The Impact of Human Resource Practices on Employee Retention in the Telecom Sector

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ABSTRACT

This study examines the human resource (HR) practices that promote employee retention. Effective HR practices can reduce employee turnover and increase retention within an organization. Key employees are the instrument for overall growth and development of an organization. This study focuses on telecom sector of Pakistan. The most important HR practices have been identified with the help of literature. These practices are training and development, compensation and culture. A questionnaire was developed in this study with the help of literature to measure the identified HR practices and employee retention. The sample size of this study was 250. Regression analysis was performed to analyse the data. The results of multiple regressions revealed a significant impact of HR practices on employee retention. Compensation and culture has a positive relationship with employee retention whereas training and development has a negative one. This study guides the management to devise the effective strategies to improve the employee retention.

Keywords: Human Resource Practices, Employee Retention, Training and Development, Organizational culture, Compensation

JEL Classifications: M00

1. INTRODUCTION

Organizations are facing the challenge of employee retention due to increased competition in the market. It is crucial for organizations to hire competent employees to gain a competitive advantage in the market. However, retaining competent employee is more important than hiring. Organizations are always searching for talented employees and spent time and money on their employees for future return aspects. Factors like lack of skilled workforce, economic growth and employee turnover demand to devise policies to increase employee retention. It is hard to measure the exact cost associated with turnover for organizations. When an employee departs from an organization, he/she brings out with him all the information about the company, clients, projects and past history, very often to competitors.

There are different human resource (HR) practices employed by the organization to increase the retention level (Khan et al., 2014). The current study is aimed to investigate the impact of these practices on employee retention. It is imperative for an organization to develop an environment within the organization to motivate employees to stay in the organization. The organizations are also concerned about the costs associated with employee turnover, which is usually 2.5 times greater than the salary of...
Employee retention consists of procedures through which employees are boosted to become part of the organization for a longer period of time until he/she gets retired or until the project gets completed. For achieving individual as well as organizational goals, it is very much essential to retain talented employees. The HR manager must know how to attract and keep good employees because these are the employees who can make or break the organization’s goodwill (Wisnesfski, 2008; Rasli et al., 2014). Successful employee retention does not rely on a single strategy. The decision of an employee to stay in the organization is effected by a number of factors depending on a variety of elements like the individual’s age, the family situation, mentoring, career and learning opportunities, good benefits, networking and the external job market or job title (Musser, 2001; Sinnott et al., 2002; Yusoff et al., 2013).

Talented and good employees are asset of an organization. Retaining talented employees is highly important for the long-term growth as well as success of the business (Heathfield, 1995), but the retention of employees has become the major problem facing today’s organizations (www.retentionconnection.com, retrieved on May 22, 2010). The cost of hiring new employee varies and it includes a wide variety of expenses such as advertisments, recruiters’ salaries and reimbursements of candidates’ expenses. The company also incurs the various start-up costs of replacing an employee such as administrative expenses and training (Carsen, 2002; Wocke and Heymann, 2012). Thus, it is necessary to retain the talented employees not because of the costs incurred on them by employers, but also because of the required output they give to the organization.

2. RELATED LITERATURE

Retention of good employees in an organization is one of the biggest challenges, which the companies’ now-a-days are facing. Management, top-level executives and HR departments of the companies are splitting their sweat and blood, spending their time, effort, and money to stop turnover and to retain key employees. There are innumerable reasons regarding voluntarily good-bye of the people from their organizations in which they work. The dilemma of turnover needs to be overcome because it foists huge costs on both individuals and organizations (Mitchell et al., 2001). Huge costs are usually incurred by the employers on their workers in terms of attracting, hiring, maintaining, training, developing and holding them back in their organization. Managers of the organizations should do their level best to adopt such measures, which minimize employee’s turnover. Employee turnover is such a phenomenon, for the understanding of which no standard formula exists; therefore, so many elements have been determined which would be helpful in understanding employee turnover (Kevin et al., 2004).

Chipunza and Samuel (2009) highlight that it is not only the private sector, but governments are also facing difficulty in retaining skilled employees. Private sector managers admit this facts that retaining key employees of the organization is the most difficult aspect of their job. Most of the time when these employees move, they migrate to competing organizations with the knowledge and trade secrets acquired from their former employers, thus, creating a critical situation for the former bosses. This situation demands that management should identify the reason/s for frequent change of employment by employees. Once this reason/s has been identified, management can then devise retention strategies that would help in keeping essential employees for a longer tenure.

