

EMPLOYEE TURNOVER COST AND IMPACTS IN BANKING INDUSTRY OF BANGLADESH: AN EXPLORATORY STUDY

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Abstract

Employee turnover has been a major issue especially for Human resource manager. Previously, several researchers identified the factors influencing employee turnover. However, measuring turnover cost can help a manager better to respond to this challenging issue. The purpose of this paper is to calculate the turnover cost of Probationary Officer (PO)/Management Trainee Officer (MTO) and impacts in banking sector of Bangladesh. Primary data were collected through a questionnaire survey to reveal the result. It was found that except few banks turnover costs of other banks are more than 10% of their total recruitment, selection and training cost, which is upsetting. For identifying turnover impacts, hypotheses were constructed and tested using t-test. The findings of this paper will help the human resource manager get better insights about the magnitude of turnover cost and develop employee retention strategies in accordance with.

Keywords: Employee Turnover, Turnover Cost, Banking Industry, Human Resource.

Introduction

Human resource management is a critical issue to every small or large organization. It is very crucial to utilize this intangible asset to achieve organizational goals. However, today human resource professionals are progressively challenged to grip a more strategic aspect regarding their responsibility to the organization. It is seen that to respond this challenge human resource professionals measure their performance and their contribution to the

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company's profitability and overall growth consistently. Moreover this is no longer termed as surprise in present extreme competitive business world. In the last decades the value of intangible assets has been highlighted by an ever-increasing appreciation and the associated trend toward strategic performance measurement systems such as Robert Kaplan and David Norton's Balanced Scorecard. New opportunities for human resource professionals, new demands for their accountability, and new perspectives on measuring organizational performance have all converged (Becker, Huselid & Ulrich, 2001).

The attitude of employees is an invisible segment, which is a significant part of that architecture. The cost of employee turnover, having its place, in this area of expense is the central point in our study. The objective of this study is to calculate the Probationary officer (PO)/Management trainee officer (MTO) turnover cost in private commercial banking sector of Bangladesh but not to eliminate the turnover cost entirely. This research has also focused on the impacts of employee turnover on organizational image, customer satisfaction and productivity loss.

Not knowing the cause of the sickness, means not knowing the method to avert it or heal it. The calculation of the turnover cost is dealing with the magnitude of the sickness and making a guideline how to minimize it.

Banking sector is a prime driver in the economy of Bangladesh where private commercial banks are the key players who lead the economic growth. Therefore it was rational to focus on the private commercial banking sector in Bangladesh, due to its high demand for skilled bankers, more number of private banks in respect to economic status, as well as the high turnover of employees.

Literature review

As an extensive researched area of human resource management and organizational behavior, employee turnover has been a great interest of the researcher for a long time. Many researchers defined this term, identified its causes and remedies from various perspective. But there are still a lot of conclusions and specifications yet to come.

An employee may leave the job voluntarily or involuntarily and this situation is termed as employee turnover. Replacement is needed to be hired if an employee leaves an organization. This whole process is known as turnover (Arnold & Feldman 1982).

Price (1977) explained turnover as the number of employees leaving the organization during a particular time period divided by the number of employees in that organization for that particular period. Normally presented in terms of turnover rate, turnover refers to the amount of movement of employees in and out of an organization (Chruden & Sherman 1972).

Mobley (1982) referred turnover as a circumstance where an employee discontinues his/her membership in the organization from which monetary compensation is earned.

Employee turnover is like switching from current organization to a new organization with the hope of finding a better position or a better working environment than the existing one. Wood (1995) described employee turnover as an exchange cycle. Because when an employee leaves the organization voluntarily or non-voluntarily there is a vacant position that needs to be filled in by a new employee. And the new employee has to go through a process which includes recruitment, selection and training.

It may be quite tough for the managers to understand and accept the employee turnover within the organization. Organization's long term plan gets shattered because of employee turnover. Mobley (1982) revealed that managers wanting to contribute to the organization can be benefited by identifying the reasons, quantifying the turnover and generating possible solutions for reducing high turnover rates.

Employee turnover can't be always bad for the organization, because through the turnover process a less skilled and deficient performer may be replaced by a more skilled and efficient performer. There is still a particular amount of cost associated with the employee who just left. And these costs may be made-up by the benefits that will be generated from those skilled performers in the long run.

Employees are like pillars of an organization. Losing an employee is like losing a pillar that shakes the remaining pillars. Left employees and shaking pillars engender costs for the organization. Measuring these turnover costs is one of the main concerns of this paper. To do so, turnover of Management Trainee Officer (MTO)/Probationary Officer (PO) in the banking industry has been studied.

