



## Research Article

# The role of HRM practices in retaining employees: Evidence from the banking sector

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## ABSTRACT

Banking is one of the fastest-growing sectors because of its contribution to the economy, however, today employee retention is demurring for banks and they are striving to fulfill this challenge. It has been observed from the past few years that it is due to the lack of knowledge related to the proper implementation of HR practices in the commercial banks. The main purpose behind conducting the research is to understand the effect of compensation (C), working environment (WE), training and development (T&D), and performance appraisal (PA) on employee retention (ER). The study used convenience sampling with a sample size of 200 and data was collected from the employees of different commercial banks located in Islamabad and Rawalpindi. The empirical results showed that WE, PA, and COM have a significant positive relationship with the ER whereas T&A has the insignificant one.

**Keywords:** *Employee Retention (ER); Performance Appraisal (PA); Compensation (C); Training and Development (T&D); Working Environment (WE)*

## 1. INTRODUCTION

Today we are living in a dynamic environment which makes an organization to believe that retaining employees is essential for organizational success. The prosperity of organization depends upon the retention of key staff members (Das & Baruah, 2013). As a result, researchers started studying the factor of the ambition of employees to retain in organization. There are many factors that affect employee retention however, our main focus is on compensation, working environment, performance appraisal, and training and development. Different authors have different perceptions related to these variables. Kakar, Raziq, and Khan (2015) employee retention denotes the span of time workers stayed in an organization. Whereas, Singh and Dixit (2011) employee retention represents the environment of organization that motivates employees to stay for a longer period of time. In this study, the most significant sector of the economy (banking) is cherry-picked to conduct research on and identify the role of different HRM practices in manipulating the intention of employees.

Working environment plays an essential role in influencing the attitude of employees toward the organization. As per Mehboob and Bhutto (2012), working environment is a locus where individual perform their tasks, it includes; all the physical and psychological features that has an impact on the mind and body of the employees. Besides, performance

appraisal is a tool that is used to measure the performance of employees (Grote, 2002). According to Williams (1997) organizations require to implement this process in a systematic manner because if organizations implement it in an unvigilant manner it will catalyze the stress and decline the productivity rate. Whereas, compensation encompasses both direct pay and indirect pay that employees receive in return for their services (Mackin, 2007). Williams and Dreher (1992) defined compensation as a payment that obliges workers to remain attached to the organization. Therefore, organizations need to provide competitive rewards to their workers in order to retain them for a longer period of time. Training is a systematic method that urges an employees to improve their skills so that they can perform better, while development is for future growth (Dessler, 2011). Training and development programs are the critical aspects of organizational policies and today organizations are desperately investing in them to retain their workers for a prolonged period of time.

The study will help employers and the management of a banking sector to recognize the importance of HRM practices in retaining the employees. Moreover, the study will also provide an empirical evidence to the policymakers of banks, so that they can acknowledge the significance of selected variables. Furthermore, previous researchers have examined the association between several HRM practices and employee retention. Bibi, Ahmad, and Majid (2018) explored the impact of HRM practices (compensation, performance appraisal, training and development) on employee retention by including working environment as a moderator. Yousuf and Siddiqui (2019) determined the impact of performance appraisal, working environment, training and development on retaining the employees working in IT and banking sector of Karachi, Pakistan. Whereas, Abba (2018) examined analyzed the effect of training and development on employee retention but still there is insufficient information available related to the role of compensation, performance appraisal, working environment, training and development in retaining the employees working in the banking sector of Islamabad and Rawalpindi, Pakistan which triggers us to conduct this analysis and assess the relationship among them.

## **2. LITERATURE REVIEW**

### **2.1. COMPENSATION**

Compensation is one of the significant tools which assist the organizations in attracting and retaining employees (Anis, Nasir, & Safwan, 2011). March and Simon (1958) in their study found that employees leave their organizations due to the imbalance between the amount they receive and the services they render to organization. Moreover, among all the other factors of compensation, pay is the most significant element in attracting and retaining employees (Williams & Dreher, 1992). According to the American Compensation Association (1995), "compensation is the cash and non-cash remuneration provided by an employer for services rendered". Compensation includes both pay and benefit packages (White, 2000). Dessler (2008) defined compensation as all forms of pays that employer gives to their employees in exchange for their services. Besides, it also increases the morale of employees if it is well managed and properly implemented in the organization (Yensy, 2010).

