

**IMPACT OF EMPLOYEE TURNOVER ON FINANCIAL PERFORMANCE OF  
NEPALESE COMMERCIAL BANKS**

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial  
fulfillment of requirements for the Master's Degree

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## CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Impact of employee turnover on financial performance of Nepalese commercial banks**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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## REPORT OF RESEARCH COMMITTEE

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## TABLE OF CONTENTS

<i>Certification of Authorship</i> .....	<i>ii</i>
<i>Report of Research Committee</i> .....	<i>iii</i>
<i>Approval Sheet</i> .....	<i>iv</i>
<i>Acknowledgement</i> .....	<i>v</i>
<i>Table of Contentv</i> .....	<i>vi</i>
<i>List of Tables</i> .....	<i>viii</i>
<i>list of Figures</i> .....	<i>ix</i>
<i>Abbreviations</i> .....	<i>x</i>
<i>Abstract</i> .....	<i>xi</i>
<b>CHAPTER I</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the study .....	1
1.2 Problem statement.....	3
1.3 Objectives of the study.....	6
1.4 Hypothesis of study.....	6
1.6 Rationale of study .....	6
1.7 Limitations of the study .....	7
<b>CHAPTER II</b> .....	<b>8</b>
<b>LITERATURE REVIEW</b> .....	<b>8</b>
2.1 Introduction.....	8
2.2 Theoretical review.....	8
2.3 Empirical review .....	12
2.4. Research gap .....	35
<b>CHAPTER III</b> .....	<b>38</b>
<b>RESEARCH METHODOLOGY</b> .....	<b>38</b>
3.1 Research design.....	38
3.2 Population and sample .....	38
3.3 Nature and sources of data .....	40
3.4 Methods of analysis .....	41
3.4.1 Reliability analysis.....	42

3.4.2 Statistical analysis .....	43
3.5 Research Framework and Definition of the Variables.....	46
<b>CHAPTER IV.....</b>	<b>49</b>
<b>RESULTS AND DISCUSSION.....</b>	<b>49</b>
4.1 Results.....	49
4.1.1 Demographic Information.....	49
4.1.2 Descriptive Analysis of the Variables.....	53
4.1.3 Correlation analysis.....	57
4.1.4 Regression Analysis .....	59
4.2 Discussion.....	62
<b>CHAPTER V .....</b>	<b>64</b>
<b>SUMMARY AND CONCLUSION .....</b>	<b>64</b>
5.1 Summary .....	64
5.2 Conclusion .....	66
5.3 Implications.....	67
<b>REFERENCES.....</b>	<b>68</b>
<b>APPENDIX.....</b>	<b>74</b>

## LIST OF TABLES

Table 1 Empirical review .....	21
Table 2 Review of Nepalese literature .....	33
Table 3 List of commercial banks .....	39
Table 4 Cronbach's Alpha table .....	42
Table 5 Reliability statistics .....	43
Table 6 Age of respondent .....	50
Table 7 Marital Status of respondents .....	50
Table 8 Gender of the respondent .....	51
Table 9 Educations of the respondents.....	52
Table 10 Experience of the respondents .....	52
Table 11 Descriptive Analysis of working environment.....	53
Table 12 Descriptive Analysis of training and development .....	54
Table 13 Descriptive Analysis of employee motivation .....	55
Table 14 Descriptive Analysis of pay level.....	55
Table 15 Descriptive Analysis of financial performance .....	56
Table 16 Correlations Matrix .....	58
Table 17 Model Summary regression .....	59
Table 18 Anova of the respondent .....	60
Table 19 Regression coefficients .....	61

## LIST OF FIGURES

Figure 1: Human capital theory .....	9
Figure 2 :Transaction Cost.....	10
Figure 3 :The Psychological Contract Theory .....	11
Figure 4 :Equati Theory .....	12
Figure 5: Conceptual Framework.....	46

## ABBREVIATIONS

ADBL	:	Agricultural Development Bank Limited
TCE	:	Transaction Cost Economics
ANOVA	:	Analysis Of Variance
BFI	:	Bank and Financial Institutions
CB	:	Commercial Banks
CUSUM	:	Cumulative Sums
CUSUMSQ	:	Cumulative Sum of Squares
ECM	:	Error Correction Model
F.Y.	:	Fiscal Year
SPSS	:	Statistical Package For The Social Science
GDP	:	Gross Domestic Product
MA	:	Moving Average
MoF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
SD	:	Standard Deviation
T U	:	Tribhuvan University
F P	:	Financial Performance
P L	:	Pay level

## ABSTRACT

Financial performance refers to the outcomes of an organization's activities, as they represent the strongest connection to its strategic objectives, customer satisfaction, and economic contributions. It involves the actual results or outputs of an organization, measured against its intended purposes, goals, and objectives. Financial performance typically encompasses three key areas: product performance, shareholder value, and overall organizational outcomes. It is essential to understand how employee turnover affects financial performance.

The primary objective of this study is to analyze the impact of compensation management on employee job satisfaction within Nepalese commercial banks. The specific objectives include examining the relationship between pay levels and financial performance in Nepalese commercial banks, evaluating how employee motivation affects financial performance, assessing the impact of the working environment on financial performance, determining whether training and development is linked to financial performance, and investigating how employee turnover influences financial performance.

This research adopts a descriptive research design coupled with a causal-comparative approach to explore the impact of employee turnover on the financial performance of Nepalese commercial banks. The findings reveal that training and development have a positive correlation with employee job satisfaction, indicating that increased training programs lead to improved organizational performance. In contrast, employee turnover is negatively related to organizational performance, suggesting that higher turnover rates result in decreased performance. Additionally, a positive relationship was identified between pay levels and organizational performance, demonstrating that better compensation improves performance. Similarly, employee motivation was found to positively impact organizational performance, with higher motivation levels enhancing outcomes.

The study concludes that training and development are critical factors for improving financial performance. Other influential factors include the working environment, employee turnover, and pay levels.

Key words : *Financial performance , Employee turnover and Nepalese banks.*



# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

A bank is a financial institution that serves as the backbone of a country's economic development. It is a crucial component of the financial infrastructure, playing a significant role in collecting and safeguarding public funds, channeling them toward productive uses, facilitating fund transfers, guaranteeing creditworthiness, and enabling currency exchanges. Banks offer a variety of services, including accepting deposits from savers and providing loans to investors, effectively acting as intermediaries between these two groups. By managing money, banks generate profits while supporting economic activities. Over time, the banking sector has expanded its reach, even to remote areas, significantly contributing to the nation's economic growth.

The banking industry is integral to a country's economic progress. It establishes an efficient payment and credit system, enabling the transfer of funds from surplus units to deficit units within the economy. The primary role of financial institutions is to mobilize savings and invest them in high-yielding projects, ensuring attractive and secure returns across various sectors. This process not only generates money and financial assets but also places these institutions at the core of the economic development process.

The concept of banking dates back to ancient times, when wealthy individuals and goldsmiths provided services for the safekeeping of valuable items. These early bankers would issue receipts to individuals who entrusted their valuables, such as gold, for safekeeping. In return, depositors could retrieve their items later, typically after paying a small fee for the security and storage. This early form of banking helped protect the wealth of ordinary people. Profit is considered a key financial performance indicator for business enterprises. It is primarily generated through effective business management, careful cost control, and efficient credit risk management. Additionally, a firm's operational efficiency plays a significant role in maximizing profitability and overall business success.

Financial performance comprises the actual output or results of an organization as measured against its intended outputs or goals and objectives. Financial performance refers to the utilization of performance indicators within organizations, serving as a critical tool to help align efforts with organizational goals (Tangen, 2004). It represents the company's financial achievements over a specific period, encompassing the management and allocation of financial resources. This performance is typically evaluated using metrics such as capital adequacy, liquidity, solvency, efficiency, leverage, and profitability.

Financial performance reflects a company's capability to effectively manage and control its resources. Information from cash flow statements, balance sheets, profit-and-loss accounts, and capital changes serves as a foundation for corporate decision-making. Understanding financial performance requires a grasp of fundamental and technical analyses, as well as knowledge in economics, financial management, and accounting to interpret a company's financial behavior comprehensively.

In the context of Nepal, various authors offer differing perspectives on the impact of employee turnover on financial performance. Tripathi (2014) defined the work environment as the setting in which employees operate, encompassing the physical workspace, job roles, organizational culture, and market conditions. These elements are interconnected and influence employee performance and productivity. The quality of the work environment is particularly significant, as it directly affects employee motivation, which in turn influences their overall performance.

Financial performance has developed to be the most important issue that every organizational management is concerned about, as it determines the ability of an organization to continue with its operations. Upadhaya et al. (2014) defined financial performance can be perceived on the wholeness of goals achievement, it is important to focus on specific areas including financial, product markets and shareholder returns which altogether can be summed to determine the overall outcome in the organization. According to Baniya (2004), training serves as the primary developmental opportunity offered to employees for enhancing their knowledge, skills, and abilities. Providing such development opportunities yields positive

outcomes, including improved performance, higher productivity, and stronger loyalty toward the organization. Additionally, it reduces employees' likelihood of leaving their jobs.

Kirby (2005) stated that financial performance represents the actual results of an organization, assessed in relation to its predefined targets or objectives. Organizational performance is inherently multi-dimensional, which adds complexity to its definition. Hendry (2012) further emphasized that performance is a multifaceted concept within organizations and cannot be effectively measured using a single evaluation tool.

Employee turnover refers to the rate at which employees leave an organization and are replaced by new hires. It signifies the departure of staff members from the formally established workforce. According to Allen et al. (2010), employee turnover is a metric used to track the number of employees leaving a company. This measure helps determine whether a company experiences a higher-than-expected rate of departures. Employee turnover can include individuals who resign, are terminated, or retire. Organizations that track turnover often distinguish between these categories to manage each type more effectively.

## **1.2 Problem statement**

Financial performance reflects the outcomes of an organization's efforts, as it strongly links to the strategic goals, customer satisfaction, and economic contributions of the business. It encompasses the actual results or outputs of an organization, measured against its defined objectives. These outcomes typically focus on three areas: product performance, shareholder value, and overall firm performance. In the context of Nepalese commercial banks, turnover intention has become a significant topic. This issue presents challenges for businesses, as it leads to the loss of valuable talent and additional costs related to recruitment and training (Loi et al., 2006). Several factors influence an employee's decision to leave their job, and excessive turnover can disrupt organizational stability, ultimately harming efficiency and productivity. As such, understanding the factors influencing turnover before employees decide to leave is crucial for maintaining organizational effectiveness (Ahmed et al., 2010).

Lee (2014) found that a moderate level of employee turnover can actually enhance financial performance. In particular, involuntary turnover, such as the dismissal of underperforming

employees or those involved in misconduct, can contribute to better organizational performance.

Rijamampianina (2015) demonstrated through multiple linear and nonlinear regression analyses that voluntary employee turnover rates significantly influence financial and organizational performance, following a cubic function.

Training plays a crucial role in maintaining a workforce that is both technically and socially proficient while preparing employees for advancement into specialized roles or managerial positions (Sultana et al., 2012). Similarly, Thang et al. (2008) highlighted the positive impact of training on organizational performance, emphasizing that employers often observe improved employee skills and motivation. These enhancements result in greater productivity and profitability. Furthermore, the study established a connection between training and firm performance, not only at the individual employee level, as indicated in earlier research, but also at the broader organizational level. Employee turnover can be harmful to a company's efficiency if skilled workers often leave the organization and the work population contains a high percentage of novice workers (Armstrong, 2009).

Maxwell (2010) revealed that a major issue with employee turnover is the loss of experienced and skilled staff, especially those who have undergone significant training for various organizational tasks. When employees leave, the organization faces the challenge of reassigning tasks to less skilled or inexperienced individuals, who may lack the technical expertise required to perform the necessary duties. This often results in lower customer satisfaction as the quality of service declines. Ramlall (2004) highlighted that employee turnover incurs both direct and indirect costs for organizations. Direct costs include expenses related to recruitment, selection, and training of new employees, while indirect costs can involve stress on remaining employees, decreased productivity, and lowered morale. Together, these costs can amount to as much as two years' worth of pay and benefits for the organization.

In the context of Nepal, different authors present varying perspectives on the relationship between employee turnover and financial performance. Tripathi (2014) defined the work

environment as encompassing the physical setting, job roles, organizational culture, and market conditions. These elements are interconnected and significantly impact employees' overall performance and productivity.

According to Baniya (2004), training is the primary development opportunity provided to employees, helping them enhance their knowledge, skills, and abilities. Offering such development opportunities results in positive outcomes, including improved performance, increased productivity, and stronger loyalty to the organization. Additionally, it reduces employees' likelihood of leaving their jobs.

Similarly, Adhikari (1992) noted that training for workers is often given minimal attention. Some factory managers perceive training as unnecessary at the shop-floor level, believing that employees learn through hands-on experience. Many workers are self-trained, and while some organizations offer on-the-job training, it is often inconsistent. In fact, the process of employee indoctrination in manufacturing industries in Nepal is typically inadequate.

