

## HRM PRACTICES AND EMPLOYEE RETENTION: DEVELOPMENT OF A MEASUREMENT MODEL

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### **ABSTRACT**

*This study tries to develop the measuring scales for HRM Practices and employee retention. The issue of employee retention is very old. Soon after the inception of industrial revolution the era of bigger production units started and issue of retaining employees becomes important. There are many studies focusing on measuring employee retention and developing factors that led to increased employee retention. In the last couple of decades it became clear that best HRM Practices if adopted by the organization will facilitate a longer stay at the organization. In view of the above argument, the study is designed to test the research scales measuring HRM Practices and Employee retention. A pilot study on 20 managers ( $n = 20$ ) was conducted in this regard and various tests were performed to establish reliability, Validity and Unidimensionality of the research instrument thus developed. The tests were performed using SPSS 20.0 and Lisrel 8.80.*

**KEYWORDS:** SEM, CFA, Lisrel, SPSS, HRM Practices, Employee Retention

### **INTRODUCTION**

Previously, many researchers have studied HRM Practices and employee retention. In one of the study Lynn (1997) argued career development opportunities are important in retaining employees of the organization and these employees are more dynamic toward the accomplishment of their objectives and target.

#### **HRM Practices**

In another study Denton (1992) concluded that if the organization and employee works in sync, they can be easily and properly retained. Many studies concluded that communication is the basic factor for retaining employees (Camey 1998). According to Tett and Meyer (1993), psychological factor is a major predictor of employee retention. Similarly, Mendonsa (1998), states that benefits and rewards also significant elements in retaining employees in the organization.

#### **Compensation**

Many studies have analysed the influence of compensation on employee retention (Chiang & Birtch, 2010; Chickwe, 2009; Choi & Dickson, 2010; Hinkin & Tracey, 2010; Sturman, 2001). For example, in many researches it was found that compensation has a significant relationship with employee retention (Irshad 2000; Kosoe 2010).

The results revealed a significant relationship between compensation and employee retention. Moreover, Nawab and Bhatti (2013), Saeed et al. (2013), Ramlall (2013) also found a significant relationship between compensation and employee retention. In the same way, Martin (2003) mentioned that the organization that provides training to improve current employees' competency and skills, easily manages employee retention. Similarly, according to Bibi, Ahmad, and Majid (2018), Bashir and Long (2015), Chung (2013), and Lee and Bruvold (2003), training and retention found a significant correlation between training and development and employee retention.

### **Training and development**

Moreover, Winterton (2004) argued that failure to invest in training and development might contribute to lower employee retention. In contrast, Haines, Jalette, and Larose (2010) mentioned that training and development might decrease employee retention by enhancing their skills, which would make them more attractive to other organizations. Similarly, Batt (2002) argued that training and development does not influence employee retention positively.

### **Performance Appraisal**

Previously, Kuvaas (2006) prompted that performance appraisal has significant influence on enhancing employee retention. Similarly, Jehad and Farzana (2011) and Levy and Williams (2004) argued that developmental performance appraisal increased employees' perceptions of being valued by the organization, and this positive perception, in fact, makes them to stay for a longer period with the organization.

However, Riaz, Ayaz, Wain, and Sajid (2012) argued that performance appraisal did not influence employee retention. While, Johari, Yean, Adnan, Yahya, and Ahmad (2012) found a non-significant relationship between performance appraisal and intention to stay SET is used in the current study, which was developed originally by Thibaut and Kelley (1959), as it has been utilized increasingly as a theoretical base of turnover and retention research to comprehend the employer and employee relationship (Coyle-Shapiro & Conway, 2005).

SET postulated that good acts and performances must be reciprocated (Blau, 1964). The SET suggests that a person who feels that he/she gets benefits from someone will feel obligated to repay or compensate through positive behaviors, attitudes, efforts, and devotion (Moss-holder, Settoon, & Henagan, 2005).

Moreover, SET (Blau, 1964) has mentioned that institutions utilize different HRM practices. Furthermore, SET described that employees perform better, when an organization supports and values them (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001).

