

## HRM PRACTICES AND EMPLOYEE RETENTION: DEVELOPMENT OF A CONCEPTUAL MODEL THROUGH LITERATURE REVIEW

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**Received: 16 Aug 2020**

**Accepted: 17 Aug 2020**

**Published: 27 Aug 2020**

### **ABSTRACT**

*This paper initiates a theoretical enquiry into two very significant aspects of Human resource management i.e. HR Practices vis a vis Training, Compensation and Performance appraisal and Employee retention. Firstly this study carries out general and theoretical and extant literature review of the study variables, Secondly some specific insights were also obtained by thorough literature review. Thirdly the literature was framed to understand the dynamics and the relationships between HR Practices and Employee retention. Finally, a conceptual model was developed to test it further empirically.*

**KEYWORDS:** *HR Practices, Training, Compensation, Performance Appraisal and Employee Retention*

### **INTRODUCTION**

Every industry depends on humans as a part of the product, Human resources (HR) plays an important role in every organization as the humans cannot be separated from the entire manufacturing or service process (Ghazali, 2010). Primarily, every industry strongly depends on the human factor through direct or indirect contact with customers. According to Bharwani and Butt (2012), employees have become very precious assets by imploring a crucial role in enhancing the organizational goodwill. In today's competitive market scenario, employee retention especially of high performers is known as a key to delivery. Thus, employee retention remains a major area of concern for the organizations. Aksu (2004), Kuean, Kaur, and Wong (2010), and Proud foot Consulting (2008) found that turnover rates significantly affects the organizational performance. It is unproductive expenditure for organization's management to spend money and time on employees who leave a short time later after they go through the employment process.

As suggested by David- son, Timo, & Wang, (2010), Organizations face difficulty in recruiting manpower, but the menace of relatively high levels of turnover represents a significant loss of investment in employment process human capital, quality, and training. According to Deery and Shaw (1997) and Lashley and Chaplain (1999), firms cost structure, workplace efficiency, and productivity are affected due to high turnover and lower retention of employees

According to the International Labour Organization (2003), the most frequently cited problems, which organizations face, are low retention and short- age of committed and skilled employees. Annual labor turnover rates in

developing countries were approximately between 9.6% and 75%, which are extremely high. It is also found that the high turnover rate, suggesting the low retention of skilled employees is becoming a major problem for the organizations.

After the extant literature review in the area several factors have been suggested to be helpful in retaining employees. Among these factors, human resource management (HRM) practices such as compensation, training and development, and performance appraisal are known as of key importance. In order to retain employees, it is important that the organization uses proper HR practices, that is, compensation, training and development, and performance appraisal support (Walia & Bajaj, 2012). Researchers and academicians (e.g. Saba, 2011; Sohail & Delin, 2013) who tries to explain why employees are less committed and retained in organizations, use HRM practices (such as compensation, training and development, and performance appraisal. Moreover, social exchange theory (SET) (Blau, 1964), also provides a basis for linking these HR practices with employee retention. Liao (2011) also advocated that when employees receive benefits from the organization, they, in turn, will repay the organization in the form of commitment and staying with it for a longer period of time.

Specifically, this study will endeavor to contend how compensation, training and development, and performance appraisal are theoretically significant in improving employee retention, therefore aims at adding to the current literature on the part of compensation, training and development, and performance appraisal in employee retention. Moreover, this study offers a theoretical clarification on the part of association between these HR Practices and employee retention. This article additionally explains that Conceptual model which can be further empirically tested and look into the past studies conducted on the role of HRM practices for influencing employee retention have conflicting results.

## **FRAMING LITERATURE**

In order to get proper conceptual model, extant and thorough literature review was conducted on research constructs and studies were identified advocating relationships between study variables.

