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'I hereby acknowledge that I have read this works and in my opinion this works is sufficient in terms of scope and quality for the submission and award of a Bachelor Degree of Technology Management (High-Technology Marketing) with Honours'

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THE RELATIONSHIP BETWEEN LEADERSHIP STYLE AND EMPLOYEE
RETENTION

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DECLARATION

"I hereby declare that this thesis entitle "The Relationship Between Leadership Style and Employee Retention" is my own work except for the quotations summaries that have been duty acknowledged"

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DEDICATION

I would like to dedicate the appreciation to my family members who supported me from spiritually and financially, beloved supervisor and panel who guided me throughout the research, my course mates and housemates that assisted me through the journey of research.

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ABSTRACT

This researcher shown the relationship between leadership style and employee retention. The purpose of this study is to determine among all the leadership styles, the chosen transformational leadership and transactional leadership, which has the higher impact towards employee retention among Gen Y. The relationship between transformational leadership and transactional leadership style with employee retention was test to evaluate the strength of each variables toward employee retention. The survey data is collect among Generation Y in Negeri Sembilan via the spreading questionnaires and the data will then be analysed by applying Statistical package for social science with descriptive analysis, correlation analysis, and multi regression analysis. The result shows that both of the leadership style has a significant positive relationship toward employee retention. However, transformational leadership have a higher impact on employee retention among the Generation Y in Negeri Sembilan.

Keywords: employee retention, transformational leadership, transactional leadership

ABSTRAK

Kajian ini bertujuan untuk mengkaji hubungan antara corak kepimpinan dan pengekalan pekerja. Tujuan utama kajian ini adalah utntuk mengkaji corak kepimpinan Kepimpinan Transformasi dengan Kepimpinan Transaksional ke atas Generasi Y. Antara kedua jenis kepimpinan ini, Kepimpinan Transformasi mempunyai impak yang lebih tinggi ke atas Generasi Y di Negeri Sembilan. Data kajian ini akan dianalisis oleh program Statistical Package for Social Science. Keputusan kajian ini menunjukkan bahawa kedua-dua jenis kepimpinan mempunyai hubungan secara langsung terhadap pengekalan pekerja. Manakala, Kepimpinan Transformasi mempunyai impak yang lebih tinggi berbanding kepada Kepimpinan Transaksional terhadap Generasi Y di Negeri Sembilan.

Kata kunci: Corak Kepimpinan, Kepimpinan Transformasi, Kepimpinan Transaksional.

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ABBREVIATIONS	MEANING
ANOVA	Analysis of Variance
H0	Null Hypothesis
H1	Alternative Hypothesis
SPSS	Statistical Packages for the Social Science
TFL	Transformational Leadership
TSL	Transactional Leadership
ER	Employee Retention

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CHAPTER ONE

INTRODUCTION

1.0   Chapter Introduction

This chapter discussed on the background of this research paper, the problem that trigger the research questions and leads to the research objective. The background involved a brief elaboration on a few key elements in this study such as the issue arise with the problem identify and the possible solution suggested. This chapter further discuss on the rationale of this study, scope of research and the limitation faced. This study is able to bring benefits to the local organization on the best leadership style to emphasize on and benefits for student as the researcher; ideas and suggestions obtained. The scope of this study will only limited to one area in Malaysia and a specific age group of respondent tested only.

1.1   Background of Studies

High turnover rate have a significant impact towards the organization. Cost involved in rehiring and training new employees. Besides from the high cost involved in recruiting, there will be an obvious operational disruption as the position will be remained empty where other personnel will have to take over the task. Employee whom needs to takeover other job will have extra burden and workload, unhappy experience might be stimulated and dissatisfaction towards job will grow. Key

knowledge and experience regarding the positon will be lost together with the resigned employee, time and effort has spent to build the position. In some cases of service or contract business, customer might leave with the employee as they have built a mutual trust and loyalty throughout the services provided (George & Cary, 2016).

Employee retention is to reduce voluntary turnover, lower intentions to leave, enhanced productivity, more committed and satisfied employees and the effective management of retention practices. Factors of retention are compensation; job characteristics; training and development opportunities; supervisor support; career opportunities and work–life balance (Coetzee and Stoltz, 2015).

