

CHAPTER 1: INTRODUCTION

1.1 Introduction

In many Asian countries such as Hong Kong, South Korea, Malaysia, Singapore, and Taiwan; voluntary turnover is a major problem (Barnett, 1995; Chang, 1996; Syrett, 1994). That is, in 1995 (the last year for which comparative data were available), the average monthly resignation rates were 3.4%, 2.9%, and 2.7% in Singapore, South Korea, and Taiwan, respectively (Barnard & Rodgers, 1998). In a recent forums of human resource professional bodies of Hong Kong, Malaysia, and Singapore in Malaysia, participants were unanimous in their view that job-hopping had become so rampant in these countries that it had become a culture (Asia Pacific Management News, 1997). Similarly, employee turnover is very prevalent in China as well (MacLachlan, 1996).

Currently, organizations worldwide face many challenges with the growing integration of the world economy into one single, huge marketplace resulting in intense global competition. Besides needing to keep pace with technological advances, it is also crucial for an organization to be able to retain its best employees in the face of globalization and workforce diversity (Chandrashekharan, 2006).

Collectively, an organization's employees can provide a source of competitive advantage that is difficult for competitors to imitate. Barney (1991) clarify firm

resource model of sustained competitive advantage suggests that in order for a firm's resource to generate sustained competitive advantage, the resource must add value to the firm, is particularly rare, cannot be imitated and is non-substitutable.

Thus, the case study is structured as follows. Chapter 1 of this study introduces the problem statement, research objective, research question and significance of this study. Chapter 2 presents a review of literature and relevant research associated with employee retention and its determinants. Chapter 3 continues with the methodology and procedures used for data collection and analysis including details of population, sample size, sample selection, data collection and structure of questionnaire. Chapter 4 contains data analysis and discussions of the results. Chapter 5 offers a summary and further discussion of the researcher's findings, implications for practice, and recommendations for future research.

1.2 Problem Statement

The average employee turnover rate in Malaysia is 18%, in which the figure complements the employment pie with employee retention rate of 82%; this is based on the international human resource consulting firm Hewitt Associate's 2007 Total Compensation Management Survey. Either, leaving is involuntary, such as termination initiated by the employer, or voluntary, such as resignation, turnover is potentially costly and may have negative organizational implications. Various instances of possible 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).

Hence, it is important for a new, more urgent retention focus to maintain one's organization valuable resources not only from poachers but to sustain their organization's competitive advantage (Corporate Leadership Council, 1998). As cited by Woods, Sciarini and Heck (1998, p. 7), "unwanted turnover curtails company expansion possibilities as it eats away at profits".

1.3 Purpose and Significance of the Study

Although, there are past studies conducted on employees' turnover in Malaysia as well as other countries, this paper significantly seek answers in evaluating the employee retention rate in a strategic business unit in Malaysia. Strategic business unit (SBU) defined by London South East's Finance Glossary as a business unit within the overall corporate identity which is distinguishable from other business since it serves a defined external market where management can conduct strategic planning in relation to products and markets. The glossary further explained that a strategic business unit can encompass an entire company, or can simply be a smaller part of a company set up to perform a specific task. The SBU has its own business strategy and objectives, and these will often be different from those of the parent company.

Employee turnover can be defined as employees who may leave an organization either voluntarily or involuntarily. Voluntary turnover is an employee's decision to terminate the employment relationship. Involuntary turnover is an employer's decision to terminate the employment relationship (Dess and Shaw, 2001). To complement the employee turnover is the employee retention which can be defined as, "Effective employee retention is a systematic effort by employers to create and foster an environment that encourages current employees to remain employed by having policies and practices in place that address their diverse needs. Also of concern are the costs of employee turnover (including hiring costs, training costs, productivity loss). Replacement costs usually are 2.5 times the salary of the individual. The costs associated with turnover may include lost customers, business and damaged morale. In addition there are the hard costs of time spent in screening, verifying credentials, references, interviewing, hiring, and training the new employee just to get back to where you started." (Workforce Planning for Wisconsin State Government, 2005)

The study will focus on evaluating current employee retention rate in a strategic business unit. Next, the study will identify elements that are retaining the employees in the strategic business unit. The study will also seek to provide recommendation to further improve the strategies of employee retention in the strategic business unit.

