to their new job (Noe, Hollenbeck Gerhart and Wright, 2008).
The argument in favour of incurring training costs is explained by Cole (2004) who argued that training can achieve lower cost of production, lower turnover and change management. Literature suggests that training leads to improved productivity, reduction in labour turnover, reductions in waste and reduction in accidents (D’Annunzio-Green, 2004). Armstrong (2008) observes that resignations and turnover can increase if people are not given opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper training. Armstrong (2008) further assert that resignations and turnover can increase if people are not given opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper orientation.

Effective induction is also an element of training that drives new employee productivity, accelerates delivery of results and significantly improves talent retention (Bradt and Vonegut, 2009). According to Mellen and Evans (2010), the training expenses per employee vary depending on the complexity or sophistication of the employees’ duties. They numerate these expenses to include salaries and fringe benefits for the time an employee is unproductive. These costs are typical of a new hire and the estimated time that will elapse before the employee reaches full productivity as initial shortfall in productivity is attributable to the employees’ need to adapt to he procedures and circumstances of the position.

2.2.3 Overtime costs

Hart (2004) argues that overtime working implies that actual hours of work per period exceed the standard contractual hours and this is often remunerated at a higher rate of pay from standard hours, typically computed as a premium that consists of a fixed multiple of standard hourly pay. Generally, the author observes that overtime is a quantitatively important labour market phenomenon in respect both of its contributions to total labour input and to take-home pay. It has been viewed as representing a relatively speedy form of short-term factor adjustment on the firm’s margin that involves costs and returns. Vance (2009) is of the view that overtime pay can radically alter a company’s cost structure and most companies consider the premium part of overtime compensation as waste. For example, Khurna, Khurana and Sharma (2014) explained that as a result of
high rate of staff turnover the production of the organization may go down and the organization may not be in a position to deliver the products to its customers in time. To avoid this situation, the authors suggest that the management may request its staff to do overtime for pay, the cost of which is an extra burden on the organization. Biswas, Cascio and Boudreau (2013) compute this cost as wages plus benefits multiplied by the number of hours of overtime.

2.2.4 Lost productivity

Employee performance in any organization is reflected in the effectiveness and efficiency with which goals and objectives are achieved (Sousa, Aspinwall, Sampaio and Rodrigues, 2005). Employee performance means carrying out duties efficiently and effectively to meet agreed job objectives (Baldwin, 2008). The ability to effectively manage employee performance can lead to increased margin, cost savings, customer satisfaction, growth, or market share (Kirkpatrick, 2006). Biswas, Cascio and Boudreau (2013) estimates cost of lost productive time due to low morale of remaining employees as the aggregate time lost per day of the work group multiplied by wages plus benefits of a single employees and then multiplied by number of days.

Vance (2009) measures employee productivity using factors like production, billable hours, ill rate, degree of supervision, among others. Marsh and Mannari (2008) claimed that indirect costs of employee turnover are about 70-85% of hidden costs such as lost productivity and opportunity costs. Marsh and Mannari (2008) specifies that lost productivity includes those associated with the interim period before a replacement can be placed on the job; lost productivity due to the time required for a new worker to get up to speed on the job; lost productivity associated with the time that co-workers must spend away from their work to help a new worker; costs associated with the period prior to voluntary termination when workers tend to be less productive.

According to Marsh and Mannari (2008), a departing employee may cause additional indirect expenditures or losses to the company, such as monetary compensation to outside substitute employees, in order to compensate temporarily for the performance downfall and the financial value of the loss of production and/or customers to competitors due to failure to deliver products or services on schedule which can be directly attributed to
dysfunctional turnover losing good performers. This loss will continue until a replacement is found and becomes productive at the level of his or her predecessor.

2.3 The indirect effect of staff turnover on financial performance of private security firms

2.3.1 Lost technical expertise

Typically, when a member of the organization leave and are replaced by new personnel, the firm loses the expertise and experience of the departing employee (Susana, 2011). Technical expertise constitutes what the departing employee knows or knows how to do, often manifest as either explicit or tacit knowledge – that is, knowledge that predominantly resides in the heads of employees (DeLong, 2004). Bates (2011) argues that far less research attention has been paid to the cost to the firm of losing know-how that resides within the minds of individual employees who depart. However, technical expertise form part of an organization’s resource base, often known as human capital. Human capital is defined as the current know-how of people under the organization’s control and includes the average years of service, employee satisfaction, hours and monetary investment into training employees, level and type of education, literacy levels (Roberts, 2004). According to Sallis and Jones (2002), the management of tacit knowledge should be premised on the idea that much of an organizations most valuable knowledge is locked internally in the memory of its employees, and externally in the views and attitudes of its clients and stakeholders.

Marsh and Mannari (2008) claim that besides loss of technical expertise, dedication, productivity, drive and determination, high achievement, creative capacity, experience, educational level, position in the industry or field or any combination of these and other factors. When employees leave for example; there could be a loss in terms of technical expertise and dedication, productivity, and effectiveness, quality and service standards.

Lost technical expertise affect learning and growth in a firm, a component in human resource literature that is identified as the most vital and yet often ignored aspect of many businesses (Hannabarger, Buchman and Peter, 2011). Pangarkar and Kirkwood (2012) argue that learning and growth perspective of a firm’s performance is the enabler of the
financial aspects of a firm without which profitability and growth cannot be sustained. Kaplan and Norton (2007) identify three principal categories for the learning and growth perspective that exist across a wide variety of organizations: employee capabilities, information system capabilities and motivation, empowerment and alignment. Core measurements for this perspective include employee satisfaction, employee productivity, team performance versus individual performance, and current level of skills versus skills required to meet customer need satisfaction. Brown (2007) recommends that every large organization needs to have five major metrics in the section on learning and growth. These are: employee satisfaction, employee health and safety, ethics and diversity, employee knowledge, skills and competencies, and communication (Epstein, Manzoni & Davila (2010).

2.3.2 Decline in service quality

As turnover increases, service quality may decline as it takes time and resources to replacing departing employee (Marsh and Mannari, 2008). According to Chen and Huang (2007), the critical success factors for any business consist of a limited number of areas in which results, if satisfactory, will ensure the organization’s successful competitive performance and these critical success factors often revolve around service quality. Groonroos (2007) classified the service quality experienced by customers within two primary dimensions namely: technical quality and functional quality. Schmithausen, 2012, p. 4) identified seven important criteria emphasized by Groonroos (2007) for service quality. They are: “professionalism and skills, attitudes and behaviour, accessibility and flexibility, reliability and trustworthiness, service recovery and reputation and credibility”.

According to Voudouris, Owusu, Dorne and Lesaint (2008), the basics of good customer service, availability, accessibility and responsiveness, remain at the core of service delivery and these can be affected by employee turnover; and more so, when it relates to functional quality. The term “functional quality” is defined by Kandampully (2002) as a classification of service quality dimension that represents how the service is delivered and pertains to the interpersonal and relational part of the service process. Curtis (2012) argues that service quality in relationship marketing terms is as much managing the quality of the relationships as the management of the quality of service.
It is speculated that as employee turnover increases, service quality may decline as it takes time and resources to ‘back fill’ departing employees (Davidson, 2010). Other studies have claimed that the attitudes that employees have toward their work influence how customers react to the organization, its service and products, relatively little empirical research has examined these possible linkages (Armstrong, 2008). Bettencourt (2007) uses the term “customer voluntary performance” to refer, collectively, to several customer behaviors and argues that because customers are “partners” in delivery of service, they may engage in a variety of discretionary behaviors that help the firm provide quality service. These include: word-of-mouth promotion of the firm to others, cooperation during the service encounter, providing suggestions for improvement, exerting extra effort to do business with that firm, treating service employees pleasantly, and several others. Moreover, complaints and commendations often refer directly to the performance of individual employees or groups of employees (Hackett, Bycio and Haudsdorf, 2004). Biswas, Cascio and Boudreau (2014) quantifies the cost of lost customers, sales and profit due to the departure of an employee as number of customers multiplied by gross profit lost per customer and again multiplied by profit margin in percent.

Rucci, Kirn and Quinn (2008) argue that the factors that affect employee attitudes influence employee retention which, in turn, affects customer satisfaction and, ultimately, financial performance of the firm. Reichheld (2006) also makes the business case for employee retention, suggesting that it is a key component of loyalty-based management, a strategy which, he argues, is “at the heart of every company with an enduring record of productivity.” Beyond these general arguments, however, there is little theoretical or empirical work that directly links the indirect costs of employee turnover on lost productivity and customer reactions.

