Factors affecting employee retention: A Review

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Abstract

In today’s dynamic business environment, increased globalization, with social, economic and technological developments has resulted with a fierce competition among companies. Talent shortage being identified as a salient issue globally; had caused competition even in the labour market. Thus, this had made it crucially important and mandatory for companies to retain their existing employees, although it is a challenging issue encountered by firms across the globe. Through the gathering of a vast literature, a literature review is presented, where it initially provides an idea on what employee retention is, and through the gathered articles, four commonly identified factors were selected; compensation, work-life-balance, working environment and superior-subordinate relationship, and are comprehensively analyzed with literature and thereafter this finally concludes, with the conclusion that if the aim of employee retention is to be achieved, all these factors will have to be put into practice together, rather than individually, because only if all four are implemented together, will the objective of achieving employee retention be successful, both in the short and long term.

Keywords: Employee Retention, Compensation, Work-life-balance, Work environment, Superior-subordinate relationship

Introduction

In today’s competitive, global corporate climate, organisations have been constantly prompted by social and economic developments, which have subsequently exerted pressure on the labour market (Burke and Ng, 2006). According to 2013 research by Hay Group, employee turnover will reach 23% and the global voluntary resignation rate would reach over 192 million by 2018. Thus, on the one hand, the organisational issue was a shortage of talented individuals; on the other hand, companies faced the risk of losing their already-existing trained, experienced human resources (Gharib et al., 2017). This has the potential to put firms at a competitive disadvantage (Moncarz et al., 2009) and has compelled them to view personnel as a critical asset that must be maintained and retained (Kossivi et al., 2016).
Retaining exceptional personnel not only increases a company's competitiveness, but also reduces costs by eliminating lengthy recruiting cycles, which account for almost two-thirds of organisational investment, and any delays to existing operations. (Kumar, 2012). As a result, with concerns of employee retention growing as a result of present and projected increases in turnover rates, retaining employees is expected to be a significant challenge for employers in the near future, requiring considerable attention from companies (Walsh and Taylor, 2007). Thus, the primary objective of this research is to identify and analyse the elements that influence employee retention using secondary research papers.

Additionally, 86 percent of businesses reported having difficulty attracting new hires and 58 percent reported having difficulty retaining existing human capital (Ramlall, 2003). Referring to the enormous expenditures, one study found that recruitment-replacement costs amounted for approximately 50% to 60% of an employee's annual wage, and up to 100% for specialised managerial roles. Meanwhile, Fitz-enz (1997) reported that organisations lose an average of almost $1 million for every ten professionals who leave. Thus, the importance of staff retention has been widely highlighted in previous research studies in light of rising turnover rates and associated turnover costs. Over the years, voluntary turnover has been steadily increasing in practically all businesses worldwide (Huselid, 2000; Abbasi, 2000).

1.1 Research objectives

- To identify key organizational factors that affect employee retention
- To analyse how those factors identified affect employee retention

1.2 Significance of the study

For long-term health and success of companies, employees and their retention is vital. Subsequently, this study will enable companies to identify and analyze the main factors affecting the retention of employees, which could be widely used and applied by companies to find solutions to the employee retention problem, which could help firms save employee-costs which are almost two-thirds of their spending (Kumar, 2012).

Literature Review

2.1 Employee Retention

Employee retention is often defined as 'workers' desire to remain loyal to their current employer (Huang et al., 2006). It occurs when personnel are enticed to stay with the business for an extended period of time or until the current project is completed (Bidisha, 2013). Thus, as Govaerts et al. (2010) point out, organisations' survival was strongly dependent on their human capital. Subsequently, a mandatory duty for organisations to keep certain human assets has been established (Horwitz et al., 2003).
Retention of skilled individuals is extremely tough in today's competitive economy. Top management and the human resources department invest significant time, financial resources, and effort in determining the best strategy for retaining people and gaining a competitive edge (Bartlett & Ghoshal, 2013). Additionally, training activities are employed to retain staff (Chen, 2014). That is why it is vital to comprehend the concept of staff retention. In layman's terms, employee retention refers to retaining an employee within and with your firm. It entails adopting steps that motivate and entice personnel to remain with the firm for as long as possible. It is a deliberate and systematic endeavour. Which should result in meeting the different demands of employees and retaining them as employees.

Thus, this literature review focuses primarily on identifying the elements that affect employee retention. Following that, according to studies conducted by (George, 2015; Moncarz et al., 2009; Kossivi et al., 2016; Umamaheswari and Krishnan, 2013), compensation, work-life balance, working environment, and superior-subordinate relationship were identified as the most frequently identified factors affecting employee retention.

