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Do Human Resource Management Practices Inspire Employees’ Retention?

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Abstract: This study examines the relationship between the human resource management practices implemented by the organization and employees’ motivated intention to stay and work effectively for the organization. Human resource management practices deployed in study are training and Development, development of teams, performance appraisal, internal communication system, employment security, person-organization fit, employee empowerment and reward and compensation. Four hundred questionnaires were distributed among the middle management cadre employees of textile industry, out of which, 303 questionnaires completed in all respects were received back with a response rate of 75.75%. It is explored that four human resource management practices: person-organization fit, employment security, communication and training and development are contributing strongly (adjusted $R^2 = 0.782$) in developing the employees’ intentions to stay with organization. Further, strong positive inter-relationships were found between human resource management practices and employees’ retention. It is concluded that adoption of human resource management practices enhances employees’ retain ability of organizations.

Keywords: Empowerment and reward and compensation, internal communication system, performance appraisal, person-organization fit

INTRODUCTION

To ensure that HRM system is working effectively and it is contributing for the improvement and execution of the corporate strategy, the firm should make sure that its HRM system is best fit with its internal and external environment, the so-called the ‘best-fit approach’ (Shen, 2005). In the research of HRM, it is demonstrated that there are different characteristics of HRM like high-performance HRM, high-involvement HRM, family-friendly HRM, which influence the behaviors and outcomes of employees in different ways (Bowen and Ostroff, 2004; Nishii et al., 2008; Pare and Tremblay, 2007). It has been mentioned by Laka-Mathebula (2004) that for the development and best utilization of human potential, HRM attaches importance to the motivation which is an aspect of organizational practices.

It is noted that the culture of a company can be reflected by HRM practices (Schmelter et al., 2010). Defining the boundary of HRM practices are considered as the significant object. There are five major areas in which HRM practices are defined by Horsnby and Kuratko (2003) and the areas are the recruiting and selection, job analysis and description, training and performance appraisal and compensation. According to Huselid (1995) HRM practices are defined in terms of compensation and performance management systems, employee recruitment and selection procedures, employee training and employee involvement. In the views of Jeffrey and Donald (2003), HRM practices are the recruitment, job analysis, selection, training, compensation, incentive, benefits and performance appraisal.

In the study which was conducted for examining the antecedents of job satisfaction by Frincke et al. (2007), it is concluded that the three factors, the employees consider important for their job satisfaction are the HRM practices. These three HRM practices are the benefits, compensation/pay and schedule flexibility. Some researchers have suggested that corporate performance can also be enhanced through HRM practices which give benefits not only to the individual but also to the organization on the whole (Byrne et al., 2010). In order to recruit the highly competent and growing the level of employee retention, HRM practices are being used (Byrne et al., 2010).

After reviewing literature in depth, following HRM practices are selected for this study:

- Training and Development
- Development of Teams
- Performance Appraisal
- Internal Communication System
- Employment Security
- Person-Organization Fit
- Employee Empowerment
- Reward and Compensation

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Training and development: According to Sari (2009), the purpose of organizing training programs for employees is to teach the employees about the company specifics, educate them general rules, to provide them technical knowledge which is considered important to complete the job task effectively and to eradicate the probable imperfections at work. The topic of employee training in organizations is instigated from the thought of human resource development (Juang et al., 2007).

According to Sari (2009), the training programs are conducted to make the outcomes of employees better and to help the employees in keeping their health safe. The function of a regular training program is to enhance the skills, knowledge and performance of employees along with securing their physical and mental fitness. To make sure the better usage of human resources and to operate the organization in a better way, training programs can be used to enhance the working capacities and personal abilities of employees and results of training program can be increased if its syllabus is prepared and designed properly (Juang et al., 2007).

Chew (2004) has suggested in the findings of his research that larger employers, organizations having systems of high performance, having fast technical development and production growth and having large capital can train their employees more than other organizations. Consistent with this view, Chew (2004) has also indicated that the establishments which give more benefits and implement inventive work practices conduct more training programs for their employees with respect to other organizations.

It is found by the researchers that training and employee turnover are inversely correlated with each other. When there is a high rate of turnover then there is low rate of training programs provided. This view is based on the reason that if an employee stays with an organization for long time then it is the result of high rate of trainings. In the study conducted by Chew (2004), it is pointed out that the employees in the organizations having low-turnover rate spent 59% of their total time allocated for training in formal training while employees in the organizations having high-turnover rate spent only 18% of their total time for training.