## 2.2. EMPLOYEE RETENTION

According to Hafiza, Shah, Jamsheed, and Zaman (2011) employees are the essential element of any organization. The success of an organization depends on a number of factors but the important factor that affects the performance of an organization is its employees, they are the source of achieving competitive advantage (Jeet & Sayeeduzzafar, 2014). Abbasi and Hollman (2000) in their study proved that satisfaction level of customers and profitability of an organization decreases when a key employee leaves the job and it further leads towards a decline in productivity, consistency and delays in the delivery of services. Employee retention is an organizational move to engage employees for a prolonged period of time (Chaminade, 2007). Freyermuth (2007) employee retention is an outcome of HR policies that starts from the selection of employees and continues to keep them engaged. Furthermore, organizations need to treat employees according to their skills, knowledge and expertise because most of the employees switch their jobs when they feel that they are not treated the way they should need to be treated (Nasir & Mahmood, 2018).

## 2.3. PERFORMANCE APPRAISAL

It is a technique to evaluate the performance of employees (Rathore, 2020). The main purpose of practicing it is to achieve the highest possible outcome from employees. It is one of the most important factors in taking decisions related to the development of human resources (Rao, 2009). According to Murphy and Cleveland (1995) it is the essential practice of human resource management. However, it is one of the biggest challenges for HRM to implement (Taylor, Tracy, Renard, Harrison, & Carroll, 1995), because it contains a series of processes that organization need to undertake to evaluate the performance and achievement of goals (Dilts, Haber, Bialik, & Haber, 1994).

## 2.4. WORKING ENVIRONMENT

Working environment includes employees' safety, recognition for good performance, participation in decision making, job security, co-workers relation and motivation for performing, those organizations who neglect their working environment of organization face a decline in the performance of their employees (Spector, 1997). Today one of the major concerns of organizations is to attract and retain the workforce (Aguenza & Som, 2012). According to Guchait and Cho (2010) 80% of employees prefer to perform their tasks in a safe and supportive working environment. Therefore, it is important for the organization to maintain and sustain a supportive working environment in order to retain key employees (Ghosh & Sahney, 2011). It plays an essential role in retaining millennials as it is comprised of two elements, physical and social environment (Raman, Ramendran, Beleya, Nodeson, & Arokiasamy, 2011). According to Rai (2012) millennials prefer to work in a colorful and boundary-less environment. Employees can ensure the quality of work if the organization allows them to work freely without having any barriers that prohibit them to perform up to their full potential (Raziq & Maulabakhsh, 2015).

## 2.5. TRAINING AND DEVELOPMENT

It is a tool used by organizations to improve the skills and abilities of their employees (Jehanzeb & Bashir, 2013). Apart from this, Aguinis and Kraiger (2009) training is a systematic process to enhance the skills, knowledge, and ability of employees to further increase the organization's effectiveness. Moreover, it also strengthens the relationship between employer and their employees (Dysvik & Kuvaas, 2008). According to Nda and Fard (2013) it is the process that organizations need to compose in such a manner that it will not only meet the need of employees but also make them satisfied. Rama Devi and Shaik (2012) described it as a key to unlock growth and development opportunities in order to gain a competitive edge. Aragón-Sánchez, Barba-Aragón, and Sanz-Valle (2003) in their study found that it increases the efficiency and productivity of organizations. Organizations need to train and develop their employees in order to retain them and increase their career opportunities (Harika & Bindu, 2020). Additionally, it is directly related to employee retention (Villegas, 2006).

## 2.6. HYPOTHESIS DEVELOPMENT

### 2.6.1. Compensation and Employee Retention

Several studies in past identified the connection between compensation and employee retention. Hanai and Pallangyo (2020) conducted a study on the banking sector of Tanzania and found that compensation has a positive influence on employee retention. Besides, Sarmad, Ajmal, Shamim, Saleh, and Malik (2016) determined the impact of compensation and motivation on employee retention, the empirical results showed a positive relationship between compensation and employee retention. Whereas Adil, Rao, Ayaz, and Shinwari (2020) investigated the impact of compensation on job satisfaction and employee retention, they found that compensation has a significant connection with job satisfaction and employee retention. Luengalongkot, Chim, and Hongwiset (2020) conducted a research to determine the effect of compensation, training, work environment, leadership and employee relation on employee retention and found a significant impact of compensation on employee retention. Based on all these previous pieces of literature this study proposes the following hypothesis:

