

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter comprises three (3) sections. The first section provides an overview of the theoretical and concepts of employee retention. Then, literature on determinants of employee retention is explored and reviewed. Towards the end, prior literature investigates the understanding of determinants of employee retention and its best practice.

The importance of retaining organizational talent can prove to be a tough task for the HR managers. Traditional employee management researchers have laid down certain strategies to retain skilled workforce, but with changed business atmosphere, innovative employee retention ideas are the need of the hour. Although the HR managers wish that they have low attrition rates, there are certain cases wherein one can do absolutely nothing to retain the employee. These are the few 'out of the blue' cases like the employee deciding to move out of the country or personal illness not allowing him to work any longer. The managers can only term these events as 'unfortunate' and move on to find a replacement.

A considerable amount of literatures have been published on employee retention. It means the existence of an ongoing employment relationship (Huang, Lin & Chuang, 2006). With today's high employment levels, organizations find out that balance of power has shifted from the employer to the employee since the turn over impact have not be administered well.

Excessive turnover is often a symptom of fundamental problems within the business. It's critically important to retain employees; to do this; one must know how an employee can remain in the particular company. A recent study by Raikes and Vernier (2004) have analyzed that retaining employees is considered to be a key strategy to achieve financial success. The challenge might well be increasing day by day. Morgan (2008) advises, "Do not make the headhunters' job easy". Recent evidence by Raudenbush and Bryk (2002) suggests that retention is very important for every organization, whereas it has nested relationship within them, and is part of external environment.

Previous studies by Cappelli (2000) indicate that several factors are considered important in a well-functioning of employee retention. The successful retention of employees leads to knowledge preservation within the organization (Cappelli, 2000). Employee turnover may lead to a loss of human resources weakening competitive positions. At a company level, mechanisms that allow for and promote knowledge transfer amongst employees can help minimize the effect of the loss of skilled staff to other companies (Cappelli, 2000). The determinants that are considered to have a direct affect are career opportunities, work environment and work-life balance. Cole (2000) suggests that people stay at such companies where there is a sense of pride and will work to their fullest potential. The reasons to stay are work environment, rewards, growth and development and work-life balance.

In today's competitive scenario, as the awareness and technology plays a vital role in developing the competition more vigorous and intense. Reducing

employee turnover is a strategic and very important issue. No business can enjoy and sustain the success until it deals with this turnover problem efficiently and successfully. Most critical thing is to lay the groundwork for long term commitment.

Without valuable employees, a business cannot generate revenue and prosper. Every individual have a purpose to perform and without single one, the picture becomes invisible to be successful in real manner. Retaining the employees is the most important target for the organization because sometimes the high salary or the designation is not important for the employee to stay in the organization that is.

2.2 Employee Retention

As a result of the shortage of skilled labors, economic growth and employee turnover; employee retention is the most critical issue facing corporate leaders As defined by Johnson (2000) retention is the ability to hold onto those employees you want to keep, for longer than your competitors. The analysis of retention should be considered at more then just a single level because the “influences” of retention can arises at multiple levels (Klein et al., 1994; Klein and Kozlowski, 2000; Raudenbush and Bryk, 2002; Yammarino and Dansereau, 2004).

A number of studies have found that managing turnover is a challenge for organizations, as different organizations using different approaches to retain

employees (American Management Association, 2001). This can be seen in a study by Moncarz and Zhao (2008) of US lodging properties' organizational practices on employee turnover and retention. The findings reveal that corporate culture, hiring and promotions and training practices influence non-management employee retention. At the same time, hiring and promotion practices impact management retention, as well. Moreover, organizational mission, goals and direction, and employee recognition, rewards retention is considered as all-around module of an organization's human resource strategies. It commences with the recruiting of right people and continues with practicing programs to keep them engaged and committed to the organization (Freyermuth, 2004).

Today the demands of workers have been increased very much as ever before. It is in terms of every aspect, not only salaries and perks but also work experience and cultural context in which it occurs. Providing a prolific, flexible and dynamic work environment can be a critical asset in attracting and retaining valuable employees. In order to develop an effective retention plan for today's employment market, it is vital to realize the varying needs and expectation. If the retention strategies are not properly embedded in the business processes, the all effort since recruitment will ultimately proves futile (Earle, 2003).

