

The relationships between Human Resource Practices on Employee Retention in Malaysian Industrial Settings

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ABSTRACT

Objective – The study explores the relationships between human resource management practices on employee retention in Malaysian industrial settings. The human resource management practices such as selection, training and development, performance appraisal and reward were considered in this study as the main factors that impact the employee retention in an organization.

Methodology/Technique – All data used in this study consists of respondents of executives and managers in manufacturing companies located in Klang Valley, Malaysia. Data processing and statistical analyses were mainly carried out using SPSS. Reliability test was used to check the consistency and dimensionality of the scale items. Pearson Intercorrelation was used to measure the associations among the human resource practices and employee retention and Multiple Regression Analysis to check the criterion-related validity of the scale items and to complement the correlation results.

Findings – Data from 151 respondents from various industries showed that the reward was most correlated with employee retention. This is followed by performance appraisal, in which fair and inclusive appraisal leads to better retention. On the contrary, selection was found to have least significance relationship with employee retention.

Novelty – The contribution of the study is in asserting some findings for human resource manager to understand the importance of an effective HRM practices on employee retention in the manufacturing industry. Apart from that, this research provides an understanding of some important elements in human resource management practices that are more effective in employee retention.

Type of Paper: Empirical

Keywords: HRM Practices; Employee Retention; Relationship; Significance.

1. Introduction

This research examines the human resource management practices upon employee retention. According to Schneider (1994) and Bartlett and Ghoshal (2000), keeping hold of a talented

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workforce requires an organization to design policies, practices and procedures of HRM that can be used by organization in recruiting, motivating and retaining extremely competent employees. Heathfield (2005) states that retaining key employees is important in helping organizations to gain an upper hand that cannot be rivalled by their fellow competitors in the context of producing highly motivated and satisfied employees. This should eventually lead to improved organizational performance. Research by Barney (1991) has also proved the importance of human resource management as a mean of competitive advantage. Therefore, without a proper human resource practices, organizations will not be able to hold on to their vital workers, hence reducing their competitiveness. It is a well-established fact that retention of talent is the cornerstone of a successful business and this paper aims to examine the human resource practices used in manufacturing companies in Malaysia and how such practices affect the employee retention. Additionally, among the various factors affect the employee retention, it was found that human resource practices remain the key determinant of employee retention besides talent management, performance management system and industrial relations. This research is conducted in this scenario of current industrial settings, where job mobility is prevalent. Hence, this is a need to revisit this subject because of the prevalent problem where job mobility is very imbalance in Malaysia.

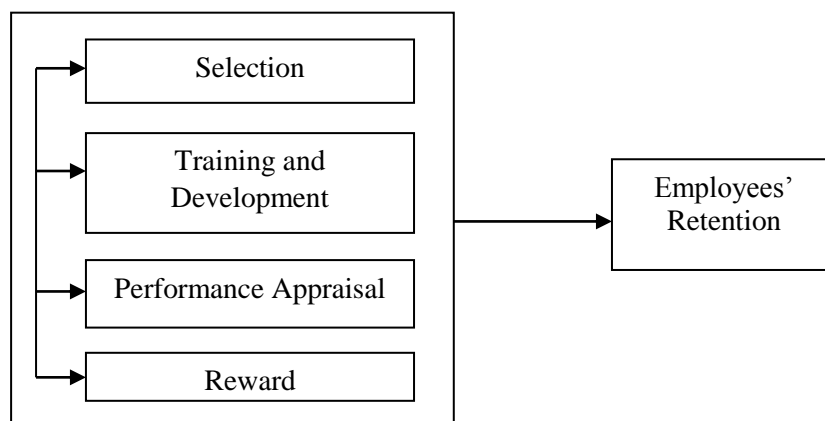
1.2 Objectives of this Study

The objective of this study is to explore the effect of human resource practices on employee retention in manufacturing industry in Malaysia. The study captures four major human resources practices are (i) selection; (ii) training and development, (iii) performance appraisal and (iv) reward and their relationship with employee retention. This will provide an opportunity for managers to have a more holistic understanding on what are the most effective human resources practices to be used to enable organizations to retain their highly knowledgeable and skilled employee.

1.3 Scope of the Study

The framework of this study is to analyze the interaction among variables as depicted in Figure 1. The primary data used in this study is secured through survey questionnaire. Cross-sectional data of respondents from Malaysian companies is subjected to quantitative analysis to test the model.

Figure I. Human Resource Practices and Employee Retention.