Development of teams: The concept of team is defined as “the social systems of two or more people that are embedded in organizations, whose members perceive themselves as such and are perceived as members by others and who collaborate on a common task” (Hoegl, 2005).

The theory of teamwork holds with it a set of principles that support listening and reacting positively to ideas uttered by others, providing others the advantage of the doubt, giving support, knowing and respecting the well beings and attainments of others (Katzenbach and Smith, 1993). These kinds of values are given importance because they enhance the individual employee performance, which makes better the performance of a team, the team become in a position of executing in a better way and excellent team performance increase the performance of the organization.

It revealed by the researchers in their quantitative and conceptual studies that only task related components (integration and cooperation) are not included in the team processes but team processes also consist of social components like drive, enthusiasm and commitment (Hoegl and Gemuenden, 2001; Sethi and Nicholson, 2001). Hoegl (2005) has described the characteristic of good quality teamwork. In this teamwork, members are allowed to communicate work relevant information, to manage their individual actions, to share their knowledge with other team members, to help each other in personal job task as well as in team discussion, to set up and preserve the norms of work with good efforts, to promote a sufficient level of team constancy and members of team uphold the team group.

Performance appraisal: In the literature of HRM consequences of performance appraisal systems on employee satisfaction (or dissatisfaction) has been well recognized (Boswell and Boudreau, 2000; Pettijohn et al., 2001). It is indicated by the Grote (2002) that the two terms “performance appraisal” and “performance evaluation” are used interchangeably in the research studies and also stated that “performance appraisals are a systematic way of evaluating the standard of a worker’s performance”.

It is stated by Gomer-Mejia et al. (2004) that for “promotion”, “termination” and “rewarding” the employees which are the conditions of employee’s work, the performance appraisal system can be used. Some organizations implement performance appraisal in a vigilant way, because many managers and researchers have indicated that discouragement will occur to workplace and productive rate will also become low due to performance appraisal system and suggested that it should be removed from practices (Williams, 1997).

Internal communication system: Researchers have defined the communication as the “process through which knowledge and information is shared between team members (MacMillan et al., 2004; Salas et al., 2008). Ideas of open and frank communication with the leaders can enhance the quality of leader-member exchange (Mueller and Lee, 2002; Yrle et al., 2003) and improve the individual performance (Dunegan et al., 2002; Michael et al., 2005).

The importance of open communication is highlighted by Chew (2004) in his study that there are various formal and informal communication methods.
which exists in the organizations, all these communication methods are implemented not only to develop an atmosphere of open conversation, information and mutual knowledge but also to develop trust in an efficient way in the vertical and horizontal structure. Due to the open communication system, the knowledge of employees is updated which encourage the employees to use their all efforts in obtaining the objectives of their organizations.

**Employment security:** According to Browne (2000), employment security means “job security via workforce stabilization and employment continuity policies”. In order to find out the job productivity of employees, the employment security is significant. If the employees are provided higher degree of job security, then they also show more commitment to the organization (Sang, 2005). If employees are given the employment security, then they can share their personal knowledge and ideas for improving the productivity. Employment security is necessary because the employees feel fear that if they elicit their personal knowledge for improving productivity then their own jobs can be put at risk (Milgrom and Roberts, 1993).

Smith (1999) has suggested that there are various methods for making the employees more loyal with the organization. The most significant technique to make the employees more loyal is providing the security of employment. The employers who set up a trustworthy promise with the employees that they cannot be dismissed from their organization, as a result employees will become more satisfied and would improve their productivity and accept the new job tasks happily according to the requirement of modern technology. On the other hand, if the employers do not provide the security of employment to their employees and dismiss any employee from the work then as a result they would not improve their productivity and also not cooperate with the organization (Smith, 1999).

