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EMPLOYEE RETENTION IN MALAYSIAN FINANCIAL INSTITUTIONS

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Abstract: This study investigates the factors influencing employee retention among sales staff in Malaysian financial institutions, focusing on a local commercial bank. Key factors examined include flexible work arrangements, training and career development, compensation and benefits, and job and organization fit. The findings indicate that flexible work arrangements significantly enhance retention. Training and development indirectly benefit retention by improving skills and job satisfaction, while compensation and benefits need regular adjustments to stay competitive. Job and organization fit, though not directly linked to retention, contribute to a positive work environment. The study provides insights for banks to optimize retention strategies and recommends further research to include broader financial institutions.

Keywords: Employee Retention; Sales Worker; Commercial Bank; Malaysia

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1. Introduction

Employee turnover is costly for organizations as it affects workforce consistency. In Malaysia's competitive financial sector, retaining skilled employees is challenging. Many employees seek opportunities with better pay, flexibility, and growth potential, leading to high turnover. Retention strategies are essential for maintaining a stable workforce. This research aims to identify the factors impacting retention among sales employees in Malaysian banks, focusing on flexible work options, training, and compensation.

1.1 Problem Statements

Retention is a concern for Malaysian banks facing high turnover rates. High competition for skilled talent in the financial sector makes retention strategies vital. Previous studies highlight that job security, economic benefits, affiliation, and self-actualization are major retention drivers. Research is needed on how these factors apply in Malaysian banks.

2. Literature Review

2.1 Employee Retention

These days, many businesses prioritize retaining their employee members, recognizing that the capacity to retain personnel is the most crucial attribute of a superior human resources professional (Akanda et al., 2021). The retention and satisfaction of a company's workforce are key determinants of its success, as emphasized by Chang and Busser (2020) and Marinakou and Giousmpasoglou (2019). Consequently, understanding the impact of these rewards on employee retention is crucial for developing effective strategies to maintain a stable and satisfied workforce in Malaysian financial institutions.

2.2 Flexible Working Arrangement

Flexible working arrangements are increasingly favoured by prospective employees, as contemporary businesses adopt more accommodating work norms and processes (Smit & Lawson, 2022). According to Austin-Egole et al. (2020), flexible working arrangements encompass a variety of options, including full-time and part-time employment, overtime, online and offline work, weekend work, hourly work, contract work, and shift work. However, Mahboob (2021) pointed out that critics of flexible work schedules argue against them due to concerns about unethical behaviour, lack of employee visibility, and misuse of workplace flexibility. Understanding the impact of flexible working arrangements on employee retention is crucial for developing effective strategies to maintain a stable and satisfied workforce in Malaysian financial institutions. Thus, the authors propose that:

H1: Flexible working arrangement is positively significant with employee retention.

2.3 Training and Development

Training and development, a crucial aspect of human resource management, primarily aims to boost productivity. According to Gardi et al. (2020), training and development are essential structures that contribute to a rewarding organization. These elements are fundamental to both the initiation and continuation of an organization and are relevant in all contexts and eras. Proper training and access to educational opportunities make human resources the most reliable assets. There is a clear correlation between the abilities and efforts of employees and the overall improvement in product outcomes. Understanding the impact of training and development on employee retention is crucial for developing effective strategies to maintain a skilled and motivated workforce in Malaysian financial institutions. Thus, the authors propose that:

H2: Training and development is positively significant with employee retention.

2.4 Compensation and Benefits

Most employees begin working for a company with the expectation of receiving compensation and benefits, which are essential to meeting their financial responsibilities. Khatun et al. (2023) defined "compensation" as the benefits that a company provides to its workers, including salary, benefits, or other forms of payment. Numerous surveys have indicated that offering financial compensation to employee members boosts their loyalty to the company and promotes efficiency. Understanding the impact of compensation and benefits on employee retention is crucial for developing effective strategies to maintain a motivated and loyal workforce in Malaysian financial institutions. Thus, the authors propose that:

H3: Compensation and benefits is positively significant with employee retention.

