

# DOES OWNERSHIP INFLUENCE THE RELATIONSHIP BETWEEN STAFF TURNOVER AND PERFORMANCE? AN EMPIRICAL INVESTIGATION IN NONPROFIT AND FOR-PROFIT MICROFINANCE ORGANISATIONS

Alexander Pinz

*Paul-Ehrlich-Institut, Federal Institute for Vaccines and Biomedicines, Germany*

Marina Friedrich-Schieback

*University of Mannheim*

and

Julia Thaler

*Universität der Bundeswehr München*

## ABSTRACT

**T**his paper analyses the manifestation of the current management challenge of staff turnover as an empirical phenomenon in nonprofit as compared to for-profit organisations operating within the same industry, and its relation to organisational performance. Based on an in-depth analysis of the microfinance industry, the findings indicate that staff turnover is lower in nonprofit than in for-profit organisations. Moreover, the results show a robust short- and long-term negative relationship between staff turnover and social performance but no robust association between staff turnover and financial performance. Both these effects are independent of ownership type. These results contribute to existing management knowledge on staff turnover as related to proximal rather than distal organisational outcomes, and illustrate that nonprofit as well as for-profit organisations from the same industry have the possibility to install practices offsetting the negative consequences of staff turnover.

**Keywords:** staff turnover; organisational performance; microfinance industry; ownership type

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## INTRODUCTION

Human resources management as relevant to organisational performance has been under investigation in nonprofit management literature for years (Helmig, Ingerfurth and Pinz, 2014). The literature elaborates on nonprofit-specific aspects of human resources working for nonprofit organisations (NPOs), such as a particularly strong commitment (Stride and Higgs, 2014) to the NPO based on the employees' attachment to the organisational mission (Kim and Lee, 2007; Salamon, 2002). Despite this empirically shown strong commitment, the literature also presents evidence for staff turnover – understood as 'the aggregate levels of employee departures that occur within groups, work units, or organizations' (Hausknecht and Trevor, 2010, p. 353) – or turnover intentions as challenging empirical phenomenon in various nonprofit industries (Becker, Antuar and Everett, 2011; Hustinx, 2010; Selden and Sowa, 2015; Walk, Schinnenburg and Handy, 2014). These studies focus on antecedents of turnover, intentions to quit and employee retention, but neglect the relationship between staff turnover and organisational performance. In addition, research has hardly compared the manifestation and performance implications of staff turnover in NPOs as compared to their for-profit counterparts operating in the same industry. This is surprising against the background of increasing competition for staff in sectors where FPOs and NPOs compete, and the assumption that the effect of committed staff leaving the organisations may have strong detrimental consequences for NPO success. Thus, it remains unclear whether staff turnover is a management-relevant variable that managers of NPOs should consider when developing strategies to improve organisational performance.

Against this background, this paper aims to empirically assess the phenomenon of staff turnover in NPOs and for-profit organisations (FPOs) operating within the same industry. Based on an investigation of the microfinance industry as a typical industry where competition between NPOs and FPOs is present, we elaborate on the question of whether staff turnover differs in NPOs as compared to their for-profit counterparts. Second, we analyse the performance implications of staff turnover dependent on the ownership type of the respective organisations.

Applying robust fixed- and random-effects panel regression analyses to panel data of 336 microfinance organisations (MFOs) during the period 2010–2014 that report financial and social performance data to Microfinance Information Exchange (MIX Market; <http://mixmarket.org>), a US nongovernmental organisation that collects and publishes accounting information of nonprofit and for-profit MFOs

worldwide, we find that staff turnover is lower in nonprofit than for-profit MFOs. Moreover, the results indicate a robust short- and long-term negative relationship between staff turnover and MFO social performance but no robust association between staff turnover and financial performance. Both these effects are independent of ownership type.

In doing so, our study contributes to nonprofit management literature in the following way: by showing that staff turnover is prevalent in nonprofit MFOs, and may have detrimental effects on MFO social performance, we close the research gap on staff turnover as management-relevant phenomenon in NPOs as compared to FPOs. This contribution also answers broader calls for further research on the relationship between staff turnover and performance acknowledging ownership structure (Hancock, Allen, Bosco, McDaniel and Pierce, 2013) – that is, investigating contextual variables that potentially influence the staff turnover-organisational performance relationship (Kwon and Rupp, 2013).

