AN EXAMINATION OF ECONOMIC IMPACT OF EMPLOYEE TURNOVER AND RETENTION: SPECIAL REFERENCE TO THE INSURANCE INDUSTRY OF SRI LANKA

Kanchana MENDIS    D.A.C. SILVA    Isamu MITSUHASHI
AN EXAMINATION OF ECONOMIC IMPACT OF EMPLOYEE TURNOVER AND RETENTION: SPECIAL REFERENCE TO THE INSURANCE INDUSTRY OF SRI LANKA

Kanchana MENDES*, D.A.C. SILVA*, and Isamu MITSUHASHI*

*1, 2 Department of Economic University of Colombo
3 Graduate School Research Course of Business and Project Planning Miyagi University

Abstract

Insurance industry of Sri Lanka can be considered as one of the fastest growing single industries. The market competition of this industry has become very high. This competition has led the industry into a revolutionary period in which more innovative and customer friendly insurance products have been come forth into the market than ever before.

However, a significant positive relationship has been identified between this market competition and labour turnover of the industry. The labour turnover is approximately 20%. The velocity of the movement of these employees from one to other service providers by making high turnover within the insurance industry is very high. As a result, well focused and effective strategies on human resources management are critically decisive for the successfulness of insurance service providers of the insurance industry in Sri Lanka.

Key words: Insurance Industry, Labour Turnover, Market Competition, Sri Lanka, Cost of Labour Turnover

1.0 Synopsis

Labour turnover, in simple terms refers to the movement of employees in and out of a company. In the human resources context, labor turnover is the rate at which an employer gains and loses employees. It can also describe "how long employees tend to stay" or "the rate of traffic through the revolving door". Labor turnover can be measured for individual companies and for an industry as a whole. Vast numbers of researchers and literature dating back to the 1950’s suggest the importance of labour turnover issues for an organisation.

High labour turnover directly and indirectly influences the regular operations of a business; mainly, it can direct a business towards lower productivity and a level of efficiency. Also, the high cost involved in labour turnover causes the operation expenses to rise, which in return directly hits the operational profits.

Many studies have suggested a relationship between market competition and labour turnover. This theory is mostly applicable for service-oriented businesses where the business primarily depends on the capabilities of human capital. When an industry is rapidly growing and the competition among competitors is rising, the situation leads the competitors to “hunt” for competent employees from the rivals.

The insurance industry of Sri Lanka is one of the rapidly growing industries in the country. Competition has opened the doors to a new revolutionary period in the industry and the industry is more innovative than ever before. The introduction for more than half a century of new policies with special features within last half decade is a clear indicator of the revolutionary innovation. The high competition and growth in the market has made human resources management tougher in the industry. Labour turnover is approximately 20%, and employees are rotating within the industry, and many companies are losing their employees to competitors.

1 http://en.wikipedia.org/wiki/Turnover_(employment)
1.1 Conception and Progression of Insurance Industry

It can be assumed that ‘insurance’ appeared simultaneously with the appearance of human society. Human societies comprised of two types of economies. The first one is the money economy which deals with markets, money and financial instruments and the second one is non-money or natural economy which operates without money, markets or financial instruments. The second type is a more ancient form than the first. In such an economy, insurance can be seen in the form of people helping each other. For example, if a house burns down, the members of the community help to build a new one. If the same thing happen to one's neighbor, other neighbors must help. Otherwise, neighbors will not receive help in the future.

The modern concept of transferring or distributing risk was practiced by Chinese and Babylonian traders as far back as the 3rd and 2nd millennia BC, respectively. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum of money in exchange for the lender's guarantee to cancel the loan if the shipment was stolen on the way. Achaemenian monarchs in Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices.

The Greeks and Romans introduced the origins of health and life insurance in 600 AD when they organized guilds called "benevolent societies" which cared for the families and paid funeral expenses of members upon death. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies. Insurance contracts which are not bundled with loans or other kinds of contracts were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed it to be separate from an investment, a separation of roles that first proved useful in marine insurance.