2. Literature Review

A review of the literature was undertaken to define and elaborate the contexts of interactions among the variables.

2.1 Selection

The concept of selection is identified by Brown (1969). Several researchers have defined it as matching people with the right qualification based on their knowledge, skill, or ability, but not the personal characteristics of the applicants (Edwards 1991; Lofquist & Davis 1969). Dessler (1994) explains it as choosing an individual that has the necessary qualification to fill an existing or new job opportunity. Kidron (1978) and Steers (1977) further reiterate that selecting the best person for the organization which shares the same convergent goals and values as the organization is essential in building commitment towards the organization. Apart from that, Lauver and Kristof-Brown (2000) have shown that person-organizational fit or selection of the most appropriate employee for the organization plays an important role as an indicator of employee retention. Employees that have been selected but do not fit into the organization or do not possess the appropriate skills are more likely to leave, hence retaining them is difficult. Person-organizational fit is considered as personnel selection method as it can enhance the fit between the job applicant's goals and the organization's goals (Netemeyer, Boles, McKee & McMurian, 1997; O'Reilly, Chatman & Caldwell, 1991; Kristof, 1996)

2.2 Training and Development

Goldstein (1980) and Latham (1988) describe training as a tool to boost employees' performance by the means of acquiring and developing the essential knowledge, skills and attitude that are all required by the employees to perform a job. Training is considered to be able to provide new knowledge and skills. Other research has also stated that the training and development can actually reflected in the improvement of knowledge and the acquisition of new skills, an increment in job performance attributed to the new found skills and knowledge (Baldwin and ford, 1998; Salas, 1999). If relevant training provided, it can help to meet the employees and the organization's goal. Training and development can also be seen as an opportunity given to employees that the organization is heavily investing in them and thus they are regarded as an important asset to the organization. This perception gives employees a sense of self-worth and increases their affective commitment (Döckel, 2003; Meyer & Allen, 1997; Kraimer, Seibert, Wayne, Liden and Brovo, 2011; Storey and Sisson, 1993).

2.3 Performance Appraisal

Performance appraisal is defined as the process of reviewing and evaluating an individual performance in relation to his/her duty performed. It aims to facilitate the possibility of training and career development of that individual. Performance appraisal evaluates the individual's contribution towards the organization through assessing his/her characteristics, working performance and ability to constantly progress to corporate level (Gruman & Saks, 2011). Beardwell in 2001 stated that an integrated and effective appraisal process can lead to improved organizational performance and employee motivation. It provides recognition for successful performance and provides guidance on what skills, competences and behavior are required to meet expectations. Performance reviews are important as they offer an opportunity for the employee to receive accurate feedback on their performance (Rousseau, 2004).

2.4 Reward

Reward is defined as something that an organization offers to their employees in return of their contribution and performance (Agarwal, 1998). A reward can be intrinsic or extrinsic; it can also manifest itself in many forms like financial rewards such as cash or bonus and non-financial rewards such as recognition/certificate, awards, free trips and merchandise. According to Silbert (2005), reward is offered by the organization to act as a motivator for employees to perform their task well. Research by Bassi and Van Buren (1999) found that multinational companies provide innovative compensation and reward alternatives such as profit-sharing and group-based incentive pay. Such innovative practices are actually a reflection of the individual player contract model, it focuses on the organizations willingness to do what it takes to attract and retain employees (Boyd and Salamin 2001). Organizations with committed employees are normally more aggressive in making investment to the

progression of human resource practices such as compensation and reward (Arthur, 1994; Huselid, 1995).

2.5 Employee Retention

Employee retention refers to the ability of an organization to retain its employees. How organizations today retain their employees is still remain a challenge for them (Allen, 2008). Generally, more observations have been made on scarcity of talent that led to the realization of retaining key employees. Because of that, more studies have been conducted to identify retention strategies (Accenture 2001). However, there seem to be a growing concern on how human resource practices can play a crucial role in retaining key employees. Several past studies found that human resource practices such as reward, compensation and training can impact turnover, absenteeism and work performance (Arthur, 1994; Snell & Youndt, 1995; MacDuffie, 1995; Ichniowski, Shaw & Prensushu, 1997).

3. Research Hypotheses

The following hypotheses were formulated based on the past studies.

Lee, Ashwood, Walsh and Mowday in 1992 stated that an employee's job satisfaction and propensity to leave the job are determined by the degree to which the person's personality congruency with the organization environment. Lauver and Kristof-Brown (2000) revealed that person-job fit and person-organization fit can be used to predict job satisfaction and intention to quit. Hence, the selection or person-organizational fit is of utter importance to retain employee because if the person fits the organization goals and working environment they tend to be more satisfied and hence turnover rate is reduced and vice versa. As such the following hypothesis is proposed:

Hypothesis 1 : Selection of better qualified employee is positively related to higher employee retention.