## BACKGROUND LITERATURE AND HYPOTHESES

### Staff Turnover in Nonprofit and For-Profit Organisations

NPOs seek to accomplish their specific social mission and are characterised by the nondistribution constraint (i.e. organisations are not allowed to distribute profits, but reinvest generated surpluses in the organisation's mission) (de Cooman, de Gieter, Pepermans, and Jegers, 2011; Hansmann, 1980; Salamon and Anheier, 1997; Hansmann, 1986). To fulfil their mission and secure survival in the long-run, NPOs have to reach certain financial goals (Helmig et al., 2014). In contrast, because private FPOs lack nondistribution constraints, property rights and contract failure approaches propose that they will primarily focus on profit maximisation (Brown and Slivinski, 2006). Consequently, NPOs and FPOs operating in the same industry differ regarding the relative weights of their social and financial objectives.

Similarly, the attitudes people have toward NPOs and FPOs operating within the same industry differ. According to literature on stereotypes, NPOs are linked to warmth and trustworthiness, whereas FPOs are seen as more competent (Aaker, Vohs and Mogilner, 2010; Drebs, Tscheulin and Lindenmeier, 2014; Schlesinger, Quon, Wynia, Cummins and Gray, 2005). Such stereotypes support a view of NPOs as having a strong focus on customer-oriented social service provision, based on their mission statement, whereas FPOs offering comparable products and services are seen as profit maximizers, even when providing social services.

The different attitudes toward organisations with different ownership types implies that people working for NPOs may be inherently different from those working for FPOs. From a theoretical viewpoint, the mission attachment argument proposes that employees of NPOs stay with their employer because they strongly identify with its social mission (Kim and Lee, 2007; Salamon, 2002). In doing so, they often accept lower wages – as discussed in on-going debates about the nonprofit wage differential (Kim and Lee, 2007; Ruhm and Borkoski, 2003) – and perceive new job opportunities to be less relevant. This argumentation is empirically verified in studies by Rycraft (1994) and Brown and Yoshioka (2003), who show that the

mission of an NPO plays an essential role in explaining why employees stay with the organisation. In addition, it might even be more likely that employees working for FPOs consider NPOs of the same industry a better choice with regard to mission fulfilment (Ren, 2013), and thus might leave the FPO to work in an NPO of the same industry. Against the background of this literature, we propose:

**H1:** Staff turnover is lower in nonprofit organisations than in for-profit organisations operating within the same industry.

### **Staff Turnover and Organisational Performance**

Human resources play a crucial role for reaching organisational success. In particular, the resource dependence model (Pfeffer and Salancik, 1978; Yuchtman and Seashore, 1967) proposes that the ability to acquire and maintain resources is most relevant for organisational performance. This concept is also discussed within the resource-based view: valuable and unique resources are predictors of organisational performance (Grunert and Hildebrandt, 2004). Because staff can be such a resource, high turnover may have severe implications for organisational success.

Research in various disciplines has investigated the staff turnover–performance relationship for decades (Hancock et al., 2013; Park and Shaw, 2013). Human (Kiker, 1966) and social capital (Putnam, 1993) theories suggest a linear negative relationship between staff turnover and organisational performance: when experienced employees leave the organisation, a loss of knowledge and competencies occur. In other words, lower performance levels result from human capital loss (Shaw, Duffy, Johnson and Lockhart, 2005). Moreover, the decrease in social relations caused by staff turnover might contribute to organisational disruption (Leana and van Buren, 1999; Shaw et al., 2005; Staw, 1980). In addition, human resource management-related costs, such as recruiting and training expenses, increase (Heavey, Holwerda and Hausknecht, 2013; Park and Shaw, 2013). According to Park and Shaw's (2013) meta-analysis, which compares the linear negative relationship between staff turnover and organisational performance to curvilinear and inverted U-shaped relationships, empirical evidence basically supports this argument (see also Hancock et al., 2013; Hausknecht and Trevor, 2010), particularly in service-oriented industries. Because NPOs are usually operating in service-oriented industries (Venable, Rose, Bush and Faye, 2005), we assume that human and social capital losses due to staff turnover lead to decreased organisational performance for both NPOs and FPOs in the same industry and focus on the linear negative relationship. Thus, we propose:

**H2:** Staff turnover is negatively related to organisational performance in both nonprofit and for-profit organisations operating within the same industry.

### **Differences in the Staff Turnover–Performance Relationship between Nonprofit and For-Profit Organisations**

A theoretical rationale explaining differences in the staff turnover–performance relationship between NPOs and FPOs stems from strategic human resource management. As mentioned above, FPOs primarily focus on profit maximisation (Brown and Slivinski, 2006). Professional management, including strategic investments in human resources to enhance organisational performance, is very relevant for such

organisations (Oppel, Winter and Schreyögg, 2019). By contrast, NPOs predominantly focus on the fulfilment of their mission, and tend to operate their human resource management in a less professional way (Oppel et al., 2019). In line with this reasoning, FPOs compared to NPOs have presumably found better mechanisms to handle staff turnover so that it is less harmful when employees leave the organisation.

