

Company Training Reduces Employee Turnover, or Does It?

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Abstract

Prior empirical studies tend to suggest that company training and employee skill development, together with other human resource (HR) management practices lead to high employee commitment and low labour turnover rate. Using the data collected from multinational companies operating in eight economies (Chile, Indonesia, Malaysia, Mexico, Philippines, Singapore, Taiwan and Thailand) located in the Asia Pacific region, we ran a multiple regress model and found that company training is significantly related to employee turnover, however it does not contribute to the reduction of the employee turnover rate. Other organisational factors (eg. size, parent source and expatriation presentation in the local subsidiary) played more significant role in determining the level of employee turnover, particularly for the companies in the international operation. The implications of the study are discussed.

Keywords: Training, Employee turnover, International management, Multinational companies, Asia Pacific

1. Literature review

1.1 Training influences employee turnover

The tight labour market conditions in Asia and high demand for skill labour in recent years (The Economist, 2007) has resulted in a considerable high level of employee turnover (Khatri, Fern, & Budhwar, 2001). Fighting the war for talents has become an increasingly challenge for many multinational companies operating in the Asia Pacific region (Zheng, Soosay, & Hyland, in press).

Employee turnover is generally viewed as an issue as it costs organisations to search, select, train and replace leavers (Mobley, 1982; Price, 1977) and turnover is negatively related to overall organisational effectiveness and firm success (Mitchell, Holtom, Lee, Sablinski & Erez, 2001).

Various discussions presented in the empirical studies tend to suggest a positive relationship between organisational training and employee retention (proxied by low employee turnover rate). For example, Carley (1992) used organisational learning to predict firm level of personnel turnover over time. Arthur (1994) concluded that the 'commitment' HR system (eg. participative decision-making, training and skill development, social activities, benefits and bonuses) tends to result in a lower employee turnover rate and higher productivity as perceived by steel mill managers. Huselid (1995) argued that human resource management practices, including training do not and can not directly influence organisational performance, but rather they can indirectly influence the quality and behaviour of employees. Huselid (1995) concluded that employee turnover, together with other organisational performance indicators, are significantly influenced not only by employee skill development but also by organisational structure. Glance, Hogg and Huberman (1997) examined the dynamic interplay of four organisational variables; the extent of training, turnover rate, firm size and productivity. The results show that those organisations that continuously train employees improve productivity and reduce turnover rate over time. Shaw, Delery, Jenkins and Gupta (1998) studied a single American trucking industry and found that organisational control variables (such as size, age of establishment, union status and employees characteristics) accounted for 27 percent of the variance in explaining the voluntary turnover rate, but only three HR constructs (pay, selection and training) were significantly related to turnover.

The positive relationship between training and turnover is further supported by other reports, which indicate that the workers with less training tend to change jobs more often than those with training (e.g. Hequet, 1993; OECD, 1993). A recent study by Benson (2006) confirms the direct link between employee development and low turnover rate; on-the-job training in particular is positively related to organisational commitment and negatively related to intention to leave.

Training is regarded as one of the key elements to reduce employee turnover. Our question is: have not multinational companies (MNCs) invested enough in international training to curb the persistent problem of high employee turnover rate repeatedly reported in the media (AsiaNews.IT, 2006; AsiaTimes, 2006; The Economist, 2007)? Or there are other factors that may have a greater effect on reducing employee turnover, which should be the focus? We now turn to look at other factors that may have influenced employee turnover as discussed in the literature.

1.2 Other factors influence employee turnover

1.2.1 Organisational size

Organisational size has been investigated as a predictor of voluntary turnover rates (Mobley, 1982; Shaw et al., 1998; Terborg & Lee, 1984). Mobley states that conceptually, large organisations might have low turnover rates 'because of greater internal mobility opportunities, more sophisticated human resource management processes, more competitive compensation systems, and more activities devoted to the management of turnover' (Mobley, 1982: 92). But Terborg and Lee argue that large organisations can experience high turnover rates because of 'problems with communication, poor group cohesion, impersonalisation, and bureaucratisation' (Terborg & Lee, 1984: 795). Hence, the size is related to turnover rate, but the direction of the relation between two variables are not overly agreeable among scholars.

