

EMPLOYEE MOTIVATION AND RETENTION: ISSUES AND CHALLENGES IN STARTUP COMPANIES

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Abstract: Retaining qualified employees in a labor-intensive, demanding, and fast-paced work environment is a major struggle for all industries more so for a startup company. As startups attempt to offer a new product/service in the market, it brings along a lot of challenges for the employers such as problems in dealing with competition, uncertainty about future of the product, irregular earnings at early stages, changes in tax policies and regulatory framework, high salaries paid by competitors etc., all of which contribute to the challenges in retaining employees in startups. Thus, proper motivational strategies for retaining employees are imperative.

The purpose of this paper is to explore the issues and challenges faced by employers of startup companies in motivating and retaining their employees and offer suggestions to overcome these challenges. The paper is based on primary data collected from the employers of startup companies mainly founders, co-founders and managers. The data was analyzed using factor analysis. The findings indicate a common problem almost all startups face i.e. their manpower juggling with multiple roles and responsibilities that are caused by attrition. The practical implication of this study lies in the fact that it draws attention to the issue of employee turnover in startups and the need for managers to adopt strategies that will motivate and retain them and enhance their performance.

Index Terms - Startups, HR challenges, retention, motivation, strategies.

I. INTRODUCTION

It is a common knowledge that employees are the most important resources of any organization and also the most difficult to manage. They are in fact referred to as key assets of the organization. The diversity of the nature of human beings and the universality of their importance to organizations, led many researchers to focus on human resources and each dealt from a different perspective. Although few studies have focused on startups, their employee motivation and retention issues have been neglected. Startups are new generation organizations and need to be looked at from a totally different viewpoint. What works for other businesses may not work for startups. Thus a study particularly focusing on the employers' issues and challenges in employee motivation and retention of startup organization is necessary to be addressed. This study covers the aspects that will help the startup employers to know what challenges they can come across while motivating employees and accordingly what motivational strategies they can adopt to retain and enhance employee performance.

1.1 Startups

A startup is a young company at its inception stage, initially financed and operated by a handful of founders or an individual. They attempt to offer a product or service that is not offered elsewhere¹ (Fontinelle, 2017). Paul Graham stated that "A company 5-year-old can still be a startup and is designed to grow very quickly." In simple words, a company that holds the talent, culture and mentality to create something innovative and generates sudden impact by solving the critical issues of society can be termed as a startup.

In an attempt to offer something innovative, a startup often faces a bulk of challenges such as uncertainty of future profits, dealing with competitions in the market, high rate of attrition and high salaries offered by competitors. In addition, startups have to go through an uphill battle for the promotion of their products. In case of their human resources- it is a struggle in terms of finding out the best talent, recruiting and retaining them. When a talented employee moves out and joins the competitor he takes along with him not only the talent but also the ideas that were actually intended for the success of the startup for which he was working previously.

1.2 Employee Motivation and Retention

Employee motivation is believed to be a critical aspect of workplace mainly because it affects the performance of the company. Motivation is the set of processes that stimulate, guide and sustain human behavior towards achieving a goal (Morley, 1998).

¹ <https://www.investopedia.com/ask/answers/12/what-is-a-startup.asp#ixzz54vCQH5b4>

It is believed that any work-related progress is an outcome of desired motivation. Employers can expect more if they are able to provide their employees with what they really want. Dell (1988) in her book "*An Honest Day's Work*" mentioned that the heart of motivation is to give people what they really want from their work.

Generally, managers come across a common problem, when they find their employees are not excited about their work and just use the working hours for completing the task at hand. A mundane work not only hinders productivity but also ruins time and resources. This problem needs to be addressed, as it may also result in attrition. Therefore, employees should be engaged in a way, where they enjoy their work and are motivated to go beyond the call of duty.

Startups that struggle in the battle of raising funds also face the problem of attrition, since their employees are getting better offers elsewhere. Employee retention is the strategy adopted by the employer to prevent talented employees from quitting their jobs (Fox, 2012). If a startup fails to adopt proper retention and motivational strategies, it can result in a huge loss at any stage.