2.3.3 Increased job stress

Increased job stress has been associated with employee workload and physical environment which is partly a cause and an outcome of employee turnover (Aftab and Javeed, 2012). The authors note that job stress has become a common and costly problem in today’s workplace, with research indicating that almost one-fourth of employees in different organizations view their jobs as the number one stressor in their lives and almost
three-fourths of employees in different organizations believe they have more on-the-job stress than a generation ago. Mayhew (2007) reported studies which have shown that employees with insufficient control over their job are at greatest risk of stress and other harmful outcomes. Feelings of control have been associated with anxieties over employment status, especially in a work environment characterised by high staff turnover. One of the most direct outcomes of stress is a reduction in productivity. Financial costs have also been reported, with some studies indicating that in some countries such as Britain, approximately 24-25 billion sterling pounds is lost annually due to stress-related sickness (Millward, 2005).

Given that some employees have a tremendous influence on the behaviors, attitudes and performance of their members; it is highly likely that there would be in effect a corresponding increase in turnover at the organization (Downey, March and Berkman, 2001). The loss of a popular employee also makes remaining employees wonder if they have missed important signs. Consequently, Buhler (2002) comments that a stampede of employees – known as the “domino effect” – can result.

2.3.4 Reduced employee morale

Employee morale points to the health of internal relationship which are as important as external relationships (Osarenkhoe, 2007). It is therefore ultimate that the success or failure of service delivery is due to the efforts of the organization’s employees (Pride and Ferrell, 2014). Internal responsiveness capability of the security firm has a direct impact on the responsiveness of the customers. Therefore, for effective service delivery, relationships must be good not only between the front-line staff and the customer, but also with all the internal stakeholders in the organization supporting the front-line staff (Curtis, 2012). To that end, Berndt (2004) suggests that it is essential that employees be motivated and satisfied. The focus is on the motivation that the people have, as well as the motivation to provide the expected level of service. If the motivation of the employees is not adequate, it will affect the level of service offered, which in turn, impact on the satisfaction experienced by customers, hence affecting customer loyalty (Curtis, 2012).

Changes occurring due to staff turnover may require that employees work extra hours to mitigate temporary production shortfall and this affects their work-life balance (Armstrong, 2009). Nel (2009) defined work-life balance as a state in which staff can
maintain a happy and healthy personal life while being successful at work, which gives them a sense of personal fulfilment. Feld and Cohen (2010) argued that work-life balance manifest in the congruence of different roles each of us choose to perform in our lives, blending in with our work role in a way which energizes us to do and be all that we want. It shows that work-life balance is achieved when there is harmony between five aspects of life namely: our work, our personal lives, our family, our friends and the community in which we live.

2.3.5 Reputation cost

Corporate reputation is broadly defined as the opinion of others about a company and specifically represents the shared overall evaluation of a company based on its past, present and future actions through its stakeholders (Oriesek, 2004). Ahmed, Nanda and Schnusenberg (2010) observe that employee retention is a critical concern for many firms, since a firm’s reputation as a good employer could be viewed as a source of competitive advantage. The firms that are socially responsible in the sense that they develop a good reputation as an employer should find themselves in a good bargaining position in labour markets, attract the best employees and achieve lower costs. Public relations costs associated with having a large number of voluntary or involuntary terminations in the community spreading gossip about the organization is incurred (Cascio, 2006). Generally, some scholars hold that a company’s reputation as a good employer ranks sixth as an attraction driver; thus, organizations with a reputation as an equal opportunity employer can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value proposition for future prospective candidates (Gross, 2014).

The relationship between reputation cost and employee turnover has been tested in past empirical studies. For example, Helm (2013) investigated how job satisfaction and turnover intentions are related to external reputation as perceived by employees and their pride in membership. Based on a cross-sectional survey including 439 employees, the study indicated that views of the organization are closely associated with employees’ pride in organizational membership as well as job satisfaction. Both pride and job satisfaction mediated the relationship between perceived external reputation and turnover intentions. Hence, a favourable reputation matters in managing turnover intentions and is
closely related to employee pride and satisfaction. The implications of this study pinpointed the need for alignment of reputation management and human resources management. Furthermore, the author asserted that managers need to focus on new staff and employees with frequent customer contact and should implement pride-building strategies according to the tenure of employees and intensity of customer contact.

2.4 Staff Turnover Risk Mitigation Strategies

2.4.1 Training

Chapman (2011) examined the causes behind employee turnover, the impact it can have and the risk mitigation actions that can be implemented to reduce the likelihood of occurrence. One of the strategies identified in his research is training. Training benefits employers in a variety of ways including: providing employees with the job skills and knowledge necessary to perform tasks, improving employee productivity and efficiency, increasing employee morale, development and commitment to lifelong learning, decreasing absenteeism, turnover, inefficient practices and workplace accidents (Carsen, 2005). According to Cole (2004) training can achieve lower cost of production, lower turnover and change management. Literature suggests that training leads to improved productivity, reductions in waste and reduction in accidents (D’Annunzio-Green, 2004). Armstrong (2008) observes that resignations and turnover can increase if people are not given opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper training.

At a minimum, training is needed to give employees the information and skills necessary to perform their jobs (Carsen, 2005). Armstrong (2008) argues that learning and development programs should be developed and introduced that: gives employees the competence and confidence to achieve expected performance standards; enhance existing skills and competencies; ensure that new employees quickly acquire and learn the basic skills and knowledge needed to make a good start in their jobs.

Villegas (2006) argue that there is a direct link between training and retention. Employees involved in ongoing training feel that their employer is interested in them doing a better job or improved performance and that the employer cares enough about them to make an
investment in their development. Barcus (2007) reported empirical studies which have indicated that employees display more affective commitment to their organizations when they believe that their organizations are committed to them. Thus, employees exposed to more training opportunities are likely to exhibit higher levels of affective commitment which translates to low labour turnover and therefore save on employee turnover costs. According to Mbote and Akech (2011), notable features of the private security industry in Kenya include poorly trained private security guards who are therefore ill-equipped to perform their jobs. A study of private security firms by Jager and Kummel (2009) established that there are no standards to define and control the quality of any security product or service. They observed that a security guard is simply a person, sometimes provided a uniform and given a rungu and taught how to march and salute.

2.4.2 Job enlargement

Another risk mitigation strategy identified in the study by Chapman (2011) is job enlargement. Job enlargement is defined as a work design option that increases the job scope by expanding performer’s job duties (Tiem, Moseley, & Dessinger, 2012). The scope of job enlargement entails task enlargement and knowledge enlargement which helps workers experience more job satisfaction, few job errors, and enhanced customer satisfaction. One way to achieve this is job rotation which is a form of job enlargement that occurs when employees do numerous and entirely different jobs on a flexible, revolving schedule without disrupting the workflow. In this case, employers rotate people into jobs in order to facilitate their learning and development and help employees see the bigger organizational picture. Crandall and Crandall (2008) speculated that job enlargement gives an employee more tasks to perform, thereby increasing the need for more skills and presumably reducing boredom and increasing job satisfaction.

According to Puckett (2012), a job enlargement can follow the approach of retraining employees to perform a broader range of duties by overlapping schedules. This flexibility in scheduling significantly reduces the total number of employees needed to meet labour needs. It also may result in less absenteeism and turnover because of improved employee morale and job satisfaction. The new schedule provides employees with the opportunity for a wider set of duties. Empirical results by Williams, Champion and Hall (2011) however caution that though job enlargement increases variety, many workers report
feeling more stressed when their jobs are enlarged, thus, many workers view enlarged jobs as simple more work.

Conger and Fulmer (2004) on their part observed that most performing entities recognize that the issue of employee development is integral to sustaining their workforce. They established in their review that there was evidence to suggest that highly successful companies overcome these and other challenges through a fusion of leadership and employee succession planning processes for optimal identification, development, and placement of employee talent.

2.4.3 Adequate salaries

A third strategy that is associated with low wage employment is the payment of adequate salaries (Chapman, 2011). Concerning minimum wage, the study by Jager and Kummel (2009) in Kenya found that most companies pay low wages which do not allow the guards and their families a decent living nor even put food on the table for their families. Some also noted that they are denied basic rights such as attending the burial of close relatives. Most guards interviewed by the researcher indicated that majority of burglaries in urban towns, especially in homes and shops, were committed with collusion of the guards. The research also noted that most people employed as security in most Kenyan private securities have a low level of education if at all. People with higher education would not venture into security due to the nature of risk involved, and its low status and poor conditions. An uneducated security guard is easier to command and control. Additionally, since they have little bargaining power, they do not have to pay high salaries. They are easily fired and do not have the capacity to take the employer to court.

2.4.4 Better working conditions

Other strategies discussed by Armstrong (2009) relate to the working condition of employees. Working conditions may be defined as the specific physical and social factors that influence the efficiency and reliability of human performance in a particular work context (Cacciabue, 2004).

