

WHY DO EMPLOYEES QUIT: A STUDY OF FACTORS AFFECTING EMPLOYEE TURNOVER IN BUSINESS PROCESS OUTSOURCING (BPO) COMPANIES IN THE PHILIPPINES

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Abstract

Employee turnover is a critical issue for many industries, including Business Process Outsourcing (BPO) companies, seriously impacting productivity, operational efficiency, and cost. This study aims to explore the factors affecting employee turnover in BPO companies in the Philippines. Using a quantitative research approach, the study examines the significant effect of compensation and benefits, work environment and company culture, superior-subordinate relationship, rewards and recognition, and career development on turnover intentions. Using a convenient sampling technique, data were gathered through a structured Google Forms questionnaire distributed to BPO employees, and the reliability of the variables was measured with Cronbach’s Alpha. The findings suggest that specific factors such as compensation and benefits, superior-subordinate relationship, rewards and recognition, and career development have significant effects on employee turnover in BPO companies in the Philippines. These results provide insights for BPO companies to develop targeted retention strategies, highlighting the importance in prioritizing key factors that influence employee engagement and satisfaction to reduce turnover rates in the competitive BPO industry in the Philippines.

Keywords: Employee Turnover, BPO Industry, Retention Strategies

Introduction

Employee turnover remains a significant challenge for Business Process Outsourcing (BPO) companies, particularly in the Philippines, where the industry plays a crucial role in the national economy. The high turnover rates not only disrupt business operations but also result in increased recruitment and training cost, which affects the overall operational efficiency and profitability. Understanding the reasons behind employee turnover is important for BPO companies to retain skilled workers in a highly competitive labor market. This study explores the factors affecting employee turnover in Business Process Outsourcing (BPO) companies in the Philippines, focusing on key variables such as compensation and benefits, work environment and company culture, superior – subordinate relationship, rewards and recognition, and career development. By analyzing these factors, this research seeks to provide

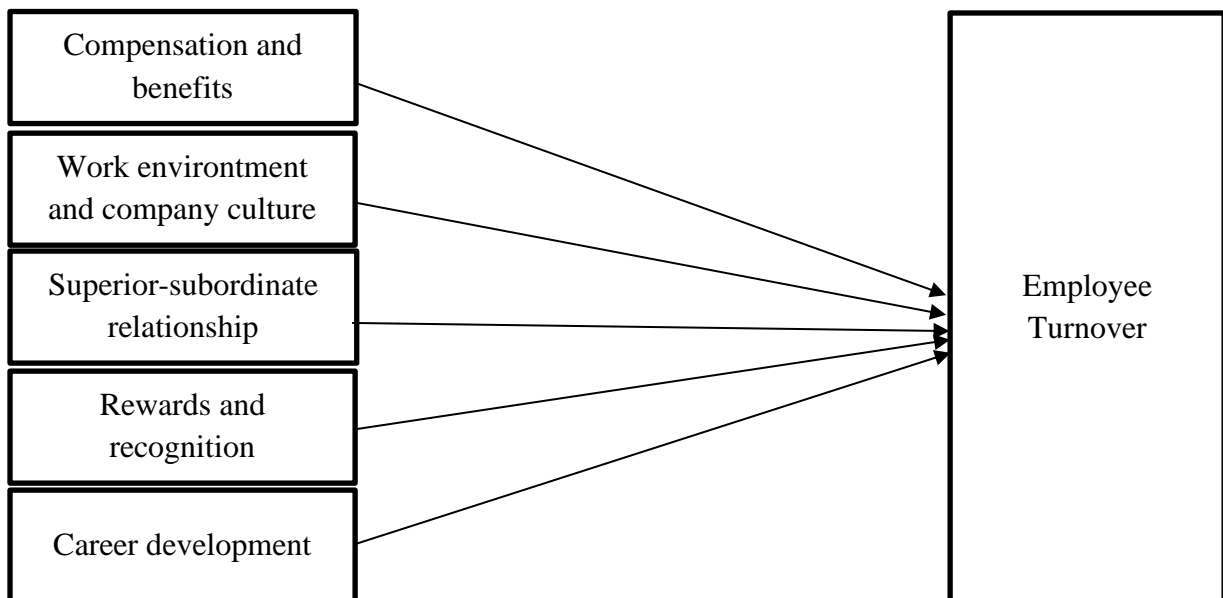
actionable insights for BPO companies to develop retention strategies and ultimately, contribute to enhancing the sustainability of the BPO industry in the Philippines.