**Compensation**

Compensation was described as the whole of financial and non-financial remuneration provided to employees by their employers in exchange for their valuable services (Osibanjo et al., 2014). It is comprised of wages/salaries, bonuses, incentives, and various ancillary perks such as vacations, health insurance, and corporate vehicles (Patnaik and Padhi, 2012).

On the one hand, compensation was identified as a motivator and hence as a critical retention technique (Gardner et al., 2004), with a direct correlation to employee retention (Hytter, 2007). Teseema and Soeters (2006), on the other hand, highlighted more specifically that voluntary turnover was high among employees who valued higher financial benefits as part of their compensation package, implying that remuneration plays a significant influence in retention. For example, professional nurses who emigrated from South Africa identified compensation as a factor in their decision to leave (Spence et al., 2009).

Yet, Hayes et al. (2006) and Kossivi et al. (2016) concluded that compensation and retention have no direct relationship. For example, while Google Inc. was well-known for its high salary package, their typical tenure was roughly one year, owing to the hyper-competitive nature of the technology business and the abundance of new work options (Business Insider, 2015).

Additionally, according to a recent global poll of CEOs conducted by PWC (2011), 65 percent of corporate leaders place a premium on non-monetary benefits. Additionally, millennials stated that 'money is not everything.' Additionally, according to Kovach's (2001) research among industrial blue-collar workers, wages/salaries alone do not satisfy workers.

Thus, while compensation is a critical factor in retaining employees, it alone will not do so in the long run, because, unlike previous generations, today's employees, both managerial and blue-collar, place a high premium on the value of their job in a variety of other areas, such as work/life balance and employer-
employee relations (PWC, 2011), rather than just pay rates.

Work-life-balance

Work-life balance, as described by Hudson (2005), is a well-planned balance between a person's personal and professional lives. Meanwhile, Estes and Michael (2005) claimed that work-life balance encompasses flexible work arrangements and leave policies, such as flextime, teleworking, job-sharing arrangements, parental leave programmes, and on-site child/elderly care.

Work-life balance has been an increasingly important aspect for many professionals in organisations over the years. Unlike previous generations, employees in today's business climate increasingly want flexible work schedules that allow them to reconcile their professional and personal life (Ellenbecker, 2004). According to a 2011 survey conducted by PWC, 95% of respondents acknowledged the necessity of work-life balance, while 70% claimed that it is extremely important. Although Japanese millennials were the least worried about work-life balance, 85 percent of them stated that it is important to them.

Additionally, Kossivi et al. (2016) and Arnolds (2005) stated that jobs that promote work-life balance allow employees to fulfil family and other responsibilities such as child and elderly care commitments, educational plans, and religious observances, as well as meet the need for reduced stress levels through flexible work arrangements (ACAS, 2015). These factors will increase employee retention, but work environments that lack work-life balance would have significant turnover, meaning low retention. For example, in Taiwan, family matters, namely child care and traditional family responsibilities (Sinha and Sinha, 2012), have a significant impact on the retention of working women, who therefore have a greater turnover rate than men (Naqvi and Bashir, 2012). Thus, if work-life balance existed, working mothers could have organised their work schedules around their home and child-rearing schedules, allocating devoted time for both their professional and personal lives (George, 2015).

Working-environment

A favourable work environment is defined as one that provides a good work experience, adequate resources, and some degree of flexibility, and is thought to play a significant role in retaining people (Alexander et al., 1998).

Additionally, Miller et al. (2001) discovered that employees benefit from an environment that fosters a sense of belonging, which encourages them to remain engaged and loyal to the job for a longer period of time (Irshad, 2014). Meanwhile, Lok et al. (2005) highlighted that job autonomy, positive feedback, and an innovative and supportive organisational culture all had a beneficial effect on employee retention.

Meanwhile, Andrews and Wan (2009) argued that different firms should embrace a variety of distinct work environments to meet the unique needs of their employees. For example, manufacturing organisations were noted to require an encouraging environment in which employees could demonstrate their full capabilities; whereas, service organisations dealing directly with clients were expected to adhere to a psychological dimension in order to effectively interact with and understand them. (Shalley et al., 2011; Umamaheswari
and Krishnan, 2016).

On the other hand, Raziq (2015) stated that if firms do not pay attention to the work environment, it would have a negative influence on employee happiness and performance, resulting in decreased retention rates.

Thus, it is critical to assess and determine the true needs of employees in order to give them with a comfortable work environment that will help maintain retention levels. For example, Google, Inc. was known for having an outstanding, flexible work environment with a strong emphasis on work/life balance, but they nevertheless had a low retention rate. Thus, regardless of how fantastic the culture and environment where, when these exceptional individuals obtained appealing offers from other employers, they chose to leave (Business- Insider, 2016).

