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## A Literature Review of Factors Causing Employee Turnover in Indonesian Banking

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### **Abstract:**

*Employees are assets for a company, therefore the company should maintain its employees for the benefit of the company in reaching the objectives and the employees can stay working at the company in the long term. The investment in training and development for employees will need more time and higher cost, this investment will vanish when employees exit and working at other companies. The higher employee turnover rate will cause more negative impact for the company, and therefore it should be maintained at the controllable rate. The way to control turnover is by understanding the factors that cause the turnover.*

*The employee turnover rate in Indonesia Banking industry is relatively higher compared to the employee turnover rate in financial sector at the advance country such as Singapore. The factors are considered to cause the turnover in Indonesia Banking industry can be from internal factors and external factors. The internal factors are : (1) leadership, (2) compensation, (3) working environment, (4) performance appraisal system and (5) work-life balance. The external factors are: (1) location, (2) personal problems and (3) opportunities elsewhere.*

**Keywords:** Asset, Employee, Turnover

### **1. Background**

Human capital theory assumes that employees are the company's assets. Company investment to employees will generate decent returns for the company (Baron and Armstrong 2013). Companies that are realizing the importance of employees in achieving organizational goals will make any efforts in order the employee's ability reliable, so that, many companies are doing long-term investment for employees, one of them through training and development of employees. Investment incurred for employee training and development requires considerable cost and the cost of the investments made will be lost if the employee leaves the company and work in other places (Mello, 2011, Yao and Cui, 2010). If an employee leaves the company and work in other companies, in addition to the cost of the investments made, the company will also experience a lot of problems especially if the employee leaves the company are relatively much. High employee turnover will result in the company's productivity and ultimately affect the performance of the company (Iqbal 2010, Ensmann 2002, Pinkovitz et al., 1996, White 1995). Therefore, it is important for companies to maintain a low level of employee turnover and retaining employees to work in the long term.

The survey results of PriceWaterhouseCoopers (PWC) Indonesia in 2012 and 2013 to 100 senior employees in Indonesian banking, showed that the annual employee turnover rate is relatively high in the Indonesian banking. In the Year 2012, there were 69% of respondents stated that the turnover rate in the Indonesian banking stood at 5% to above 20%. In 2013, there were 73% of respondents who answered the turnover rate in the Indonesian banking at the 5% to above 20%. Turnover rate of 5% to above can be said to be relatively high, it is when compared to the turnover rate per year for the financial sector in developed countries such as Singapore that has turnover rate per year 1.3% (MOM 2013). As described above, turnover has more negative impact to the company. High turnover rate which will provide a greater negative impact to the company. Therefore, banks in Indonesia need to manage the turnover rate of employees to be at the numbers that are not too high.

## 2. Turnover

Some understanding of turnover among others are described as follows: (1) Shahnawaz and Jafri (2009), defines turnover as the rate of change in the number of workers in an organization in a given period. (2) Abassi and Hollman (2000), defines turnover as the rotation of workers in the labor market, may occur between companies, between jobs and between workers and the unemployed. (3) Rossano (1985) defines as a stop voluntary turnover of participation in employment in a company, excluding pension, or retirement with forced out where someone is out to receive financial compensation from the company. From the above explanation, briefly turnover can be interpreted as the release of an employee of a company with a cause and a variety of different reasons that depends on the type of work and the type of industry in which an employee works.

## 3. Causes of Turnover

Many opinions that explain the causes of an employee wants to get out of a job or a company and looking for a job in another company. As can be seen in Tab 1 below, which is a summary of the previous authors.