Towards the end of the seventeenth century, London's growing importance as a centre for trade increased demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house that became a popular haunt of ship owners, merchants, and ships’ captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyd's of London remains the leading market for marine and other specialist types of insurance. Modern fire insurance can be traced to the Great Fire of London, which in 1666 devoured 13,200 houses. In the aftermath of this disaster, Nicholas Barbon opened an office to insure buildings. In 1680, he established England's first fire insurance company, "The Fire Office," to insure brick and frame homes.

The first insurance company to register in Sri Lanka, then Ceylon was Ceylinco, an abbreviation of Ceylon Insurance Company. It was registered in 1939. Ceylinco was the first-ever public limited company to be registered in Sri Lanka, and carries the registration number "PBS/1". It also became the leading insurance company amongst all insurers, both foreign and local which were operating in Sri Lanka in the early 1960s. In 1964, it had to cease operating in the insurance business, following nationalization of the insurance industry. Sri Lanka Insurance was incorporated by a special act of Parliament in 1961. It was formed by nationalizing the insurance industry which was run by various local and foreign private companies. It maintained the monopoly in the insurance industry until the establishment of the National Insurance Corporation in 1980. In 1988, the insurance field was liberalized by permitting private companies to enter the industry. The insurance industry of Sri Lanka in 2009 has now expanded to 16 licensed insurance companies. One of these operates only in the life insurance segment while two other companies specialise in the general insurance segment.

---

2 http://en.wikipedia.org/wiki/Insurance
5 http://en.wikipedia.org/wiki/History_of_insurance
6 http://www.ceylincoconsolidated.com/ceylinco_limited.html
1.2 Contemporary Trends and Patterns of the Insurance Industry of Sri Lanka

Sri Lanka is viewed as one of the most dynamic markets for the insurance industry in spite of negative factors in its economic and political environment. The premium of the Sri Lankan insurance industry is estimated to be Rs.59.5 billion at the end of financial year 2008, with an estimated growth rate of 14%. Further, the relative small size of the industry itself indicates the availability of huge growth potential. The industry accounts for approximately 1.35% of the Gross Domestic Product of the country; it is driven by the growth in the automobile, trading and other industrial sectors in the economy. (IBSL annual report 2008)

As noted above, at the moment there are 16 licensed insurance companies operating in the Sri Lankan market. One company operates only in the life insurance segment while two companies specialise in the general insurance segment. The country’s insurance industry experiences a high degree of concentration, as the top two players, Ceylinco Insurance and the Sri Lanka Insurance Corporation, control 57% of the market. The top five players control 86% of the market in the industry. Further, the life insurance sector is also highly concentrated with the top three players enjoying 75% of the market share7.

Eleven insurance companies out of sixteen registered have entered into the market within the last decade. The arrival of these new competitors made a significant change to the insurance industry. The industry is more creative and innovative than ever before and all the companies strive to introduce new products with special features to attract and retain their limited insurance portfolio. In this highly competitive circumstance, all the competitors are struggling to attract and retain the best performers.

1.3 Present Scenario of Labour Turnover in the Insurance Industry

Due to rapid growth and high competition in the industry, recruitment and retention of competent employees has become a bigger challenge. Labour turnover is approximately 20% in the insurance industry. Furthermore, it can be noticed that employees are rotating within the industry; therefore, companies are losing employees to their direct competitors. This high labour turnover directly influences the market portfolio, performance and profitability of the insurance companies. Labour retention is more important in the insurance industry than in any other industry as the insurance business is depends on trust and personal relationships.

High labour turnover in the industry not only adversely affects the insurance companies but the clients. According to the Insurance Board of Sri Lanka, 95% of the life insurance business comes through an agent. High labour turnover among insurance agents adversely affects the credibility of the insurance industry and the policy holders often complain that their money have been stolen by agents who switch from one company to another. It is said that roughly 25% of the life assurance policies end up as lapsed policies, providing no financial benefit for both parties. The main reason behind this is that policy holders find it very difficult to maintain correspondence with the insurance company after their agent leaves the company.

