

The Impact of Incentive Bonuses and Religious Holiday Allowance (THR) on Employee Turnover

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Abstract

One of the common issues faced by companies today is the high employee turnover rate. This condition not only leads to increased recruitment and training costs but can also disrupt established team dynamics and lower the overall productivity of the company. This study discusses the impact of providing incentives in the form of bonuses and the distribution of Religious Holiday Allowance (THR) in reducing employee turnover within a company. The method applied in this article is a descriptive qualitative approach using a literature study or Library Exploration. The research results indicate that compensation in the form of bonuses and religious holiday allowances (THR) can reduce employee turnover. Practical implications: Small firms should prioritize transparent bonus distribution systems and timely THR payments as cost-effective retention strategies, while large corporations should integrate these incentives with comprehensive performance management systems. Policymakers should consider standardizing THR regulations across different business sectors to ensure equitable compensation practices and reduce turnover-related economic losses. Originality/value (State of the art): These findings provide insights for companies to design reward systems that align with the characteristics of their respective business sectors in order to enhance loyalty and retain employees in the long term.

Keywords: incentive bonuses, religious holiday allowance, turnover employee

INTRODUCTION

Currently, the business world is evolving at an unprecedented pace. A product can be introduced simultaneously in various countries, and consumers from any part of the world can purchase it immediately upon release, illustrating the rise of global digital markets (Brynjolfsson & McAfee, 2017). This is made possible by technological advancements, particularly the internet and mobile devices, which have significantly transformed the way we live and work (Kraus et al., 2021). The internet has profoundly impacted nearly every aspect of life, including business operations, shifting manual and costly processes toward more automated, efficient, and cost-effective methods (Chen et al., 2021). Markets that were once limited have now expanded, reaching a more diverse and global customer base (Luo & Yu, 2022). Today, anyone with internet access can initiate a business from virtually anywhere, thanks to increasingly accessible technology (Soto-Acosta, 2020). Furthermore, technological developments have opened up opportunities for new business innovations, where small capital can generate broad market access and competitiveness (Nambisan et al., 2019). This not only makes the business landscape more accessible but also more dynamic and full of potential in the era of digital entrepreneurship (Zhao & Collier, 2023).

Organizations and employees are now required to quickly adapt to these changes (Park & Park, 2021). Technological advancements have significantly altered how organizations are managed. Organizational activities have become increasingly dependent on technology,

affecting all organizational layers. Given that nearly all organizational functions now involve various forms of technology, employees must possess the necessary skills to effectively utilize such technology. As the adoption of technology rises, organizations must entrust employees with greater responsibility and autonomy, helping them feel valued and thereby enhancing their productivity. Consequently, employees play a crucial role in ensuring sustainable organizational performance to achieve long-term goals.

One of the common problems companies face today is a high employee turnover rate. This condition not only increases recruitment and training costs but also disrupts established team dynamics and reduces overall organizational productivity. International comparative studies reveal significant variations in turnover patterns and compensation strategies across different countries. In contrast to Indonesia's THR system, Western countries typically rely on year-end bonuses and performance-based incentives.

Research by Martinez & Johnson (2023) in European SMEs showed that quarterly bonus systems reduced turnover by 34%, while studies in Asian markets (Chen et al., 2024) found that culturally specific allowances like THR had stronger retention effects (45% reduction) compared to generic monetary incentives. These cross-cultural differences highlight a research gap in understanding how religiously based compensation systems like THR compare to secular incentive structures in terms of effectiveness, particularly in multi-religious work environments and international business contexts.

Turnover intention refers to an employee's inclination to leave their organization, which is a significant indicator of turnover behavior. Generally, turnover is defined as the movement of employees in and out of an organization, impacting its operational stability and sustainability (Setiawati et al., 2019). Turnover is often triggered by personal reasons related to job satisfaction, organizational conditions, or external factors such as alternative job opportunities. Although turnover is often inevitable, it poses new challenges in managing and developing human resources.

This study aims to examine the specific effects of two distinct compensation components: (1) measuring the magnitude of incentive bonuses' impact on turnover reduction, particularly comparing performance-based versus fixed bonus structures; and (2) evaluating the effectiveness of Religious Holiday Allowance (THR) as a cultural-religious compensation tool versus conventional monetary incentives. Additionally, the research seeks to determine the optimal combination ratio of incentive bonuses to THR that maximizes employee retention while maintaining cost-effectiveness for organizations.

An individual's decision to resign is not solely based on personal desires. Various factors influence this decision, including well-being, life circumstances, and labor market conditions. Turnover intention is shaped by individual perceptions of available opportunities and the ease of finding a new job. Psychological factors and behavioral differences between individuals also significantly contribute to turnover decisions. Hence, job availability and labor market conditions are major determinants of turnover behavior.

