



## **ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE**

**EFFECTS OF HRM PRACTICES ON EMPLOYEE RETENTION:  
THE CASE STUDY OF COMMERCIAL BANK OF ETHIOPIA  
AND AWASH BANK**

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Commerce, in partial fulfillment of the requirement for the  
Degree of Master of Arts in Human Resource Management**

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## **DECLARATION**

I, Abu Taddele, declare that this work titled “effects of HRM practices on employee retention: the case study of Commercial Bank of Ethiopia and Awash Bank”, is my Owen effort and study and that all sources of material used for the study have been duly acknowledged. This study has not been summated for any degree in this university or any other university. It is offered for the partial fulfillment of the MA degree in human resource management.

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## **ACCRONYMS**

CBE- COMMERCIAL BANK OF ETHIOPIA

HRM – HUMAN RESOURCE MANAGEMENT

HRMP- HUMAN RESOURCE MANAGEMENT PRACTICES

HR- HUMAN RESOURCE

BR- BRANCH MANAGER

CSM- CUSTOMER SERVICE MANAGER

SCSO- SENIOR CUSTOMER SERVICE OFFICER

CSO- CUSTOMER SERVICE OFFICER

JO- JUNIOR OFFICER

NAAD- NORTH ADDIS ABABA DISTRICT

WAAD- WEST ADDIS ABABA DISTRICT

SAAD- SOUTH ADDIS ABABA DISTRICT

EAAD- EAST ADDIS ABABA DISTRICT

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## **ABSTRACT**

*The main purpose of this study was to see the extent of the effects of HRM practices on employee retention of in CBE and Awash banks. To achieve this, some specific objectives were set. The research followed an explanatory cross-sectional design because it explains the relationship between the dependent and the independent variables. This study follows the hypothetic deductive model which presents social research as an interaction between empirical observation and reason or induction and deduction (Sarantakos, 2005). This approach assumes that knowledge is produced deductively from a theory or hypothesis, hence theory are tested by deriving hypothesis from which the theories are either rejected or accepted. Data for the study was collected through triangulation method of qualitative and quantitative. A mixed of sampling techniques were used to select the targeted population. Totally 300 employees (consensually) were sampled to participate in the study. In all, a total number of 283 questionnaires out of the 300 representing a response rate of 94.3% were used for the analysis. Primary and secondary data was used as a source for the data, questionnaire and interview for the primary and review of litterateurs and documents for the secondary data. Descriptive statistics (frequency, mean and standard deviation) and inferential statistics like correlation and regression is used for analysis. Logistic regression analysis were used to test the strength and direction of relationship been the independent variables and the dependent variable. The result of the correlation tests revealed a strong positive and significant relationship with employee retention except for job security which came up as weak but positive relationship. A binary logistic regression was employed to test the hypothesis and a result was that except job security all the rest practices effect on employee retention. Finally banks are recommended to invest on employees to stay in the organization especially on compensations and incentives, communication and information sharing and needs to review the practice of job security and suggested to new researchers to take a longitudinal study on this topic by adding other HR practices.*

## **Chapter One: INTRODUCTION**

### **1.1. Background of the Study**

The most valuable asset to an organization is its people, thus retaining staff in their jobs is essential for any organization. Employee retention is one of the most critical issues facing organizational managers as a result of the shortage of skilled manpower, economic growth and high employee turnover (Michael, 2008). It is asserted that resources that are rare and valuable create competitive advantage. Studies by Barney (1991), Khan (2010), show that organizations increase and sustain competitive advantage through the management of scarce and valuable human resources. Thus, the success of an organization is dependent on the quality and efficiency of human resources.

Indeed, in world where competition is high and the technologies processes and products can be easily duplicated by competitors. Employees are the key and most reliable resources that can keep an organization a step ahead of its competitors. Pfeffer (2005) affirms that acquisition, development and retention of talent are the base for developing competitive advantage in many industries. Accordingly, for any organization to thrive and remain competitive it is important that it attracts and retains skillful human resources. This implies that employees retention play a vital role in the growth of organizations.

Employee retention is an increasingly impartial challenge for organizations as the age of the knowledge worker unfolds (Lumley et.al, 2011). As Harrie (2007) mentioned that, the labor market belongs to employees because talented candidates in the global job skills market have the luxury of choice (Harris, 2007). The dynamic business environment has brought to bear a lot of organizational challenges, a provident one being the retention of adopt employees. On the other way employee turnover is costly and can negatively affect organizational effectiveness & employee moral (Kacmar et.al, 2009, show et.al, 2008). Moreover, the cost of replacing workers is high, finding skilled employees can be difficult and investment in training are currently less secures (Lochhead & Stephens, 2004). According to Fitz-enz (1997), the average company loses approximately one million dollar with every two managerial and professional employees who leave the organization. This shows that organizations need to do work intensively on employee retention

The main purpose of employee retention is to prevent employees from leaving an organization as this could have adverse effect on productivity and profitability (Samuel & Chipunza, 2009) However, the challenge of attracting, retaining and motivating people has never been greater (Punia & Sharma, 2008).

Considering the economic impact of losing skillful employees it is prudent that organizations do not create an environment that contributes to turnover. Rather they must introduce and integrate HRM practices, policies and programs that can maximize employee motivation & retentions.

According to Bratton & Gold (2009) HRM is a strategic approach to managing employment relations which emphasize that leveraging people capabilities is critical to achieving competitive advantage, this being achieved through a distinctive set of integrated employment policies programs and practices.

Thus effective HRM practices can be the main factor accounting for the success of an organization (Stavrou-Costea, 2005). HRM practices can also be used to elicit some positive behavioral outcomes as well as advance the skills and abilities of employees. Here it is possible to see that there are a number of familiar HRM practices that can aim at improving commitment and retention. For this reason this study will focus on compensation and incentives, training and development, recruitment and selection, job security and communication and information sharing.

As Dockel, Basson & Coetzee (2006) identifies compensation offers employees some level of security, autonomy recognition and improved self worth, which consequently increase employees since of self worth heading the affair commitment and retention (Maths & Jackson, 2004). On the other way training and development increase the specificity of employee skills which in turn increases employee productivity and reduces job dissatisfaction that results in employee turnover (Huselid 1995). Huselid (1995) further examined that HR practices of high performance companies and found that attracting and selecting the right employees increase the employee productivity, boost organizational performance, and contribute in reducing turnover. This practice can ensure that the right people, with the desirable characteristics and knowledge, are in the right place, so that they fit in the culture and the climate of the organization.

Job security is the other human resource practice that can create a climate of confidence among employees which cultivates their commitment on the company's workforce (Ahmed and Schroeder, 2003). Sharing of information, one of the HR practice, may have a dual effect: Firstly, it conveys employees the right meaning that the company trusts them. Secondly, in order to make informed decision, employees should have access to critical information. Communicating performance data on a routine basis throughout the year help employees to improve and develop (Ahmed and Schroeder, 2003)

Good HRM practices have become even more necessary in the financial sector, especially in the banking industry because of the integration of the global financial systems and the resultant increase in competitiveness. This requires banks to be strategic and proactive with policies & practices that motivate and retain highly skilled employees. Using HRM practices for employee retention is therefore imperative for the banking industry in Ethiopia.

The banking industry, which is part of the global service industry, has been chosen because it plays a leading role within the financial system in the country and also engages in an impartial socioeconomic activity. Banks are the most significant players in the Ethiopian financial market. They are the biggest sources of credit, and they also attract most of the savings from the population. Dominated by public sector the banking industry has so far acted as an efficient partner in the growth and the development of the country.

## **1.2 Statements of the Problem**

No doubt that HR is the back bone of organizations in the world if they placed strategically (Yamamoto 2011). They can provide innovative solution and ensure that organizations achieve a competitive advantage. As Armstrong (2009), mentioned that the most successful organizations are the one that attract, develop and retain individuals who have the ability to manage a global organization that is responsive to customers and the opportunities being presented by technology. Since they are the most vital assets of any institution retaining efficient and experienced workers in banking industry in Ethiopia is very essential in the overall performance of the institution.

Gurbuz & Meert (2011) elaborate that the maintenance administration and development of HR cannot be undervalued. Because motivated employees make an organization to be more competitive & consequently marketable. Today, however, retentions of a valuable employee

become a global challenge. This is because of globalization, economic growth and shortage of skilled labor. As a result, many organizations both public and private including banks in Ethiopia are finding it difficult to retain valued employees.