Combating retention problems is a challenging task. Extensive policy debate is required to combat this problem. It cannot be accomplished merely through monetary incentives. While devising an organizational retention plan, management must take into account on-the-job and off-the-job factors. The top brass of the organization should cause a survey to be conducted for identification of those critical factors, which compel employees to leave that organization (Mitchell et al., 2001). Organizations should opt the retention approach that amalgamate the organization’s distinct culture, pay, total rewards, and value key talent by making them feel important (Zingheim et al., 2009).

2.1. Factors Affecting Employees Retention

There are various ways and means to minimize employee turnover. Management is strongly required to point out the factors why employees quit organization so that the proper treatment can be adopted by the management because of increase in direct and indirect expenses incurred on the employees’ turnover (Ongori, 2007). Failing to pay attention to retain committed employees could prove fatal as far as survival of the organizations is concerned. A number of organizations are conducting research to find out the effect of different HR practices on employee retention. This research helps the organizations to create a positive climate promoting employee retention. Some of these practices include providing equitable remuneration (apart from salary and fixed bonuses) to employees that reflect performance, recognizing and appreciating efforts and contributions made by the employees, making the work of employees sufficiently challenging and interesting, and providing opportunities for training and bright career. These HR practices can help the employee in deciding the intentions of an employee whether to stay in the organization or not (Chew and Chan, 2008).

2.2. Training and Development

Training and development programs can increase retention when they meet the needs of the employees (Montgomery, 2006). Meeting employee needs through training programs occur when the information provided is perceived as useful, applicable and desirable by them. He further suggests that the keys to employee
retention are skills development, competence of management, and rewards both psychological and financial. Organizations need to pay serious attention for their investment in training and development if they want to retain their key employees. A successful retention strategy must include training (Roberts and Outley, 2002). Training helps to create an urge among the employee to stay in the organization for a longer period. Professional training and career development programs should be an essential part of the organization policies. The organizations should encourage employees to participate in training programs.

Organizations are now greatly interested in career development programs. Studies on HR practices reveal that these programs are of great help for employee development (Paul and Anantharaman, 2003). The organization can increase the employee commitment with the help of these programs. This commitment will increase the personal productivity. Barringer et al. (2005) made a comparison between the firms with rapid growth and slow growth firms. Their study revealed that the organization with a rapid growth heavily rely on the abilities of their employees. These employees put their efforts to uphold the growth oriented strategies of the organization. To achieve strategic objectives, growing firms widely use training programs for their employees. They emphasize upon employee development as compared to their non-growing competitors. Hence, training and employee development programs are quite common in growing organizations. Miller (2006) is also of the same view and suggests having more focus on the policies and practices contributing to staff retention.

2.3. Compensation
The remuneration, which an organization gives to its employee, is the primary factor, which reveals the commitment and intention towards the employee and is one of the compelling reasons for an employee to stay in that organization. However, only the pay is not sufficient to motivate employees to stay in the organization. An employee may decide to leave the organization for better monetary considerations, but it is always not necessary that high pay will make the employees stick with an organization. There can be different other factors as well that affect the employees’ decision to stay in the organization. These factors play a vital role in affecting employee commitment with the organization. The management must pay attention to these factors along with compensation.

Remuneration is the foundation on which the employee-employer relationship is determined and also shows the indication of expression of appreciation from an employee (Roberts et al., 1999). The increasing competition among the organization demands to retain more and more competent employees who can ensure the sustainability of the organization. The organizations are now also competing for key employees to take the competitive edge in the market. The organizational development may become at stake if its employees lack experience and skills required for growth. Employee retention can be achieved by the organizations by paying higher salaries to their employees (Lewis et al., 2001). According to Zingheim et al. (2009), a competitive pay and benefit package is an important element to affect employee retention, but this cannot be referred as a whole picture. Compensation plays a leading role to retain the talented employees. Therefore, many of the organization announce and provide the remuneration that is over and above the prevailing market rates. This can be in the form of security plans, free education to children, special pay premiums and bonuses, house allowance, vehicle allowance, and stock options, etc. Moreover, some leading organizations exercise the practices like profit sharing and group-based incentive plans (Chew and Chen, 2008). A widely used technique employed by many of the managers to foster the employee retention is based on performance compensation, rewarding the employees after evaluation of their individual hard work/performance (Collins and Clark, 2003).

2.4. Organizational Culture
Researchers have a varied comprehension of culture. It can be defined as a set of beliefs, values and behaviours that leaders invent or discover to solve problems in the external and internal environment, which is taught to new entrants as the correct way of solving problems (Schein, 1990). The culture varies across the organization. It is a combination of norms and values of members of an organization, passed along to new entrants to organizations. It is a normal way to guide people of what is expected of them at the work place. However, culture does not remain stagnant. It is a dynamic element, which takes the effect of the changes occurring in the environment and resultant, new thoughts, beliefs and feelings get in it with the passage of time (Vlachos, 2009).