The discussion above highlights that the empirical evidence on the relationship between employee turnover and organizational performance is inconsistent. Therefore, to provide clarity and support one viewpoint over another, it is necessary to conduct this study. The study will focus on the following questions regarding the effects of employee turnover on organizational performance in Nepalese commercial banks:

1. What are the primary causes of employee turnover in Nepalese commercial banks?
2. How does staff turnover influence the overall effectiveness and stability of organizations?
3. In what ways does employee turnover impact the financial performance of Nepalese commercial banks?
4. To what extent do factors such as pay levels, employee motivation, work environment, and training and development affect the financial performance of Nepalese commercial banks?
5. Which factor plays the most significant role in determining the financial performance of Nepalese commercial banks?

### **1.3 Objectives of the study**

- To assess the perception of employee toward employee turnover and financial performance.
- To examine the relationship between employee turnover and financial performance.
- The objective of this study is to analyze the impact of employee turnover on financial performance.

### **1.4 Hypothesis of study**

H1: Pay level does not significantly affect financial performance.

H2: Work conditions do not significantly influence financial performance.

H3: Training and development do not have a significant impact on financial performance.

H4: Employee motivation does not have a significant effect on financial performance.

### **1.6 Rationale of study**

The topic "Impact of Employee Turnover on Financial Performance of Nepalese Commercial Banks" holds significant relevance in today's competitive banking sector. Commercial banks are vital to the Nepalese economy, and their success largely depends on maintaining a skilled and stable workforce. Employee turnover, especially within this sector, has far-reaching consequences, including high recruitment costs, training expenses, loss of institutional knowledge, and disruptions in customer service. These issues can severely impact a bank's operational efficiency and, consequently, its financial performance.

Despite the crucial role employee turnover plays in the banking sector, there is a noticeable gap in research exploring the connection between employee turnover and financial outcomes within the Nepalese context. This study seeks to address this gap by providing empirical evidence and valuable insights that will help guide Nepalese banks in developing effective employee retention strategies. Such strategies can reduce turnover-related costs and improve profitability. Furthermore, the study will contribute to the existing body of literature on

human resource management and financial performance, offering practical implications for policymakers and banking institutions in Nepal.

This study is anticipated to offer significant insights into the effects of employee turnover on financial performance in Nepalese commercial banks. It aims to provide a deeper understanding of the current state of employee turnover and its relationship with financial outcomes in this sector. Additionally, the study will explore the challenges faced by commercial banks in managing turnover. The importance of this research lies in its potential to shed light on the causes and effects of employee turnover and propose ways to mitigate its negative impact. This research will be beneficial for stakeholders directly or indirectly involved in the banking sector and can also help other organizations examine the causes of employee turnover in their respective industries.

### **1.7 Limitations of the study**

Despite the continuous efforts made to reach meaningful conclusions, the study faces the following major limitations:

1. The study primarily relies on primary data regarding employee relations and their impact on financial performance. As a result, the reliability of the study's conclusions depends on the accuracy of the information provided by the respondents.
2. The study assumes a linear regression relationship between the dependent and explanatory variables, excluding non-linear regression assumptions.
3. Some of the findings in this study are inconsistent with previous research. It is important to note that the nature of the data and the model specifications may contribute to these discrepancies in results.
4. The study is based on a survey of approximately 400 respondents from 20 selected Nepalese commercial banks.
5. The data have been gathering by using a questionnaire. A series of interview should have been undertaken in this study.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The purpose of the literature review is to examine the extent of existing research in the area of interest, allowing the researcher to understand the progress made in the field so far. This review provides insight into the work already conducted, offering a foundation for the new researcher to build upon. Additionally, it helps identify gaps in the existing literature, guiding the study to address and fill these gaps. This research is based on principles from sustainable finance and environmental economics. It draws upon several relevant theories, including Psychological Contract Theory, Human Capital Theory, Transaction Cost Economics (TCE), the Theory of Planned Behavior, and the Diffusion of Innovations Theory.

#### **2.2 Theoretical review**

##### **Human Capital Theory**

Human Capital Theory focuses on the knowledge and experience possessed by small-scale business owners, with the assumption that the founder's human capital increases the likelihood of survival for small businesses. This theory emphasizes that experience can be transformed into valuable knowledge and skills, although the duration of experience is not always a reliable indicator of expertise.

According to this theory, employees are considered vital assets, and their skills, knowledge, and experience directly contribute to the productivity and profitability of an organization. When employees leave, the company loses this valuable human capital. High turnover has a significant impact on financial performance, as it results in the loss of skilled workers, reduces organizational efficiency, raises costs (e.g., recruitment, hiring, and training of new employees), and ultimately leads to a decline in financial performance.



*Figure 1 Fig: Human capital theory*

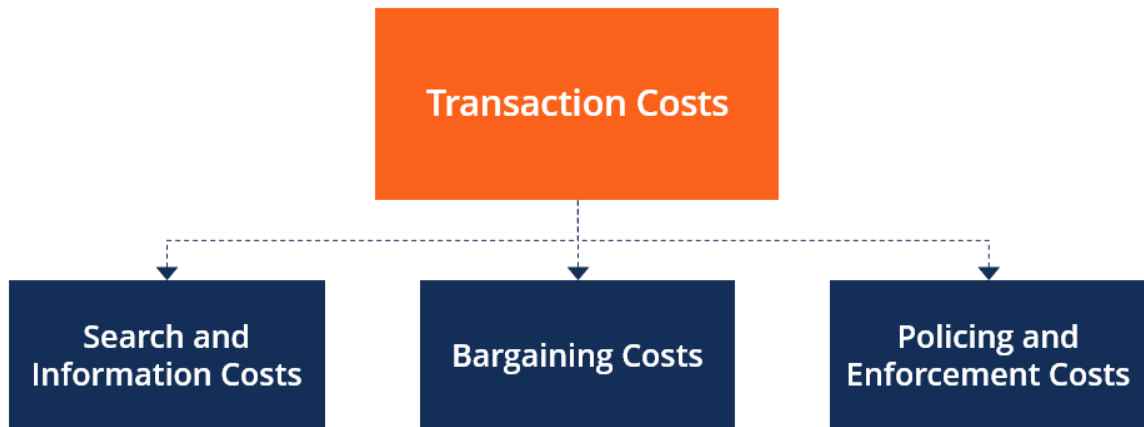
### **Transaction Cost Economics (TCE)**

Transaction Cost Economics (TCE) is a theory in both economics and organizational studies that explores the costs involved in economic transactions within and between organizations. Developed by economist Oliver Williamson, TCE provides a framework for understanding why organizations adopt certain structures and strategies aimed at minimizing transaction costs, which arise from the process of conducting business.

TCE posits that turnover within an organization increases transaction costs, which include not only the direct expenses associated with recruiting, hiring, and training new employees but also the indirect costs such as the disruption of workflows, decreased efficiency, and the loss of institutional knowledge that experienced employees bring. The departure of employees can lead to gaps in expertise and continuity, affecting the organization's ability to function smoothly.

When turnover rates are high, these transaction costs accumulate, contributing to reduced organizational efficiency and lower productivity. As a result, the overall financial performance of the organization suffers, with profitability being significantly impacted by the

ongoing need to replace skilled employees and the operational disruptions that arise from frequent turnover.

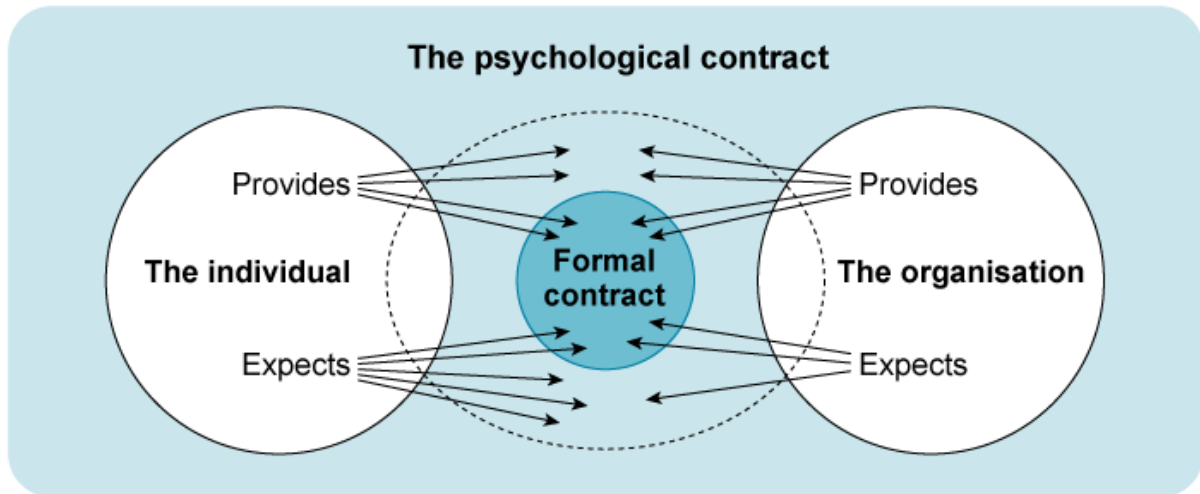


*Figure 2 Transaction Cost*

### **The Psychological Contract Theory**

The psychological contract is a theory that explores the expectations and informal agreements that exist between an organization and its employees (or volunteers). While it was initially focused on paid employment, the concept has also been applied to understand the motivations of volunteers, shedding light on why they may choose to stay or leave their volunteer roles.

This theory suggests that individuals' motivations are shaped by the relationship between themselves and the organization or group they are part of. It emphasizes the mutual expectations—such as job responsibilities, rewards, and support—that both the individual and the organization have towards one another. These expectations influence the individual's level of commitment, satisfaction, and their decision to remain with or leave the organization.



*Figure 3 The Psychological Contract Theory*

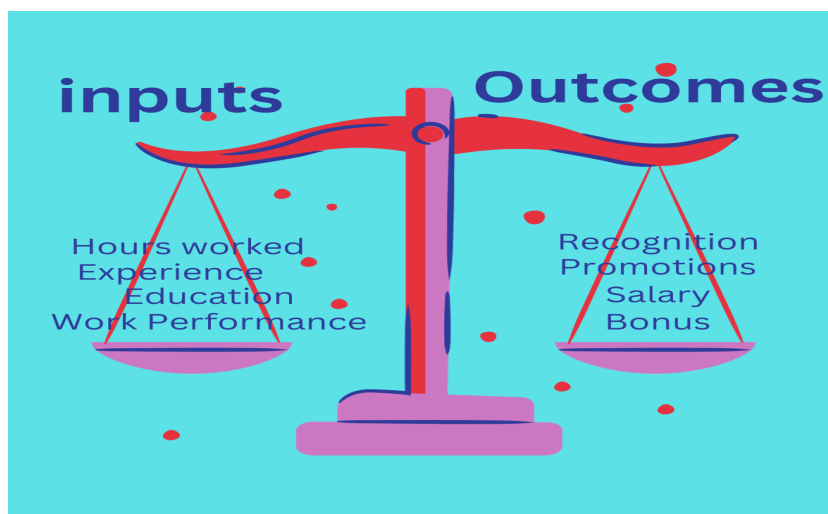
### **Cost of Turnover Framework**

This framework emphasizes both the direct and indirect costs associated with employee turnover, including expenses related to recruitment, onboarding, and the loss of productivity during the transition period. These costs can have a significant impact on an organization's financial stability and overall performance. In the context of Nepalese commercial banks, frequent turnover can lead to elevated operational expenses due to the continuous need to recruit and train new employees. Additionally, the resulting disruptions can reduce the bank's earnings, affecting both short-term profitability and long-term financial health.

### **Equity Theory**

Equity Theory proposes that employees evaluate fairness in the workplace by comparing their own input-output ratio to that of their colleagues. When employees perceive inequities in areas such as pay, recognition, or career advancement opportunities, it can lead to dissatisfaction and ultimately result in turnover. In the context of Nepalese banks, issues of inequity may arise due to hierarchical organizational structures, which can create feelings of unfair treatment among employees. This, in turn, may negatively impact employee retention and the overall financial stability of the bank.

By integrating these various theories, this study aims to establish a comprehensive framework that will allow for a thorough analysis of how employee turnover affects the financial performance of Nepalese commercial banks. The findings from this research can provide valuable, actionable insights that will help banking institutions mitigate the negative effects of turnover, ultimately improving their financial health and operational efficiency.



*Figure 4 Equati Theory*

### **2.3 Empirical review**

This section reviews research studies that have explored the impact of employee turnover on the financial performance of Nepalese commercial banks. Researchers from countries such as India, Pakistan, Bangladesh, Nigeria, Nepal, and other regions have contributed to this area of study. Among these, the most recent and relevant studies have been selected and included in a systematic literature review. A summary of the reviewed studies is presented in the table below, followed by a detailed explanation of each individual study.

Alhoul (2020) found that the review of average financial performance indicators highlighted the high level of performance of the Islamic banks studied. The researcher emphasized the importance of employee turnover statistics for Islamic banks, noting that turnover should not be viewed as a form of punishment, as this can negatively impact employee performance.