Even though, this is the responsibility of HR Departments to find, assimilate, develop, compensate and retain talented employees still it becomes a big challenge for banks in Ethiopia. As it is understood from the four year information which is gathered from the two banks, Commercial Bank of Ethiopia and Awash Bank, in 2014 G.C 858(3.64%) employees (430 employees in Commercial Bank of Ethiopia and 428 employees in Awash Bank) left the organization. And 941(3.31%) employees (617 employees from CBE and 324 employees from Awash bank) left in 2015. The same thing also happened in 2016 that, 1050(3.05%) talented employees (709 employees from CBE and 341 from Awash Bank) left the two banks. But a dramatic change is happened at 2017 that 1817(4.5%) employees (1402 employees from CBE and 415 employees from AWASH bank) left the organization. When this compared with the past two years the turnover rate of employee is increased by 1.5%. Even though this rate seem under the standard, its change is unexpected and increased by 1.5% instead of decreasing its turnover rate (Source- HR departments of the banks)

This has necessitated this research to analyze the issue of retention in banking industry in Ethiopia and to ascertain whether HRM practices by the banks influence employee retention. Locally many researches are conducted on human resource management practices on employee retention in banking industry in Ethiopia. But none of these studies focused on the effects of HRM practices (work packages of HRM practices) on retentions of employee in Commercial Bank of Ethiopia and Awash bank. There needs to be empirical evidence on effects of HRM Practices like compensation and incentives, training and development, communication and information sharing, recruitment and selection and job security. And also none of them are using the logistic regression to analyze the data. These, therefore created a research gap in this area, which this study sought to fill guided by the following research question; what is the effect of human resource practices on employee retention in banking industry in Ethiopia specifically in CBE and Awash bank?

### **1.3. Research Questions**

This study seeks to answer the following research questions;

1. To what extent compensation and incentives have an effect on employee retention in CBE and Awash bank?
2. To what extent training and development have an effect on employee retention in CBE and Awash bank?
3. To what extent does recruitment and selection have an effect on employee retention in CBE and Awash banks?
4. To what extent does communication and information sharing have an effect on employee retention in CBE and Awash banks?
5. To what extent does job security have an effect on employee retention in CBE and Awash banks?

### **1.4. Objective of the Research**

#### **1.4.1. General Objective**

The main objective of this study is to examine the effects of HRM practices on employee retention in banking industry in Ethiopia

#### **1.4.2. Specific Objectives**

This research seeks to

1. Determine the extent of the effect of compensation and incentives on the retention of employees in the bank
2. Investigate the effect of training and development practice on retention of employee in bank
3. Show the effect of selection and recruitment on retention of employee in banks
4. Show the effect of job security on employee retention in banks.
5. Show the effect of communication and information sharing on employee retention in banks

### **1.5. Hypotheses**

- H<sub>1</sub>. Compensation and incentives have a significant effect on employee retention
- H<sub>2</sub>. Training and Development have a significant effect on employee retention
- H<sub>3</sub>. Recruitment and selection have a significant effect on employee retention
- H<sub>4</sub>. Communication and information sharing have a significant effect on employee retention.
- H<sub>5</sub>. Job security has a significant effect on employee retention

### **1.6 Significance of the Study**

The banking industry in Ethiopia may find the result of this study very valuable because it will provide comprehensive HRM practices that affect employee retention. This study might also help to reshape the HR policies of the banks generally and the two banks specifically.

It will be beneficial to management of the organization as well as the human resource managers of the banks. This is because it is expected to provide possible answers on why employees stay or leave their organizations, thus providing some answers as to tackle the critical management issue of employee turnover. Moreover this study will be invariable help the organization in formulating appropriate retention policies, making decisions and adopting strategies that can boost retention, performance and productivity. It can further serve as secondary data for prospective researchers and as a reference point for further research.

### **1.7 Scope of the Study**

Even though HRM practices can be a valuable issue of all organization in Ethiopia, this study focuses only the banking industry. Even in banking industry in Ethiopia, out of almost eighteen banks (Government and private banks) it is limited to only two banks, Commercial Bank of Ethiopia & Awash bank,. This is because their activities are the same throughout the banks in Ethiopia. Moreover this study focuses only in the city branches (Addis Ababa city). This is because they have the largest concentration of branches as well as their head office in Addis Ababa. Although there are numerous HRM activities, this research may not cover the exhaustive list of HRM functions due to constraints such as time and finance. The chosen HRM practices are a mix of both familiar like compensation and incentives, training and development and recruitment and selection & overlooked HRM practices which are vital to today's organization.

### **1.8 Limitation of the study**

As with most research, there were some limitations:

The study was limited to only two banks out of the eighteen banks in Ethiopia due to financial and time scarcity and also limited to only city branches of the two banks due to geographic proximity and logistic simplicity. The research was done on the total population of the above with the exclusion of non clerical, junior officers and high officials.

Regardless of the various aspects of the causes of employee retention, the research is also limited to the employees' perception only on the selected human resource practices.

Employees of the banks were rather too busy especially those who were working in CBE. Hence the researcher had taken much time and follow-ups to get the respondents to fill out their questionnaires. Also some of the employees did not take their time to fill out the questionnaires. Whiles some filled them wrongly others did not fill it completely and this resulted in 17 questionnaires being poorly or inappropriately filled and this were excluded from the analysis

The other limitation was that some of the branches were not willing to provide the real information due to attribute to the immense competition in the banks.

Also, due to time and financial constraints, data collection on this study was cross sectional. Probably if the study was longitudinal, the results could vary.

But this did not in any way compromise the validity of the data collected since the researcher took necessary steps to address all the setbacks.

### **1.9 Operational Definition of Key Terms**

**Employee Retention-** refers to the ability of an organization to retain its employees. It also refers to all those practices which let the employees stick to an organization for a long time. Furthermore it is an effort by a business to maintain a working environment which supports current staffs in remaining with the company.

**HR practices-** are the means through which your human resources personnel can develop the leadership of your staff. This occurs through the practice of developing extensive training courses & motivational programs such as devising systems to direct & assist management in performing ongoing performance appraisal.

**Job security**-assurance (or lack of it) that an employee has about the continuity of gainful employment for his or her work life. It usually arises from the terms of employment. It usually arises from the terms of employment, collective bargaining agreement or labor legislation, layoffs and lockouts.

**Compensation and incentives**- compensation describes the cash rewards paid to employees in exchange for the service they provide. It may include base salary, wages, incentives and or commissions. An incentive in the other way is something that motivates an individual to perform an action.

**Communication and information sharing**- Communication is the two way of process of reaching mutual understanding in which participants not only exchange information, news, ideas & feelings and information sharing in the other hand is exchange of data between various organizations, people and technologies.

**Training & development**- Is the process of providing required skills to the employee for doing the job effectively, skillfully and qualitatively. It is also the act of increasing the knowledge and skill of an employee for doing a particular job.

**Recruitment and selection**- Employee recruitment is any process for which an organization seeks applicants and attracts potential employees. And selection refers to the process by which an organization identifies those applicants with the knowledge, skills, abilities and other.

### **1.10 Organization of the Study**

This research is organized in five chapters. Chapter one is about the introduction :-background of the study, problem of statement, research objectives, research hypothesis, scope of the study, significance of the study, limitation and organization of the study. Chapter two reviewed the literature on the effects of human resource management practices on employee retention. Chapter three covered the methodology parts that cover the descriptions of the study area, research approach, research design, population & sampling, data source & type, the data collection procedures, the ethical consideration and the data analysis and presentation. Chapter four presented the findings and discussions. It discussed the response rate, the socio-demographic characteristics of respondents and factors influencing employee retention. The final chapter, chapter five, presented the summary, the conclusion from the study, recommendation and suggestions to concerned bodies.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1. Introduction**

This section of the study covers the views of other authors on the subject of study. Among the various themes covered include various human resource management practices such as training and development, selection and recruitment, communication and information sharing, job security practices and compensation and incentive packages. The section also covers employee retention and its relationship with human resource management practices.

### **2.2. Human Resource Management Practices**

HRM concept implies that employees are resources of the employer. HRM is blend of policies, practices and systems that influence employees' behavior, attitudes, and performance (Khadka, 2009). Armstrong, (2009) defined HRM practice as a tactical and strategic way to attain, develop, manage and motivate and gaining the commitment of the employees. HRM practice is seen as the available talents and energies of people who are available to an organization as potential contributors to the creation and realization of the organization's mission, vision, strategy and goals (Jackson and Schuler, 2000).

Various scholars (Pfeffer, 2005) have identified that HRM can be source for competitive advantage of a company and company performance is influenced by a set of effective HRM practice. McMillan (1983) argued that the emerging importance of HRM practice tends to be overlooked by many organizations as a tool to achieve a competitive advantage through retention of key employees. Academicians (Guest, 2007) identified that HRM practice is the backbone of an organization. Thus achieving an organizational accomplishment needs to be facilitated by employment of sophisticated HRM infrastructure (Jyothi and Venkatesh, 2006) and HRM practice needs to be strategically designed, installed and adopted to promote desirable outcomes.

### **2.3. Compensation and Incentive**

Performance-based compensation is the dominant HR practice that firms use to evaluate and reward employees' efforts (Collins and Clark, 2003). Evidently, performance-based compensation has a positive effect upon employee and organizational performance (Brown et al.