Kimosop (2007) presented the results of the effects of labour turnover on organizations’ performance in Kenya private security firms. The researcher used a case study of Future
Force Security Firm. The study findings indicated that the factors that influenced labour turnover were related to the working conditions and they included: low pay, long working hours, misconduct, and lack of career prospects. Similarly, Alam and Shahi (2012) study sought to find out the job satisfaction, motivation and turnover factors of medical promotion officers based in Khulna City in Bangladesh. The study established that their turnover tendency was high. The respondents in their study were dissatisfied with the working conditions which were characterized by job insecurity, poor social status, working load, visit to retailers’ shops, sales target, no room for family, not getting the retirement benefit and not getting the family insurance support. Mbote and Akech (2011) however noted that private security guards work under very poor conditions, for instance, they work for long hours, averaging about 12 hours a day and invariably do not wear protective headgear. Further, private security guards are not allowed to carry firearms and are not effective since they are invariably confronted by criminals who possess sophisticated weapons.

2.4.5 Non-Standard Work Arrangements

The decisions made involving human resources are, if not the central pillar, one of the critical elements upon which all the skills necessary to achieve a sustainable competitive advantage are based (Del-brio, Junquera and Ordiz, 2008). Human resource (HR) flexibility is one of important aspects of organizational flexibility, and it is focused on adapting employee attributes (such as knowledge, skills and behaviours) to changing environmental conditions (Ngo and Loi, 2008). A firm’s HR system design should be aligned with its unique environment and internal operations. An impeding factor for a firm to be flexible is its prior legal contracts with employees. If a firm wants to either exit or reduce the scope of an activity, there are often high exit costs (e.g. severance pay, loss of reputation as a good employer and low morale of the existing workforce). This may make the firm unwilling to adapt to a competitive environment.

Employers, however, can mitigate this problem by using non-standard workers with whom organizations have pure economic exchanges, i.e. offer short-term incentives for well-specified contributions by the employee. Reliance on non-standard workers will be greater in a more competitive environment. So, strategically, firms based in a more competitive environment have relatively more to gain by using non-standard employees
(Ghosh, Willinger and Ghosh, 2009). Indeed, many nations have witnessed marked growth in the incidences of non-standard forms of employment, accounting for 16.5% of total employment in OECD nations. Although such jobs will promote relatively high levels of insecurity and anxiety among individuals filling those jobs, some workers might prefer the greater freedom and autonomy that might accompany contingent, but more flexible, employment arrangements (Buddelmeyer, McVicar and Wooden, 2013). However, divergence theorists appreciate the importance of the uniqueness of each culture; therefore, they recognize the need to adapt management practices to local employment market. Organizations needed to customize their HRM in accordance with the individual distinctiveness of each country (Poon and Rowley, 2010).

2.5 Chapter summary

The chapter has identified several direct and indirect effects of employee turnover on organizational performance. It has also reviewed the employee turnover risk mitigation strategies available for private security firms. Most of the factors reviewed are related to human resource management function of planning, hiring and retaining workforce. However, the literature pertaining to the effect of employee turnover on the performance of private security firms within an African country context is sparse. Further, research specific to the security industry is limited. This current study attempted to bridge the literature gap.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methodology adopted for the study. It describes the research design, population size and sampling design, data collection methods, pilot-testing, research procedures and the data analysis methods which were used to undertake the study. A summary of the methodology is made at the end of the chapter.

3.2 Research Design

Descriptive research design was used for the study. According to Grünewald and Forzano (2011), descriptive research design involves measuring a set of variables as they exist naturally. Matthews and Kostelis (2011) explain that this research design attempts to answer immediate questions about a current state of affairs. In the views of Houser (2011), the research design provides in-depth information about the characteristics of subjects within a particular field of study. Houser further argues that descriptive studies can also help identify relationships between variables. This research design was adopted because of its power to determine the relationship between study variables. In this study, the independent variable is employee turnover whereas the dependent variable is financial performance.

3.3 Population Size and Sampling Design

3.3.1 Population

Cooper and Shindler (2005) define a population as the total collection of elements about which the researcher wishes to make some inferences. In this study, the population comprised of members of Kenya Security Industry Association. Data obtained from the association’s website showed that there were 30 security firms in their database (KSIA, 2014).
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sampling frame is defined as a listing of elements from which the sample is actually drawn (Cooper and Schindler, 2005). It comprises of all the representative elements in the population selected for a given study. For the purposes of this study, the sampling frame comprised of the list of firms registered with KSIA as provided in appendix I. The sampling unit was the head of human resource (for employee turnover) and head of finance departments (for financial Performance) from each of these firms.

3.3.2.2 Sampling Technique

Because the population was small, a census study was undertaken instead of sampling. In a census study, the entire population is included in the sample (Denscombe, 2007).

3.3.2.3 Sample Size

The sample size was 60 respondents comprising of 30 head of human resources and 30 heads of finance department, representing 100 percent of the security firms which were members of KSIA. Table 3.1 shows the distribution of the sample.

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample size</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of human resource</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Head of finance department</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Literature suggests that there are two main types of data, that is, primary and secondary data (Denscombe, 2003; Saunders, Lewis and Thornhill, 2009). According to Blaikie (2000), primary data are ‘new’ data produced by a researcher who is responsible for the design of the study, the collection, analysis and reporting of the data. On the other hand,
he defines secondary data as raw data already collected by someone else for their own use, but which another researcher can use as a basis for his analysis. In this study, both type of data was collected.

Primary data was collected using a structured questionnaire which was administered to the respondents by the researcher. Saunders et al. (2009), define a questionnaire as a general term including all data collection techniques in which each person is asked to answer the same set of questions in a predetermined order. Both closed questions and open ended questions were used. The questionnaire comprised of four sections. The first section sought the company’s general information such as tenure in the industry, number of employees, level of employee turnover and financial performance status. The second section comprised of questions concerning the direct effect of turnover on financial performance. The third section was made up of questions related to the indirect effect of turnover on financial performance. The last section asked questions about employee turnover risk mitigation strategies.

### 3.5 Pilot Testing

The researcher began by pilot-testing the research instrument on a small sample of respondents outside the target population. According to Stangor (2010, p. 100), “pilot-testing involves trying out a questionnaire on a small group of individuals to get an idea of how they react to it before the final version is created”. The questionnaire was piloted on a small sample of respondents to ascertain the suitability of the tool. This enabled the researcher to fine-tune the questionnaire for objectivity and efficiency of the process.

### 3.6 Research Procedures

The procedure to be followed in undertaking this study included obtaining a research permit from the university authorizing the researcher to collect data. This permit was used to seek permission from KSIA to administer questionnaires among its member firms. In order to ensure a high response rate, the researcher assured respondents of their confidentiality. The questionnaires were physically administered by the researcher to the respondents. The data collection phase of this research took three weeks to complete.
3.7 Data Analysis Methods

Descriptive statistical technique was used to analyze data. According to Healey (2011), descriptive statistics allow researchers to summarize large quantities of data using measures that are easily understood by an observer. This, consist of graphical and numerical techniques for summarizing data, that is, reducing a large mass of data to simpler, more understandable terms. With descriptive data, the process of transforming a mass of raw data into tables and charts is vital as part of making sense of the data (Denscombe, 2003).

Relationships were established Carl Pearson’s Correlation Coefficient techniques. Healey (2011) explains correlation coefficient as a statistic which is used to measure the relationship of paired ranks assigned to individual scores on two variables. It is an index of the strength of association between the variable ranges from 0 (no association) to +1.00 (perfect association). A perfect positive association ($r =+1.00$) would exist if there were no disagreements in ranks between the two variables. A perfect negative relationship ($r =-.100$) would exist if the ranks were in perfect disagreement (Healey, 2011).

Data was coded before analysis. Coding entails the attribution of a number to a piece of data, or group of data, with the express aim of allowing such data to be analyzed in quantitative terms (Denscombe, 2003). The Statistical Package for Social Sciences (SPSS version 18.0) computer software was used for the purpose of analyzing the data. The data was presented in figures and tables.

3.8 Chapter Summary

This chapter has described the methodology that was used to undertake the study. The chapter has detailed the research design, the population and sampling design. Further, it has explained the data collection methods, research procedures and data analysis techniques to be used. Chapter four presents the results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
The purpose of the study was to assess the effect of employee turnover on the financial performance of private security firms in Kenya. This chapter presents the analysis of findings. The chapter is divided into four sections. The first section presents the descriptive statistics of respondent’s general information. The rest of the sections are thematically presented based on the research questions. Section two analyzes the direct effect of staff turnover on the financial performance of private security firms in Kenya. Section three analyzes the indirect effect of staff turnover on the financial performance of private security firms in Kenya. Section four presents the findings on the mitigation strategies do private security firms have in place to manage staff turnover risks. Out of the 60 questionnaires distributed, 49 questionnaires comprising of 30 respondents from human resource and 19 respondents from finance departments were successfully filled and returned. Table 4.1 shows the response rate. The table shows that successful responses accounted for 81.7% of the sample whereas 18.3% did not respond. Therefore, the response rate was 81.7%. Thus, the response rate was adequate.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Responded</td>
<td>49</td>
<td>81.7</td>
</tr>
<tr>
<td>Did not respond</td>
<td>11</td>
<td>18.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2 Descriptive Statistics of General Information
The general information analyzed in this section included: number of years respondents had worked in the industry and the company, number of years the company had been in existence, size of company by number of employees, employee turnover in the last one year, reasons for turnover, and rate of turnover.
4.2.1 Industry Experience
Respondents were asked to indicate the number of years they had worked in the private security industry. Figure 4.1 shows that most of the respondents (46.9%) had been in the industry for between 4 to 10 years. However, 34.7% of the respondents had worked in the industry for more than 10 years, whereas 18.4% of the respondents had worked for between 1 to 3 years.