Objectives of the study

1. To examine the significant effect of compensation and benefits on employee turnover in BPO companies in the Philippines.
2. To examine significant effect of environment and company’s culture on employee turnover in BPO companies in the Philippines
3. To examine the significant effect of superior-subordinate relationship on employee turnover BPO companies in the Philippines.
4. To examine the significant effect of rewards and recognition on employee turnover in BPO companies in the Philippines.
5. To examine the significant effect of career development on employee turnover in BPO companies in the Philippines.

Scope of the study

Conceptual Framework



Hypotheses Test

1. H₁: There is a statistically significant effect of compensation and benefits on employee turnover in BPO companies in the Philippines.
2. H₂: There is a statistically significant effect of work environment and company culture on employee turnover in BPO companies in the Philippines.
3. H₃: There is a statistically significant effect of superior-subordinate relationships on employee turnover in BPO companies in the Philippines.
4. H₄: There is a statistically significant effect of rewards and recognition on employee turnover in BPO companies in the Philippines.

5. H₅: There is a statistically significant effect of career development on employee turnover in BPO companies in the Philippines.

Literature Review

Item no.	Authors (Year)	Finding	Variables
1	Ivancevich (2007)	Stated that the purpose of compensation is to create an appropriate reward system, the desired outcome is to have an employee who are loyal to their job and are motivated to work for the company.	Compensation and benefits
2	Armstrong (2009)	Armstrong (2009) stated that a well-structured remuneration program can help employees improve their job performance and satisfaction towards their work.	Compensation and benefits
3	Lawler (2009)	Employees will provide best service to customers if they are being supported, developed, and feel respected at work.	Work environment and company culture
4	Handelman (2009)	Having poor working environment demotivates employees to work. Workers need to have a proper working environment and basic facilities such as proper lighting, good ventilation, adequate air-conditioning system, enough office space, proper restrooms, snacks and drinks, and safety environment. If these basic facilities are not being met, workers will not be able to face up the difficulty for a long time.	Work environment and company culture
5	Chapman (2011)	stated that a supervisor's primary mission is to take care of and build a good relationship with the employees he or she is managing. Chapman said that employees are more likely to be consistently productive which would lead to a higher quality of work when they pour and connects to their employees.	Superior-subordinate relationship
6	Rhoades and Eisenberger (2002)	Explained that increasing perceived organizational support (POS) is typically achieved by treating employees better in areas like fairness, support, rewards, and favorable job conditions. Employees who receive these positive gestures tend to recognize them as indicators of high POS, regardless of the specific reward or management system used within the organization.	Superior-subordinate relationship

Item no.	Authors (Year)	Finding	Variables
7	Markova and Ford (2011)	Stated that employees feel valued if they are well rewarded by the company they work for.	Rewards and recognition
8	Luthans (2010)	Highlighted two types of rewards. These are financial (extrinsic) and non-financial (intrinsic) reward. These rewards can be employed to enhance the employee’s performance positively.	Rewards and recognition
9	Phillips and Connell (2003)	Employees nowadays are looking for a career that would give them a benefit to grow and improve their skill set in the desired position. These employees want to have career advancement. If leaders or managers do not address nor recognize these demands, employees are likely to move to another organization.	Career development
10	Zhao & Zhou (2008)	Organizations should use job status as a career reward and incentive to retain competent personnel because it may have a significant impact on minimizing turnover.	Career development