2.1.1 Why do Employees Leave?

Before we go ahead and discuss the employee retention ideas, let us first try to understand why employees leave in the first place. In an article by Pandita (2010) stated that the reasons can be as below:

- The expectations of the employee are not met.
- The employee is not satisfied with the functioning of the management.
- The employee feels that he can't grow in the organization.
- The employee feels that he is under-paid.
- The employee feels that his work is not being recognized.
- The employee feels that his work place is a 'sweat shop'.
- The employee feels stagnated, and feels changing the organization will challenge him.
- The employee feels that his job is not secure.

Pandita (2010) further discussed that, it is the role of the HR manager to look for these signs in an employee. Employees like all humans, are affected by emotional, psychological and sociological factors. There are some ways by which one can possibly identify if an employee is shopping around for jobs. Some of the 'clues' are:

- The employee has started taking leaves more frequently.
- The employee spends most of the time in the cubicle and doesn't take part in any of the team bonding activities.
- The employee looks disinterested and shies away from taking responsibility.

- The employee starts complaining about the way things are being run.
- The productivity of the employee has been decreasing and the employee seems to be unperturbed by that.

In convincing an employee to stay if he has made his mind to move requires sharp skills on the part of the HR manager; instead organizations should have strategies in place so that the employees are satisfied with the organization. Let us take a look at some of the employee retention ideas.

- Hiring the right people. This is easier said than done, as now-a-days there are so many ways in which employees make the HR managers believe that they are the right choice for the job. But if you grill the employee a bit more during the interview, chances are that he/she can make revelations which can be an indicator for you if the candidate is worth investing in. So HR managers should carefully fact-find as to why the candidate needs the job. Continuous questions may give you an insight about the candidate's behavior. Also a thorough employee background check is necessary to be sure about the employee's credentials. (Woods et al (1998), Woodruffe (1999), Ramlall (2003)).
- Keeping your staff well informed. Communication is an important part of any organization as it lets employees understand their roles in a better way. If you are planning to start out any new projects or you have reviewed company policies, make sure that you communicate it to all your employees. This helps in keeping rumors at bay. (Ramlall (2003), Mobley, W.H., (1982)).

- Involving employees in important decisions. This can benefit the organization as well, as maybe the employees come up with a solution to the problem, you thought never existed. When you involve your employees and take their opinions, the employees feel valued and this can really boost the employee performance.
- Taking feedbacks frequently. Don't wait for the employee to knock on your door and say, "I need to talk to you". Instead reach out to them by conducting one-to-ones and assuring them that whatever they discuss will remain truly confidential. This can help in cases where female employees are facing harassment from their immediate superiors but think that the person is far too important for the company to complain about. Conducting employee surveys also helps the organization to take a retrospective view of the organization. Make the employees believe that whatever issues that they are facing would be looked into.
- Providing growth opportunities. Doing the same job everyday brings monotony in an employee's professional life. This is also one of the reasons for employees quitting the organization. Every employee wants to climb the corporate ladder so it is the job of the organization to provide enough growth opportunities from time to time. This can be done by having internal job promotions, where the employees can compete against each other to go one step up in the organization. This also helps in employee motivation. (Earle, 2003)
- Having flexibility. Be flexible in your approach when it comes to accommodating employee's requests for leaves, vacations, etc.

Because apart from being employees, they have a personal life as well.

This promotes goodwill among the employees.

- Encouraging creativity. Allow the employees to come up with ideas. Never under-estimate their potential, this way may be you can create future leaders for your organization.
- Providing recreation. Having a yoga session in the office for the employees can help them fight work related stress and will also help them stay fit and healthy. The organization benefits as it reduces the chances of employees falling sick and also helps to boost productivity.
- Having a decent compensation package. Well not all employees leave because of money, but most of them do! Having a fair compensation package plays an important part in job satisfaction. Ensure that you reward exceptional performance with incentives and tenure with a healthy raise.

2.1.2 Employee Turnover and Retention

Employee turnover is the ratio of the number of employees that have to be replaced in a given time period to the average number of employees. In other words, employee turnover gives the managers an idea about the number of employees leaving the organization in a particular time-frame (Pandita, 2010).