The organizational culture is an important element which directs the employees to leave the organization. Managers must evaluate the organizational culture, its different elements and try to find out the ways in which culture can be improved to retain more employees (Mulligan, 2001). Practitioners and researchers are inclined to evaluate the different dimension of organizational culture. Organizational culture is an important tool for managers to manage the change in organization. They comprehend that strategic or structural realignment is hard to perform without the support of organizational values and behavioural norms. However, culture is a subtle and intangible phenomenon. The culture is difficult to manage and manipulate directly (Kerr and Slocum, 1987).

3. RESEARCH METHODOLOGY
This section explains the conceptual framework and the research design used in this study.

3.1. Conceptual Framework
The conceptual hypothesized model is given in Figure 1 and hypotheses are provided in Table 1.

3.2. Regression Equations
\[ RT = \beta_0 + \beta_1 \text{TNG} + \beta_2 \text{CMP} + \beta_3 \text{CLT} \]

Where, RT: Retention, TNG: Training and development, CMP: Compensation, CLT: Culture

Operational definitions of the constructs are given in the Table 2.
3.3. Research Design
This study is co-relational in nature with cause and effect approach. The population of this study was the employees of telecom sector of Pakistan. For the purpose of data collection convenient sampling technique was employed. The data was collected through self-administered questionnaires. This questionnaire was developed on the basis of the literature review. The questionnaire was consisted of 30 items, excluding demographics. This questionnaire was developed on the basis of literature review (Bower, 2006; Rogers, 2003; Kennette Read Associates, n.d.; Grubb, 2006; Mulligan, 2001; Montgomery, 2006). All the items in the questionnaire were rated on a five point Likert scale, where 5 stand for strongly agree and 1 for strongly disagree. A total of 250 questionnaires were floated out of which 163 completely filled questionnaires were received, hence the response rate was 65%. The average age of the respondents was 25-30.

The inter item consistency of the questionnaire was tested through “Cronbach’s alpha” to confirm the reliability of the questionnaire. The results of reliability analysis are given in the Table 3. After the reliability analysis, correlation matrix was obtained and regression analysis was performed to check the relationship of HR practices with employee retention.

4. RESULTS AND DISCUSSION
This section explains the results of the statistical tests performed on the collected data and discussion on the basis of obtained results.

4.1. Results
Before the model testing through regression analysis, correlation matrix was obtained. Table 4 is showing the correlation matrix.

The correlation matrix reveals that the correlation among all the variables is significant at 0.01 levels and employee retention is highly correlated with the rest of the three variables i.e., training and development, compensation and organizational culture. The dependent variable, employee retention, is high correlated with all three HR practices. This shows that employee retention in the organization can be increased through better HR practices.

The hypothesized model, constructed in this study, was tested through regression analysis. Table 5 is showing regression results. It tells us about the goodness of fit that how good the model fits the data.

F-statistics confirms the fitness of the model, revealing that $R^2 ≠ 0$. The total variation in employee retention caused by the HR practices taken in this study is 65.3%, as depicted by the value of $R^2$. This variation is quite remarkable. Table 5 provides the value of beta coefficients, $t$-statistics, significance value and collinearity statistics. One of the assumptions of regression is that there should be no multicollinearity between the variables. This condition has been met through collinearity diagnosis. The collinearity statistics show none existence of multicollinearity.

The beta coefficient of training and development is surprisingly negative. Training and development has 30.2% negative impact on employee retention. The result of the study got support from the work of Koster et al., (Koster et al., 2011). This inverse relation is significant as revealed by $t$-statistics i.e. $-4.035$ ($P < 0.01$). On the basis of these results, our first hypothesis stands rejected.
H1: There is a positive relation between training and development and employee retention (Rejected).

The other two HR practices, compensation and organizational culture, have significant positive impact on employee retention. The variation in employee retention caused by compensation and organizational culture is 32.2% and 58.8% respectively. The other two hypothesis are accepted as t-statistics is significant i.e. 5.407 ($P < 0.01$) and 7.334 ($P < 0.01$).

H2: There is a positive relation between compensation and employee retention (Accepted).

H3: There is a positive relation between organizational culture and employee retention (Accepted).

Estimated regression equation is shown in Equation 2, whereas, the structured model of regression equation is shown in Figure 2.

\[
RT = 1.47 - 0.302 \times TNG + 0.322 \times CMP + 0.588 \times CLT \tag{2}
\]

4.2. Discussions

In a nutshell, review of existing literature finds that there are HR practices positively linked to employee retention. Based on a comprehensive literature review, the researchers hypothesized that the following HR practices are related to employee retention: Training and development, compensation and organizational culture.