1.2.2 Percentage of expatriate representation in local workforce

In the context of multinational companies, Harzing (2001) identifies the main reasons behind different levels of expatriate presence in the local subsidiaries of MNCs, as position filling, management development, and coordination and control. If the reason for presence of expatriates sent from MNCs' headquarters is to fill the position, develop international managers, and facilitate the control mechanism and to supervise local operations, it is likely that local employees see no career advancement opportunity as key managerial positions often filled by outsiders. In addition, control and supervision without sufficient organisational understanding and support to local employees (Allen, Shore, & Griffeth, 2003; Rhoades, Eisenberger, & Armeli, 2001) may backfire and de-motivate local staff, leading to their intention to quit. Hence, it can be postulated that the more expatriates present in the local subsidiaries, the higher the intention to quit by local employees, as they perceive less opportunities for their career advancement, and de-motivated by control and supervision by those outsiders who may not support and understand their aspiration.

1.2.3 Length of operation

As argued by Cavusgil, Zou and Naidu (1993), firms with longer international experience tend to understand the subtle characteristics of the local markets and are able to use and share cumulative knowledge to improve organisational performance, which contributes to higher performance by expatriates and local employees. In the context of multinational companies operating in Asia Pacific and worldwide, employees, both expatriates and local employees, would be more likely to stay voluntarily if they see their firms sustain their operation in local subsidiaries for a long period of time. Employees would feel more attached to their organisations when they perceive more of their individuals' career opportunity to grow as their organisations grow and expand. Therefore, the longer the establishment of a company in the local subsidiary, the likely employees would stay longer.

1.2.4 Parent source

The HR philosophy and practices at multinational companies' headquarters located in more advanced economies are different from those in the less developed economies (Budhwar, 2004; Nankervis, Chatterjee & Coffey, 2006), and their impact on turnover could be dissimilar as well. It is likely that those MNCs developed by Asian economies would have a different set of values and HR practices, compared to those MNCs from non-Asia world, e.g. Europe, America and Oceania countries. Prior research tends to support the notion that Asian-owned businesses, some of them largely developed by closed family members, are more likely to emphasise employee commitment (eg. Lin, 1998; Zheng, Morrison & O'Neill, 2006). Hence, employee turnover rates among some Asian businesses tend to be more stable than those non-Asian companies.

1.2.5 Development status

It is also possible that a higher level of employee turnover would occur in the less developed economies as countries have gone through rapid economic restructuring, which shifted business activities from agriculture to manufacturing, and manufacturing to the service sector in recent years (ADB, 2005). Economic restructuring tends to induce a structural shortage of skills, which allows people, especially those possessing managerial and professional skills, to demand and expect better working conditions; hence they are more likely to move between jobs (Khatri et al., 2001; Stahl & Zheng, 2002; Zheng et al., in press). Hence, employee turnover may be higher among those less

developed economies than among the more advanced economies.

1.2.6 Industry

Zheng et al. (in press) argue that talents are easily drawn to the sector with more demands for skill. For instance, the service sector in some Asia Pacific countries starts to develop quite rapidly in recent years, this lead to a dramatic shift of skilled labour from the manufacturing to service industry, causing a high labour turnover rate in the manufacturing sector. Therefore, it is likely that companies operating in the manufacturing sector may experience a higher lever of employee turnover than those in the service sector.

The centre of our research interest is ‘does company training help reduced persistently high employee turnover rate in the Asia Pacific’, and if not, what are some organisational factors which could explain the high employee turnover rate?

2. Research methods

2.1 Sample

The data in this paper was sourced from 625 multinational companies in 8 member economies of APEC (Asia Pacific Economic Corporation) (see Stahl & Zheng, 2002). About 18 percent of the samples (111 firms) were operating in Singapore, 16 percent in Taiwan (100 companies) and Malaysia (100 companies), 13 percent in Philippines (81), 12 percent in Thailand (76). 10 percent located in Indonesia and Mexico respectively (61 companies accordingly), and only 6 percent in Chile (35 companies). A large proportion of the Asian-bred multinational companies was presented in the sample (44 percent), even though majority of MNCs were headquartered elsewhere (56 percent). There were 47 percent of the firms in the sample operating in the manufacturing industry and 53 percent in the service industry.