**H1:** There is a significant positive relationship between compensation and employee retention

### 2.6.2. Working Environment and Employee Retention

Previous literature indicates a positive relationship between employee retention and working environment. According to Ramapriya and Sudhamathi (2020) there exists a positive relationship between working environment and employee retention in the textile industry of India. Shoaib, Noor, Tirmizi, and Bashir (2009) in a study determined the impact of working environment, rewards and work-life policies, career development opportunities, and supervisor support on employee retention, the results of their study concluded that working environment and employee retention are positively related to each other. Tadesse (2018) conducted a research to identify the impact of working environment, organizational

commitment, remuneration job satisfaction and co-worker's relationship on employee retention, the result showed that WE and ER are positively associated with each other. Sari and GustiAyuManuatiDewi (2020) investigated the effect of career development, work environment and organizational commitment on employee retention, the empirical result of their study showed a significant positive effect of work environment and all other variables on employee retention. Based on the above studies and their results the following hypothesis has been developed.

**H2:** There is a significant positive relationship between working environment and employee retention.

### 2.6.3. Training and Development and Employee Retention

Costen and Salazar (2011) in their study examined the impact of training and development on job satisfaction, loyalty and intent to stay in the lodging industry, results of their study indicated a positive relationship between them. According to the results of the research conducted by Ahmad (2013), training has a positive relationship with employee retention. Nkosi (2015) administered a research to assess the effect of training on employee retention, commitment and performance, result of their research concluded that training is positively associated with employee Retention, commitment and performance. Akther and Tariq (2020) conducted a research on private banks of Bangladesh to determine the impact of training and development, performance appraisal, leadership support, recruitment policy, management support, employee benefits, and job security on employee retention, they found a significant impact of training and development, performance appraisal and employee benefits on employee retention. Based on the above works of literature and their results following hypothesis has been developed.

**H3:** Training and development have a significant positive impact on employee retention.

### 2.6.4. Performance Appraisal and Employee Retention

Performance appraisal can be described as a procedure from which employer measures the performance of employees. Dhanya and Prashath (2020) conducted a research to determine the impact of PA on employee engagement and retention they found that performance appraisal has a significant impact on employee engagement and retention. Hong, Hao, Kumar, Ramendran, and Kadiresan (2012) in their study found a positive relationship between the performance appraisal and retention. Gulzar, Advani, and Jalees (2017) conducted a research on banking sector of Pakistan to identify the effect of performance appraisal, reward system, career development, and performance feedback on employee retention, the results of their study indicated that performance appraisal and employee retention are positively related to each other if practiced regularly and adequately. Malik, Baig, and Manzoor (2020) conducted a research on a textile industry to determine the impact of performance appraisal, compensation, training and development and employee empowerment on employee retention along with perceived supervisor support as a moderator, they found a significant effect of performance appraisal and all the other variables on employee retention except employee empowerment. Based on the above researches and their results following hypothesis has been developed.

**H4:** performance appraisal and employee retention are positively related to each other.

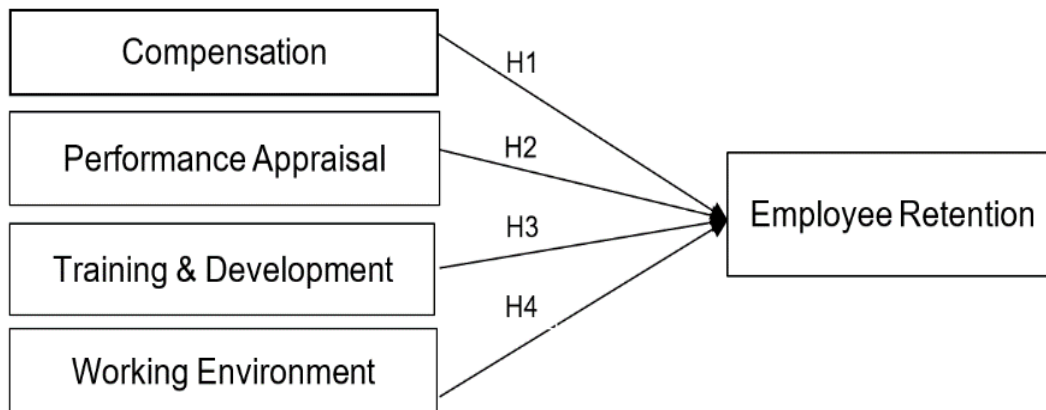


Fig. 1. Conceptual Framework.