Calculation of the employee turnover of one's organization can give an idea if the employee retention policy needs to be reviewed. When organizations have a low employee turnover, organizations need to have a strategic employee retention plan. Various employee retention statistics have shown

that employee turnover is costing most of the companies dearly. In addition, there are several other issues like quality control and low productivity during the initial phases while the new employee is learning the ropes.

With the literatures reviewed; hence, elements identified to be the determinants of employee retention in this study are benefits and payment, strategies, organizational culture and personal satisfaction.

2.3 Determinants of Employee Retention

In this sub-section, literatures on determinants of employee retention is explored and reviewed to explain the linkage of the elements to employee retention.

2.3.1 Benefits and Payment

The term 'reward' is discussed frequently in the literature as something that the organization gives to the employees in response of their contributions and performance and also something which is desired by the employees (Agarwal, 1998). A reward can be extrinsic or intrinsic it can be a cash reward such as bounces or it can be recognition such as naming a worker employee of the month, and at other times a reward refers to a tangible incentive, reward is the thing that an organization gives to the employee in response of their contribution or performance so that the employees become motivated for future positive behavior. In a corporate environment rewards can take several

forms. It includes, cash bonuses, recognition awards, free merchandise and free trips. It is very important that the rewards have a lasting impression on the employee and it will continue to substantiate the employee's perception that they are valued (Silbert, 2005).

Rewards are very important for job satisfaction because it fulfills the basic needs as well as helps to attain the higher level of goals. Earnings is the way by which worker get to know that how much they are gaining by dedicating their time, effort and skills in a job (Bokemeier & Lacy, 1986). Attractive remuneration packages are one of the very important factors of retention because it fulfills the financial and material desires as well as provide the means of being social by employee's status and position of power in the organization. Many researchers demonstrate that there is a great deal of inter-individual difference in understanding the significance of financial rewards for employee retention (Pfeffer, 1998; Woodruffe, 1999). An organization's reward system can affect the performance of the employee and their desire to remain employed (e.g., Bamberger & Meshoulam, 2000, MacDuffie, 1995).

This element has been proved in empirical studies such as in Moncarz et. al (2008) and also from Shoaib, Noor and Tirmizi (2009) with finding that benefits and payment has positive relationship with employee retention. Literatures for next determinant, strategies are reviewed in the next sub-section.

2.3.2 Strategies

Strategies are important in employee retention. Strategies refer to a plan of action designed to achieve a particular goal, particularly employee retention in this study. The strategy can be in form of monetary, recognition, organization culture or/and satisfaction. The forms of strategies are discussed further in this section. In organizations where employees receive the proper training needed to assume greater responsibilities, turnover rates are generally lower. Several studies show that training activities are correlated with productivity and retention (Delery and Doty, 1996; Huselid, 1995; Kallenberg and Moody, 1994; MacDuffie, 1995; Shaw et al., 1998; Terpstra and Rozell, 1993; US Department of Labor, 1993, Walsh and Taylor, 2007; Youndt et al., 1996). In a US Department of Labor (1993) study of high-performance work practices it was found that the use of formal training programs was associated with significantly higher productivity growth. Becker and Huselid (1999) argue that the economic returns of extensive training are more likely to be captured by the firm if employees are motivated to stay and contribute to the firm's success fostered in part by selective hiring, competitive pay packages and team-orientated work environments.

Youndt et al. (1996) theorize that human resource practices designed to develop talented and team-oriented workers improve employee productivity and customer satisfaction. These findings parallel anecdotal evidence from companies such as Southwest Airlines that have used selective staffing and comprehensive training in their quest to improve performance (Pfeffer, 1994).

According to Shaw et al. (1998), organizations with substantial training opportunities should experience lower turnover rates. However, an interesting finding by these researchers included a positive relationship between training and the discharge rate. They theorize that companies that provide more training are concerned about employee skills and performance, and thus experience a high percentage of employee terminations. Conversely, companies that experience a high discharge rate initiate training programs because of lower workforce skill levels (Shaw et al., 1998). In a recent study of young professionals' respondents; formal and professional job training has lower on their challenging work scale, thus, indicating that the type of learning that respondents sought occurs through actual work experience (Walsh and Taylor, 2007). This can be done through strategies of on-the-job training for employees in one organization.