Shah et al. (1998)	Lowe (2004)	Iqbal (2010)	Branham (2012)
<ul style="list-style-type: none"> <li>• Location of the company</li> <li>• Benefits</li> <li>• Poor relationships with supervisors</li> <li>• Better salaries elsewhere</li> <li>• Little appreciation from supervisor</li> <li>• No career advancement</li> <li>• Personal reasons</li> <li>• Stress</li> <li>• Misfit of person and job</li> </ul>	<ul style="list-style-type: none"> <li>• Pay/pay process</li> <li>• The Attendance System</li> <li>• Distrust of management</li> <li>• Management lack of concern</li> <li>• Manufacturing environment</li> </ul>	<ul style="list-style-type: none"> <li>• Personal factors and employee attitude</li> <li>• Performance appraisal and feedback</li> <li>• Lack of recognition</li> <li>• Lack of personal and professional advancement</li> </ul>	<ul style="list-style-type: none"> <li>• The job or workplace was not as expected</li> <li>• The mismatch between job and the person</li> <li>• Too little coaching and feedback</li> <li>• Too few growth and advancement opportunities</li> <li>• Feeling devalued and unrecognized</li> <li>• Stress from overwork and work-life balance</li> <li>• Loss of trust and confidence in senior leaders</li> </ul>

Table 1: Summary Causes of Turnover

From Table 1 above, it can be explained that the causes of employee turnover occurs due to various factors, but generally can be divided into the causes of turnover of the company's internal and external factors cause the turnover of the company. Internal factors can usually be controlled by the company or within the control of the company, while external factors beyond the control of the company or can not be controlled by the company. Factors that cause internal turnover of the company such as (1) leadership, (2) compensation, (3) work environment (4) performance appraisal system and (5) work life balance. Meanwhile, the factors that cause an external turnover of the company such as (1) location, (2) personal problems and (3) opportunities elsewhere.

## 4. Impact of Turnover

The impact of turnover can be positive and negative impacts, but based on the opinions of the authors earlier, more are found relatively high turnover and uncontrolled will more negative impact on the company, as can be seen in Table 2 below.

Positive Impact	Negative Impact
<p>The companies will always get new employees with new ideas that the company needs (Shahnawaz and Jafri 2009).</p>	<ul style="list-style-type: none"> <li>• Uncontrolled turnover will affect the productivity of the company and in turn affects the activity of other companies parts (Iqbal 2010)</li> <li>• High financial cost, exit problems, productivity losses, negative impact on customer service, loss of expertise, loss of business opportunities, administrative problems, dan disruption of social and communication networks (Philip dan Connell 2003)</li> <li>• Direct cost: replacement, recruitment &amp; selection, temporary staff, management time. Indirect Cost : morale, pressure on remaining staffs, cost of learning, product/ service quality dan the loss of social capital (Dess dan Shaw 2011)</li> </ul>

Table 2: Summary of Turnover Impact

From Table 2 it can be seen that the turnover can be positive and negative for the company. If turnover is not too high, it can be a positive impact for the company, for example, turnover can still be used as a source for certain employees with specific skills needed by the company. However, if the turnover is relatively high and uncontrolled, it will certainly have a negative impact on the company because of things like described above. For example, the presence of a lot of costs to be incurred by the company either direct costs or indirect costs, which in turn will affect the productivity and performance of the company or the loss of a good talent because employees quit and work somewhere else.

To reduce employee turnover, one of which is to find out why an employee wants leave a company, how to determine the factors that may be the cause of an employee wants to get out, to determine the factors that cause these companies are expected to correct existing deficiencies during this so as to conform to what is expected by employees, so that employees can survive in the company in the long term and employee turnover can be reduced, if it can not be stopped. This also applies to the banking sector in Indonesia, in which to reduce employee turnover, which are generally in figure 5% to above, therefore need to be analyzed the contributing factors.

### 5. Suspected Factors Causing Employee Turnover in Indonesian Banks

Factors that lead to employee turnover in firms outside the banking sector based on previous literature studies is as described above, which can be caused by internal factors and external companies. Factors that cause internal turnover of the company, namely (1) leadership, (2) compensation, (3) work environment, (4) the performance appraisal system and (5) work-life balance. Factors that cause external turnover of the company, namely (1) location, (2) personal problems and (3) opportunities elsewhere. Factors that cause employee turnover can also apply to the banking sector in Indonesia, and is thought to be factors that cause employee turnover in the banking sector in Indonesia, as can be seen in Figure 1 and the description below.