Superior-subordinate relationship

According to Jasper (2007), another significant element determining employee retention is the superior-subordinate relationship. It was characterised as the supervisor-employee relationship. Pitts et al. (1990) highlighted that an employee's impression of the organisation is strongly influenced by their relationship with their supervisor. This will keep employees engaged at work, with open communication with supervisors, and will serve as a gateway to gaining employee commitment at work, hence increasing retention rates (Landsman, 2008). If this relationship is not solid, employees will easily become demotivated and look for alternative employment possibilities. (2007) (Kooker et al.) Employees who feel appreciated, recognised, and honoured as part of the organisation will be more engaged in attaining the business's goals and objectives, resulting in greater productivity and retention rates (Mathis and Jackson, 2010). Additionally, this will foster a high level of trust between employees and managers.

However, certain countries are regarded to have a culture of great power distance, signifying autocratic leadership and concentrated control (Sheridan, 1992). Additionally, organisations in these nations will employ an authoritarian or top-down management style, obviating the need for this superior-subordinate connection. For example, Newman et al. (2012) observed no link between supervisors and subordinates among Chinese personnel in environments with a high-power distance culture.

Ghapanchi and Aurum (2011), on the other hand, emphasised the significance of superior-subordinate relationships. Thus, ignoring employees, failing to appreciate their commitments, failing to keep them engaged at work, focusing exclusively on their faults and blaming the wrong person, assigning unrealistic goals to subordinates, and setting unrealistic deadlines all contribute to organisations failing to maintain positive, strong relationships between supervisors and subordinates, resulting in low employee retention levels (Mehta et al., 2014).

After analysing a large number of previous research articles, the researcher identified four key influencers of employee retention: compensation, work-life balance, working environment, and superior-subordinate relationship. Each of these factors was analysed with supporting examples in this chapter to demonstrate how they should be balanced in order to achieve the goal of employee retention.
Suggestions

Reward employees by providing discounted or complimentary tickets to movies, bowling, or pizza for employees and their families in recognition of their exceptional performance. Salary modifications in the middle of the year and unusual pay increases are two strategies the industry should use to retain efficient staff.

Working conditions are a contributing factor to turnover, and top management is accountable for implementing changes. Management should be flexible with work hours to accommodate employees' domestic obligations.

Not only is it critical for management to understand their role in employee retention, but they must also transmit this knowledge on to their supervisors so they, too, learn how to encourage and treat people with respect.

Reduced industry turnover may be achieved by implementing realistic job previews. Companies can strategically leverage the positive and challenging aspects of work to create a realistic job preview when recruiting new employees.

Implementing retention in industry requires the human resources department to take an active role in developing career progression programmes and knowledge retention strategies, management commitment to instil behavioural changes in employees, and cultural improvements through motivation and appreciation. This results in improved service quality, staff satisfaction, knowledge retention, and organisational profitability and performance.

Industry can provide its employees with a variety of training opportunities, a gym, specific leisure areas, and a crèche on-site. These additional benefits are quite appealing to individuals.

Conclusion

Retaining employee has become a need in today's competitive, dynamic corporate climate. Thus, with the primary objective of this study being to identify and analyse the elements affecting employee retention, four previously recognised criteria were addressed in this context: compensation, work-life balance, working environment, and superior-subordinate interaction.

Initially, remuneration was demonstrated to be an effective retention method and was afterwards challenged by others. Nonetheless, it was recognised as a significant factor affecting retention, as many agreed, despite criticisms that, unlike previous generations, today's employees do not view money as the sole motivator, but rather as an influencing factor that must be balanced against other factors such as work/life balance. Additionally, the researcher observed that not just administrative employees, but even operational blue-collar employees, were not entirely satisfied with their salary.
In terms of work/life balance, it was noted as a critical requirement for today's employees if they are to remain loyal and committed to their jobs, largely due to the fact that even countries such as Japan, where people are typically said to work-to-death with little regard for their personal lives, recently reported that they valued work/life balance.

Thirdly, when it comes to the work environment, it was clearly stated that a good work environment should provide employees with a pleasant working experience, enough resources, and job flexibility. However, it was understood that the office environment should vary from organisation to organisation, based on the unique requirements of the people, most notably the various industries in which they operated.

Finally, when it comes to superior-subordinate relationships, it was widely recognised that a strong superior-subordinate relationship was more likely to engage employees, encourage two-way communication, and motivate them to increase productivity, which ultimately resulted in the development of a strong relationship based on trust and confidence, resulting in employees remaining committed and loyal to the business. This, however, was determined to be impossible to accomplish, given the cultural origins of certain countries such as China. Thus, rather than changing each of these aspects individually, firms will benefit from a positive shift in all of them, thereby avoiding cost burdens and disruptions to operations. Thus, this research was able to accomplish the stated objectives while also providing the researcher, possible readers, and businesses with an analysis of these aspects that may be used as tactics for future employee retention.

References


