

## ANALYSIS OF FACTORS INFLUENCING EMPLOYEE RETENTION: A STUDY ON START-UP COMPANIES IN THE INFORMATION TECHNOLOGY SECTOR

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### ABSTRACT

*The current digital era, start-up companies in the information technology (IT) sector face challenges in retaining quality employees. Employee retention is crucial because a company's success depends on their ability to retain top talent. However, high employee turnover rates can disrupt operational consistency and long-term growth. The aim of this research is to analyze the factors that influence employee retention in start-up companies in the information technology sector. This study used qualitative research methods. The data collection technique in this research is literature study. The data that has been collected is then analyzed in three stages, namely data reduction, data presentation and drawing conclusions. The research results show that the factors that influence employee retention in startup companies in the information technology sector are very important because valuable and competent employees are the main asset in creating and maintaining a company's competitive advantage. Factors that influence employee retention include employee engagement, communication, compensation, leadership, career development, training and development, work flexibility, job satisfaction, and performance appraisal.*

**KEYWORDS** Employee Retention, Start-Up Companies, Information Technology



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### INTRODUCTION

In the current digital era, startup companies in the information technology (IT) sector face significant challenges in retaining quality employees. Fierce competition in the IT industry leads to increased employee mobility. Employees with the skills and knowledge needed by companies can easily switch to other companies offering higher salaries, better career development opportunities, or more attractive

**How to cite:** Darmayanti et al. (2024). Analysis Of Factors Influencing Employee Retention: A Study On Start-Up Companies In The Information Technology Sector. *Journal Eduvest*. 4 (5): 3838-3846  
**E-ISSN:** 2775-3727  
**Published by:** <https://greenpublisher.id/>

work environments. Employee retention is crucial because the success of a company heavily relies on its ability to retain the best talent within the organization.

Employee retention is an organization's effort to retain employees who have the potential for organizational development, using various means to keep them loyal to the company. Retaining employees is crucial because the success of a company heavily depends on its ability to retain the best talent within the organization (Riniwati, 2016). High-potential talents or employees have a significant impact on productivity, creativity, innovation, and overall company performance. When a company can retain quality employees, they can build a solid and competent team that can work efficiently to achieve the company's business goals.

The best talents tend to have valuable skills, knowledge, and experience that are difficult to replace easily. Losing quality employees can disrupt company operations, incur high replacement costs, and result in the loss of essential skills and knowledge crucial for business continuity (Andriani et al., 2020). The success of an organization in achieving its goals is the result of efficient and effective operational activities, which involve the proper utilization of organizational resources. Organizations need to maintain their human resources to work optimally, thus providing significant benefits for organizational development (Harvida & Wijaya, 2020).

Previous research by (Adzka & Perdhana, 2017) showed that there are six factors that most influence employee retention: recognition, compensation, leadership, career development, training and development, and job satisfaction. The best ranking was achieved through rewards. Another study by (Asri, 2021) showed that job satisfaction, job security, job compensation, and job training significantly influence employee retention in expedition companies.

Similar research by (Afiani & Mulyana, 2022) showed that organizational commitment, career development, recognition, and work environment influence employee retention. Work-life balance does not affect employee retention. Based on the research results, it was also found that among all the analyzed factors, career development is the most dominant factor.

The novelty of this research lies in its object of study, namely companies in startup in the information technology sector that have not been previously researched. This research can provide a new contribution to the literature on factors influencing employee retention, especially in the context of startup companies in the information technology sector. The aim of this research is to analyze the factors influencing employee retention in startup companies in the information technology sector.

## **RESEARCH METHOD**

This research uses a qualitative research method. Qualitative research method is an approach used to understand and explain social phenomena or human behavior through interpretation, analysis, and deep understanding of the context and unique characteristics of the subjects being studied (Murni, 2017). The data collection technique in this study is literature review. The data collection technique used in this research is literature review. Literature review is a method involving the search, analysis, and synthesis of information from various literature sources relevant to

the research topic being discussed. The collected data is then analyzed in three stages: data reduction, data presentation, and drawing conclusions.

## **RESULT AND DISCUSSION**

Startups are newly established companies with a relatively short operational period or businesses that are newly founded by an individual or group, typically less than 5 years old (Bakhar et al., 2023). There are three types of startups that need to be known:

1. Game startups: These are startups engaged in the gaming industry. Their activities range from game development to applications used in daily life. These startups are growing rapidly due to their significant potential.
2. Education startups: These are startups in the education sector. Their activities are related to learning or education, such as library applications, learning forums, and the like.
3. Trade startups: These are startups in the economic sector, particularly in trading. Their activities range from developing applications, services to the types of goods sold. These startups can help boost the domestic economy, especially small and micro-medium enterprises.