Furthermore, according to the mission attachment argument, staff in NPOs are particularly committed to the organisation (e.g. Stride and Higgs, 2014), which may result in particularly high work engagement (Selander, 2015), and thus increased organisational performance (Packard, 2010; Salim, Sadruddin and Zakus, 2012; Wasti, 2005). Thus, staff turnover may have more severe negative performance implications in NPOs than in FPOs. Against this background, we propose the following hypothesis:

**H3:** The negative relationship between staff turnover and organisational performance is stronger in nonprofit organisations than in for-profit organisations operating within the same industry.

## RESEARCH METHOD

### Research Context

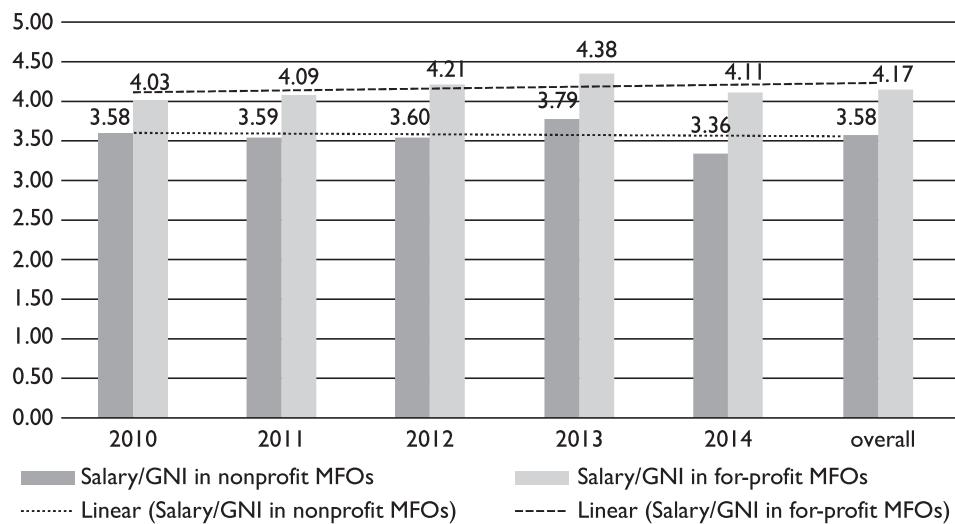
To answer our research questions, we selected the microfinance industry, i.e. an industry in which NPOs and FPOs compete. 'Microfinance' refers to the provision of micro-financial services to low-income people traditionally excluded from the financial system (Arch, 2005; Périlleux, Hudon and Bloy, 2012). Until the late 1980s, mostly NPOs used micro-credits as a tool for poverty reduction (Fouillet and Augsburg, 2010; Chahine and Tannir, 2010). Currently, however, due to commercialisation trends, both FPOs and NPOs operate in this important industry (Ledgerwood, 2013; Périlleux et al., 2012; Servin, Lensink and van den Berg, 2012), and focus on the accomplishment of both financial and social objectives, referred to as a double bottom line (Basharat, Hudon and Nawaz, 2015; Piot-Lepetit and Nzongang, 2014). Whereas nonprofit MFOs primarily focus on social objectives such as number of clients addressed (social performance), and consider the accomplishment of financial goals as a means for this purpose, for-profit MFOs pursue good financial ratios such as profits (financial performance) by providing microfinancial services to low-income people.

### Data and Sample

To analyse the staff turnover phenomenon in the microfinance industry, we use annual data on MFOs published by MIX Market for 2010–2014. This data set contains the most comprehensive and up-to-date global information on MFOs available online (Annim, 2012). In addition, we use World Bank data (World Bank Development Indicators; <https://data.worldbank.org/products/wdi>) for information on financial sector development and macro-economic conditions in the countries under investigation (Vanroose and D'Espallier, 2013).

To ensure high data quality, we included MFOs with at least three diamonds, according to the MIX Market quality system (1 diamond = low-quality data; 5 diamonds = high-quality data). In addition, we used only organisations that reported data in every year of our sampling period. Because we focus on ownership type (for-profit versus nonprofit), we excluded MFOs with missing values on this variable. Moreover, staff turnover had to be reported in at least four waves. Finally, we deleted all cases with more than 10 per cent missing data (Hair, Black, Babin and Anderson, 2014). As a result, we obtained a balanced panel of 336 organisations reporting data in the entire 2010–2014 period. Of these 336 organisations, 186 were nonprofit and 150 were for-profit MFOs operating in the six main developing regions of the world: Latin America and the Caribbean (165 MFOs), Africa (14 MFOs), the Middle East and North Africa (14 MFOs), South Asia (62 MFOs), East Asia and the Pacific (20 MFOs) and Eastern Europe and Central Asia (61 MFOs). The chosen sample reflects a typical nonprofit industry in which for-profits and nonprofits compete, and where the nonprofit wage differential is present (statistically significant at the 1 per cent level) in each year subject to investigation (see Figure 1).