2.5 Job and Organization Fits

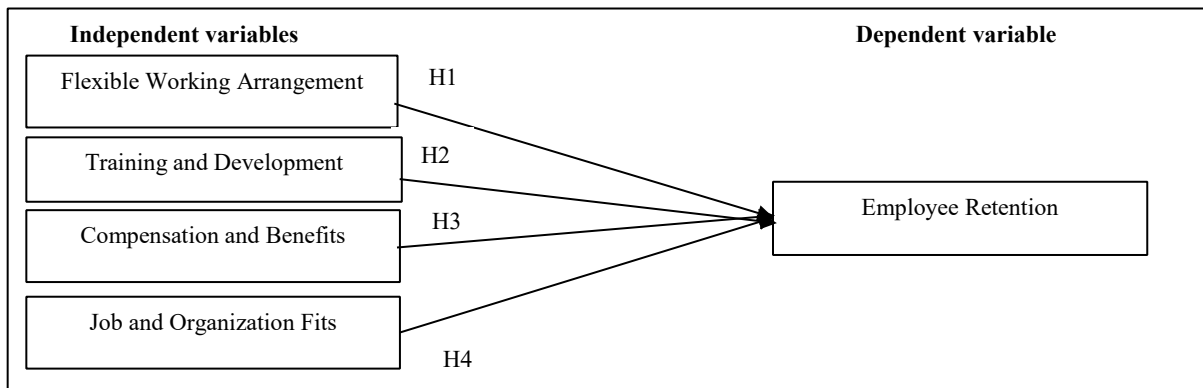
The concept of person-job fit is a motivating factor that raises employee engagement and attentiveness, as noted by Dalgic and Akgunduz (2022). This idea explores the relationship between work qualities and employee attributes, emphasizing the importance of organizational training in achieving an optimal job fit. An employee's job fit is determined by how well their employer can meet their needs and preferences. Understanding the impact of job and organizational fit on employee retention is crucial for developing effective strategies to maintain a committed and engaged workforce in Malaysian financial institutions. Thus, the authors propose that:

H4: Job and organization fit is positively significant with employee retention.

2.6 Research Framework

Based on a comprehensive review of previous studies, a conceptual framework using hypotheses H1 – H4 is proposed to understand the relationships as presented in Figure 1.

Figure 1: A Conceptual Framework with Hypotheses Development between Factors and Employee Retention



3. Methodology

Using a quantitative approach, data were collected from 100 sales employees at a local bank via questionnaire. The survey included demographic details and questions on retention factors. Data analysis was conducted using SPSS and SEM-PLS software, focusing on relationships between the variables.

3.1 Questionnaire Design

The questionnaire consists of 42 questions, encompassing three elements: demographics, the dependent variable (employee retention), and independent variables (Rombaut & Guerry, 2022; Dhanpat et al. 2019; Chaudhuri et al., 2020). The questions are graded using a five-point Likert scale.

4. Findings

4.1 Profile of Respondent

The survey included 100 respondents (39% male, 61% female) with varied age groups and mostly Malay ethnicity. Most had permanent employment, and the majority were in officer or executive positions.

4.2 Measurement Model Evaluation

The measurement model evaluation consists of internal consistency reliability, convergent validity and discriminant validity.

