Human Resource Management Practices and Employee Retention

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ABSTRACT
The purpose of this study is to examine the relationship between HRM practices and employee retention in bank and financial institutions (BFIs) of Nepal. Recruitment and selection, training and development, promotion opportunities, and compensation practices are the four HRM practices examined in this study. A questionnaire with a five-point Likert scale is used for collecting data. 135 completed questionnaires were returned out of the 205 that were distributed, representing a 65.85% response rate. The results show that selection and recruitment have no significant relationship with employee retention. The findings also indicate that there is little to no relationship between training and development and employee retention. There is a strong positive association between employee retention and other aspects of HRM practices like promotion opportunities and compensation practices. Therefore, Nepalese BFIs need to provide timely promotion opportunities and fair compensation practices so that they can retain talented employees in their organizations. Moreover, to meet the challenge of gaining a competitive edge, today’s organizations must create a workplace that encourages performance, productivity, and retention.

Keywords: Human resource management, Recruitment and selection, Training and development, Promotion opportunities, Compensation practices

1. Introduction
The essence of the concept of human resource management (HRM) is that the people working in organizations are viewed as a valuable resource (Shrestha, 2016). If properly managed and treated, people help to increase productivity through their full commitment and capability and enable the firm to compete in local and global markets. The management of human resources, therefore, is one of the key elements in the management and coordination of work and people in an organization (Adhikari & Shrestha, 2022). Managing human resources is essential to an organization’s effectiveness since it is impossible to achieve its stated goals without enough employees. The majority of firms today treat their employees as their most valuable resource. Particularly, human resources are more essential than manufacturing assets in service organizations, therefore improvements must be more closely related to personnel concerns (Boselie & Wiele, 2002). In fact, human resources are seen as capital in today’s competitive environment and are crucial to an organization’s survival. In this environment, businesses struggle to find and keep the talented people (Porter, 2001).

HRM practices, which are widely accepted in modern businesses, provide the foundation for luring and keeping competent workers who continue to provide their services (Shah et al., 2021). Such practices, systems, or strategies are also concerned with high involvement or high-performance work practices. Lado and Wilson (1994) define HRM practices as “a set of distinct but interrelated activities, functions, and processes that are directed at attracting, developing, and maintaining (or disposing of) a firm’s human resources”. Such practices are a crucial result of starting and expanding a business (Boxall et al., 2007). They involve methods, guidelines, and regulations that affect employee morale, productivity, and retention (Lwin, 2022). Thus, a good HRM practices consists of a coherent set of practices that enhance employee skills and abilities, provide information, empowerment and participation in decision-making, and motivation (Applebaum et al., 2000; Pfefver, 1998).

Studies show that HRM practices have helped businesses become more productive and successful, especially
in terms of employee retention. The staff retention rate and turnover rate are both lowered by well-structured HRM processes. These practices raise employee satisfaction. When workers are happy in their jobs, they become more dedicated to their work and the company, which improves performance, productivity, and the desire to stay with the company. According to Kemelgor and Meek (2008), employees generally quit their jobs because they are dissatisfied with their work, aren’t getting enough support from their managers, aren’t getting enough growth opportunities, and are being paid inefficiently. Since an organization may spend more time generating and less time educating employees, employee retention is essential for the firm’s economic performance (Vasquez, 2014). Employees may have a positive or negative attitude toward certain tasks, goods or services, coworkers or management, or the company as a whole. Every organization’s long-term growth and success depend on its ability to keep its employees. Today’s businesses must compete with internal staff retention in addition to external competition (Lwin, 2022).

Employee retention is a burning issue in every business organization. Organizations need to find and keep the greatest employees for a long time in addition to attracting them. The competition is getting fiercer and fiercer in various businesses as a result of numerous factors like globalization and skilled workers (Shrestha, 2019). Since human resources are the most important asset in the current world, employee retention is crucial for every company’s competitive advantage. Other resources can be organized with ease, but the most challenging challenge is to acquire efficient and competent human resources. As a result, organizations are now paying more attention to employee retention (Anis et al., 2011). Effective HRM practices help to retain employees at work. Therefore, the impact of HRM practices (in terms of recruitment and selection, training development practice, promotion practices and compensation practices) on employee retention has emerged as the dominant research issue in the HRM field. Thus, the main objective of this study is to examine the relationship between HRM practices and employee retention in bank and financial institution (BFI) of Nepal.

