

Impact of Employee Retention Rate to Company Performance

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Research Objectives & Key Questions

The core objective of this study explores how **employee turnover**, as a human capital metric, can reveal hidden strengths or risks in **firm fundamentals** with direct implications for **investor decision-making**

Q1

Q2

Q3

Does employee turnover offer insight into a company's future **operational performance** (profitability)?

Can turnover help forecast future **stock returns**?

Are there **specific types** of companies or industries where turnover is a more **powerful** investment signal?

Research Background and Trend Analysis

This study investigates the impact of employee turnover on corporate financial performance based on a **globally diversified portfolio** over the period **2014–2023**

2545 Companies

30% Americas

47 Countries

49% Asia Pacific

11 Industries

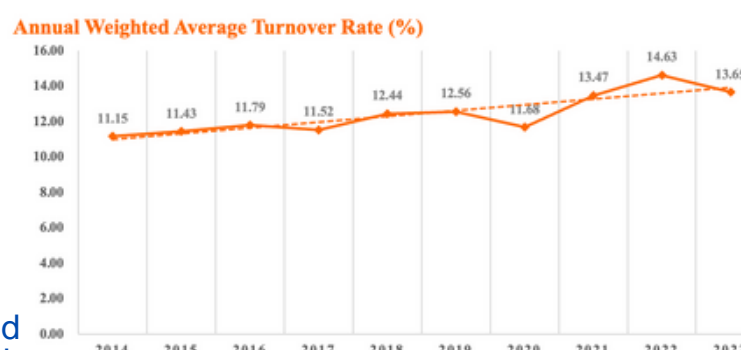
16% Europe

5% Middle East & Africa


Key Insights

- Global Upward Pressure**
Employee turnover is rising due to a more fluid labor market, shifting generational values, and flexible work models
- The Great Resignation Effect**
COVID-related uncertainty slowed movement, but post-pandemic recovery and remote work boosted resignations
- Disclosure Normalization**
Companies are focusing more on human capital management, with turnover reporting becoming standard practice

Annual Weighted Average Turnover Rate (%)



Turnover Rate Disclosure Rate (%)



Cross-Region Employee Turnover Characteristic

- Turnover shows structural differences across regions due to **country-specific labor dynamics**.
- Most regions remained stable or declined slightly in 2020, then **peaked in 2022** amid recovery, remote work, and the Great Resignation.

