

Impact of Strategic Human Resource Management Practices on Employee Retention

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Abstract


This paper aims to analyze the impact of strategic human resource management (SHRM) practices on employee retention. This study employed a quantitative research approach. Senior-level people including CEOs, DCEOs, general managers, operation in-charges, HR managers, and branch managers of six commercial banks and six insurance companies were requested to respond to a series of questionnaires to collect data. 240 questionnaires were distributed; 167 questionnaires (69.58%) were returned and used for analysis. The results suggest that the banks and insurance companies in Nepal might retain their workforces in part by implementing SHRM practices. Out of five indicators of SHRM practices only three indicators such as recruitment and selection, compensation and benefits, and career management practices have a significant and positive impact on employee retention, whereas two indicators such as training and performance appraisal practices have a negative impact on employee retention. In fact, employee retention is the main problem that Nepalese commercial banks and insurance are facing. This is due to high employee turnover. Therefore, they need to focus on employee retention through the effective application of SHRM practices. They also need to create a cohesive set of employment policies to attract and retain skilled employees.

Keywords: strategic human resource management, recruitment and selection, training, performance appraisal, compensation, career management

Introduction

Organizations in the business world today must understand the value of human resources and how to use them to run successful businesses. A prosperous company may have the greatest advantage in terms of technology, depth of capital, market position, etc., but it will be useless without an experienced workforce to handle all of its various jobs and responsibilities (Kiragu & Marwa, 2022). Moreover, it cannot progress to accomplish

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any of its corporate or organizational objectives (Mwami, 2014). However, undesirable employee turnover is one of the biggest and most costly business problems that companies are facing nowadays (Lim et al., 2017). In light of this, human resource management (HRM) practices play a critical role in increasing employee engagement and retention to maximize the potential of present workforces in a competitive environment (Kiragu & Marwa, 2022). They are becoming more and more important (Shrestha, 2020a). Effective HRM practices promote employee effectiveness in an organization (Shrestha, 2022).

Human resources are the key to an organization's success (Kalyani & Chong, 2019; Shrestha, 2013, 2016; Shrestha and Prajapati, 2022; Shrestha and Prajapati, 2023). Today's companies need to focus on the effective use of these resources (Shrestha, 2020b). Human resources successfully complete tasks, provide top-notch services, and produce goods that can compete in marketplaces with fierce competition. They could give companies a competitive advantage (Pradhan, 2023; Pradhan & Shrestha, 2022; Shrestha, 2019b). The management of the human resource (HR) function in business organizations has undoubtedly changed significantly over the past few decades (Lawler, 2005, cited in Fahim, 2019). It has increased the concept of strategic human resource management (SHRM) practices in business organizations. SHRM essentially draws attention to the way that the HRM function is evolving from being prescriptive, reactive, and administrative to becoming executive, descriptive, and proactive (Fahim, 2019). The notion of SHRM is related to the right integration of HRM practices with organizational strategy (Allui & Sahni, 2016; Sahoo et al., 2011). SHRM considers human resources to be a strategic asset that helps organizations fulfill their goals and succeed (Armstrong, 2006). In order to gain a competitive edge, SHRM aims to create a strategic fit by matching human resources to business strategy. By strategically aligning HRM, business organizations can make sure that HRM is a strategic partner in creating and carrying out its strategies through HR initiatives (Minh & Nwachukwu, 2020). Allui and Sahni (2016) reported that the primary goal of SHRM is to develop and execute HR practices and policies that guarantee that employees contribute to organizational goals.

The application of SHRM practices is becoming more popular since evidence indicates that companies that do so have had remarkably successful results (Kalyani & Chong, 2019). It is equally important for enhancing employee retention. Employee retention pertains to the strategies employed by a company to keep its employees from quitting. It requires maintaining those people who have high abilities and perform effectively in the firm in the long term so as to preserve a competitive advantage (Book et al., 2019). Due to the high costs associated with staff replacement (Rigoni & Nelson, 2016) and

organizational performance, employee retention is a popular HR strategy in today's businesses (Cachon-Rodríguez et al., 2022).