2003; Cardon and Stevens, 2004). Empirical studies on the relationship between performance-related pay and company performance have generally found a positive relationship, but a growing body of empirical evidence suggests that it is not just pay level that matters, but pay structure as well (Wimbush, 2005; Singh 2005). Firms that were eager to achieve rapid-growth provided their employees financial incentives and stock options as part of their compensation packages. In doing so, firms managed to elicit high levels of performance from employees, provide employees the feeling that they have an ownership interest in the firm, attract and retain high-quality employees, and shift a portion of a firm's business risk to the employees. Delery and Doty (1996) identified performance-based compensation as the single strongest predictor of firm performance. Both performance-based compensation and merit-based promotion can be viewed as ingredients in organizational incentive systems that encourage individual performance and retention. Cho et al. (2005) suggested that incentive plans is effective in decreasing turnover rates. More over Banker et al. (2001) conducted a longitudinal study of the effectiveness of incentive plans in the hotel industry and found that incentive plans were related to higher revenues, increased profits, and decreased cost. Paul and Anantharaman (2003) found that compensation and incentives directly affect operational performance. To be effective, compensation practices and policies must be aligned with organizational objectives. While performance-based compensation can motivate employees, sometimes employees perceive it as a management mechanism to control their behavior (Lawler and Rhode, 1976). Employee turnover can significantly slow revenue growth, particularly in knowledge-intensive industries (Baron and Hannan, 2002). Given that much of the tacit knowledge resides within employees, significant turnover poses a threat to firm performance and its future growth potential. With high turnover rates, firm growth flees away along with leaving managers who often become employers of rival firms or establish themselves rival firms. A major and perhaps the most notable among organizational retention initiatives is compensation and benefits. Numerous studies have addressed the impact of employee compensation, rewards and recognition on turnover and retention (Becker and Huselid, 1999). Becker and Huselid, (1999) found that highly competitive wage systems promote employee commitment and thus results in the attraction and retention of a superior workforce.

A recent study by Cho et al. (2006) investigated the relationship between the use of human resource 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.

Strong salary growth significantly reduces turnover for high performing employees (Trevor et al., 1997). In organizations using performance-contingent reward systems, high-performing individuals who were well compensated were less likely to quit than those with lower levels of rewards and performance (Park et al., 1994). Researchers also have demonstrated a relationship between indirect compensation, fringe benefits, and employee turnover (Bennett et al., 1993).

H<sub>1</sub>. Compensation and incentives have a significant effect on employee retention

## **2.4. Training and Development**

In the present ever changing world, current knowledge is basically inadequate to meet up with the dynamic and technical business world. It is therefore a major priority of organizations to acquire skills in accordance with the changing technologies. For this reason most companies take proactive measures for maintaining a reservoir of high technology staff, by continuous training and retraining of their staff. Training according to Chew (2004), provides employees with specific skills or correct deficiencies in their performance, while development is an effort to provide employees with abilities the organization will need in the future.

Training and development may be related to firm performance in many ways. Firstly, training programs increase the firm specificity of employee skills, which, in turn, increases employee productivity and reduces job dissatisfaction that results in employee turnover (Huselid, 1995). Secondly, training and developing internal personnel reduces the cost and risk of selecting, hiring, and internalizing people from external labor markets, which again increases employee productivity and reduces turnover. Training and development like job security requires a certain degree of reciprocity: A company that systematically trains and develops its employees develops their market value more favorably. This increases employees' productivity, commitment, and lowers turnover. Companies may also assist their employees in career planning. In doing so, companies encourage employees to take more responsibility for their own development, including the development of skills viewed as significant in the company (Doyle, 1997). Barringer et al. (2005) compared rapid-growth and slow-growth firms and found that rapid-

growth firms depend heavily on the abilities and efforts of their employees to maintain their growth-oriented strategies.

The fast-growth firms used training programs to achieve their objectives and emphasized employee development to a significantly greater extent than their slow-growth counterparts. Therefore, training and employee development practices are more common in rapid-growth firms than slow growth ones. Miller (2006) examined the growth strategies in the retail sector and suggested that modern retailers should place more emphasis on the policies and practices that could contribute to staff retention, rather than on the immediacy of recruitment and selection. Huselid (1995) found that the education and development of employees have a significant effect both upon the personnel productivity and the short-term and long-term indicators of organizational performance. Ngo et al. (1998) investigated the effects of country origins on HR practices of firms from the United States, Great Britain, Japan and Hong Kong operating in Hong Kong. The study results showed that structural training and development and retention-oriented compensation were related to various measures of firm performance. Paul and Anantharaman (2003), in searching the links between human resource practices and organizational performance, proposed that career development programs demonstrate a true interest of the organization for the growth of its personnel, which, in turn, stimulates commitment and devotion, which, subsequently, raises personnel productivity and consequently economical output.

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.

H<sub>2</sub>. Training and Development have a significant effect on employee retention

## **2.5. Recruitment and Selection**

This practice can ensure that the right people, with the desirable characteristics and knowledge, are in the right place, so that they fit in the culture and the climate of the organization. Moreover, pinpointing the rights employees would decrease the cost of employees' education and development. Huselid, (1995) examined HR practices of high performance companies and found

that attracting and selecting the right employees increase the employee productivity, boost organizational performance, and contribute in reducing turnover. According to Huselid (1995) and Becker and Huselid (1999), selective hiring procedures are necessary to ensure effective retention of the most qualified employees while lowering employee turnover in the long term.

One tool that can assist with ensuring proper screening of candidates is pre-employment tests. Cho et al. (2006) theorize that the practice of pre-employment testing and the result of candidates passing such skill-based tests can heighten new hires' sense of organizational commitment. However, their research also found that once employees are on-board and seek upward mobility, promotions can actually increase turnover rates of non-managerial employees if not practiced appropriately. For example, in instances in which inadequate employee training and development exist, employees can become frustrated and stressed by assuming greater responsibility for which they are ill equipped. Thus employer policies and practices regarding employee promotions and work designs are among the top reasons why people join, stay or leave an organization (Cafaro, 2001). Cohen and Pfeffer, (1998) argued that hiring standards reflect not only organizations' skill requirements but also the preferences of various groups for such standards and their ability to enforce these preferences. Collins and Clark (2003) argued that the practice of selective hiring results at sales growth. Paul and Anantharaman (2003) pointed out that an effective hiring process ensures the presence of employees with the right qualifications, leading to production of quality products and consequently in increase of economic performance. Cho et al. (2005) examined passing pre-employment tests may give an applicant a stronger sense of belonging to the company, resulting in higher degrees of commitment if employed. Cardon and Stevens (2004) pointed out that for small companies recruiting is often problematic. This can be due to several reasons such as limited financial and material resources and jobs with unclear boundaries responsibilities, which decreases their potential to hire qualified candidates.

H<sub>3</sub>. Recruitment and selection does not have a significant effect on employee retention

## **2.6. Communication and Information Sharing**

Sharing of information may have a dual effect: Firstly, it conveys employees the right meaning that the company trusts them. Secondly, in order to make informed decision, employees should have access to critical information. Communicating performance data on a routine basis

throughout the year help employees to improve and develop. Employees most probably want to be good at their jobs, but if they never receive any performance feedback, they may perceive to have a satisfactory performance when in fact they do not (Chow et al., 1999). Furthermore, information sharing fosters organizational transparency which in the other way reduces turnover (Ahmad and Schroeder, 2003) and forges synergistic working relationship among employees (Nonaka, 1994).

Information sharing is not a widespread HR practice as someone might have expected it to be. Many companies are vulnerable to share critical information with their employees because in this way employees become more powerful and companies may lose control of them (Pfeffer, 1998). Furthermore, information sharing always involves the danger of leaking important information to competitors (Ronde, 2001). Burgess (2005) studied employee motivations for knowledge transfer outside their work unit and found that employees who perceived greater organizational rewards for sharing spent more hours sharing knowledge beyond their immediate work group.

However, a significant percentage of employees perceived knowledge as a means of achieving upward organizational mobility. Therefore, employees sought information more often than shared it. Roberts (1995) studied how HR strategy affects profits in 3,000 businesses throughout the world and found that sharing information was related with higher profitability. However, Ichniowski and Shaw (1999) compared US and Japanese steel-making plants and found that employee participation based solely on problem-solving teams or information sharing did not produce large improvements in productivity. In a study of Fortune 1,000 largest service companies on high performance practices, Lawler et al. (1995) found information sharing to correlate to firm performance but results are inconclusive.

H<sub>4</sub>. Communication and information sharing have a significant effect on employee retention.

## **2.7. Job Security**

Job security creates a climate of confidence among employees which cultivates their commitment on the company's workforce. Job security requires a certain degree of reciprocity: firstly, a company must signal a clear message that jobs are secure; then, employees believing that this is true, feel confident and commit themselves to expend extra effort for the company's benefit; finally, a company that have learnt that job security contributes to its performance,

invests again in job security (Pfeffer, 1998). Probst, (2002) has developed a conceptual model of the antecedents and consequences of job security. Antecedents include worker characteristics, job characteristics, organizational change and job technology change.

Consequences include psychological health, physical health, organizational withdrawal, unionization activity, organizational commitment and job stress. Job involvement, cultural values, and procedural justices moderate job security perceptions and attitudes. Buitendach and Witte, (2005) assessed the relationship between job insecurity, job satisfaction and affective organizational commitment of maintenance workers in a parastatal in Gauteng. Study results revealed small but significant relationships between job insecurity and extrinsic job satisfaction and job insecurity and affective organizational commitment. Job satisfaction was also found to mediate the relationship between job insecurity and affective organizational commitment. However, today's business environments are far from providing job security to their employees. For example, in an analysis of involuntary job loss in France between 1982 and 2002, Givord and Maurin (2004) found evidence that technological changes contribute to keeping the employees for shorter periods of time, thus increasing job insecurity.