2. Theoretical and Conceptual Analysis on Labour Turnover

It has been identified that human capital is the exclusive resource which make a difference and provides competitive advantage to an organization. If any organization is to prosper, it must attract and retain competent people. In a circumstance where there is a rapid growth in an industry and competition among competitors is high, the recruitment and retention of competent employees is an even bigger challenge. From the organisation’s point of view, employee turnover can be divided into avoidable and unavoidable turnover. This division may help organisations to understand voluntary turnover more fully. Avoidable reasons include employees leaving to find better pay or working conditions elsewhere, problems with management, or leaving for better career opportunities. Unavoidable reasons are principally beyond the organisation's control. The following reasons can be taken as examples of unavoidable turnover - an employee having to move because of relocation or leaving to fulfil family or care taking responsibilities.

If an organisation can identify that much of its voluntary turnover is unavoidable, it may profit better from initiatives that seek to manage turnover after the event rather than expend resources on implementing preventive measures. On the other hand, if the bulk of turnover is avoidable this offers the potential for targeted intervention. However, if managers assume the turnover

7 Daily Mirror Business Page By Jithendra Antonio on 22/06/2009
problem to be largely unavoidable, they may be fail to recognise turnover as a symptom of underlying problems within the organisation.

Another step towards understanding turnover within an organisation is to determine whether retention difficulties are caused by internal or external factors. While the role of labour market conditions in causing turnover may preclude the use of targeted human resource strategies, this information may be useful in analysing to what extent turnover is due to outside factors. However, although tight labour markets affect an employer’s ability to attract and retain staff, looking outwards at the local labour market cannot be a substitute for understanding what is going on within the organisation.

There is no set level of employee turnover that determines at what point turnover starts to have a negative impact on an organisation’s performance. It depends on the type of labour markets in which the organisation competes. If the organisation competes in a market where it is relatively easy to find and train new employees within a minimum lead time and at a relatively cheap cost, then it is possible to sustain high quality levels of service despite having a high turnover rate. Where skills are in relatively short supply and recruitment is costly or filling up a vacancy is a timely process, turnover is likely to be challenging for the organisation. The negative impact of employee turnover would be vital in situations where organisations lose employees to its direct competitors or where customers have developed relationships which individual employees. (CIPD Employee turnover and retention fact-sheet revised in July 2009).

Sometimes employee turnover positively benefits an organisation. This happens when a poor performer is replaced by a more productive employee and can happen when a senior retirement allows the promotion or acquisition of welcome ‘fresh blood’. The more valuable the employees in question the more damaging the resignation, particularly when they move on to work for a competitor8.

2.3 Costs of Labour Turnover

The cost and opportunity cost associated with labour turnover is estimated to be very high. The turnover rates in the workforce can also have a serious impact on an organization’s profitability, and even survival. The cost of employee turnover for for-profit organizations has been estimated to be up to 150% of the employees' remuneration package9.

The following factors can be considered when calculating the cost and opportunity cost of labour turnover.

Cost of labour turnover

- Recruitment of replacements, including administrative expenses, advertising, screening and interviewing, and services associated with selection, such as security checks, processing of references, and, possibly, psychological testing.
- Direct administrative hiring costs.
- Cost of lost productivity associated with the interim period before a replacement can be placed.
- Cost of lost productivity due to the time required for a new worker to come up to speed on the job.
- Costs of training, including supervisory and co-worker time spent in formal training, as well as the time that the worker in training must spend off the job.
- Costs associated with the period prior to voluntary termination when workers tend to be less productive.
- Costs associated with the communication of proprietary trade secrets, procedures, and skills to competitive organizations.
- Costs associated with public relations having a large number of voluntary or involuntary terminations in the community spreading gossip about the organization.

Opportunity Cost

- Opportunity cost associate with training and development expenses spent on voluntarily separating employee as well as on new recruits.

8 CIPD Employee turnover and retention fact-sheet revised in June 2009
Opportunity cost associated with time spent by HR and managers in carrying out exit interviews and introducing new starters.