Research works on HRM practices in training and compensation has generally assert that there is growing support of such practice to reduce the employees turnover (Accenture, 2001; Delaney & Huselid, 1996; Arthur, 1994; Ichnioeski, Shaw & Prensushu, 1997; Snell & Youndt, 1995; MacDuffie, 1995; Meyer & Allen, 1991; Solomon, 1992; Snell & Dean, 1992). Accenture's (2001) study on high performance has suggested several strategies of employees' retention. These strategies comprised of offering comprehensive training and development, allowing staff to work on project-based assignments to broaden their skills, providing staff with skill development programs and etc. Fitz-enz (1990) states that employees retention management is determined by factors such as employee support programs and training and career development system beside organizational culture and structure, recruitment strategy, pay and benefits. Storey and Sisson (1993) commend that training is a sign of the organization's commitment to employees. Research by Mikeal (2011) has shown that through training, supervision is not required and the employee has a greater sense of commitment to the organization. Thomas Acton and Wilie Golden (2002), suggests that job-related training enhances the ability of problem solving of employees. Taking this into consideration, the following relationship is hypothesized:

Hypothesis 2 : Providing a platform for training and development for employee is positively correlated with higher employee retention.

The effectiveness of the performance appraisal could lead to employees' development. The feedback of the appraisal can elevate employees' commitment and productivity (Brown & Benson, 2003). However, if the performance appraisal is not conducted properly, it can lead to turnover and job dissatisfaction (Webster, Beehr & Love, 2011). Performance appraisal should also be done fairly. A study conducted Sudin (2011) has shown that fairness during an appraisal will influence the satisfaction of an employee which will eventually result in a positive relationship. As a result,, a proper performance appraisal will result in an increase in

job satisfaction, commitment and productivity that will eventually lead to a lower turnover rate. Thus, it can be hypothesized that:

Hypothesis 3 : Proper conduct of performance appraisal can increase the employee retention.

Willis (2000) states that reward is the most important criteria when comes to attracting and keeping talent. He further reiterates that organization would keep their talented workforce by recognizing their value and providing reward and remuneration. There are several studies on rewards-retention link (Mercer, 2003; Tower & Perrin, 2003; Watson & Wyatt, 1999) that prove an insight support on rewards and talent management. Mercer (2003) study indicated that employees will stay with the company if they are rewarded. In addition, past studies have concluded that incentive compensation has a positive impact on organizational performance, increases sales growth and lowers employee turnover (Arthur 1994; Delaney and Huselid 1996; and Batt 2002). Thus, the following hypothesis is put forward:

Hypothesis 4 : Reward based on performance is positively related to higher employee retention.

4. Research Methodology

4.1 Sampling Design

The sample selected for this study comprises the executives and managers in manufacturing companies located in Klang Valley, Malaysia. The selected industry was picked to represent the main spheres of businesses activities in Malaysia, and which contribute significantly to the Gross Domestic Product and labour employment (Economic Report, 2012/2013). The companies that fulfil the above criteria were selected from the registry of members of the Federation of Malaysian Manufacturers. Data from respondents were secured through survey questionnaires. In order to reduce the pitfalls of inexact sampling, no more than two questionnaires were administered to the same company.

4.2 Research Instrument

All data used in the study consist of responses to questionnaire items. Measures of relevant constructs were discussed here.

4.2.1 Human Resource Practices

The human resource practices adopted in this research are those practices most consistent with the prior theoretical and empirical work (Arthur, 1994; Lado and Wilson 1994; Wright, McMahan and McWilliams, 1994; Dyer and Reeves, 1995; Huselid, 1995; MacDuffie, 1995; Becker and Gerhart, 1996; Koch and McGrath, 1996; Ulrich, 1997). These practices consist of selection, training and development, performance appraisal and reward. This instrument uses a 5-point Likert scale to measure subordinates' perception of the theses human resources practices.

4.2.2 Employee retention

Rathnaweera (2010) self-reported measure of employee's retention was used in this study. The instrument is made up of 9 items. All items are scaled on 5-point agree-disagree rating scales.

4.3 Data Analysis Techniques

Pearson Intercorrelation was used to measure the associations among the human resource practices and employee retention. This technique effectively measures the strength and significant between sets of variables, providing means to test the hypotheses postulated. Multiple- regression was performed to check the criterion-related validity of the scale items.