According to Bangladesh Bureau of Statistics (2016), the unemployment rate in Bangladesh is 4.5% in 2010 & 4.3% in 2013. Among the employed persons 34% are engaged in service sector. As a service sector, banking sector contributes a lot in employment generation.

Now-a-days Banking sector has derived as one of the lucrative job sectors for job seekers because of its salary structure and social status. But still the employee turnover rate in this sector is quite high. Habib (2015) reported that private banks used to pick mid and senior-level bankers from nationalized banks. But in recent time the scenario is changing due to more congenial working environments and new technological implementation in the private banking sector. Private-to-private sector banks shifting is a common trend now-a-days. According to him, in last few years, private commercial banks recruited a big cut up of newly graduates. Nine recent established private commercial banks during 2012 and 2013 started their operation with the employees hired from other commercial banks of this country. The greater competition and higher tendency of turnover are the resultant factor of expanded financial sector.

Accelerating factors of employee turnover

A lot of studies have been conducted nationally and internationally to identify the causes of employee turnover. According to Powell (2012) there are five major reasons for employee turnover. These are lack of opportunities for professional development, inadequate compensation, boredom/lack of challenge, poor work/life balance, job stress and unfair treatment.

Several researchers (Chaulagain, Khadka & Kumar, 2012; Hom & Griffeth, 1991; Delfgaauw, 2007) identified employee turnover is the eventual consequence of job

dissatisfaction. Job dissatisfaction is also gauged by several other factors. According to Branham (1997), study revealed quality of employee's relationship with the manager affects 50 percent of job satisfaction. Politics-free working environment has also impact on employee job satisfaction. Within a job setting there may be an expectation gap exists, as employer and employee hold different expectations from a particular job appointment. Schultz & Schultz (2005) outlined improbable job expectations cause the employees to leave their existing job.

In Bangladesh, with the changes in market structure, competition and growth, the trends and patterns of employee turnover has changed. A study conducted by Bangladesh Institute of Bank Management revealed the most influential factor for the first and second time changes of bank by employee is 'finding a better compensation package'. A third time change is followed by other reasons like comfortable work environment and relationship with the management (Habib, 2015).

Cost generates from employee turnover

Obviously, the organization has to incur cost for each employee who leaves before completing the tenure. Bennis & Casson (1984) enumerated, recruiting and appointing an employee is an investment; if an employee leave before the full term the organization get no return on the investment.

Phillips & Connell (2003) included recruiting costs, selection and employment costs, orientation costs, training costs, lost wages/salaries, administrative costs, lost productivity, loss of human capital and customer satisfaction issues as employee turnover cost. Turnover costs include direct and indirect cost. The direct costs are like- recruitment, selection and training of new employees; processing of these activities generates expenses. Indirect costs include such things as increased workloads and overtime expenses for coworkers as well as reduced productivity associated with low employee morale (Newas, Ali & Akhter 2007).

Though it is not an easy task but employee turnover costs can be measured numerically. At the top management level employee turnover generates more cost. Greenberg & Baron

(2003) studied the cost of replacing an executive by 64000 American dollars and the cost of unscheduled absence averaging as high as 757 American dollars per employees.

Employee turnover not only cause monetary loss but also non-monetary loss. When the turnover rate is high in a particular organization, it negatively affects its market image as well as customer satisfaction. Habib (2015) reported that loss of an experienced employee causes decreased productivity and effectiveness of other staff. Along with this, customer loyalty, brand image and good will of the organization in the industry get depreciated. Addressing these turnover consequences is another concern of this paper.

Cascio (1991) first attempted to calculate the employee turnover costs through finding the formulas. Hinkin & Tracey (2005) developed software for calculating the cost of employees. Their concerned area was hospitality industry. They considered both the work done by Cascio (1991) and William & Stanely (1993) and included five categories of costs in the software: costs of employee's departure, recruitment, selection, training and development and loss of productivity costs.

Later, Mitrovska & Eftimov (2016) calculated the employee turnover cost in the IT industry in Macedonia. They adopted and upgraded the software developed by Cornell University for the hospitality industry. The calculator they used for their research divided the turnover cost into five different categories and one additional category called costs for the salaries of the employees.

In this study, their cost categories have been used but not all the parameters/items they included in each cost category as the concentrated area of this research is different from theirs.

