

STREAM 6: HUMAN RESOURCE MANAGEMENT  
COMPETITIVE SESSION

**JOB EMBEDDEDNESS AND THE IMPORTANCE OF RETAINING SMALL FIRM  
EMPLOYEES**

**ABSTRACT:** *Small firms identify retention of staff as a significant problem. Voluntary turnover of talented staff can be costly, especially in small firms where there are few slack resources. However, there is scant research on retention in small firms. We use the concept of Job Embeddedness to understand why small firm employees stay. The concept refers to the totality of forces that embed employees in their jobs and it consists of three dimensions: fit, links, and sacrifice. Seven propositions are outlined comparing the ways fit, links and sacrifice might play out for small and large firm employees. Through testing these propositions small firm owner-managers may have a better understanding of what can be done to retain employees and maintain firm performance.*

**Keywords:** recruitment, retention, talent management, turnover.

The performance of small firms can be linked to the quality of its employees who contribute knowledge and skills to the firm (Sels et al., 2006; Way, 2002). Employees' contributions enhance the firm's capacity to remain economically viable, grow, achieve competitive advantage and respond to changes in the external environment (Barrett & Mayson, 2008). Despite the economic importance of small firms (Bateman, Clark, Eaton, Lind & Pye, 2011) and contribution employees make to their performance, relatively little research has considered the role of human resource management (HRM) in small firms (Barrett & Mayson, 2008; Cardon & Stevens, 2004; Hornsby & Kuratko, 2003; Mayson & Barrett, 2014). In particular, very little research has addressed how small firms can minimise dysfunctional

voluntary turnover and improve retention of strategically valuable staff (Baron & Hannan, 2002; Cardon & Stevens, 2004; Wagar & Rondeau, 2006).

From a practical perspective, voluntary turnover of talented staff can be costly (Allen, Bryant & Vardaman, 2010). When key staff leave, significant direct costs (e.g. recruitment, training, general administration) and indirect costs (e.g. loss of tacit knowledge, lowered productivity) are incurred. Furthermore, as Wagar and Rondeau (2006, p. 1) note, 'If a high-quality employee leaves the organization, a smaller firm may be less likely to have a suitable internal candidate or lack resources to selectively recruit on the external market.' Commentators suggest it is difficult for small firms to retain employees because of their perceived lack of legitimacy compared to larger firms (Williamson, 2000). That is to say, small firms are often seen by job seekers (and employees) as unstable and less desirable employers offering fewer opportunities for advancement and development. Indeed, evidence from Western Australia's Small Business Development Corporation (SBDC, 2013) shows that despite a slowing economy, more than half of the 500 small firms they surveyed found attracting and retaining staff difficult. The foregoing arguments highlight the importance of retaining talented employees in small firms.

### **JOB EMBEDDEDNESS: AN EXPLANATION FOR WHY EMPLOYEES STAY**

Job embeddedness (JE) is a concept developed in the context of the literature on voluntary employee turnover (Mitchell, Holtom, Lee, Sablinski & Erez, 2001). As a concept it does not explain why an employee chooses to leave a firm, but what makes them stay (Holtom et al., 2008; Mitchell et al., 2001). As a general attachment construct, JE measures an individual's affective and cognitive-based evaluations of the job arising internally from their experience of management practices as well as externally from their social and economic embeddedness in the community. Although employees' experiences of small firm employment has been studied

(e.g. Arnold, Bosley, Schalk & van Overbeek, 2002), JE represents a completely different way of thinking about employees' work experiences because it includes non-work factors.

The forces at play in embedding employees in their jobs include 'links', 'fit' and 'sacrifice', which are associated with where employees work (on-the-job) and where they reside (off-the-job). Mitchell et al. (2001, p. 1104) describe links as 'formal or informal connections between a person and institutions or other people'. The greater the quantity of links and the stronger and deeper they are, the more employees become embedded. Fit deals with employee's perception of their compatibility with or comfort in the organisation and their community. When there is a match between employees' abilities and the job requirements, and their professional interests and the opportunities and rewards provided by their organisation, then JE will be increased. Similarly, JE is increased if employees' perceive they fit well into community and surrounding environment where they reside. Finally, sacrifice deals with the material and psychological costs of exiting (Mitchell et al., 2001), which could include the obvious pay and benefits as well as less obvious benefits such as status, convenience and accrued rewards among others. Thus, JE is increased if the amount to be sacrificed on leaving outweighs the costs of staying (Mitchell et al., 2001).