5. Research Results and Discussion

5.1 Sample Characteristics

From a total of 1000 questionnaires sent, a total of 151 responses were received. The sample selection in this study comprises of executives, managers and professionals who are reporting to their respective immediate supervisor. By gender, 52 percent were female and 48 percent were male. In terms of age, the highest proportion of respondents fell into the 31-40 years age group and they accounted for 45 percent of the total number of respondents. On the whole, the education level of the respondents was average. The average salary of the respondents was more or less similar to the population's average (Economic Reports 2012/2013). This was reflected in the position or the type of occupation held by the majority of the respondents. On average, the respondents had worked in the present company for 5 years.

5.2 Validating the Scales

The standardized Cronbach Alpha is used to measure the internal consistency reliability for all the scales. From the reliability test as shown in Table 1, all the scales had coefficient Cronbach Alpha greater than 0.70. This reveals that the internal consistency reliability coefficients for all the scales were satisfactory (Nunnally, 1978).

Table 1. Reliability of Scales: Human Resource Management Practices and Employee retention

Scales	Cronbach Alpha
Selection	.84
Training and Development	.84
Performance Appraisal	.85
Reward	.84
Employee retention	.86

Testing of Hypotheses

Hypothesis 1 predicts that selection of better qualified employee is positively related to higher employee retention. Table 2.1 presents the results of the correlation analysis on employee retention with human resource practice of selection. The results indicate that selection initiatives, formal testing ($r = 0.311$, $p = 0.01$) and medical test ($r = 0.346$, $p = 0.01$) rank the highest in its correlation with employee retention and supported by past studies (Lauver & Kristof-Brown, 2000; Lee, Ashwood, Walsh & Mowday, 1992). Additionally, structured interviews ($r = 0.308$, $p = 0.01$) and specified job qualification is also shows a significant contribution to employee retention. On the other hand, employee retention was not significant from respondents who are promoted from within. Overall, Hypothesis H1 was supported by the result.

Table 2.1. Results of Pearson Intercorrelations for Selection.

No.	Selection	Employee Retention
1	I am fully informed about the qualifications required to perform the job before being hired	.207*

2	I have to undergo a medical test before being hired	.346**
3	Vacancies are filled from qualified employees who are working in the organization	.068
4	I underwent structured interviews (job related questions, same questions Asked of all applicants) before being hired	.308**
5	Applicants for this job take formal test (written or work sample) for selecting applicants for vacancies	.311**

Note: * correlation is significant at the 0.05 level (2-tailed)
 ** correlation is significant at the 0.01 level (2-tailed)

Hypothesis 2 suggested that providing a platform for training and development for employee is positively correlated with higher employee retention. The much discussed training and development in the human resource practices study is tested in this research. The correlational results in Table 2.2 provided good support for H2. Training and development showed positive relationships with employee retention. All the four training and development items have a strong positive relationship with employee retention with opportunities to grow cited as the most favourable. The present result was supported by past research conducted by João (2010), Huselid (1995), Landsman (2004), Frazis et. al. (1998) and Wetland, (2003).

Table 2.2. Results of Pearson Intercorrelations for Training and Development.

No.	Training and Development	Employee Retention
1	I have training opportunities to learn and grow	.377**
2	I get training I need to do my job well	.278**
3	I get the training from this company for my next promotion	.229**
4	Available training match with my job	.215**

Note: ** correlation is significant at the 0.01 level (2-tailed)

Hypothesis 3 predicts that performance appraisal of an employee is positively correlated with higher employee retention. The result in Table 2.3 confirms the assertion that performance appraisal is related positively to higher employee retention. The result in Table 3 confirms the assertion that fairness in performance appraisal ($r = 0.386$, $p = 0.01$) rank the highest in its relationship with employee retention. This implied that superior exercises fairness in evaluating subordinates tends to interact with subordinates using their influence rather than authority power (McKenna and Richardson, 1995). The present result showed that the performance appraisal evaluated by the superior does not lead to employee retention. This is probably due to the reason that subordinates tend to misperceive the superiors authoritative position being used to assess their performance.

Table 2.3. Results of Pearson Intercorrelations for Performance Appraisal.