Vejsiu (2019) focused on the impact of employee turnover in Albanian banks. High voluntary turnover rates among banking employees can affect business outcomes. The negative effects are more pronounced when turnover occurs among highly skilled employees in key areas. The study, which used a case study methodology, collected data from statistical documents and archives, including 75% of the banks operating in the market. While the study observed an increasing trend in employee turnover over the last three years, no clear trend emerged regarding profitability. The regression model used to assess the relationship between turnover and bank profitability was found to be statistically insignificant.

Githinji (2014) revealed a statistically significant negative correlation between financial performance and turnover-related recruitment costs ( $r=-.505$ ,  $p<.05$ ). This indicates that as recruitment costs—such as advertising, interviewing, testing, and induction—rose, financial performance of security firms declined. The study also found a significant negative correlation between financial performance and lost productivity due to turnover ( $r=-.412$ ,  $p<.05$ ), suggesting that financial performance decreased as firms incurred losses from seeking replacements.

Li et al. (2021) examined whether employee turnover can provide insights into future firm performance using a large panel of data from employees' online profiles. The study found that turnover was negatively associated with future financial performance, including one-quarter ahead return on assets and sales growth. This negative relationship was stronger for small and young firms, those with low labor intensity, when local labor markets were tight, and when firms were trying to replace departing employees. However, when turnover was very low, the negative association disappeared, indicating that a certain level of turnover could be beneficial. The study also found that turnover was positively associated with the uncertainty of future financial performance and significant in predicting future stock returns, suggesting that investors do not fully incorporate turnover information into their decision-making. These findings underscore the importance of turnover disclosure, as highlighted by the Securities and Exchange Commission.

Zargham et al. (2023) conducted research to examine the impact of employee turnover and recruitment on organizational profit. The study found that turnover and recruitment procedures play a crucial role in organizational development. Additionally, selecting the right candidates during recruitment provides extra support for the organization. The HR department can enhance its effectiveness by hiring the right employees. However, it was also discovered that simply recruiting the right employees is not enough; providing suitable working conditions is essential for improving employee performance, which in turn positively impacts the organization's profits. Furthermore, hiring the right candidates is critical for retaining employees and reducing turnover.

Elena et al. (2023) explored the effect of staff turnover costs on the financial performance of Nigerian banks. The study used a panel data approach over a 10-year period (2011-2020), analyzing data with regression techniques. Hypothesis one showed a significant negative impact of staff turnover costs on the profit margin of Nigerian banks, with a p-value of 0.037. Similarly, hypothesis two indicated that staff turnover costs negatively impacted return on assets (p-value of 0.005548). The study concluded that staff turnover costs have a detrimental effect on financial performance, urging Nigerian banks to find ways to retain their employees in order to maintain established customer relationships.

Dwomoh and Korankye (2012) concluded that there is a positive relationship between labor turnover and the performance of banks in Ghana, specifically regarding customer complaints. The coefficient of determination showed that labor turnover contributed 55.8% to customer complaints in Ghanaian banks, while other factors contributed 44.2%. The Chi-square statistic ( $X^2 = 71.074$ ) led to the rejection of the null hypothesis, supporting the alternative hypothesis that customer complaints depend on labor turnover. Interviews with 72.3% of employees revealed that labor turnover significantly impacts service quality, particularly in the short term. The study recommended that Ghanaian banks adopt strategies to retain employees and maintain customer relationships.

Akinruwa et al. (2014) examined the relationship between labor turnover and the performance of the Nigerian banking industry. Using a survey method, the study involved 34 current employees and 51 ex-employees from commercial banks in Ekiti-State, Nigeria. The

study found that factors such as retrenchment, unrealistic targets, leadership style, training, and job insecurity had a positive relationship with performance, while excessive workload negatively affected performance. The findings indicated that organizational performance depends on the interaction of multiple factors working together. The study also showed that a single determinant factor alone cannot ensure optimal performance. The R<sup>2</sup> value of 80.1% confirmed the model's good fit. Recommendations included supporting key performance factors and setting realistic targets for bank management.

Nyaga (2015) conducted a study to examine the impact of employee turnover on organizational productivity, focusing on the International Livestock Research Institute. The study identified several key factors that contributed to high employee turnover, which negatively affected organizational productivity. These factors included the absence of effective employee retention strategies, low levels of employee motivation, limited opportunities for career development, and poor working conditions. The research emphasized that how human resource management addresses these factors plays a critical role in influencing the rate of employee turnover within an organization. Specifically, the study highlighted that a lack of effective retention strategies results in inadequate reward incentives, bonuses, and the failure to provide regular increments in employee remuneration packages. These shortcomings contribute significantly to employees' dissatisfaction and their eventual departure from the organization, further impacting overall productivity and performance.

Johnson (2018) explored strategies used by managers in community banks to reduce employee turnover. The primary goal of this explanatory case study was to identify the various methods community bank managers employed to mitigate turnover and retain their staff. A qualitative research method was used, employing purposeful sampling to select participants for the study. The sample consisted of four managers from a community bank who had firsthand experience with managing employee turnover. Data were gathered through semi-structured, audio-recorded interviews, which were guided by an interview protocol to ensure the questions aligned with the research objectives. In addition, the study collected sample employee evaluation forms and examined bank policies and procedures. The findings

revealed that successful strategies for minimizing turnover included offering competitive wages, maintaining open communication, creating rewards and recognition programs, and providing employees with opportunities for professional growth and career advancement. These strategies were found to foster a more positive work environment and reduce turnover rates, thereby contributing to the overall stability of the organization.

Rijamampianina (2015) conducted a study to examine the relationship between employee turnover rates and organizational performance in South Africa. The research used both multiple linear and nonlinear regression techniques to analyze the data. The study adopted a deductive research process and utilized a cross-sectional research design, collecting quantitative data via a self-administered web-based questionnaire. A total of 164 responses were initially collected, but only 83 respondents provided valid returns with minimal missing data. The missing data points were addressed through imputation techniques to ensure the integrity of the data. The respondents were categorized into industrial (36%) and services (64%) sectors, allowing for a broad understanding of employee turnover across different sectors of the South African economy. The study concluded that there exists an optimal level of voluntary employee turnover that organizations should aim for, as turnover rates were found to significantly predict both financial and organizational performance through a cubic function. This finding suggests that while a certain level of turnover may be beneficial, excessive turnover can harm the organization's performance, highlighting the importance of finding a balanced turnover rate that supports sustainable organizational growth.

Purohit (2020) conducted a study to examine the causes and effects of employee turnover rates in the banking sector. The research sample included employees from different hierarchical levels within the sector, and a stratified random sampling method was used for selection. Structured interviews were conducted to gather the necessary data. The sample size for the study was 97 participants. The data analysis methods employed included descriptive statistics and survey techniques, with analysis performed using SPSS software, utilizing Cronbach's alpha, correlation, and regression tests. The data collection instrument was a questionnaire, which used a 5-point Likert scale ranging from "strongly agree" to "strongly disagree." The study concluded that there is a negative relationship between organizational

performance and employee turnover rate, suggesting that higher turnover negatively affects organizational performance.

Singh and Amandeep (2017) conducted an in-depth study to explore the impact of employee turnover on the hotel industry, focusing on selected hotels in New Delhi. The study was primarily exploratory in nature, aiming to provide a comprehensive understanding of how employee turnover affects hotel operations. A total of 450 employees from five-star, three-star, and budget hotels were selected as participants. These employees represented various roles within the hotel, including housekeeping staff, ranging from executive housekeepers to room attendants. Data collection was carried out using secondary sources, supplemented with a structured questionnaire designed to capture the views and opinions of the participants. The questionnaire employed a five-point Likert scale to gauge responses. The study's findings highlighted two main clusters of impacts caused by high employee turnover in the hotel industry. These included a breakdown in coordination among employees, which negatively impacted overall teamwork and efficiency, and a decline in guest satisfaction. The low satisfaction levels of guests were linked to a reduced rate of guest arrivals, which in turn resulted in a decline in the hotel's overall performance. The study emphasized that these impacts are critical for hotel managers to consider, as they can significantly affect the long-term success of the business in a competitive market.

Pattni (2018) investigated the determinants of employee turnover and its effects on organizational performance, specifically focusing on Airtel Kenya Limited. The study aimed to explore how various factors contribute to employee turnover and the subsequent impact on the organization's performance. The target population for the study consisted of 135 employees working at Airtel Kenya's Nairobi branch, with a sample size of 54 employees selected for data collection. Stratified sampling was used to classify employees into lower, middle, and senior management levels, followed by random sampling to ensure that each employee had an equal chance of being selected. The research employed a quantitative case study methodology, using a questionnaire as the primary tool for gathering data. The study was designed to assess the role of management styles, the work environment, and reward management in influencing employee turnover. The findings revealed that these three factors

had a significant impact on employee turnover, with management styles and work environment being particularly influential in driving employees to leave the company. As a result, these turnover patterns were shown to have a direct effect on Airtel Kenya's organizational performance, as high turnover disrupts operations, increases recruitment costs, and leads to a loss of valuable knowledge and expertise.

Rajan (2017) explored the impact of employee turnover on the performance of existing nurses, focusing on both multi-specialty and single-specialty hospitals. The study sampled 120 nurses, 60 from each type of hospital, and used judgment sampling to select participants. The primary data were collected through a structured questionnaire, with a focus on understanding the effects of turnover on the performance of remaining nursing staff. The research concluded that a high turnover rate among nurses significantly affects not only their personal health and well-being but also the quality of patient care and safety. The study pointed out that when experienced nurses leave, it creates a gap in the workforce, leading to increased stress and workload for remaining staff. As a result, the performance of existing nurses is negatively impacted, both in terms of providing quality care and maintaining operational efficiency. This, in turn, affects the overall functioning of healthcare institutions, emphasizing the need for strategies to reduce turnover and retain skilled nursing professionals.

Ruskin (2017) conducted an analysis to examine the relationship between employee turnover and firm performance, using Major League Baseball (MLB) teams as the subject of study. The research utilized a balanced panel dataset that included observations for 30 MLB teams over the period from 2002 to 2016, totaling 450 data points. In addition to turnover data, the study collected information on 20 other variables that could potentially influence team performance. The research employed Ordinary Least Squares (OLS) regression models and a quadratic model to test the hypotheses. The results showed that employee turnover did not have a significant effect on team performance over the course of a full season. Instead, factors such as roster quality and past performance were found to be stronger predictors of future success. This study suggested that while turnover may have short-term implications, the overall impact on long-term performance was limited. The research highlighted that other

variables, such as the quality of players and previous team performance, should be prioritized when evaluating a team's potential for success in future seasons.

Saher et al. (2015) examined the impact of employee turnover on productivity in the software industry, an area that faces unique challenges due to the highly specialized nature of its workforce. The study emphasized the significant role employee turnover plays in software project costs, performance, efficiency, and schedules. To analyze the impact of turnover on productivity, the researchers used the Productivity-Turnover Model, which incorporated theories of firm-specific human capital (FSHC) and job matching (JM). The study found that high employee turnover in the software industry directly contributes to lower productivity and reduced efficiency, as companies must spend significant resources on recruiting and training new employees. The research concluded that the higher the turnover rate, the more likely it is for the organization to experience diminished performance and lower production efficiency. The findings underscore the importance of employee retention strategies in maintaining high productivity levels and ensuring the success of software companies in a competitive market.

Kunu et al. (2017) conducted a study to assess the impact of employee turnover on organizational performance at Barclays Bank Tanzania Limited. The study aimed to identify the causes of turnover, examine how it affects organizational performance, and propose strategies to reduce turnover within the company. A descriptive cross-sectional survey design was used to collect data from 120 employees who were purposively selected from the organization. The research found that employee turnover had a negative impact on the performance of Barclays Bank, leading to disruptions in service delivery and a decline in employee morale. The study highlighted that high turnover rates result in increased recruitment and training costs, loss of institutional knowledge, and lower productivity. Additionally, the research suggested that implementing strategies to reduce turnover, such as improving work conditions, offering competitive salaries, and providing career development opportunities, could help mitigate the negative effects on the bank's performance. The study concluded by recommending that organizations focus on retaining employees through

comprehensive retention strategies to enhance overall organizational effectiveness and performance.

Adewole (2017) explored the causes of labor turnover and its impact on employee productivity within the brewing industry in Southwestern Nigeria. The study used a convenience sampling technique to select the firms involved in the research, ensuring a representative view of the industry. A total of 300 respondents participated in the study, drawn from a population of 1,500 employees. The respondents were categorized into three strata: semi-skilled workers, skilled workers, and management staff. Simple random sampling was then employed to select participants from each of these strata, ensuring that each group was fairly represented.

To collect the necessary data, a structured questionnaire was distributed to the participants, with the aim of capturing information on the causes of labor turnover and its impact on employee productivity. The questionnaire included questions rated on a five-point Likert scale, designed to assess various factors contributing to labor turnover. The data were then analyzed using descriptive and inferential statistical techniques, including Analysis of Variance (ANOVA), to draw meaningful conclusions from the responses.

