

# **Employee Turnover and Retention Management in Foreign Banks in China: From the Perspective of the Employee Engagement in Western and Japanese Banks**

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## **Abstract**

The banking landscape in China has undergone a seismic shift over the past two decades. China's WTO accession resulted in the acceleration of banking sector openness, the implementation of fair and equitable treatment, and the elimination of discriminatory practices, which in turn, speeded up the expansion of foreign banks in China. Besides, the evolution of FinTech and digital banking forces banking giants in China to rethink their traditional business model. Domestic banks are actively striving to build their competitive advantages by cultivating and retaining talent. Meanwhile, foreign banks are struggling to attract and retain local financial talent to support their growing business operations in mainland China. As such, the competition among banks eventually became a war for talent.

However, the talent loss has been a persistent problem for foreign banks in China. After the global financial crisis, foreign banks operating in China have experienced three large outflows of talent: 2011–2012, 2013–2015 and 2017–2018. These three exoduses contributed to the continued decline in their market share. Retention of skilled financial talent has become critical to the development of foreign banks in China.

The purpose of the present research was to determine the main causes of employee turnover and to classify the antecedents of employee engagement in foreign banks in China. Toward this end, a theoretical framework was developed, which covered HRM system, theories of employee engagement, core models of employee turnover, performance appraisal methods and techniques, theories of reward management. Then, two studies were carried out. Study 1 was subjected to functional analysis to identify the primary function of employee withdrawal behavior. Study 2 aimed to identify factors contributing employee engagement through multivariate analysis.

In Study 1, a functional analysis model of employee turnover was developed and examined. Data on 191 former employees of 7 foreign banks in China were collected to estimate the turnover model. These 7 foreign banks were MUFG Bank (China), Sumitomo Mitsui Banking Corporation (China), Mizuho Bank (China), HSBC Bank (China), Hang Seng Bank (China), Citibank (China), and Standard Chartered Bank (China). Confirmatory factor analysis was conducted to reduce the overall number of variables into latent factors based on commonalities within the data and to confirm construct validity. The result of goodness-of-fit test revealed quite a good fit to the data ( $\chi^2=201.04$ ,  $p=0.649$ ,  $\chi^2/df=1.081$ , RMSEA=0.021, CFI=0.987, NNFI=0.995, TLI=0.993). Five determinants were found to be the most frequently mentioned reasons for leaving: promotion chances, opportunity, job stress, pay, and line manager. Employees from front office were more likely to cite job stress as reason for quitting, whereas employees from middle office and back office were more likely to cite line manager.

In Study 2, a theoretical model of the antecedents of employee engagement was developed and tested. 211 active employees of the 7 foreign banks mentioned above were surveyed, and constructs were assessed with confirmatory factor analysis. Values of the following model fit indices reached acceptable levels:  $\chi^2/df$  (1.288, 1.82), GFI (0.956, 0.991), RMSEA (0.037, 0.062), CFI (0.990, 0.997), NFI (0.957, 0.994), NNFI (0.983, 0.992), TLI (0.983, 0.992). The results of Item-Total Correlation Analysis are supportive of the significant relationships between the set of independent variables presented in the model and engagement.

The factors contributing employee engagement were examined separately for front office, middle office, and back office. The results supported the hypothesis that employees of different business divisions have different drivers of engagement. Within the multiple linear regression equation created for front office, the following two variables had significant individual weights: pay ( $\beta=0.324$ ,  $p<0.01$ ) and distributive justice ( $\beta=0.348$ ,  $p<0.001$ ). For middle office, pay ( $\beta=0.553$ ,  $p<0.001$ ), distributive justice ( $\beta=0.228$ ,  $p<0.01$ ), and line manager ( $\beta=0.266$ ,  $p<0.001$ ) were significant predictors of engagement. For back office, pay ( $\beta=0.604$ ,  $p<0.001$ ), autonomy ( $\beta=0.157$ ,  $p<0.05$ ), and line manager ( $\beta=0.247$ ,  $p<0.001$ ) were found to have a statistically significant influence on engagement.