Long-term retention and protection of top people are equally important to organizations (Shrestha, 2019a). Organizations that implement SHRM-related initiatives see an improvement in employee attitudes toward retention (Mattox & Jinkerson, 2005). Therefore, it is assumed that the application of effective SHRM can boost employee retention. Based on this background, this paper aims to investigate how banks and insurance companies use SHRM practices. More precisely, this paper seeks to highlight certain key components of SHRM practices that have a significant impact on employee retention in the context of Nepal.

Literature Review

Conceptualizing Strategic Human Resource Management Practices. Strategic human resource management (SHRM) is an innovative approach that facilitates the alignment of employees' talents with the objectives of a company. According to Wright and McMahan (1992), SHRM is the alignment of different HRM practices both horizontally and vertically with business strategy. It can also be seen as HRM that is used and approved by managers and employees, connected to HRM policies that follow different HRM units and hierarchical levels, and integrated into organizational plans (Schuler, 1992). Employee cooperation and strategy-based employee monitoring are facilitated by SHRM (Hsu & Wang, 2012).

According to Karunathilaka (2016), SHRM practices are protocols that have been specifically developed, implemented, and maintained in line with a business's vision. Truss and Gratton (1994) define SHRM as a subfield of HRM. In contemporary business management, SHRM is considered a relevant field of study and practice (Castro et al., 2020). It originally appeared in the middle of the 1980s (Kaufman, 2015). There has been a growing emphasis worldwide on the academic relevance of SHRM, given the importance of its strategic performance (Jackson et al., 2014). Dessler (2011) states that SHRM entails creating and putting into practice processes and HR policies that provide the employee attitudes and productivity needed by the business to achieve its strategic objectives. Furthermore, Mayhew (2018) noted that SHRM enhances the working relationship between employers and employees. HR managers are substantially supported by SHRM in correctly managing the performance, knowledge, and skills of their workforce, which in turn helps their firm, realize its strategic goals (Alolayyan et al., 2021).

In fact, SHRM describes how an organization's workforce will achieve its goals through integrated HR policies, practices, and strategies. Rather than being a set of techniques, SHRM might be conceptualized as a way of thinking backed by a few fundamental concepts. It provides the foundation for strategic reviews, which are conducted following studies of the organizational context and practices to make judgments on strategic plans for the creation of general or focused HR strategies. SHRM includes both setting strategic priorities and making strategic decisions (Kiragu & Marwa, 2022). Nowadays, modern companies view SHRM as a new paradigm for managing human capital at work (Waiganjo et al., 2012).

Conceptualizing Employee Retention. Employee retention is the flip side of the recruitment coin since both are contemporary issues. However, experts contend that while it's relatively easy to hire new staff, it's harder to retain the ones the company already has (Fahim, 2019). Employee retention is a voluntary effort by the company to establish an environment that engages workers over a long period (Chaminade, 2006). It involves both the measures and the businesses' desire to hold on to and retain their skilled workers (Hemalatha & Savarimuthu, 2013). It refers to the different procedures and policies that enable workers to remain with a company (Shrestha, 2012) for an extended amount of time (Francis, 2014).

Retention of employees is not a financial concern. The organization makes the conscious decision to retain employees in order to foster a long-term engaging work environment. This long-lasting and steady attachment bond is formed between the employees and their employer through shared ideals and the manner the latter attends to their needs. In order to secure the professional happiness of employees and build a trustworthy relationship, firms must prioritize the requirements and expectations of their workforce in their long-term business plan. The employee chooses to remain with the company in this stable relationship, exercising their free will and making a thoughtful decision (<https://www.hcamag.com/au/archived/a-retention-checklist-how-do-you-rate/133815>).