Objectives of the study

The main objective of this study is to calculate the turnover cost of Probationary officer (PO)/Management trainee officer (MTO) and identify the turnover impacts on organizational image, customer satisfaction and productivity loss in private commercial banking sector of Bangladesh. The specific objectives are as follows:

1. To find out the PO/MTO recruitment and selection cost for a particular financial year.
2. To find out the PO/MTO training and development cost for a particular financial year.
3. To find out the PO/MTO departure and productivity loss cost for a particular financial year.
4. To find out the PO/MTO turnover rate for a particular financial year in different commercial bank.

Research Methodology

The research is based on primary data collected from a sample of 15 banks out of 39 private commercial banks (Bangladesh Bank, 2016) of Bangladesh. Samples have been chosen based on purposive sampling method. A questionnaire was prepared to collect the data. The questionnaire had two parts. For the turnover cost part questionnaire was placed to the human resource personnel of sample banks. Moreover for a clear understanding the respondents were interviewed personally. The research considered the financial year 2015-16 as turnover cost calculation period.

For identifying impacts of employee turnover hypotheses were developed. By asking preset questions, the hypotheses were tested. Questionnaire for this part was circulated among the personnel who are serving the sample banks for more than 7 years. For this purpose a sample of 100 respondents were chosen from those 15 respective banks. A Likert-type five-point scale was used to rate the judgments on each question. If a respondent chose '1', it meant they strongly disagreed with the statement while '5' meant they strongly agreed. If the respondents did not feel too strongly about the statement, they chose a number in the middle. Results were processed through SPSS version 20 software. T-test is used for hypothesis testing since the population standard deviation is unknown (Lind, Marchal & Wathen 2008) in this study.

Hypothesis 1:

H₀: Employee turnover does not affect negatively on organizational image.

H₁: Employee turnover affects negatively on organizational image.

Hypothesis 2:

H_0 : Employee turnover does not affect negatively on customer satisfaction.

H_1 : Employee turnover affects negatively on customer satisfaction.

Hypothesis 3:

H_0 : Employee turnover does not cause productivity loss.

H_1 : Employee turnover causes productivity loss.

Results and findings

Demographics of the respondents: As the questionnaire was designed to collect human resource information, the respondents were the human resource personnel. For the turnover cost part, the respondents were aged between 45-50 years. For the hypotheses part, all the respondents were aged between 35-40 years as well as were serving that particular banks for more than 7 years. Among the respondents 70% were male and 30% were female. As the survey questionnaire was in English language so it was made sure that all of them have proficiency on English literacy.

Turnover cost was calculated by generating information about cost of following categories.

Recruitment cost: It includes the total cost related with recruitment of applicant and fill-up a vacant position. The subgroups of this cost are cost of agency, advertisement cost and cost of writing a job description or arranging a job fair. The total recruitment cost of the studied 15 banks ranges from 315,000-5000,000. (See Appendix ii.a)

Selection cost: It includes the subgroups like selection procedure cost, arranging interview for candidates who passed the MCQ and written test, cost of assessing previous experiences. The total selection cost of the studied 15 banks ranges from 300,000-2000,000. (See Appendix ii.a)

Training and development cost: For employee training and development banks have to incur costs. In Bangladesh perspective most of the banks provide at least one fundament

training to its newly recruited employees within one year of their recruitment. Trainings can be formal or informal. The total training and development cost of the studied 15 banks ranges from 400,000-10,000,000. (See Appendix ii.a)

Departure cost: When an employee departs before fulfilling his/her tenure banks incur costs. As there is no available formula to calculate departure cost, in this paper it was calculated by using this formula – (Loss of working hour of the employee who carries out the departure process * Per hour salary of the employee who carries out the departure process * Total number of PO/MTO left). It was revealed by most of the respondents that on average they require 10 working hours for carrying out a PO/MTO departure process. (See Appendix ii.c)

Productivity loss cost: Due to lack of previous research and extensive calculation on this area most of the respondents failed to provide a numerical value for this cost. But majority of respondents believe they have to incur this type of cost. Few respondents provided the value approximately based on their experience.

Table 01: Turnover cost of 15 banks.

	PO/MTO left last year	Recruitment, Selection, Training cost per employee who left (1)	Departure cost(2)	Productivity loss cost (3)	Turnover cost (1+2+3)
Eastern Bank Ltd	4	434782.609	12000		446783
Meghna Bank Ltd	3	203000	8700		211700
Mutual Trust Bank Ltd	1	880000	4500		884500
NCC Bank Ltd	1	19642.8571	2500		22143
Social Islami Bank Ltd	20	583333.333	54000		637333
Mercantile Bank Ltd	7	237391.304	19250		256641
Dutch Bangla Bank Ltd	30	833333.333	84000		917333
Islami Bank Bangladesh Ltd	30	600000	87000		687000
Prime Bank Ltd	40	4722222.22	114400		4836622
NRB Commercial Bank Ltd	18	4680000	57600		4737600
UCB Bank Ltd	18	1967441.86	63000	600000	2630442
Modhumoti Bank Ltd.	20	1555555.56	58000	400000	2013556
National Bank Ltd	40	627777.778	118000	300000	1045778

AB Bank ltd	3	252000	9300		261300
Premier Bank ltd	5	687500	15000		702500

Source: Primary data collected through survey.