In the startup scope, successful businesses are divided into three categories: unicorn, decacorn, and hectacorn. At least, there are four unicorn startups from Indonesia, namely Traveloka, Tokopedia, Bukalapak, and GO-JEK. The establishment of startups must have several important indicators, including having highly innovative ideas. In this regard, for startup development, it is important to have numerous innovative initiatives to compete with competitors and always keep up with existing developments (Ferdiansyah & Permana, 2022).

Startup products are typically developed using the latest and innovative technologies, making them unique and different from those already available in the market. Startup products may also offer more efficient or cheaper solutions than existing products, or offer features not available in other products. Startup founders typically have a vision to create products that can make a positive difference for consumers (Syavitra & Ardianto, 2023).

A startup is a company that is still new and evolving. Startups will continue to grow and are projected to be companies aiming for substantial profits, while digital startups are companies aiming to continue growing and evolving (Hardiansyah & Tricahyono, 2019). The importance of employees in startups in the information technology sector cannot be overstated because they are the main drivers of innovation, growth, and success of the company. Employees not only contribute their technical expertise but also bring creative energy and entrepreneurial spirit vital to addressing the ever-evolving challenges in the startup environment. Based on this, employees are not just assets but also the main drivers of growth and success for startups in the information technology sector. Therefore, it is important for companies to pay attention to the needs and welfare of their employees to achieve their long-term goals.

Every company is required to optimize human resources and how these human resources are managed. Human resource management is inseparable from employees who are expected to perform as well as possible to achieve the company's

goals. Employees are the main assets of a company and play a strategic role within the company as thinkers, planners, and controllers of company activities (Kurniasari, 2018).

Ensuring that employees are loyal and comfortable working in the company is a very challenging task for companies because humans have dynamic characteristics, meaning that an employee can make mistakes in their work or not achieve maximum results. Therefore, company management needs to pay attention to the well-being of each employee by providing what the employee needs, both essential and supportive needs such as work environment and atmosphere. These company efforts will surely impact increased employee performance, and employees will be willing to work to their maximum potential to advance the company (Suyono, 2019).

Employees are intangible assets that need to be trained and retained to provide maximum benefits to the company. To achieve successful investment in human resources, companies must pay attention to factors that make employees comfortable in their jobs and in the company (Adzka & Perdhana, 2017). The importance of employees in startup companies in the information technology sector is closely related to employee retention efforts because valuable and competent employees are the main assets in creating and maintaining a company's competitive advantage. In a dynamic startup environment, a company's success depends greatly on its ability to retain the best talent, who have valuable technical knowledge, entrepreneurial spirit, and the ability to adapt quickly to changes. Understanding and meeting employee needs and creating a work culture that supports their growth and well-being are key to optimizing employee retention rates in startup companies in the information technology sector.

Retention is an important element of an organization's talent management approach, generally defined as the implementation of integrated strategies or systems designed to increase work productivity by developing processes to attract, develop, retain, and utilize people with the skills and talents needed to meet current and future business needs (Sa'diyah & Irawati, 2017). Employee retention is the company's ability to keep potential employees loyal to the company.

Employee retention means the actions of entrepreneurs and management to make employees stay longer in the organization, which can be done by providing appropriate and competitive compensation packages, management training, and creating a comfortable work environment. Essentially, employee retention is an organization's initiative to encourage its employees to stay longer, with the ultimate goal of reducing employee turnover (Farid & Luvia, 2022). Low employee retention rates lead to high turnover rates, which affect product quantity, standard production quality, and reduce profits. When an employee leaves the company, the company loses abilities and experiences. From the workers' perspective, high turnover intentions affect confidence, employee loyalty, and job stability (Suka, 2022).

Poor employee retention in a company will result in high turnover rates. Company losses cannot be avoided when turnover rates are very high because it will also impact increased recruitment and training costs for new employees, decreased performance in certain units, and also the loss of knowledge and skills provided by the company (Setiyawan & Kusumaningrum, 2018). If employee retention can be

managed well by the company, the work that employees will do will be maximized, and the company's goals can be achieved. Employee retention can also help reduce waste in terms of time, energy, and money spent on hiring and training new employees and prevent the exit of skilled employees from the organization, which is the main goal of employee retention (Lintang et al., 2024). Turnover within an organization can create an unstable and unclear organizational condition regarding the workforce and will increase human resource budgets, including budgets spent on employee training, recruitment, and training for new employees (Harvida & Wijaya, 2020).

The decision of employees to resign from a company is rarely caused by just one thing, such as the lack of promotions, excessive assignments, or financial reasons. These can function as catalysts for most employees leaving due to various factors driving turnover such as reduced job satisfaction, tense work environments, and better job opportunities elsewhere (Asri & Gunawan, 2021).

Based on a literature review by Diwakar Singh (2019), there are 9 retention strategies that are the latest trends, including: 1) employee voice; 2) communication; 3) compensation; 4) leadership; 5) career development; 6) training and development; 7) work flexibility; 8) job satisfaction; and 9) performance appraisal. Here are the factors influencing employee retention in startup companies in the technology sector.