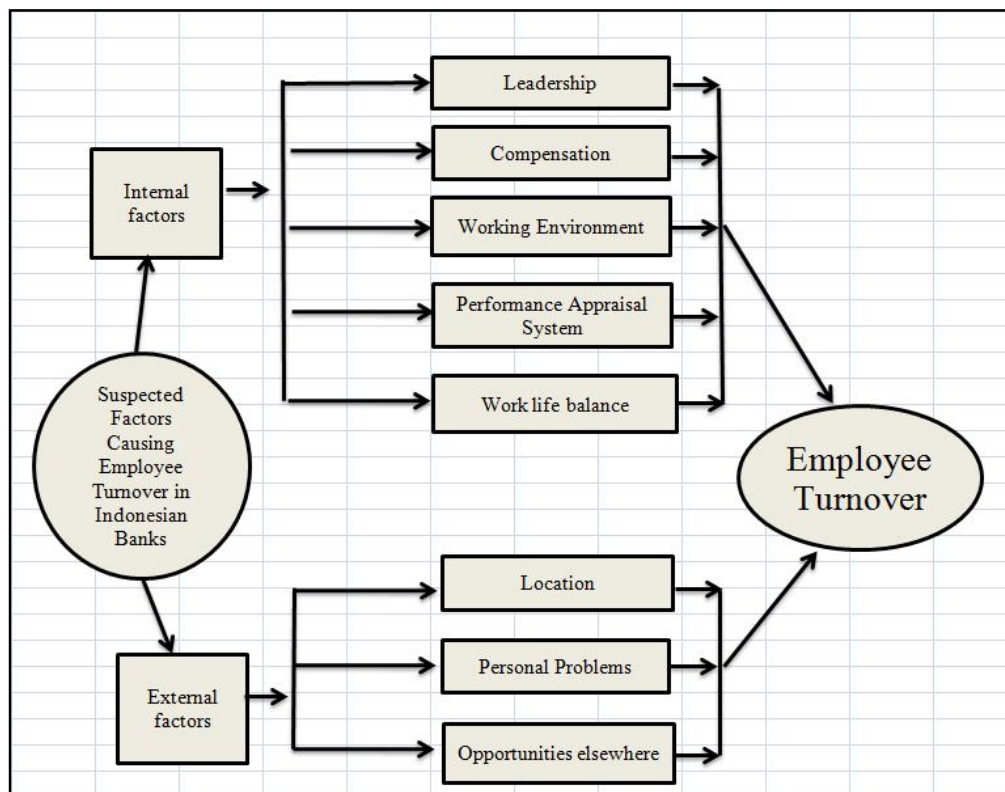


Figure 1: Factors Allegedly Causing Employee Turnover in Indonesian Banks

### 6. Leadership

Leadership is a process of influencing the activities of individuals or groups to achieve the objectives in certain situations (Gitusudarmo and Sudita 1997). Trust employees to his superior leadership skills are very important, especially if you find it difficult things associated with his work, in which the source of the last boss for a job-related solutions.

Leadership skills an employer is one factor that makes an employee leaves the company. This is in line with the opinions Branham (2005, 2012) in which the loss of trust and confidence to the boss is one of the causes employees to find another job in another company. Leadership is also associated with the ability of employers to provide motivation in various forms to his subordinates in order to improve the performance of its employees, or the boss is as a motivator subordinate. If the employer is unable to provide motivation in the form of appreciation to his subordinates can make subordinates feel undervalued and may have an impact on the cause of the release of the employees of the company (Shah et al. 1998).

In the banking world, a boss is very dominant role in determining an employee to stay or to leave the company, because of jobs in the banking sector is closely related to the business risks in their daily activities and loads of different jobs with jobs in other sectors, so that the supervisor's leadership will determine and influence the persistence of a employees at a bank (Sakina 2009).