![Figure 4.1 Years worked in the Private Security Industry](image)

4.2.2 Age of Firm
The distribution of respondents by the number of years their security firm had been in existence is shown in figure 4.2. The figure shows that majority (93.9%) of the security firms had been in existence for more than 10 years. However, some 4.1% of the security firms had been in the industry for between 4 to 10 years whereas only 2.0% of the firms had been operational for 1-3 years.
4.2.3 Tenure in the Company

Respondents were asked to indicate the number of years they had worked in their current security firm. Fifty one percent (51%) of the respondents had worked in their current firm for 4-10 years and 26.5% had been in their current company for more than 10 years. However, there were 20.4% of the respondents who had worked for 1-3 years and 2.0% who had worked for less than a year.
4.2.4 Employment Trends in the Security Sector in the Last Five Years

The distribution of the security firms by number of employees between the years 2009 – 2013 is shown in table 4.2. The table shows that generally, majority of the security firms employed more than 100 workers. The table indicates that the percentage of security firms that employed more than 100 workers increased slightly from 59.7% in 2009 to 61.4% in 2010 and remained steady at 61.4% in 2011 and then rose to 80% in 2012 before going down to 75% in 2013. The trend suggests that there has been a general increase in the number of firms employing more than 100 staff over the five year period.

Table 4.2 Trends in Employee Numbers in the Year 2009 – 2013 in Percent

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 employees</td>
<td>22.4</td>
<td>5.7</td>
<td>4.3</td>
<td>2.9</td>
<td>5.9</td>
</tr>
<tr>
<td>21-50 employees</td>
<td>3.0</td>
<td>22.9</td>
<td>11.4</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>51-100 employees</td>
<td>14.9</td>
<td>10.0</td>
<td>22.9</td>
<td>10.0</td>
<td>11.8</td>
</tr>
<tr>
<td>More than 100 employees</td>
<td>59.7</td>
<td>61.4</td>
<td>61.4</td>
<td>80.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.5 Employee Turnover Trends in the last Five Years

The study sought to establish the employee turnover trends in the private security firms over the last five years. Table 4.3 shows the percentage distribution of the firms by the number of employees who left employment between the years 2009 and 2013. The table shows that 26.6% of the respondents indicated that more than 100 workers left employment in the year 2009. The table shows that this percentage increased steadily to 27.7% in the year 2010; 30.8% in the year 2011; 40.0% in the year 2012 and 40.3% in the year 2013. From the table, it can be inferred that most of the firms lost more than 100 employees each year over the last four years.

Table 4.3 Trends in Employee Turnover in the Year 2009 – 2013 in Percent

<table>
<thead>
<tr>
<th>Number left employment</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 employees</td>
<td>34.4</td>
<td>26.2</td>
<td>23.1</td>
<td>20.0</td>
<td>21.0</td>
</tr>
<tr>
<td>21-50 employees</td>
<td>18.8</td>
<td>26.2</td>
<td>20.0</td>
<td>20.0</td>
<td>17.7</td>
</tr>
<tr>
<td>51-100 employees</td>
<td>20.3</td>
<td>20.0</td>
<td>26.2</td>
<td>20.0</td>
<td>21.0</td>
</tr>
<tr>
<td>More than 100 employees</td>
<td>26.6</td>
<td>27.7</td>
<td>30.8</td>
<td>40.0</td>
<td>40.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.6 Main Reasons for Turnover
Respondents’ views were sought as to the main reason why employees left their company. Table 4.4 ranks the means score of the reasons given on a scale of 1 to 5 by order of most likely to least likely. The table shows that the top three most likely reason according to majority of the respondents was because they were terminated (M=3.85, SD=1.405), followed by dismissal (M=3.31, SD=1.192) and because they deserted work (M=3.08, SD=1.294). The least likely reasons for leaving employment was either because of redundancy (M=2.46, SD=.1606), retirement (M=2.65, SD=1.441) or they voluntarily quit (M=2.65, SD=1.355). Therefore, the most likely reason for leaving employment was because the employees were terminated.

Table 4.4 Mean Ranking of Reasons for Turnover

<table>
<thead>
<tr>
<th>Reason for leaving employment</th>
<th>Mean (M)</th>
<th>Standard Deviation (SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminated</td>
<td>3.85</td>
<td>1.405</td>
</tr>
<tr>
<td>Dismissal</td>
<td>3.31</td>
<td>1.192</td>
</tr>
<tr>
<td>Deserted</td>
<td>3.08</td>
<td>1.294</td>
</tr>
<tr>
<td>Voluntary</td>
<td>2.65</td>
<td>1.355</td>
</tr>
<tr>
<td>Retirement</td>
<td>2.65</td>
<td>1.441</td>
</tr>
<tr>
<td>Redundancy</td>
<td>2.46</td>
<td>1.606</td>
</tr>
</tbody>
</table>

4.2.7 Perceived Rate of Employee Turnover
Respondents were asked to rate the level of employee turnover over the years 2009 to 2013. Table 4.5 shows the percentage distribution of respondents by level of turnover. The table shows that generally, majority of the respondents rated the turnover levels over the five year period as high. Specifically, the table indicates that on aggregate, 50% of the respondents rated the turnover in their firm as high in the year 2009. This reduced to 46.9% in the year 2010 but increased to 56.3% in the year 2011; 65.2% in the year 2012 and 73.1% in the year 2013.
Table 4.5 Perceived Rate of Employee Turnover in the Year 2009 – 2013 in Percent

<table>
<thead>
<tr>
<th>Perceived rate of turnover</th>
<th>Year 2009</th>
<th>Year 2010</th>
<th>Year 2011</th>
<th>Year 2012</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>7.8</td>
<td>3.1</td>
<td>3.1</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Low</td>
<td>14.1</td>
<td>10.9</td>
<td>6.3</td>
<td>3.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Moderate</td>
<td>28.1</td>
<td>39.1</td>
<td>34.4</td>
<td>30.3</td>
<td>19.4</td>
</tr>
<tr>
<td>High</td>
<td>32.8</td>
<td>34.4</td>
<td>42.2</td>
<td>36.4</td>
<td>32.8</td>
</tr>
<tr>
<td>Very high</td>
<td>17.2</td>
<td>12.5</td>
<td>14.1</td>
<td>28.8</td>
<td>40.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3 Direct Effect of Staff Turnover on the Financial Performance

This section analyzes the direct effect of staff turnover on the financial performance of private security firms as measured by cost aspects such as recruitment cost, training cost, overtime payment and lost productivity. Table 4.6 shows Carl Pearson’s Correlation Coefficients with alpha significant at 0.05 levels. The table shows that there was a statistically significant inverse correlation between financial performance and turnover impact on recruitment costs \((r=-.505, p<.05)\) and lost productivity \((r=-.412, p<.05)\). This means that financial performance increased with decrease in employee turnover effects on recruitment costs and lost productivity. However, the correlation between financial performance and training costs \((r=-.277, p>.05)\) and overtime payment costs \((r=-.180, p>.05)\) was not statistically significant, suggesting that the relationship between financial performance and the two variables was out of random variation.

Table 4.6 Correlation of Direct Turnover Cost Variables on Financial Performance

<table>
<thead>
<tr>
<th>Direct impact on financial performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial performance</td>
<td>1</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>2. Recruitment costs</td>
<td>-.505(*)</td>
<td>.032</td>
<td>19</td>
</tr>
<tr>
<td>3. Training cost</td>
<td>-.277</td>
<td>.266</td>
<td>19</td>
</tr>
<tr>
<td>4. Overtime payments</td>
<td>-.180</td>
<td>.461</td>
<td>19</td>
</tr>
<tr>
<td>5. Lost productivity</td>
<td>-.412(*)</td>
<td>.049</td>
<td>19</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
4.3.1 Effect of Employee Turnover on Recruitment Cost

Respondents were asked to indicate the extent to which employee turnover contribute to recruitment costs such as advertising, interviewing and selection. Figure 4.4 shows that 40% of the respondents said it did to a moderate extent. However, 25.9% and 15.3% of the respondents were of the view that employee turnover contributed to such recruitment costs to a large and very large extent, respectively. On the other hand, there were 9.4% of the respondents who held the view that it contributed to recruitment cost to a small extent and another 9.4% of the respondents who said it contributed to a very small extent.