Methodology

Population and Sample

The population includes Filipino individuals who are currently employed at various levels from entry level to managers in any Business Process Outsourcing (BPO) companies in the Philippines. Today, the IT and Business Process Association of the Philippines (IBPAP) estimates that the sector has over 1.44 million full-time employees, bringing in a revenue of \$29.1 billion during only the first half of 2022. In the article titled “Small Sample Techniques,” the research division of the National Education Association has introduced a formula for determining sample size. Therefore, based on the formula below, a total of 385 respondents who have worked for at least a year in the industry were taken out and used as the sample size of this research.

$$s = \frac{X^2 NP(1 - P)}{d^2(N - 1) + X^2 P(1 - P)}$$

s = required sample size

X^2 = the table value of chi – square for 1 degree of freedom at the desired confidence level (3.841)

N = the population size

P = the population proportion (assumed to be 0.5 since this would provide maximum sample size).

d = the degree of accuracy expressed as a proportion (0.05)

$s = 385.06$ or 385

Calculation: $X^2NP(1 - P) \div d^2(N - 1) + X^2P(1 - P)$

$$s = \frac{3.841 \times 1,440,000 \times 0.5 \times (1 - 0.5)}{0.05^2 \times (1,440,000 - 1)} + 3.841 \times 0.5 \times (1 - 0.5)$$

$$s = \frac{3.841 \times 1,440,000 \times 0.5 \times 0.5}{0.0025 \times 1,439,999} + 3.841 \times 0.5 \times 0.5$$

$$s = \frac{1,382,760}{3,599.9975} + 0.96025$$

$$s = 385.06 \text{ or } 385$$

Type of Research and Tool

This study uses a quantitative descriptive research design, focusing on measuring and analyzing the relationship between identified factors and employee turnover in BPO companies in the Philippines. Using a convenient sampling technique, data were gathered through a structured Google Forms questionnaire distributed to BPO employees. The questionnaire was designed based on the conceptual framework to explore the factors that affect employee turnover in Business Process Outsourcing (BPO) companies in the Philippines. To examine the data for each section of the questionnaire the researcher used descriptive statistics to analyze the demographic information of the respondents. This process involved frequency counts to determine how often each demographic category appeared among the respondents. The next step involved using inferential statistics, specifically multiple regression analysis, to investigate the relationships between several variables. The researcher conducted this inferential test to explore how multiple independent variables influence a dependent variable. The analysis yields multiple regression coefficients, which shows how much the dependent variable is expected to change with a one-unit change in the independent variable, while holding another variable constant. Additionally, statistical measures like the R-squared value are used to assess how well the independent variable explains the variation in the dependent variable. An R-squared value closer to 1 indicates a stronger relationship, meaning that the independent variables explain a larger portion of the variance in the dependent variable. By combining descriptive statistics to summarize the demographic data and inferential statistics to explore the relationships between the variables, the researcher is able to draw conclusions that not only describe the sample but also make predictions and generalizations about the population as a whole.

Validity Test

The researcher measured the validity of the questionnaire by examining the comments provided by the three experts in the fields of this study. The author submitted the questionnaire to the thesis advisor along with these three qualified experts:

1. Dr. Papob Puttimanoradeekul – Professor, School of Business Administration, Bangkok University.
2. Esiel B. Cabrera, DBM, CEE, CGSP – College Dean, Joji Ilagan International School of Hotel and Tourism Management
3. Dennis Ken Lacia, REA, REB, MBA – Operations Manager, Lacia Realty and Appraisal Firm. International Student, Toronto School of Management, Ontario Canada.

Reliability Test

40 samples. The data from the questionnaires were analyzed by using Cronbach’s Alpha in the statistical software, with total reliability of 0.950. The required value to be accepted is 0.7-1.00.