In reality, the departure of skilled and competent employees leaves a vacuum in the company, resulting in the loss of critical knowledge, abilities, and professional connections (Latha, 2017). This is in addition to the monetary expense concealed in discrete expenses such as temporary hiring, selection, and training (Holtom et al., 2008). Superior workers receive more offers from outside employers than mediocre employees, which makes them more likely to quit. High rates of voluntary turnover among these employees frequently impair or disrupt performance within the organization (Fahim, 2019). Therefore, today's organizations need to focus on employee retention to sustain their businesses.

Strategic Human Resource Management Practices and Employee Retention. SHRM emphasizes the strategic component of a certain method of managing people and organizations (Storey et al., 2019). In HRM research, the main concern is whether there is a collection of policies that together constitute a distinct method of managing people and are connected to employee retention (Fahim, 2019).

Prior studies indicate that effective SHRM is essential for employee retention. Employee turnover is a significant concern for businesses (Abeysekera, 2007), but businesses that conduct effective HR activities can reduce such turnover and boost competitiveness (Mbugua, 2015). In fact, ineffective HR practices drive employees to resign from their positions (Francis, 2014). So, an inclusive understanding of the relationship between SHRM and employee retention will help businesses make the right decisions in achieving business results.

An organization can increase the retention rate by utilizing a variety of SHRM practices (Fahim, 2019). Recruitment, training, job design, participation, teamwork, work-life balance, and rewards are just a few of the intensive HR activities that Porter (2008) emphasized as being crucial to achieving job fit, which ultimately suggests that individuals may feel a stronger connection with the organization (Mbugua et al., 2015). Furthermore, Francis (2014) focused on how four factors—training and development, career advancement, compensation and benefits, and performance evaluation—affected HRM on workers' intention to stay. On the other hand, Mbugua (2015) described how three SHRM practices—strategic performance management, strategic training, and strategic recruitment—affect retention. Likewise, job design activities, job analysis methods, participation programs, information sharing, grievance, staffing, training, performance appraisal, and incentive-based compensation are some of the SHRM practices that Luthans and Sommer (2005) highlighted as being important for competitive advantage and, consequently, for employee retention (Mbugua, 2015). Kiragu and Marwa (2022) and Mkungo (2011) also revealed that SHRM leads to employee retention. Fahim (2019) also revealed that using best SHRM practices (recruitment and selection, training and career development, performance appraisal, compensation and benefits) is regarded as an excellent strategic tool for retaining core employees in organizations. Therefore, businesses should create SHRM guidelines and strategies that sustain a respectable working relationship between the company and its workforce.

Methods

This study employed a quantitative research approach. The reason for employing this approach was that it enables one to respond to inquiries concerning the relationships

between variables that are being examined to forecast and explain specific phenomena (Kabungaidze et al., 2013).

Senior-level people including CEOs, DCEOs, general managers, operation in-charges, HR managers, and branch managers participated in this study. The major goal was to ascertain SHRM practices that were being used in Nepalese commercial banks and insurance companies and how they related to employee retention.

Table 1

Demographic Characteristics of the Respondents

Demographics Features	N	Percent
Gender		
Male	96	57.5
Female	71	42.5
Marital Status		
Married	133	79.6
Unmarried	34	20.4
Education		
Bachelor	59	35.33
Masters	105	62.87
M.Phil	3	1.796
Age		
21 - 34	91	54.49
35 - 44	32	19.16
45 - 54	38	22.75
55 and above	6	3.593
Work experience (in years)		
0 - 4 years	56	33.5
5 - 9 years	51	30.5
10 - 19 years	24	14.4
20 - 29 years	31	18.6
30 years and above	5	2.99
Job Level (Designation)		
CEOs	10	5.99
DCEOs	11	6.59
General managers	6	3.59
Operation in-charges	12	7.19
HR managers	12	7.19
Branch managers	116	69.5

Note. N = 167

Managerial employees of six commercial banks and six insurance companies were requested to respond to a series of questionnaires to collect data. There were 240 questionnaires in all, 20 for each of the 12 companies. A total of 167 questionnaires (69.58%) were returned; these were utilized for the purpose of analysis. Table 1 presents the demographic characteristics of the respondents.