Figure 4.4 Extent Employee Turnover Contribute to Recruitment Cost

4.3.2 Effect of Employee Turnover on Training Cost

The distribution of respondents views on the extent to which employee turnover contributed to staff training cost is shown in figure 4.5. The figure shows that most (34.6%) of the respondents perceived that employee turnover contributed to training cost to a moderate extent. However, 23.5% and 6.2% said it did contribute to training cost to a large and very large extent, respectively. Sixteen percent (16%) of the respondents said it did to a small extent; 14.8% of the respondents said it contributed to training cost to a very small extent whereas 4.9% of the respondents were of the view that it did not contribute to training costs at all.
4.3.3 Effect of Employee Turnover on Lost Productivity

Respondents were asked to rate the extent to which employee turnover contributed to lost productivity while a replacement was still being sought. Twenty three percent (23%) of the respondents said it did contribute to lost productivity to a very large extent, and another 25.3% of the respondents observed that employee turnover led to lost productivity to a large extent. Twenty three percent (23%) of the respondents were of the view that it contributed to lost productivity to a moderate extent; 13.8% of the respondents held that it did to a small extent and another 14.9% of the respondents believed that it did but to a very small extent.
4.3.4 Effect of Employee Turnover on Overtime Payments

The study sought to establish the respondents view on the extent to which employee turnover contributed to overtime payment costs to the security firms. Figure 4.7 shows that most of the respondents (30.6%) said employee turnover contributed to overtime payments to a moderate extent. The figure also shows that 16.5% and 11.8% of the respondents observed that employee turnover contributed to a large and very large extent, respectively. However, 18.8% of the respondents held the opinion that employee turnover contributed to overtime cost to a small extent, 15.3% of the respondents said it contributed to a very small extent, while 7.1% of the respondents felt that it did not contribute to overtime costs at all.

![Figure 4.7 Extent Employee Turnover Contribute to Overtime Payment Costs](image)

4.3.5 Employee Turnover Cost Ratios

Table 4.7 shows the turnover cost on security firms as a percent of total employment costs. The table shows that most of the respondents attributed between 10%-30% of employment cost to employee turnover in the five year period under review. The table further shows an increasing trend of the proportion of security firms incurring more than 30% of employment cost on employee turnover. The table shows that in the year 2010, 26.2% of the respondents attributed more than 30% of the total employment cost to employee turnover. This increased to 31.3% in the year 2011; rose again to 41.2% in the year 2012 and yet again to 52.9% in the year 2013.
Table 4.7 Employee Turnover Costs as a Percent of Total Employment Cost

<table>
<thead>
<tr>
<th>Percent of employee cost</th>
<th>Year 2009</th>
<th>Year 2010</th>
<th>Year 2011</th>
<th>Year 2012</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>34.9</td>
<td>26.2</td>
<td>16.4</td>
<td>16.2</td>
<td>14.7</td>
</tr>
<tr>
<td>10% - 30%</td>
<td>38.1</td>
<td>47.7</td>
<td>52.2</td>
<td>42.6</td>
<td>32.4</td>
</tr>
<tr>
<td>More than 30%</td>
<td>27.0</td>
<td>26.2</td>
<td>31.3</td>
<td>41.2</td>
<td>52.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.6 Impact of Employee Turnover on Profit Margins

Respondents were asked to estimate the percentage impact of recruitment cost, lost productivity, overtime cost and training costs associated with employee turnover on the profit margins of the private security firms. Table 4.8 shows the distribution of the respondents classified by impact on profit margins. The table shows that lost productivity and recruitment cost accounted for more than 33% impact on profit margins according to 31.8% of the respondents, respectively. By comparison, the impact of overtime costs and training costs due to employee turnover accounted for less than 10% of the profit margins according to majority (52.6%) of the respondents in each case.

Table 4.8 Impact of Employee Turnover on Profit Margins of Security Firms

<table>
<thead>
<tr>
<th>Percentage impact on profit margins</th>
<th>Recruitment Cost</th>
<th>Lost Productivity</th>
<th>Overtime costs</th>
<th>Training costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>22.7</td>
<td>44.5</td>
<td>52.6</td>
<td>52.6</td>
</tr>
<tr>
<td>10% - 30%</td>
<td>45.5</td>
<td>22.5</td>
<td>31.6</td>
<td>26.3</td>
</tr>
<tr>
<td>More than 30%</td>
<td>31.8</td>
<td>33.0</td>
<td>15.8</td>
<td>21.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4 Indirect Effect of Staff Turnover on the Financial Performance

In this section, the variables analyzed included: lost technical expertise, decline in service quality, increased job stress to employees and lost proprietary information. Table 4.9 shows that financial performance was significantly correlated to lost technical expertise \((r=-.344, p<.05)\) and decline in service quality offered to customers \((r=-.304, p<.05)\). This means that as service quality declined and technical expertise was lost, financial performance reduced. The table however shows that there was no statistically significant correlation between financial performance and increased job stress to employees as a
result of labour turnover \((r=.237, p>.05)\) or lost proprietary information \((r=-.112, p>.05)\). The weak coefficients suggest that no relationship subsisted between financial performance and lost proprietary information or job stress associated as a result of labour turnover.

Table 4.9 Correlation of Indirect Turnover Effect on Financial Performance

<table>
<thead>
<tr>
<th>Indirect impact on financial performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>2. Lost technical expertise</td>
<td>Pearson Correlation</td>
<td>-.344(*)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.049</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>3. Decline in service quality</td>
<td>Pearson Correlation</td>
<td>-.304(*)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.050</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>4. Increased job stress to employees</td>
<td>Pearson Correlation</td>
<td>.237</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.328</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>5. Lost propriety information</td>
<td>Pearson Correlation</td>
<td>-.112</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.649</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

4.4.1 The Effect of Lost Technical Expertise on Financial Performance

The study sought to establish the extent to which lost technical expertise incurred in employee turnover affected financial performance of security firms. Figure 4.8 shows that 54.2% of the respondents said that it did to a very large extent; 12.5% of the respondents said it did affect to a large extent and 18.8% of the respondents were of the view that it did affect financial performance to a moderate extent. However, some 6.3% of the respondents felt that the effect was there but to a small extent and another 6.3% of the respondents held the view that lost technical expertise affected financial performance to a very small extent whereas 2.1% of the respondents said it did not affect at all. Therefore, majority (66.7%) of the respondents were of the view that lost technical expertise affected financial performance of the security firms to a large extent.
Figure 4.8 Extent Lost Technical Expertise Affect Financial Performance

4.4.2 The Effect of Decline in Service Quality on Financial Performance

The opinion of the respondents was sought concerning the extent to which decline in service quality occasioned by employee turnover affected the financial performance of the security firms. The results are shown in figure 4.9.

Figure 4.9 Extent Decline in Service Quality Affect Financial Performance
Twenty five percent (25%) and 33.3% of the respondents said that it did affect financial performance to a large and very large extent, respectively. However, 27.1% of the respondents were of the view that it affected financial performance to a moderate extent; whereas 6.3% of the respondents noted that it affected financial performance to small extent; another 6.3% of the respondents were of the view that there was an effect to a very small extent while 2.0% said not at all. Therefore, majority (58.3%) of the respondents said declined service quality due to employee turnover had an effect on financial performance to a large extent.

4.4.3 The Effect of Increased Job Stress on Financial Performance

Respondents were also asked if employee job stress due to labour turnover affected financial performance of the security firms. Figure 4.10 shows that 31.3% of the respondents said it did to a very large extent and 2.1% said it affected financial performance to a large extent. Some 8.3% of the respondents said it did to a moderate extent whereas 12.5% and 10.4% of the respondents said it did affect financial performance to a small and very small extent, respectively. Finally, there were 35.4% of the respondents who were of the view that increased job stress of employees did not affect the company’s financial performance at all. Therefore, most of the respondents held that there was no effect of financial performance of the security firms.

Figure 4.10 Extent Increased Employee Job Stress Affect Financial Performance
4.4.4 The Effect of Lost Proprietary Information on Financial Performance
The views of respondents were sought on the extent to which lost proprietary information due to employee turnover affected financial performance of the security firms. Figure 4.11 shows that 27.7% and 21.3% of the respondents believed that it did affect to a large and very large extent, respectively while 23.4% of the respondents felt that it did to a moderate extent. However, 14.9% of the respondents said it did to a small extent; 10.6% of the respondents believed it did to a very small extent and 2.1% of the respondents said it did not affect financial performance at all. Therefore, most (49.0%) of the respondents held the view that lost proprietary information affected financial performance of the security firms.

![Figure 4.11 Extent Increased Employee Job Stress Affect Financial Performance](chart)

4.5 Mitigation Strategies in Place to Manage Staff Turnover Risks
In this section, the strategies adopted by private security firms to mitigate the risks that staff turnover pose to financial performance are analyzed. Variables such as employee training, benchmarking of salaries, working conditions and deliberate job enlargement programs were assessed.