**FIGURE 1: NONPROFIT WAGE DIFFERENTIAL**



### Measurement

The core independent variable of interest is staff turnover (*staff\_to*) as provided by the MIX Market data set. This variable is calculated by dividing the the number of staff exiting the MFO during the period by the average of total staff (end-of-period total staff + staff employed for one year and more) during the year (<http://mixmarket.org>; see also Glebbeek and Bax, 2004; Shaw et al., 2005).

Regarding MFO performance as a multidimensional construct, we applied proxies for both financial and social performance to capture MFO success. Because profits are among the most applied indicators to capture the profitability of MFOs (Pinz and Helmig, 2015), we use net profits (*net\_prof*) (financial revenue – [financial

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expense + impairment loss + operating expense]) as a proxy for financial performance. With respect to social performance, we deploy the breadth of outreach dimension, captured by the number of borrowers (*numb\_borr*), a commonly used measure in this context (Pinz and Helmig, 2015).

In line with previous studies on performance drivers of MFOs, we control for organisational characteristics and macroeconomic indicators. To capture organisational age (*org\_age*), we use MIX Market's categorical age variable (new (1): age < 5 years; young (2): 5 years ≤ age ≤ 10 years; mature (3): age > 10 years). In addition, we measure organisational size as MFOs' total assets (*assets*).

With respect to macroeconomic indicators, we control for country wealth (gross national income per capita; *gni\_cap*), economic growth (growth of gross domestic product; *gdp\_gr*) and financial sector development (number of commercial branches per 100,000 adults; *comm\_branch*). MIX Market reports all monetary values in US dollars.

### Data Structure and Descriptive Statistics

Table 1 shows the structure of our panel data. We have data on 336 organisations for an average of at least 4.5 years per variable. Most sampled MFOs are older than 10 years. The overall mean staff turnover rate is 23 per cent, whereby there are organisations reporting years with no staff turnover, and MFOs having a staff turnover rate of 150 per cent – which is an artefact of the formula used to capture this phenomenon. The between value, i.e. the average staff turnover rate for each organisation, is 15 per cent. Moreover, the within value of 14 per cent shows the change of staff turnover relative to the overall mean. Because the within value is larger than 0 in all variables of interest, we can apply panel data analysis to exploit the longitudinal nature of our data and thus assess the effect of staff turnover on MFO performance.

The mean number of borrowers is 125,197.50 and this variable is heavily skewed. The analysis of the net profits of the organisations in our sample shows that they are profitable (mean = US\$3,835,872); similar to the number of borrowers, the distribution of this variable is heavily skewed. The same holds for assets (mean =  $9.12 \times 10^7$ ; standard deviation =  $2.32 \times 10^8$ ). Thus, these data indicate the presence of outliers, which must be taken into account when conducting the analysis.

**TABLE 1: DESCRIPTIVE STATISTICS**

Variable	Mean	Stand. Dev.	Min	Max	Observations
<i>Key independent variable</i>					
staff_to	overall	0.23	0.20	0	1.5
	between	0.15	0	1.11	$N = 1,527$
	within	0.14	-0.34	1.21	$n = 336$
<i>Financial performance</i>					
net_prof	overall	3,835,872.00	$1.76 \times 10^7$	$-1.10 \times 10^8$	$3.10 \times 10^8$
	between		$1.68 \times 10^7$	$-3.33 \times 10^7$	$2.64 \times 10^8$
	within		5,161,431.00	$-7.72 \times 10^7$	$6.73 \times 10^7$

(Cont.)