When companies do provide job security, then empirical evidence suggests that it has a positive effect on to firm performance. Following Pfeffer (1998), Ahmad and Schroeder (2003) found that among others, job security impacts operational performance indirectly through organizational commitment. Delery and Doty (1996) studied the US banking sector and found some support for a positive relationship between employment security and firm performance. In their study of 101 foreign firms operating in Russia, Fey et al. (2000) found evidence that human resource practices indirectly improve organizational performance. The results showed that not only, there was a direct positive relationship between job security and performance for non-managers, but job security was the most important predictor of HR outcomes for non-managerial employees. Results also suggested a direct positive relationship between managerial promotions based on merit and firm performance.

H<sub>5</sub>. Job security has a significant effect on employee retention

## **2.8. Employee Retention**

Employee retention refers to policies and practices companies use to prevent valuable employees from leaving their job. It involves taking measures to encourage employees to remain in the organization for the maximum period of time. Hiring knowledgeable people for the job is essential for an employer. But retention is even more important than hiring. This is true as many employers have underestimated costs associated with turnover of key staffs (Ahlrichs, 2000). Turnover costs can incurred with issues such as reference checks, security clearance, temporary worker costs, relocation costs, formal training costs and induction expenses. Other invincible costs and hidden costs such as missed deadlines, loss of organizational knowledge, lower morale, and client's negative perception of company image may also take place.

This is why retaining top talent has become a primary concern for many organizations today. Managers have to exert a lot of effort in ensuring the employee's turnover are always low, as they are gaining increasing awareness of which, employees are critical to organization since their values to the organization are not easily replicated. Many critical analysis are conducted to minimize the possible occurrence of shortage of highly-skilled employees who posses specific knowledge to perform at high levels, as such event will lead to unfavorable condition to many organizations who failed to retain these high performers. They would be left with an understaffed, less qualified workforce that will directly reduce their competitiveness in that particular industry (Rappaport et.al, 2003).

This is why managers today must taken care of their employees personal feelings toward the job and satisfaction levels from their working conditions, superiors and peers, as these are the keys to ensure employee retention. The success and survivability of organizations is heavily dependent on customer evaluations whereby the organization must put effort in satisfying their employees since the relationship between customer satisfaction and employee's satisfaction are significant.

In summary, the literature defines retention as continuing relation between employees and their organization and turnover as "any permanent departure beyond organizational boundaries" (Cascio, 1995). The benefits of retention are saving cost for further recruitment, fewer training to be conduct for new candidates, improve productivity, increase employee's performance and thus

increase profits and meet their organizational goals and objectives. Below we will discuss the relationship between each of the human resource management practices with employee retention and employee turnover, which are the impacts from employee empowerment, employee training & development, performance appraisal and employee compensation. They noted that those employees most committed to performing challenging work are the ones most likely to remain with their companies

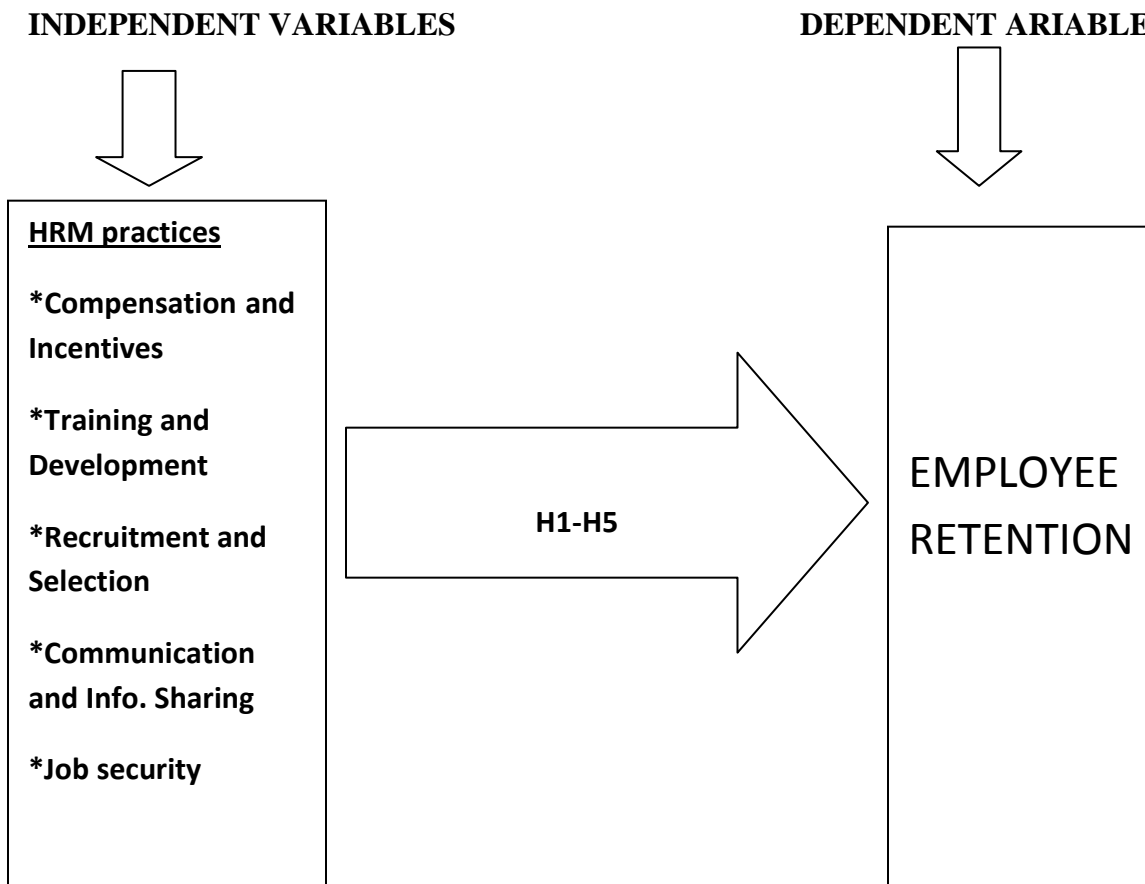
## **2.9. Relationship between HRM Practices and Employee Retention**

As Huselid (1995) identified that there is a link between organization-level outcomes and groups of high performance work practices. According to his study instead of focusing on a single practice (for example 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, job security, communication and information sharing, 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). Though the stream of research on employee turnover has been voluminous, many of the studies in the organizational sciences have focused on individual-level predictors of turnover with less attention given to the effects of human resource management practices on employee turnover and retention at the organization-level (Shaw et al., 1998). Furthermore, the earlier research into human resource management practices utilized sample units consisting of businesses from a wide range of industries (Becker and Huselid, 1999; Huselid, 1995; Pfeffer, 1994; US Department of Labour, 1993; Walsh and Taylor, 2007). Few studies, however, have examined the impact of human resource management practices on employee turnover and retention specific to such industries.

Research indicates that, hiring and training a replaced worker for a lost employee costs approximately 50% of the workers' annual salary (Johnson et al., 2000); interestingly, the cost

do not end there. Each time an employee leaves a firm, it is assumed that productivity drops due to the learning curve involved in understanding the job and the organization. Furthermore, the loss of intellectual capital contribute to this loss because not only do lose human capital and relational capital of the departing employee, but also competitors are potentially gaining these assets.

**2.10. Conceptual Framework-** the conceptual frame work of this study is presented as follows in the picture.



Source: developed by the researcher based on literature review, 2018

Figure 2.1 conceptual frame works

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1. Introduction

Research Methodology is a systematic way of solving a problem. It is essentially, the procedures followed by researchers for describing, explaining and predicting phenomena. It can be used as a work plan of a research in this section some subsections will be discussed such as the research approach, research design, empirical model, target population, study area, sampling procedure, data collection, definition and measurement of variables, reliability and validity, ethical considerations, methods of data analysis and presentation is discussed.

### 3.2. Study Area

The targeted population in this study was employees in various categories' working in chosen banks. There are currently eighteen banks in Ethiopia (private & government licensed banks). Even though their vision, mission and objectives are slightly differ, their activities are almost the same: - lending, investing, fund transferring, deposit mobilizing and some other activities. Because of this, the researcher selected only two banks (one from government- Commercial Bank of Ethiopia and one from private-Awash Bank). Both banks have privilege in period of existence. Commercial Bank of Ethiopia is established in 1942 E.C. and Awash Bank in 1995 E.C. So they are expected to have more experience in banking activities. These banks have city and outline branches. But this study focused only in the city branches (Addis Ababa city) because they have the largest concentration of branches as well as their head office in Addis Ababa.