The study's findings revealed that labor turnover has significant effects on employees' productivity in the brewing industry. High turnover rates were shown to lead to disruptions in work processes, reduced efficiency, and a decline in overall productivity. The study emphasized the importance of addressing the underlying causes of turnover, such as poor working conditions, low wages, and lack of career development opportunities, in order to improve employee retention and performance. These insights underscore the need for effective human resource management practices to minimize turnover and its negative effects on organizational productivity.

Table 1

*Empirical review*

<b>S. N</b>	<b>Name of Author</b>	<b>Title</b>	<b>Objective</b>	<b>Method</b>	<b>Finding</b>
1	Alhoul (2020)	The Impact Of Employee Turnover On Financial Performance Of The Jordan Islamic Bank	To examine the extent to which employee turnover affects financial performance in the Jordanian Islamic banking sector.	This study adopted an analytical descriptive approach, tailored to the nature and context of the research.	The analysis of these averages indicates a high level of financial performance among the Islamic banks included in the study.
2	Vejsiu (2019)	Impact Of Employee Turnover On The Profitability Of The Banks - The Case Of The Albanian Banking System	<ul style="list-style-type: none"> <li>• To assess the extent of employee turnover within the banking system in Albania.</li> <li>• To evaluate the impact of employee turnover on organizational performance.</li> </ul>	The case study approach has been used for this research.	The study found an increasing trend in voluntary turnover over the past three years, with no clear trend in the banks' profitability.
3	Githinji (2014)	The Effect Of Staff Turnover On Financial Performance Of	The study aimed to evaluate how employee turnover affects	The study used both primary and secondary data for data	Staff turnover negatively impacted the financial

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		Private Security Firms In Kenya	the financial performance of private security firms in Kenya.	collection. A census study was conducted instead of sampling, and descriptive statistical techniques were employed for data analysis.	performance of private security firms in Kenya due to higher recruitment costs and reduced productivity.
4	Li et al. (2021)	Employee Turnover and Firm Performance: Large-Sample Archival Evidence	study relates to the literature on the importance of human capital in the modern firm.	The study use primary data collection through social media	The study found that employee turnover is linked to a decline in future financial performance.
5	Khan et al. (2023)	Impact of employee turnover on organizational profit with moderating role of recruitment	This study aims to explore the effect of employee turnover on organizational profitability, considering the moderating role of recruitment processes.	A quantitative correlation research design was employed to investigate the relationship between employee turnover (TR), recruitment, and organizational profit. The study utilized a	The study found that employee turnover and recruitment procedures significantly impact organizational development, with effective candidate selection playing a key role in

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				non-probability convenience sampling technique for data collection.	supporting growth.
6	Platonov al et al. (2023)	Impact of Staff Turnover on the Financial Performance of Nigerian Deposit Money Banks	This study aimed to determine the effect of staff turnover on the financial performance of Nigerian banks.	This study utilized an Ex-Post Facto research design. Data were analyzed using regression techniques with the aid of E-Views 9.0 at a 5% significance level. Primary data collection methods were employed in this study.	The study found that staff turnover costs negatively affect the profit margin and return on assets of Nigerian banks.

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7	Dwomoh and Korankye (2012)	Labour turnover and its impact on performance of Banks in Ghana	The research aimed to examine labor turnover and its impact on the performance of banks in Ghana.	Convenience sampling was used in the study, and primary data was collected through interviews conducted with employees of the banks selected for the research.	The study found that labor turnover has a significant relationship with the performance of banks in Ghana, particularly in terms of customer complaints.
8	Akinruw a et al. (2014)	Effect of Labor Turnover on Performance in Nigerian Banking Industry	The aim of this study is to examine the relationship between labor turnover and the performance of the Nigerian banking industry.	The study used survey research with descriptive and explanatory methods, employing purposive and convenience sampling to select 85 respondents from the Nigerian banking industry.	The data analysis revealed that leadership style, unrealistic targets, retrenchment, job insecurity, and training positively impact organizational performance, influenced by other key factors.

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9	Nyaga (2015)	assessment of employee turnover on organizational efficiency: a case study of international livestock research institute (ilri)	The main goal of the study was to evaluate how employee turnover affects organizational efficiency.	The study employed a descriptive research design and utilized a stratified random sampling technique to select a sample of 42 respondents. Data was collected using a questionnaire method.	The study concluded that the primary causes of employee turnover had a negative impact on organizational productivity.
10	Johnson (2018)	Employee Turnover at Community Banks.	The objective of this study was to contribute to the existing body of knowledge on employee retention and voluntary turnover, specifically in the context of community banks.	The research employed a qualitative method, which was deemed the most suitable approach for exploring the strategies used by managers to reduce employee turnover at community	Wages, open communication, rewards, and growth opportunities help reduce turnover and improve performance.

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				banks.	
11	Rijamam piania (2015)	Employee turnover rate and organizational performance in South Africa.	The study aims to examine the impact of employee turnover on organizational performance.	Two non- probability sampling methods were used: convenience sampling and snowball sampling.	The study supports the existence of an optimal voluntary employee turnover rate for organizations in South Africa, balancing innovation with operational stability.
12	Purohit (2020)	Employee turnover rates- causes and effects- banking sector	The study aims to determine the impact of employee turnover on organizational effectiveness.	As a descriptive study, a survey method was used for data collection to identify the factors. The data were analyzed using Cronbach's Alpha, correlation, and regression.	There is a negative relationship between organizational performance and the employee turnover rate.

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13	Sing and Amandeep (2017)	Impact of employee turnover on hotel industry- a study of selected hotels of new Delhi.	The purpose of the study is to explore an empirical approach to investigate the factors considered by hoteliers regarding the impact of employee turnover on the hotel industry.	The study is exploratory in nature, with a sample of 450 employees selected from five-star, three-star, and budget hotels in New Delhi.	There is a negative relationship between employee turnover and organizational performance.
14	Pattni (2018)	Determinants Of Employee Turnover And Its Effect On Organisational Performance: A Case Of Airtel Kenya Limited	The overall objective is to identify the determinants of employee turnover and assess its effect on organizational performance: A case study of Airtel Kenya Limited.	Stratified sampling was used to obtain a proportional representation of the targeted respondents. Primary data were collected using structured questionnaires.	The majority of employees disagreed that their managers play a key role in fostering a positive work environment that maximizes both individual potential and organizational capability.

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15	Rajan (2017)	Employee turnover and employee performance: A comparative study among nurses.	The aim of the study is to understand and compare the impact of employee turnover on the performance of existing nurses based on their demographic characteristics.	This survey-based quantitative research study adopted a descriptive research design. Primary data were collected using a structured, self-made questionnaire.	A high rate of employee turnover among nurses would negatively impact the quality of nursing care, patient safety, and overall performance.
16	Ruskin (2017)	The Relationship between Employee Turnover and Firm Performance: An Analysis of Major League Baseball from 2002-2016	The study aims to examine the relationship between employee turnover and organizational performance.	Primary data were used to calculate the results, with various statistical tools applied for analysis.	There is no evidence to suggest that turnover significantly affects team performance over the course of a full season.
17	Saher et al. (2015)	The Impact of Employees' Turnover at the Productivity of a Software	The study aims to determine the impact of employee turnover on the productivity of a	Proposed Productivity-Turnover Mode method is used.	There is a positive relationship between employee turnover and

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			software company.		productivity.
18	Kunu et al. (2017)	The Effect of Employee Turnover on the Performance of Zoomlion Ghana Limited	The purpose of this study was to identify the causes of employee turnover and examine its effect on organizational performance.	This study used a descriptive, cross-sectional study design and employed a purposive sampling technique to select the employees.	The study showed that labor turnover has a negative effect on organizational performance.
19	Adewole (2017)	Labour turnover and productivity among employees in selected brewing firms in southwestern nigeria	The study aims to examine the effects of labor turnover on employee productivity in the brewing industry and identify the causes of labor turnover among employees in southwestern Nigeria.	The study used a descriptive design, and the convenience sampling technique was employed to select the firms included in the study.	Labor turnover has a significant effect on employee productivity.

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*Source: Author's Creation*

## **Review of Nepalese literature**

The following Table 1 provides a summary of the findings from Nepalese literature regarding the impact of employee turnover on organizational performance in Nepalese commercial banks.

Gautam (2016) conducted a study that examined several factors influencing job satisfaction, including salaries and remuneration, nature of work, training and development opportunities, promotion opportunities, working conditions, and performance appraisal systems. These factors were identified as reducing employee turnover and enhancing organizational performance. Data on employee satisfaction were collected through questionnaires administered to employees from 12 commercial banks. The study used descriptive analysis and correlation coefficients to test the relationships between the variables. The findings of the study revealed that job satisfaction is a critical success factor in reducing employee turnover and improving employee intentions, which in turn leads to higher productivity, reduced turnover, and ultimately better financial performance for commercial banks. Furthermore, the study highlighted a positive impact of job satisfaction on organizational performance.

Biswokarma (2016) carried out an in-depth study examining the relationship between organizational career growth and employees' turnover intentions, with a particular focus on the private commercial banks in Nepal. The research conceptualized four critical factors that contribute to career growth within an organization: career goal progress, professional ability development, promotion speed, and remuneration growth. These factors were identified as vital drivers of employee retention and job satisfaction. The study collected data from a sample of 290 banking employees in Nepal, aiming to assess the influence of career growth dimensions on employees' intentions to leave their jobs.

The study's findings revealed that organizational career growth, as a whole, is negatively related to employee turnover intentions. In simpler terms, employees who feel that their career is progressing within the organization, particularly in terms of professional growth and the opportunity for advancement, are less likely to consider leaving. This suggests that fostering career development within an organization can significantly reduce the likelihood

of turnover. Interestingly, however, the research found that demographic variables such as age, gender, and years of experience did not significantly moderate the relationship between career growth and turnover intentions. This means that regardless of these personal factors, the core elements of career growth remained pivotal in shaping employees' decision to stay or leave.

Among the four factors analyzed, promotion speed and remuneration growth emerged as the most influential determinants of employee turnover intentions. Employees are more likely to stay with an organization when they experience timely promotions and see their compensation aligning with their efforts and contributions. Career goal progress and professional ability development, while still significant, had a comparatively lesser impact on turnover intentions. These findings highlight the importance of timely promotions and competitive salary increases as strategies to retain talent in Nepalese private banks. The study emphasized that organizations should place greater focus on these two factors to minimize turnover and enhance employee commitment.

Pathak (2015) conducted a comprehensive study to assess the levels of job satisfaction among employees of commercial banks in Nepal, examining how various factors influence job satisfaction and overall job performance. The study was based on four purposively selected commercial banks and involved a random sample of 260 employees from both head offices and branch offices across Kathmandu. The primary tool for data collection was the modified Minnesota Satisfaction Questionnaire, which is widely used to measure job satisfaction across different sectors. The questionnaire was designed to capture employees' perceptions of various aspects of their job, including pay, career development opportunities, working conditions, relationships with colleagues, and overall work environment.

The findings of the study indicated that employees' overall feelings about their jobs were influenced by several key factors. The most prominent factors included pay and benefits, training opportunities, career advancement prospects, the quality of relationships with co-workers, and the extent to which employees were involved in decision-making processes. These elements were identified as critical in shaping employees' job satisfaction and, subsequently, their job performance. The study highlighted that satisfaction with these

factors not only contributed to employees' motivation and engagement but also acted as predictors of work behaviors such as absenteeism and turnover.

In terms of ranking the factors influencing job satisfaction, the study found that job security ranked first, followed by pay and promotion potential, relationships with coworkers, work conditions, and future opportunities for career development. The study concluded that these factors have a direct impact on employees' decision to remain with their current employer and contribute to reducing turnover. Moreover, it was found that when employees feel secure in their job, fairly compensated, and have opportunities for career advancement, they are more likely to perform well in their roles and stay with the organization for the long term. Therefore, the study emphasized that creating a work environment that nurtures job satisfaction through these key elements can significantly reduce turnover rates and boost employee performance, which, in turn, enhances the overall effectiveness of the organization.

Upadhyaya et al. (2013) conducted a study to examine the factors influencing employee turnover in private schools in Butwal. The research utilized a descriptive research design and employed a convenience sampling technique. A structured questionnaire using a Likert scale was administered to a sample of 133 participants, and the data were analyzed using descriptive analysis methods. The study found that factors such as better pay, job nature, working conditions, opportunities for recognition, co-worker support, and supervisor support were negatively associated with employees' turnover intentions in private schools. However, the study also revealed that poor job security was the most significant contributing factor to higher employee turnover in these schools. Job security emerged as the most influential determinant of turnover and was directly linked to the turnover patterns observed in all private schools within the locality.

Table 2 Review of Nepalese literature

<b>S. N</b>	<b>Name of Author</b>	<b>Title</b>	<b>Objective</b>	<b>Method</b>	<b>Finding</b>
<b>1</b>	Gautam (2016)	Determinants of Job Satisfaction and their Effect on Organizational Performance: An Evidence from Nepalese Banking Sector	To identify the determinants of job satisfaction and estimate their impact on organizational performance.	Descriptive analysis and correlation coefficient were used to test the relationship between the variable.	Job satisfaction is a critical success factors for reducing employee turnover.
<b>2</b>	Biswokarma (2016)	Organizational career growth and employees' turnover intentions: empirical evidence from nepalese private commercial banks.	To find out balance the relationship between their desire for career growth and their attitudes toward their current organizations	Responses for quantitative research involve coding, categorizing, and converting data into numerical formats for statistical analysis (Cooper & Schindler, 2008). The data analysis in this study utilized Microsoft Excel 2013, SPSS	Organizational career growth dimension is negatively related to employee turnover intensification.