Conclusion and Discussion

Demographic Data

The study revealed that the majority of the respondents have 4 years or more of work experience in the BPO industry (37.5%). In terms of gender distribution, 50% are male and 35% are female, and the rest preferred not to disclose. Most of the respondents fall within the 26 to 35 age group (77.5%) and they are predominantly single (82.5%). Talking about educational background, most respondents are college or university graduates (60%). The monthly income is evenly distributed, with 37.5% earning between 20,001 to 30,000 Php and 30,001 to 40,000 Php. The respondents’ perception about working in the BPO industry are largely positive with 50% expressing that they “rather like it,” 40% stating they “mostly like it,” and 10% providing no favorable comments. Finally, the primary motivation for working in the BPO industry is to support themselves (42.5%).

Mean and Standard Deviation

- Compensation and Benefits: (\bar{x} = 4.25, SD = 0.310), SATISFIED
- Work Environment and Company Culture: (\bar{x} = 4.28, SD = 0.714), SATISFIED
- Superior-subordinate Relationship: (\bar{x} = 3.94, SD = 0.837), SATISFIED
- Rewards and Recognition: (\bar{x} = 4.27, SD = 0.775), SATISFIED
- Career Development: (\bar{x} = 4.08, SD = 0.640), SATISFIED
- Employee Turnover: (\bar{x} = 4.32, SD = 0.095), SATISFIED

Multiple linear regression

Variable	β value	Sig.
(Constant)		.267
Compensation and Benefits	.387	.001
Work environment and company culture	-.136	.077
Superior-subordinate relationship	.214	.078
Rewards and recognition	.367	.026
Career Development	.067	.611
R	.816	
Adjusted R Square	.789	

The regression shows that compensation and benefits ($\beta = .387$, Sig = .001) and rewards and recognition ($\beta = .367$, Sig = .026) significantly increase employee turnover which is contrary to the expected result, suggesting that these factors alone do not ensure retention. The result implies that while employees receive good compensation and benefits and recognition, they are still likely to leave due to unmet expectations in other areas such as job satisfaction or other external factors not included in the study. On the other hand, work environment and company culture ($\beta = -.136$, Sig = .077), although showing a negative relationship with employee turnover, is not statistically significant, meaning their effect on turnover is not reliable in this analysis. Meanwhile, superior-subordinate relationships ($\beta = .224$, Sig = .078) and Career Development ($\beta = .067$, Sig = .611) show no significant effect on turnover, implying that these factors do not strongly influence turnover in the current model. The analysis yielded an R Square value of .789 meaning that the factors in the model explain a substantial portion (78.9%) of the variance in turnover, this suggests that the variables play an important role, although further investigation is needed to fully understand their dynamics.

Hypotheses

- H₁: There is a statistically significant effect of compensation and benefits on employee turnover in BPO companies in the Philippines.
- H₂: There is no statistically significant effect of work environment and company culture on employee turnover in BPO companies in the Philippines.
- H₃: There is no statistically significant effect of superior-subordinate relationships on employee turnover in BPO companies in the Philippines.
- H₄: There is a statistically significant effect of rewards and recognition on employee turnover in BPO companies in the Philippines.
- H₅: There is no statistically significant effect of career development on employee turnover in BPO companies in the Philippines.

Recommendation

The difference in how respondents perceive the work environment and company culture, superior-subordinate relationship, and career development, along with some possible confusion in the questionnaire or misinterpretations by certain participants, might have contributed to inaccuracies in the results. The variation in respondents' attitudes likely contributed to diverse interpretations of the survey items. While compensation and benefits, and rewards and recognition, were found to significantly affect employee turnover, work environment and company culture, superior-subordinate relationship, and career development did not demonstrate a similar impact. These findings suggest that there may be underlying factors that were not fully captured in the current study. For future research, it is recommended to address the issues of clarity and participant understanding in the survey design to reduce potential biases. Additionally, expanding the sample size beyond the 40 participants in this study will provide a broader perspective and help better assess the potential significance of work environment and company culture, superior-subordinate relationship, and career development in influencing employee turnover. Future research should explore other variables

influencing employee turnover and utilize qualitative methods to gain deeper insights into employee motivation.

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