### 3.3. Research Approach

There are two conventional paradigms, the positivist and constructivist approach. According to Saunders, Lewis & Thornhill, (2009) they both play a big role to develop knowledge in business & management research. Among the two approaches, this study will be based on the positivist paradigm. Bryman (2001) explains positivist as an epistemological position that promotes the application of the methods of natural science to the study of social reality and beyond. It follows the hypothetic deductive model which presents social research as an interaction between

empirical observation and reason or induction and deduction (Sarantakos, 2005). This approach assumes that knowledge is produced deductively from a theory or hypothesis, hence theory are tested by deriving hypothesis from which the theories are either rejected or accepted.

That's way the researcher tended to adopt the positivist approach because it is commonly used in social science research and the constructs being researched can be objectively defined and established through theoretical models, analyzed and interpreted.

### **3.4. Research Design**

An explanatory research design was assumed to be favorable for this study. As Saunders, Lewis & Thornhill (2009), explanatory research is about studying a situation or a problem in order to explain the relationship variables. It attempts to clarify how and why there is a relationship between two or more aspects of a situation or phenomenon. Hence explanatory study design was used to determine and explain the relationship between the dependent variable-employee retention and independent variable-compensation and incentives, training and development, recruitment and selection, communication and information sharing and job security.

### **3.5. Target Population**

There are totally eighteen licensed banks (private and government owned) in Ethiopia. Among them the two banks, one from government owned –Commercial Bank of Ethiopia, and one from private owned bank- Awash Bank are selected by purposive sampling method for the study. These two banks have totally 1,559 outline & city branches (1235 branches for Commercial Bank of Ethiopia and 324 branches for Awash Bank). Because of the banks activity, geographical area, time and finance limitation, the researcher assumes that using the city branches of the banks was favorable for the study. In Addis Ababa city there are 271 branches for Commercial Bank of Ethiopia and 148 branches for Awash Bank. Still for Administration purposes all branches are categorized under fifteen districts for Commercial Bank of Ethiopia and eleven districts for Awash Bank. Among these, the four districts for both banks are found in Addis Ababa -North Addis District, South Addis District, West Addis District and East Addis District.

### **3.6 Sampling Technique**

North Addis Ababa District is selected by a lottery method (SRS) for both banks and in NAAD there are totally 157 Branches for both banks (107 for Commercial Bank of Ethiopia and 50 branches for Awash bank). All branches were listed according to their alphabetical order in respect to the banks (CBE and AWASH). And then by using of systematic sampling system 16 branches were selected (11 from CBE and 5 from AWASH bank). For the purpose of this study totally 304 respondents (300 officers- CSO, SCSO and CSM- and 4 managers) are involved in the study. These 300 officers are 279 from the 10 branches of CBE and 21 officers are from the 5 branches of Awash Bank and the managers are HR managers and branch managers for interview purpose from the two banks i.e. 2 HR managers from the two banks and 2 branch managers which are selected purposively.

**NB.** The branches' grade were not considered by the Researcher because almost all activities in each grade (grade 1-4) are the same and assumed that it doesn't matter on the collected information.

### **3.7 Sample size**

A sample size of 16 which constituted around 10.2% of the total population was selected proportionally. This percentage is chosen because; the ideal sample size of 5-20% of a population is considered acceptable for most research purposes as it provides the ability to generalize for a population (Cresswell, 2003; Sekaran, 2003). This system was implemented by selecting a random starting point and then picking every  $n^{\text{th}}$  element in succession from the sampling frame. The sampling interval 'n' is determined by dividing the population size by the sample size. Such technique is used if and only if the sample size is divided. From this study population (p), sample size of the population (S) and the interval (n) therefore  $n=p/s=107/10\approx 11$  for CBE and  $50/5=10$ . So the starting point was between 1 and 10 for both CBE and Awash bank and was taken every 10<sup>th</sup> element. The 5<sup>th</sup> element for CBE and the 4<sup>th</sup> element for Awash bank becomes the starting point. This is done by using of simple random sampling technique. Unfortunately the 95<sup>th</sup> element, Silk Amba branch, was left because of unfortunate situations of the bank. So, only 15 branches are employed in the study.

**Table 3.1 Population Size**

Category	Position	size
clericals	CSO	163
	SCSO	90
	CSM	47
	Total	300

The study was used the proposed sample size at 95% confidence level and 5% margin of error. For questionnaire purpose first employees are stratified as clerks and non clerks then again clerks are stratified as junior officer (JO), customer service officer (CSO), senior customer service officers (SCSO) and customer service managers(CSM). But in this study junior officers and non clerks are excluded from the study. The reason why CSO, SCSO and CSM are targeted for this study was because one they are more likely to defect to or be poached by other organizations. Secondly they could easily understand and complete the questionnaires by themselves

### **3.8 Data Sources and Types**

The sources of data for this study were both primary and secondary sources. The primary sources of this study were managers and officers. The data were collected through questionnaires by using of a five-point likert scale (strongly disagree, Disagree, neither agree nor disagree, agree and strongly agree) for officers and interview mechanism for HR managers and experts and branch managers of the banks. The information found through interview was used to triangulate with the information found through the questionnaire.

### **3.9 Data Collection**

Majority of the data was collected from primary sources through questionnaires and interview from the selected managers in the chosen banks. The questionnaire as well as the interview was design to elicit the required information relating to the independent and dependent variables. There was close ended questions and most of the questions were stated in a five point likert scale for officers and interview questions for HR managers and branch managers of the chosen banks. The questionnaires were adopted from Chew2004, a research made at 8 Australian organizations which assessed the influence of human resource management practices on employee retention.

The research tried to examine the relationship between the human resource bundles and organizational bundles and employee retention. The research found a positive relationship between the human resource factor bundles and the organizational factor bundles and employee retention. The research questionnaire was adopted with a slight change or amendment.

### **3.10 Reliability and Validity**

#### **3.10.1. Reliability**

Sekaran (2003) mentioned reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of the measure. Zikmund (1997) affirms this that reliability is the degree to which measures are free from random error and therefore yield consistent results. Thus this research was used Cronbach's Alpha as a measure of internal consistency. Cronbach's Alpha is a reliability coefficient that indicates how well items in a set are positively correlated to one another (Sekaran, 2003) by using of the following formula  $\alpha = rk / (I + (K-I) r)$ , where k is the number of variables in the analysis and r is the mean of the inter-item correlation and also he affirms that normally, reliabilities of 0.7 range is considered acceptable and over 0.8 is good. Depending on this a pre-test was given to employees of two branches one for CBE and one for Awash bank. The branches in the pre-test were not included in the final sample. Feedback from the respondents had value to improve the data collection instruments by eliminating any ambiguities and inadequate terms. Based on this the following Cronbach's alpha was identified

**Table 3.2 Cronbach's alpha**

No.	Variables	No. of items	Cronbach's alpha
1	Compensation and incentives	7	.807
2	Training and development	5	.902
3	Recruitment and selection	7	.852
4	Communication and information sharing	6	.934
5	Job security	5	.808
6	Total	30	.861

### 3.10.2 Validity

Validity on the other hand, can be described as the extent to which the instrument measures what it purports to measure. According to Healy and Perry (2000), validity determines whether the research truly measures that which it was intended to measure. Faux (2010) asserts that an effective and practical approach to pre-testing questionnaire instruments is to ensure that the questionnaire is understood by participants. Also, the benefits of the approach are improved questionnaire reliability and planning which results in better response rates (Faux, 2010).

### 3.11 Methods of Data Analysis and Presentation

The collected data was analyzed by using of descriptive statistics like frequencies, mean and standard deviation and inferential statistics like correlations, logistic regression and odd ratios. Logistic regression was used since employee retention is a dichotomous binary variable which is measured by employees' intention to quit or stay. As Sweet & Grace-Martin, (2003) elaborate logistic regression is highly effective at estimating the probability that an event will occur and it offers a new way of interpreting relationships by examining the relationships between a set of conditions and the probability of an event occurring. Furthermore Press & Wilson (2007) mentioned that logistic regression is a straight forward statistical test and has the ability to include nonlinear effects. According to Larson, Petersen, Budtz-Jorgensen & Endahl (2000) using logistic regression to study dichotomous binary variable is easier and includes measures for generating the necessary dummy variable automatically. This method is statistically exact in practice and is easier to comprehend. That's why many researchers used Logistic regression for their study of the same phenomena. It was employed to ascertain how well the independent variables – compensation and incentives, training and development, recruitment and selection, communication and information sharing and job security predict the dependent variable - employee retention. The following logistic regression equation was used for this study:

$$\{(P_i = f(Y=1|X_i) = \beta_0 + \beta_1 X_1 + \dots + \beta_n X_n \dots \dots \dots (1)\}$$

Where

P<sub>i</sub> = the probability of retention

Y = dependent variable (employee retention)

When Y = 1 intend to stay in the organization or

When Y = 0 do not intend to stay

The LOGIT model can be linearised as

$$\text{Logit} \left\{ \frac{P_i}{1-P_i} \right\} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \dots \dots \dots (2)$$

The dependent variable is the natural log of the probability of Retention (Pi) divided by the probability of No Retention (1-P).

Where:

$\beta_0$  = is the Y intercept or constant

$\beta_1 \dots \beta_5$  = coefficient of regression which measures how each independent variable influences the dependent variable that is employee retention.