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				(version 22), and AMOS (version 22) software packages.	
<b>3</b>	Pathak (2015)	Job Satisfaction of Employees in Commercial Banks	This paper examines the level of job satisfaction among employees of commercial banks, taking into account variations based on gender, age, and experience.	The study employed a purposive sampling method, and data were collected using the modified Minnesota Satisfaction Questionnaire (MSQ).	That job satisfaction leads to reduce turnover and improve performance.
<b>4</b>	Upadhyaya et al. (2013)	factors affecting employee turnover: a study on private schools teachers in butwal municipality	To determine the factor of employee turnover on private school.	The study followed a descriptive research design with covenant sampling technique followed by survey of Likert scale structure questionnaire with 133 samples with sample	Workplace with better present pay position, nature of job, work condition negatively associated with turnover intention

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descriptive analysis	of the employee s.
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*Source: Author's Creation*

#### **2.4. Research gap**

The impact of employee turnover on the financial performance of banks has been widely studied, but several important research gaps remain, particularly when considering the context of Nepalese commercial banks. While studies like Johnson (2018) and Elena et al. (2023) have provided useful insights, there are limitations in the scope and methodology that leave room for further exploration. For example, Johnson's (2018) study on community banks, which used a qualitative method with only four managers interviewed, raises concerns about the adequacy of the sample size. With such a small sample, it becomes difficult to generalize findings about the causes of turnover and its impact on organizational performance. A larger and more diverse sample could provide a more comprehensive view of the issue.

Similarly, while Elena et al. (2023) found a statistically significant negative impact of staff turnover on the profit margins of Nigerian banks, their study remains quite general. The study presents a p-value of 0.037, which is less than the critical value of 5%, suggesting a significant relationship. However, it lacks detailed exploration of the specific mechanisms through which turnover affects different types of financial performance metrics, such as return on assets (ROA) or net profit margins, particularly in the context of Nepalese banks.

Moreover, studies like Alhoulb (2020) used an analytical descriptive approach, but other analytical tools, such as regression analysis or advanced econometric models, could provide more accurate and insightful results. Similarly, Vejsiu (2019) relied on a case study method, which, while useful, may not reflect real-world scenarios in the broader banking sector. A more quantitative approach, possibly using survey methods, could provide a more representative picture of employee turnover's effects.

Gabriel and Thomas (2012) conducted research in Ghana, focusing only on a specific city. While their study may be valuable for understanding local dynamics, it does not offer a complete picture of how turnover affects organizational performance across the entire country. More widespread studies across different regions could help generalize the findings and provide a broader understanding.

In the context of Nepalese commercial banks, these research gaps are even more pronounced. Most of the existing studies are focused on Western contexts, making them less applicable to Nepal's unique economic, cultural, and regulatory environment. There is a need for more research that specifically addresses the financial performance of Nepalese banks in the face of employee turnover, especially with respect to measurable financial metrics like return on assets (ROA) and net profit margin.

Furthermore, many studies do not distinguish between the turnover of skilled versus unskilled workers, which may lead to oversimplified conclusions. The turnover of skilled employees, such as senior managers and specialized staff, could have more severe financial implications than turnover among lower-skilled employees. Understanding these differences is crucial for formulating targeted retention strategies.

Another major research gap lies in the indirect costs of employee turnover, such as lost productivity and customer dissatisfaction. While many studies focus on direct financial metrics, the indirect effects of turnover on customer relationships and organizational reputation are often overlooked. In the banking sector, where customer loyalty and satisfaction are crucial to long-term success, these indirect costs could have a significant impact on financial outcomes.

Finally, few studies have explored how Nepal's economic conditions and regulatory changes influence the turnover-performance relationship. Changes in banking regulations, economic downturns, or political instability could exacerbate turnover rates, yet the impact of such factors on the financial performance of Nepalese banks remains underexplored.

By addressing these gaps, future research could provide more accurate and context-specific insights for HR and financial strategies in Nepal's banking sector, ultimately helping to reduce turnover and improve overall organizational performance.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research methodology refers to the organized and scientific approach used to conduct a study. It provides a structured framework for addressing research questions and guides the entire research process (Dhrifi, 2014). This methodology outlines the specific procedures, strategies, and techniques applied during the study, detailing the steps taken by the researcher to investigate the research problem. Additionally, it clarifies the reasoning behind each decision made during the research process, ensuring that the study is conducted systematically and in a manner that produces valid and reliable results.

#### **3.1 Research design**

This research utilizes both descriptive and causal-comparative research designs. In the descriptive analysis, the study presents summary statistics for all the variables involved. These include measures such as the mean, median, standard deviation, skewness, kurtosis, and the Jarque-Bera test to assess the normality of the data. Additionally, various econometric tools and techniques are employed to analyze the data. These include the Augmented Dickey-Fuller test to examine unit roots, the Autoregressive Distributed Lag (ARDL) bounds testing approach for co-integration analysis to determine the long-term relationships between variables, and the Error Correction Model (ECM) to estimate short-term relationships and adjustments between variables.

#### **3.2 Population and sample**

The financial system of Nepal is made up of various sectors, including banking and finance, cooperatives, insurance, the capital market, and non-bank financial institutions, among others. The population for this study consists of employees working in commercial banks across Nepal. The objective of the study is to collect data from these employees regarding their perceptions of organizational performance. Employees working in commercial banks have been selected as the target group for this research. The study involves 20 commercial banks, with a total of 387 respondents participating in the study.

$$n_0 = Z^2 pq/e^2$$

Where,

n= Sample size

p = Population percentage having a particular trait

q = 1-p

z = Z value (95% confidence interval: 1.96, for example)

e= Error margin

The suggested value of p and q for the unidentified population is 50% for each. At a 95% Level of confidence, the z value is 1.96, and the sampling error e = 5%.

$$n_0 = Z^2 pq/e^2$$

$$n_0 = 1.96^2 * 0.5 * 0.5 / 0.05^2 = 384$$

+3 non responses error

Table 3 shows the list of commercial banks selected for the study along with the study period.

*Table 3 List of commercial banks*

S.N.	Name of the bank	No. of respondents
1	Prime commercial Bank Limited	4
2	Citizen Bank International Limited	16
3	Everest Bank Limited	18
4	Global IME Bank Limited	23
5	Himalayan Bank Limited	13
6	Laxmi sunrise Bank Limited	5
7	Machhapuchchhre Bank Limited	9
8	Kumari bank limited	19
9	Nabil Bank Limited	27
10	Nepal Bank Limited	55
11	Nepal investment mega Bank Limited	21
12	Nepal SBI Bank Limited	10
13	NIC Asia Bank Limited	69
14	NMB Bank Limited	32
15	Prabhu Bank Limited	13

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16	Siddhartha bank limited	9
17	Rastriya Banijya Bank Limited	17
18	Sanima Bank Limited	12
19	Agirculture development bank limited	15
20	Standard Chartered Bank Nepal Limited	0
Total Number of Respondents		387

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Source: Nepal Rastra Bank (<https://www.nrb.org.np>)

### 3.3 Nature and sources of data

This study is based on primary data, which was collected to examine various factors influencing employee turnover and performance in commercial banks. The primary data was gathered through a structured questionnaire, designed to capture detailed information on aspects such as the working environment, training and development opportunities, employee motivation, pay levels, and their relationship with employee turnover. The questionnaire was divided into two sections to facilitate efficient data collection and analysis.

The first section (Section A) focuses on gathering demographic information about the respondents, including their rank, job type, and other relevant characteristics. This section aims to provide a profile of the employees surveyed, which is essential for understanding the context in which the study's findings can be applied.

The second section (Section B) contains Likert-type scale questions designed to assess the various service quality variables that influence employee performance and customer satisfaction. The scale ranges from 1 (Strongly Disagree) to 5 (Strongly Agree), allowing respondents to express their degree of agreement or disagreement with statements related to their work environment, training, and overall satisfaction. These variables are crucial for understanding how employee relations directly or indirectly impact organizational outcomes such as performance, customer satisfaction, and turnover.

To collect the data, a survey method was used, with questionnaires distributed to the employees of selected commercial banks. The responses were then analyzed using statistical

tools, primarily SPSS (Statistical Package for the Social Sciences). Descriptive statistics were used to summarize the data and present a clear picture of the respondents' profiles and attitudes, while inferential statistics allowed for testing hypotheses and drawing conclusions about the relationships between the studied variables.

This research aims to provide a detailed understanding of the factors that influence employee turnover and performance in the banking sector, offering insights that can help bank management improve employee satisfaction and retention strategies. By analyzing the data collected through the structured questionnaire, the study will contribute to a deeper understanding of the link between employee relations and organizational performance, which is crucial for enhancing the overall effectiveness of commercial banks.

### **3.4 Methods of analysis**

This study employs a range of statistical tools to analyze the descriptive statistics of the variables. These tools include measures such as mean, standard deviation, median, minimum, maximum, skewness, kurtosis, and the Jarque-Bera test. The data analysis is visually supported using tables, bar graphs, and line charts to explore the impact of employee turnover on organizational performance. The conceptual model employed in this study assumes that employee job satisfaction is influenced by factors such as the working environment, training and development opportunities, employee motivation, pay levels, and employee turnover. Based on this, the model is formulated as follows:

Employee job satisfaction =  $f$  (working environment, training and development, employee motivation, pay level, and employee turnover).

To investigate the relationship between these variables, the study estimates a regression model. This model is designed to assess the effects of compensation management on employee job satisfaction in Nepalese commercial banks, and is specified as follows:

$$OP = \beta_0 + \beta_1 WE + \beta_2 T \& D + \beta_3 EM + \beta_4 PL + \beta_5 ET + e$$

Where,

FP = financial performance  
 WE = working environment  
 T & D = Training and Development  
 E M = Employee Motivation  
 P L = Pay Level  
 ET = Employee Turnover

The method of data analysis is two reliability analysis and statistical analysis

### 3.4.1 Reliability analysis

In this context, reliability is assessed using Cronbach's alpha, a technique that evaluates the consistency and reliability of responses in surveys that use multiple Likert scale questions. Cronbach's alpha measures how consistently a set of questions reflects the same underlying construct. To interpret Cronbach's alpha in the context of Likert scale questions, the following general guidelines are applied:

The reliability statistics shows the reliability of questionnaire statement and they are presented in the level of acceptance in the table.

*Table 4 Cronbach's Alpha table*

Cronbach's Alpha	Internal Consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \leq 0.8$	Good
$0.8 > \alpha \leq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$A > 0.5$	Unacceptable

Table 5 Reliability statistics

Variables	Items	Alpha value	Remarks
Financial performance	5	.705	Acceptable
Work environment	5	.782	Acceptable
Training	5	.737	Acceptable
Motivation	5	.794	Acceptable
Pay level	5	.722	Acceptable

Source: *Questionnaire – 2024*

Table 5 reliability testing result is presented and the all the variables have the level of above than unacceptable. The result represented the question which set the research are accurate for the collection of the data from the respondents.

### 3.4.2 Statistical analysis

Under this descriptive statistics, correlation and regression analysis are included.

#### Descriptive statistical analysis

##### Mean ( $\bar{X}$ )

The mean, in statistics, refers to the average or arithmetic average of a collection of numerical values. It is calculated by adding all the numbers together and dividing the total by the number of values in the dataset. This metric is commonly used to represent the central tendency of a dataset, indicating where the majority of data points are concentrated. Along with other measures of central tendency like the median and mode, the mean plays a critical role in statistical analysis and probability distributions. In probability theory, the mean is often called the expected value, as it represents the long-term average outcome of a random variable. The mean is an essential concept in various statistical techniques and is important for analyzing data trends and drawing conclusions.

##### Standard Deviation ( $\sigma$ ):

Standard deviation is a statistical tool used to measure the extent of variation or dispersion within a dataset. It indicates how much individual data points differ from the dataset's mean. To calculate the standard deviation, the first step is to compute the variance, which is the average of the squared differences between each data point and the mean. The square root of the variance gives the standard deviation. This measure helps in understanding the

distribution of data: a low standard deviation suggests that the data points are close to the mean, while a high standard deviation indicates that the values are spread out over a wider range. By assessing the degree of dispersion, the standard deviation provides insights into the variability or consistency within the dataset, making it a fundamental measure in statistical analysis and data interpretation. It is symbolized by ( $\sigma$ ).

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

Where,

X=variables

$\bar{X}$  = mean

N= No. of Period

### **Minimum and Maximum**

In the context of research, the minimum value represents the smallest observed data point in a dataset, while the maximum value corresponds to the largest. These values are essential for understanding the overall range and distribution of the data. The minimum and maximum values help researchers assess the spread of the data, offering a clear picture of its extremes. By evaluating these two measurements, researchers can identify the extent of variability within the dataset, detect any outliers, and understand the general pattern of distribution. This analysis not only aids in summarizing the dataset but also enhances the interpretation of the data by highlighting significant trends and potential anomalies. In this way, the minimum and maximum values serve as foundational tools in statistical analysis, contributing to a more complete understanding of the research findings.