4.5.1 Employee Training.
Respondents were asked whether their firm offered regular training programs for existing employees as part of its initiative to reduce employee turnover effects on firm
performance. Figure 4.12 shows that 29.2% of the respondents agreed and 8.3% of the respondents strongly agreed. However, there were 10.4% of the respondents who were not sure whereas 29.2% and 22.9% of the respondents disagreed and strongly disagreed, respectively. Therefore, majority (52.1%) of the respondents disagreed that training programs were offered to existing employees as a strategy to mitigate negative turnover effects on firm performance.

![Figure 4.12 Regular Training Programs offered to Employees](image)

4.5.2 Benchmarking of Salary Scales

Respondents were also asked whether their firm benchmarked salary scales with the best security firm in the industry. Figure 4.13 shows that 33.3% and 2.1% of the respondents agreed and strongly agreed, respectively. However, 18.8% of the respondents were not sure while 27.1% of the respondents disagreed and a further 18.8% of the respondents strongly disagreed. Therefore, most (45.9%) of the respondents disagreed that their security firm benchmarked salary scales with the best company in the industry as a risk mitigation strategy.
4.5.3 Job Enlargement Programs

The views of the respondents was sought to determine whether the security firms deliberately took their employees through a job enlargement program to ready them for positions left vacant.
Figure 4.14 shows that 39.6% and 35.4% of the respondents disagreed and strongly disagreed, respectively. However, 10.4% of the respondents were not sure whereas 14.6% of the respondents disagreed. Therefore, majority (75.0%) of the respondents disagreed that their company carried out job enlargement programs as employee turnover risk mitigation strategies.

4.5.4 Working Conditions for Staff
The opinion of the respondents was also sought regarding whether their company offered the best working conditions for employees in the industry. According to figure 4.15 below, 41.4% and 13.8% of the respondents agreed and strongly agreed, respectively. The figure however indicates that 13.8% of the respondents were not sure, 24.1% of the respondents disagreed and 6.9% of the respondents strongly disagreed. Therefore, majority (55.2%) of the respondents were of the view of that their firm offered the best working conditions for its staff.

![Figure 4.15 Firm Offer Best Working Conditions for Employees](image)

4.6 Chapter Summary
This chapter has presented the analysis of the study findings. The major findings showed that concerning the direct effect of staff turnover on the financial performance of private security firms in Kenya, there was a statistically significant inverse correlation between financial performance and turnover impact on recruitment costs ($r = -0.505$, $p < 0.05$) and lost
productivity ($r = -.412, p < .05$). However, the correlation between financial performance and training costs ($r = -.277, p > .05$) and overtime payment costs ($r = -.180, p > .05$) was not statistically significant, suggesting that the relationship between financial performance and the two variables was out of random variation.

With regards to the indirect effect of staff turnover on the financial performance of private security firms in Kenya, financial performance was significantly correlated to lost technical expertise ($r = -.344, p < .05$) and decline in service quality offered to customers ($r = -.304, p < .05$). However, there was no statistically significant correlation between financial performance and increased job stress to employees as a result of labour turnover ($r = .237, p > .05$) or lost proprietary information ($r = -.112, p > .05$).

The findings on mitigation strategies in place to manage staff turnover risks revealed that majority (52.1%) of the respondents disagreed that training programs were offered to existing employees. Most (45.9%) of the respondents disagreed that their security firm benchmarked salary scales with the best company in the industry as a risk mitigation strategy. Majority (75.0%) of the respondents disagreed that their company carried out job enlargement programs as employee turnover risk mitigation strategies. Majority (55.2%) of the respondents were however of the view that their firm offered the best working conditions for its staff.

The findings have been presented in figures and tables. The next chapter presents the discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the results are findings are discussed. The discussion is presented based on the research questions and makes comparisons with existing literature and past empirical works. Conclusions are then drawn based on the discussions. Finally, the chapter makes recommendations of the study based on the conclusions. The recommendations are divided into two parts. The first part presents the recommendations for improvement under each specific research question. The second part provides the suggestions made for further research.

5.2 Summary

The purpose of the study was to assess the effect of employee turnover on the financial performance of private security firms in Kenya. The research questions were; what is the direct effect of staff turnover on the financial performance of private security firms in Kenya? What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya? What mitigation strategies do security firms have in place to manage staff turnover risks?

Descriptive research design was used for the study. The population was 30 members firms of Kenya Security Industry Association. A census study was done. Data was collected from 30 head of human resources and 30 head of finance departments of the member firms. Data was collected using a structured questionnaire. Statistical analysis was done using SPSS. Inferences were drawn using Carl Pearson Correlation Coefficient technique. The findings were presented in figures and tables.

The major findings showed that concerning the direct effect of staff turnover on the financial performance of private security firms in Kenya, there was a statistically significant inverse correlation between financial performance and turnover impact on recruitment costs ($r=-.505, p<.05$) and lost productivity ($r=-.412, p<.05$). However, the
correlation between financial performance and training costs \( (r=-.277, \ p>.05) \) and overtime payment costs \( (r=-.180, \ p>.05) \) was not statistically significant, suggesting that the relationship between financial performance and the two variables was out of random variation. The findings also showed that in the year 2010, 26.2% of the respondents attributed more than 30% of the total employment cost to employee turnover. This increased to 31.3% in the year 2011; rose again to 41.2% in the year 2012 and yet again to 52.9% in the year 2013. Lost productivity and recruitment cost accounted for more than 33% impact on profit margins according to 31.8% of the respondents, respectively.

With regards to the indirect effect of staff turnover on the financial performance of private security firms in Kenya, financial performance was significantly correlated to lost technical expertise \( (r=-.344, \ p<.05) \) and decline in service quality offered to customers \( (r=-.304, \ p<.05) \). However, there was no statistically significant correlation between financial performance and increased job stress to employees as a result of labour turnover \( (r=.237, \ p>.05) \) or lost proprietary information \( (r=-.112, \ p>.05) \).

The findings on mitigation strategies in place to manage staff turnover risks revealed that majority (52.1%) of the respondents disagreed that training programs were offered to existing employees. Most (45.9%) of the respondents disagreed that their security firm benchmarked salary scales with the best company in the industry as a risk mitigation strategy. Majority (75.0%) of the respondents disagreed that their company carried out job enlargement programs as employee turnover risk mitigation strategies. Majority (55.2%) of the respondents were however of the view of that their firm offered the best working conditions for its staff.

On aggregate, 50% of the respondents rated the turnover in their firm as high in the year 2009. This reduced to 46.9% in the year 2010 but increased to 56.3% in the year 2011; 65.2% in the year 2012 and 73.1% in the year 2013. The top three most likely reason why employees left according to majority of the respondents was because they were terminated \( (M=3.85, \ SD=1.405) \), followed by dismissal \( (M=3.31, \ SD=1.192) \) and because they deserted work \( (M=3.08, \ SD=1.294) \).
5.3 Discussions

5.3.1 What is the direct effect of staff turnover on the financial performance of private security firms in Kenya?

The findings revealed that there was a statistically significant inverse correlation between financial performance and turnover impact on recruitment costs \((r=-.505, \ p<.05)\), implying that as associated recruitment costs such as advertising, interviewing, testing, induction costs increased, financial performance of the security firms decreased. This is further depicted in the findings which showed that recruitment cost accounted for more than 33% impact on profit margins. Indeed, most of the respondents in this study attributed between 10%-30% of employment cost to employee turnover in the five year period under review. The finding agrees with previous empirical results by Racz (2000) which attributed the direct costs of employee turnover to about 15–30% of total costs associated with lost employees. The results are also consistent with previous estimates by Scott and Byrd (2012) that on average, it costs an organization one-third of a new hire’s annual salary to replace an employee.

Of particular note as established in the findings, was an increasing pattern in the employee turnover cost during the period, with more than 30% of the total employment cost being attributed to employee turnover in the year 2010, which increased to 31.3% in the year 2011; rose again to 41.2% in the year 2012 and yet again to 52.9% in the year 2013. It can be inferred from these statistics that the performance status of private security firms was degenerating from bad to worse as employment costs escalate due to employee turnover. These results resonate with the association that Casio and Boudreau (2010) made between the costs incurred and staff turnover.

The findings also revealed that there was a statistically significant inverse correlation between financial performance and turnover impact on and lost productivity \((r=-.412, \ p<.05)\). This means that financial performance decreased as lost productivity while a replacement was still being sought was incurred due to employee turnover. This is corroborated by the descriptive statistics which showed that most of the respondents \((48.3\%)\) of the respondents said employee turnover did contribute to lost productivity to a large extent. The finding agrees with the speculation by Hinkin and Tracey (2008) which
showed that lost productivity resulting from employee turnover may account for more than two-thirds of the total turnover cost. This is also reflected in the negative impact that results on the security firms’ profit margins as lost productivity accounted for more than 33% impact on profit margins.