X1 = Compensation and reward

X2 = Training and Development

X3 = Recruitment and Selection

X4 = Job Security

X5 = Communication and Information Sharing

$\varepsilon$  = Error Term

### **3.12 Ethical Considerations**

Throughout the process of research making it involves different parties like respondents, organizations, associations, and different individuals. So ethics in research has to do with the responsibility of researchers to be honest and respectful to all individuals who are affected by the research studies or reports of the results of the studies (Gravetter & Forzano, 2006). Gaining the trust of respondents and their willingness to support the researcher's role is a step in the right

direction, but it is the recognition of the relevance of ethical principles that must guide any research. To ensure that ethical principles will upheld, the researcher obtained an introductory letter from the Addis Ababa University School of commerce. This letter was forwarded to the head offices of the selected banks

## CHAPTER FOUR: RESULTS AND DISCUSSIONS

### 4.1 Introduction

This part presents the results of the study among the issues discussed are the socio-demographic characteristics of the respondents, the selected HRM practices and employee retention. Finally the result of binary logistic regression models presented which is used to test the hypotheses of the study.

### 4.2 Response rate of respondents

Totally three hundred four respondents (three hundreds for questionnaire and four for interview) were targeted for the study and three hundred questionnaires were distributed to the targeted respondents. However out of this number, 283 questionnaires were received out of which 17 were poorly or inappropriately filled and were therefore not used in the analysis. The questionnaire which is used in the analysis is 94.3% and this indicates that it is adequate for analysis and interpretation of the data.

**Table 4:3 Distributions of the total Respondents**

Category	Position	Target	Actual	Percentage
clericals	CSO	163	157	55.48%
	SCSO	90	79	27.92%
	CSM	47	47	16.6%
	Total	300	283	100%

### 4.3. Demographic Characteristics of Respondents.

Information related to demographic variable of respondents are displayed as follows in table

**Table 4.4 Demographic characteristics of respondents**

No.	Factor	Category	Frequency	percent
1	Gender	F	115	40.6
		M	168	59.4
		total	283	100.0
2	Age	Below 30	142	50.2
		30-39	98	34.6
		40-49	34	12.0
		50yr and above	9	3.2
		total	283	100.0
3	Level of education	Diploma	1	0.4
		Degree	203	71.7
		Masters degree	79	27.9
		total	283	100.0
4	Length of service	2yr	21	7.4
		3yr	116	41.0
		4yr	48	17.0
		5yr	23	8.1
		6yr and above	75	26.5
		total	283	100.0
5	current position	CSO	157	55.5
		SCSO	79	27.9
		CSM	47	16.6
		total	283	100.0
6	Monthly income	2500-5000	47	16.6
		5001-7000	112	39.6
		7001-10000	72	25.4
		Above 10000	52	18.4
		total	283	100

As shown from the above table, a relatively similar composition of male and female employees of the banks was represented in the study and most of the banks' employees are in the younger age group which has also been exhibited in the data received from participants of the study

The level of education of respondents was mostly bachelor's degree (71.73%) due to the fact that respondents were officers, middle of top management personnel and usually, a first degree is required for such position

As it is possible to see from the above table, most of the respondents (40.99%) has been working in their organization for three years, 26.50% of the respondents were six and above and only 8.13 were worked their organization for five years

Relating to their current position, 55.48% were at CSO (Customer Service Officer) level, 27.92% were SCSO (Senior Customer Service Officer) level and only 16.61% were CSM (Customer Service Manager) level.

The respondents' monthly income, as described in the above table, out of 283 respondents only 16.61% of respondents gain 2500-5000, the rest 39.58% respondents got 5001-7000 and 25.44% of the respondents received a monthly income of 7001-10,000. Very few of the respondents (18.37%) received a monthly income of above 10,000 birr

#### **4.4 Human Resource Management Practices**

In this section employee's perception of HRM practice are discussed. Respondents were asked to indicate the extent to which they agreed to statements relating to HRM practices undertaken by their organizations on five-point likert scale (1=Strongly disagree – 5= Strongly agree) a mean of above 3 is regard to measure satisfaction at the test variables. Standard deviation was used to indicate the variation or dispersion from the average (mean).

##### **4.4.1 Compensations and Incentives**

Compensations and incentive are measured based on intrinsic and extrinsic rewards or pay and benefits. Studies show that compensation satisfaction/dissatisfaction plays an important part in employees' retention or turnover. Although there is a general agreement that compensation levels do not single handedly guarantee employee retention, it is an essential starting point in most strategies to attract & retain employee (Chew.2004)

**Table 4.5 Mean and St. deviation of compensations and incentives**

NO	Items	Rating scales					Mean	Std. Deviat
		SDA%	DA%	N%	A%	SA%	Statisti	Statistic
1	We are satisfied with the benefits we receive	36.7%	15.2%	4.9%	28.6%	14.5%	2.0353	1.15723
2	The benefits we receive in our organization are similar to what most of the other organizations in the industry provide to their employees	39.6%	29.0%	4.9%	21.6%	4.9%	2.2155	1.27698
3	The pay we receive is competitive compared to that of Employees doing similar work in other organizations.	43.8%	25.1%	19.8%	6.4%	4.9%	2.2332	1.30548
4	Rewards in our organization are strictly linked to employee Performance.	41.3%	22.3%	14.8%	16.6%	4.9%	2.5124	1.39236
5	Rewards and incentives are fairly distributed in our Organization.	29.7%	19. %8	19.8%	14.8%	15.9%	2.6749	1.43918
6	Our organization follows the policy of matching pay with performance	30.7%	30.7%	4.9%	23.7%	9.9%	2.6890	1.54901
7	The existing reward and incentive plans do not motivate us for better performance	18.0%	15.9%	19.8%	19.8%	26.5%	3.2085	1.44975

**Source: output of SPSS**

As it is seen from the above table, the mean of compensation and incentives received in CBE and Awash Bank are below the average. The respondents agreed with stated statement of the existing

reward and incentives plan do not motivate us for better performance; (mean 3.208 with standard deviation 1.449). This indicates that the total reward & incentive which offered in these two banks is not satisfied. Furthermore the respondents are not satisfied with the policy of matching pay with performance (mean =2.689 with SD= 1.549) and the fairly distribution of rewards & incentives in their organization. They also believed that the pay they receive is not competition compared with other employees in other organization in the same industry (mean= 2.2332 with SD= 1.30548 and 2.2155 with SD =1.27698). So this confirms that the respondents are not satisfied with the benefits they received (means= 2.0353 with SD= 1.15723). Totally the standard deviation of all the above mentioned statements show that they are highly deviates from the average mean. This is also confirmed by the HR managers during interview that because of some scarce of resources employees were not given all that they demanded but would be improved upon with time. But still they don't believe that they are paying less than the others which are found in the industry.

**4.4.2 TRAINING AND DEVELOPMENT**

Related with Training & development Huselid (1995) has suggested that HRM practices such as providing training are important determinates of employee retention.

**Table 4.6 Mean and St. deviation of training and development**

No.	Items	Rating scales					Mean	Std. Deviat
		SDA%	DA%	N%	A%	SA%	Statisti	Statistic
1	We are encouraged to participate in various seminars and workshops etc	9.9%	14.8%	14.8%	50.5%	9.9%	2.8905	1.21982
2	Training in our organization includes social skills, general problem solving skills and broader knowledge of the Organization and business.	14.8%	15.9%	4.9%	49.5%	14.8%	3.3357	1.31698
3	The training needs of the employees in our organization are assessed on the basis of their performance appraisal	9.9%	4.9%	14.8%	44.5%	25.8%	3.3569	1.15001
4	We are assigned challenging jobs to charge our enthusiasm and develop our skills	9.9%	4.9%	19.8%	45.6%	19.8%	3.6042	1.15420
5	The contents of the training programs organized are always relevant to the changing needs of our jobs and our business	19.8%	15.9%	24.7%	34.6%	4.9%	3.7138	1.19071

The above table shows that the mean and standard deviation of training and development, ranges from 2.8905 to 3.7138, most of the respondents are satisfied with the content of the training program, the relevancy of the changing needs of their job and their business (mean= 3.7138 SD= 1.19071).

They also believed that they are assigned challenging Jobs to charge their enthusiasm & develop their skill (mean=3.6042 SD= 1.15420). In addition to this the bank aligns the contents of the training programs with changing needs of their jobs and their business needs. But only the respondents are not satisfied with the statement of ‘we are encouraged to participate in various seminars at workshops’ (mean=2.8905 SD=1.21982). The two HR managers of the banks assured that the organizations give more emphasis for training and development this is because of the banking industry it is highly sensitive. The types of the training depend on the objective of the business and employee. There is on and off job training depending on the change needs of the job and business needs. They also agreed with the issue of not participating employees in different seminars and workshops. The reason they raised was that in such seminars and workshops their representative of branch managers and employee unions participate only. And they share what they get to employees easy way.