2.2 Measurement

2.2.1 Employee turnover

To measure employee turnover, we adopted Steel, Shane and Griffeth (1990)’s approach and asked the respondent to indicate ‘*how many of the following categories of employees left voluntarily in the past 12 months?*’ We categorised employees according to the International Labour Organisation’s (ILO, 1998-2000) international standard classification of occupation (ISCO), but added a category for expatriates. The employee types include: expatriates sent from headquarters and those managers, professional staff, clerical, service, sales and production in the local subsidiary. The total number of employee categories in the local subsidiary left voluntarily in the past 12 months was added up and used in the subsequent analysis as a dependent variable.

2.2.2 Training

Previous studies tended to ask for the respondents’ general perception of training in their firms (eg. Arthur, 1994) or indicate a number of hours spent on training (e.g. Huselid, 1995; MacDuffie, 1995; Shaw et al., 1998). As such, the investment of training specifically in dollar term was not quantified and valued. Recently, a number of authors (e.g. Park, Gardner & Wright, 2004; Ulrich & Brockbank, 2005) called for developing HR capabilities in quantifying and evaluating each of HR functions, including training. Therefore, in this study, we used dollars spent to measure the extent of training. The question such as ‘*What is the total amount (in US\$) your company spent on all employee training for the past 12 months?*’ was asked to obtain a full scale of training investment, a similar approach was used by (Ng & Siu, 2004) in testing the impact of training on firm performance in China.

2.2.3 Other variables

The general organisational variables (size, industry for example) as well as those factors specific to multinational companies (expatriate, parent source etc) were included. The organisational size was measured by a total number of employees and age was measured by the years of MNC establishment in local subsidiary, similar to the measurement used by Shaw et al. (1998). Factors specific to MNCs including industry, parent source, characteristics of local subsidiary (e.g. developing v. developed economy status) were coded 1 and 0; and percentage of expatriate staffing in local subsidiary was calculated based on the number of expatriates against the total staff number in the local branch.

From the survey, it is apparent that there were a large number of Asian multinational companies developing rapidly from some more advanced economies such as Japan, Korea, Singapore, and Taiwan. Compared to those companies headquartered in the non-Asia world, it is likely that Asian-owned MNCs would have different set of values and HR practices, which could impact on turnover. Hence we computed over 30 parent countries of those MNCs surveyed and categorised them into Asian and non-Asian parent source. Asian MNCs were coded as 0 and non-Asian MNCs 1. Similarly, eight member economies were categorised into more developed economy, coded as

1, and less-developed economy, as 0, according to the categorisation of the countries by (Findlay, Jones & Davidson, 1998) and (Weightman, 2005).

3. Results

Measures of training expenditure, industry type, total number of employees, percentage of expatriates over the total local workforce, experience in the host country (proxied by the years of operation), location of headquarters, and the economic development status were entered into a standard multiple regression analysis as predictor variables for employee turnover. The results show that in general, these predictors accounted for a significant amount of the variance in employee turnover ($R = 0.51$, $R^2_{adj} = 0.238$, $F = 15.21$, $p < 0.001$), suggesting that a high employee turnover rate among multinational companies in the Asia Pacific could be explained by these organisational factors.

Our study shows that firm size is the most significant predictor of employee turnover. It seems that the larger the firm size, the higher employee turnover ($\beta = 0.40$, $p < 0.001$) will be the result. This supports the argument made by Terborg and Lee (1984), who disputed Mobley's (1982) assertion that large firms have lower turnover rates because of their devotion to management control of turnover. Terborg and Lee (1984) indicated that poor communication and lack of group cohesion by large organisations lead to poor employee adjustment and socialisation. We could speculate a lack of expatriate and local employees' social adjustment continuously prevalent among the MNCs as also reported in other studies (e.g. Goodall & Roberts, 2003; Neupert, Baughn & Dao, 2005; Sargent & Matthews, 1998). This may have created group division, instead of the cohesion and communication most Asian and Latin American employees from the surveyed MNCs would prefer (Hofstede, 1980; Hofstede & Bond, 1988). The lack of socialisation in large multinational companies may have led to a high level of employee turnover among the selected economies in this study.