### **Correlation Analysis (r):**

The Pearson correlation coefficient, commonly referred to as 'r,' is one of the simplest methods for evaluating the relationship between two variables. It is particularly useful because it remains unaffected by extreme values or outliers. The 'r' value measures both the strength and direction of a linear relationship between the variables. By calculating this coefficient, researchers can assess how closely the two variables are related, providing valuable insights into their association. As a fundamental statistical tool, the Pearson

correlation coefficient helps uncover patterns and relationships in data, while remaining robust against the influence of extreme data points.

$$\text{Correlation Coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum x^2 - (\sum X)^2] [n \sum Y^2 - (\sum Y)^2]}}$$

Where,

N = number of X and Y

$\sum XY$  = Sum of the series X and Y

$\sum X$  = Sum of the series X

$\sum Y$  = Sum of the series Y

$\sum X^2$  = Sum of the square of series X

$\sum Y^2$  = Sum of the square of series Y

The Pearson correlation coefficient demonstrates how two variables co-vary and quantifies both the strength and direction of their relationship. This coefficient provides a numerical value between -1 and +1. A value of -1 signifies a perfect negative correlation, indicating that as one variable increases, the other decreases in a perfectly proportional manner. Conversely, a value of +1 reflects a perfect positive correlation, meaning the variables move together in the same direction, with each variable increasing or decreasing proportionally. Thus, the Pearson correlation coefficient offers a clear indication of how closely two variables are related, whether their relationship is positive or negative.

### **Multiple Regression Analysis**

Multiple regression analysis is a powerful statistical method used to explore the relationship between one dependent (criterion) variable and multiple independent (predictor) variables. The goal of this technique is to examine how variations in the independent variables can influence changes in the dependent variable. By assessing the impact of various predictors at once, multiple regression analysis enables researchers to determine how well these predictors collectively explain the dependent variable. In addition to revealing the contribution of each individual predictor, this approach also helps evaluate the overall effectiveness of the regression model in forecasting the dependent variable.

Model

$$\text{IID} = \alpha + \beta_1 \times \text{PPOC} + \beta_2 \times \text{ESB} + \beta_3 \times \text{ECE} + \beta_4 \times \text{DP} + \beta_5 \times \text{GRQ} + e$$

Where;

IID=Investors investment decisions

PPOC=Past performance of the company

ESB=Expected stock/ capital increase/ bonus

ECE=Expected corporate earnings

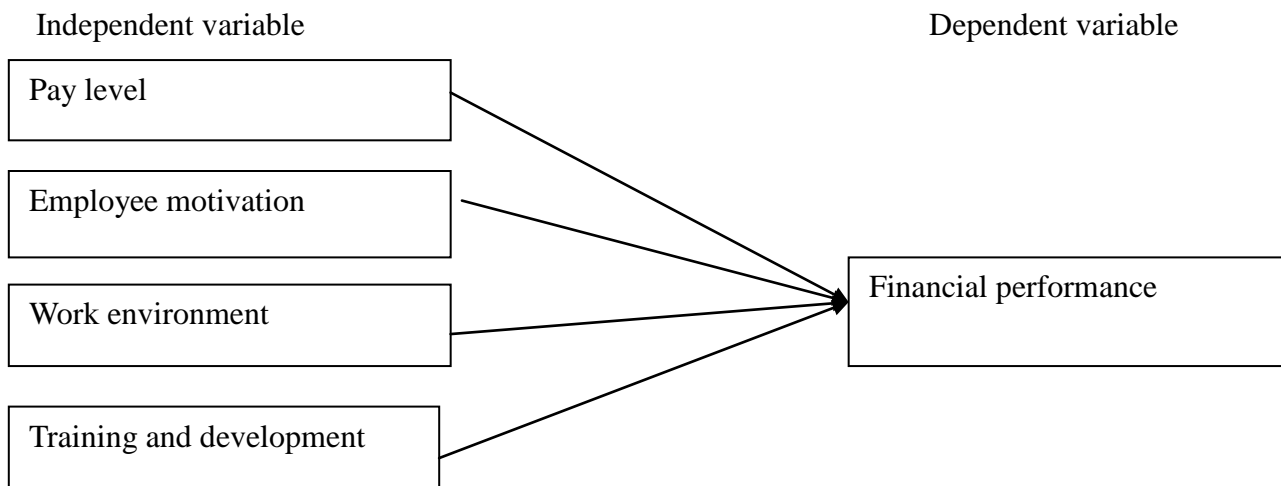
DP=Dividend policy

GRQ=Get rich quick

### 3.5 Research Framework and Definition of the Variables

A conceptual framework serves as an analytical tool that helps to organize and distinguish key concepts and ideas. Based on the insights from the literature review, the framework developed for this study focuses on the main factors influencing employee turnover and its impact on financial performance. The conceptual framework, as depicted in Figure 5, illustrates these relationships.

*Figure 5: Conceptual Framework*



*Source: Hindri and Muhammad, (2012) & Lee(2014)*

This figure shows that employee turnover, pay level, employee motivation, work environment, training and development were independent variable and financial performance is dependent variable.

**Dependent variable****Financial performance**

Financial performance comprises the actual output or results of an organization as measured against its intended outputs or goals and objectives. Richard et al. (2009) defined financial performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.) product market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc. Financial performance management is a concept that emerged to distinguish between the management at the individual and organizational levels (Bourne et al., 2003). Financial performance is often defined as the process of determining whether an organization is meeting its objectives in alignment with its strategy implementation. While there is no single definition that fully captures the influence that performance measures can have within an organization, it is clear that these measures, when clearly defined and communicated, play a significant role in guiding organizational behavior (Niven, 2006). Financial performance refers to the use of performance indicators within an organization, which, when applied to focus on strategic goals, become a crucial element in driving organizational success (Tangen, 2004).

**Independent variables****Pay level**

Pay plays a significant role in aligning the interests of both employers and employees, helping organizations make decisions that contribute to achieving their established goals and objectives. According to Pritchard (1969), internal equity refers to the principle where employees performing similar roles are compensated equally within the same pay scale. Wang et al. (2018) highlighted a positive relationship between pay levels and organizational performance. Similarly, Wadhawan et al. (2017) found a positive correlation between pay levels and organizational performance. Korm (2011) also discovered a positive link between pay levels and organizational performance. Brown et al. (2003) found that including pay variables accounted for a significant portion of the variance in organizational performance. Based on these findings, the following hypothesis has been formulated.

**Employee motivation**

Motivation originates from the term "motive," which refers to a need that requires fulfillment. These needs can be wants or desires influenced by culture, society, lifestyle, or inherent characteristics. Dobre (2013) found a positive relationship between employee motivation and organizational performance. Similarly, Abioro (2013) discovered a positive correlation between employee motivation and organizational performance. Lee et al. (2017) suggested that motivated employees contribute to better organizational performance. Nguyen (2017) also revealed a positive link between employee motivation and organizational performance. Based on these findings, the following hypothesis has been developed:

**Work situation**

Working conditions refer to the environment and circumstances under which employees carry out their tasks. This includes factors such as work hours, physical surroundings, legal rights, and obligations within the workplace. Soha et al. (2016) found that factors related to the work environment significantly affect organizational performance in secondary schools. Gitonga (2015) also identified a positive relationship between the work environment and organizational performance. Additionally, Chandrasekar (2011) highlighted a positive correlation between the work environment and organizational performance.

**Training and development**

Career development is an essential responsibility of managers, encouraging employees to take ownership of their own careers. Managers provide continuous support through feedback on individual performance and share organizational information regarding career opportunities, positions, and vacancies that may interest employees (Chen et al., 2004). Sila (2014) demonstrated a positive relationship between training and organizational performance. Bakar (2011) found that the use of training programs enhances employee satisfaction, which, in turn, improves organizational performance. Obi-Anike (2014) noted a positive relationship between training/development and organizational effectiveness, while Adeyi et al. (2018) discovered that training and development contribute to increased organizational performance.

## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

In this chapter, the collected data are analyzed and interpreted based on the methodology outlined in the previous chapter. Various statistical tools are used to assess the relationship between employee turnover and the financial performance of Nepalese commercial banks. These tools include percentages and frequencies for demographic analysis, as well as arithmetic mean, standard deviation, Karl Pearson correlation, and multiple regression analysis to evaluate and quantify the associations between variables. These methods will help in understanding the impact of employee turnover on financial outcomes and the broader organizational performance in the banking sector.

#### **4.1 Results**

This study seeks to explore the complex relationships between employee turnover and the financial performance of Nepalese banks. The anticipated findings aim to provide valuable insights into how turnover influences fluctuations in financial performance, identifying patterns and correlations that can enhance both academic understanding and practical strategies for improving organizational performance. To analyze these relationships, several statistical tools such as percentages and frequencies, arithmetic mean, standard deviation, Karl Pearson correlation, and multiple regression will be employed. These tools will help to measure and assess the impact of employee turnover on the financial performance of the banks, providing a robust analysis for the study.

##### **4.1.1 Demographic Information**

Demographics analysis included the analysis of different personal information of the research respondent. They are age, marital status, gender, educations and profession. Detail presented on below.

### Age of respondent

The age of the respondent is in different categories. They are in between 20-35, 35-45, and above 45. Which are in the table.

Table 6

#### *Age of respondent*

		Frequency	Valid Percent	Cumulative percent
<b>valid</b>	20-35	300	77.5	77.5
	35-45	70	18	95.5
	Above 45	17	4.5	100
	Total	387	100	

Source: *Questionnaire - 2024*

Table 6 shows the age of respondent and the age of total number 387 respondent are presented in to three part. The age group are “between” 20-35. 35-45, above 45 are mention here. They are in number 300, 70 and 17 respectively. They are in percentage are 77.5, 18 and 4.5 percentage respectively.

### Marital Status of respondents

The marital status of respondent are married, unmarried, preferred not to say. Presented in the table.

Table 7

#### *Marital Status of respondents*

		Frequency	Valid Percent	Cumulative percent
<b>valid</b>	Married	107	27.6	27.6
	Unmarried	208	53.7	81.6
	Preferred not say	72	18.7	100
	Total	387	100	

Source: *Questionnaire – 2024*

Table 7 present the marital status of respondent and the marital status of total number 387 respondent are presented in to three parts. The status of respondent group is married,

unmarried, preferred not say are mention here. They are in number 107, 208, 72 respectively. They are in percentage are 27.6, 53.7, 18.7 percentage respectively.

### **Gender of respondents**

The gender of the respondent included the male, female and other. They are in the table detail Presented.

Table 8

*Gender of the respondent*

		<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
<b>valid</b>	Female	150	38.8	38.8
	Male	173	44.7	83.5
	Other	64	16.5	100
	Total	387	100	

Source: *Questionnaire – 2024*

Table 8 present the gender of respondent and the gender of total number 387 respondent are Presented in to three parts. The gender of respondent group is male, female and other are Mention here. They are in number 150, 173 and 64 respectively. They are in percentage are 38.8, 44.7 and 16.5 percentage respectively.

### **The Education of the respondent**

The educations of the respondent are presented in to above graduate, graduate, undergraduate, high school level. They are presented below table.

Table 9

*Educations of the respondents*

		Frequency	Percent	Cumulative percent
<b>valid</b>	Above Graduate	38	9.81	9.81
	Graduate	191	49.35	59.16
	Undergraduate	111	28.68	87.84
	High level	47	12.144	100
	Total	387	100	

Source: *Questionnaire – 2024*

Table 9 present the educations of respondent and the educations of total number 387 respondent are presented in to four parts. The educations of respondent are group above graduate, graduate, undergraduate, high school level. They are in number 38, 191, 111, 47 respectively. They are in percentage are 9.81, 49.35, 28.68, 12.14 percentage respectively.

**Experience of the respondents**

The experience of the respondents is presented in below 5 year, 5-10 year, 10-15 year, 15-20 year, Above 20 year; are presented in the following.

Table 10

*Experience of the respondents*

		Frequency	Percent	Cumulative percent
<b>valid</b>	below 5 year	261	67.4	67.4
	5-10 year	100	25.9	93.3
	10-15 year	16	4.1	97.4
	15-20 year	5	1.3	98.7
	Above 20 year	5	1.3	100
	Total	387	100	

Source: *Questionnaire – 2024*

Table 10 present the experience of respondent and the experience of total number 387 respondent are presented in to five parts. The experience of respondent is group in to in below 5 year, 5-10 year, 10-15 year, 15-20 year, Above 20 year. They are in number 261,`

100, 16, 5 and 5 respectively. They are in percentage are 67.4, 25.9, 4.1,1.3 and 1.3 percentage respectively.

#### 4.1.2 Descriptive Analysis of the Variables

The description of minimum, maximum, mean and standard deviation from the 387 respondents on the variables are presented here under. The table shows the detailed here under.

Below tables presented the minimum, maximum, mean and standard deviation of the 387 respondents.

