

# The Influence of HR Practices on Retention of Employees: Evidence from Literature Review

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## Abstract

Employee retention is a critical aspect for every company regarding competitive advantage because human resource is the most critical asset of today's modern world. Other resources can be arranged effortlessly but to get efficient and retain talented human capital is the most difficult task. Therefore, organizations are now more focused towards employee retention. Organizations use different HR techniques for retention. It is the most imperative target for the organization, because a huge amount is spent on the orientation and training of the new employees. In fact, literature on employee retention shows that wooing existing employees through employee development or talent management programmes costs less than acquiring new talents, while the initial cost of attracting the new employees has already been expended. So the need is to focus on the factors that affect retention which in turn leads to growth and success of organizations. Studies suggests that retention strategies, which effectively satisfy the needs of all employees consequently enhances the ability for companies to adapt more effectively to ongoing organizational change. Keeping this in mind, the literature has been reviewed. This paper describes the relationship between human resource practices and employees retention in organizations. The main purpose is to identify elements of HR practices that influence employee retention.

**Keywords:** Employee Retention, Retention Strategies, Employee Development, Organizational Productivity.

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## Introduction

With globalization, the competition among the organizations has increased as there are many new players in the emerging world market. Keeping employees or retaining employees within the organization is a difficult task. Generally, organization would retain their employees for a specified period to utilize their skills and competencies to complete certain projects or execute tasks. But on the other hand, retaining the desirable employees is beneficial to an organization in gaining competitive advantage that cannot be substituted by other competitors in terms of producing high morale and satisfied co-workers who will provide better customer service and enhanced productivity.

An effective human resource management practices can be the main factor for the success of a firm Stavrou-

Costea (2005). As supported by Lee and Lee (2007) HRM practices affects business performance, namely training and development, teamwork, compensation/incentive, HR planning, performance appraisal, and employee security help improve firms' business performance including employee's productivity, product quality and firm's flexibility.

Previous researches show that employers use different techniques for the retention of employees such as training, work environment, compensation, etc. Labour shortage is a major concern for an organization, and an organization's main aim is to retain the employees, specially talented employees (Moncarz et al., 2008; Deckop et al., 2006), and these researches also proved that these variables greatly affect retention. The afore-mentioned variables are very useful regarding the employee's satisfaction which augments their commitment with the organization; as a result, the productivity increases. Most researchers use these variables like working environment, training and development, and compensation to observe their effect separately, on how working environment affect employee turnover, how employee can be retained

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through training and development, and what are the impacts of compensation (Deckop et al., 2006; Acton and Golden 2003) The main aim of the study is to review the literature related to HR practices and the retention of employees in an organization

## Defining Retention

Different definitions have been stated in a literature. According to Lockwood (2006) retaining is the implementation of integrated strategies or systems designed to increase workplace productivity by developing improved processes for attracting, developing, retaining, and utilizing people with the required skills and aptitude to meet current and future business needs.

Zineldin (2000) defined retention as “an obligation to continue to do business or exchange with a particular company on an on-going basis”. Another definition for the concept of retention is “customer liking, identification, commitment, trust, readiness to recommend, and repurchase intentions, with the first four being emotional-cognitive retention constructs, and the last two being behavioural intentions” (Stauss et al., 2001). According to Walker and Miler retention is a term given to keeping employees jumping from ship (2010).

## Compensation

The literature considered that compensation is one of the largest factors for the retention of employees. Compensation plays significant role in attracting and retaining good employees specially those employees who gives outstanding performance or unique skill which is indispensable to the organization because company invest large amounts on their training and orientation.

Different people interpret compensation differently. Compensation is defined by an American association as “cash and non-cash remuneration provided by the employer for services rendered” (ACA, p. 9). In the organization’s point of view, compensation and benefits is one of the best initiatives which a company can take to retain employees.

Compensation is a very valuable tool for retention and turnover. It is also a motivator for an employee to

be committed to the organization, which in result enhances attraction and retention (Zobal, 1998; Moncarz et al., 2009; Chiu et al., 2002). The important components of compensation are based on salary, merit pays, discretionary rewards or bonuses, which attract best employees (Chiu et al., 2002). The compensation and reward system also increases employee performance (Deckop et al., 2006; Moncarz et al., 2009; Zsidisin et al., 2003). The financial and non-financial compensation are given to employees for accomplishment of desired goals against their behaviour. Reward can be spontaneous and formal, even though pay for performance is the form of reward which is given based on performance (Zobal, 1998).