The turnover cost varied among banks based on their cost related to it and the number of PO/MTO left during the period. The turnover cost of some banks found 74% (National Bank ltd), 58% (Modhumoti Bank ltd), 37% (Dutch-Bangla Bank ltd), 36% (NRB commercial Bank ltd) of their total recruitment, selection and training cost which is alarming (*Table 01*).

There is another important findings regarding PO/MTO turnover association with their per hour salary.

Table 02: Percentage of PO/MTO turnover.

	Per hour Salary of PO/MTO	PO/MTO joined last year	PO/MTO left last year	% PO/MTO left
Eastern Bank ltd	113	23	4	17.39
Meghna Bank ltd	146	15	3	20.00
Mutual Trust Bank ltd	250	10	1	10.00
NCC Bank ltd	150	56	1	1.79
Social Islami Bank ltd	167	120	20	16.67
Mercantile Bank ltd	167	115	7	6.09
Dutch Bangla Bank ltd	188	90	30	33.33
Islami Bank Bangladesh ltd	151	350	30	8.57
Prime Bank ltd	155	144	40	27.78
NRB Commercial Bank ltd	162	50	18	36.00
UCB Bank ltd	262	86	18	20.93
Modhumoti Bank ltd.	145	45	20	44.44
National Bank ltd	142	90	40	44.44
AB Bank ltd	188	50	3	6.00
Premier Bank ltd	150	40	5	12.50

Source: Primary data collected through survey.

Though compensation package is an influencing factor for employee retention, it was seen

(Table 02) that banks with better compensation package is still experiencing high percentage of PO/MTO turnover. The reasons behind this was revealed by the respondents as newly recruited PO/MTOs are usually fresh graduates who have a lot of career opportunities in both private and public sectors. Most of them prefer a more secured government job to a private job with high salary and seek to build career in government sectors.

As for hypothesis part, the study developed the statement for null hypothesis (H_0) and it will reject the null hypothesis and accept the alternative hypothesis (H_1) if the calculated value is greater than table value or critical value and vice-versa. Here, the table value is 1.66 with 5% level of significance.

Table 03: One Sample T-test. (See Appendix iii)

	N	Mean	Std. Deviation	t	d.f
Negatively affects organizational image	100	3.77	.96248	39.170	99
Negatively affects customer satisfaction	100	3.87	.84871	45.599	99
Cause productivity loss	100	3.57	1.01757	35.083	99

Source: Primary data collected through survey.

The mean values of three hypothesis statements are more than 3 and close to 4 which means the respondents are agreeing with these statements. Results (Table 03) also show among the three consequences of employee turnover, the major consequence is its negative impacts on customer satisfaction.

According to t-test result null hypothesis (H_0) is rejected and the test is significant for above three statements. The results support the statements reported by Habib (2015) regarding the consequences of employee turnover.

Recommendations

At present, recruiting efficient worker is not so difficult but keeping them as employee within the organization for a longer period is difficult. Employees are the key element to run the wheel of an organization. It is very important to make the employees as human resource and retain them to get maximum productivity to ensure continuous success. But the study identified that no bank has policy to calculate employee turnover cost, though they think it is a significant issue for the organization. So the banks should develop policy to calculate the employee turnover cost, as it is not a negligible issue any more.

Though it is revealed that the private commercial banks offer competitive and handsome financial compensation, the turnover cost is still alarming. Most of the PO/MTOs are newly graduates and lots of opportunities are available to them. So to keep them as employee, banks should provide benefits and career opportunities preferable to other banks. Some other issues should also be considered seriously in this regard. Firstly, fair job environment, which deals with so many non-financial issues to make the employees feel comfortable. Secondly, career growth should be cared with utmost importance as employees always pursue a better position that they deserve. Another is regular performance evaluation with scientific yardsticks should be implemented to eliminate any biasness in promotion.

Future research

This research calculates the PO/MTO turnover cost and turnover impacts on organizational image, customer satisfaction and productivity loss. Future research can be conducted on to identify the cost-benefit analysis of employee retention strategies. Comparative research of employee turnover cost on private and public banking sector can also be conducted.