3.0. Literature Review and Findings

Employee turnover is a much studied phenomenon. There is a vast literature on the causes of voluntary employee turnover dating back to the 1950s. Most of the available literature was developed by combining a number of factors contributing to turnover which was experientially tested by researchers. Researchers have developed models which have sought to predict why individuals leave organisations. Many studies are based on only a small number of variables which often only explain only a small amount of variability in turnover.

The impact of turnover has received considerable attention by senior management, human resource professionals, and industrial psychologists. It has proven to be one of the most costly and seemingly intractable human resource challenges confronting organizations. However over time there have been a number of factors that appear to be consistently linked to turnover. An early review article of studies on turnover by Mobley et al (1979) revealed that age, tenure, overall satisfaction, job content, intentions to remain on the job and job commitment were all negatively related to turnover (i.e. the higher the variable, the lower the turnover). In 1995, a meta-analysis of some 800 turnover studies was conducted by Hom and Griffeth, which was recently updated (Griffeth et al, 2000). Their analysis confirmed some well-established findings on the causes of turnover. These include: job satisfaction, organisational commitment, comparison of alternatives and intention to quit. These variables are examined in more detail below, as are a number of other factors where the evidence on the link to turnover is less conclusive.

Aggregate level economic studies provide consistent and significant evidence of the impact of labour market conditions on turnover rates at an aggregate level. As Mobley et al (1979) pointed out, at an aggregate level the relationship between economic factors such as employment levels or job vacancies and turnover has been well established. At an individual level, the labour market approach emphasises expected utility and rational economic choice among employees and the perceived availability of alternative job opportunities.

The relationship between alternatives and turnover on an individual level has been researched widely since March and Simon’s 1958 seminal work on ease of movement. Much of the subsequent research focused on the link between job satisfaction, perceived alternative opportunities and turnover. Later, researchers began to focus on the role of both actual and perceived opportunities in explaining individual turnover decisions. Subsequent research has indicated that actual alternatives are a better predictor of individual turnover than perceived opportunities. Research on the impact of unemployment rates as a proxy for actual opportunities in employee turnover revealed that unemployment rates affected the job-satisfaction/turnover intent relationship but not actual turnover (Kirschenbaum & Mano-Negrin, 1999).

They concluded that macro level analysis predicted turnover patterns but perceptions of opportunities did not. This point was reinforced in their study on medical centres in various locations that used measures of perceived and objective opportunities in internal and external labour markets. The authors concluded that objectives opportunities were a better set of explanations of actual turnover behaviour than either perceived internal or external labour market opportunities. Nevertheless, while actual alternatives appear to be a better predictor of turnover, there is also well-established evidence of the link between perceived alternatives and actual turnover. In their most recent meta-analysis, Griffeth et. al. (2000) confirmed that perceived alternatives modestly predict turnover.

Much of the empirical research on turnover is based on actual turnover, although some studies are based on intentions to quit. Apart from the practical difficulty in conducting turnover research among people who have left an organisation, some researchers suggest that there is a strong link between intentions to quit and actual turnover. Mobley et al (1979) noted that the relationship between intentions and turnover is consistent and generally stronger than the satisfaction-turnover relationship, although it still accounted for less than a quarter of the variability in turnover. Much of the research on perceived opportunities has been found to be associated with intentions to leave but not actual turnover (Kirschenbaum & Mano-Negrin, 1999). One of the possible reasons is that intentions do not account for impulsive behaviour and also that turnover intentions are not necessarily followed through to lead to actual turnover.

This information is the exact same information already appearing earlier in the paper. I don’t think it is necessary to include it twice.
4.0 Methodology

The research was carried out in five well-known insurance companies operating in Sri Lanka for more than a decade. The selected sample companies are enjoying more than 85% of the total insurance market share of the country. Exit interview details from the five companies were gathered and further details regarding the study were collected by interviewing human resources practitioners in the companies.