Employee recognition and rewards and compensation perhaps the most notable among organizational retention initiatives is compensation and benefits. Numerous studies have addressed the positive and significant impact of employee compensation, rewards and recognition on turnover and retention (Becker and Huselid, 1999; Cho et al., 2006; Guthrie, 2001; Huselid, 1995; Milman, 2003; Milman and Ricci, 2004; Shaw et al., 1998; US Department of Labor, 1993; Walsh and Taylor, 2007; Youndt et al., 1996).

Several research studies found that highly competitive wage systems promote employee commitment and thus results in the attraction and retention of a superior workforce (Becker and Huselid, 1999; Guthrie, 2001; Shaw et al.,

1998). Shaw et al.'s (1998) study further noted that employees will remain with an organization as long as it serves their self-interest to do so better than the alternatives available to them elsewhere.

A recent study by Cho et al. (2006) investigated the relationship between the use of human management practices and organizational performance. It found that companies providing incentive plans to employees are more likely to experience lower turnover rates among non-managerial employees. The authors theorize that a firm would further reduce its turnover rate if it applies reward systems in the form of incentive plans to more employees across the organization.

Several other research studies have indicated that compensation in the form of base or variable pay may not be sufficient to attract or retain employees. Milman (2003) and Milman and Ricci (2004) concluded that the most significant retention predictors included intrinsic fulfillment and working conditions rather than monetary rewards. Similarly, the study by Walsh and Taylor (2007) revealed that although compensation and work-life balance are important, it is the absence of opportunity for professional growth and development that affects management retention and turnover (Walsh and Taylor, 2007).

Examples of firm efforts to motivate employee behavior include the use of performance appraisals. According to Shaw et al. (1998), these appraisals are ways for organizations to keep track of the value provided by each employee.

Delery and Doty (1996) found that results-oriented performance appraisals were strongly related to return on equity and other financial measures of performance.

Huselid (1995) reports that linking performance appraisals with incentive compensation are intended to align the interests of employees with those of shareholders (e.g. profit sharing plans). These linkages can create incentives which will align workers more closely with the long-interests of the firm resulting in better communication and increased tenure (Becker and Huselid, 1999; Delery and Doty, 1996; US Department of Labor, 1993).

Chew et al. (2005) study reveals that organizations with a value profile of either elite or leadership, complemented with strategic HRM effectiveness will enhance financial performance. Huselid (1995) identified a link between organization-level outcomes and groups of high performance work practices. Instead of focusing on a single practice (e.g. staffing), the simultaneous use of multiple sophisticated human resource practices was assessed. He concluded that the sophistication of those practices was significantly related to turnover, organizational productivity, and financial performance. Delery and Doty (1996) affirmed that the existence of formal or informal policies have many strategic implications that should affect employee retention.

Prior empirical work has consistently found that use of effective human resource management initiatives enhances employee retention and productivity. Specifically, selective recruitment and training procedures,

working environment, labor-management participation programs, and performance appraisal, promotion, and incentive compensation systems that recognize and reward employee merit have all been linked with valued firm-level outcomes (Huselid, 1995; US Department of Labor, 1993).

With the literatures being reviewed, strategies are deemed importance as a determinant for employee retention. The next determinant to be reviewed in the next sub-section is organizational culture.

2.3.3 Organizational Culture

Numerous studies have attempted to explain work environment in various areas such as for example employee turnover (Martin 1979), job satisfaction (Iaffaldano & Muchinsky, 1985), employee turnover, job involvement and organizational commitment (Sjöberg & Sverke 2000). Work environment is one of the factors that affect employee's decision to stay with the organization (Zeytinoglu & Denton, 2005). For this study, aspects related to organizational culture is focused on the culture and work environment of organizations.

Hytter (2008) analyzed that work environment has commonly been discussed by industrial perspective, i.e. with a focus on physical aspects such as, heavy lifts, noise, exposure to toxic substances etc. The interesting part is; characteristics of work environment vary in services sector as compare to production sector because it has to interact with the clients/consumers (Normann 1986). Depending on the kind of business and kind of job,

interactions will be more or less frequent and more or less intense. The interaction between employees and consumer/client hence demands a move of focus from the physical to the Psycho social dimension of work environment. Psycho social work environment includes support, work load, demands, decision latitude, stressors etc.

