

# Chapter 19

## The Effect of Low Employee Turnover Ratio on Bank Profitability in Turkey

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### ABSTRACT

*The purpose of this chapter is to emphasize the effect of bank employee turnover on profitability. Researchers so far have commonly studied employee turnover, job satisfaction, and commitment. The current research intends to fill the gap by focusing on the relationship between employee turnover and profitability. In this chapter, firstly, employee turnover, its terminology, and the nature of turnover are defined. This relationship in the banking sector is analyzed and three private banks in Turkey are scrutinized. The main argument of the research is that there is an adverse relationship between employee turnover and bank profitability. Conversely, the results of the study do not thoroughly support the assumption. As a result, findings show that banks minimize the effects of economic crisis by dismissal and not recruiting new employees to replace a quitting worker or recruiting for a new position.*

### INTRODUCTION

Corporate finance and profitability nowadays become more significant in the business world. In order to compete and keep up in such a competitive environment, individuals' intention to remain a member of an organization is important. In this

regard, corporate profitability is interrelated with human resources by means of organizational commitment and employee turnover (Yee et al., 2008; Yee et al., 2010; Nadiri & Tanova, 2010; Koetter & Wedow, 2010).

Major studies in the literature have questioned the key competitive success factors on bank profit-

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ability. These factors were based on financial and non-financial issues. Studies have figured out that human related issues were mainly stemming from the employee performance and commitment in banking sector.

Employee based parameters on bank performance studies cover employee performance; turnover; neural network solution; satisfaction; loyalty; commitment and profiles; turnover intentions; job satisfaction and employee turnover continuance (Ramaseshan, 1996; Sexton et al., 2005; Arndt et al., 2006; Yee et al., 2010; Nadiri & Tanova, 2010; Yi et al., 2011; Boichuka & Menguc, 2013; Stanley et al., 2013; Wallace et al., 2013).

Previous studies have focused mainly on employee turnover and job satisfaction for assessing the bank profitability as non-financial factors. Notwithstanding this, there is a struggle for developing an effective research method on non-financial parameters evaluating the bank profitability based on employee turnover ratio.

In this study, it has been aimed to illustrate the role of employee commitment and performance on bank profitability, examining the level of turnover ratio in Turkish banking sector.

In this study, it has been assumed that investment in *human resources and technology* will constantly increase the bank performance rather than implementing possession strategies on personnel quantities. In this context, turnover personnel ratio has been the major focus in this study. It has been also advocated that low employee turnover contributes to the level of profitability.

The first part of this study begins questioning major concepts and theories in literature review. The second part evaluates the performance of three pioneering banks in Turkey depending on the basis of employee turnover as a non-financial parameter and the balance of financials.

Finally, we develop conclusions and future research directions. In the conclusion part, it is stressed out that the findings of the research do

not match the figures on our assumptions. Notwithstanding this, the outcome of current evaluation on banking sector illustrated those personnel turnover ratio increases as the latest economic crisis had its prominent effects on financials in the banking sector.

## **BACKGROUND**

The studies presented below, taken from the literature, have examined the financial and non-financial parameters on bank performance.

Preeminent studies on bank performance were attached to financial parameters whilst the slender number of studies have been attached to non-financial and behavioral competent in business environment in banking sector (Faberman & Nagypal, 2008).

Employee based parameters on bank performance studies cover employee performance; turnover; neural network solution; satisfaction; loyalty; commitment and profiles; turnover intentions; job satisfaction and employee turnover continuance (Ramaseshan, 1996), (Sexton et al., 2005), (Arndt et al., 2006), (Yee et al., 2010), (Nadiri & Tanova, 2010), (Yi et al., 2011), (Stanley et al., 2013), (Wallace et al., 2013), (Boichuka & Menguc, 2013).

Since organizational commitment affects employee turnover, there is a direct influence on profitability in many fields of business (Heskett et al., 1994; Yee et al., 2010). This effect can be perceived more intense in banking sector on account of its financial and economic risks (author's comment). Moreover, sector-specific conditions in banking sector; such as economic uncertainty, lack of labor warranty in economic crisis terms, irregular working hours, salary, managerial implementations, employee's expectance and job satisfaction; has causal effect on organizational commitment and profitability.

Economic and structural sizes of banks in Turkey have developed in the last decade. Especially

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