### **Employees' Retention**

Employee retention is defined as a process through which employees are motivated to stay in the organization for a longer tenure (Griffeth & Hom, 1995). In another definition employee retention refers to the different strategies and practices, which let the workers adhere to an institution for a longer period (Singh and Dixit, 2011). Popular debates and discussions on employee retention stemmed from 1900s when scholars and researchers in the area began to identify various reasons that affected employee's level of interest in their job and possible opportunities (Rowland & Ferris, 1982). The problem of employee retention is not new. It has always been a challenge for employers (Mathimaran & Kumar, 2017).

The human resource is one of the valuable and significant resources for any organization (Bibi, Ahmad, & Majid, 2016). According to Ng'ethe, Iravo, and Namusonge (2012), retaining employees in their job and also necessary to achieve competitive advantage. Akila (2012) argued that employee retention is very beneficial for all the organizations. Research showed that replacing an old employee with new one increases operational costs in the form of new employees' training, development and cost associated with new recruitment (Dess & Shaw, 2001).

Many studies have examined the relationship of compensation on employee retention (Chiang & Birtch, 2010; Chickwe, 2009; Choi & Dickson, 2010; Hinkin & Tracey, 2010; Sturman, 2001). For instance, Kosoe (2010)

studied the impacts of compensation on employee retention and found a positive relationship between them. In a similar study, Irshad (2000) revealed a significant relationship between compensation and employee retention. Moreover, Nawab and Bhatti (2013), Saeed et al. (2013) and Ramlall (2013) also found a significant relationship between compensation and employee retention.

### Training and Development

Training has been defined as a deliberate and well thought series of activities aimed at improving employees' performance by helping them realize a standard level of understanding through communication (Forgacs, 2009). It is also suggested by Samuel & Chipunza, (2009) that training and development helps in increasing the level of commitment and loyalty of employees in order to stay for a longer period with the organization; hence, it decreases turnover and enhances retention. Chang (1999) demonstrated that when an organization provides sufficient training and development opportunities, the employees are more satisfied and they stay with the organization for a longer period. Hence, from the above discussion, it can be safely concluded that there is a relationship between training and employee retention.

### Performance Appraisal

Performance appraisal can be defined as the basic HRM function such as the evaluation of employees' performance periodically to improve the utilization of human resources within the organization (Raihan, 2012). Waldman, Bass, and Einstein (1987) argued that performance appraisal helps the organization in enhancing and measuring the performance of employees. According to Kuvaas (2006), an appropriate performance appraisal system is used as a tool for, developing, retaining, and motivating employees in the organization. Moreover, this notion is also supported from the perspective of SET (Blau, 1964), when employees feel that decisions are made honestly and performance is evaluated fairly, they are more likely to stay for a longer period with the organization.

All the researches mentioned in this section have made significant contributions to the literature by demonstrating the effect of Compensation, training and development and performance appraisal on employee retention, still it is worth noting that the findings of these studies are inconsistent; hence, more research is needed to explain the relationship in a better way. Thus, the current Conceptual model is developed for empirical testing.

### CONCEPTUAL MODEL

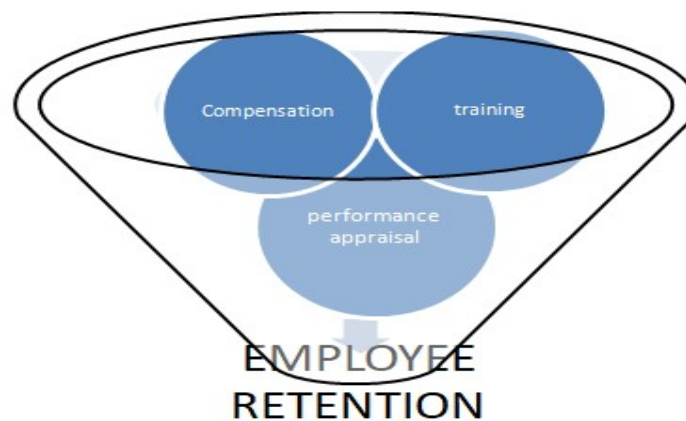


Figure 1: Showing Conceptual Model.

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