Surprisingly, majority (70.3%) of the respondents were of the view that employee turnover did not contribute to staff training costs to a large extent. This may be explained by the finding which showed that majority (52.1%) of the respondents disagreed that training programs were offered to existing employees. It means that the private security firms incurred very little on training as reflected by the results which revealed that the impact of training costs due to employee turnover accounted for less than 10% of the profit margins. Thus, contrary to the claims in a study by Wainaina (2014) training costs associated with employee turnover did not have a significant impact on the financial performance of the private security firms. This may be due to the lack of industry standards that specify the quality of HR needed, as shall be discussed shortly under employee turnover risk mitigation strategies.

5.3.2 What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya?

The findings showed that financial performance was significantly correlated to lost technical expertise ($r=-.344, p<.05$) which means that as the more the security firms lost technical competency in the employees who leave, the poor their financial performance. This is reinforced by the findings which showed that majority (66.7%) of the respondents were of the view that lost technical expertise affected financial performance of the security firms to a large extent. The results therefore agree with the views of Orrick (2008) that the quality of officers selected, trained and retained has a direct impact on the level of service provided to the organization’s constituents, and as officers leave, their attrition comes at a substantial cost to organizations and the communities they serve. This may especially be the case since the private security industry seems to rely more on the industry experience of its employees.

Related findings showed a statistically significant correlation between financial performance of the private security firms and decline in service quality offered to
customers ($r=-.304, p<.05$). This means that as service quality declined and technical expertise was lost, financial performance reduced. This correlation is confirmed by the fact that majority (58.3%) of the respondents said declined service quality due to employee turnover affected financial performance to a large extent. The results are consistent with the claim by Marsh and Mannari (2008) that indirect costs of employee turnover that involves loss of technical expertise, dedication, productivity, drive and determination, high achievement, creative capacity, experience, educational level, position in the industry or field or any combination of these and other factors accounted for a significant effect on firm financial performance. The authors therefore rightly argued that as turnover increases, service quality may decline as it takes time and resources to replacing departing employee.

The study however established that there was no statistically significant correlation between financial performance and increased job stress to employees as a result of labour turnover ($r=.237, p>.05$) or lost proprietary information ($r=-.112, p>.05$); implying that these factors were not associated with financial performance. The findings contradict the results of a study by Wainaina (2014) who established that stress and fatigue from excessive time on job in the company sometimes led to decline in the performance of private security firms. To explain this disparity in empirical outcomes, it may be argued that the nature of work in the private security industry, which often demands a 12-hour job, could still lead to job stress and thus, job stress associated with employee turnover may have an insignificant impact on financial performance of the security firms.

That the findings about loss of proprietary information also contradict previous assumptions such as those by Cascio (2006) who associated the same with employee turnover costs suggest that loss of proprietary information was not a significant risk to the private security firms. Given that majority of the labour-force that characterize the industry in Kenya are low skilled, the threat of losing proprietary information to competitors, with a significant impact on bottom-line financial performance of the firms was low.
5.3.3 What mitigation strategies do security firms have in place to manage staff turnover risks?

The study established that majority (52.1%) of the respondents disagreed that training programs were offered to existing employees as a strategy to mitigate negative turnover effects on firm performance. This agrees with the notable features of the private security industry as identified by Mbote and Akech (2011), which, according to them, include poorly trained private security guards who are therefore ill-equipped to perform their jobs. Perhaps this explains in part, the increasing turnover rates in the industry as hitherto discussed as training is considered one of the effective strategies that can result in lower cost of production and lower turnover rates (Cole, 2004).

In this study, it was established that the top three most likely reason for employee turnover according to majority of the respondents was because they were terminated (M=3.85, SD=1.405), followed by dismissal (M=3.31, SD=1.192) and because they deserted work (M=3.08, SD=1.294). While there could be a plethora of factors that forces the firms to terminate their employees, for instance due to fluctuations in demand for private security services, one of the reasons that can lead to the dismissal of staff or deserting of work by employees can be because of unacceptable level of job performance associated with lack of training. This is consistent with the discourse by Armstrong (2008) who observed that resignations and turnover can increase if people are not given opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper training. This could especially be the case in the private security in Kenya where, as noted by commentators such as Jager and Kummel (2009) a security guard is simply a person, sometimes provided nothing more than a uniform and given a rungu and taught how to march and salute.

Concerning pay, most (45.9%) of the respondents disagreed that their security firm benchmarked salary scales with the best company in the industry as a risk mitigation strategy. This suggests that the private security firms were not concerned about using pay as an incentive to keep turnover levels low. This finding reflects the revelation in a previous study by Jager and Kummel (2009) in Kenya who found that most companies pay low wages which do not allow the guards and their families a decent living nor even
put food on the table for their families. In such a scenario, it is unsurprising that the turnover levels in the private security sector have been increasing at a steady rate. This is depicted in the statistics which showed that perceived high rate of employee turnover by the respondents increased from 56.3% in the year 2011 to 65.2% in the year 2012 and further to 73.1% in the year 2013. Given that staff turnover is an index for the success of an organization’s strategic human resource management practices and its image as an employer of choice (Boella & Goss, 2013), it can be argued, that the private security firms were increasingly performing poorly on the non-financial aspects of the balanced scorecard.

Further findings showed that majority (75.0%) of the respondents disagreed that their company carried out job enlargement programs as employee turnover risk mitigation strategies. This is consistent with the observation made by Smith (2011) who claimed that despite the importance of corporate strategy towards the challenge of staff turnover, a paradox is often the unwillingness to invest in people, who then become attractive to competitors and leave. This further reinforces the view by Hannabarger et al. (2011) that of the four perspectives of the BSC, the growth and learning perspective is the most vital as it is the enabler of the other three perspectives, without which, none of the perspectives including the financial performance perspective cannot flourish, yet it is often ignored aspect of many businesses.

Ironically, majority (55.2%) of the respondents were of the view of that their firm offered the best working conditions for its staff. This contradicts the observations made by Mbote and Akech (2011) who noted that private security guards work under very poor conditions. This may be explained by the respondents’ possible comparison of their working conditions with the situation found in most private security firms. It is worthy of note that data was collected from the security firms which were members of the Kenya Security Industry Association, notably populated by the top security firms in the country. In addition, the association itself aims to establish and maintain quality standards and good practices in the industry.
5.4 Conclusions

5.4.1 What is the direct effect of staff turnover on the financial performance of private security firms in Kenya?

Staff turnover negatively affected the financial performance of private security firms in Kenya through its impact on recruitment costs and lost productivity. When staffs leave employment, the private security firms are forced to incur replacement costs such as advertising, interviewing and selection of new staff. In addition, since the industry is labour-intensive, lost productivity is incurred while a replacement is being sought. However, the effect of staff turnover through the incurring of training costs and overtime payments on the financial performance of the private security firms was insignificant. Nevertheless, the cost of employee turnover on the total employment cost was growing in an increasing measure. This affected the profitability of the private security firms through reduced profit margins.

5.4.2 What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya?

Staff turnover affected financial performance of private security firms in Kenya indirectly through lost technical expertise and decline in service quality offered to customers. When employees leave, they take away with them years of experience and learning that they have accumulated while on the job such that when a new hire is found, learning has to begin a fresh. This affects the quality and service standards that the private security firms offer to their customers which they potentially compensate for, for instance, by negotiating lower terms. However increased job stress to employees and lost proprietary information did not affect financial performance of the private security firms significantly.

5.4.3 What mitigation strategies do security firms have in place to manage staff turnover risks?

The private security firms did not have any strategies in place to mitigate any negative effects of employee turnover on financial performance. With the exception of relatively
better working conditions for staff compared to the prevailing working conditions in the sector, the firms did not offer regular training programs to existing employees. Neither did they deliberately provide job enlargement programs to prepare staff to immediately assume the positions left vacant in order to minimize disruptions that lead to financial loss. Further, the salaries offered to employees were not benchmarked with those offered by the best employer in the private security industry as a strategy to minimize high employee turnover.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 What is the direct effect of staff turnover on the financial performance of private security firms in Kenya?

Private security firms should invest in staff development and retention of core talent in order to contain the high staff turnover and its negative impact on financial performance. They should redirect the costs that they incur on replacement costs such as advertising, interviewing and selection of new staff to programs geared at providing a sense of job security to employees and personal development in the staff. This requires the pursuit of a strategic human resource management approach where the recruitment and selection process is gotten right the first time.

5.5.1.2 What is the indirect effect of staff turnover on the financial performance of private security firms in Kenya?

In order to preserve technical expertise and maintain the standard of service quality offered by the private security firms, there is need to come up with internal internship programs aimed at the transfer of knowledge and skills from experienced staff to less experienced staff. The private security firms could collaborate through their umbrella body, the Kenya Security Industry Association to develop joint training programs for member staffs.
5.5.1.3 What mitigation strategies do security firms have in place to manage staff turnover risks?

As a mitigation strategy to minimize negative effects of employee turnover on financial performance, the private security firms need to begin a deliberate program of job enlargement to prepare staff to immediately assume the positions left vacant in order to minimize disruptions that lead to financial loss. This should be matched with commensurate compensation and allied incentives that keep their staff on a tight leash. This could be achieved by offering competitive salaries benchmarked with those offered by the best employer in the private security industry.

