

Retention Strategy And Its Impact On Employees' Job Performance. A Case Study Of A Small And Medium-Sized Enterprise(SME)

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Abstract

The objective of this paper is to examine the impact of retention strategy on employee's job performance. This study was conducted at Linaco Manufacturing Sdn Bhd, a Malaysian small and medium-sized enterprise (SME). This research examined the factors affecting the job performance of employees of this company. 85 employees from the respective production units of Linaco voluntarily participated in the survey using questionnaire. The statistical application used are the descriptive analysis, Pearson-Moment correlation, and multiple regression. Cronbach alpha statistic was used to analyze the reliability of the instrument used in this study. Resulted from the analyzed data, all hypotheses are accepted. From the employees' perception survey, retention strategy has contributed to employees' job performance. The finding indicated that there is relationship between retention strategy and employees' job performance. The study recommends that the management of Linaco Manufacturing (M) Sdn Bhd. take into account the various aspects of the impact retention strategy has on employees in order to improve the employee's job performance. The recommendations may be helpful to improve the various retention strategy of Linaco Manufacturing(M) Sdn Bhd. and other organisations that may share the same characteristics as Linaco.

Keywords: Retention strategy; employee job performance; human resource management; SME.

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1.0 INTRODUCTION

This study focuses on the impact of retention strategy on employee job performance. As turnover trend intentionally have reduced the overall organisation's efficiency and productivity as it diverts organisation from the core objective as they need to keep replacing the employees who have tendered his resignation. There was a high annual turnover rate, which was about 17% on the year of 2003 and 16% on the year of 2004 reported by the Malaysian Employers Federation annual surveys [1]. According to Malaysian Employers Federation (MEF) Executive Director Shamsuddin Bardan, Malaysian companies are seeing an attrition rate of between 9.6% and a phenomenal 75%, based on its survey conducted on executive positions between June 2010 and July 2011, on 143 companies across the various sectors in the country. The survey shows that the annual average turnover rate in manufacturing and non-manufacturing industry consists of 18.84% and 22.44% respectively. Shamsuddin says this amounts to additional costs for employers as they have to recruit new staff to replace those who have left [2]. While the SMEs sector plays an important role in Malaysia, retention strategy also faces many challenges. Past studies about Malaysian SMEs have highlighted problems faced by Malaysian SMEs in general that have led to the Malaysian SMEs appearing to be less competitive [3]. These hindrances that prevent good job performance [4, 5, 6].

2.0 LITERATURE REVIEW

Researches on retention strategies have been studied extensively among manufacturing and small and medium-sized enterprises. These theoretical and empirical studies have generally focused on retention strategies within western organisations. Relatively few studies have been done about the impact of HRM practices of retention strategy on firm performance in Asian countries [7]. Many researchers have pointed out that retention strategy has given impact on the outcomes such as employee satisfaction, employee commitment, employee retention, and employee loyalty [8]. Some of the authors have indicated that these outcomes can lead to firm performance such as profits, market value of the company, market share, increase in sales, productivity, product service quality, customer satisfaction, development of products/services and future investments. Careful investment in human resources entails the acquisition, management and maintenance of a talented workforce in an organisation. Organisations should therefore maintain their workforce in employment to minimize on cost. This maintenance of employees in an organisation is termed as retention. Turnover, on the other hand, refers to a phenomenon where an organisation fails to retain its employees or loses its employees to other organisations. When retention rates are low, extra time and money are spent on recruiting, selecting, and training new employees that could have been spent on other activities like performance improvement or career development of employees [9].

Additionally, organisations may experience a decrease in performance, efficiency, and morale, and an increase in the disorder of social networks, group cohesion, and communication [10]. A substantial amount of value could potentially end up being employed by a competitor, or become the competition". The most costly element of employee turnover, representing 60 percent, is that of lost productivity [11]. Employees, on the other hand, have a role to play as far as retention strategy or turnover is concerned. Most organisations have taken measures to ensure that their team of employees is retained in the organisation. Since the mid-1990s, scholarly research investigations have been focusing not only on determining why employees leave organisations but also concentrating on those factors positively influencing employees to stay [12]. Because most people spend a considerable part of their lives working in organisations, it is important to understand fully how human resource management practices can be managed effectively. To be effective, HRM must be capable of organising human resource practices in a manner designed to ensure the achievement of the goals of the firm. To conform to the retention strategy planning, the functions of work-life balance, reward and recognition, career development opportunities, and leadership styles are the core issues to be nurtured for the HRM's strategic retention strategy.