4.2.1 Internal Consistency Reliability

The first criterion to be determined in the measurement model is internal consistency reliability which includes Cronbach's alpha and composite reliability. Specifically, the composite reliability values should be higher than 0.70 (Hair et al., 2014) to show the modest reliability applicable in the research. The findings illustrate the internal consistency reliability of the constructs examined in the study, specifically flexible working arrangement, training and career development, compensation and benefits, job and organization fit, and employee retention. The flexible working arrangement construct shows factor loadings ranging from 0.775 to 0.909, a composite reliability of 0.850, and a Cronbach's Alpha of 0.848, indicating strong item correlations and good internal consistency. Training and career development has factor loadings between 0.827 and 0.958, a composite reliability of 0.870, and Cronbach's Alpha of 0.862, signifying high reliability and consistency. The compensation and benefits construct demonstrates factor loadings from 0.834 to 0.948, a composite reliability of 0.875, and a Cronbach's Alpha of 0.857, reflecting strong internal consistency. Similarly, job and organization fit has factor loadings ranging from 0.868 to 0.920, a composite reliability of 0.854, and Cronbach's Alpha of 0.853, indicating reliable and consistent measures. Lastly, the employee retention construct shows factor loadings from 0.736 to 0.933, a composite reliability of 0.818, and a Cronbach's Alpha of 0.810, which also indicates good internal consistency and reliability. Overall, all constructs exhibit high internal consistency reliability, with factor loadings above 0.70, composite reliability values exceeding 0.70 (Nunnally & Bernstein, 1994), and Cronbach's Alpha values well above the acceptable threshold of 0.60. These results confirm that the measurement items for each construct are consistent and reliable, validating their use for further analysis in the study.

4.2.2 Convergent Validity

The convergent validity of the measurement model was evaluated using three key indicators: Composite Reliability (CR), Average Variance Extracted (AVE), and Cronbach Alpha (α) (Gholami et al., 2013). All constructs exceeded the recommended thresholds, demonstrating strong convergent validity. Specifically, flexible working arrangement, training and career development, compensation and benefits, job and organization fit, and employee retention showed CR values above 0.70 (Hair et al., 2010), AVE values above 0.50, and Cronbach Alpha values above 0.60. This indicates that the constructs are reliable and valid for further analysis.

4.2.3 Discriminant Validity

The common methods to assess discriminant validity are cross-loading, Heterotrait-Monotrait ratio (HTMT), and Fornell-Larcker (1981) criterion by comparing the correlations between constructs and the square root of the AVE for that construct. According to this method, discriminant validity is determined when the loading of an item on a construct is higher than all of its cross-loading with other constructs. The result shows that the first construct, which is employee retention, consists of five (5) items and they are found to have significant loadings in this construct. For flexible working arrangement, seven (7) items were found to have significant loadings while training and career development that comprises nine (9) items was found to have significant loadings. In addition, compensation and benefits, comprising six (6) items, was found to have significant loadings while job and organization fit that comprises six (6) items was found to have significant loadings. The next methods are the Heterotrait-Monotrait ratio (HTMT) and Fornell-Larcker criterion that compare the square root of the AVE values with the latent variables correlations. This method requires that the square root of each construct of AVE should be greater than its highest correlation with any other constructs. The HTMT ratios and Fornell-Larcker Criterion are used to assess discriminant validity. HTMT values for most constructs were below the recommended threshold of 0.90, except for a few higher values in the relationships between job and organization fit and compensation and benefits, and between job and organization fit and training and development. The Fornell-Larcker Criterion also confirmed discriminant validity, with the diagonal values (representing the square root of the AVE) being higher than the off-diagonal values (representing the correlations between constructs).

4.3 Structural Model Evaluation

The structural model involves the analysis of the relationship between the latent variables or constructs. This includes the collinearity assessment, path coefficient, coefficient of determination (R^2), effect size (f^2) and predictive relevance (Q^2) and blindfolding (Hair, 2014).

4.3.1 Assessment of Collinearity among the Constructs

The first step in evaluating the structural model is to examine collinearity issues between each set of constructs separately for each subpart of the structural model. The collinearity assessment shows that all Variance Inflation Factor (VIF) values were below 5, indicating that multicollinearity is not a concern in this model. The VIF values ranged from 1.901 for the relationship between flexible work arrangement and employee retention to 4.591 for the relationship between compensation and benefit and employee retention. Thus, the authors can continue examining the default report such as path coefficient, R^2 , f^2 , and Q^2 .