These three JE dimensions represent the totality of forces that constrain employees from leaving their job. In a recent review of JE, Zhang, Fried and Griffeth (2012, p. 220) noted 'several studies reveal that JE predicts incremental variation in turnover after controlling for traditional turnover predictors, such as job satisfaction and quit intentions.' Thus, JE has been demonstrated in the literature to be a robust predictor of employee retention.

Based on the arguments presented thus far, in this conceptual paper we contend there are several reasons why it is appropriate to use JE to examine employee retention in small firms. First, there is scant research on employee retention in small firms (Cardon & Stevens, 2004; Patel & Conklin, 2012). Second, small firms identify retention of staff as a significant

problem (SBDC, 2013). Third, staff turnover can be damaging in small firms where there is not excess resource capacity (Patel & Conklin, 2012). Fourth, there is a need to know whether it is the firm itself or employees' embeddedness in the community that underpins why employees stay. As Holtom, Mitchell, Lee and Eberly (2008, p. 264) note, 'future scholarship may be well advised to focus more attention on what it is that people are in fact leaving and what people are choosing to stay with'. Finally, to date we have not found research on employee retention in small firms that uses the JE construct. Therefore, using JE to examine employee retention in small firms can extend and enrich understanding of this construct.

### **LAYING THE GROUNDWORK FOR A STUDY OF JOB EMBEDDEDNESS**

The purpose of this conceptual paper is to lay the groundwork for a future study that we intend to undertake which will examine the JE construct in the contexts of both small and large firms to determine how the construct might operate in different size organisations. (In this paper a small firm has fewer than 20 employees and a large one has 100 or more employees.) We do this by developing propositions about how the different JE dimensions might predict turnover in small and large firms. In the following analysis, propositions are developed in relation to the six factors contributing to Mitchell et al.'s (2001) JE scale.

#### **Organisational links**

These are the formal or informal connections an individual has at work with other people, groups and teams (Mitchell et al. 2001). As the items in Table 1 suggest, JE posits that (other things being equal) the greater the number of links between the individual and other people, groups and teams, the less likely the individual is to leave the workplace. However, as Zhang et al. (2012) have argued, the *quality* of the links is also likely to affect embeddedness and employees' turnover decisions. Links are generated through recruitment practices. In many

small firms, recruitment is done informally with 'word-of-mouth' a preferred recruitment method (Williamson, 2000). This method can involve managers asking employees to help find potential recruits. Such an approach makes it more probable that new recruits will be from the current employees' familial and social milieu. Consistent with the similarity-attraction effect (Byrne et al., 1971) employees employed in small firms are likely to share the characteristics of those who recommend them. Accordingly, work groups in small firms may tend to be homogenous.

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Insert Table I about here

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Research shows members of homogenous groups experience higher satisfaction, less relationship conflict and better interpersonal relations compared to diverse groups (Thatcher & Patel, 2012). Furthermore, work groups also tend to be more cohesive when group members have regular face-to-face interaction with each other (Friedkin, 2004). Such regular interaction is more likely to occur when group members work in the same physical area, as in small firms. Consistent with these findings on group composition and group cohesion, prior research on HRM in small firms (e.g. Lewis & Coetzer, 2009; Wagar & Rondeau, 2006) has found that owner-managers seek to enhance employee retention by building and maintaining high levels of work group cohesion. Similarly, Patel and Conkin (2012) and Patel and Cardon (2010) argue that a group or 'clan' culture enhances small firm employee retention.

Consistent with this view, we contend recruitment practices commonly used in small firms help to forge strong ties among employees, which have positive effects on their organisational attachment. Such strong ties may be highly influential in embedding small firm employees, but tie strength may not be as influential in large firm employees' decisions to stay or go.

### **Community links**

These are the formal or informal connections an employee has to other entities (such as people, groups, places, things, or activities) in the community they live (Mitchell et al., 2001). The entities comprising community links are implied by the items listed in Table 1 (e.g. family roots in the community or number of friends living nearby). JE posits community links entangle the employee and their family in a social, psychological, and financial web. A greater number of links to the community is assumed to be associated with greater embeddedness, which brings about lower voluntary turnover (Zhang et al., 2012).

We argue the nature and extent of community links will differ between urban and rural small firms and between large and small firms. The literature on rural small firm (e.g. Battisti, Deakins & Perry, 2013) suggests employees are more embedded in the local rural community than employees working in urban small firms. In rural areas where there are less employment alternatives employees tend to be local and are presumed to have strong links with the local community. In contrast, an employee in an urban small firm may be highly embedded in their residential community, yet work in a firm located far from that community. For these employees, community embeddedness may have a neutral or positive, rather than a negative association with turnover (Zhang et al., 2012).