### **Employee Engagement**

The main factor for the success of employee retention strategies is employee engagement. Employee engagement is key to maintaining employee loyalty. Companies with high loyalty will reduce employees' desire to leave the company (Savitri et al., 2022). High employee engagement can encourage employees to take responsibility for their financial well-being because they feel connected to the company. With good financial literacy, employees can understand and manage their salaries more effectively, increasing ownership and involvement in the company. Investing in financial literacy can also increase productivity and job satisfaction because employees feel more confident in managing personal finances and working with greater focus (Baker et al., 2019).

### **Communication**

Generational diversity within organizations has a significant impact on communication patterns within the company. Each generation brings with them unique backgrounds, different communication preferences, and distinct communication styles. The importance of a deep understanding of this diversity in the context of organizational communication has been recognized. Different generations have different preferences in the use of technology and communication methods, so communication can affect employee retention. Providing an environment that supports each generation's communication style can help organizations retain valuable employees (Nursyifa & Suben, 2024).

### **Compensation**

Providing appropriate compensation will have a positive influence on the company's continuity in the future. Employees who feel adequately compensated will work more diligently, and the company's goals will be achieved successfully (Goyal & Kumar, 2021). Obtaining compensation will increase employee retention. If employees feel that the compensation they receive is inadequate and unfair, their intention to stay long-term will decrease (Violetta & Edalmen, 2020).

### **Leadership**

Servant leadership supports empowerment, development, interpersonal acceptance, and employee courage. Leader support is an indirect factor in employee retention. Leaders support employees' career success and directly or indirectly influence employee career success and retention one year later (Kanchana & Jayathilaka, 2023).

### **Career Development**

Aspects related to employee career development include job performance, exposure, networking, resignations, organizational loyalty, mentors and sponsors, key subordinate roles, growth opportunities, and experience (Pradipta & Suwandana, 2019).

### **Training and Development**

Training and development are essential aspects of human resources, helping employees improve their quality and being an important part of employee retention programs. Training is needed to face changes in an increasingly competitive work environment. Training is the process of improving employees' skills and knowledge to perform specific tasks. The purpose of development is to prepare employees to continue working in their sector as organizations change and evolve. Training and development are important factors in obtaining job satisfaction. Through training and development programs, employees may feel satisfied with their work because there is time for them to develop better in the workplace. Employees will certainly feel satisfied learning new things compared to doing monotonous work every day (Mon, n.d.).

### **Work Flexibility**

Work flexibility is a benefit shared between employers and employees. Work flexibility can help employees reduce work and family stress, and increase job satisfaction by improving the work-life balance. The concept of flexibility has different meanings for companies and employees, where flexibility can be in terms of working hours, work location, and work patterns. Implementing flexible working hours can provide a broader allocation of time for personal work needs (Indrawaty, 2022).

### **Job Satisfaction**

Job satisfaction variables are one of the important components of employee retention in achieving the success of an organization, where job satisfaction can be achieved by making employees feel physically and psychologically comfortable.



Job satisfaction is supported by salary, promotions, supervision, additional compensation, contingent rewards, operating procedures, coworkers, job nature, and communication. Job satisfaction can be defined as an employee's emotional state toward their work (Yani & Saputra, 2023). Personal satisfaction, individual achievement, and long-term personal goal realization are satisfaction factors that increase employee retention.

### **Performance Appraisal**

In human resource management (HRM), there is an important component to measure employee performance, namely the performance appraisal system. The performance appraisal system is often described as a formal process used by organizations to evaluate and measure individual or team performance in achieving organizational goals. Each organization adjusts and develops its own performance appraisal system according to the needs and context of the organization. The implementation of a fair, transparent performance appraisal system with adequate feedback can help reduce turnover intention rates. In organizations, turnover intention can increase due to unfair and subjective performance appraisal systems and lack of support for development (Retnowati & Putra, 2023).

Factors affecting employee retention in startup companies in the information technology sector are crucial because valuable and competent employees are the main assets in creating and maintaining a company's competitive advantage. Retention strategies such as employee engagement, effective communication, fair compensation, supportive leadership, career development, training and development, work flexibility, job satisfaction, and performance appraisal are important steps that startup companies should consider to keep employees committed and contribute maximally to achieving company goals.

## **CONCLUSION**

Factors influencing employee retention in startup companies in the information technology sector are highly important. This is because valuable and competent employees are considered the main assets in creating and maintaining the company's competitive advantage. Some factors affecting employee retention include the level of employee engagement, the quality of communication among team members and management, fair and competitive compensation systems, adequate leadership quality, clear career development opportunities, quality training and development programs, work flexibility, job satisfaction levels, and objective and transparent performance evaluations. Based on these factors, companies can take appropriate strategic steps to retain quality employees and enhance overall organizational productivity and performance.

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