1. Primary Data Collection

Primary data was collected by interviewing human resource representatives for each of the companies and analysing available exit interview questionnaires for the respective companies. Two main objectives for this was to gather information regarding employee turnover with the objective of identifying the characteristics of the employees where the highest labour turnover is experienced and to identify avoidable and non-avoidable reasons behind the turnover rate.

2. Secondary Data Collection

Secondary data will be collected through the following sources.

1. Internal information sources at the companies
2. Publications of the Insurance Board of Sri Lanka
3. Official website of the Insurance Board of Sri Lanka (www.ibsl.lk)
4. Newspaper and internet articles

Labour Turnover Calculation

Two different formulas were used to calculate the labour turnover.

1st Method

| Simple average of total no. of leavers of the five insurance companies in the year |
|---------------------------------|----------------------------------|
| Average number of staff in the post during the year of the five insurance companies | * 100 |

The first formula was used to calculate the total labour turnover per year. However, this formula will not distinguish between the employees who left due to unavoidable circumstances and employees who left to join another organisation.

It is important to calculate a separate figure for voluntary labour turnover, because it will give a clear picture of employees who left the company because they are dissatisfied.

2nd Method

<table>
<thead>
<tr>
<th>Simple average of total no. of leavers of the five companies in the year - Simple average of (total, retired staff + total redundant staff) * 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple average of (average number of staff in the post during the year of the five insurance companies)</td>
</tr>
</tbody>
</table>

5. Data Collection

5.0 Findings

Labour turnover grouped according to characteristics
Graph I presents the labour turnover over the last five years. It can be observed that the labour turnover rate of the insurance industry is very high and fluctuates from 18% to 22%. The average labour turnover of the insurance industry for the period was 19.8%.

Graph II describes labour turnover according to voluntarily vs. retirement. The retired employee’s percentage is always lower than the voluntarily resigned employees. It can be noticed that more employees retired in 2004 and 2005 and that the reason behind this is that one of the insurance companies which was privatized a few years prior introduced a voluntarily retirement scheme for its employees during this period.
Graph III describes labour turnover according to gender (excluding retired). The observation was that during the period a larger number of male employees resigned than female employees. When compared to the distribution of the workforce of selected companies it can be noticed that the workforce is mostly comprised of male employees.

Graph IV

<table>
<thead>
<tr>
<th>Year</th>
<th>0 to 2 Years of Experience</th>
<th>3 to 5 Years of Experience</th>
<th>6 to 8 Years of Experience</th>
<th>9 to 11 Years of Experience</th>
<th>More than 12 Years of Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2004</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Year 2005</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Year 2006</td>
<td>6</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Year 2007</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Year 2008</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
Graph IV illustrates labour turnover according to working experience within the company. (Retired percentage is omitted). According to the Graph IV most employees tended to resign within the first five years of employment and the number gradually declines thereafter. Graph IV (B) shows the relationship between working experience within the company and labour turnover. The correlation coefficient is – 0.85 and the R² equal to 0.73 which indicates a negative relationship between working experience within the company and labour turnover. The relationship can be more elaborate as the longer people stay with the company, lower the voluntary turnover.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Year 2004</th>
<th>Year 2005</th>
<th>Year 2006</th>
<th>Year 2007</th>
<th>Year 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 to 29 Years</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>30 to 39 Years</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>40 to 49 Years</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>50 Years and above</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retired</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Graph V illustrates the percentage distribution of labour turnover according to age for the last five years and Graph V (B) indicate the relationship between the two variables. The correlation coefficient between age and labour turnover is – 0.98 and the R2 equal to 0.9695, which indicates a very strong negative relationship between the two variables. The relationship can be further elaborated as when employees become older the voluntarily labour turnover gradually declines. Also, most of the employees who voluntarily resigned are below forty years of age. In the business world, this group of employees is considered to be the young, energetic workforce, hence organisations prefer to attract this group.
Graph VI demonstrates the percentage distribution of labour turnover according to education qualifications. The industrial practice is to attract school leavers and gradually build their professional skills. Moreover, the selected companies have well planned study assistance policies which provide study assistance for both sales and non-sales employees to enhance their knowledge. Most of the insurance underwriters and reinsurers follow Chartered Insurance Institute (CII) exams UK and Certified Insurance Professionals (CIP) which is conducted by the Sri Lanka Insurance Institute (SLII). According to Graph VI (B), the relationship between education qualifications and labour turnover is – 0.84 and the $R^2 = 0.7078$. Though this indicates that there is a negative relationship between the education qualifications and labour turnover, it is important to mention that most of the employees who voluntarily resigned were partly qualified.