II. REVIEW OF LITERATURE - Qualitative and Quantitative Studies on- Issues and Challenges in Motivating and Retaining Employees

2.1 Retaining Employees

A study by Kumar & Mathimaran (2017) affirmed that retaining employees need a systematic effort by employers to create and foster an environment that motivates employees to remain employed, by having policies and practices in place that addresses the diverse needs of employees. The biggest challenge that organizations are facing today is not only managing their human resources but also retaining them, which apparently is based on several factors. These factors were addressed in studies conducted by Irshad & Afridi (2007); Mtttoi (2013); Patgar & Kumar (2015). They found that factors such as salary, flexible working hours, recognition and rewards for excellent performance, growth opportunities, job security etc are crucial for reducing the rate of turnover. Similarly, a survey conducted and compared with trade journal articles on employee retention issues and problems in the hospitality industry analyzed that good quality management, pay, and respect for work were the three most important aspects of employee retention (Fox, 2012). The study findings were supported by Das & Baruah (2013); Devibala, Anbuoli, & Jothimurugan (2014). Various kind of literatures were reviewed to gain knowledge about reasons which encourage the employees to stay or prompts to leave the organization and it forms a strong base for the issues faced in employee retention. A study done by KM & Christopher (2015) added to this piece of knowledge that the degree of motivation and involvement offered to the employee were found to be the big reason for retention. Similarly, mediating effect of employee engagement on talent management practice and employee retention was established in studies by Alias, Noor, & Hassan (2014). Employees tend to stay longer in the organization when they feel involved in their work (Mtttoi, 2013). Thus, employee retention strategies are desirable and should be highlighted in comparison with other strategies and policies (Twum, 2015; KM & Christopher, 2015).

The literatures above give an outline of the factors that should be considered to retain talent. It includes salary, flexible working hours, recognition, degree of motivation and involvement.

2.2 Reasons for Attrition

In order to retain employees, it is imperative to gain a deeper understanding of the phenomenon of high attrition, and identification of the factors behind it. A study conducted by Sengupta & Gupta (2012) unfolded the reasons for attrition in BPOs/IT sectors and ranked it in such a way that monotonous work and low perceived value was found to be the very first reason for attrition followed by high salary expectation and unusual working hours as second, third in line was disheartened employees; fourth was exhausting work environment and lack of motivation. Finally, fifth was equally shared by lack of job security and social interaction. Adding to this research Tiwari (2015) focused on other demographic dimensions such as the effects of gender, age and length of service on the level of satisfaction with retention factors in hospitality industry and it was found that the employees' level of satisfaction does not depend on such demographic factors. Lack of training and development and work-life balance was found to be a major factor in high employee turnover. Results concluded by Ramlall (2003) were contradictory to the above findings and proved the likeliness of an employee to leave depends upon the satisfaction with rewards and recognition, task identity, feedback, number of positions, age, and satisfaction with position offered by the organization. Findings of the study undertaken by Twum (2015) revealed that low pay followed by lack of growth and development of employees were the major causes of attrition in three hotel chains in Stavanger.

The reasons for attrition were covered by the above literatures where feedback, high salary expectation, unusual working hours, lack of social interaction and growth in career were the most influencing factors for attrition.

2.3 Role of Motivation in Retaining Employees

In present scenario organizations are found to be technology driven, yet human resources are prerequisite to run the technology for which it is important to understand the motivational factors that encourage employee retention. The study done by Patriota (2009)

determined career advancement opportunities and challenging work to be the most significant motivators for employee retention supporting which, Sengupta & Gupta (2012) said that if the employee feels intrinsically motivated to work and also engenders a sense of belongingness and involvement with his work, he is likely to stay longer with the organization. The study concluded that in order to retain employees BPOs must infuse in employees the sense of achievement and esteem, autonomy while performing a task, job rotation to avoid boredom, exciting and challenging tasks etc. On the other hand, Kassa (2015) found interesting and challenging work has an insignificant relationship with employee retention when compared with other motivational factors but in line with above research, rewards were the most influencing factor on employee retention. As interesting work was considered to be the least important among the motivational factors, it was suggested to assign jobs based on employee interest and specialization. In order to develop performance, employers must use short term and long term training associated with the job and should provide educational opportunities for employees to upgrade their knowledge.

Employees are social beings and thus, long for social interaction Amjad, Sabri, Ilyas & Hameed (2015) found that language plays an important role in social interaction. They also concluded that the workplace friendship affects the task and contextual performance, job satisfaction and turnover intentions. Similarly, Bode, Singh, & Rogan, (2015) found that employee participation in a corporate social initiative was positively associated with retention rates. Twum, (2015) aimed to find out the importance of diversity management practices (DMP) based on the views of hotel managers and employees. Language was found to be the main challenge in its implementation and therefore, organizations should apply to make it a part of its strategic plan by joining together old vs. younger generation.

The researchers found challenging work, training associated with job and opportunities for growth as the major motivational factors for retention.

III. RESEARCH GAP

Many literatures cover the problems that industries come across while retaining their employees. But it can be observed through the above literatures that the issues and challenges linked with startups are somewhere not given much importance in the research world. Startups being an integral part of growing economy face a lot of challenges in terms of capital and other support required to start and run the business. It is pertinent to note that very few studies have given suggestions to overcome the problems of retention. It is also noticeable that, the researchers have portrayed the problems faced by employers under the same domain of issues and did not pay much attention to characterize them under the domain of issues and challenges separately as issues are internal obstacles while challenges are external. Even there is a lack of primary data that assures the type of challenges employers actually come across while motivating and retaining their employees especially in a startup.