**Recruitment and selection system (person-organization fit):** According to MacBeath et al. (2006), recruitment is defined as the process that aims to attract suitable applications from whom the most suitable person may be selected for a particular job while selection aims to choose the most suitable applicant to fill existing vacancies. Young (2008) has defined the selection process as “identifying viable applicants to fill vacant positions and to motivate these individuals, once identified, to seek employment with the organization”. Edwards (1991) has defined “person-job fit” as “matching people and jobs in terms of qualifications based on knowledge, skill, or ability and overlooking other personal characteristics of applicants that might be more suitable for the assessment of fit”. Yet, the organizations are now making use of new methods for selection, due to increase in the complication of work, which measure the capability of candidates to do the job. It is found in the research conducted on “person-job fit” that employees want to do those jobs whose levels of complexity match with their capabilities (Wilk and Sackett, 1996). Smith (1994) has indicated the importance of selection process that it does not only enhance the fit between employees and the nature of job but also improve the “personality fit” and “organization fit”.

**Employee empowerment:** The aim of employee empowerment is to produce enhanced individual and organizational performance and to assist employees in achieving certain personal objectives by allowing employees to contribute in the process of decision-making, locate and solve their problems and look over their own jobs (Seibert et al., 2004). It have been commonly found in numerous HRM studies which were typically carried out in the US and some other developed countries that empowerment programs endow employees with an encouraging job experience, an obvious sense of involvement and sovereignty in commencing and managing their actions, which in turn leads to improved employee satisfaction (Koberg et al., 1999; Laschinger et al., 2001; Seibert et al., 2004). Empowerment is also viewed as psychological aspect. It is the perceptual experience or mental attitude of employees towards their job and their responsibility in the organization (Chang and Liu, 2008).

**Reward and compensation:** The factors which frequently impact the employee satisfaction include the employee compensation system as a key factor (Britton et al., 1999; Carson et al., 1999). In a study conducted in the maquiladora industry, employee compensation is considered as a critical factor in finding out employee satisfaction. Jun et al. (2006), for example, argued that difference in wages between US and Mexican workers was the main cause of dissatisfaction among the workers of maquiladora. Mercer (2003) has mentioned in his research study that if the employees are the given the rewards then they will stay in the organization. When the efforts of employees are recognized and rewarded by the organizations, the employees, in turn, want to stay in the organization (Davies, 2001).

**Employee retention:** Today many organizations are increasing salaries and additional benefits of employees to fight back with employee retention (Gumbus and Johnson, 2003). Basically, several organizations nowadays are recognizing that retention is a tactical concern and helpful in achieving the competitive advantage (Walker, 2001; Youndt et al., 1996).

It is pointed out in the earlier research work conducted by Arthur (1994) and Shaw et al. (1998) that employee retention can be improved through
implementation of high-involvement work practices. It is also argued that more use of high-involvement practices at workplace will also enhance the cost of employee leaving. This argument is coherent with the resource-based view which suggests that by producing value in a rare and unique approach, organizations can accomplish sustainable competitive benefit (Barney, 1991).

Tang et al. (2000) have suggested that giving more money to employees affects the employee retention indirectly; more money has influence when employee has low job satisfaction. It is confirmed by some researchers that employee retention can be enhanced by giving chances to employees for learning and through effective training (Arnold, 2005; Herman, 2005). Birt et al. (2004) indicated that on the part of the manager involvement, empowerment, responsibility, new opportunities and challenges can be significant for employee retention. Along with these factors they suggested that experience and perceptions of employees also have the maximum impact on employee retention.

It is indicated by Kaliprasad (2006) that if there is a bad management then all the factors which were implemented by the company to improve employee retention cannot play their role and the employees still can decide to leave the organization.

To retain and win over the new creation of workers, the organizations are making their training models, work-life balance practices and growth opportunities more advance (Benest, 2008). Both employees and employers have come to expect the HR practices because of perceived success and extensive use of these practices in retention and recruitment of employees (Wallace, 2001). HRM practices have been used by the organizations for developing a brand image, like an ‘Employer of Choice’ which result in the retention, recruitment success and satisfaction of employees (Bowes, 2008; Miles and Mangold, 2004).

Now days, the organizations are competing with each other for achieving the employees of best talent (Porter, 2001). It is recognized by the organizations of new paradigm that motivating and retaining the employees of high talent is an important constituent in the practices of business management. Then, these high talent employees can survive in the organizational restructuring, consolidation, downsizing and re-engineering initiatives (Clarke, 2001). Some organizations are making extraordinary efforts for attracting and retaining high talent employees. More organizations have now realized that retention represents a competitive advantage and has become a strategic issue (Walker, 2001).