**TABLE I: (CONTINUED)**

Variable	Mean	Stand. Dev.	Min	Max	Observations
<i>Social performance</i>					
numb_borr	overall	125,197.50	418,190.80	14	5,452,195.00 N = 1,663
	between		403,932.30	78.80	4,680,417.00 n = 336
	within		102,663.70	-1,099,528.00	1,456,714.00 T-bar = 4.94
<i>MFO characteristics</i>					
assets	overall	9.12*10 <sup>7</sup>	2.32*10 <sup>8</sup>	179,094.00	2.93*10 <sup>9</sup> N = 1,662
	between		2.22*10 <sup>8</sup>	474,702.00	2.12*10 <sup>9</sup> n = 336
	within		6.70*10 <sup>7</sup>	-7.62*10 <sup>8</sup>	9.07*10 <sup>8</sup> T-bar = 4.93

N = number of organisation-years, n = number of organisations

### Data Analysis

We applied t-tests to detect differences between for-profit and nonprofit MFOs with regard to staff turnover (research objective 1 and hypothesis 1). In addition, we ran fixed-effects panel regressions including entity- and time-fixed effects with heteroscedasticity-robust standard errors (clustered on the country level) to shed light on the relationship between staff turnover and performance in relation to ownership (research objective 2, hypotheses 2 and 3). Fixed-effects regression analyses are suitable to control for unobserved heterogeneity (i.e. omitted variables that vary across entities but not over time; Stock and Watson, 2007), so using them can help us assess an unbiased estimate of the within effect of a change in staff turnover on MFO performance. To account for potential endogeneity problems, we lagged the staff turnover variable, and estimated the following model separately for financial and social performance:

$$\text{MFO-performance}_{i,t} = \beta_0 + \beta_1 * \text{staff\_to}_{i,t} + \beta_2 * \text{staff\_to}_{i,t-1} + \beta_3 * Z_{i,t} + \beta_4 * X_{i,t} + v_i + u_{i,t}$$

where MFO performance refers to financial performance (measured in terms of net profits, *net\_prof*) and social performance (captured by the number of borrowers, *numb\_borr*) of MFO *i* in year *t*; *staff\_to<sub>i,t</sub>* is the staff turnover rate at time *t* (short-term effect), *staff\_to<sub>i,t-1</sub>* is its lag (long-term effect). *Z<sub>i,t</sub>* is a matrix of the MFO-specific controls (organisational age [*org\_age*] and size [*assets*]); and *X<sub>i,t</sub>* captures a matrix of the country-specific controls (*comm\_branch*, *gdp\_gr*, *gni\_cap*) in which the MFO is active. Finally, *v<sub>i</sub>* is the unobserved individual effect, and *u<sub>i,t</sub>* is the error term.

In addition, because the effects of time-invariant factors such as ownership cannot be accounted for in fixed-effects regressions, we ran a random-effects panel regression including an interaction term between staff turnover and ownership type to test hypothesis 3. Similar to the fixed-effects regression presented above, we used time-fixed effects with heteroscedasticity-robust standard errors (clustered on the country level). In addition, we controlled for the regions MFOs operate in. Thus, we estimated a regression equation of the following form to analyse whether the effect of staff turnover was stronger in nonprofit than in for-profit MFOs:

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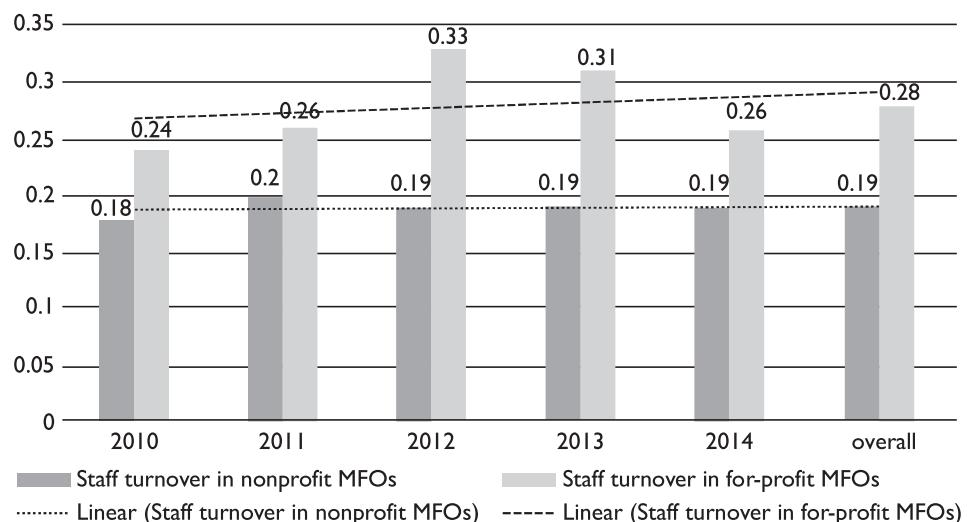
$$MFO\text{-}performance_{i,t} = \beta_0 + \beta_1 * staff\_to_{i,t} + \beta_2 * staff\_to_{i,t-1} + \beta_3 * staff\_to_{i,t} * ownership_{i,t} + \beta_4 * Z_{i,t} + \beta_5 * X_{i,t} + v_i + u_{i,t}$$

## FINDINGS

### Multivariate Analysis

Concerning the manifestation of staff turnover in the microfinance industry, our analysis reveals that it is a relevant phenomenon in both for-profit and nonprofit MFOs. Whereas the former face an average staff turnover rate of 28 per cent, the latter deal with an average staff turnover of 19 per cent. T-tests confirm the statistical significance of this difference at the 1 per cent significance level. As Figure 2 shows, the higher staff turnover rate in for-profit MFOs is prevalent in every year of our sample. Thus, we conclude that staff turnover is lower in nonprofit MFOs than in their for-profit counterparts, in support of hypothesis 1.