Table 11

#### *Descriptive Analysis of working environment*

	N	Minimum	Maximum	Mean	Std. Deviation
WE1	387	1.00	5.00	4.0543	.85755
WE2	387	1.00	5.00	3.7674	.78038
WE3	387	1.00	5.00	3.6305	1.07511
WE4	387	1.00	5.00	3.7959	.94248
WE5	387	1.00	5.00	3.6718	1.09085
Valid N (listwise)	387				

Source: *Questionnaire – 2024*

The table 11 provides a summary of descriptive statistics for five variables (WE1 through WE5), each measured on a 1-to-5 scale across 387 responses. All variables share a minimum value of 1 and a maximum value of 5, showing that responses span the entire scale. The mean values reveal a tendency toward higher ratings, with WE1 having the highest mean at 4.05, suggesting that respondents generally rated this variable more positively. WE2, WE4, and WE5 have means between 3.67 and 3.80, while WE3 is slightly lower at 3.63. The standard deviations indicate the consistency of responses: WE1, WE2, and WE4 have lower variability (0.86, 0.78, and 0.94, respectively), implying responses are more clustered around the mean.

WE3 and WE5, however, have higher standard deviations (1.08 and 1.09), indicating a wider spread of responses. Overall, these statistics suggest that while responses are generally positive, the level of consistency varies across variables, with some showing more variability in responses than others.

Table 12

*Descriptive Analysis of Tanning and development*

	N	Minimum	Maximum	Mean	Std. Deviation
TD1	387	1.00	5.00	3.8863	.90622
TD2	387	1.00	5.00	4.0052	.87568
TD3	387	1.00	5.00	4.0284	.91715
TD4	387	1.00	5.00	4.0491	.94137
TD5	387	1.00	5.00	3.9664	.99293
Valid	N 387				
(listwise)					

Source: *Questionnaire – 2024*

The table 12 provides descriptive statistics for five variables (TD1 through TD5), each assessed on a 1-to-5 scale with 387 valid responses. Each variable covers the full scale range, with minimum and maximum values of 1 and 5, respectively. The mean scores indicate generally positive responses, all near or above 3.9. Specifically, TD4 has the highest average at 4.05, closely followed by TD3 at 4.03 and TD2 at 4.01, showing strong positive trends. TD5 and TD1 have slightly lower means at 3.97 and 3.89, respectively, though still skewed toward the higher end. The standard deviations, ranging from 0.88 to 0.99, show relatively moderate variability, suggesting that while responses were largely positive, there is a small degree of spread around the mean. Overall, these results suggest consistently high ratings across all five variables, with moderate variability in response patterns.

Table 13

*Descriptive Analysis of employee motivation*

	N	Minimum	Maximum	Mean	Std. Deviation
M1	387	1.00	5.00	3.7519	1.01821
M2	387	1.00	5.00	3.6667	1.08451
M3	387	1.00	5.00	3.6641	.99263
M4	387	1.00	5.00	3.6848	1.01484
M5	387	1.00	5.00	3.6667	1.03813
Valid (listwise)	N 387				

Source: *Questionnaire – 2024*

This table 13 summarizes descriptive statistics for five variables (M1 through M5), each rated on a scale of 1 to 5, with 387 responses per variable. All variables use the entire scale, as indicated by minimum and maximum values of 1 and 5. The mean scores for each variable are quite close, with M1 having the highest average at 3.75, and M2, M3, and M5 each at 3.67. M4 has a mean of 3.68, indicating that all variables are rated around the middle-to-high range of the scale. Standard deviations range from 0.99 to 1.08, showing moderate variability, with M2 displaying the highest spread (1.08), suggesting slightly more varied responses. Overall, while the means are generally around 3.7, indicating moderately positive responses, the standard deviations suggest some diversity in individual ratings across these variables.

Table 14

*Descriptive Analysis of pay level*

	N	Minimum	Maximum	Mean	Std. Deviation
P1	387	1.00	5.00	3.5349	1.08961
P2	387	1.00	5.00	3.8346	.91818
P3	387	1.00	5.00	3.8605	.93363
P4	387	1.00	5.00	3.7390	.97194
P5	387	1.00	5.00	3.6770	1.07807
Valid (listwise)	N 387				

Source: *Questionnaire – 2024*

The table 14 presents descriptive statistics for five variables (P1 through P5), each scored on a 1-to-5 scale, based on 387 responses. Each variable spans the entire scale, with minimum and maximum values of 1 and 5. The mean values indicate generally positive responses, particularly for P3 and P2, which have the highest averages at 3.86 and 3.83, respectively. P4 and P5 are slightly lower, with means of 3.74 and 3.68, while P1 has the lowest mean at 3.53, showing a moderately positive response but lower than the others. The standard deviations range from 0.92 to 1.09, suggesting moderate variability in responses. P1 and P5 show slightly higher variability, with standard deviations of 1.09 and 1.08, indicating more spread-out responses, while P2 and P3, with lower standard deviations of around 0.92, show more consistency. Overall, the responses lean positively, though there is some variability across these variables.

Table 15

*Descriptive Analysis of financial performance*

	N	Minimum	Maximum	Mean	Std. Deviation
F1	387	1.00	5.00	4.0543	.77503
F2	387	1.00	5.00	4.0672	.84598
F3	387	1.00	5.00	3.9922	.86524
F4	387	1.00	5.00	4.0749	.84991
F5	387	1.00	5.00	3.9406	.91848
Valid	N	387			
(listwise)					

Source: *Questionnaire – 2024*

The table 15 provides descriptive statistics for five variables (F1 through F5), each rated on a 1-to-5 scale with 387 valid responses. All variables utilize the full range of the scale, with minimum and maximum values of 1 and 5. The mean values suggest generally favorable responses, with F4 and F2 having the highest averages at 4.07, followed closely by F1 at 4.05, indicating that these items are particularly positively rated. F3 and F5 have slightly lower mean scores at 3.99 and 3.94, respectively, though still near the positive end of the scale. The standard deviations are relatively low, ranging from 0.78 to 0.92, which indicates

consistent responses around the mean for each variable. The small variability suggests that participants' responses are generally clustered around each variable's mean, reflecting a strong and consistent positive response across all items in this set.

#### **4.1.3 Correlation analysis**

For correlation analysis we use Karl Pearson's correlation coefficient. Karl Pearson's correlation coefficient also known as Pearson's  $r$ , is a statistical measure used to quantify the strength and direction of the linear relationship between two continuous variables. Its value ranges from -1 to +1, where +1 indicates a perfect positive linear relationship, -1 indicates a perfect negative linear relationship, and 0 means no linear relationship exists between the variables. Pearson's correlation helps us understand whether an increase in one variable corresponds to an increase or decrease in the other. For instance, a strong positive correlation (close to +1) means that as one variable increases, the other tends to increase proportionally, whereas a negative correlation (close to -1) suggests that as one variable increases, the other decreases. It is widely used in research to assess relationships between variables, such as in finance, where it could be used to determine how social media activity (like tweet volume) relates to stock market performance. Pearson's correlation assumes that the relationship between variables is linear, the data is normally distributed, and there is homoscedasticity, meaning the variance in one variable is similar across the values of the other variable.

Table 16

*Correlations Matrix*

		Working environment	Training	Motivation	Pay level	Financial performance
Working environment	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	387				
Training	Pearson Correlation	.542**	1			
	Sig. (2-tailed)	.000				
	N	387	387			
Motivation	Pearson Correlation	.674**	.396**	1		
	Sig. (2-tailed)	.000	.000			
	N	387	387	387		
pay	Pearson Correlation	.483**	.424**	.599**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	387	387	387	387	
Financial performance	Pearson Correlation	.371**	.571**	.255**	.433*	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	387	387	387	387	387

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: *Questionnaire – 2024*

The correlation analysis reveals significant relationships among Working Environment, Training, Motivation, Pay, and Financial Performance, with all correlations significant at the 0.01 level. Training has the strongest correlation with Financial Performance ( $r = .571$ ), indicating that improvements in Training are closely associated with higher Financial Performance. Pay also shows a moderate positive relationship with Financial Performance ( $r = .433$ ), suggesting that higher Pay is linked to better performance outcomes. Working Environment is moderately correlated with Financial Performance ( $r = .371$ ), showing that a supportive environment may contribute positively to performance, though its effect is weaker compared to Training and Pay. Motivation, while significantly correlated with Financial Performance ( $r = .255$ ), has the weakest association of the group, suggesting it plays a smaller role in driving Financial Performance. Additionally, strong interrelationships exist among the predictor variables themselves: Working Environment has a strong positive correlation with Motivation ( $r = .674$ ), indicating that a better work environment is associated

with higher Motivation, and Motivation, in turn, has a moderate correlation with Pay ( $r = .599$ ). Overall, these findings highlight Training and Pay as the most influential factors on Financial Performance, with Working Environment and Motivation contributing but having relatively smaller effects.

#### 4.1.4 Regression Analysis

Regression analysis is a statistical method employed to investigate the relationship between a dependent variable and one or more independent variables. Its purpose is to model and quantify the effect that variations in the independent variables have on the dependent variable. In its most basic form, linear regression, the analysis generates an equation that predicts the dependent variable based on the independent variables' values. The strength and direction of these relationships are represented by coefficients in the regression equation, indicating the expected change in the dependent variable for each unit change in an independent variable. Regression analysis is commonly used across different fields to forecast outcomes, identify trends, and explore the connections between variables. However, it's important to note that while regression analysis can reveal associations, it does not prove causation. It shows how changes in independent variables affect the dependent variable. In this thesis, regression analysis is used to measure how pay level, motivation, working environment, training impact financial performance of Nepalese commercial bank, such as profit and goodwill .

Table 17

*Model Summary regression*

#### **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.618 <sup>a</sup>	.382	.376	.45613

a. Predictors: (Constant), pay, Training, working environment, Motivation

Source: *Questionnaire – 2024*

The model summary provides an overview of the regression analysis, showing the combined influence of four predictors—Pay, Training, Working Environment, and Motivation—on Financial Performance. The R value of 0.618 indicates a moderately strong positive correlation between the predictor variables and Financial Performance. The R Square value of 0.382 implies that approximately 38.2% of the variability in Financial Performance is explained by the combined effects of Pay, Training, Working Environment, and Motivation. The Adjusted R Square value of 0.376, slightly lower than the R Square, accounts for the model's complexity, indicating that the model still explains around 37.6% of the variance even when adjusted for the number of predictors. The Standard Error of the Estimate is 0.45613, showing the average distance that the observed values fall from the regression line, suggesting moderate accuracy in the model's predictions. Overall, the model is reasonably effective at explaining Financial Performance, with Training and Pay likely being the strongest contributors, as indicated by prior analyses.

Table 18

*Anova of the respondent*

		ANOVA <sup>a</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.146	4	12.287	59.055	.000 <sup>b</sup>
	Residual	79.475	382	.208		
	Total	128.622	386			

a. Dependent Variable: Financial performance  
b. Predictors: (Constant), pay, Training, working environment, Motivation

Source: *Questionnaire – 2024*

The ANOVA table evaluates the overall fit of the regression model, assessing whether the combination of predictors—Pay, Training, Working Environment, and Motivation—significantly explains variability in Financial Performance. The Regression Sum of Squares (49.146) represents the variation in Financial Performance explained by the model, while the Residual Sum of Squares (79.475) reflects the unexplained variation. The Total Sum of Squares (128.622) combines these, indicating the total variance in Financial Performance among respondents.

With 4 degrees of freedom (df) for the regression model and 382 df for the residuals, the Mean Square for Regression is 12.287, while the Mean Square for Residual is 0.208. The F-statistic of 59.055 is highly significant ( $p = .000$ ), showing that the model as a whole is a good fit and that the predictors collectively explain a significant portion of the variance in Financial Performance. This significant F-statistic supports the effectiveness of the model, indicating that Pay, Training, Working Environment, and Motivation together have a substantial impact on Financial Performance.

Table 19

## Regression coefficients

Model	Unstandardized		Coefficients <sup>a</sup>		t	Sig.	Collinearity	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	1.644	.166			9.916	.000		
Working Environment	.073	.049	.089		1.493	.136	.456	2.194
Traning	.413	.044	.464		9.439	.000	.671	1.491
Motivation	-.124	.045	-.163		-2.717	.007	.448	2.234
pay	.244	.044	.291		5.611	.000	.599	1.668

a. Dependent Variable: Financial performance

Source: *Questionnaire – 2024*

The coefficients table provides a comprehensive analysis of the relationship between four predictor variables—Working Environment, Training, Motivation, and Pay—and the dependent variable, Financial Performance. The constant value of 1.644 suggests that when all predictor variables are set to zero, the baseline financial performance is 1.644. Among the predictors, Training has the most significant positive impact on Financial Performance, with a coefficient of 0.413, indicating that for each unit increase in training, financial performance improves by 0.413 units. This relationship is highly significant, with a p-value of 0.000 and a standardized beta of 0.464, showing that training is the strongest predictor of financial performance in the model.