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Appendix i: List of Banks

1. Eastern Bank Ltd
2. Meghna Bank Ltd
3. Mutual Trust Bank Ltd
4. NCC Bank Ltd
5. Social Islami Bank Ltd
6. Mercantile Bank Ltd
7. Dutch Bangla Bank Ltd
8. Islami Bank Bangladesh Ltd
9. Prime Bank Ltd
10. NRB Commercial Bank Ltd
11. UCB Bank Ltd
12. Modhumoti Bank Ltd.
13. National Bank Ltd
14. AB Bank Ltd
15. Premier Bank Ltd

Appendix ii (a): Total recruitment, selection and training cost.

	Recruitment cost (1)	Selection cost (2)	Training cost (3)	Total (4=1+2+3)
Eastern Bank Ltd	500000	500000	1500000	2500000
Meghna Bank Ltd	315000	300000	400000	1015000
Mutual Trust Bank Ltd	800000	1000000	7000000	8800000
NCC Bank Ltd	400000	300000	400000	1100000
Social Islami Bank Ltd	800000	700000	2000000	3500000
Mercantile Bank Ltd	800000	900000	2200000	3900000
Dutch Bangla Bank Ltd	1000000	1000000	500000	2500000
Islami Bank Bangladesh Ltd	2000000	1000000	4000000	7000000
Prime Bank Ltd	5000000	2000000	10000000	17000000
NRB Commercial Bank Ltd	3000000	2000000	8000000	13000000
UCB Bank Ltd	1300000	1100000	7000000	9400000
Modhumoti Bank Ltd.	1000000	800000	1700000	3500000
National Bank Ltd	320000	400000	692500	1412500
AB Bank Ltd	1600000	1600000	1000000	4200000
Premier Bank Ltd	1500000	2000000	2000000	5500000

Appendix ii (b): Recruitment, selection and training cost per employee who left.

	Total Recruitment, Selection, Training cost (1)	Total employee joined (2)	Cost per employee (3=1/2)	Employee left last year (4)	Cost per employee who left (5=3*4)
Eastern Bank Ltd	2500000	23	108695.7	4	434782.6
Meghna Bank Ltd	1015000	15	67666.67	3	203000
Mutual Trust Bank Ltd	8800000	10	880000	1	880000
NCC Bank Ltd	1100000	56	19642.86	1	19642.86
Social Islami Bank Ltd	3500000	120	29166.67	20	583333.3
Mercantile Bank Ltd	3900000	115	33913.04	7	237391.3
Dutch Bangla Bank Ltd	2500000	90	27777.78	30	833333.3
Islami Bank Bangladesh Ltd	7000000	350	20000	30	600000
Prime Bank Ltd	17000000	144	118055.6	40	4722222
NRB Commercial Bank Ltd	13000000	50	260000	18	4680000
UCB Bank Ltd	9400000	86	109302.3	18	1967442
Modhumoti Bank Ltd.	3500000	45	77777.78	20	1555556
National Bank Ltd	1412500	90	15694.44	40	627777.8
AB Bank Ltd	4200000	50	84000	3	252000
Premier Bank Ltd	5500000	40	137500	5	687500

Appendix ii (c):Departure cost of employee who left.

	Salary per hour (1)	Loss of working hour (2)	Employee left last year (3)	Departure cost (1*2*3)
Eastern Bank Ltd	300	10	4	12000
Meghna Bank Ltd	290	10	3	8700
Mutual Trust Bank Ltd	450	10	1	4500
NCC Bank Ltd	250	10	1	2500
Social Islami Bank Ltd	270	10	20	54000
Mercantile Bank Ltd	275	10	7	19250
Dutch Bangla Bank Ltd	280	10	30	84000
Islami Bank Bangladesh Ltd	290	10	30	87000
Prime Bank Ltd	286	10	40	114400
NRB Commercial Bank Ltd	320	10	18	57600
UCB Bank Ltd	350	10	18	63000

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Modhumoti Bank Ltd.	290	10	20	58000
National Bank Ltd	295	10	40	118000
AB Bank Ltd	310	10	3	9300
Premier Bank Ltd	300	10	5	15000

Appendix iii:

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Negatively affects organizational image	100	3.7700	.96248	.09625
Negatively affects customer satisfaction	100	3.8700	.84871	.08487
Cause productivity loss	100	3.5700	1.01757	.10176

One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Negatively_affects_organizational_image	39.170	99	.000	3.77000	3.5790	3.9610
Negatively_affects_customer_satisfaction	45.599	99	.000	3.87000	3.7016	4.0384
Cause_productivity_loss	35.083	99	.000	3.57000	3.3681	3.7719