A good retention strategy is able to monitor the behaviour of employees and prevent employee from leaving the company voluntarily. It is not only the responsibility of the Human Resource (HR) department but it also includes all the higher management to have an effective strategy (Gary Dessler 2015). The management action and decision is mostly the cause and reason that leads to a voluntary turnover. When an employee chooses to leave a company, they are most likely unhappy about the organization or another party is able to offer them more incentives (Stephen Taylor, 2002). Keeping the talented and skilful employee in the company will contribute to higher performance and result in a better job satisfaction to both the individual and to the company. Leadership is the most important aspect of the management. It is the trust and faith leaders should have in the employees to build the air of harmony and peace for smooth business operations (Chitra, 2013).

Employee retention framework normally based on the company's strategy; however, there are a few common attributes of it. There are researcher that categorised the employee framework based on a few different fits such as the job fit, culture fit, career fit and engagement and motivation. The four fits are further categorised into different attributes of their own (Mlinar, 2012). Some researcher also suggest the importance of opportunity for growth, job satisfaction, relationship with the organization leader, benefits received and work recognition.

Leadership is about influencing, mobilizing, motivating, inspiring, and enabling people to gain their greatest capacity. Leaders are expected to have a set of

skill or style of their own to guide people and assist in performance (Tony Kippenberger, 2012). The traits of leaders distinguish them from the other managers. Management and leadership uses power and authority however, management imply position power which means, enhance skills depending on the individual's position whereas, leadership imply the personal power which, enhance skills depending on individual's own uniqueness.

There were many theories and types of leadership developed by researcher and leadership expert throughout the decades. To simplify all the theories, author Bovee and Thill summarize all the types of leadership based on their common traits and attributes. They simplified the existing theories into three simple type. The three types discussed is a short description on all the leadership styles.

Type 1: Autocratic Leadership

Highest authority or manager has the sole decision-making. They give orders to subordinates; subordinates have minute or no freedom to make decision or contribute to suggestions. This leadership style will causes subordinates to have low self-esteem and do not have initiative to excel. However, this style is essential in leading the company through difficult situations or dealing with difficult subordinates.

Type 2: Democratic Leadership

Manager and subordinates will participate in the decision-making process. Leaders that enforces this kind of leadership style also known as the collaborative leaders. Subordinates are encourage to join in the discussion on any decision-making and planning. The limitation of this leadership style is the delay in decision-making, as many opinions have to take into account. Opportunity might be slip away during discussion. Democratic leadership style is still highly implemented by organization as it encourages communication and subordinates are motivated to perform and provide ideas.

Type 3: Laissez-Faire Leadership

Subordinates will decide on the overall planning and decision-making. Managers will only give opinions or coach subordinates (Bovee & Thill, 2014). This leadership style do not have high satisfaction among employee as they often do not reward or satisfy the needs of subordinates. Laissez-faire leaders are normally used to keep the organization harmony or when external opinions is needed in the organization (Asrar-ul-Haq & Kuchinke, 2016).

However, this research paper solely discussed on the transformational and transactional leadership style. Leadership expert James Mac Gregor Burns initially developed transformational and transactional leadership style. Burns explained that transformational leadership style is for the new followers of this century. It encourages followers and increases the standard of morals and beliefs among them. Transactional leadership emphasize on the exchange and negotiation of benefits between leader and follower. In the later of history, Bernard Bass redefined this two theories into different attributes and a concise framework (Metwally & El-bishbishy, 2014; Wells & Welty Peachey, 2011). Leadership style is one of the retention method that can effectively work. Different leadership style can affect employee's behavior toward job satisfaction, work commitment and intention to leave a company.

Researcher that study on these factors only focuses on the relationship with the organization leader (Adekanbi, 2016). There are further studies that claims the relation of employee engagement is directly proportional to employee retention. These researcher claims that employee will only be willing to stay and contribute to the organization performance if they have high engagement with the organization activities (Hansen, Byrne, & Kiersch, 2014; Albrecht, et al., 2015). This research paper will compile the essence of employee retention from previous studies and describe it in financial reward, job characteristics, career development and recognition received.

1.2   Problem Statement

There has been a drastic turnover rate from the last few years. Organization are finding it difficult to retain employees for more than a year. There are 27% of employees changes work annually, 17 % are actively job-hunting and 46% are passively searching for a new job. Further studies shows that globally, there are 66 % of employees looking for new job or prepares to change job. This shows that employees are not engage in work and the company is constantly hiring and seeking for new talent for the company (ADP Research Institute, 2017).