IV. OBJECTIVES

- To explore and understand the issues and challenges faced by startup employers in motivating and retaining their employees.
- To provide suggestions to address these issues and overcome challenges.

V. METHODOLOGY

The study is based on primary data collected through questionnaire as well as secondary data collected from various sources such as research databases, journals, magazines, informatory videos, news articles, websites etc. The data was collected from the startups of South-East Bengaluru and it covered 55% of the total population taken for the study. Responses from start-up founders, co-founders, and managers were collected for entrepreneurs' background, business information, issues and challenges faced by them while motivating their employees. The data was analyzed with the help of Principal Component Method of Factor Analysis.

5.1 Analysis and Interpretation Based on Primary Data

Data collected on the challenges and issues faced by employers while motivating the employees (on a Likert scale of 1 to 5) was subjected to PCA. The relevant information from the SPSS output of the two PCAs of Issues and challenges respectively are given below:

5.1.1. Issues While Motivating Employees

Respondents were asked to grade on a 5-point scale against 10 variables relating to issues while motivating employees. The KMO and Bartlett's Test measuring the adequacy of sampling is given in Table 1.1 and in order to reduce the number of factors Rotated Component Matrix table is used as displayed in Table 1.2.

Table 1.1: KMO and Bartlett's Test

	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.649
	Approx. Chi-Square	90.160

Bartlett's Test of Sphericity	Df	45
	Sig.	.000

Primary sources

The KMO measure is .649, which is more than 0.5, shows a satisfactory factor analysis.

Table 1.2: Rotated Component Matrix for Issues in Motivation

	Component		
	1	2	3
Understanding the need of employees			.585
Fixing right talent to right job			.852
Proper workload distribution	.640		
Engage employees in a challenging task		.715	
Employees lack awareness about the company vision	.598		
Devising employee recognition programs		.603	
Collecting and providing feedback about job performance of employee		.817	
Providing training and development		.763	
Lack of proper appraisal system	.757		
Maintaining a complaint system to handle employee grievances	.803		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged in 6 iterations.

Primary sources

Looking at table 1.2 and taking into account the above patterns, we can label the components retained in the model as follows:

PC1– Lack of proper system and awareness: Improper job allocation, appraisal and complaint system for employees are the variables substantially loaded on factor 1 and were found to be the most significant component of issues in motivating employees from the point of view of the employer. [eigen value 3.255]

PC2– Disoriented employee engagement system: Engaging, recognizing, providing feedback and training to employees are substantially loaded on factor 2 and were found to be the next significant component of issues in motivating employees from the point of view of the employer. [eigen value 1.660]

PC3– Lack of understanding and fixing employee need: Understanding employee needs and fixing right talent to right job fall under factor 3 and were found to be the last significant component of issues in motivating employees from the point of view of the employer. [eigen value 1.254]

5.1.2. Challenges While Motivating Employees

Respondents were asked to grade on a 5 point scale against 10 variables relating to Challenges while motivating employees. The KMO and Bartlett's Test measuring the adequacy of sampling is given in Table 1.3 and in order to reduce the number of factors Rotated Component Matrix table is used as displayed in Table 1.4.

Table 1.3: KMO and Bartlett's Test

Bartlett's Test of Sphericity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.566
	Approx. Chi-Square	80.687
	Df	45

	Sig.	.001
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Primary sources

The KMO measure is .566, which is more than 0.5, shows a satisfactory factor analysis.

Table 1.4: Rotated Component Matrix for Challenges in Motivation

	Component			
	1	2	3	4
Balancing between employee need & business need	.579			
Managing cross-cultural diversity				.913
Motivating temporary employees		.729		
Expectations of employees with specialized skills		.811		
Unwillingness of employees to work beyond regular working hours		.525		
Reluctance to perform additional tasks		.632		
Low budgets for incentives and rewards	.833			
High rate of attrition/ Changing workforce			.818	
Competitors who pay high salary			.693	
Changes in trends and employment laws	.688			

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged in 9 iterations.