### Scoring Table

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to A/L</td>
<td>1</td>
</tr>
<tr>
<td>CII &amp; CIP partly and Others pro. exams partly qualified</td>
<td>2</td>
</tr>
<tr>
<td>CII &amp; CIP fully qualified / Pro. others exams fully qualified</td>
<td>3</td>
</tr>
<tr>
<td>First Degree</td>
<td>4</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>5</td>
</tr>
</tbody>
</table>

Graph VII (A) shows the distribution of labour turnover last five years according to job level: Assistant level - Sales: 4% 2004, 4% 2005, 5% 2006, 3% 2007, 4% 2008; Assistant level - Non sales: 2% 2004, 2% 2005, 1% 2006, 1% 2007, 1% 2008; Executive level - Sales: 4% 2004, 5% 2005, 6% 2006, 7% 2007, 6% 2008; Executive level - Non sales: 1% 2004, 0% 2005, 1% 2006, 2% 2007, 1% 2008; Manager level - Sales: 1% 2004, 1% 2005, 1% 2006, 4% 2007, 5% 2008; Manager level - Non sales: 1% 2004, 0% 2005, 1% 2006, 2% 2007, 1% 2008; Sr Manager level & above - Sales: 2% 2004, 2% 2005, 1% 2006, 1% 2007, 1% 2008; Sr Manager level & above - Non sales: 1% 2004, 0% 2005, 1% 2006, 2% 2007, 1% 2008.
Graph VII shows the labour turnover according to job levels. There is a high labour turnover in the sales agent related job categories with less at the assistant and executive levels. The insurance industry is purely based on the personal relationships and trust. Also it can be noticed that most insurance professionals in sales related jobs have their own client network. Moreover, the performance of insurance sales professionals is highlighted in the industry. As result high performers are considered to be “super stars”. Competitor companies target these super stars and headhunt them. Graph VII (B) indicates the relationship between the two variables. The correlation coefficient of the two variables is \( r = -0.79 \) and the \( R^2 = 0.6281 \). This indicates that there is a negative relationship between the job level and labour turnover; in other words, the higher the job level, the lower the turnover.

**Causes behind high labour turnover over the last five years**

<table>
<thead>
<tr>
<th>Main reasons behind the labour turnover - Year 2004 (figures are in percentages)</th>
<th>Graph VIII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rather not say</td>
<td>0%</td>
</tr>
<tr>
<td>Disliked the company</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of job satisfaction</td>
<td>55%</td>
</tr>
<tr>
<td>Lack of career development</td>
<td>77%</td>
</tr>
<tr>
<td>Family related issues</td>
<td>44%</td>
</tr>
<tr>
<td>Working environment</td>
<td>2%</td>
</tr>
<tr>
<td>Conflicts with supervisors</td>
<td>10%</td>
</tr>
<tr>
<td>Conflicts with colleagues</td>
<td>5%</td>
</tr>
<tr>
<td>Remuneration &amp; benefits</td>
<td>0%</td>
</tr>
</tbody>
</table>
In 2004, the voluntary employee turnover rate was 16%. Moreover, all the reasons cited by the employees fall into the avoidable turnover category. 55% of the employees mentioned as one of the reasons for them to leave the company as remuneration and benefits, and 44% of the employees selected lack of job satisfaction as a reason for them to leave the company. 77% of the employees cited no career development as a reason, 4% of employees mentioned that conflicts with supervisors was the reason, and 2% mentioned conflicts with the colleagues as their reason for resigning.