### 7. Compensation

According to Snell and Bohlander (2010), are all forms of employee compensation payments and awards received by the employee as a result of performance associated with the job. Snell and Bohlander (2010) explains that the compensation policy of a company's

strategic aims: (1) as a reward for the performance of the employee's previous assessment period, (2) in order to remain competitive in the labor market, (3) to maintain justice in the payroll system employees, (4) to align the performance in future with the company's objectives, (5) to control the budget compensation, (6) as an attraction for new employees and (7) to reduce employee turnover.

Compensation can be in the form of financial and non-financial. Financial compensation including salary, bonuses and other benefits received in the form of materials or in the form of cash or cash. Non-financial compensation can be in the form of promotion of employment and other awards that are not in the form of materials or cash. Salaries, bonuses and other benefits are the factors that determine an employee to continue working or stop of a company, as presented by Lowe (2004) and Shah et al. (1998) as described above

In the Indonesian banking sector, as well as generally applicable to the financial sector in other countries, the compensation factor is also considered one of the attractiveness of an employee chooses his job. This is in line with the PWC survey Indonesia that compensation is one of attraction works in the banking sector in Indonesia (PWC 2013). It is common knowledge the banking sector is one of the sectors that provide salary and other benefits are greater than in other employment sectors, because it is a job in the banking sector has the workload and the risk that exceeds other employment sectors. Therefore, the issue of compensation for both financial and non-financial regarded as one of the causes of an employee last worked in a bank or looking jobs in other places.

### **8. Working Environment**

Working environment as expected make an employee feel comfortable in the work so that it can make an employee survive to keep working at a company. The working environment in this case, including the facilities and equipment available to support the work of employees. Uncomfortable work environment is any one of the causes of an employee stops working and looking for another job (Lowe 2004, Branham 2012).

For jobs in the banking sector, the comfort of the working environment is the main thing, because it is associated with stress and workload are relatively larger than the other employment sectors. Generally, working in a bank environment better than the working environment in other sectors. Therefore, a comfortable working environment in a bank is the main attraction for employees in choosing where to work and is one of the reasons a bank employee stops working (Sakina 2009). If working in a bank environment uncomfortable, while comfortable conditions indispensable to offset the pressure and workload, would be able to cause an employee at a bank to find another job in another company or another bank.

### **9. Performance Appraisal System**

According to Iqbal (2010) performance appraisal system that does not match the expectations of employees is one of the causes of an employee quit and find another job. In the banking sector, system or process performance assessment will determine an employee's career path and is also closely related to the increase in annual salary as well as his big bonus to be received as a result of work for a year. This is in line with the opinion of Lowe (2004), which explains that the performance appraisal process which resulted in the payment of salaries of employees is a very important process in a company. Therefore, factors of performance appraisal system can be considered a factor that determines the level of satisfaction of an employee who works in a bank, and determine whether the employee will remain working in the bank or quit and seek employment elsewhere.

### **10. Work-Life Balance**

Branham (2012) mentions one of the reasons an employee resigned from the job is stress from overwork and work-life balance. Work-Life Balance (WLB) is the benefits earned by the employees to adjust their working hours or workplace to accommodate personal interests or the interests of the employee's family, such as the benefits of various types of leave provided by the company or flexible working time (Cascio and Boudreau 2008) .

In relatively developed countries such as Singapore, the application of WLB in a company is able to reduce employee turnover. As described Soon et al. (2005), based on his research at several companies in Singapore obtained results related to WLB, that companies that apply the amount of annual leave more than 15 days, the employee turnover rate is relatively low.

In the banking sector WLB is necessary because the tendency of employment in this sector has a working pressure levels are relatively high, so things like a pretty long leave is essential to reduce the pressure of work. Likewise, the relatively flexible working time in which the division of time between working in a supporting part in the headquarters of a bank with a part of the ministry in the branches. Supporting parts in the head office of a bank for example, does not need to come together with a series of service in branches because of different working time, so that more time can be used for family purposes. Flexitime or flexible working time is one of the application and implementation of WLB shown to reduce employee turnover (Soon et al. 2005).