No.	Performance Appraisal	Employee Retention
1	The performance appraisal is fair	.386**
2	There is a formal & written performance Appraisal system	.362**
3	I am informed that how my performance is evaluated	.200*
4	I receive feedback of performance evaluation results about myself	.230**
5	Performance appraisal is done by the supervisor	.091

Note: * correlation is significant at the 0.05 level (2-tailed)

** correlation is significant at the 0.01 level (2-tailed)

Hypothesis 4 predicts that reward based on performance is positively related to higher employee retention. In relation to this hypothesis, the findings in Table 2.4 revealed a positive and significant relationship between rewards and employee retention. Equitable salary ($r = 0.467$, $p = 0.01$) and encouragement to improve quality of work ($r = 0.419$, $p = 0.01$) seems to be the most favourable factor influencing retention. Thus, the present data supports hypothesis H4.

Table 2.4. Results of Pearson Intercorrelations for Reward.

No.	Reward	Employee Retention
1	The company provide performance based compensation	.236**
2	If I do work well, I can count on earning more money (bonuses & commissions)	.307**
3	My pay encourages me to improve the quality of my work	.419**

Table 3: Multiple Regression Analysis: Human Resource Management Practices and Employee retention.

Dependent variable: Employee retention				
Predicted Variables	b	Standard Error	Beta	T Value
Selection	.072	.108	.057	.671
Training and Development	.200	.119	.136	1.676
Performance Appraisal	.284	.119	.202	2.396*
Reward	.374	.117	.284	3.195**

F = 14.582 Significance F < 0.001 R (adjusted) = .266
 * p < .05
 ** p < .0001

The present correlational results indicate a high correlation between reward and employee retention, The regression analysis in Table 3 further confirmed such significant direct relationship ($\beta = 0.284$, $p < 0.005$). This finding is consistent with the work of some research (Arthur 1994; Delaney & Huselid 1996; Park, Ofori-Dankwa & Bishop, 1994; Trevor, Barry & Boudreau, 1997; Abassi & Hollman, 2000), Mercer 2003; Tower Perrin, 2003; Wyatt 1999; Walker, 2001).

The multiple regression analysis in Table 2 also shows that the relationship between the performance appraisal and employee retention is significant and in the predicted direction ($\beta = 0.202$, $p < 0.05$). The present results point to the suggestion that performance appraisals that are conducted in a fair manner can produce positive organizational results (Pettijohn, 2001). A fair appraisal system should be transparent and managers should conduct this process without any biasness against their employees

6. Recommendation

From the analysis, it can be concluded that reward is the most significant variable hence. Thus, it might be beneficial for the firms to incorporate reward based performance into their organization if they wish to retain their employee. By incorporating this, it would eventually

motivate the employees to perform and contribute better. Silbert (2005) comments that reward is very important because it has an enduring impression on employees and continue to support the perception that employees are valued. When employees know that they are valued by the organization, they are motivated to contribute more and perform better. As a result, reward was perceived as not only the benefits gain for task performed but also a reflection of the employees' accomplishments (Ali, 2009). Hence, an effective reward system can lead to employee retention.

Performance appraisal is another variable that can promote employee retention. Thus, it would be prudent for an organization to implement a fair appraisal system in retaining its valuable employees. With a fair appraisal, employees are able to understand their job responsibility better and eventually lead them towards achieving performance growth. The process should also be well established and straightforward to avoid any kind of doubt. This will make the employees accept feedback on their work with an open mind. According to Paul and Anantharam (2003), the participation of an employee in the fair appraisal which reflect fairness and justice will eventually cause the employee to increase their organizational commitment. Hence, a fair appraisal will extract the best employee, but an unfair appraisal system will lead to dissatisfaction among employees.

7. Conclusion

In general, the results of this study in relation to human resource management practices and employee retention were quite consistent with the hypotheses based upon other organizational studies. The instruments used in the study were tested and found to be applicable to our work environment. The results provided some tentative, but hopefully useful guidance for industrial administrators. Intercorrelations among the human resources management practices are not mutually exclusive. Reward was the most closely related to employee retention followed by performance appraisal and training and development. Selection was found to be the least significant in relationship with employee retention. In assessing the effectiveness of the various human resource management practices, the results suggested that reward and performance appraisal should be emphasized to ensure employee retention. Most of the predictive relationships found in this research are in agreement with previous research findings conducted in the western work setting and this study adds on to further support the previous findings.

8. Contribution and Direction for Future Research

The contribution of this study is in asserting some findings for human resource manager to understand the importance of an effective HRM practices on employee retention in the manufacturing industry. Apart from that, this research provides an understanding of some important elements in human resource management practices that are more effective in employee retention. For future research, the more specific variables such as talent management, performance management system and industrial relations should be taken into consideration.

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