

# **CHAPTER 1**

## **INTRODUCTION**

Performance of most organizations cannot be obtained without employee's support and contribution. This is because employees are also responsible for achieving organization's goals and strategy. Therefore managers need to be concern on issues and problems faced by employee in organizations.

Employee is a valuable asset in any organization. Employee is an individual who performs tasks and duties to achieve organizational goals. Turnover is a voluntary termination of an organization by an employee of that organization (Morrell et al, 2001). Turnover intention is defined as attitudinal (thinking of quitting), decisional (turnover intention) and behavioral (searching for a new job) processes concerning voluntary turnover (Sager et al., 1998; Khatri, 2000). Employee turnover incurs cost, in terms of direct costs which include replacement, recruitment and selection. It also incurs indirect cost such as morale, pressure on the remaining staff, costs of learning and product quality (Dess & Shaw, 2001).

The cost of losing one line-level employee in the service industry is estimated at between \$1,300 and \$7,600 (Honking & Tracey, 2000), while the cost of management-level turnover for the same industry is argued to be equivalent to the individual's annual base salary (Struma, Trevor, Boudreau, & Gerhard, 2003).

For organizations to be successful, they must address the causes rather than just the surface issues related to attrition (Hom & Kinicki, 2001; Wasti, 2003; Woods & Tracey, 2000) to be able to design interventions and develop programs that better connect employees to the company, to the occupation, and to an entire industry. Even with rising pressures from economic downturns, firms are continuing to identify their brightest employees as corporate assets necessary to growth and success.

Flowers and Hughes (1973) argued that managers habitually concern themselves with turnover and with collecting employee exit data to determine losses to the organization, assuming a perfect correlation between job dissatisfaction and turnover. They asserted that this turnover paradigm was flawed and that the reasons why employees stay are equally, if not more, important to a company seeking to maintain a motivated and dynamic work force.

In their analysis of the predictors of turnover, Hom and Griffeth (1995) reported commitment and job satisfaction as the main variables researched that have a significant relationship to retention. The Allen and Meyer (1990) three dimensional commitment model, with affective, normative and continuance commitment dimensions is indicated by Mitchell et al. (2001a; 2001b) as the most current and widely used commitment model for organizations. In this three dimensional model the affective commitment factor reflects an emotional attachment to an organization while normative commitment relates to a person's sense of obligation.

Human resources (HR) are the pillar of an organization (Gerhart & Milkovich 1990, Pfeffer, 1998). A firm's performance is likely to be enhanced by employees who display attitudes, value and expectations that are closely aligned with the corporate vision (Borman & Motwidlo, 1993; Spector, 1997; Cable & Parsons, 2001; Feldman, 2003). Hiring capable people is important but building and sustaining a committed workforce is more likely to be facilitated by the employment of sophisticated human resource management (HRM) infrastructures (Schuler & Jackson 1987, Beechler, Bird & Raghuram 1993).

### **1.1 Problem Statement**

Organizations worldwide today face many challenges with the growing world economy into one single, huge market resulting in intense global competition. Besides needing to accommodate technological advances, it is also crucial for an organization to be able to reduce employee turnover intention in the face of globalization and workforce diversity (Chandrashekharan, 2006).

Employee turnover is a common problem for companies in many Asian countries such as Singapore, Hong Kong, South Korea, Malaysia, and Taiwan (Syrett, 1994; Barnett, 1995; Chang, 1996; Khatri, 2001). The importance of employee turnover as a sustainability issue has been recognized by the Global Reporting Initiative (GRI), which has included turnover as an indicator in their guidelines (GRI, 2002).

The problems regarding staff retention and job motivation have continued to afflict organizations in Malaysia. Annual surveys conducted by Malaysian Employers Federation (MEF 2004, 2005) reported that the annual employee turnover rates for 2003 and 2004 were high, approximately 17 per cent and 16 per cent respectively. According to a local media report (The Star Biz Weekly, October, 2006), the average annual rate of employee turnover in Malaysia is approximately 23%. Another survey conducted by Lim (2001) in Malaysia, reports that respondents are only staying with their current organizations for less than three years.

The average employee turnover rate in Malaysia is 18%, this is based on international human resource consulting firm Hewitt Associate's 2007 Total Compensation Management Survey. In 2009, the turnover rate whether leaving is involuntary such as termination initiated by the employer or voluntary such as resignations, turnover is potentially costly and may have negative organizational implications. Examples of negative impacts of turnover to organizations are the high costs of recruiting, hiring, training and getting new employees up to speed, productivity loss during replacement search and retraining, loss of high performers and disruption of social and communication structures (Mobley, 1982).

One of the studies that were conducted in the past by Hom and Griffeth (1995) reported commitment and job satisfaction as the main attitudinal variables researched that have a significant relationship to retention.

In another study by Meyer and Allen (1991), suggest employees with strong affective commitment continue employment with the organization because they want to do so. Those with strong continuance commitment with the organization remain because they need to, whereas employees with a high level of normative commitment feel that they ought to remain with the organization. For example, one employee might feel both a strong desire and a strong need to remain, but little obligation to do so while another employee might feel little desire, a moderate need and a strong obligation (Meyer & Allen, 1991).