### 3. UNDERLYING THEORY

#### 3.1. SOCIAL EXCHANGE THEORY

This model is based on social exchange theory. This theory states that the relationship between two parties or the exchange between two parties depends upon the cost and benefit, it means that if the amount of cost is less and the benefit is high then the relationship or the exchange between two parties takes place. This theory also states that the behavior of one party is depend upon the behavior of another one for example if employer takes care of their employees and fulfills their needs so in return employees will act in a similar manner and fulfill the interest of employer. The above model carries the same concept, if the employer provides good compensation, working environment, opportunities to participate in training programs and provide an unbiased performance appraisal to their employees so employees will get satisfied from the employer and loyal with the organization and in return will prefer to work and put their maximum effort while performing their job to fulfill the interest of employer

### 4. RESEARCH METHODOLOGY

#### 4.1. DATA COLLECTION AND SAMPLING

Data was collected from the primary sources. Online questionnaires were generated and distributed to collect primary data from the employees working at different branches of commercial banks located in Islamabad and Rawalpindi, Pakistan. The study used online questionnaires because of faster questionnaire response, lower cost, and sampling is not restricted to a single geological location (Tan & Teo, 2000). However, due to the large population and lack of resources, it is not possible for us to collect the data from every single individual. For that reason, we divided the population into sample and collected the data by using convenience sampling technique from 200 employees, in which we distributed the questionnaires to those employees of banks who were easily available to us.

## 4.2. RESEARCH AND INSTRUMENT DESIGN:

The research was explanatory and quantitative in nature because the main purpose of the research is to explain the relationship between the selected variables by using some numerical measurements. A cross-sectional time horizon was adopted for the collection of data which states that the data was collected from the employees at a single point in time. The first portion of the instrument comprises of the demographic characteristics and it includes, age, gender, experience, and qualification. The second part of the questionnaire contains 5 items related to employee retention (ER), 6 items related to the compensation (C), 5 items of performance appraisal (PA), 6 items of training and development (T&D), and 6 items of working environment (W). However, the study deleted the first item of PA due to the fact that its outer loading was greater than 0.6 which caused error in measurement. The respondents were given options to select anyone out of five Likert scale (1= strongly disagree to 5= strongly agree). All the items of ER were adapted from the previous research conducted by (Hong et al., 2012). Furthermore, items related to W were adapted from (Edgar & Geare, 2005). Whereas, the items related to the C were adapted from (Teclmichael Tessema & Soeters, 2006). Items for PA were taken from (Nyaema & Wambua, 2019). The items related to T&D were taken from the study performed by (Moncarz, Zhao, & Kay, 2009).

## 5. RESULTS

Initially, for the purpose of finding summary statistics and Pearson correlation matrix, the study used SPSS software. Afterward, the data were analyzed based on the partial least square methodology via two phases. In the first phase, reliability and validity of the scale were checked and in the second phase, path analysis was performed on the model in order to determine the relationship among the constructs. The reason to go for two-phase procedure was to confirm the reliability and validity of the scale items thus, verifying the relationship between the constructs (Hulland, 1999). Apart from this, Smart PLS was adapted due to the fact that it accounts for both the normal and non-normal data hence, verifying the causal relationship among the variable under the asymmetric data. The study was based on the cause and effect relationship between the major HRM practices and Employee retention however, each construct was present in the past literature. Therefore, in order to reduce the measurement error, multi-collinearity and analyzing the causal relationship smart PLS 3.0 was used.

**Table 1.** Descriptive Statistics.

Constructs	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Std. Error
	Statistics	Statistics	Statistics	Statistics	Statistics	Statistics	
T	200	1.000	4.670	3.423	.853	-.629	.172
ER	200	1.200	5.000	3.480	.888	-.704	.172
W	200	1.000	5.000	3.400	.899	-.530	.172
C	200	1.330	4.670	3.380	.811	-.624	.172
PA	200	1.000	5.000	3.477	.941	-.772	.172
Valid N (listwise)	200						

Table 1 represents descriptive statistics of 200 observations for the variables used in the study. The mean value of the training is 3.4233 with a standard deviation of 0.85309 which means the value of training can deviate from the mean to either side of the mean by 0.85309 and the maximum value of training is 4.67 with 1 as minimum value. Whereas, the average value of employee retention is 3.48 with a standard deviation of 0.88856 with a maximum and minimum value of 5 and 1.20. Furthermore, working environment has 3.40 as a mean and 0.89916 as standard deviation value with a minimum and maximum value of 1 and 5. In contrast, compensation has a mean value of 3.38 with a standard deviation of 0.81138 and has a minimum value of 1.33 and maximum value of 4.67. Besides, performance appraisal has the average value of 3.4775 and 0.9418 as a standard deviation with a minimum value of 1 and maximum value of 5.