### **Measurement Model**

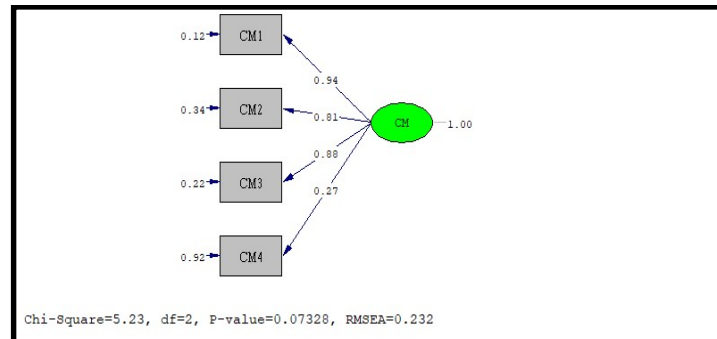
The stage 2 measurement model was developed in this paper, through assessment of unidimensionality, reliability and validity.

### **Assessment of Unidimensionality**

To ensure unidimensionality CFA was performed for all study scales. The results of confirmatory factor analysis were given as under.

**Compensation**

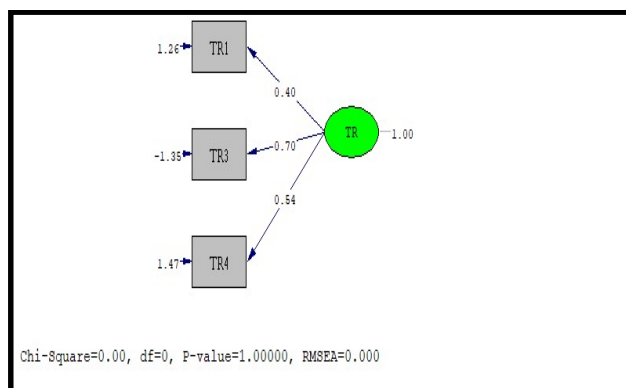
Four items were found unidimensional for CM scale. All standard loadings were in acceptable range as shown in Figure 1.



**Figure 1: CFA Factor Loadings.**

**Training**

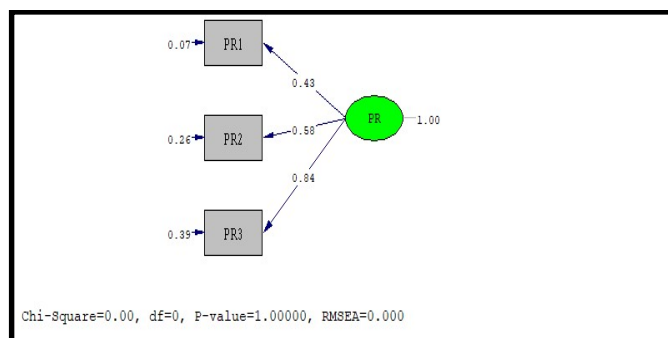
Three items were found unidimensional for TR scale. All standard loadings were in acceptable range as shown in Figure 2.



**Figure 2: CFA Factor Loadings.**

**Performance Appraisal**

Three items were found unidimensional for PR scale. All standard loadings were in acceptable range as shown in Figure 3.

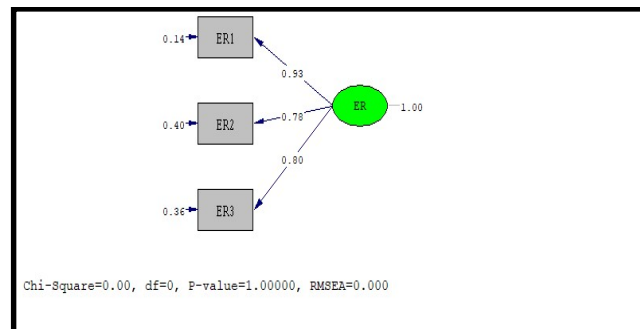


**Figure 3: CFA Factor Loadings.**

## Employee Retention

Three items were found unidimensional for ER scale. All standard loadings were in acceptable range as shown in Figure 4.

After all the scales were tested for confirmatory factor analysis and were found to be unidimensional. All the standard loadings were in acceptable ranges. Therefore we can conclude that this paper successfully developed refined scales to measure HRM Practices i.e. Compensation, Training, Performance Appraisal and Employee retention measures. \



**Figure.4: CFA Factor Loadings.**

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