■3.0 METHODOLOGY

Research's Hypothesis

Referring to past studies on related topic, the hypothesis for this research are developed as follows:-

H1: There is a relationship between retention strategy and employee job performance

H2: There is an impact of effective retention strategy on employee job performance.

Research Design

This face-to-face survey was conducted at Linaco Manufacturing (M) Sdn Bhd to the respondents from all the production units. The company's HR Department was first consulted for their approval for the survey exercise. A set of questionnaires was distributed with the support of the company management to these employees. The questionnaire was formulated to determine the staff perception. Each set contains short graded questions that can be answered within 15 minutes which was part of company condition for the study approval.

Research Framework

The research framework for this study involved 2 main variables consisting of independent variables and dependent variable. Independent variables consisted of retention strategy and the dependent variables consisted of employee job performance.

Population and Sampling Techniques

The total population of production workers of Linaco Manufacturing (M) Sdn Bhd consists of 103 workers who are working in the respective 4 sections of production units. The sections involved were Canning Section, Packaging Section, Kernel Section and Coconut Milk Sections. Out from 103 workers, only 85 respondents were selected or (82.52%) from the total production workers by using random sampling. Target population is said to be a specified group of people or object for which questions can be asked or observed made to develop required data structures and information [13]. The percentage of response rate is extremely important in a survey because it indicates how much bias there might be in the final sample of respondents. The lower response rate, the greater the likelihood that such biases may distort the findings and in turn, limits the ability to generalize the findings to the population of interest. A response rate of about 50% is generally considered adequate for survey research, 60% is considered a good return rate, and 70% is very good [14].

Instruments and Measurement

There were 2 instruments that were used in this research consisting of retention strategy and job performance. Attitude measurement is a questionnaire designed to measure attitudes by producing a score from some form of summing the elements in the scale and the researchers use a scored or gradients response scale of 1-to-5 rating.

Data Collection Methods

For the purpose of this study, a structured questionnaire consisting of 12 questions was designed to collect data. In this study, the researcher's application to conduct the study was approved by the Top Management of Linaco, then the staffs from the HR Department distributed the sets of questionnaire to the selected respondents. The respondents were given a period of 2 weeks to return the questionnaire forms to the researcher.

■4.0 DATA ANALYSIS AND RESULT

It can be seen from Table 1 that 43 (50.6%) of the respondents were male and 42 (49.40%) of the respondents were female. 57 (67.10%) education level of the respondents were O-level, 20 (23.50%) were certificate holders, 4 (4.70%) were diploma holders and 4 (4.70%) of them were degree holders. From this table, out from the 85 respondents, 24 (28.20%) of them aged between 18-25, 30 (35.30%) aged between 26-30, 9 (10.60%) aged between 31-35, 14 (16.50%) aged between 36-40, 4 (4.70%) aged between 41-45, and 4 (4.70%) aged above 50. The average age of the respondent is relatively young with 63 (74.11 %) of the respondents were below 35 years old. Table 1 also shows that 19 (22.40%) of them were employed less than 1 year, 34 (40.00%) employed between 1-2 years, 19 (22.40%) employed 3-5 years, 6 (7.10%) employed between 6-10 years and 7 (8.20%) employed more than 10 years. It can also be seen that there is quite a high employee turnover rate as indicated by 53 (62.40%) of the respondents having served the company of less than three years despite the fact that the company has been operating for more than ten years. As can be seen on Table 1, the distribution of respondents' salary. Out of 85 respondents, 27 (31.80%) of them were paid less than RM900 per month, 33 (38.80%) paid RM900-1249 per month, 20 (23.50%) paid between RM1250 to RM1499 per month, and only 5 (5.90%) paid more than RM1500 per month. The survey revealed that the average salary of the respondents is relatively low whereby 60 (70.60%) of them receive RM1249 or less.