**Table 2. Pearson Correlation Matrix.**

Constructs		T	ER	W	C	PA
T	Pearson Correlation	1	.740**	.763**	.792**	.692**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	200	200	200	200	200
ER	Pearson Correlation	.740**	1	.829**	.808**	.787**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	200	200	200	200	200
W	Pearson Correlation	.763**	.829**	1	.861**	.787**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	200	200	200	200	200
C	Pearson Correlation	.792**	.808**	.861**	1	.868**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	200	200	200	200	200
PA	Pearson Correlation	.692**	.787**	.787**	.868**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	200	200	200	200	200

\*\* Correlation is significant at the 0.01 level (2-tailed).

Correlation is a statistical technique that shows how strongly two variables are associated with each other. Table 2 shows the Pearson correlation matrix among the selected variables, where the strongest positive correlation is between compensation and performance appraisal with a value of 0.868 which means if anyone between the two increases by one unit the other one will increase by 0.868. Whereas, the weakest correlation exists between performance appraisal and training with a value of 0.692. Note that all the variables have a positive linear correlation at a significance level of 0.01.

## 5.1. OUTER MODEL ASSESSMENT

Table 3 above clearly shows the reliability and convergent validity of the scale used in the study. The Cronbach alpha and composite reliability of each construct are greater than the cutoff point 0.7 which shows the scale items are reliable to measure the proposed constructs. Besides, convergent validity shows the extent to which items are related in order to measure the constructs whereas, AVE values for each of the construct are above the threshold of 0.5 thus meeting the requirement of convergent validity.

**Table 3. Scale Reliability and Validity.**

Constructs	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
C	0.904	0.926	0.676
ER	0.874	0.909	0.668
PA	0.868	0.910	0.717
T	0.877	0.907	0.620
W	0.880	0.909	0.625

On the other hand, Discriminant validity reflects the multi-collinearity phenomena which measures the degree to which independent variables affect each other and in order to avoid measurement error there should be low or zero multi-collinearity among the independent constructs hence, in order to check the multi-collinearity issue the study has used the cross loading criteria as shown in table 4.

**Table 4. Cross Loadings**

Items	C	ER	PA	T	W
C1	0.807	0.621	0.613	0.565	0.620
C2	0.781	0.632	0.649	0.551	0.644
C3	0.826	0.667	0.627	0.659	0.736
C4	0.840	0.712	0.774	0.686	0.695
C5	0.824	0.683	0.709	0.681	0.731
C6	0.853	0.723	0.732	0.634	0.658
ER1	0.673	0.802	0.771	0.615	0.713
ER2	0.474	0.701	0.617	0.579	0.545
ER3	0.724	0.875	0.758	0.569	0.670
ER4	0.688	0.846	0.738	0.550	0.696
ER5	0.762	0.852	0.735	0.629	0.726
PA2	0.717	0.772	0.859	0.702	0.633
PA3	0.779	0.752	0.805	0.650	0.742
PA4	0.646	0.728	0.847	0.651	0.657
PA5	0.681	0.756	0.874	0.622	0.668
T1	0.574	0.577	0.620	0.826	0.597
T2	0.634	0.608	0.644	0.810	0.610
T3	0.598	0.594	0.567	0.802	0.617
T4	0.600	0.561	0.609	0.763	0.551
T5	0.598	0.516	0.554	0.719	0.579
T6	0.623	0.529	0.673	0.801	0.550
W1	0.645	0.619	0.645	0.629	0.758
W2	0.564	0.563	0.481	0.558	0.745
W3	0.639	0.658	0.629	0.573	0.766
W4	0.661	0.675	0.644	0.590	0.821
W5	0.716	0.722	0.729	0.607	0.841
W6	0.693	0.659	0.631	0.570	0.810

As per cross loading, the value of a construct with itself must be greater than 0.7 whereas, the value of a construct with other constructs must be less than itself. Table 4 clearly shows that there is no issue of multi-collinearity among the constructs used in the study.