2. Literature Review

Human Resource Management (HRM)

Human resource management (HRM) is an approach used by organizations to use their workforce for the growth, development, and self-satisfaction of the individuals involved as well as the organization as a whole. It is a system that places a greater emphasis on the growth of human resources within the organization and on good people management to ensure that workers are treated with respect at work (Pradhan & Shrestha, 2022). The main purpose of this study is to assess the relationship between HRM practices and employee retention in Nepal. So, this section presents some review of HRM practices, and employee retention.

HRM Practices

Human resource management is concerned with the people dimension in the organization. It focuses on the management of human energy, competencies, and capabilities to improve productivity. To achieve the organizational objectives, the management of an organization has to consider various HRM practices (Shrestha et al., 2022). However, this study is concerned with four HRM practices such as recruitment and selection, training and development, promotion opportunities, and compensation practices.

a. Recruitment and Selection

Recruitment is any procedure by which an organization seeks candidates and draws in potential employees; selection is the method by which an organization recognizes those applicants who possess the knowledge, skills, abilities and other qualities that will enable it to accomplish its objectives (De Cieri & Kramar, 2008). The main goal of the recruitment and selection procedure is to find as many qualified workers as possible at the lowest possible cost to meet the organization’s human resource requirements (Armstrong, 2003). Although recruiting competent individuals is a good place to start, using a variety of sophisticated human resource management systems is more likely to make it easier to create and maintain a committed team (Raghuram et al., 1993). Employers make an effort to choose and hire the best applicants. In addition, job seekers learn about companies and open positions; but, as they are unable to fully understand all available options and their possible traits, they must rely on incomplete signals (Chan & Kuok, 2011).

b. Training and Development

Employee training serves as more than just a means of equipping them with the skills they need to do their jobs;
it is frequently seen as a sign of an employer’s commitment to its staff (Storey & Sisson, 1993). Additionally, it may be interpreted as reflecting a general organizational strategy that emphasizes increasing value rather than cutting expenses. The ability of many of the most successful businesses in the world to recruit and keep the best personnel for their organization is directly related to the provisions they make for training and development activities (Bassi & Buren, 1999). Therefore, it is crucial for employers to give their employees the chance to learn (Arlond, 2005; Bernsen et al., 2009), as proactive development plans will not only boost team capabilities but also employee motivation, leading to a more devoted workforce (Kyndt et al., 2009). Studies across a wide range of industries and sectors have all found a positive correlation between investment in training and employee commitment (Bassi & Buren, 1999). Investment in training measures and the implementation of development schemes are increasingly recognized as crucial elements of HRM (Oakland & Oakland, 2001). In conclusion, effective training helps to increase employee retention because it gives workers a sense that their skills are valued and gives them opportunities to further hone their skills (Kyndt et al., 2009; Visser, 2001).

c. Promotion Opportunities

Promotion is an ascent in the vertical direction. In terms of the organizational structure, it is upward mobility. In this regard, promotional opportunities are the openness of an organization’s policies and the potential for staff employees to advance within the organization (Delery & Doty, 1996). Such opportunities increase employee loyalty and happiness, and decrease their desire to leave the company. As a result, retention is improved (Palwasha et al., 2017). Therefore, promotion opportunities are also taken as one of the key HRM practices that support employee retention.

d. Compensation Practices

Compensation is a crucial component of HRM practices. According to De Cieri and Kramar (2008), an effective compensation or pay system is crucial for carrying out strategies. According to Milkovich, Gerhart, and Hannon (1991), how workers are paid has an impact on the caliber of their work, how they treat clients, and how willing they are to adapt and pick up new abilities. According to De Cieri and Kramar (2008), a company can attract and keep high-quality personnel by offering competitive compensation and/or benefits. According to Ryan and Sagas (2009), one-way workers determine if their time and efforts are useful is through compensation. Rice et al. (1989) found using discrepancy theory that workers’ satisfaction is a result of what they believe their contributions and job requirements are and what they should receive in return; Chelladurai (2006) supports this. The treatment that other employees receive within a company is one benchmark that an employee may consider. If their salary is commensurate with the time, effort, and commitment they expend in comparison to that of other workers, they will be happy with it. Dissatisfaction may happen if people believe their contributions and efforts are not being adequately recognized by the organization or employment, particularly in terms of remuneration (Ryan & Sagas, 2009). Monetary compensation is reportedly one of the most crucial factors affecting employee retention (Shaw et al., 1998). Bergmann et al. (1994) discovered that thoughtfully crafted employee benefit packages are effective tools for attracting, motivating, and retaining employees.