**FIGURE 2: STAFF TURNOVER IN FOR-PROFIT AND NONPROFIT MFOs**



The results of our fixed-effects regression analyses (Table 2) illustrate a negative short-term relationship between staff turnover and the number of borrowers in the entire sample, significant at the 5 per cent level. Thus, if the staff turnover rate increases by 1 percentage point, the number of borrowers decreases by 27,642. In addition, there is a long-term effect of the lagged staff turnover variable on social performance significant at the 1 per cent level. In contrast, there is no significant effect of (lagged) staff turnover on net profits. Thus, hypothesis 2 can be confirmed only with respect to MFO social performance.

Finally, the results of our random-effects model (Table 2) confirm the negative short- (1 per cent significance level), and long-term effect (10 per cent significance level) of staff turnover on the number of borrowers. The interaction

term (*staff\_to\*ownership type*) is not statistically significant, indicating that ownership type does not alter the staff turnover–performance relationship. The same holds true for the random-effects regression on net profits in which no significant association between (lagged) staff turnover and the interaction term respectively and financial performance could be detected.

TABLE 2: REGRESSION RESULTS

	Fixed-effects regression		Random-effects regression <sup>1</sup>	
	numb_borr	net_prof	numb_borr	net_prof
staff_to	-27,641.67** (13,256.26)	-1,148,221.00 (899,689.80)	-47,882.82*** (18,073.16)	2,676,698.00 (2,488,645.00)
l.staff_to	-18,930.67*** (6,358.09)	127,855.30 (687,209.40)	-13,178.65* (6,910.03)	18,397.67 (571,059.50)
ownership type (for-profit=1)			11,615.75 (35,159.52)	2,504,525.00 (1,423,334.00)
staff_to*ownership			16,453.89 (11,588.52)	-2,441,078.00 (1,634,368.00)
assets	0.0003 (0.0003)	0.01 (0.01)	0.0004* (0.0002)	0.03** (0.01)
org_age (young)	7,927.16 (7,289.55)	-1,222,495.00* (705,884.10)	20,822.79** (10,098.56)	-766,127.00 (682,083.40)
org_age (mature)	28,573.94** (13,203.00)	-2,088,861.00** (994,131.20)	61,829.87*** (21,783.07)	-946,031.50 (1,174,656.00)
comm_branch	62.07 (68.38)	31,395.59*** (7,329.27)	-55.52 (79.76)	25,929.87** (11,556.12)
gni_cap	-23.20 (22.97)	-1,223.77 (833.75)	-0.34 (7.35)	1198.28 (263.49)
gdp_gr	3,116.03 (2,251.15)	269,668.70** (132,068.80)	2,911.54 (2,342.80)	278,681.80 (174,487.50)
2012	10,722.72 (9,712.13)	945,241.70*** (327,432.60)	-450.53 (6,614.14)	220,803.60 (335,421.40)
2013	23,296.45 (16,896.23)	2,539,225.00** (1,137,928.00)	2,142.99 (10,508.85)	1,072,784.00 (1,100,039.00)
2014	41,530.73 (27,087.88)	2,740,989.00** (1,029,022.00)	15,532.74 (19,645.13)	928,949.90 (1,001,023.00)
const	144,888.00** (60,418.15)	6,455,707.00* (3,533,331.00)	-21,428.43 (62,352.09)	-4,819,660.00* (2,903,278.00)
F-stat./Wald chi(2)	18.57***	14.54***	330.93***	1,177.08***
R2 (within)	0.09	0.09	0.08	0.07

p-values in parentheses; \* p-value < 0.10; \*\* p-value < 0.05; \*\*\* p-value < 0.01

<sup>1</sup> Coefficients on regions are insignificant and not reported because they just serve as control variables.