#### **4.4.3 RECRUITMENT AND SELECTION**

According to Huselig (1995) HR Practices of high performance companies are found that attracting and selection the right employee increases the employee productivity, boosts organizational performance and contributes in reducing turn over. This in the other hand means that it contributes for employee retention (Beckes and Huselid, 1999). Relating with this issue respondents are asked to rate issues as shown in table 4.7

**Table 4.7 Mean and St. deviation of recruitment and selection**

No.	ITEMS	Rating scales					Mean	Std. Deviatio
		SDA%	DA%	N%	A%	SA%	Statisti	Statistic
1	Our organization places the right person in the right job.	24.7%	11.0%	14.8%	44.5%	4.9%	2.9399	1.32084
2	There is an accuracy of person specification in our organization	0%	4.9%	19.8%	39.6%	35.7%	2.9894	1.14075
3	Selection of a candidate in our organization is strictly based on his/her merit.	14.8%	15.9%	29.7%	34.6%	4.9%	3.1873	1.32766
4	Adequate and relevant information about the organization and job is provided to the candidate at the time of recruitment.	14.8%	15.9%	24.7%	24.7%	19.8%	3.8516	.85005
5	I have given a clear job description that describes about my job	4.9%	0%	14.8%	35.7%	44.5%	4.0000	1.22039
6	There is a good orientation for the newly hired employees	9.9%	4.9%	0%	45.6%	39.6%	4.0601	.86701
7	There is a well designed induction program for new hired employees	0%	9.9%	14.8%	55.5%	19.8%	4.1484	1.01017

They confirm that there is a well designed induction program for new hired employee and there is a good orientation for the newly hired employees (mean=4.1484 and 4.0601). They also believed that they have given a clear job description plus adequate and relevant information about the organization (mean=4,000, 3.8516 respectively). But still they doubt that weather their organization placed the right person in the right job and if there is accuracy of person specification in their organization (mean=2.9399 and 2.9894 respectively). In general relating

with recruitment and selection these two banks have a well designed recruitment & selection program. This explained in table 4.6 (mean=3.5967) as of training and development (mean=3.3802).

As the managers confirmed that their organizations use a mixed of recruitment tools like internal and external recruitment through internet, newspaper, board screen and referral and an in depth induction is given to the new hired employees and this make them to feel belonging, feel confident and being achiever. In addition to this the organization works hard on matching of the right person with the right place.

#### **4.4.4 COMMUNICATIONS AND INFORMATION SHARING**

Related with communication and information sharing, it fosters organizational transparency which reduce turnover. (Ahmed and Schroeder, 2003) and increases synergistic working relationship among employees (Nonaka, 1994). So making all information available for employees makes them confident on their organization and then lead them retain in their organization. Depending on this concept employee are asked to rate on different issues relating with communication and information sharing as depicted on the following table.

**Table 4.8 Mean and St. Deviation of communications and information sharing**

N O	ITEMS	Rating scales					Mean	Std. Deviat
		SDA%	DA%	N%	A%	SA%	Statisti	Statistic
1	I always can get an opportunity to air my views	19.8%	20.8%	14.8%	29.7%	14.8%	2.5053	1.38218
2	We have given an opportunity to participate in the policy design that guide and rule our working lives	30.0%	32.2%	4.9%	23.0%	9.9%	2.6007	1.22602
3	There is a quarter meeting that are open to all to discuss the work progress	19.8%	15.9%	9.9%	39.6%	14.8%	2.8092	1.48956
4	There is smooth and friendly employer- employee dialogue	24.4%	28.3%	9.9%	17.0%	20.5%	2.9894	1.37733
5	There is a Free flow of information to both employees and management on the achievements of the company	9.9%	9.9%	9.9%	44.5%	25.8%	3.1378	1.38843
6	There is a good orientation for the newly hired employees	21.9%	27.2%	29.7%	11.3%	9.9%	3.6643	1.23929

In most parts of the issued, the respondents are not satisfied as shown on table 4:10 (mean=2.9511 SD=0.85039). Respondents indicated that managers clearly communicating them what the organization’s expectation and they also indicate that there is a free flow of information to both direction, employees& managers, on the achievements of the company (mean=3.6643 SD=1.23929 and 3.1378 SD=1.38843 respectively). But on the rest issues they seem that they are not satisfied, especially on getting opportunity to air their view, on participation of policy design, on quarterly meeting to discuss the work progress and on smooth & friendly employee – employer dialogue. On these issues the mean is almost below the average level of 3.

In the interview, the HR managers verified on the issues that the employees are not satisfied. As they mentioned that district managers, HR experts, branch managers and labor union are

participating in the review meeting. As they confirmed that there is a quarter meeting to discuss the quarter achievement of the organizations generally and branches specifically. Decisions on HR practices were implemented through the supervision of the HR managers.

#### **4.4.5 JOB SECURITY**

Many empirical studies show that job security has a positive effect on the firm performance. Ahmed and Schroeder (2003) found that among others, job security impacts operational performance indirectly through organization commitment. Delery and Doty (1996) confirm that after they study the US banking sector, job security has a positive relationship with firm performance. To check and suggest some results relating with job security employees of CBE and Awash Bank were asked to rate some of the issues in the form of the following table

**Table 4.9 Mean and St. Deviation of job security**

NO	ITEMS	Rating scales					Mean	Std. Devia
		SDA%	DA%	N%	A%	SA%	Statisti	Statistic
1	There is fairness, transparency and equitability of management during decision making	33.6%	22.6%	9.9%	13.1%	20.8%	2.2297	1.27172
2	Continuous efforts are made in our organization to create a sense of belonging among employees and feel like a member of the Corporate family	4.9%	9.5%	24.7%	39.9%	20.7%	2.6502	1.55555
3	Most of the supervisors in our organization encourage us to discuss our problems with them	24.7%	9.9%	19.8%	29.7%	15.9%	2.9894	1.30325
4	Management identifying employee problems and helping solve them	19.8%	15.9%	19.8%	34.6%	9.9%	3.0212	1.42405
5	We do not work under the threat of losing our jobs	38.5%	28.3%	9.9%	18.4%	4.4%	3.6219	1.06947

Out of the five issues, the respondents are seeming that they are a little beat satisfied with the two issues of ‘we do not work under the threat of losing our jobs and management indentifying employee’s problems and helping solve them (mean=3.6219 SD=0.06354 and 3.0212 SD=0.08465 respectively)”

On the rest issues, like the fairness, transparency & equitability of management during decision making, the continuous effort of mgt to make employees feel belonging and supervisors’ encouragement of discussion employee’s problem with them, they are not satisfied. As it is possible to see from the table, table 4:5, their mean are 2.2294 SD=0.07560, 2.6502 SD=0.09247, and mean=2.9894 SD=0.07747 respectively. So this indicates that the banks need to raise the employees perception on the above three issues whose their average mean are below 3.

The HR managers of these two banks reflected about the above issues in the interview that the organizations are working transparently and fairly. To make it effective there is controlling mechanism of checklist. The two branch managers of the two banks also reflects the above issues as same as the HR managers but they don’t believe that the compensations and incentives currently satisfactory.

The following table shows that these two banks are good in Training and development and recruitment and selection but under question mark on compensation and incentives, communication and information sharing and on job security practices.

**Table 4.10 the aggregate mean and standard deviation of HRMP**

Items	Mean	Std.Deviatio	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
-Compensation and incentives	2.5098	.75177	.336	.145	-1.100	.289
-Job security	2.9025	.98950	-.268	.145	-.727	.289
-Communication and information sharing	2.9511	.88039	-.185	.145	-.629	.289
-Training and development	3.3802	.93028	-1.075	.145	.742	.289
-Recruitment and selection	3.5967	.83625	-.587	.145	-.744	.289

**4.4.6 Intention to stay**

The intention of employees to remain with their organization in future was used as a proxy to determine the retention rate in the banks

It can be deduced from the following table that the banks could retain 44.52% of their employees. These were those who indicated that they will remain with their organization even if they are offered better opportunities elsewhere. This means that more than half (55.48%) of employees will leave their organizations if offered better opportunities elsewhere. Although it cannot be categorically stated that there is no retention in the banks, having a higher percentage of employees looking for other option is not healthy.