Table 1 Respondents demographic analysis

	Frequency	Percent
Gender		
Male	43	50.6
Female	42	49.54
Education		
O-Level	57	67.1
Certificate	20	23.5
Diploma	4	4.7
Degree	4	4.7
Age		
18-25	24	28.2
26-30	30	35.3
31-35	9	10.6
36-60	14	16.5
41-45	4	4.7
50 above	4	4.7
Employ period		
Less 1 year	19	22.4
1-2	34	40
3-5	19	22.4
6-10	6	7.1
More 10 yrs	7	8.1
Salary		
Less RM900	27	31.8
RM900-RM1249	33	38.8
RM1250-RM1499	20	23.5
RM1500 above	5	5.9
	85	100

Reliability Test

Table 2 shows that Cronbach's alpha for retention strategy instrument is $\alpha=.778$, and in Table 3, the Cronbach alpha for Job Performance instrument is $\alpha=.811$, and therefore are acceptable for the purpose of analysis [15].

Table 2 Cronbach's reliability; retention strategy

Cronbach's Alpha	N of Items
.778	12

Table 3 Cronbach's reliability of job performance

Cronbach's Alpha	N of Items
.811	23

Descriptive Analysis on Retention Strategy and Employee Job Performance

Employee perception of Linaco's HRM practices on employees' job performance in Table 4 shows that the mean score for retention strategy is 2.7990. The survey revealed that the mean score for HRM practices of retention strategy was relatively moderate. The mean score for job performance is 3.6784 and also is relatively moderate.

Table 4 Mean statistics of retention strategy and job performance

	MeanRT	MeanJP
Valid N	85	85
Missing	0	0
Mean	2.7990	3.6784

The Impact of Retention Strategy on Employees' Job Performance

Multiple regression analysis was used to examine the impact of retention strategy on employees' job performance. Result of the multiple regression analysis in Table 5 shows that retention strategy contributed 24.5% to employees' job performance. Thus, it can be concluded that effective retention strategy lead to employees' job performance. Therefore, the research's hypothesis is also accepted.

Table 5 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.495a	.245	.217	2.67999

a Predictors: (Constant), Retention2,

Anova Results

The ANOVA results statistic F(8.763) in Table 6 has revealed a positive and significant correlation between retention strategy on employees job performance.

Table 6 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	188.817	3	62.939	8.763	.000b
	Residual	581.771	81	7.182		
	Total	770.588	84			

a. Dependent Variable: Job Performance

b. Predictors: (Constant), retention strategy

Coefficient Results

Beta coefficient of retention strategy in Table 7 shows that retention strategy is the contributor to employee's job performance based on the perception survey of $\beta = 0.228$, therefore, if the company increases one unit of retention strategy, employee job performance will increase by 0.2 unit.

Table 7 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.609	7.448		1.559	.123
	Retention2	.219	.098	.228	2.231	.028

a. Dependent Variable: Performance2

5.0 DISCUSSION

Employees' Perceptions of Retention Strategy at Linaco Manufacturing (M) Sdn Bhd.

The finding shows that the employees perceived the retention strategy as practiced by Linaco as moderate. From the survey, the employees, on one hand, expect much better efforts to improve their job performances and they are aware with the strength and weakness of the function

of Linaco's HRM retention strategy practices. It is no doubt that the retention strategy adopted by Linaco is of a moderate quality, which helped the company to reach where it stands now and may continue its contribution to Linaco in future. But in the small and medium-sized enterprises (SME), developments in different areas take place continuously and it is no exception for human resource management practices. With the changing world, the perceptions of the employees are also changing. Now they look at jobs from different dimensions. Across time, their demands get a diversified shape. As indicated, the employees' perceptions changes on particular HR or management aspects.. Thus, if the company fails to identify those aspects or expectations, it can be said that the company has failed to bring adequate adjustments in their retention strategy, and it may cause a fall to the functions related to retention strategy which are directly related with their satisfaction. Retention strategy is considered as a key factor for managing attitude of the employee and is a great influence on employee's job performance. Practically human resource management practices are used for managing employee and maintaining employment relations in organisations.

The level of Employee's Job Performance

The success of any organisation mainly depends on its employees' level of job performance. The firms, whose employees are performing in its full efficiency level, are working as comparative advantages. Employees of an organisation play the key role for performing better and better. Human resources management practice is the key tool to improve the level of employees' job performance. Competitive advantage of an organisation can be achieved by the HR practices [16]. It is assumed that retention strategy has a significant and positive relation with the performance level of employees. Organisations are improving retention strategy systems to ensure optimum level of employees' performance in order to achieve its profits. There is a highly positive correlation between the level of employees' performance with HR practices and firm efficiency [17].