In 2005, voluntary labour turnover was 18% and out of this 46% of the employees mentioned as one of the reasons for them to leave the company as remuneration and benefits, 61% selected lack of job satisfaction, and 73% cited no career development as reasons. 5% mentioned conflicts with supervisors, and 3% mentioned conflicts with colleagues. 1% of the employees mentioned family related issues, which fall into unavoidable labour turnover.

The highest voluntary labour turnover was reported in 2006 at 20%. Most of the employees who left during this year mentioned lack of job satisfaction as the reason for them to depart (73%). Remuneration and benefits were cited by 60% while 6% cited that they were leaving due to a conflict with their supervisors. 66% of those who resigned voluntarily left for career development reasons.
In 2007, voluntary labour turnover was 19%. All mentioned lack of career development as a reason for resigning and 86% of the employees said that lack of job satisfaction was their main reason to leave. Remuneration and benefits came in third place with 68% of the employees falling into this category. 6% of the employees mentioned that conflicts with supervisors was a reason for them leaving while 2% mentioned conflicts with colleagues as the reason.

In 2008, voluntary labour turnover was 19%. Out of this, 82% of the employees mentioned that one of the reasons for them to leave the company was remuneration and benefits. 87% selected lack of job satisfaction as the reason for them to leave, and 94% cited no career development as the reason. 7% of the employees mentioned that conflicts with supervisors was the reason and 3% mentioned conflicts with colleagues as the reason. When analysed, the data shows that other than the 1% of the employees who mentioned family related issues as the reason to separate from the company, all the other reasons can be considered as avoidable labour turnover.

6.0 Conclusion of the analysis

When the characteristics of the labour turnover are analyzed, it can be noticed that all four characteristics are negatively related to labour turnover. The research finding also shows that females are more reluctant to voluntarily separate than males. (It
should be noted that only 35% of the workforce comprises of females.)

Also, a very strong negative relationship can be seen between age and labour turnover. The correlation coefficient between the two variables is -0.96. The negative relationship between the other three variables and labour turnover is also relatively high, which indicates that the insurance industry of Sri Lanka is experiencing a high labour turnover among young, partly qualified employees who are attached to non-managerial levels whose tenure of employment is less than five years.

Below we mention three reasons as the main root causes for voluntary resignation.

- Lack of career development
- Lack of job satisfaction
- Remuneration and benefits related issues

During the observed five years, a high voluntary labour turnover of 18% was experienced in the insurance sector. An important factor to be highlighted is that most employees who resigned from one company have joined another insurance company. The main reason behind this is the rapid growth of the industry in the last decade. It can also be noted that headhunting is very common in the industry; competitor organisations headhunt good performers and offer higher salaries and benefits. Headhunting and offering higher salaries to attract star performers from competitor organisations is positively related to labour turnover of the individual company. The cited comments of the exit interviews explained that most of the resigning employees believed that they didn’t have a career development path as the organisations preferred to recruit star performers from competitor organisations and offer them higher position instead of promoting employees from within the organisation. Another observation is that most of those who voluntarily resigned commented on salary and benefit related disputes; the resigning employees assumed that new recruits from the competitor organisations were being offered higher salaries and benefits than them. Lack of job satisfaction is the other major issue highlighted by the resigning employees. This is a by-product of many poor human resource practices.

**7.0 Recommendations**

**Remuneration & Benefits**

Despite the fact that all the companies selected for the study claimed that they pay market average salaries, most of the employees who resigned during the last half decade mentioned compensation and benefits as the main cause for their resignation. As mentioned in the conclusions, most of the companies selected don’t have a proper salary structure, according to grades. It can be noticed that some companies even tend to pay well above the salary structure for headhunted employees. This creates conflicts and disputes among employees in the same grade and therefore it is recommended that the insurance industry should carry out a compensation and benefits survey and share the information. The results will enable all companies in the industry to redesign their salary scales appropriately.