**Employee Retention**

Employee retention is the capacity to keep the most desired personnel in a company for a longer period of time is known as employee retention. It consists of a number of initiatives that motivate workers to stick in the business longer. It is “a voluntary action by an organization to establish a climate which engages employees for the long term” (Chaminade, 2007). To avoid the loss of competent individuals from leaving productivity and profitability is a more specific and contemporary definition of retention (Chiboiwa et al., 2010). Some see employee retention as the outcome of implementing procedures and policies that help workers stick with the business by offering a working environment that satisfies their demands (Baer et al., 1996). According to a 2002 source mentioned in Starosta (2006), employee retention is the opposite of turnover, which is the total of an employee’s voluntary and involuntary separations from their employer.

Since a company’s ability to be economically competitive depends heavily on the knowledge and abilities of its workforce, it benefits from keeping talented employees (Kyndt et al., 2009). Periodic labor shortages can make it harder for organizations to retain high-performing workers (Jones & Skarlicki, 2003). As a result, both employees and employers are looking for better employment opportunities and ways to boost employee productivity
However, retaining personnel can be difficult (Barney, 1991; Taplin & Winterton, 2007). Due to restricted rationality, particularly due to local cultural and social norms (Metcalf, 2008), HR managers may find it difficult to recruit and retain talent (Barney, 1991; Samuel & Chipunza, 2009). Because employee desire to quit is disappointing for both employees and employers, organizations are more concerned about employee retention. Organizations must accept the costs associated with both hiring new employees and letting go of existing ones, according to Lockwood and Ansari (1999), therefore they make an effort to retain their current workforce. In fact, the organization’s investment in employee recruitment is preserved thanks to the retention of employees and the talents they are valued for (Acton & Golden, 2003). This results in a smaller loss of human capital and higher retention.

**HRM Practices and Employee Retention**

Many studies report that HRM practices are highly essential for retaining employees at work. Employee retention and HRM systems have a close relationship, according to Arthur (1994). Employee relations are a functional component of HRM that includes job analysis and design, recruiting and selection, training and development, performance management, pay structure/incentives/benefits, and performance management (De Cieri & Kramar, 2008). According to Bergmann et al. (1994), well-designed employee benefits packages are powerful resources for luring, inspiring, and keeping people. According to a survey, many of the world’s most successful businesses are aware that their ability to recruit and keep the best personnel for their organization depends on the arrangements they make for training and development activities (Bassi & Buren, 1999). Since periodic labor shortages might make it harder to find high-performing personnel, Jones and Skarlicki (2003) note that employee retention becomes more crucial for organizations. Due to the beneficial effect HRM practices have on employee retention, the majority of firms have integrated HRM practices into their daily operations (Lwin, 2022).

Based on the literature review, the following hypotheses are developed to test the relationship between HRM practices and employee retention.

**Hypothesis 1**

There is a significant relationship between recruitment & selection and employee retention.

**Hypothesis 2**

There is a significant relationship between training & development and employee retention.

**Hypothesis 3**

There is a significant relationship between promotion opportunities and employee retention.

**Hypothesis 4**

There is a significant relationship between compensation practices and employee retention.

**3. Research Methodology**

In order to gather the respondents’ perspectives, a set of questionnaires is used as the tool. Each of the statements is subjected to a five-point Likert scale questionnaire. This research is conducted among the employees of five BFIs including two commercial banks, one development bank, and two finance companies. The questionnaire was distributed to 205 employees.

A statement outlining the goals of the study, the voluntary nature of participation, and the confidentiality of the information was included with each questionnaire. And out of 205 employees, 135 completed questionnaires were returned, representing a 65.85% response rate. Table 1 presents the demographic characteristics of the respondents.
The Cronbach’s Alpha is used to evaluate the validity of each component, including recruitment & selection, training & development, promotion opportunities, compensation practices and employee retention. Table 2 below lists all the variables in summary form, the number of items used to measure each variable, and the results of the reliability test for each variable.

Table 2: Reliability Coefficients (N = 135)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HRM Practices</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruitment &amp; Selection</td>
<td>5</td>
<td>0.80</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>3</td>
<td>0.83</td>
</tr>
<tr>
<td>Promotion Opportunities</td>
<td>3</td>
<td>0.88</td>
</tr>
<tr>
<td>Compensation Practices</td>
<td>6</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>Employee Retention</strong></td>
<td>4</td>
<td>0.76</td>
</tr>
</tbody>
</table>

Table 2 shows that Cronbach alpha for recruitment & selection is 0.8, for training & development is 0.83, for promotion opportunities is 0.88, for compensation practices is 0.72, and for employee retention is 0.76. Thus, the Cronbach alpha for the entire variables shows a value above 0.70 which means that the value for each variable in the study is acceptable because according to Sekaran (2006), the higher the coefficients, the better the measuring instrument.
4. Data Analysis and Results

This section deals with correlation analysis among variables of HRM practices and employee retention. The correlations are computed and analyzed by using the Pearson Product Moment Method. All the relationship has been checked at a one percent level of significance with a two-tailed test.