**HYPOTHESES**

Following hypotheses were formulated from the literature discussed above.

**Hypothesis 3 (a); Training and development practice is positively correlated with the retention of employees:** It is supposed that conducting the training programs in the organizations to provide the knowledge of work related new technology to the employees would increase the level of retention of employees.

**Hypothesis 3 (b); Teamwork practice is positively correlated with the retention of employees:** It is supposed that existence of Teamwork practice in the organization would increase the level of retention of employees by helping them in carrying out their jobs with the help of other team members in the form of support and suggestions stated by team members.

**Hypothesis 3 (c); performance appraisal system is positively correlated with the retention of employees:** It is supposed that when Performance Appraisal System is implemented in the organization, the employees become pleased that their efforts are now acknowledged and they will be given reward on their good efforts from their managers. So, performance appraisal would increase the level of retention of the employees.

**Hypothesis 3 (d); Improvement of internal communication system is positively correlated with the retention of employees:** It is supposed that when open communication system is implemented in the organization and employees are allowed to communicate openly with their colleagues, share their ideas with other members then it would increase the level of retention among employees.

**Hypothesis 3 (e); employment security system is positively correlated with the retention of employees:** It is supposed that when employees are given the security of employment that they cannot be dismissed from their organization and they can perform their job duties without any fear then that security of employment would increase the level of retention among employees.

**Hypothesis 3 (f); person-organization fit is positively correlated with the retention of employees:** It is supposed that if the values and personality of employees are congruent with the values and culture of the organization, employees are best fit with their jobs and there is mutual understanding among the employees and the organization, then employees have high level of retention.

**Hypothesis 3 (g); employee empowerment is positively correlated with the retention of employees:** It is supposed that if the employees are given empowerment by allowing them to contribute in the process of decision-making, to locate and solve their problems and look over their own jobs, then
employee empowerment would enhance the level of retention of employees.

**Hypothesis 3 (h): reward and compensation is positively correlated with the retention of employees:** It is supposed that if the employees are given the compensation and rewards and their efforts are recognized by the top management and the salary paid to the employees is sufficient and congruent with their job duties then reward and compensation would increase the level of retention of employees.

**METHODOLOGY**

The population targeted for this study was consisted of middle management level employees of textile industry across the central Punjab, Pakistan. All the textile mills were members of “All Pakistan Textiles Manufacturing Association” (APTMA). A sample size of 400 was selected randomly. Simple random sampling was used to select the sample units. This sampling technique gives the results which can be generalized and easily acceptable. Survey questionnaires attached with cover letter were distributed among the employees of the organizations taken as sampling units with the help of All Pakistan Textiles Mills Association (APTMA). To contact the employees personally in the organizations easily, an introductory letter was obtained from the office of APTMA, Lahore. Many follow-ups were made to enhance the response rate of survey; employees were reminded by visiting selected organizations and through telephone calls. Four hundred questionnaires were distributed among the participants out of which, 303 questionnaires completed in all respects were received back from the employees showing the response rate of 75.75 (76%). This response rate was enough to generalize the results in the studied sector.

Table 1 shows the demographic statistics, 91.4 % participant were male; most dominant age group among the participants was 25-30 years (43.2%). Further, 49.8% were serving at middle management level, followed by 43.2% of low management group.

**Correlation analysis:** To determine the interrelationship among the human resource management practices and the satisfaction, performance and retention of employees, correlation analysis is utilized. Results are stated with the Pearson’s coefficient of correlation (r) and the value of significance (p). The correlation analysis between the human resource management practices and retention of employees is utilized to test the hypotheses.

From Table 2, it is observed that employee’s retention is positively correlated with human resource management practices. High values of Pearson correlation co-efficient (r) ranging from 0.543 to 0.847 suggest that employees’ retain-ability of the organization is highly inspired by the level of human resource management practices adopted. Secondly, results can also be thought as strong justification to adopt human resource management practice by the organizations.

Further, by incorporating the result of correlation analysis, decisions about stated hypotheses are made and summarized in Table 3.