**Performance Appraisal**

It is observed that all the companies researched have a performance appraisal system in place but that, in practice, the appraisal results are only been used incrementally. Previous research has shown that a good performance appraisal system is one of the key tools to reduce labour turnover since it can be used to provide productive feedback to employees and give them a view of their future within the company.

**Promotions**

Promotions are mainly based on seniority in the industry. This discourages the effects of hard working employees, though most of companies provide study assistance to help employees improve their qualifications, the qualifications and their effects on employees have not been considered at promotion time or when staff are being recommended for promotions. It can be assumed that changes in this policy would reduce labour turnover. It is recommended that companies reconsider performance and qualifications when promoting employees in order to reduce labour turnover.

**Job Rotation**

Most of the employees who left the companies during the last five years said that they were not satisfied with their job and most of the assistant level non-sales employees do routine work. For example, an insurance assistant attached to a car insurance
department would only underwrite automobile policies. Their knowledge would be limited to automobile insurance underwriting. But employees who would like to get more exposure by working in other departments should be given a chance to do so. It is recommended that transfers of employees to different departments in order to expand their knowledge and experience should be increased.

**Training, Professional Development, and Career Planning**

Training, professional development, and career planning are effective ways to enhance employee retention. Training constitutes a visible investment that the company makes in the worker, providing him or her with new skills, and greater competencies and confidence.

Training often leads to work that is more intrinsically rewarding. Combined with effective communication about how an employee’s efforts at developing skills will lead him or her to more challenging and meaningful positions within the company, training encourages workers to make longer term commitments to their workplace: it permits them to see a future with the company.

All of the companies researched were very active in the area of assisting employees financially for studies. But there is a big question mark whether the companies have a proper plan to get the maximum return for their investment. An effective internal promotion system would allow qualified employees to move towards higher positions and effective use of skills and knowledge would negatively relate to employee turnover.

**Recognition and Rewards**

Recognition and rewards include a diverse range of formal and informal, financial and non-financial, incentives given to individual employees, groups of employees or to an entire staff. Recognition and rewards can contribute to a workplace culture of respect and appreciation for employees and work well done, and thereby reinforce employee commitment to the firm. It can be observed that all the companies selected have employee recognition schemes. Some of those are employee of the month awards, most outstanding employee awards, most outstanding team awards, company-sponsored sports teams and social events. But when analysing the cited comments of the exit employees it can be noticed that some of these recognition systems itself acted as the cause for the employees to resigned. Therefore, it is recommend that the selection criteria of the recognition schemes should be visible and the selection team should be well trained and clear about the selection criteria.

**Employee Participation & Communication**

Open, responsive, two-way communications are vital to good employee retention, and could be considered as the basic building blocks of any effective retention practice. Most retention strategies and practices fundamentally depend on a sound approach to communicating with employees. Without communications, many of these practices would be impossible to implement in an effective way.

It can be observed that the selected companies spend considerable effort in communicating with their employees through a variety of tools such as employee surveys, regularly-scheduled committee meetings, an Intranet, formal postings, newsletters, and individual one-on-one discussions.

**Work-Life Balance**

Work-Life Balance programs are emphasized as one of the key ingredients to reduce labour turnover. It recognized that employees have important family and extra-professional obligations that compete with their workplace commitments. Practices such as dependent care leave, childcare subsidies, eldercare programs, counselling and referral, and flexible working hours allow people to strike a more meaningful and potentially less stressful balance between obligations at the workplace and obligations at home. Flexibility and responsiveness on the part of employers can go a long way in helping employees to resolve such conflicts and be more productive at work. It can be noticed that some of the companies selected have introduced flextime systems. This system allows employees to come to work within one hour of the beginning of business hours as long as the employee works the expected nice hours/day by extending their hours after the close of business hours. According to the human resources departments of the respective companies, this policy has proven to be effective in helping employees manage their work-life balance. It is assumed that consulting with employees about their work-life balance needs while planning the department business plan will help employees feel more important. Also, in return, work-life balance would negatively affect labour turnover.