The checklist assessment of SHRM practices used in this study was developed resulting from a review of the literature. Each practice item is given a point value between one and six, indicating the degree of application. Five dimensions—recruitment and selection, training, performance appraisal, compensation and benefits, and career management—are used as key aspects of SHRM practices (Table 2).

Table 2

SHRM practices

S.N.	SHRM practices
1	<p>Recruitment and selection:</p> <p>The main goal of recruitment is to acquire at the lowest possible cost the quality of employees required to satisfy the strategic needs of the organization on the other hand, selection entails evaluating candidates based on a range of factors, from the objective and quantifiable (such as years of experience) to the subjective and personal (such as leadership potential).</p>
2	<p>Training:</p> <p>It includes the official initiatives that the organization takes to help staff members gain the expertise, experience, and skills necessary to carry out their present or future positions.</p>
3	<p>Performance appraisal:</p> <p>It involves comparing their work performance to a set of predetermined criteria.</p>
4	<p>Compensation and benefits:</p> <p>They involve the total amount of cash and non-cash advantages given to staff members in exchange for their work.</p>
5	<p>Career management:</p> <p>They include opportunities for better career and learning, sponsorship to participate in training and career development programs, supervisor's support in professional growth and career development, opportunities for employees to advance their career in the organization, and regular staff training and career development opportunities.</p>

This study considers nine items to measure employee retention. Table 3 presents the key factors for measuring employee retention.

Table 3

Measuring Employee Retention

S.N.	Employee Retention Indicators
1	Awareness of the retention policy used in the organization
2	Understanding the mechanisms of the retention policy
3	Effectiveness of retention policy
4	Favorable working conditions
5	Consideration of rejoining the organization
6	Being a part of the team within the organization
7	Opportunities for professional advancement are present
8	Presence of quality of communication
9	Encouraging supervision

In keeping with the discussions and discourses mentioned above, the five research hypotheses that this study aims to test are as follows:

- H 1: Recruitment and selection practices have a positive and significant impact on employee retention.
- H 2: Training practice has a positive and significant impact on employee retention.
- H 3: Performance appraisal practices have a positive and significant impact on employee retention.
- H 4: Compensation and benefits practices have a positive and significant impact on employee retention.
- H 5: Career management practice has a positive and significant impact on employee retention.

Descriptive statistics such as mean and standard deviation (S.D.) were used to analyze the data. Furthermore, the following multiple regression analysis was used to examine the impact of SHRM practices on employee retention:

$$ER = \alpha + \beta_1 RS + \beta_2 T + \beta_3 PA + \beta_4 CB + \beta_5 CM + \epsilon$$

Where;

- ER = Employee Retention
- RS = Recruitment and Selection
- T = Training

- PA = Performance Appraisal
- CB = Compensation and Benefits
- CM = Career Management
- ε = Error Term

Results

This part is divided into three sections. The first section begins by exploring the status of the SHRM practices applied in Nepalese commercial banks and insurance companies. The second section shows the test of assumptions of the regression model (including a test of normality and multicollinearity) and the final section presents the results regarding the impact of SHRM practices on employee retention.

Strategic Human Resource Management Practices

The results of descriptive statistics on replies to inquiries about SHRM practices classified in terms of recruitment and selection, training, performance appraisal, compensation and benefits, and career management as well as employee retention are presented in this part.