It is used to attract the potential candidates, because applicants want to be aware of it, while applying for vacancy (Kuhun, 2009; Zobal, 1998; Chiu et al., 2002; Moncarz et al., 2009;). Those organizations which have a high-wage system will have better recruitment and retention of employees as compared to others. Efficient wage system influences the employees for longer retention, because if an employee gets better reward internally, he would like to stay until his self-interest is fulfilled there. Recognizing an employee is less expensive and is a very effective tool for the retention of employees. If an employee feels he is given recognition by his organization, it will boost his morale and encourage positive behaviour towards work. This will encourage an employee to do his work willingly and

Williams et al. (2007) found that if employees are satisfied with how the company operates and communicates its compensation policies, they remained committed to the organization. Also an organization’s reward system can affect the performance of the employee and their desire to remain employed (e.g., Bamberger & Meshoulam, 2000, MacDuffie, 1995). There are also numbers of researchers demonstrate that there is a great deal of inter-individual difference in understanding the significance of financial rewards for employee retention (Pfeffer, 1998; Woodruffe, 1999).

## Training

According to Goldstein (1980) and Latham (1988), training is defined as the systematic acquisition and

development of the knowledge, skills, and attitudes required by employees to adequately perform an assigned job or task to boost performance in the job environment. Training imparts new knowledge and skills only if it meet employee and organizational needs and efficiently and effectively designed and delivered (Salas, 1999).

Sahinidis, 2008, has defined Training “as the planned intervention that is designed to enhance the determinants of individual job performance”

Storey and Sisson (1993), recommend that training is sign of organization commitment to employees. It also reflects organization strategy that is based on value adding rather than cost lowering. Leading firms of the industry recognize that comprehensive range of training, skill and career development is the key factor of attraction and retention the form of flexible, sophisticated and technological employees that firms strategy to succeed in the computerized economy (Bassi and Van Buren, 1999; Accenture, 2001)

It is a key retention factor for employees at any age. According to Gomez et al, (1995), training provides specialized technique and skills to employee and also helps to rectify deficiencies in employee performance. Bishop (1998), survey on training found that established, larger, manufacturing and unionized firms have tend to provide training to employee as did multi established firms with flexible production approach or high performance.

Eisen(2005) states that training programs available to all employees correlate with a 70% increase in employee retention rates. Research indicates training methods that engage workers with career challenges, advancement opportunities, work incentives, competitive wages/benefits ,and supportive work environments are effective retention strategies for employees of any age (Eisen, 2005). Research provided by Berryman & Vaughan (1989) and McIntosh (2001) indicated relationship between enhanced training foundations (competencies, efficiencies, and intelligence) and advanced development of best practices, cross training, mentoring, and technology changes for all employees. Training benefits (tangible or intangible) correlate with higher levels of consistency, competency, productivity, adaptability,

independence, and loyalty in employees at any age (Agrela,et al.,2008; Boomer Authority,2009; Yazinski,2009)

## **Employee Empowerment**

Empowerment is defined as delegating the power of decision and action to the employees and giving more responsibility and authority to complete their task (Dr.Yasar F. Jarrar& Professor Mohamed Zairi, 2010). It means that employees have sufficient authority to determine how they perform their tasks. It also includes involvement of employee in goal-setting, decision-making and motivational techniques and enabling employees to work in a participative environment (Osborne, 2002). It is identified as powerful drive in organization’s success (Kaye & Jordan-Evans, 2001). It is because of it employees gets more motivated and committed to organizational operation.

Empowered employees tend to be more confident and try to give their best to employer because they are given more authority in decision-making process (HummayounNaeem and Muhammad IqbalSaif, 2010). Employee empowerment can create a feeling of obligation among employees to stay in organization. Hence, the employees will tend to remain in the organization even when face pressure from others to leave the organization because they feel that they are a part of the organization (Choong, Wong and Lau, 2011).

## **Recruiting**

According to Banjoko (2003), employee recruitment is the process of reaching out, searching for and attracting a large supply of people or a large pool of interested applicants from which the organization can choose those it considers competent or most qualified for the job.