The second significant predictor is training expenditure ($\beta = 0.19$, $p < 0.001$). Training expenditure is a statistically significant factor that relates to employee turnover in the eight countries in this study. Interestingly, more training are positively related to high employee turnover. It seems that the MNCs in this study may have provided sufficient training, however their investment did not yield a positive organisational outcome in terms of lowering the likelihood for employees to quit, as commonly concluded from the earlier studies (see Ahmad & Bakar, 2003; Arthur, 1994; Huselid, 1995; Shaw et al., 1998).

Our study suggests a statistically significant relationship exists between the proportion of expatriate staff and the turnover rate ($\beta = -0.15$, $p < 0.01$). However, the standardised beta value is negative, indicating that more expatriates sent from the headquarters actually lowers turnover rate. Perhaps expatriates sent are able to smooth the communication and coordination between corporate headquarters and local subsidiaries. Local employees were probably happier to work in the group with cohesion when more expatriates sent from headquarters could transcend corporate culture, at the same time understand local cultures, and work closely with local employees. These speculations suggest that local employees' career aspirations may not be threatened by more expatriates present in the subsidiary.

However, non-Asian based MNCs do have a moderately higher employee turnover than the Asians-owned MNCs

($\beta = 0.13$, $p < 0.05$). This supports that there is lower employee turnover high employee commitment among Asian-owned multinational companies than among non-Asian owned companies. The result could reflect in cultural differences in understanding employee commitment between Asian and non-Asian owned MNCs (Wheaton, 1999). Cheng, Jiang and Riley (2003) concluded from their study of 538 employees in Taiwanese-owned companies that culture influences the way firms emphasise the use of effective supervisory/managerial roles in generating positive employee outcomes. That is employee commitment is enhanced when there is a good, trusting, interdependent and committed relationship between supervisor and subordinates. Similarly, Taormina (1999) examined 193 employees in Hong Kong based companies and found that Asian employees commit more to their organisations when support, network and teams and socialisation are in place. In contrast, Wheaton (1999) found Westerners' attitude towards organisational commitment to be different; they desire to stay with the organisation because the organisation can provide them with autonomy and freedom to make decisions (Wheaton, 1999, p. 94-95). If expatriate managers from non-Asian MNCs emphasise autonomy and freedom to make decisions among their local subordinates, surely local employees who look to their superiors/supervisors for support and guidance could feel quite lost. This could explain the higher turnover rate in non-Asian owned firms.

We do not find that there were statistically significant differences in turnover for those variables such as experience in the host country, industry type and economic development status. It seems that under the rapid industrialisation process, both advanced and less-developed countries have a high demand for skilled labour in the manufacturing and service industries, and labour mobility in both industry types across all economies is high (Findlay et al., 1998; World Migration Report, 2005). Lastly, it seems that the length of operation in the local subsidiary does not have

effect on controlling turnover rate.

4. Discussions

Even though accumulating evidence suggests that training enhances employee commitment and reduced turnover rate, the current study indicate the opposite result. In fact, more training (proxied by training expenditure in \$ term) provided by multinational companies in Asia Pacific leads to a higher level of employee turnover. A number of reasons could explain this phenomena. First, 'the expense of cheap labour' syndrome used by Dowling, Welch and Schuler (1999, p. 166) could serve as one way to explain why more training provided by a multinational company leads to more employees leaving the firm. As explained by Dowling et al. (1999), most MNCs, even those Asian-owned businesses, have realised the benefits of training to enhance firm performance, so they have invested heavily in training local employees, as also shown in many cases in this study. However, trained and skilled employees may well become very attractive to the competitors, who simply offer better compensation packages to lure them away. 'Job hopping' by employees and 'poaching' by competitors were repeatedly reported as a key challenge to human resource managers in Asia (Dowling et al., 1999; Khatri et al., 2001).