**Multiple linear regression model for employee retention:** Multiple linear regression analysis is performed to analyze the relationship of eight independent variables, training and development TRNG, teamwork system TWRK, performance appraisal system PFAP, improvement of internal communication COMC, employment security ESCR, person-organization fit OGFT, employee empowerment EMPR, reward and compensation ECMP with dependent variable employee retention ERTN.

**Parameter estimates of employee retention:** Parameter estimates of employee retention model are presented in Table 4.

Proposed model for HRM practices and employee retention is as follows:

\[
ERTN = \beta_0 + \beta_1 \text{TRNG} + \beta_2 \text{TWRK} + \beta_3 \text{PFAP} + \beta_4 \text{COMC} + \beta_5 \text{ESCR} + \beta_6 \text{OGFT} + \beta_7 \text{EMPR} + \beta_8 \text{ECMP}
\]

**Table 1: Demographic information of participants**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>%</th>
<th>Age group</th>
<th>Frequency</th>
<th>%</th>
<th>Managerial level</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>277</td>
<td>91.4</td>
<td>20-25</td>
<td>34</td>
<td>11.2</td>
<td>Top</td>
<td>21</td>
<td>6.9</td>
</tr>
<tr>
<td>Female</td>
<td>26</td>
<td>8.6</td>
<td>25-30</td>
<td>131</td>
<td>43.2</td>
<td>Middle</td>
<td>151</td>
<td>49.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>30-35</td>
<td>104</td>
<td>34.3</td>
<td>Low</td>
<td>131</td>
<td>43.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Above 5</td>
<td>34</td>
<td>11.2</td>
<td>Total</td>
<td>303</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 2: Correlation coefficient of ETRN Vs. HRM practices**

<table>
<thead>
<tr>
<th>ERTN</th>
<th>Pearson correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.662**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>TRNG</td>
<td>0.587**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>TWRK</td>
<td>0.543**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>PFAP</td>
<td>0.567**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>COMC</td>
<td>0.744**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>ESCR</td>
<td>0.847**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>OGFT</td>
<td>0.909**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>EMPR</td>
<td>0.647**</td>
<td>0.000</td>
<td>303</td>
</tr>
<tr>
<td>ECMP</td>
<td>0.697**</td>
<td>0.000</td>
<td>303</td>
</tr>
</tbody>
</table>

**NS:** Significant at p=0.01

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null hypothesis \( H_0 \) and alternative hypothesis \( H_a \) are given in Table 3. It is observed from the model that one unit increase in the implementation level of one of these four practices increases the level of employee retention by 0.571 which is the highest coefficient with respect to other predictors. It shows that if the implementation level of one of these four practices increases then level of employee retention will also increase. Other four HRM practices empowerment (EMPR), performance appraisal PFAP, reward and compensation ECMP and teamwork TWRK are excluded from the model because of having low and negative coefficients. It is concluded from the above model that one unit increase in the implementation level of person-organization fit OGFT practice would increase the level of employee retention by 0.571 which is the highest coefficient with respect to other predictors. In this model, training and development TRNG has the lowest effect 0.084 on the retention of employees of textile mills.

ANOVA of employee retention model: The significance of ERTN model is tested by ANOVA and results are presented in Table 5. Table 5 shows that p-value of ANOVA is 0.000 which indicates that model of ERTN is highly significant because the p-value is less than 0.05.

Summary of employee retention model: In the Table 6, summary of the ERTN model is given, which consists of R-square (coefficient of Determination), adjusted R-square and standard error of estimate. Table 6 shows that value of Adjusted R-Square is 0.782 which indicates that 78.2 % variation exists in the model of employee retention elucidated by the linear relationship of human resource management practices. As the value of Adjusted R-Square is greater than 0.70, it also shows that regression model is significant. The value of standard error of estimate is 0.294, which reveals that the data is not far-off from the estimated line and the ERTN regression model is validated. It is found out from the model that person-organization fit OGFT, employment security ESCR, communication COMC and training and development TRNG can play significant role in enhancing the retention of employees of textile organizations.
CONCLUSION

It is concluded that presence of person-organization fit, employment security, improvement of internal communication system and training & development are significant practices in defining the employee retention. Further, findings disclosed that those textile organizations which have implemented HRM practices successfully in their environment are in the better position to retain their critical and highly talented employees than other organizations. It is also inferred that execution of HRM practices has positive influence on the retention of employees.

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