From the literature review stated earlier in this study, lots of researchers have identified several retention strategy's organizing practices that considerably talk into level of employee's job performance. A better level of performance can be achieved through sixteen HRM-related activities [18]. Seven human resource practices are directly correlated to level of performance [19]. Several researchers have opined that better level of employee job performance can be achieved through a mixed HRM practices than those of individual practices [20,21,22]. So it can be said, a useful service of those specific practices consequences in high performance from corner to corner all nature of organisations. Several researchers opined that performance evaluation has a strong positive relationship with the level employee job performance and when an employee is evaluated as excellent means he is performing strongly and when an employee is ranked as poor rated means he/she is performing weakly [23].

The Relationship Between Retention Strategy and Job Performance

Results of the survey conducted at Linaco attributed a high turnover rate as indicated by 53 (62.40%) of the respondents having served the company for less than three years although the company has been operating for more than ten years. This ratio demonstrate the constraints of Linaco's HR Department when it comes to providing career advancement and promotion opportunities. The study conducted at Linaco is similiar with Moss et al's(2008) extensive study of organisations in the US over a period of seven years which found that whilst most organisations with relatively flat structures (in order to minimize cost), as they developed and strove to retain a motivated workforce, their structures evolved to include several hierarchical layers, with some almost doubling the number of layers [24]. This has created more opportunities for growth for valued employees and ultimately reduced turnover. In order to ensure that the HR Department of Linaco retains employment in the organisation, it is necessary for Linaco to review the research investigations made by the scholars in the mid-1990s, whereby scholarly research investigations have been focusing not only on determining why employees leave organisations but also concentrating on those factors positively influencing employees to stay [12]. Thus, it is necessary for the Human Resource Department of Linaco to effectively handle all issues in relating to retaining the diverse workforce and re-formulate and re-implement the new HR policies that will guide the HR management and the employees to support the vision and mission objectives of Linaco.

The Impact of Retention Strategy on Employees' Job Performance

There is a serious problem of employee job performance among the majority of the SME firms surveyed in Malaysia [25]. Job performance of employees in the service sector SMEs tend to be low due to lack of right skills which may affect the ability of the employees to deliver the expected standard of job performance [3]. The study on the impact of retention strategy on employees' job performance at Linaco revealed that the employers tend to have high expectations concerning employee job performance by continuously monitoring the job performance of the employees through various performance management activities [26]. Thus, having the right workforce with good retention strategy lead towards improving employees' job performance.

6.0 CONCLUSION

Based on the above discussion and implications it can be concluded that effective retention strategy leads to improved employees' job performance. The rationale of this study is to examine the relationship between the retention strategies with employee job performances in the production units of Linaco. All hypotheses developed in this study are accepted. The retention strategy and employee job performance has positive and significant relationship as revealed in this study. These results are in accordance with the scholars' previous study. The regression results show that HRM practices of retention strategy are significant. Employees are the key players for the organisation and SMEs' development. So HR Department of Linaco should re-examine their existing retention strategy. A proper retention strategy motivates employees quicker than others. It accelerates employees' job performance in the long run. As there are pressures existing in the rising economy of Malaysia, the company should retain their employees by adjusting salaries and others financial incentives to the employees from time to time. Linaco should also consider HRM practices like performance evaluation and promotion practices. For smoother operation

of various production activities, the retention strategies need to be maintained accurately. This study can facilitate Linaco as well as other small and medium-sized enterprises (SMEs) to appropriately understand that retention strategy generates higher job performance of the employees. For the employees, adoption of these practices can lead to higher productivity, increased morale, lower absenteeism and most importantly, lower turnover. There is no doubt that there have been major changes in the world of work and those who work in it. Therefore, the function of retention strategy are becoming more important and is growing rapidly which have no doubts the company should carefully consider as a matter of priority. Gen Y plays an important role in the future development of Linaco. Because of more work experience and better education, Gen Y workers are more mobile, and move easily from one employer to another if they are unhappy with the work. Thus, to retain these workers, the HR manager with the collaboration from all of the head of the departments need to do a better job in retaining the employees and career development opportunities. To mitigate the challenges faced by the small and medium-sized enterprises (SMEs) in Malaysia, it can be concluded that the SMEs should seriously consider expanding and enforcing the use of retention strategy across all its departments as numerous benefits accrue to the Ministry, the employees and the larger community it is mandated to service.

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