### Table 3: Correlation Results of Variables of HRM Practices and Employee Retention

<table>
<thead>
<tr>
<th></th>
<th>S&amp;R</th>
<th>T&amp;D</th>
<th>PP</th>
<th>CP</th>
<th>ER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection and recruitment (S&amp;R)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and development (T&amp;D)</td>
<td>0.04</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion Opportunities (PO)</td>
<td>0.15</td>
<td>0.63**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation Practices (CP)</td>
<td>0.23**</td>
<td>0.37**</td>
<td>0.25**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Employee retention (ER)</td>
<td>0.06</td>
<td>0.03</td>
<td>0.32**</td>
<td>0.33**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Table 3 shows a very negligible and insignificant relation between selection & recruitment and employee retention \((r = 0.06; p>0.01)\). Hence, the result does not support Hypothesis 1. On the other hand, the result also shows a very negligible and insignificant relation between training & development and employee retention \((r = 0.03; p>0.01)\). This does not support Hypothesis 2. Furthermore, other variables of HRM practices such as promotion opportunities and compensation practices have a positively significant relationship with employee retention showing a statistically significant value of \(r = 0.23; p<0.01, r = 0.32; p<0.01\) and \(r = 0.33; p<0.01\) respectively. So, the results support Hypotheses 3 and 4.

5. Discussion and Conclusion

Employee retention is one of the most frequently studied issues in the area of human resource management. It is the systematic effort made by a company organization to develop and support a work environment that motivates current employees to stay with it. Effective retention techniques are thought to improve a company’s capacity to draw in and keep talent (Shrestha, 2019). Therefore, organizations need to focus on effective HRM practices as key techniques for retaining talented employees.

The results of this study show that selection and recruitment have no significant relationship with employee retention. The results of this research are inconsistent with the research results of Huselied (1995); and Vandenberg and Nelson (1999). They concluded that recruitment and selection practice is positively related to employee retention. In the same way, Chan & Kuok (2011) reported that when the cost of a mistake in recruitment is high, organizations are more discerning and the turnover of employees will increase. However, good recruitment and selection practices can lower employee turnover. Additionally, the findings indicate that there is little to no relationship between training and development and employee retention. It is supported by the findings of Anis et al. (2011). They argue that keeping employees on the job for a long time after their training and development is not difficult (Anis et al., 2011). Gan and Halimah (2019) also mention that the relationship between training and retention among employees is inconsistent.

Furthermore, there is a strong positive association between employee retention and other aspects of HRM practices like promotion opportunities and compensation practices. Promotion opportunities support employees to stay with the organization (Miller & Wheeler, 1992). Due to these opportunities retention is improved. Promotion opportunities enhance employee happiness and loyalty, and reduce their desire to leave the organization (Biwi et al., 2017). Furthermore, employee retention is greatly impacted by the total compensation package (Miller & Wheeler, 1992). Numerous productivity studies highlight the fact that people with great talent frequently aim for high compensation. Therefore, they might stay with the existing company provided the company can provide an alluring compensation plan for them (Shepherd & Matthews, 2000; Jardine & Amig, 2001). In addition to this, implementing the concept of decent work (Shrestha, 2021, 2022, and 2023) can assist in creating productive workplaces and increase employee retention.

In conclusion, Nepalese BFIs need to provide timely promotion opportunities and fair compensation practices so that they can retain talented employees in their organizations. Moreover, to meet the challenge of gaining a competitive edge, today’s organizations must create a workplace that encourages performance, productivity, and retention. Effective management/leadership skills and HRM practices are key factors in employee retention.
6. Implications

The purpose of this study is to address the issue of how HRM practices relate to employee retention in BFIs. The results of this study will therefore be useful in describing how HRM practices affect employee retention. Employee retention is positively associated with HRM strategies. Therefore, the research’s findings will be useful to managers as they assess the effectiveness of the HRM practices they are currently using and determine how they affect employee retention. Additionally, BFI management can update the HRM practices that are currently in use as needed.

7. Limitations

Despite the research suggesting the best HRM practices, this study only takes four of them into account: recruiting and selection, training and development, promotion opportunities, and compensation policies. Other aspects of the workplace environment affect employee retention as well. In this study, those factors are not taken into account.

REFERENCES