Regarding small and large firms, items 4 and 5 in Table I refer specifically to family and friends. As Ram and Holliday (1993, p. 629) note ‘small firms are saturated with the ideology of the family’. For example, family and friends are among the key sources of start-up finance (Storey & Greene, 2010). Similarly, family and friends are important sources of information and advice for small firms (Lewis, Massey, Ashby, Coetzer & Harris, 2007). Furthermore, as we noted, new small firm employees are often recruited from within family and friend networks. These close-knit relationships with family and friends in the community may serve to embed small firm employees in their jobs.

Drawing on these arguments, we propose:

*Proposition 1: Compared to large firms, employees in small firm will have fewer but stronger links to the organisation.*

*Proposition 2: Compared to employees in urban small firms and employees in large firms, employees in rural small firms will have stronger links to the community.*

*Proposition 3: Compared to large firms, employees in small firms will have stronger links to the community because of the 'family and friends effect'.*

### **Fit with organisation**

With JE, organisational fit refers to an employee's perceived compatibility or comfort with an organisation and it is posited the better the fit, the greater the likelihood that an employee will feel tied to an organisation (Mitchell et al., 2001). The items used to assess organisational fit are listed in Table II. Items 1-5 relate to person-organisation fit. Research on person-organisation fit shows voluntary employee turnover reduces when people fit their organisation (e.g. Verquer, Beehr & Wagner, 2003). Arguably small firm employees will report higher levels of agreement with the items measuring person-organisation fit because of the prevalence of recruitment through networks of family and friends (Williamson, 2000). But on the other hand, large firms' recruitment and selection practices are arguably better suited to matching people to organisations. Large firms publicise their espoused values and job seekers engage in self-selection by avoiding employment in firms whose values seem incompatible with their personal values (Chapman, Uggerslev, Carroll, Piasentin & Jones, 2005). Furthermore, large firms are more likely to put applicants through several stages in the selection process to gauge the applicant's fit (Kristof-Brown, 2000).

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Insert Table II about here

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Items 6 and 7 in Table II assess person-job fit. Research on matching people to jobs includes studies that have examined personality-job fit. Evidence from these studies suggests

that people in jobs congruent with their personality should be more satisfied and less likely to voluntarily resign than people in incongruent jobs (e.g. Ehrhart, 2006). Research examines how employees job satisfaction levels and voluntary turnover intentions are affected by the (mis)match between their 'own-skill' and the skills they actually uses in the job ('job-skill'). These studies find employees who feel their skills are under-utilised have lower job satisfaction and a greater propensity to look for another job (Allen & van der Velden, 2001). We contend that large firm employees are likely to report higher levels of person-job fit. This is mainly because formal and sophisticated HRM practices (Storey et al., 2010) such as selection practices that incorporate assessments of job applicants' personal characteristics (e.g. personality type and vocational interests) are more likely to be used. Such assessments should yield valid and reliable data to inform decision-making regarding person-job matching.

We also argue large firm employees are likely to report higher levels of congruence between their personal professional goals and the opportunities for professional growth and advancement within their organisations (items 8 and 9 in Table II). This is because there is substantial evidence that employees in large firms are more likely to get access to formal training and development opportunities than employees in small firms (e.g. Johnson & Devins, 2008). Furthermore, large firms are more likely to have career hierarchies which provide greater scope to promote and develop people from within (Jackson & Schuler, 1995).

### **Fit with the community**

Employees' perception of fit with the community and surrounding environment will influence their perceptions of their ties to the firm. The better the employee's perceived fit with the community and surrounding environment, the stronger their perceived ties to their firm (Mitchell et al., 2001). Leisure activities and the weather (items 1 and 2 in Table II) are specific dimensions of community and surrounding environment that are assessed by the JE

scale, while items 3, 4 and 5 are more general measures of fit with the community. Given the general nature of the fit items, we contend that firm size is a largely irrelevant factor in determining employees' perceptions of fit with the community.