Table 4

Descriptive Statistics of SHRM Practices and Employee Retention

S.N.	Variables	Mean	S.D.	Reliability
1	Recruitment and Selection (RS)	4.2	0.75	0.92
2	Training (T)	4.1	0.78	0.93
3	Performance Appraisal (PA)	4.14	0.85	0.89
4	Compensation and Benefits (CB)	4.38	0.82	0.87
5	Career Management (CM)	4.43	0.97	0.84
6	Employee Retention (ER)	4.31	0.91	0.82

Note. The reliability coefficients range from 0.82 to 0.93 suggesting a high level of internal consistency in the measurement of these practices.

The results show that for every SHRM variable, the mean values are significantly higher than average. In light of this, it can be said that the banks and insurance companies in Nepal are using SHRM practices satisfactorily. This indicates that these companies heavily rely on SHRM practices to effectively manage their workforce. As an outcome variable, employee retention has a mean value that is higher than average. It suggests that these companies might retain their workforces in part by implementing SHRM practices.

Test of Assumptions of the Regression Model

Regression models can be used to test hypotheses about perceptual data if multicollinearity is absent and the results are normally distributed (Sheehan et al., 2007). Thus, this study tests the regression assumptions prior to applying the regression model for assessing hypotheses.

Test of normality. Kolmogorov-Smirnov (K-S) is used in this study to verify that the data are normal. Table 5 displays the test results. The data's normal distribution is confirmed by the K-S test at the five percent significance level. As a result, it is claimed that the data is normally distributed and that parametric tests can be used on it.

Table 5

Kolmogorov-Smirnov (K-S) Test

Study variables	Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
Recruitment and Selection (RS)	3.23	0
Training (T)	4.199	0
Performance Appraisal (PA)	1.301	0.04
Compensation and Benefits (CB)	2.329	0
Career Management (CM)	1.462	0.03
Employee Retention (ER)	1.649	0.01

Test of Multicollinearity. Table 6 presents the test of multicollinearity test, which uses collinearity statistics to regress SHRM practices and employee retention.

Table 6

Result of the Regression for Employee Retention

Model	Unstandardized Coefficients	Std. Error	t	Sig.	Collinearity Statistics	
	Beta				Tolerance	VIF
Constant	3.288	1.266	2.597	0.01		
RS	0.445	0.072	6.154	0	0.45	2.22
T	-0.056	0.054	-1.032	0.3	0.46	2.17
PA	-0.053	0.031	-1.723	0.09	0.6	1.67
CB	0.118	0.042	2.78	0.01	0.55	1.83
CM	0.159	0.033	4.838	0	0.79	1.27

R = 0.701; R² = 0.491; Adjusted R² = 0.476; R² Change = 0.491; F-stat = 31.113; p-value = 0.00

Since no data in this study has a tolerance value less than 0.1 or a VIF of more than 10, the results demonstrate that there is no multicollinearity in the data. As stated by Burns and Burns (2008), the outcomes are consistent.

Impact of SHRM Practices on Employee Retention

In this regression model, employee retention is considered the dependent variable, and the five SHRM practices that are incorporated into the analysis are the independent variables. As a result of this, the regression model is created as follows:

Table 7
Regression Model

ER =	$\alpha +$	β_1 RS +	β_2 T +	β_3 PA +	β_4 CB +	β_5 CM	+ ϵ
	3.288 +	0.445 RS +	-0.056 T +	-0.053 PA +	0.118 CB +	0.159 CB	+ ϵ
	-2.597	-6.154	(-1.032)	(-1.723)	-2.78	-4.838	
p-value	0.01	0	0.3	0.09	0.01	0	

Note. Figures in parentheses indicate t value

With an R² value of 0.491, the SHRM practices in the model can account for around 49.1% of the variation in employee retention. The model reveals that recruitment and selection practices have a significant and positive impact on employee retention ($\beta = 0.445, p < 0.05$). However, the results show that training practice has a negative impact on employee retention ($\beta = -0.056, p > 0.05$). Likewise, performance appraisal practice also has a negative impact on employee retention ($\beta = -0.0053, p > 0.05$). Furthermore, compensation and benefits practices have a significant and positive impact on employee retention ($\beta = 0.118, p < 0.05$). Finally, career management practice has a significant and positive impact on employee retention ($\beta = 0.159, p < 0.01$).