### **11. Location**

According to Shah et al. (1998) the location is one of the factors why one left the company. Associated with the location, in addition to the factors mileage that can be a concern of employees in choosing where to work, as well as transport access to the location where the work be the determining factor in choosing where to work. For most employees, especially those working in big cities, easy access to transportation is a major concern, because usually for workers in large cities choose to live outside the city because of the difficulty to get a place to stay in town. There also choose to live outside the city because of a more comfortable place to stay, but of course must pay attention to the easier access to transportation.

For employees of the bank, the strategic location of the office location, close to home and easy access to transportation becomes a major consideration, as is generally the time working in the banking sector average overtime in other sectors, because there are jobs or transactions to be completed on the day of the the same. Therefore, the location of the workplace is considered as one of the causes of an employee stops working in a bank and look for another job at another company location works better place.

## 12. Personal Problems

Personal factors or personal problems is also a factor that is considered influencing employees to leave the company (Shah et al. 1998). According to Iqbal (2010) that personal factors and employee attitudes toward work greatly affect a person to get out of a company. Family support is also a work-related personal problems that affect employee attitudes toward work. The family is one of the important factors in determining employees still work or stop working in a company and with the increasing dual responsibility for female employees increasingly difficult to divide their time between work and family interests. In this case required more support from family (husband / wife) so that employees can work with the best. Similarly, for employees who are not married, the support of other family members also give effect to the employee's job. Problems in the family can affect the employee to continue working in a company or quit and seek employment elsewhere. As explained by Arlee and Luke (1996), that family problems are factors that affect employee turnover and reduced satisfaction with the good work for employees who are married or unmarried.

Personal problems, including family support into it to work, is a very important factor for a bank employee to choose to keep working or looking for another job, because jobs in the banking sector is a time-consuming job that should be used for the family. For example, for a bank employee who had to work during the holidays for a weekend banking, of course this would be a problem if the lack of support from family and may be a factor that encourages an employee quits his job.

## 13. Opportunities Elsewhere

Opportunities exist outside the enterprise such as a job offer with a higher salary is a factor causing an employee out of work today. As described by Shah et al. (1998) that better salaries offered by other companies is one of the causes of an employee leaves the company. According to Chen (2010) that the salary and benefits are considered as very important factors as job satisfaction factors that influence a person's decision to persist or leave work today.

In the banking sector, particularly in Indonesia, the opportunities offered by a competitor for employees with specific expertise in a certain working period is very large, because the need for talent in a particular field in Indonesia is still very large banks (PWC 2013) so as to encourage employees to move from one bank to another bank. Therefore, the opportunities that exist elsewhere in the suspect is one of the factors causing the release of an employee of a bank and work in another bank.

## 14. Conclusion

Employees are assets for the company. The Company has issued an investment in the form of time and cost for the training and development of employees. The investment will be lost with the departure of employees working in other places. Therefore, companies need to retain employees to remain with the company in the long run. One way to retain employees in order to survive working in the company is to determine the factors that lead to employee turnover.

Turnover in the Indonesian banking is relatively high compared to the turnover in the financial sector in developed countries such as in Singapore high turnover is expected to affect the performance of the Indonesian banking. To reduce employee turnover in the Indonesian banking, one of his ways is to determine the factors that led to turnover in Indonesian banks. Factors thought to affect turnover on Indonesian banks may come from internal factors and external factors. Factors internal to the company: (1) leadership, (2) compensation, (3) work environment, (4) the performance appraisal system and (5) work-life balance. External factors: (1) location, (2) personal problems and (3) opportunities elsewhere. Factors suspected internal and external influences on Indonesian banking turnover described in this paper is based on data from literature that still needs to be tested further with the truth of scientific research.

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