Primary sources

Looking at table 1.4 and taking into account the above patterns, we can label the components retained in the model as follows:

PC1– Limiting economic and political factors: Balancing between employee need and business need, low budgets and changing employment laws are the once that are substantially loaded on factor 1. These were the first and most significant component of Challenges in motivating employees from the point of view of the employer. [eigen value 2.524]

PC2– Employee attitude aspects: Motivating temporary employees, expectations of specialized employees reluctance to work extra hours or additional task fall under factor 2 and were found to be the second significant component of Challenges in motivating employees from the point of view of the employer. [eigen value 2.055]

PC3– External threats: High salary payers and attrition are substantially loaded on factor 3 and were the third significant components of Challenges in motivating employees from the point of view of the employer. [eigen value 1.267]

PC4– Diversity factor: Managing cross-cultural diversity fall under factor 4 and was the fourth significant component of Challenges in motivating employees from the point of view of the employer. [eigen value 1.118]

VI. FINDINGS AND DISCUSSION

The struggles for startups are many but attracting and retaining talented employees are the most difficult task for any employer, reasons for which are explored in the study. The credibility of a startup is in doubt when employers fail to recruit suitable talent in their organization. Employers of startups lack a proper system to manage and engage employees. It was found that often in a run to gain wealth and popularity they fail to communicate the vision of their organization to their employees. Thus, with an unclear vision often the employees feel de-motivated, which is caused due to the lack of proper system and awareness. Their obstacles don't end here, limiting economic and political factors, the attitude of employees towards work, attrition, competitors who pay high and also at times cultural diversities all of which are uncertain but are tough challenges to the startup employer. Even monetary motivation being a major factor, fails to encourage employees with multiple roles. From the above pieces of literature and also from our research

findings we can infer that it is a common problem almost all startups face i.e. their manpower juggling with multiple roles and responsibilities due to which Startup employees are very difficult to attract and retain.

The success of any company lies not only on an innovative idea launched by its owner but it is also backed by the support and hard work put in by the entire team. Therefore, it is necessary for employers to keep in mind how to create a team full of motivated employees. Attempt should be made not to orchestrate the retention strategies in isolation but by ensuring that it forms an integral part of the overall strategies fortifying the pull on the human talent. This generates the need for proper motivational and retention strategies to be employed beforehand, all of which have been suggested in the study.

VII. SUGGESTIONS

- To connect and empower team also to avoid the issue of awareness, set a common and clear language with employees.
- Maintain the transparency of information with employees so that they feel more connected to the company.
- Make the employees feel that their efforts have made a difference to the company productivity by providing them with timely feedback and rewards.
- While hiring, keep in mind not to hire just to fill in hiring requirements rather make efforts to associate right talent to right job.
- Be very transparent with incentive and reward policies so that the employees might realize the worth of their efforts.
- Contribute to employee career and knowledge through training and development.
- Offering chances of new learning will encourage employees to be regular at work also help in addressing the attitude aspects of employees.
- To avoid external threats engage employees in challenging task because more than money what matters to them is opportunities to grow in their knowledge by learning new things.
- Keep the door open for employees and be approachable to them.
- In order to manage cross-cultural diversities give room to the viewpoints of the employees from different backgrounds, more the variety of opinions, more is the creativity.

VIII. RESEARCH IMPLICATIONS

Based on the conclusions derived from an in-depth and comprehensive study, few implications can be drawn out:

- The study adds a base for the startups in the research world.
- The research will benefit the employers to know what all issues and challenges they may come across while motivating their employees.
- They will have an idea about what de-motivates their employees.
- Lastly, it creates a roadmap for startup employers, helping them address the issues and overcome the challenges.

IX. SCOPE FOR FURTHER RESEARCH

The primary data for research was collected from the employers especially the founders, co-founders and managers of 35 startup companies situated in the South-east Bengaluru region mostly male entrepreneurs. The researchers in future may focus on other parts of Bengaluru and on female entrepreneurs. They can also take up a larger data size for further research that focuses on other issues and challenges of HR in startups.

X. CONCLUSION

Startups in today's global scenario are famous for their uniqueness and innovations such organizations need various types of resources but to use these resources and to bring the best out of it they have to give equal importance to their human resources, as they define the organization not only in their success but also in their difficult phase especially for a startup. Therefore, taking care of this resource is considerable for the long-term sustainability in the market. Conclusively, research reveals that the startup employers must focus on creating an environment for employees where everyone feels valued, where communication is free and unbiased, where the perspective of employees are also considered while taking decisions. When employees feel their voices are heard and respected, they automatically feel motivated and also find it more convenient to work in the same environment. Appreciating and recognizing the employees for the overall success will motivate them and will give them a sense of belonging and ownership in their work but at the same time, the employer must not forget to be a critique too. Critical feedbacks are essential, but employers must think about the formulas they adopt for feedback. It should be delivered in such a way that the employees accept the criticism sportingly, to avoid past mistakes and perform better. This study has not only highlighted the issues and challenges faced by the employer but also introduced ways to overcome it. The employer must know and understand what motivates his employees to perform best and most importantly should use these suggestions to retain the employees. This is the only way to bridge the gap to encourage and expect the best out of your employees.

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