1.4 Research Questions/Objectives of the Study

The study seeks to answer the following research questions:

- What is the employee retention rate in the strategic business unit?
- What are the determinants of employee retention rate in the strategic business unit?
- What are the recommendations that can be proposed to the top management of the company to improve the employee retention rate?

Research objectives for this study are as follows:-

- To evaluate the employee retention rate in the strategic business unit.
- To identify determinants of retaining employees in the strategic business unit.
- To propose recommendations of actions or steps to improve employee retention rate in the strategic business unit to the top management of the company.

1.5 Scope of the Study

Firms have over the last decades tended to rely increasingly on project-based structures; this includes Telekom Malaysia Berhad (TM). This process of projectification implies a changed work situation for individuals in modern organizations. When it comes to systems in TM, there are SISWANG (Sistem Wang) for Finance, PeopleSoft for Human Resource, MAPS for Performance Management, PROMPT for Project Management and many more combination

of systems that does not integrate easily with each other. The systems talk to each other via interface or most of the time null.

Change has always been constant in TM Information System (IS) environment. For the last 20 years, rapid growth could be seen in the IS for TM which is to par with the outside IS environment. With new technology occurs, TM would sure to take a bite. This can be seen with Enterprise Resource Planning (ERP) solution, namely SAP, the current preferred solution in businesses. ERP is an information system designed to coordinate all the resources, information, and activities needed to complete business processes. Currently, SAP, Oracle, PeopleSoft, JD Edwards are the top ERP vendors. SAP is the world leader in ERP software. Oracle has strong database software so it was able to develop ERP software utilizing its strong database. The fast and upcoming software developer is JD Edward. It has its main focus on customer relationship; therefore it decides to develop ERP software with a strong CRM module and entered the market. The last key player in the ERP is PeopleSoft. Its target market is small companies. SAP and Oracle have large corporation market for their ERP software (Sharma, 2004).

The study only focuses on a strategic business unit in Telekom Malaysia Berhad. The identified strategic business unit is Groupwide Enterprise Resource Management Systems (GEMS), the SBU that responsible for implementation of enterprise resource planning system in Telekom Malaysia Berhad (TM); which is a major initiative by the Management of TM. With the

establishment of GEMS SBU in the year 2005 (previously known as GEMS Project), it is hoped that its objectives are achieved whereby to create single integrated platform with flexibility of shared information, improved accountability, speed, accuracy and reduced transaction cost. With common business parameters, this would then standardized and create consistent practices for business process functions across the Groupwide Company (TM Annual Report, 2010).

For GEMS SBUs turnover rate, comparison with SAP Worldwide is put side by side; as both organizations are in the same industry – enterprise resource management system implementation; and both organizations have the threats of poachers for their talents. From the turnover rate, the study uses the complementary figures to obtain the retention rate.

Table1.1. Employee Turnover rate in percentage for SAP worldwide, throughout 2008-2010:

| Year | SAP |
|-------------|------------|
| 2008 | 11.4 |
| 2009 | 11.5 |
| 2010 | 9 |

(Source: SAP Annual Report 2010)

Referring to Table 1, SAP Worldwide have 11.4% in 2008, respectively. For the year 2009, the rate is 11.5%. SAP Worldwide explained in their report, for 2009; the higher turnover is because of when it was affected by restructuring. For the last year available data, 2010, the turnover rate is 9%. To complement the employee retention rate for SAP worldwide, the rate is 88.6%, 88.5% and 91.0% respectively for year 2008, 2009 and 2010.

SAP in their report share that highly motivated employees deliver the top-quality work that their customers demand. To retain them, not only must they engage their hearts and minds, but also offer competitive and attractive working and employment conditions. Therefore, SAP provides benefits to their employees that reflect SAPs business success. In addition to competitive salaries, their employees have been offered many additional benefits.

Hence, the overall aim of the study reported in this paper accordingly is to evaluate current employee retention rate in the strategic business unit, GEMS SBU. It is also essential to identify the determinants of retaining employees in the strategic business unit. Where improvised strategies are available, the study also seeks to provide recommendation for employee retention improvement in the strategic business unit to the top management.

1.6 Summary of the Chapter

In summary, this research studies on elements that relates to employee retention. Elements that determine the employee retention such strategies, benefits, organizational culture and personal satisfaction are also covered. The next chapter will provide a discussion of the previous literature.