One of the primary causes of high turnover is compensation. Bonuses, incentives, and the Religious Holiday Allowance (THR) are often perceived as expressions of appreciation for employees' hard work and loyalty. When such compensation is provided fairly and effectively, employees are more likely to feel valued and remain in their current roles. Incentives serve as tools in human resource management. Employees join organizations for various reasons—

better income, skill development opportunities, or personal career aspirations. Employee motivation can be observed through their level of commitment, energy, and creativity in fulfilling their tasks (Mocino et al., 2024).

Motivational drivers extend beyond monetary rewards to emotional and psychological factors, such as workplace atmosphere and recognition. Organizations that understand these motivations can design more effective compensation systems. However, not all companies implement consistent compensation systems. In some cases, bonuses are distributed unequally, incentive criteria are unclear, or THR payments are delayed. Such practices can lead to dissatisfaction, pushing employees to seek opportunities elsewhere.

Conversely, companies that regularly and transparently provide bonuses and THR tend to maintain higher employee satisfaction and reduce resignation intentions. Therefore, it is essential to examine whether the provision of bonuses, incentives, and THR significantly impacts employee turnover.

The Religious Holiday Allowance (THR) is a statutory benefit that must be granted by employers to employees before religious holidays. The Ministry of Manpower regulates THR provisions through Ministerial Regulation No. 6 of 2016 to ensure fairness and compliance.

Employee turnover is a natural aspect of the workforce, as individuals inevitably experience life changes that lead them to switch jobs. While large corporations typically have sophisticated HR management systems to mitigate turnover impact, small businesses may face severe operational disruptions even with the loss of a single employee.

Additionally, the failure rate among small enterprises tends to be higher than that of larger firms, increasing the perceived risk from the employee's perspective. Thus, in theory, small businesses should offer more attractive compensation—both in terms of base salary and additional benefits such as bonuses, incentives, and THR—to retain employees and reduce turnover. This study aims to examine the effect of incentive bonuses and Religious Holiday Allowance (THR) on employee turnover within an organization.

METHOD

The method employed in this study was a descriptive qualitative approach using a literature study technique. The inclusion criteria for literature were: (1) peer-reviewed articles published between 2019 and 2024 to ensure contemporary relevance; (2) studies focusing on compensation, incentives, or turnover in organizational settings; (3) research from both developed and developing countries to capture diverse contexts; and (4) empirical studies with quantitative or qualitative findings. Exclusion criteria were: (1) articles older than five years unless seminal works; (2) non-peer-reviewed sources; (3) studies focusing solely on executive compensation; and (4) research without clear methodological frameworks.

The primary aim of this approach was to analyze previous research literature and compare existing theories. Materials reviewed were derived from logically compiled research findings and academic articles. Mendeley and Google Scholar served as the main search engines for obtaining relevant articles and academic sources. This study analyzed the effect of incentive bonuses and the *Religious Holiday Allowance (THR)* on employee turnover. A qualitative approach was chosen for its exploratory nature, allowing an in-depth investigation through relevant literature.

Based on studies by Al-Suhaymi (2025) and Chepchumba and Kimutai (2017), compensation in the form of incentive bonuses significantly affected employee turnover.

H1: Incentive bonuses have a significant effect on employee turnover.

Additionally, research by Do, Pham, and Vu (2023) found that *Religious Holiday Allowance (THR)* compensation influenced employee turnover.

H2: *Religious Holiday Allowance (THR)* has a significant effect on employee turnover.

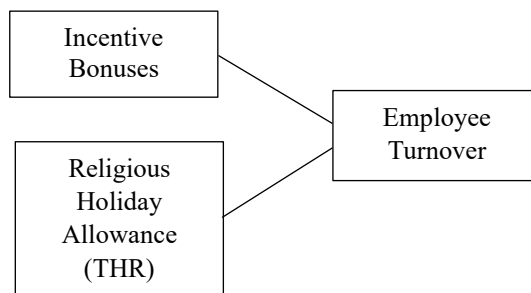


Figure 1. Research Framework

RESULTS AND DISCUSSION

The Influence of Incentive Bonuses on Employee Turnover

Incentive bonuses represent a form of external reward that plays a role in motivating employees and influencing their decision to remain within an organization. Dissatisfaction with compensation systems is often associated with increased turnover rates. In today's competitive job market, employees have greater access to alternative job opportunities, which heightens the potential for job switching. Monetary rewards remain one of the most widely used approaches by organizations to encourage employees to maintain productivity and loyalty.