It's very important to recognize the emerging needs of individuals to keep them committed and provide the work environment as necessitate (Ramlall, 2003). Milory (2004) reported that people enjoy working, and strive to work in those organizations that provide positive work environment where they feel they are making difference and where most people in the organization are proficient and pulling together to move the organization forward.

An independent study conducted by American Society of Interior Designers (ASID) demonstrated that physical/work environment contributes as a major factor effecting the decision of employee's whether to stay or leave the job. It has been identified that light is a possible determinant of job performance, noise sometimes create a snag in office environments and is harmful to employee corporal and psychological welfare, inspiration, and at times, productivity. The most numerous audio grievances are, be short of speech seclusion i.e. eavesdrop people conversation and getting same sentiments as well. Access to nature helps to lessen stress and apprehension; it is beneficial for health environment as well.

Workspace designs have a profound impact on workers and tend to live with job as long as satisfied (Brill, Weidemann, Olsen, Keable & BOSTI, 2001). According to ASID, to keep better privacy and to avoid distractions, the design of office equipment and furniture must be correspondence to it. In order to retain old workers, the design of workplace should create environment that support workers of poor eyesight, provide tools which need less potency and apt position for aging body (Croasmun, 2004).

According to Miller, Erickson & Yust (2001), employees get benefited by work environment that provide sense of belonging. Firms with generous personalization policies may have better chance to satisfy and retain employees by providing appropriate level of privacy and sound control on workspace which enhances the motivation levels to commit with the organization for the long term (Wells & Thelen, 2002). In his major study, Earle (2003) identifies that in the framework of economy; different generations evaluate risk in a different way and prioritize the value of work environment differently. The focus of organizations must be on how to provide better jobs with great work environment to retain employees (Levi, 2002).

Hence, organizational culture is one of determinants that could have impacted in employee retention.

2.3.4 Personal Satisfaction

The study of the relationship between job satisfaction and job performance has a controversial history. The Hawthorne studies, conducted in the 1930s, are often credited with making researchers aware of the effects of employee attitudes on performance. Shortly after the Hawthorne studies, researchers began taking a critical look at the notion that a “happy worker is a productive worker.” Most of the earlier reviews of the literature suggested a weak and somewhat inconsistent relationship between job satisfaction and performance. A review of the literature in 1985 suggested that the statistical correlation between job satisfaction and performance was about .17 (Iaffaldano & Muchinsky, 1985).

Thus, these authors concluded that the presumed relationship between job satisfaction and performance was a “management fad” and “illusory.” This study had an important impact on researchers, and in some cases on organizations, with some managers and HR practitioners concluding that the relationship between job satisfaction and performance was trivial.

However, further research does not agree with this conclusion. Organ (1988) suggests that the failure to find a strong relationship between job satisfaction and performance is due to the narrow means often used to define job performance. Organ argued that when performance is defined to include important behaviors not generally reflected in performance appraisals, such as organizational citizenship behaviors, its relationship with job satisfaction improves. Research tends to support Organ’s proposition in that job

satisfaction correlates with organizational citizenship behaviors (Organ & Ryan, 1995).

In addition, in a more recent and comprehensive review of 301 studies, Judge, Thoresen, Bono, and Patton (2001) found that when the correlations are appropriately corrected (for sampling and measurement errors); the average correlation between job satisfaction and job performance is higher. In addition, the relationship between job satisfaction and performance was found to be even higher for complex (e.g., professional) jobs than for less complex jobs. Thus, contrary to earlier reviews, it does appear that job satisfaction is, in fact, predictive of performance, and the relationship is even stronger for professional jobs.

An emerging area of study is the interplay between job and life satisfaction. Researchers have speculated that there are three possible forms of the relationship between job satisfaction and life satisfaction: (1) spillover, where job experiences spill over into nonwork life and vice versa; (2) segmentation, where job and life experiences are separated and have little to do with one another; and (3) compensation, where an individual seeks to compensate for a dissatisfying job by seeking fulfillment and happiness in his or her nonwork life and vice versa.