The effort to retain the best personnel starts with recruiting. Employers must be honest with the recruit about the beliefs, expectations, organizational culture, demands, and opportunities within the organization. By doing so, a department will attract those who will be content working within the culture (Marx, 1995). Denton (1992, p.47) follows this up by stating that,

“the better the match between recruits and the organization the more likely you are to retain them.” The employer must be candid about the working conditions, responsibilities, opportunities and other details to reduce the chances of making hiring mistakes. Taylor and Cosenza (1997) strengthen this thought by noting that it is imperative that companies give prospective employees a true picture of the organization, if they hope to match the personality type with the climate and culture of the organization.

Taylor and Cosenza (1997) also agrees that it is important that companies give prospective employees a true picture of the organization, if they hope to match the personality type with the climate and culture of the organization.

Studies have shown that the human resource is the most valuable asset in any organization (Adebayo, 2001; Ejiofor and Mbachu, 2001; Olowu and Adamolekun, 2005). The human factor is therefore fundamental to the achievement of organizational goals. As a result, the need to put in place appropriate strategy for employee recruitment of organizational workforce cannot be overemphasized.

### **Working Environment**

A numbers of studies have been conducted to explain the work environment with different aspects such as job satisfaction (Iaffaldano & Muchinsky, 1985) and employee retention (Martin 1979), employee turnover, organizational commitment and job involvement (Sjoberg & Sverke 2000). Work environment is considered one of the most important factors in employee s retention (Zeytinoglu & Denton, 2005). According to Ramlall, (2003), people strive to work and to stay in those corporation that provide good and positive work environment, where employee feel that they are valued and making difference.

It enhances the employee capability and commitment with the organization. It is a vital concept in employee retention. Researchers give monumental importance to the working environment, and without good working environment, keeping human capital becomes a problem for the organization (Edvardsson and Gustavsson, 2003; Bloemer and Schroder, 2006; Ensor et al., 2006; Deckop et al., 2006; Moncarz et

al., 2009; Deery, 2008; McGuire, 2008). Work environment can be more effective than compensation in employee retention, because if an employee is more satisfied and committed, and if he has a positive experience of the working environment, he would likely stay longer with his current employer (Moncarz et al., 2009). An employee will be committed if he has a positive perception about his organization; by that means, he must be appreciated for demonstrating persuasive skills. This appreciation will encourage him to do his best and stay longer, because these kinds of HR practices are a good source of employee development (Deckop et al., 2006).

Those organizations which keep the working environment relaxed, so that employees can enjoy their work and see it as fun and not stress, will have employees’ retention, because as much as they are relaxed, their efficiency will increase. . If the work place is flexible and organizations treat employees as human beings “and not machines”, and if organizations provide them proper opportunity to balance their working life and personal life, and do not overload them with work that create stress for them, the employees will be motivated to stay longer (Moncarz et al., 2009; Richman et al., 2008). If an employee has a good relationship with peers, it will create a productive environment, enhance his capabilities and increase his retention of information. Peers share their work with each other, and this enhances their knowledge and skills. On the other hand, a relaxed environment will keep the employee intact with the organization for a longer period (Cromwell, 2004).

### **Career Development**

Employers can no longer promise job security, but they can help people maintain the skills they need to remain viable in the jobmarket (Moses, 1999). Eyster, et al. (2008) state that job flexibility along with embracing career and lifeoptions, is a critical incentive for all employees. Research shows growing trends of employers providing greater job flexibility that includes flexible career options (i.e. training, mentoring, work station accommodations, job mobility, and reduced work hours) and life options (i.e. counseling services, health and wellness programs) (Boomer Authority, 2009;

Eyster, et al., 2008). The challenge to organizations is that they must accept that this process may lead some employees to leave the company and pursue outside opportunities (O'Herron and Simonsen, 1995).

The purpose of career planning as part of an employee development program is not only to help employees feel like that their employers are investing in them, but also help people manage the many aspects of their lives and deal with the fact that there is not a clear promotion track.

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## Conclusion

Review of the literature confirms the effect of HR practices on the employee's retention in an organization. It is found that Compensation, reward, employee empowerment, career development and recognition plays a key role in employee's motivation which further leads to employee's retention in the organization. Similarly Training and career development are also considered to be motivating factor which leads to retention and career development of an employee in an organisation.

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