5.5.2 Recommendations for Further Studies

This study established that the top two causes of employee turnover in the private security firms were termination and dismissal. This could be due to several reasons. Perhaps the hiring process is not gotten right or, perhaps fluctuating demand makes it inevitable to terminate staff. In order to contain the high levels of employee turnover which impacts negatively on the financial performance of the private security firms, there is need to investigate the reasons given for staff being terminated or dismissed. Secondly, this research was limited in scope to data provided by the human resource and finance heads. In effect, the voice of the staffs that were terminated was not represented in the study. In order to provide a holistic view of the nature of employee turnover in the sector and get to the root of the problem, there is need to conduct exit interviews with the staff who leave so that an effective intervention strategy is developed. Lastly, this research was undertaken among members of the Kenya Security Industry Association only. In order to generalize the study findings, another study that expands the scope to include non-members could increase the reliability of statistical estimates.
REFERENCES


Appendix 1: List of Security Firms with KSIA

1. Wells Fargo Limited
2. AKKAD Systems
3. Collindale Security
4. Bob Morgan Services Limited
5. Ultimate Security Ltd
7. Instarect
8. KK Security
9. Magnum Allied Systems Ltd
10. Pinkerton's
11. Riley Services Limited
12. Securex Agencies Kenya Ltd
13. Security Group Of Companies Ltd
14. Watchdog Alert
15. Total Security
16. Radar Security Limited
17. Fidelity Security Services
18. Corporate Security
19. Cobra Security
20. Delight Security Services Ltd
21. Brinks Security Services
22. Cybertrace
23. Texas Alarms
24. Northwood Services
25. Nine One One Group Limited
26. Absolute Security Ltd
27. Infama Ltd
28. Bedrock Security Services Ltd
29. Saladin Kenya Ltd
30. Envag Associates
Appendix II: Questionnaire to HR Managers

SECTION A: GENERAL INFORMATION

(Please tick in the appropriate box)

1. How long have you worked in the security industry?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

2. How long has your security firm been in existence?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

3. How long have you worked for your current security firm?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

4. Approximately how many employees did your firm employ for last five years 2009-2013?

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-50 employees</td>
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<td></td>
</tr>
<tr>
<td>51-100 employees</td>
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<td></td>
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<tr>
<td>More than 100 employees</td>
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</tbody>
</table>
5. Approximately how many employees left employment for any reason in the last 5 years 2009-2013?

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 employees</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-50 employees</td>
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</tr>
<tr>
<td>51-100 employees</td>
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<tr>
<td>More than 100 employees</td>
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</tr>
</tbody>
</table>

6. What in your view is the main reason why they left?
(Where 1-Least likely and 5 Most likely)

<table>
<thead>
<tr>
<th>Reason for leaving the organisation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminated</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Voluntary</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dismissal</td>
<td></td>
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</tr>
<tr>
<td>Redundancy</td>
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<tr>
<td>Deserted</td>
<td></td>
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</tr>
</tbody>
</table>

7. Generally, how would you describe the rate of employee turnover at your firm for the last 5 years 2009-2013?

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Very Low</th>
<th>(2) Low</th>
<th>(3) Moderate</th>
<th>(4) High</th>
<th>(5) Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2010</td>
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<td>2011</td>
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<td>2012</td>
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<tr>
<td>2013</td>
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</tbody>
</table>
SECTION B: DIRECT EFFECT OF EMPLOYEE TURNOVER ON FINANCIAL PERFORMANCE

Please indicate the extent to which employee turnover at your organization contribute to the following direct costs at your security firm

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Very Small Extent</th>
<th>Small Extent</th>
<th>Moderate Extent</th>
<th>Large Extent</th>
<th>Very Large Extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment costs such as advertising, interviewing and selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training cost</td>
<td></td>
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</tr>
<tr>
<td>Overtime payment for existing staff to cover the gap left</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Lost productivity while a replacement is still being sought</td>
<td></td>
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</tbody>
</table>

12. Approximately, what percentage of your employee costs does turnover account for in your firm?

<table>
<thead>
<tr>
<th>Year</th>
<th>Less than 10%</th>
<th>10-30%</th>
<th>More than 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
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<tr>
<td>2010</td>
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<td>2011</td>
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<td>2012</td>
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<tr>
<td>2013</td>
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</tbody>
</table>

P.T.O
SECTION C: INDIRECT EFFECT OF EMPLOYEE TURNOVER ON FINANCIAL PERFORMANCE

Please indicate the extent to which employee turnover at your organization contribute to the following direct costs at your security firm

<table>
<thead>
<tr>
<th></th>
<th>(5) Very large extent</th>
<th>(4) Large extent</th>
<th>(3) Moderate extent</th>
<th>(2) Small extent</th>
<th>(1) Very small extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Lost technical expertise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>14. Decline in service quality</td>
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<tr>
<td>15. Increased job stress to employees</td>
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<tr>
<td>16. Lost proprietary information</td>
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</tbody>
</table>

SECTION D: EMPLOYEE TURNOVER RISK MITIGATION STRATEGIES

Please indicate whether you agree or disagree with the following statements by placing a tick (✔) inside the appropriate box:

<table>
<thead>
<tr>
<th></th>
<th>(1) Strongly disagree</th>
<th>(2) Disagree</th>
<th>(3) Not Sure</th>
<th>(4) Agree</th>
<th>(5) Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Our firm offers regular training programs for existing employees as part of its initiative to reduce turnover effects on firm performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. We benchmark our salary scales with the best security firm in the industry</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>19. We deliberately take our employees through a job enlargement program to ready them for positions left vacant</td>
<td></td>
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</tr>
<tr>
<td>20. Our firm offers the best working condition for employees in the in the industry</td>
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</tr>
</tbody>
</table>

21. What would you do differently about how your firm manages the negative effects of employee turnover on firm performance? ____________________________________________

THANK YOU FOR YOUR TIME AND COOPERATION
Appendix III: Questionnaire to Heads of Finance

SECTION A: GENERAL INFORMATION

1. How long have you worked in the security industry?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

2. How long has your security firm been in existence?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

3. How long have you worked for your current security firm?
   - Less than 1 year
   - 1 – 3 years
   - 4 – 10 years
   - More than 10 years

4. Approximately what percentage of your revenues is spent on employees? ____

5. Approximately what percentage of your annual expenditure went to employee replacement costs in the last five years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Less than 10%</th>
<th>10-30%</th>
<th>More than 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Generally, how would you describe the impact of employee turnover on the financial performance of the firm?

- Very high
- High
- Moderate
- Low
- Very low

SECTION B: DIRECT EFFECT OF EMPLOYEE TURNOVER ON FINANCIAL PERFORMANCE

Please indicate the extent to which employee turnover at your organization contribute to the following direct costs at your security firm

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Very large extent</th>
<th>Large extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Very small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Recruitment costs such as advertising, interviewing and selection</td>
<td></td>
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<tr>
<td>8. Training cost</td>
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<tr>
<td>9. Overtime payment for existing staff to cover the gap left</td>
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<tr>
<td>10. Lost productivity while a replacement is still being sought</td>
<td></td>
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</tr>
</tbody>
</table>

11. Approximately, what percentage of your employee costs does turnover account for in your firm?

- Less than 10%
- 10 – 30%
- More than 30%
- Don’t know

68
12. How would you rate the following employee replacement cost by order of impact on profit margins of the firm in percentage?

<table>
<thead>
<tr>
<th>Cost</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment cost</td>
<td>_____ %</td>
</tr>
<tr>
<td>Overtime cost</td>
<td>_____ %</td>
</tr>
<tr>
<td>Training cost</td>
<td>_____ %</td>
</tr>
<tr>
<td>Lost productivity</td>
<td>_____ %</td>
</tr>
</tbody>
</table>

SECTION C: INDIRECT EFFECT OF EMPLOYEE TURNOVER ON FINANCIAL PERFORMANCE

Please indicate the extent to which employee turnover at your organization contribute to the following direct costs at your security firm

<table>
<thead>
<tr>
<th>Cost</th>
<th>Very large extent</th>
<th>Large extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Very small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Lost technical expertise</td>
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</tr>
<tr>
<td>14. Decline in service quality</td>
<td></td>
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<td></td>
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<tr>
<td>15. Increased job stress to employees</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>16. Lost proprietary information</td>
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</tr>
</tbody>
</table>

SECTION D: EMPLOYEE TURNOVER RISK MITIGATION STRATEGIES

Please indicate whether you agree or disagree with the following statements by placing a tick (✓) inside the appropriate box:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Our firm offers regular training programs for existing employees as part of its initiative to reduce turnover effects on firm performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. We benchmark our salary scales with the best security firm in the industry</td>
<td></td>
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</tr>
<tr>
<td>19. We deliberately take our employees through a job enlargement program to ready them for positions left vacant</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU FOR YOUR TIME AND COOPERATION