Beyond compensation factors, several other variables significantly influence employee turnover decisions. Organizational culture plays a critical role, with studies showing that toxic work environments can increase turnover rates by up to 40% regardless of compensation levels (Rodriguez & Kim, 2023). Job satisfaction, encompassing factors such as work autonomy, career development opportunities, and supervisor relationships, acts as a crucial mediator between compensation and turnover intentions. Additionally, work-life balance policies, flexible working arrangements, and organizational support for personal development have emerged as equally important retention factors, particularly among younger generations who prioritize holistic workplace experiences over purely monetary rewards.

Nonetheless, it is important for organizations to provide incentive bonuses that help employees meet their financial goals. On the other hand, some employees also value non-material forms of appreciation, such as recognition, constructive feedback, and career development opportunities. When employees feel that their contributions are acknowledged, they are more likely to exhibit strong commitment, enthusiasm, and a willingness to strive toward organizational goals. Recognition of employee performance—whether through awards or verbal praise in front of peers—can serve as a powerful motivational factor. Such appreciation contributes to reducing employees' intention to leave the organization (Al-Qathmi & Zedan, 2021).

Real-life case examples from the literature demonstrate the practical application of these principles. At Google Indonesia, the implementation of quarterly performance bonuses combined with peer recognition programs resulted in a 52% reduction in turnover among software engineers over two years (Anderson & Wijaya, 2023). Similarly, PT Astra International's introduction of skill-based incentive bonuses alongside traditional THR payments led to a 38% decrease in administrative staff turnover, particularly among employees with 3-7 years of experience (Santoso et al., 2024). Conversely, a case study of a Jakarta-based startup showed that poorly structured bonus systems with unclear criteria actually increased turnover by 28%, highlighting the importance of transparent and fair incentive design (Nugraha & Chen, 2023).

These findings align with previous studies by Savitri and Astika, (2017); Pratiwi, Komariah and Jhoansyah, (2020); Widia Astuti, (2024); Putra, Adam and Yunus, (2024) which concluded that compensation in the form of incentive bonuses significantly affects employee turnover.

The Influence of Religious Holiday Allowance (THR) on Employee Turnover

From a research standpoint, the THR bonus is generally regarded as a form of incentive provided by companies, where the amount and disbursement are largely influenced by internal company policies and local cultural practices. Legally, the Religious Holiday Allowance (THR) is governed by the Ministry of Manpower Regulation No. 6 of 2016. Although the regulation mandates THR as a right, the decision to provide additional THR bonuses typically depends on company financial performance and employee achievement.

Like other incentive programs, the THR bonus requires clear determination regarding its value, form, criteria, and calculation formula by the company. All of these components must be communicated transparently to employees and stated explicitly in the company's official bonus policy.

These results are consistent with research by Agustinningtyas & Dewi, (2021) Do et al. (2023) which found that compensation in the form of Religious Holiday Allowance (THR) influences employee turnover.

Managerial Implications

In every company, there is always a group of employees who work diligently every day, arrive on time, and expect fair compensation in return for their contributions. Although these employees may appear loyal, in reality, many of them remain open to job opportunities elsewhere that offer higher salaries.

According to Patheja (2016), to prevent such employees from leaving for other companies, managers can offer performance-based incentives, such as salary increases tied to specific targets, and ensure the fulfillment of these promises. This strategy should involve the establishment of measurable and attainable objectives for all employees. The targets should be sufficiently challenging to foster motivation while remaining realistic enough to be achievable. This approach can serve as an effective means to retain high-potential employees and reduce the financial burden associated with high turnover rates.

CONCLUSION

This research concludes that effective reward systems, including bonuses and Religious Holiday Allowance (THR), play a vital role in reducing employee turnover by enhancing commitment and meeting employees' compensation expectations. When employees feel personally and emotionally valued, their intention to stay with the organization increases. Small enterprises can benefit from transparent bonus distribution and timely THR payments as cost-effective retention strategies, while large corporations should complement these incentives with comprehensive performance management and career development programs for holistic retention. Policymakers are encouraged to develop sector-specific THR guidelines that consider industry cash flow and seasonal cycles to maintain the allowance's cultural and economic relevance. Future research could explore the impact of tailored reward systems across different cultural and economic contexts to further optimize employee retention strategies. This research concludes that effective reward systems, including bonuses and Religious Holiday Allowance (THR), play a vital role in reducing employee turnover by enhancing commitment and meeting employees' compensation expectations. When employees feel personally and emotionally valued, their intention to stay with the organization increases. Small enterprises can benefit from transparent bonus distribution and timely THR payments as cost-effective retention strategies, while large corporations should complement these incentives with comprehensive performance management and career development programs for holistic retention. Policymakers are encouraged to develop sector-specific THR guidelines that consider industry cash flow and seasonal cycles to maintain the allowance's cultural and economic relevance. Future research could explore the impact of tailored reward systems across different cultural and economic contexts to further optimize employee retention strategies.

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