## 5.2. INNER MODEL ASSESSMENT

In order to test the hypothesis, the study has used the inner model PLS. In addition, inner model was used to estimate the path coefficients and R-square. Path coefficient shows the

direction and magnitude of the relationship between the explained and explanatory variables. Whereas, R-square shows the extent to which dependent variable is explained by the independent variables. All the constructs used in the study are first order factors. Furthermore, the study used bootstrapping technique to check the significance of each path coefficient.

**Table 5.** Hypothesis Testing.

Relationship	Beta Coefficient	T Stats	P Values	Results
H1: C → ER	0.131	2.006	0.022	Supported
H2: PA → ER	0.600	8.735	0.000	Supported
H3: T → ER	-0.053	0.932	0.176	Not supported
H4: W → ER	0.277	4.257	0.000	Supported

The table 5 represents the results of path analysis showing Compensation (C) has a significant positive impact on Employee Retention (ER) that is if C increases by 1 unit the ER increases by 0.131 unit and the p value of this path coefficient is less than 0.05 therefore; H1 is supported. Furthermore, the value of path coefficient between Performance Appraisal (PA) and ER is 0.6 which means that if the PA increases by 1 unit it will cause ER to increase by 0.504 unit and p value of the path coefficient is less than 0.05 indicating that H2 is supported hence; PA has a positive effect on ER. In addition, the relationship between Training and Development (T) and ER is insignificant i.e. the p value is above 0.05 therefore; H3 is not supported. The empirical result with respect to H4 indicates that the increase in 1% of Working Environment (W) will increase the ER by 0.366% and the P stats which is less than 0.05 shows that this relation is significant resulting in acceptance of H4.

**Table 6.** Model Fitness

Construct	R Square	R Square Adjusted
ER	0.831	0.827

Furthermore, table 6 illustrates the model fitness. The value of R square for ER shows that 83.1% of the variations in ER are due to Compensation, Performance appraisal, Training & Development and Working Environment which proves that to retain employee's organization must effectively concentrate on its major HRM practices used in the study.

## 6. CONCLUSION

The main purpose of the study is to explain the relationship between compensation, performance appraisal, working environment, training and development and employee retention. Results highlighted that compensation is positively related to employee retention with the P value of 0.022 which indicates that employees of banking sector prefer to work in the bank that offers them higher compensation. The relationship between performance appraisal and working environment with employee retention is also significant with the P value of 0.000 and 0.000 which suggest that performance appraisal and working environment are the main HR practices for banks that they need to consider to retain their employees for a longer period of time. The relationship between T&D and employee retention is insignificant with the P value of 0.176 which shows that there is a need to consider other factors mentioned above. On the basis of above-calculated results,

we conclude that employers and management of banking sector need to consider compensation, working environment and performance appraisal if they want to make their employees satisfied, improve their performance, decrease the cost of rehiring employees and retain them in a bank for a longer period of time. Employers need to provide compensation to their employees equal to market rate or more than that. Besides, they need to create a flexible, supportive and colorful working environment for their employees. However, they should provide transparent and unbiased performance appraisal to their employees in order to boost their morale so that they can perform their task with full potential and stay loyal to the organization.

## 6.1. LIMITATIONS AND RECOMMENDATIONS

There are certain limitations in the study. First, all the data was gathered from the employees working in banks, Future researchers should include more sectors such as IT, hospitals, and airlines. Secondly, future researchers should expand the model by adding job satisfaction as a mediator and organization culture as a moderator. Thirdly this study focuses on the banks of Islamabad and Rawalpindi, future researchers should extend the study to other areas of Pakistan. Fourthly, the data was only gathered from the sample of 200 employee's future researchers should increase the sample size for more accurate results. Apart from this, employers and management of banks need to focus on the compensation and working environment of the organization because it enhances their ability to attract and retain key employees. Performance appraisal system of the organization needs to be fair, unbiased and completely for the purpose of providing feedback to employees related to their performance but not to drag them down. Employers of banking sector need to focus on compensation, performance appraisal system and working environment of the organization with a proper consideration otherwise it may increase the turnover rate along with the cost of organization in a shape of rehiring the employees for vacant positions.

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