The biggest challenge for business leaders in 2017 is to retain talents in organization. Employees now look higher compensation, recognition, opportunity to grow and flexibility in work (Schawbel, 2016).Every organization will create their very own retention framework as a guideline to assist the company's management in administrating the employees in company and keep the talented employee. It is crucial to be able to keep the potential employee, as they are able to help the company in performing and have a higher achievement. Leaders hold the role of finishing task through employees, dominating power over the people and direct change to a better journey. Leaders are one of the people that formulates the retention strategy for the organization but the doubt still exist. Is the type of leadership relevant when it comes to retain the employees in organization (Chitra, 2013).

Previous studies has not conducted in-depth studies of the relationship on how the attributes of leadership affect employee retention. There are studies that shows the effect of leadership style towards the commitment of employees toward work (Busler, 2011). There are paper that shows leadership style is able to affect the intention of employee to turnover but through the influence of affective commitment (Chami-Malaeb & Garavan, 2013). There is similar research on relationship between leadership style and employee retention, but it was conduct in Nigeria and on a very specific bank only (Adekanbi, 2016).

1.3   Research Questions

From the main problem stated there are a few questions to be ponder upon that trigger the aim of this research paper.

i.   What is the relationship between transformational leadership and employee retention?

ii.   What is the relationship between transactional leadership and employee retention?

iii. Which leadership style (transactional and transformational leadership) has the higher impact towards retaining employee?

1.4   Research Objective

i.   To identify the relationship between transformational leadership and employee retention.

ii.   To identify the relationship between transactional leadership and employee retention.

iii. To validate the relationship between transactional and transformational leadership style towards employee retention among Generation Y in Negeri Sembilan.

1.5   Rationale

Reinforcing the employee retention through the impact of different leadership can assist in the organization improvement. If employees are engage with their work, they will be able to be committed and perform well in the organization. Once the relationship between managers and employees are strengthen, there is a high possibility that employees will stay at the organization. It is crucial to retain the right talent for the organization. (ADP Research Institute, 2017). Identifying the best

leadership style to retain young employees, organization can reduce the risk of losing talents and able to efficiently target performance.

This studied topic allowed student to understand the relationship between leadership style and employee retention. There will be a new perspective to focus on in the employee retention approach; students as part of the future employees will be able to communicate better with leaders. New options and angle may be explored by both parties while most importantly, there will be a decline in the turnover rate of employees. As a future employee ourselves, it is relevant to be able to identify the types of leaders we will like to work with and will able to efficiently assist us to grow. A glimpse of what compensation and motivation to expect in future will be acknowledge.

1.6   Scope of Studies

This research paper discussed on the impact of both leadership style towards employee retention. Transformational leadership consist of four different types of attributes whereas transactional leadership consist of three different attributes. This study focus on the employee satisfaction toward job and employee engagement of the employee retention.

The target respondent of this research are individual of Generation Y in Negeri Sembilan. This age group is targeted because on average each individual will have a steady permanent work by the age of 23 years old. Targeted respondent are younger than year 41 as many employees are a mentor, coach, manager or holds any kind of leadership role by this age range. Therefore, to increase the accuracy of data, a specific age range is take into account.

1.7 Limitation of Studies

The limitation of this study is that students only given 24 weeks to finish this research paper. This constraint student to study on the chosen topic as there is a bounded period to complete the work.

The studies only targets a certain age range at a fix location. The respondent only represent a very small group of people as compare to the whole employee nation. There might be a bias among the selected respondent. There is no fix industry in this study; there might be a difference in perspective based on the industry of work.

This paper does not discuss other attributes of employee retention and leadership styles in this paper. There was so many employee retention models from previous studies and organization. However, this research only focuses on a few traits. The leadership style discussed only focuses on Transformational and Transactional styles; there are many more that is not mention in this study.

1.8 Chapter Conclusion

This research started with the issue of high turnover rate occurred. Following with this issue, the solution to retain employees has proposed. The inspiration of solution starts with the leadership style because leaders are the main and core employees of an organization to lead and create goals for followers. The study then continue by creating research question and research objectives; the objectives of research will then be the core guide of the research to stay on track. All the elements are then build based on the objectives and purpose of studies. Limitations are take into account as a future reference or those who hopes to expand the study.