Drawing on these arguments, we propose:

*Proposition 4: Compared to employees in small firms, employees in large firms will report higher levels of fit with their organisations.*

*Proposition 5: Small and large firm employees will not differ markedly in their perceptions of fit with the community.*

### **Organisation-related sacrifice**

This refers to the perceived social, psychological or material costs that are associated with leaving one's current job (e.g. giving up regular contact with familiar colleagues, the respect of current colleagues or other desirable benefits). JE posits the more to be given up through leaving a job the more difficult it is for the employee to resign. The items that are used to assess organisation-related sacrifice are in Table III. It is important to note that seven of the ten organisation-related sacrifice items (specifically items 3-9) relate to material costs.

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Insert Table III about here

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We contend that, on the whole, small firm employees, who terminate their employment, *forfeit less material costs* than large firm employees. While Australia's industrial relations system sets the pay and conditions of employees regardless of firm size, arguably, small firms pay employees less and provide fewer fringe benefits than their colleagues receive in larger firms (Arnold et al., 2002; Cardon & Stevens, 2004; Forth, Bewley & Bryson, 2006; Storey & Greene, 2010). Furthermore, studies repeatedly show formal training is less likely to be provided in small firms (see Dawe & Nguyen, 2007; Johnson & Devins, 2008; Storey, 2004). Additionally, small firms' relatively flat structure means career development and progression

is typically weak (Arnold et al., 2002; Storey & Greene, 2010). Finally, small firms are more likely to cease trading than large firms; whilst large firms do fail, their risk of failure is not ever present as in small firms (Storey & Greene, 2010).

However, it could also be argued that, on the whole, small firm employees, who terminate their employment potentially, *forfeit more social and psychological costs* than large firm employees. For example, there is a view that small firms cultivate positive social environments and egalitarian structures (Wilkinson, 1999) through regular and personalised communications or interactions between managers and employees (Down, 2010; Wilkinson, 1999). Regular employer-employee interactions enable employees to be aware of their contribution to the firm's performance (Storey, 1994). Through frequent and close contact employers can share their vision for the firm's survival and growth (Gilbert & Jones, 2000).

Informal management practices, particularly HRM practices (Down, 2010; Marlow, Taylor & Thompson, 2010) can also lead to employee satisfaction. The lack of policy and procedural constraints, including tight job descriptions can engender an environment of engagement. Employees have the opportunity to enhance their skills and abilities through participation in varied and diverse roles and this is a potentially attractive aspect of working in a small firm (Arnold et al., 2002). Some studies find job satisfaction is typically higher in small firms relative to larger firms (Forth et al., 2006; Rowden, 2002; Storey, Saridakis, Sen Gupta, Edwards & Blackburn, 2010) and this is primarily attributed to informality characterising small firms' management (Storey & Greene, 2010).

### **Community-related sacrifice**

Leaving a firm may also potentially result in community-related losses (e.g., giving up a safe neighbourhood, short commute time to work, good child-care facilities, or local sports club membership) (Zhang et al., 2012). JE suggests community-related sacrifices could

significantly influence employee retention (Mitchell et al., 2001). Given the general nature of the community-related sacrifice fit items (see Table III) we contend firm size is largely irrelevant in determining employees' perceptions of community-related sacrifice.

Drawing on these arguments, we propose:

*Proposition 6: Compared to employees in large firms, employees in small firms make fewer organisation-related sacrifices when terminating their employment.*

*Proposition 7: Small and large firm employees will not differ markedly in their perceptions of community-related sacrifices.*

## CONCLUSION

Our analysis suggests that if the original Mitchell et al. (2001) items were used to assess JE in small and large firms, the findings would show that employees in large firms are more embedded in their jobs for the following reasons. First, items measuring *organisational links* emphasise quantity of links and employees in large firms probably have a larger quantity of links. Second, in regard to *fit with the organisation*, employees in large firms should report a better person-organisation fit and a better person-job fit due to the more sophisticated recruitment and selection practices that are more commonly employed in large firms. Furthermore, large firms are better equipped to meet the growth needs of their employees through the provision of access to formal development opportunities and through the availability of career hierarchies. Third, the items measuring *organisation-related sacrifices* emphasise material costs and employees in large firms potentially forfeit greater material costs if they leave because larger workplaces pay better, provide better fringe benefits and provide more formal training (Storey & Greene, 2010). On the other hand, employees in small firms are likely to report stronger *community links*, especially those employees working in rural small firms and in small firms that rely heavily on networks of family and friends.

However, our analysis suggests that small and large firm employees would not differ markedly in their perceptions of *fit with the community* and *community-related sacrifices* due to the generic nature of the items that are used to measure these two constructs.