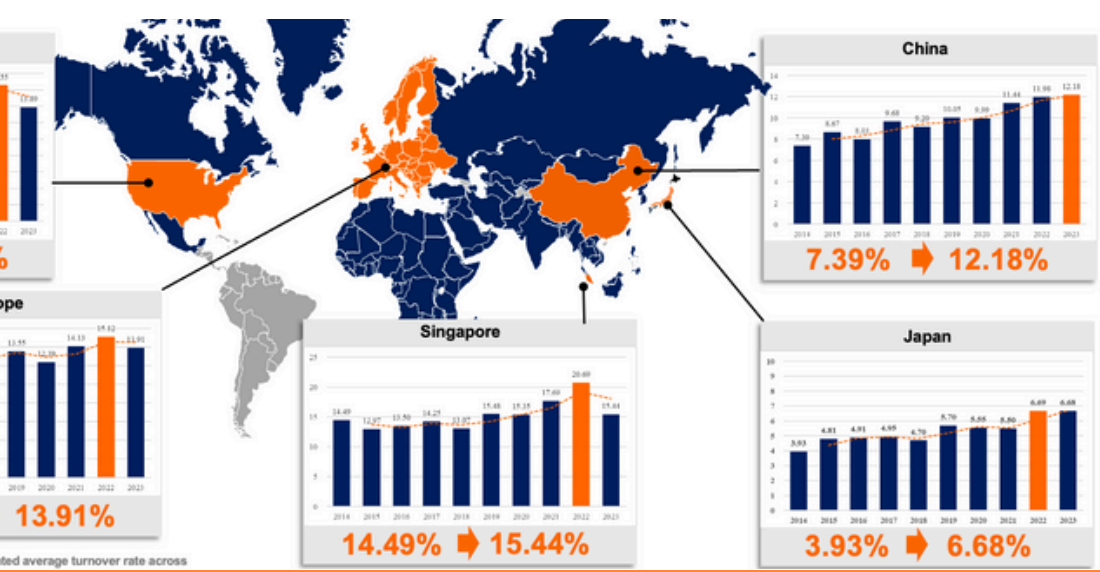
United States

China

Europe

Singapore

Japan



United States: 12.6% → 13.89%

China: 7.39% → 12.18%

Europe: 12.02% → 13.91%

Singapore: 14.49% → 15.44%

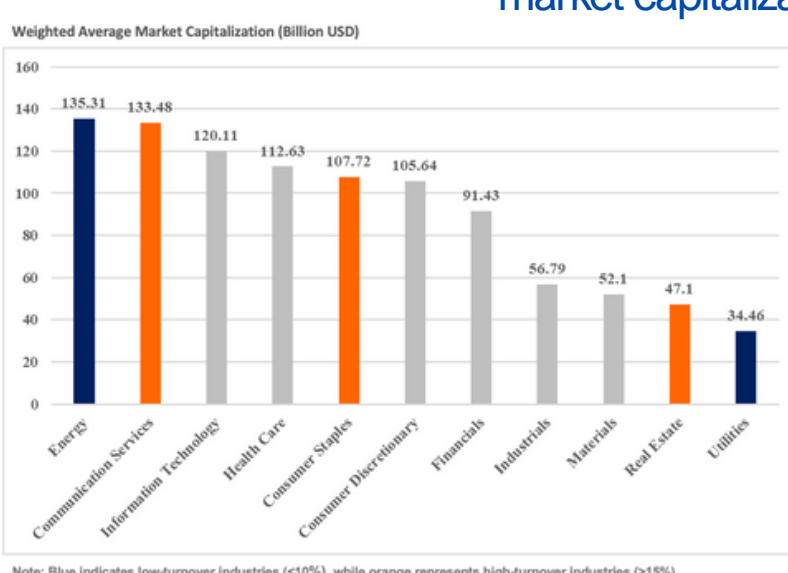
Japan: 3.93% → 6.68%

Key Conclusions from Literature Review

- Higher employee turnover is generally linked to weaker future financial performance, e.g. lower ROA or lower return
- Financial markets often underreact turnover signals, creating a potential alpha opportunity for investors
- Turnover effects are context-specific and non-linear, shaped by internal systems and task structure

Cross-Industry Employee Turnover Characteristic

Employee turnover is more closely linked to **industry characteristic** than firm size, as both high- and low-turnover sectors span a wide range of market capitalizations



Energy

- High salary and benefits
- Regional monopolies

Consumer Goods

- Cost control under inflation
- Covid impact on workforce structure & supply chains
- Labor-intensive markets

Real Estate

- Project cycles & Flexible employment
- Industry downturn

Utility

- High regulatory barriers
- Regional monopolies
- Specialized skill requirements

Positioning Our Study: Contributions and Improvements

Gap 1: Assumed average effects of turnover

Current studies overlook contextual variations across industries and regions:
→ **Turnover signals are unstable and context-dependent**

Improvement 1

- ✓ Capture **industry and region-specific signals**
- ✓ Avoid misleading **average effects**

Gap 2: Overfocus on correlation, not investment value

Most studies stop at showing correlation between turnover and performance (e.g., ROE or profitability), but few ask:
→ **Can turnover generate alpha?**

Improvement 2

- ✓ Use sub-sample tests to find the effects of **alpha**
- ✓ From correlation to actionable **investor signals**

Methodology

- Full sample:** Employee Turnover and Corporate Fundamentals within 2,545 firms from 2014-2023
- Fixed effects model:** Control Year Effects and Firm-level Effects

Model

1. Can Turnover predict future performance?

$$Firm\ Performance_{i,t+1} = \alpha + \delta_1 Firm\ Performance_{i,t} + \beta_1 Turnover_{i,t} + \gamma_1 CAPEX_{i,t} + \gamma_2 SG\&A_{i,t} + \gamma_3 DE_{i,t} + \gamma_4 SIZE_{i,t} + \gamma_5 NIM_{i,t} + \gamma_6 Revenue\ Growth_{i,t} + \gamma_7 RD_{i,t} + Company\ FE + Year\ FE + \epsilon_{i,t}$$

2. Nonlinearity of Turnover-Performance Relationship

$$Firm\ Performance_{i,t+1} = \alpha + Firm\ Performance_{i,t} + \beta_1 Turnover_{i,t} + \beta_2 Turnover_{i,t}^2 + \beta_3 Turnover_{i,t}^3 + \gamma_1 CAPEX_{i,t} + \gamma_2 SG\&A_{i,t} + \gamma_3 DE_{i,t} + \gamma_4 SIZE_{i,t} + \gamma_5 NIM_{i,t} + \gamma_6 Revenue\ Growth_{i,t} + \gamma_7 RD_{i,t} + Company\ FE + Year\ FE + \epsilon_{i,t}$$

Empirical Evidence: HIGH turnover stocks having low profitability

Stock return results (no results)

Profitability results

Valuation results (no results)

Variables	Stock Return (t+1)	ROE (t+1)	EBIT Margin (t+1)	Tobin's Q (t+1)	MTB (t+1)
Turnover_Low	-0.0143	0.536	0.674 **	0.0623	0.157
Turnover_High	0.00378	-1.221 **	-0.201	0.0233	-0.0560

Turnover_Low: Above industry median (50th percentile)

Turnover_High: Below industry median (50th percentile)

Note: Coefficients shown: *** P<0.01, ** P<0.05, * P<0.1

Turnover_Low and Turnover_High are dummy variables indicating whether a firm's employee turnover falls in the bottom third (0–33%) or top third (66–100%) of the full sample distribution, respectively.