Secondly, an overinvestment employee-organisation-relationship approach suggested by Tsui, Pearce, Porter and Tripoli (1997) may have been used by the MNCs surveyed in Asia Pacific. The use of this approach appears to be much influenced by 'trade unions contracts and some government bureaucracies' (Tsui et al., 1997, p. 1093). Many MNCs operating in the selected Asia Pacific economies in this study may not be bound by trade unions, as would be the case in Tsui et al.'s study. However, their operation and HR policies were largely controlled by respective local governments. Training is a legislative requirement in some Asia Pacific countries. For example, at the early stage of economic reform in China, foreign partners, mostly MNCs were required to train unskilled and lower skilled Chinese workers as a part of the joint-venture deal (Tsang, 1994). Similarly, in Mexico, companies must train local managers in order to get a licence for operation or be accepted into the local business community (Sargent & Matthews, 1998). MNCs in Singapore are specifically required to invest in training and people development (Wan, 1996). Therefore, it seems that training expenditures could be more a legal and/or host country requirement, rather than an effective investment by MNCs to address the issue of employee turnover.

Thirdly, factors influencing retention are quite complex, including the combined effect of remuneration, career development opportunities, general employment conditions, employees' satisfaction with work and work culture. Many prior studies indicate that training alone would not lead to enhancing employee commitment (Huselid, 1995; Zheng et al., 2006). Instead, when training combines with other HR practices, they together create a synergy which could help organisations develop a higher level of organisational commitment in employees, and a low level of turnover rate could be the result (Becker & Huselid, 1999; Beer, Spector, Lawrence, Mills, & Walton, 1984; Zheng et al., 2006). So there is a need to integrate training with the other HR practices to confirm its effect on controlling employee turnover. Future study on multinational company training and its effect on turnover must incorporate other areas of human resource practices.

The high employee turnover can be explained by large firm size and ownership by Asian or non-Asian firms. Local employee turnover rate is lower when there is a high proportion of expatriates present. We speculate that lack of communication or coordination between headquarters and local subsidiaries, caused by larger firm size and cultural differences between Asian and non-Asian firms could explain the high employee turnover rate in Asia. It seems that to overcome the problem of communication and coordination, there is a need to post more expatriates who can help facilitate corporate understanding of local operation and transferring and instilling corporate culture among local employees. It appears that selection and recruitment of competent expatriates and associated issues of managing international workforce would be more effective than extravagant training expenditure often lavished on local employees by many MNCs operating in Asia (Budhwar, 2004; Dowling & Welch, 2004; Nankervis et al., 2006).

MNCs perhaps also need to realise that, in addition to selecting qualified expatriates and designing quality expatriate training programs, policy adjustments have to be made to keep a happy and motivated local workforce (Li & Kleiner, 2001, p. 55). There is often a lack among MNCs to design HR policies and procedures that are relevant to meet the needs of local employees. An earlier study among 212 Singapore-based companies identifies that three key factors contributed to high employee turnover in Asia, they were organisational commitment, procedural justice and a job-hopping attitude (Khatri et al., 2001). Often the level of organisational commitment among MNCs is low because local employees do not see corporate policies and procedures actually work favourably for them. Instead, in the process of international operation, MNCs tend to treat their expatriates far more favourably than local staff especially in terms of rewards and performance evaluation. This has created not only procedural injustice but also distributive injustice, which causes resentment among local employees and creates disloyalty to parent firms (Khatri et al., 2001; Stahl & Zheng, 2002).

'Job-hopping' was regarded as an 'Asian employee attitude' by Khatri et al. (2001), and it has become a culture which is hard to change. Our argument is that the attitude and culture can be influenced by the organisational deliberation. In this study, we found that Asian-bred companies were more able to retain employees than non-Asian firms. The key reason might be that Asian employers were more able to provide support and socialisation which create a sense of belonging, that in turn, convince local employees to stay. As rightly commented by Lasserre and Schutte (1999), MNCs can use simple strategies such as creating a sense of belonging to effectively retain Asian personnel (p. 276).

5. Conclusions

The current study used training and other variables to explain a high level of employee turnover. We do not see that by singly use of more training expenditure on local workforce could help reduce a high level employee turnover. For multinational companies operating in Asia Pacific, they need to consider other factors such as size, expatriation and parent source, besides human resource practices as they all synergistically explain the complex phenomena of employee turnover.

The study has its limitation as only a few variables were included in the regression model. The variance of explaining turnover could be increased if including more factors such as culture, structure, technology, organisational strategy, managerial philosophy and contextual environment. In particular, there is a need to incorporate other aspects of human resource management practices in the future study to test the effect of a synergistic effort of HRM on controlling employee turnover.

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