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TABLE 3: SUMMARY OF ROBUSTNESS CHECKS (COMPARED TO MAIN ANALYSES)

Analyses without time-fixed effects		Analyses without multivariate outliers		Analyses without missing values		NPO sample		FPO sample	
numb_borr	net_prof	numb_borr	net_prof	numb_borr	net_prof	numb_borr	net_prof	numb_borr	net_prof
staff_to	significant*	n.s.	significant**	n.s.	significant*	n.s.	significant*	n.s.	n.s.
l.staff_to	significant**	n.s.	<b>n.s.</b>	n.s.	significant*	n.s.	n.s.	significant*	n.s.
staff_to* ownership	n.s.	n.s.	n.s.	significant*	n.s.	significant*	n.s.	significant*	n.s.

\*  $p$ -value  $< 0.10$ ; \*\*  $p$ -value  $< 0.05$ ; \*\*\*  $p$ -value  $< 0.01$ ; n.s.: non significant  
**bold:** differs from main analyses' results

### Robustness Checks

To check the robustness of our findings, we conducted several sensitivity analyses for both our fixed- and random-effects regressions (Table 3). First, we excluded time-fixed effects. Second, we ran regressions on both the number of borrowers and net profits, excluding multivariate outliers. Third, we re-ran the analysis using a balanced panel without any missing values. Finally, we conducted the fixed-effect regressions separately for nonprofit and for-profit MFOs, which provided us with an alternative way to compare the effect of staff turnover in nonprofit and for-profit MFOs.

Results of these analyses reveal that the short- and long-term effect of staff turnover on social and financial performance is relatively robust. Even though the significance levels are partly reduced, results indicate negative consequences of staff turnover manifesting themselves immediately, and having severe performance implications in the following period. The long-term effect of staff turnover only vanishes if multivariate outliers are excluded from the analysis. However, as no severe measurement errors could be detected, we consider these outliers as part of the overall population, and argue in favour of a long-term performance effect of staff turnover, too. Thus, our robustness checks confirm the support of hypothesis 2 with respect to social but not to financial performance.

Concerning hypothesis 3, robustness checks confirm the non-significant relationship between the interaction term (*ownership\*staff turnover*) and social performance in all specifications. However, when running the analysis without multivariate outliers and missing values, respectively, a significant negative relationship (10 per cent significance level) between the interaction term and net profits could be detected. Running the regression analyses separately for the nonprofit and for-profit samples did not confirm this finding: there was no significant relationship between staff turnover and financial performance nor social performance in either sample. However, we detected a short-term negative effect of staff turnover on social performance in the nonprofit sample (10 per cent significance level), and a long-term negative effect (10 per cent significance level) in for-profit MFOs. These findings confirm our general results of a relationship between staff turnover and social performance, and the finding that there is no association between staff turnover and financial performance.

## DISCUSSION AND CONCLUSION

Regarding our first research objective on the prevalence of staff turnover in NPOs as compared to FPOs operating in the same industry, the findings of our analyses illustrate that staff turnover is significantly higher for FPOs than for NPOs in the microfinance industry in all the years subject to investigation. Thus, in line with the mission attachment argument by Borzaga and Tortia (2016), Kim and Lee (2007) and Salamon (2002) presented above, nonprofit staff seem to be more loyal towards their employer, even though financial compensation may be lower. Consequently, the for-profit microfinance labour market seems more dynamic than its nonprofit counterpart. Nevertheless, because staff turnover presents itself as an empirical

phenomenon nonprofit MFOs have to deal with, the fact that this rate is lower in nonprofit than in for-profit MFOs and below the market average of 23 per cent leads to the assumption that they have found ways to handle this management challenge. Thus, by showing that NPOs can retain their staff even when competition for qualified personnel is intense, our investigation adds to existing nonprofit literature on employee retention and intentions to leave (e. g. Hustinx, 2010; Walk et al., 2014).

Regarding our second research objective, the findings of our fixed-effects regression analyses reveal that, on average, staff turnover has negative implications for the social performance of MFOs. In particular, we detected both short- and long-term effects of staff turnover on social performance (in line with H2). By contrast, the data does not reveal any relationship between staff turnover and financial performance (contrary to H2). These results are in line with Heavey et al.'s (2013) and Park and Shaw's (2013) findings, which indicate that turnover relates more strongly to proximal than to distal outcomes. Proximal outcomes are direct outcomes of organisational activity, such as customer satisfaction or error rates, and distal outcomes refer to financial returns, such as profits generated by the organisation's activities. Because microfinance is a trust-based business, building on close relationships between MFO staff and clients, social performance as measured by the number of clients can be considered a proximal outcome directly affected by staff turnover. If employees leave the MFO, they may take their clients with them (Pinz, 2017), which directly affects MFO social performance. In contrast, MFO financial performance as distal outcome is not necessarily affected by this phenomenon. The negative effects of clients leaving with MFO staff might be counterbalanced by, for example, appropriate management practices that ensure efficient operations or sales activities that offset the decreasing customer base by attracting new clients. Because our study is among the first to elaborate on the performance effect of staff turnover on proximal and distal outcomes in a nonprofit setting, it closes an important research gap prevalent in the nonprofit research community where an investigation of antecedents of staff turnover have been prevalent (Selden and Sowa, 2015; Mor Barak, Nissly and Levin, 2001).