Understanding the contribution of employees to small firms is important, while knowing what keeps them in place is critical. JE offers promise for knowing why employees stay and uncovering clues as to what elements – fit, links or sacrifice – management can develop to retain employees. While some aspects are out of management's control – they cannot change the weather for example – amongst other matters, improved recruitment practices, social activities and benefits can be worked on to retain employees.

Our intention is to investigate these seven propositions through a large survey of employees in small and large firms in two industries that contain very different forms of employment. The questionnaire will include a series of questions based on validated measures of JE and intention to quit and will require the employee to answer a range of demographic questions about themselves, their employment and their employer. The difficulty of doing this will be gaining access to employees and we intend to do this through personal contact with their employer. Uni- and multi-variate analysis will be employed to examine differences in the JE dimensions, the relationship between JE and intention to quit, as well as JE and firm size. Logistic regression will also be used given its ability to predict a binary independent variable - intention to quit - but this depends on the number of questionnaires returned.

We believe that by undertaking research to test these propositions we will contribute to understanding the forces that embed employees in small and large firms and the strategies that small firms, in particular, can use to retain employees. Most importantly this research will enrich our understanding of the JE construct, specifically in the small business context.

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## APPENDIX

Table I: Items Measuring Links

<b>Organisational Links</b>	<b>Community Links</b>
<ol style="list-style-type: none"> <li>1. How long have you worked for this company?</li> <li>2. How long have you been in your present position?</li> <li>3. How long have you worked in the industry?</li> <li>4. How many workers do you interact with regularly?</li> <li>5. How many co-workers are highly dependent you?</li> <li>6. How many teams are you on?</li> <li>7. How many committees are you on?</li> </ol>	<ol style="list-style-type: none"> <li>1. Are you currently married?</li> <li>2. If you are married, does your spouse work outside the home?</li> <li>3. Do you own the home you live in?</li> <li>4. My family roots are in this community.</li> <li>5. How many of your close friends live nearby?</li> </ol>

(Source: Mitchell et al., 2001)

Table II: Items Measuring Fit

<b>Fit with Organisation</b>	<b>Fit with Community</b>
<ol style="list-style-type: none"> <li>1. I like the members of my work group.</li> <li>2. My co-workers are similar to me.</li> <li>3. My values are compatible with the organisation's values.</li> <li>4. I fit with the company's culture.</li> <li>5. I feel like I am a good match for this company.</li> <li>6. My job utilises my skills and talents well.</li> <li>7. I like the authority and responsibility I have with this company.</li> <li>8. I can reach my professional goals working for this organization.</li> <li>9. I feel good about my professional growth and development.</li> </ol>	<ol style="list-style-type: none"> <li>1. The weather where I live is suitable for me.</li> <li>2. The area where I live offers the leisure activities that I like.</li> <li>3. This community is a good match for me.</li> <li>4. I think of the community where I live as home.</li> <li>5. I really love the place where I live.</li> </ol>

(Source: Mitchell et al., 2001)

Table III: Items Measuring Sacrifice

<b>Organisation-related sacrifice</b>	<b>Community-related sacrifice</b>
<ol style="list-style-type: none"> <li>1. I have a lot of freedom on this job to decide how to pursue my goals.</li> <li>2. I feel that people at work respect me a great deal.</li> <li>3. My promotional opportunities are excellent here.</li> <li>4. I am well compensated for my level of performance.</li> <li>5. The perks on this job are outstanding.</li> <li>6. The benefits are good on this job.</li> <li>7. The health-care benefits provided by this organisation are excellent.</li> <li>8. The retirement benefits provided by this organisation are excellent.</li> <li>9. The prospects for continuing employment with this company are excellent.</li> <li>10. I would sacrifice a lot if I left this job.</li> </ol>	<ol style="list-style-type: none"> <li>1. Leaving this community would be very hard.</li> <li>2. People respect me a lot in my community.</li> <li>3. My neighbourhood is safe.</li> </ol>

(Source: Mitchell et al., 2001)

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EMPLOYEES**

Dr Alan Coetzer

School of Business, Edith Cowan University, Joondalup, WA, Australia

Email: [a.coetzer@ecu.edu.au](mailto:a.coetzer@ecu.edu.au)

Dr Janice Redmond

School of Business, Edith Cowan University, Joondalup, WA, Australia

Email: [j.redmond@ecu.edu.au](mailto:j.redmond@ecu.edu.au)

Professor Rowena Barrett

School of Business, Edith Cowan University, Joondalup, WA, Australia

Email: [r.barrett@ecu.edu.au](mailto:r.barrett@ecu.edu.au)