Tobin's Q: Calculated as market capitalization divided by total assets at the end of the year. Data source: Refinitiv.

MTB: Market capitalization based on total outstanding shares and latest share price, scaled by common shareholders' equity at fiscal year-end. Data source: Refinitiv.

Control Variables: CAPEX, SG&A, DE, SIZE, NIM, Revenue Growth, R&D

Key Message

Low employee turnover signals **operational strength**, whereas high turnover undermines **capital efficiency**

Low Turnover → Rising EBIT Margin

High Turnover → Declining ROE

Low turnover supports operational consistency, helping firms maintain strong margins

High turnover disrupts organizational continuity, leading to lower capital efficiency and poor returns on equity

How should it inform investment decisions?

Low turnover may suggest disciplined workforce management and resilience in downturns

→ Investors may reward firms for consistent workforce stability and efficient capital deployment

High turnover may indicate internal disruptions and weak retention strategies

→ Investors may view persistent turnover as a red flag for internal instability and unstable returns

Unconditional Portfolio Analysis

Methodology

$$R_{P,t} - R_{f,t} = \alpha_P + \beta_P(R_{M,t} - R_{f,t}) + \beta_S \cdot SMB_t + \beta_H \cdot HML_t + \epsilon_{P,t}$$

Category (50th Percentile)

Time-series Average & t-test

Fama-French 3-Factor Regression

Portfolio	Monthly Stock Return (%)	p-value	Significant?
Low Turnover	+0.51	0.200	No
High Turnover	+0.66	0.127	No
High – Low (H–L)	–0%	0.967	No

No significant excess return

Portfolio	α	p-value	Significant?
Low Turnover	-0.000086	0.960	No
High Turnover	+0.000789	0.617	No
High – Low (H–L)	+0.000876	0.427	No

No risk-adjusted alpha

Aggregate Sample May Mask Heterogeneity

Sub-sample: Size-Dimension

Methodology

Turnover-level Portfolio

High Turnover Bin | Low Turnover Bin

Size Cut-off: Industry-level Weighted Average Market Cap

50% | Percentile

Small-size Sample | Large-size Sample

Time-series Average & t-test | Fama-French 3-Factor Regression

Size-Dimension Key Findings

Low Turnover Bin	High Turnover Bin
Large-Cap Company	Small-Cap Company
-0.29% Alpha	0.51% Alpha
0.023 P-value	0.022 P-value

More transparent and extensively analyzed

High employee turnover interpreted as a negative signal and efficiently priced in.

Greater information opacity

High employee turnover may create mispricing opportunities for excess returns

Sub-sample: Industry-Dimension

Methodology

Group firms by industry → Turnover-level Categorization

For each turnover bin within each industry → Time-series Average & t-test & Fama-French Regression

Key Findings

Within the IT Industry

Low Turnover Bin	High Turnover Bin
0.79% Alpha	0.009 P-value

- Low-turnover tech firms may offer attractive abnormal returns
- Stable talent dynamics in technology companies as a signal of strong operational continuity and innovation capacity

IT is the only industry where turnover reveals meaningful alpha — making it a strategic focus.

In IT industry, low turnover is a strong favorable signal

Limitation: Result may reflect sector-specific disclosure quality

Conclusions and Final Recommendations

1. Use turnover as a signal of operational weakness, not a market signal

- Insight:** Turnover lacks predictive power on stock returns, but reveals operational & governance red flags
- Action:** Test whether high turnover predicts future volatility, earnings downgrades, or sharp drawdowns — useful for defensive portfolio design

2. Explore the joint role of employee inflow and outflow in workforce dynamics

- Insight:** Turnover alone captures only one side of workforce changes
- Action:** Encourage future analysis to combine inflow and outflow data to distinguish strategic hiring from talent loss

3. Interpret turnover in investment context

- Insight:** Turnovers exhibit some potentially useful investment signals in certain contexts
- Action:** Combine turnover with financial indicators and strategic context to develop more robust investment hypotheses