CHAPTER TWO

LITERATURE REVIEW

2.0   Chapter Introduction

This chapter explained on the theory of employee retention, transformational leadership and transactional leadership. Employee retention has a few models discovered by many other researcher and organization, however, this paper will only study on the few common traits that is most used by organization. The factors discussed in this paper are the financial reward, job characteristic, career development and recognition. Transformational leadership also known as the charismatic leadership style. It emphasize on the motivation of leaders given to employee to promote job satisfaction. The attributes of transformational leadership are idealized influence, inspirational motivation, intellectual stimulation and the individualized consideration. The same expert as transformational leadership develops transactional leadership, however this leadership style emphasize on the transparent and just reward system. The reward system discussed in this leadership style is on the financial reward. The traits discussed in this paper are the contingent reward, active management by exception and passive management by exception.

2.1   Employee Retention

Employee retention is a process where employees are encouraged to remain with the organization for the maximum period of time or until the completion of the project. Retention strategies assist organization by providing effective employee communication to improve commitment and enhance workforce support for key corporate initiatives (Kaur, 2017). It is also to identify and manage the reasons for both voluntary and involuntary turnover. Reasons affecting turnover is identifies as pay, promotion opportunities, work-life balance, stress, career development, health care benefits, length of commute, retirement benefits, nature of work, company culture and relationship with supervisor/ manager (Dessler, 2015).

Employee intention to stay in an organization is relatively important, as employees are the main resources of an organization to assist the company to perform. Some studies show that the employee retention are affected by the financial reward received, job characteristics, career development, recognition by organization and relationship between employees and leader. Financial reward said to be one of the most basic motivation to retain employee, as it is able to fulfill the basic needs of income to survive. Researcher claim that the financial reward is able to increase the sense of security among employees, thus employees are curious and wish to learn more regarding the pay system of organization (Aguenza, Puad, & Som, 2012). Studies show that employees have higher acceptance in the pay-for-performance policies as this approach is view to be higher in fairness regarding compensation.

Further research also show that employees who have higher needs receives larger reward in this system. This proves that the financial reward is able to meet the needs of employee and pushes employees to have better performance rather than changing their job (Webb Day, L. Holladay, K. Johnson, & G. Barron, 2014). Researcher claims that financial reward is able to increase the sense of safety of employee and follow by another statement that claims that this links to the performance of employee. Financial reward are more promising as other form of reward, it is no wonder that this factor can leads to many forms of employee engagement and performance.

Job characteristic defined as the degree to which the job provides substantial freedom, independence and discretion to the individual to schedule work and determine the procedures used in carrying out. Employees are motivate by task that are relevant to the organization, as they feel appreciated and important in the organization. However, repetitive of work will demotivates employees as employees skills cannot be fully utilized (Aguenza et al., 2012). Employees perceived a working environment where there has more freedom given in decision-making and problem solving has greater meaning and satisfaction.   Employees appreciate when there is a significant in their work done and have higher enthusiasm is work when employees are supportive (Li, Wei, Ren, & Di, 2015). Researcher Aguenza shows that the tedious work for employee will actually causes boringness among employees and the other researcher shows that provided with importance task, employees have higher satisfaction. Both of the research have the same result and proves that employees hope to receive relevant task as part of the appreciation.

Career development also viewed as the career opportunity. When employees have the opportunity to train and build new skills, they are more likely to engage and commit in work, as they are able to build their own competitive advantages. When the individual's need and desire to grow is identified and supported by the company, employees will be willing to stay, as employees are able to enhance their employability in the internal and external labor market (Aguenza et al., 2012). Researcher also explained that the opportunity to allow employee to teach others are one of the important factor for career development. This opportunity given creates a platform for employees where they are able to learn from one another (Furnham, Eracleous, & Chamorro-Premuzic, 2009).

The result show by the above two researcher shows that employees appreciate the chance given for them to explore more of their own skills and hidden talents. When the need to grow and to expand their knowledge is not constraint by the organization, employees have higher satisfaction toward their current job and willing to stay and engage in work. Researcher Furnham shows that teaching others is also a learning platform for employees. It encourages internal learning among employees.