Pay also shows a significant positive effect with a coefficient of 0.244 and a p-value of 0.000. For each unit increase in pay, financial performance rises by 0.244 units. The standardized beta for pay is 0.291, indicating a moderate positive impact on financial performance. In contrast, Motivation has a small but significant negative effect, with a coefficient of -0.124 and a standardized beta of -0.163. This suggests that increases in motivation slightly reduce financial performance, although the effect is relatively weak. The p-value of 0.007 indicates that this negative relationship is statistically significant.

Working Environment has a positive but statistically insignificant relationship with financial performance, with a coefficient of 0.073 and a p-value of 0.136, meaning it does not significantly contribute to explaining variations in financial performance.

In terms of multicollinearity, the co linearity statistics for all variables suggest no issues. The tolerance values are acceptable, and the VIFs are well below the threshold of 5, indicating that the predictors are not highly correlated with each other. Overall, Training and Pay are the strongest and most significant predictors of financial performance, while Motivation has a slight negative effect, and Working Environment does not significantly impact financial performance.

## **4.2 Discussion**

The study indicates that factors such as working environment, training and development, employee motivation, pay level, and employee turnover all have a positive relationship with financial performance. However, the findings reveal that employee turnover can negatively affect organizational performance. Notably, training and pay level are identified as the strongest and most significant predictors of financial performance. Employee motivation shows a slight negative impact, while the working environment does not appear to significantly influence financial performance.

Furthermore, the study concludes that pay level, followed by training and development, are the most influential factors in explaining changes in employee turnover intention, which, in turn, impacts the performance of Nepalese commercial banks. The analysis confirms that

employee turnover negatively affects organizational performance, a result consistent with previous studies on the topic.

Gabriel and Thomas (2012) conducted a study that demonstrated a significant relationship between labor turnover and the performance of banks in Ghana, particularly regarding customer complaints. This suggests that high turnover negatively impacts customer satisfaction, which in turn affects the overall performance of the bank. Similarly, Platonoval et al. (2023) found that staff turnover costs have a detrimental effect on the profit margin and return on assets (ROA) of Nigerian banks. Their study indicated that as staff turnover increases, financial performance declines, underlining the importance of employee retention for maintaining profitability.

Further supporting this view, Li et al. (2021) found that turnover is associated with lower future financial performance. Their research suggests that organizations with higher turnover rates tend to experience a decline in financial outcomes, including profits and productivity.

Rijamampiana (2017) employed convenience and snowball sampling methods in his study and concluded that labor turnover significantly influences organizational performance. This reinforces the broader understanding that high employee turnover rates can lead to inefficiencies, increased operational costs, and overall negative effects on an organization's performance. These findings collectively highlight the critical need for organizations to manage turnover effectively in order to preserve financial health, customer satisfaction, and long-term success.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

This chapter deals with the summary of the highlight the major findings of the study. In addition, the major conclusions are discussed in another section of this chapter. Likewise, recommendations regarding the study are also presented in separate section of this chapter. Finally, this chapter ends with the scope of the future study in the same field.

#### **5.1 Summary**

Financial performance refers to the use of performance indicators within organizations to assess and guide their progress toward achieving strategic goals. These indicators play a crucial role in helping organizations focus on key objectives and track their success in reaching them. Effective use of financial performance metrics is vital for the long-term sustainability and growth of an organization.

Employees are considered the backbone of any organization, as they are integral to its operations, productivity, and overall success. Their performance, engagement, and retention significantly impact the organization's ability to meet its goals and maintain a competitive edge. Without a skilled and motivated workforce, even the best strategies and financial plans may fall short of achieving desired outcomes.

This study emphasizes the importance of employee retention for the success of organizations, particularly in commercial banks. Employee turnover, defined as the rate at which employees leave and are replaced, is an important metric for organizations to understand reasons for turnover and assess the cost of hiring. The study addresses several critical questions related to the impact of various factors on organizational performance, including:

1. How does the working environment affect organizational performance?
2. Is there a relationship between training and development and financial performance?
3. How does employee motivation influence financial performance?
4. What is the relationship between pay level and financial performance?

5. How does employee turnover relate to financial performance?
6. Which factors play the most significant role in affecting financial performance?

The primary objective of this study is to explore the impact of compensation management on employee job satisfaction in Nepalese commercial banks. The specific objectives include examining the relationship between pay level and financial performance, assessing the effect of employee motivation, analyzing the impact of working environment, evaluating the relationship between training and development and financial performance, and investigating the relationship between employee turnover and financial performance.

The study draws on several important works in the field, including research by Ruskin (2017), Saher et al. (2015), Shaw and Park (2013), Meier and Hicklen (2008), Ton and Huckman (2008), Gautam (2016), and Biswokarma (2016).

The conceptual framework of this study includes working environment, training and development, employee motivation, and pay level as independent variables, with financial performance as the dependent variable. The framework examines the nature of the relationships between each independent variable and financial performance, and the findings indicate a positive relationship between all independent variables and financial performance.

The data analysis has been analyzed from the questionnaire survey. The study is based on primary sources of data. The total number of observation for the study consists of 387 respondents for finding impact independent variable on dependent variable. The primary sources of data are used for the quantitative research. The primary sources of data are used to extract the information from the employee regarding employee turnover on financial performance in overall Nepal. To analyze the data descriptive statistics like mean and weighted average value are used for correlation analysis Karl Pearson's correlation coefficient is used. The final part of data analysis regression analysis of primary data. A regression model has been used to estimate the relationship between dependent variables (organization performance) and independent variables (working environment, training and

development, employee motivation, pay level, employee turnover). The collected data were processed using the SPSS statistical package, which helped in analyzing the data in a systematic and efficient manner. Microsoft Excel was also used during the data collection process and for calculating the average scores of the variables. To analyze the financial performance in relation to the five independent variables, a weighted average mean was computed for each case. Subsequently, correlation and regression analyses were conducted to identify the relationships between the variables.

The results were presented and discussed, focusing on the major findings that emerged from the data analysis. The final chapter of the study provides a summary of the key points, draws conclusions based on the findings, and offers recommendations for improving financial performance and addressing the challenges highlighted in the study.

## **5.2 Conclusion**

The major conclusion of the study reveals that several key factors—working environment, training and development, employee motivation, pay level, and employee turnover—are positively correlated with the financial performance of Nepalese commercial banks. The study found that these factors play crucial roles in enhancing the productivity and performance of the organization, thus contributing to its overall financial success.

In particular, the study underscores that employee turnover, while often perceived as detrimental to an organization, can have a positive impact on its performance when managed effectively. This suggests that in some cases, reducing turnover may not always be the most critical objective, but rather focusing on improving factors such as employee motivation and pay levels can help mitigate the negative effects of turnover.

Furthermore, the study identifies pay level as the most influential factor in influencing employee turnover intentions. Employees' satisfaction with their compensation significantly impacts their decision to stay or leave, which in turn has a direct effect on the performance of the organization. Closely following pay level, training and development were also found to have a strong influence on turnover intentions. When employees feel they have opportunities

for personal and professional growth, they are more likely to remain committed to their jobs, which positively impacts their performance and, consequently, the financial performance of the bank.

The findings highlight the importance of addressing these key factors to improve employee retention and optimize organizational performance. By ensuring competitive pay, providing opportunities for career advancement, and fostering a supportive work environment, Nepalese commercial banks can enhance employee satisfaction, reduce turnover, and ultimately improve their financial outcomes. The study suggests that these factors should be strategically managed to achieve long-term success in a competitive banking sector.

### **5.3 Implications**

The following are the implications of the research.

1. **Filling Literature Gaps:** Research on employee turnover's financial impact in the Nepalese banking context may not be extensively explored. This study can contribute to the body of knowledge specific to Nepal.
2. **Bank Management:** The findings could help bank managers understand how turnover affects profitability, efficiency, and operational costs.
3. **Regulatory Relevance:** Could guide policymakers in framing regulations to stabilize workforce challenges in banking.
4. **Cost Analysis:** Banks can evaluate direct (e.g., recruitment, training) and indirect (e.g., loss of customer relationships, productivity dips) costs associated with turnover.
5. **Investors:** Insight into how workforce stability impacts financial health can influence investment decisions.
6. **Employees:** Highlights the importance of workforce satisfaction and stability in organizational success.
7. **National Banking Sector:** A healthier workforce could improve the financial health of banks, enhancing Nepal's overall economic stability.

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## APPENDIX

### Appendix 1: Survey Questionnaire

Impact of employee turnover on financial performance in Nepalese commercial banks

Dear Respondent, I am pleased to inform you that I am undertaking a graduate project on Impact of employee turnover on financial performance in Nepalese commercial banks to meet the partial fulfillment of the requirement for the master's Degree. The major objective of the study is to examine the "**Impact of employee turnover on financial performance in Nepalese commercial banks**". I would also like to request you for providing some information regarding the subject matter stated below. I also like to assure you that all information contained in this questionnaire will be kept confidential and used only at the aggregate level. Your kind cooperation will be highly appreciated

Thank you

Govind Dhakal

### SECTION A: RESPONDENT'S PROFILE

Gender of the respondent

- Male ( )
- Female ( )
- Prefer not to say ( )

Age of the respondent

- 20-35 ( )
- 35-45 ( )
- 45-55 ( )
- 55 above ( )

Marital status of the respondent

- Single ( )
- Married ( )
- Prefer not to say ( )

Education of the respondent

- Higher secondary ( )
- Under graduate ( )
- Graduate ( )
- Above graduate ( )

How long have you been working in this commercial bank

- Below 5 years ( )
- 5-10 years ( )
- 10-15 years ( )
- 15-20 years ( )
- 20 years and above ( )

Name of bank

.....

## SECTION B : LIKERT SCALE

### **Training and development**

<b>Items</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
My organization emphasis on training and development for the employees.					
Training and development helps to address the weaknesses of the employee.					
The training and development helps to enhance the skill of the employee of company.					
Training and development improves the team working ability of the employee.					
Training and development helps for the employee to create new innovative strategies and products.					

### **Working environment**

<b>Items</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
My work environment is comfortable and adequate to the need of the department.					
My work area is sufficiently equipped for my typical need.					
The environment in my organization support a balance between work and personal life.					
I find well defined authority and responsibility					
The organization has a real interest in the welfare and satisfaction of those work here.					

**Employee motivation**

Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I enjoy a lot working every day and performing work with best.					
My work fulfills my basic need in an appropriate way.					
I'm fully satisfied that my work gives me self fulfillment.					
I'm confident that my job gives me future success on the behalf of my company.					
I'm satisfied with the discussion of my supervisor on ways to improve my workplace environment.					

**Pay level**

Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I'm satisfied with the pay level of my bank.					
Basic Payment impact on organization performance.					
I'm paid on a regular basis.					
In my organization Payment are done fairly.					
Payment of my organization fulfill my basic requirement.					

**Employee turnover**

Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Employee turnover impact on financial performance.					
Pay level can control employee turnover in Organization.					
Motivation helps to sustained employee in Organization.					
Working environment effect on employee Turnover.					
Training and development helps to increase Productivity.					

**Financial performance**

Items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Pay level helps to enhance financial performance in my organization.					
Motivated employees helps to enhance financial performance.					
Training and development enhance the financial performance.					
Favorable working environment help in better financial performance.					
Decrease rate of employee turnover helps to improve financial performance.					

# IMPACT OF EMPLOYEE TURNOVER ON FINANCIAL PERFOR...

By: Govind Dhakal

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ABSTRACT Financial performance refers to the outcomes of an organization's activities, as they represent the strongest connection to its strategic objectives, customer satisfaction, and economic contributions. It involves the actual results or outputs of an organization, measured against its intended purposes, goals, and objectives. Financial performance typically encompasses three key areas: product performance, shareholder value, and overall organizational outcomes. It is essential to understand how employee turnover affects financial performance. The primary

**objective of this study is to** analyze **the impact of** compensation management **on employee** job satisfaction **1**  
within **Nepalese** commercial banks. **The specific objectives** include examining **the**

relationship between pay levels and financial performance in Nepalese commercial banks, evaluating how employee motivation affects financial performance, assessing the impact of the working environment on financial performance, determining whether training and development is linked to financial performance, and investigating how employee turnover influences financial performance. This research adopts a descriptive research design coupled with a causal-comparative approach to explore

**the impact of** employee turnover **on** the **financial performance of Nepalese commercial** banks. **The** **3**  
findings reveal **that**

**training and development** have a **positive** correlation **with employee job satisfaction**, indicating **that** **3**  
increased **training**

programs lead to improved organizational performance. In contrast, employee turnover is negatively related to organizational performance, suggesting that higher turnover rates result in decreased performance. Additionally, a positive relationship was identified between pay levels and organizational performance, demonstrating that better compensation improves performance. Similarly, employee motivation was found to positively impact organizational performance, with higher motivation levels enhancing outcomes. The study concludes that training and development are critical factors for improving financial performance. Other influential factors include the working environment, employee turnover, and pay levels. Key words : Financial performance , Employee turnover and Neplese banks.

## sources:

**1** **CHAPTER 1 INTRODUCTION** **1** **1**  
<https://www.researchgate.net/publication/381212004>  
[elibrary.tucl.edu.np](http://elibrary.tucl.edu.np) A bank **is a** financial institution **that** **1**