4.3.2 Assessment of Path Coefficients

The structural model path coefficients and their significance were evaluated. The path coefficient (β) from flexible work arrangement to employee retention was 0.416, with a t-value of 3.137 and a p-value of 0.002, indicating a significant positive relationship. However, the relationships between training and development, compensation and benefits, job and organization fit, and employee retention were not significant, as indicated by their respective p-values of 0.059, 0.414, and 0.413.

4.3.3 Assessment of Coefficient of Determination (R^2)

The R^2 value refers to a measure of the model predictive accuracy and is calculated as the squared correlation between a specific endogenous construct's actual and predicted values. There is no specific rule of thumb for R^2 value. The threshold values suggested by Chin (1998) to measure R^2 value are 0.67 (substantial), 0.33 (moderate) and 0.19 (weak). The determination coefficient (R^2) for employee retention was 0.477, indicating that the model explains approximately 47.7% of the variance in employee retention, which is considered moderate. Thus, this model is meaningful with strong predictive capacity.

4.3.4 Assessment of Effect Size (f^2)

The effect size (f^2) is a measure used to assess the relative impact of a predictor (exogenous) construct on an endogenous construct (Hair, 2014). By following the guidelines from Cohen (1988) to measure the relative effect size of exogenous construct on the endogenous construct, the f^2 values of 0.02 may be considered as small effect, 0.15 is considered as medium effect and above 0.35 as large effect. The effect sizes (f^2) for the relationships were also calculated, with flexible work arrangement showing a medium effect size (0.174), while the other constructs have small effect sizes, indicating that flexible work arrangement has the most substantial impact on employee retention among the constructs studied.

4.3.5 Assessment of Predictive Relevance (Q^2) and Blindfolding

The Q^2 value is a measure of predictive relevance based on the *blindfolding* technique in SEM-PLS (Hair, 2014). In the structural model, the Q^2 value that is larger than zero for a certain reflective endogenous latent variable indicates the path models predictive relevance for this particular construct. By running the blindfolding technique in SmartPLS3.2.1, the Q^2 values were obtained. The predictive relevance (Q^2) for employee retention was 0.431, which is above zero, indicating that the model has good predictive relevance for this endogenous construct. Thus, it provides support for the model predictive relevance regarding the reflective endogenous latent variables.

4.3.6 Overall Results of Structural Model Analysis

The hypotheses testing results revealed that only the hypothesis concerning the relationship between flexible working arrangement and employee retention was supported. This relationship is significant with a standard beta (β) of 0.416 and a p-value of 0.002. The other hypotheses, regarding the relationships between training and career development, compensation and benefits, job and organization fit with employee retention, were not supported due to their non-significant p-values. In conclusion, the analysis highlighted the significant positive impact of flexible working arrangements on employee retention, while other factors such as training and career development, compensation and benefits, and job and organization fit did not show a significant influence in this study. These findings provide valuable insights for organizational strategies aimed at improving employee retention. In conclusion, only one (1) hypothesis is accepted in this research.

5. Discussion

Flexible work arrangement is found to be the most significant factor influencing employee retention in Malaysian banks, aligning with literature that highlights flexible schedules as essential for balancing work-life needs. The positive impact of flexible arrangement is linked to increased employee loyalty and job satisfaction.

6. Conclusion and Recommendations

Flexible work options are recommended for retaining sales staff in Malaysian banks. Even though direct correlations between retention and training, compensation, and job fit are not found, these factors should still be prioritized to improve skills and satisfaction. Adjusting compensation packages and providing career growth opportunities could also attract and retain talent. Regular employee engagement assessments and alignment with organizational values are recommended to further enhance retention efforts. Future research should expand to other financial institutions and explore new analytical methods to better understand retention dynamics.

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