Judge and Watanabe (1994) argued that these different models may exist for different individuals and were able to classify individuals into the three groups. On the basis of a national sample of U.S. workers, they found 68% were the

spillover group, 20% in the segmentation group, and 12% in the compensation group. Thus, the spillover model, whereby job satisfaction spills into life satisfaction and vice versa, appears to characterize most U.S. employees. We hear debates and confusion about whether satisfied employees are productive employees, and HR practitioners rightfully struggle as they must reduce costs and are concerned about the effects on job satisfaction and, in turn, the impact on performance and other outcomes.

Numerous studies have shown that dissatisfied employees are more likely to quit their jobs or be absent than satisfied employees. (e.g., Hackett & Guion, 1985; Hulin, Roznowski, & Hachiya, 1985; Kohler & Mathieu, 1993). Job satisfaction shows correlations with turnover and absenteeism in the $-.25$ range. Job dissatisfaction also appears to be related to other withdrawal behaviors, including lateness, unionization, grievances, drug abuse and decision to retire.

Consistent with the spillover model, a review of the research literature indicated that job and life satisfaction are correlated (average true score correlation: $.44$; Tait, Padgett, & Baldwin, 1989). Since a job is a significant part of one's life, the relationship between job satisfaction and life satisfaction makes sense—one's job experiences spill over into one's life. However, it also seems possible the causality could go the other way—a happy or unhappy life spills over into one's job experiences and evaluations. In fact, the research suggests that the relationship between job and life satisfaction is reciprocal—

job satisfaction does affect life satisfaction, but life satisfaction also affects job satisfaction (Judge & Watanabe, 1994).

Also in support of a spillover model for job and life satisfaction, the research literature shows a consistent relationship between job satisfaction and depression (Thomas & Ganster, 1995). One might speculate on the possibility that the relationship is simply due to personality traits that cause both low job satisfaction and depression. However, to counter this, there is evidence that job loss and other work events are in fact associated with depression (Wheaton, 1990). Thus, this research suggests that dissatisfaction resulting from one's job can spill over into one's psychological well-being.

Based on this research, one conclusion is that organizations only have so much control over a person's job satisfaction, because for many people, their job satisfaction is a result, in part, of spillover of their life satisfaction. However, continuing to take actions to address low job satisfaction is not only important for organizational effectiveness, but by not doing so, organizations can cause spillover of employees' low job satisfaction into their life satisfaction and well-being.

Hulin et al. (1985) have argued that these individual withdrawal behaviors are all manifestations of "job adaptation" and have proposed that these individual behaviors be grouped together. Because the occurrence of most single withdrawal behaviors is quite low, looking at a variety of these behaviors improves the ability for showing the relationship between job attitudes and

withdrawal behaviors (Hulin, 1991). Rather than predicting isolated behaviors, withdrawal research and applied practice would do better, as this model suggests, to study patterns in withdrawal behaviors—such as turnover, absenteeism, lateness, decision to retire, etc.— together. Several studies have supported this, showing that when various withdrawal behaviors are grouped together, job satisfaction better predicts these behavioral groupings than the individual behaviors.

Based on the research that shows job satisfaction predicts withdrawal behaviors like turnover and absenteeism, researchers have been able to statistically measure the financial impact of employee attitudes on organizations (e.g., Cascio, 1986; Mirvis & Lawler, 1977). Using these methods can be a powerful way for practitioners to reveal the costs of low job satisfaction and the value of improved employee attitudes on such outcomes as absenteeism and retention.

Hence, from the literature reviewed, job satisfaction and life satisfaction can be pre-defined as personal satisfaction as both of the elements (job and life) connected to a person. This is one of determinants that could have impacted in employee retention.

2.4 Summary of the Chapter

A review of previous literatures determines the relationship between employee retention and its determinants that is benefits and payment, strategies, organizational culture and personal satisfaction in order to understand the retention of employees. Therefore, to retain employees from leaving one organization, the determinants of the employee retention is essential to be in consideration of organization. The research gaps are to identify and evaluate the elements in the selected strategic business unit in order to verify the cause of employee turnover. Hence, this would assist the strategic business unit to identify and perhaps use the recommendation to retain their employees. The next chapter will provide a discussion of the theoretical framework.