In Malaysia, a study was conducted to explore the relationship between Organizational Commitment and Intention to Quit by Kuean et al. (2010) confirmed the previous researcher's observations that higher organizational commitment is linked with lower intention to leave the organization. The results suggest that between the three components of organizational commitment, the employee's affective commitment to the organization is the most important predictor of intention to leave. Employees are not likely to leave when they are emotionally bound with their organization.

Past studies (Angliss, 2007; Fillion, 2007; Tyler, 2007) suggested that there is a relationship between Employee Recognition Program, Employee Engagement and other factors such as turnover, performance and overall commitment. Employee recognition program and employee engagement are becoming the widespread solution for retaining talented individuals. While sufficient compensation is important, many organizations are beginning to realize the potential impact of ERP and EE. A major reason for this change

in attitude is largely due to the belief that recognition and appreciation of one's efforts will ultimately lead to improved morale and better performance (Angliss). There has been limited research attempts to view the role of job satisfaction as a mediating variable in the working environment (Politis, 2006; Yousef, 2002)

Main factors contributing to turnover intention from the past research literature can be concluded as job satisfaction, organizational commitment, employee engagement and employee recognition (Tresvil, 2007).

Although, many past studies were conducted on employee's turnover intention in Malaysia as well as other countries, the literature search did not provide any studies conducted in Malaysia on employee engagement and employee recognition as predictors of turnover intention which is an important predictor of turnover intention. There is also limited study conducted in Malaysia on Job satisfaction as a mediator on the relationship between employee engagement, employee recognition and organizational commitment on turnover intention.

Even though there have been studies conducted in western countries on the relationship between employee engagement, employee recognition and turnover intention, the studies may not be applicable due to the different cultures and HRM practices. As there is a renewed interest into understanding the underlying factors that prevent turnover intention in organizations in Malaysia, this study can provide the information, opportunities for

growth and development that could essentially affect the organizational performance and staffing in organizations in Malaysia.

## **1.2 Research Questions**

This study attempts to answer the following questions.

- 1) Is there a significant relationship between employee engagement and turnover intention?
- 2) Is there a significant relationship between employee recognition and turnover intention?
- 3) Is there a significant relationship between organizational commitment and turnover intention?
- 4) Does job satisfaction mediate the effect of employee engagement, employee recognition, and organization commitment on turnover intention?

The specific information derived from answering the research questions provides a more direct path for determining the relationship between Employee recognition, Employee engagement, organizational commitment and the mediating role of job satisfaction on turnover intention.

### **1.3 Objective of the study**

The objectives of this study are as per following:

- 1) To determine if employee recognition, employee engagement and organizational commitment has any relationship with employee intention to leave the organization.
  
- 2) To determine if job satisfaction mediate the relationship between employee recognition, employee engagement and organizational commitment on turnover intention.

This study seeks to prove the importance of employee turnover factors in the presence of employee engagement, employee recognition, organizational commitment and job satisfaction in order to reduce turnover intention in organizations in Malaysia.

### **1.4 Significance of the Study**

In Malaysia, there were many studies conducted on the turnover intention but there are limited studies that have examined how employees' engagement and recognition are related to their commitment and job satisfaction with organization and their intention to leave the organization. The commonly studied factors for turnover intention in Malaysia are occupational content, demographic variables, job satisfaction, communication, organizational commitment and organizational justice.



Therefore, this study attempts to fill a gap by investigating the effect between employee engagement, employee recognition, organizational commitment, job satisfaction and turnover intention of employees in the Malaysian organizations. These three variables have been cited by Trevis (2007) as the main contributors of turnover intention.

These findings will have important implications for human resource management (HRM) and managers to strategically design their policies and practices to promote desirable employee outcomes in their organizations. This study will also be guidance for HRM and managers on the need to focus on improvement of employee engagement, employee recognition, employee commitment and job satisfaction in order to reduce turnover intentions in organization in Malaysia.

The results obtained from this study will provide valuable information to help practitioners make decisions about building commitment and loyalty programs for retention for all levels of management and line personnel.

### **1.5 Scope of the Study**

This study covers employees who are currently working in various industries and services in Malaysia. Some of the industries are manufacturing industry, education industries and finance industry. This study does not cover employees who are currently not working, employees who are employed on part-time basis or employees currently in between job. This study emphasizes on voluntary turnover of employees in various organizations.

## **1.6 Organization of the study**

The research study has been organized into 5 parts as per following.

Chapter 1 discusses the introduction and the importance of this study to the HRM practitioner. It also looks into the research questions that this study is going to unravel.

Chapter 2 is a review of relevant literature on employee engagement, employee recognition, organizational commitment, job satisfaction and turnover intention studied in depth to develop the theoretical background for the study, which is where the formal hypotheses and conceptual model are introduced.

Chapter 3 covers the research methodology which explains further on the formation of hypothesis, method of research and instruments used as well as the sampling method and data analysis methodology used.

Chapter 4 follows on to discuss the descriptive statistic, data analysis, hypothesis testing as well as research results. Research findings are also discussed in this chapter.

Finally Chapter 5 concludes the whole research by looking at the limitation of this research, the conclusion and recommendations. It also looks into the practical implications of the findings from this study.