The second research objective also includes an analysis of differences regarding the effect staff turnover has on organisational performance between NPOs and FPOs operating in the same industry. Because we do not find any robust significant differences between NPOs and FPOs regarding the impact of staff turnover on either financial or social performance, we assume that, in a competitive market environment where both ownership-types exist, NPOs and FPOs are characterised by a high degree of professionalisation, i.e. they have established mechanisms to mitigate negative effects of staff turnover. These findings are in line with research by Oppel et al. (2019), who also reveal no differences between the strategic human resource management in nonprofit and for-profit health care organisations, and run counter to the claim that NPOs are *ceteris paribus* less professionalised than their for-profit counterparts.

Moreover, this result is of interest to the ongoing discussion on particularly strong committed employees in NPOs (e.g. Stride and Higgs, 2014), explaining their outstanding contribution to performance (Packard, 2010; Salim et al., 2012; Wasti, 2005). Because the staff turnover-performance effect seems to be independent of

ownership type, we conclude that the mission is equally important in NPOs and FPOs operating within the same industry. Thus, it may be argued that it is not ownership type, but the activities that are conducted in an industry, that drive staff commitment, and, consequently, organisational performance. This finding adds to the literature on mission attachment (Kim and Lee, 2007; Salamon, 2002) by showing that FPOs operating in a social sector may benefit from clear social objectives too.

As is the case with all empirical studies, our findings must be considered in light of the chosen research design and the resulting panel data analysis. First, even though the MIX Market data are frequently used in microfinance research, some disadvantages of this data set must be kept in mind. The data are self-reported. In addition, though their representativeness has increased in recent years, as more MFOs have reported to MIX Market for transparency reasons, these data still are not representative of the microfinance industry (Vanroose and D'Espallier, 2013). Second, using the MIX Market data set does not allow us to distinguish between both full- and part-time employees as well as voluntary and involuntary turnover due to the provided aggregate measure of staff turnover. This fact might bias our results. Potentially, voluntary staff turnover harms MFOs more than involuntary turnover. However, Heavey et al. (2013) find in their meta-analysis that the type of turnover does not have a moderating influence on the turnover–performance relationship.

To sum up, this paper sought to assess the manifestation of staff turnover and its performance impact in NPOs and FPOs operating in the same industry. Building on an investigation in the microfinance industry, this study provides first insights into the phenomenon and its effects on organisational performance dependent on ownership type. Keeping the limitations of the available data in mind, it serves as a starting point for digging deeper into the topic, and offers several avenues for further research with the potential to close research gaps of this up-to-date, under-researched empirical phenomenon in the nonprofit sector.

First, further research could analyse the generalizability of these results in other industries where NPOs and FPOs compete. For instance, the impact of staff turnover on both proximal and distal performance outcomes could be investigated in the health or social services sector where both NPOs and FPOs provide similar services. In addition, it would be worthwhile exploring if staff turnover is generally lower in NPOs and FPOs operating within the same industry.

Second, because our analysis focused on staff turnover as an independent variable, we could not generate any knowledge concerning the reasons why staff leave their organisations. By investigating mission attachment, but also wage levels and human resource management practices in both organisation types, researchers may find ways to reduce staff turnover rates to an optimal level. Similarly, researchers could elaborate more on the management practices that MFOs use to offset the negative effects of high staff turnover rates, such as a decreasing customer base, and draw conclusions with regard to NPOs in general.

Third, further research might dig deeper into the analysis of temporal effects of staff turnover by theorising on different time periods between staff turnover and performance outcomes and empirically assess them in further longitudinal

investigations (Hancock et al., (2013). In addition, different turnover types (voluntary versus involuntary; turnover of part-time versus full-time staff) should be taken into account when conducting studies on the implications of staff turnover on organisational performance because they may have different effects in this regard.

This study shows that staff turnover is an empirical phenomenon NPOs competing with FPOs in the same industry have to, and manage to, deal with. Thus, it confirms the notion of staff being a valuable resource for NPO activities that should be retained. Only if NPOs find good management techniques to mitigate performance implications of staff turnover can they assure their long-term survival in competitive markets.

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