Table 8
Summary of Hypotheses Results

	Hypotheses	Decision
H 1	Recruitment and selection practices have a positive and significant impact on employee retention.	Accepted
H 2	Training practice has a positive and significant impact on employee retention.	Rejected
H 3	Performance appraisal practices have a positive and significant impact on employee retention.	Rejected
H 4	Compensation and benefits practices have a positive and significant impact on employee retention.	Accepted
H 5	Career management practice has a positive and significant impact on employee retention.	Accepted

Discussion

SHRM is the pattern of long-term, strategically planned HR decisions and actions. It communicates an organization's readiness to invest in its people and acknowledges their value-creation contributions (Sepahvand & Khodashahri, 2021). Prior research (Fahim, 2019; Francis, 2014; Kiragu & Marwa, 2022; Luthans & Sommer, 2005; Mbugua, 2015; Mkungo, 2011; Porter, 2008) has determined certain SHRM practices improve employee retention in the workplace.

The results of this study show that practices related to recruitment and selection have a positive and substantial influence on employee retention. Sepahvand and Khodashahri (2021) also reported that an organization's recruitment procedures and HR policies have a significant impact on employee retention. Mbugua (2015) also agreed that strategic recruitment promotes employee retention. In fact, employee retention can be facilitated by employing well-executed recruitment and selection procedures that take into account job fit, skill match, and alignment with organizational culture and values. Training is also taken as a key aspect of SHRM. Although training has been shown to increase employee retention by Mbugua (2015), Luthans and Sommer (2005), Francis (2014), and Fahim (2019), the findings of this study indicate that training practices negatively affect employee retention. The reason behind this could be due to the same pay both before and after receiving training and people might not want to continue with the existing organization. Performance appraisal practice is a fundamental component of SHRM and is necessary for assessing, improving, and maintaining employee retention. Prior research has shown that performance appraisal encourages employee retention. However, the study's findings indicate that this kind of action has a detrimental impact on employee retention. It may be the result of a lack of fairness and openness, erroneous or inconsistent assessments, inadequate opportunities for feedback and improvement, an excessive focus on unfavorable feedback, inadequate communication throughout the performance appraisal process, or infrequent or irregular feedback. In Nepalese organizations, the final evaluation results are typically kept confidential and not shared with the concerned employees (Adhikari, 2009; Adhikari & Shrestha, 2022; Shrestha, 2022). Such practice may create dissatisfaction and intention to leave organization. Therefore, organizations should concentrate on developing a fair, transparent, and helpful performance appraisal process in order to lessen these detrimental effects.

The results show that compensation and benefits positively and significantly impact employee retention. Together with monetary and non-monetary benefits, extrinsic rewards also increase employee commitment, satisfaction, and morale (Patiar & Wang, 2020). As a result, they promote employee retention. The results also show that career

management practice also promotes employee retention. In fact, efficient career management practices have the potential to greatly enhance employee retention by providing avenues for professional advancement and progress (Kiragu & Marwa, 2022).

In conclusion, retention is the process of keeping valuable employees in an organization. It raises productivity and profitability. Effective SHRM practices promote employee retention that ensures that skilled, competent, and experienced employees will stay in the company. The primary issue that Nepalese commercial banks and insurance companies are dealing with is employee retention. This is due to high employee turnover. Therefore, they need to focus on employee retention through the effective application of SHRM practices. They also need to create a cohesive set of employment policies to attract and retain skilled employees.

Limitations

Despite the fact that the literature provides numerous indicators of SHRM practices, this study only considers five indicators. A small number of selected commercial banks and insurance companies make up the study unit for this research. It is therefore, the results of this study might not be applicable to other sectors. This study only considers the opinions of senior-level people and excludes the opinions of lower-level employees.

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