A survey of managers and employees demonstrated that HR practices are linked to employee retention. All three HR practices contributed to perceived employee retention. Training and development, compensation policy and organizational culture are the predictor of employee retention.

Table 3: Inter item consistency - Cronbach’s alpha

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and development</td>
<td>0.798</td>
<td>10</td>
</tr>
<tr>
<td>Compensation</td>
<td>0.868</td>
<td>5</td>
</tr>
<tr>
<td>Organizational culture</td>
<td>0.867</td>
<td>8</td>
</tr>
<tr>
<td>Retention</td>
<td>0.815</td>
<td>7</td>
</tr>
<tr>
<td>Cumulative</td>
<td>0.935</td>
<td>30</td>
</tr>
</tbody>
</table>

Training programs enhance the employee skills, which ultimately reduce turnover and result in employee retention (Huselid, 1995). The failure to retain employees in many organizations is due the lack of adequate training at the entry level (Birmingham et al., 1996). It concludes that training and development is related to employee retention, but most responses were not in favour of the training regarding employee retention. It showed correlation to employee retention but beta weight was $-0.302$. This finding showed that there exists an inverse relation of training and development with employee retention. This negative relation is may be due to lack of good compensation structure in the organization. When the employees are trained and they are not compensated in the desired way, trained employees switch to other organizations.

Compensation policy was related to employee retention, being the strongest predictor of retention. Linking retention to compensation benefits is an explanation of the high correlation between compensation policy and employee retention. This finding may provide some justification of the claim that employee retention is vital to sustain organizational growth as it’s a competitive task in today’s scenario and to attract and retain key employees, compensation plays a key role (Lawler and Rhode, 1976; Lewis et al., 2001; Chew and Chan, 2008).

Organizational culture was related to employee retention, being the strongest predictor of retention. Linking retention to organizational culture is an explanation of the high correlation between organizational culture and employee retention.

Table 4: Correlation matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>Training and development</th>
<th>Compensation</th>
<th>Organizational culture</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and development</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>0.606**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational culture</td>
<td>0.636**</td>
<td>0.786**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>0.376**</td>
<td>0.727**</td>
<td>0.756**</td>
<td>1</td>
</tr>
</tbody>
</table>

**$P<0.01$**

Table 5: Regression results

<table>
<thead>
<tr>
<th>Variables</th>
<th>$B$</th>
<th>Standard error</th>
<th>$t$</th>
<th>Significant</th>
<th>Collinearity statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.471</td>
<td>0.229</td>
<td>6.432</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Training and development</td>
<td>$-0.302$</td>
<td>0.075</td>
<td>$-4.035$</td>
<td>0.000</td>
<td>0.566</td>
</tr>
<tr>
<td>Compensation</td>
<td>0.322</td>
<td>0.060</td>
<td>5.407</td>
<td>0.000</td>
<td>0.363</td>
</tr>
<tr>
<td>Organizational culture</td>
<td>0.588</td>
<td>0.080</td>
<td>7.334</td>
<td>0.000</td>
<td>0.342</td>
</tr>
</tbody>
</table>

$R^2=0.653$, Durbin–Watson=1.852, $F=99.828$ ($P<0.01$), VIF: Variance inflation factors
5. CONCLUSION

Attracting and retaining key employees is always a challenge, but it has become more difficult due to the competition for skilled employees. The employees feel that effective HR practices have a direct and positive relationship with employee retention. The companies that successfully attract and retain key employees offer high compensation packages and dynamic environments. The compensation and benefits given by Telecom sector to its employees is a vital policy that helps organizational nourishment. The employees hold the opinion that compensation/rewards contribute to improving an employee’s loyalty and retention toward organization. The results indicate that Telecom sector is very capable and successful in employee retention. It is also providing a culture that is helping in retaining the employees at all levels. Training and development is a process of developing expertise in employees for the purpose of better performance. Training and development is important in improving the effectiveness and in retaining the key employees. Employees are loyal to the employer if the employer is committed and helpful for their long term career development. Employees come to the organization with certain needs, desires and skills and expect that they would be given an environment where they can utilize and enhance their abilities and satisfy many of their needs. Employees feel that training and development needs of staff are not being properly taken care of.

Future researchers can easily pinpoint the variables that affect the retention of employees. Furthermore, the national researchers can use the results of this study in order to make the base for future study in this area. Future researchers can carry it on to broader aspects by considering the impact of other HR practices on employee retention. Other HR practices could be recruitment and selection, performance management and information sharing. The sample size of this study is small so they can make it large and selection, performance management and information sharing.

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