**Table 4.11 Employees’ intention to stay with their organizations**

Item	Response	Frequency	Percent
I will remain with this organization even if I am offered a better opportunity elsewhere.	NO	157	55.5
	YES	126	44.5
	Total	283	100.0

## 4.5 RELATIONSHIP OF HRM PRACTICES WITH EMPLOYEE RETENTION

### 4.5.1 CORRELATIONS

Table 4.12 relationship of HRM practices with employee retention

		COMPENSATION AND INCENTIVES	TRAINING AND DEVELOPMENT	RECRUITMENT AND SELECTION	COMMUNICATION AND INFORMATION SHARING	JOB SECURITY	EMPLOYEE RETENTION
COMPENSATION AND INCENTIVES	Pearson Correlation Sig. (2-tailed)	1					
TRAINING AND DEVELOPMENT	Pearson Correlation Sig. (2-tailed)	.538**	1				
RECRUITMENT AND SELECTION	Pearson Correlation Sig. (2-tailed)	.384**	.797**	1			
COMMUNICATION AND INFORMATION SHARING	Pearson Correlation Sig. (2-tailed)	.746**	.638**	.596**	1		
JOB SECURITY	Pearson Correlation Sig. (2-tailed)	.653**	.601**	.628**	.777**	1	
EMPLOYEE RETENTION	Pearson Correlation Sig. (2-tailed)	.638**	.598**	.535**	.646**	.341**	1

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

Source: output of SPSS

It is possible to observe from the above table that all the independent variables have a strong relationship with the dependent variable, employee retention except job security. Here job security shows negative relationship when the communication and information sharing is controlled. This suggestion depends on the standards of b/n -1 and 1

- There is a large and strong positive relationship b/n compensation and incentives and employee retention ( $r=0.638, P<00$ )
- There is also a very strong positive relationship between Training and development and Employee retention ( $r=0.598, P<0.01$ )
- It is possible to observe from the above table that there a strong positive relationship between recruitment and selection and employee retention ( $r=0.535, P<0.01$ )
- Communication & information sharing have a very strong positive relationship with employee retention ( $r=0.646, P<0.01$ )
- And finally job security has a positive but weak relationship with employee retention ( $r=0.341, P<0.01$ ). Here if communication and information sharing is controlled then it will be significant and have a negative relationship with employee retention

Therefore, it can be concluded that Employee retention of the bank depends on the trends and practices of compensation and incentives, training and development recruitment and selection, communication and information sharing and job security.

#### 4.5.2 Multicollinearity Test

This assumption assumes that the independent variables are not highly correlated with each other. This assumption is tested by the correlation matrix.

Table 4.13 Multicollinearity test

	Constant	COMINC	TRDEV	RECSELE	COMINF	JOBSE
Step 1	Constant	1.000				
	COMINC	-.158	1.000			
	TRDEV	-.582	-.493	1.000		
	RECSELE	-.538	.638	-.295	1.000	
	COMINF	-.484	-.174	.348	.050	1.000
	JOBSE	.267	-.668	.251	-.609	-.397
						1.000

**Source: output of SPSS**

This assumption, multicollinearity diagnostic test, also used to insure that the data is suitable for logistic regression analysis because it refers to a situation in which two or more explanatory variables in a regression model are highly linearly related and there is a perfect multicollinearity if the correlation between two independent variables is equal to 1 or -1.

Cooper and schindler (2008) recommend a correlation value of 0.8 or greater to denote multi collinearly between two variables. In this study from table 4:9 none of the correlation value was 0.8 or greater, rendering the variables suitable for the logistic regression analysis.

**4.6. IMPACTS OF HRM PRACTICES ON EMPLOYEE RETENTION**

**4.6.1. Logistic regression**

A logistic regression predicts the probability that an observation falls in to one of two categories of a dichotomous dependent variable based on one or more independent variable that can be either continuous or categorical.

**4.6.2. Results of Logistic Regression**

**4.6.2.1 Variance explained**

In order to understand how much variation in the dependent variable can be explained by the model Summary

**Table 4.14 Model Summary of variance**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	108.759 <sup>a</sup>	.628	.841

a. Estimation terminated at iteration number 8 because parameter estimates changed by less than .001.

This table contains the **Cox & Snell R Square** and **Nagelkerke R Square** values, which are both methods of calculating the explained variation. These values are sometimes referred to as *pseudo R<sup>2</sup>* values (and will have lower values than in multiple regressions). However, they are interpreted in the same manner, but with more caution. Therefore, the explained variation in the dependent variable based on our model ranges from 62.8% to 84.1%, On the whole, this model

was significant and fit quite well at  $P < 0.01$  with pseudo R<sup>2</sup> values (Cox and Snell R Square) of 0.628, meaning the independent variables account for only about 62.8% for the variance in employee retention, meaning there are other variables accounting for the variance in employee retention which have not been included in this model.

**4.6.2.2 Category prediction**

Logistic regression estimates the probability of an event (in this case, intention to stay) occurring. If the estimated probability of the event occurring is greater than or equal to 0.5 (better than even chance), SPSS Statistics classifies the event as occurring. If the probability is less than 0.5, SPSS Statistics classifies the event as not occurring.

**Table 4.15 Category prediction**

	Observed	Predicted		
		Employee retention		Percentage
		NO	YES	Correct
Step 1	Employee retention NO	146	11	93.0
	Employee retention YES	14	112	88.9
	Overall Percentage			91.2

a. The cut value is .500

**Source: output of SPSS**

It is possible to notice that the table has a subscript which states, "The cut value is .500". This means that if the probability of a case being classified into the "yes" category is greater than .500, then that particular case is classified into the "yes" category. Otherwise, the case is classified as in the "no" category (as mentioned previously).

**4.6.2.3 Variables in the equation**

The "**Variables in the Equation**" table shows the contribution of each independent variable to the model and its statistical significance. This table is shown below:

**Table 4.16 Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)		
							Lower	Upper	
Step 1 <sup>a</sup>	COMINC	2.566	.684	14.062	1	.000	13.010	3.403	49.734
	TRDEV	1.810	.762	5.636	1	.018	6.111	1.371	27.230
	RECSELE	2.658	.751	12.523	1	.000	14.264	3.273	62.158
	COMINF	3.008	.593	25.720	1	.000	20.248	6.331	64.754
	JOBSE	-3.199	.635	25.419	1	.000	.041	.012	.142
	Constant	-22.589	3.742	36.448	1	.000	.000		

a. Variable(s) entered on step 1: COMINC, TRDEV, RECSELE, COMINF, JOBSE.

**Source: output of SPSS**

The Wald test ("**Wald**" column) is used to determine statistical significance for each of the independent variables. The statistical significance of the test is found in the "**Sig.**" column. From these results that compensation and incentives (COMINC) ( $p = .000$ ), training and development (TRDEV) ( $p = .018$ ), recruitment and selection ( $p = .000$ ), communication and information sharing ( $p = .000$ ), and job security ( $p = .000$ ) added significantly to the model/prediction. This table can be used to predict the probability of an event occurring based on a one unit change in an independent variable when all other independent variables are kept constant. Depending on this information, for example, the table shows that the odds of intending to stay ("yes" category) is 13.01 changes in one unit changes in compensation and incentives, 6.111 changes in one unit changes in training and development, 14.264 changes in one unit changes in recruitment and selection, 20.248 changes if one unit changes in communication and information sharing and 0.041 changes in one unit changes in job security.

In general a logistic regression was performed to ascertain the effects of compensation and incentives, training and development, recruitment and selection, communication and information sharing and job security on the likelihood that participants have intended to stay. The logistic regression model was statistically significant at  $p < .0005$ . The model explained 84.1% (Nagelkerke  $R^2$ ) of the variance in employee retention and correctly classified 91.2% of cases.

Increasing compensation and incentives, training and development, recruitment and selection, and communication and information sharing was associated with an increased likelihood of exhibiting employee retention, but increasing job security was associated with a reduction in the likelihood of exhibiting employee retention.

The following logistic regression equation was used for this study:

$$\{P_i = f(Y=1|X_i) = \beta_0 + \beta_1X_1 + \dots + \beta_nX_n \dots \dots \dots (1)\}$$

Where

$P_i$  = the probability of retention

$Y$  = dependent variable (employee retention)

When  $Y = 1$  intend to stay in the organization or

When  $Y = 0$  do not intend to stay

The LOGIT model can be linearized as

$$\begin{aligned} \text{Logit } \{P_i / (1-P_i) = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon \dots \dots \dots (2)\} \\ = -22.589 + 2.566(\text{COMINC}) + 1.810(\text{RDEV}) + 2.658 (\text{RECSELE}) + 3.008 \\ (\text{COMINF}) - 3.199(\text{JOBSE}) + 3.742 \end{aligned}$$

The dependent variable is the natural log of the probability of Retention ( $P_i$ ) divided by the probability of No Retention ( $1-P$ ).

Where:

$\beta_0$  = is the  $Y$  intercept or constant

$\beta_1 \dots \beta_5$  = coefficient of regression which measures how each independent variable influences the dependent variable that is employee retention.

$X_1$  = COMINC = Compensation and Incentives

$X_2$  = TRDEV = Training and Development

$X_3$  = RECSELE = Recruitment and Selection

X4 = COMINF =Communication and Information Sharing

X5 = JOBSE =Job Security

$\epsilon$  = Error Term

**4.7. Testing of Hypotheses**

It was hypothesized that employee retention is influenced by HRM practices. A Binary Logistic Regression model was used to predict the effects of HRM practices on employee retention. The Binary Logistic Regression Analysis was employed because the dependent variable (employee retention) is a categorical variable with two categories and was coded in a binary function (0 = do not intend to stay; and 1 = intend to stay).

**Table 4.17 Binary logistic regression coefficients**

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)		
							Lower	Upper	
Step 1 <sup>a</sup>	COMINC	2.566	.684	14.062	1	.000	13.010	3.403	49.734
	TRDEV	1.810	.762	5.636	1	.018	6.111	1.371	27.230
	RECSELE	2.658	.751	12.523	1	.000	14.264	3.273	62.158
	COMINF	3.008	.593	25.720	1	.000	20.248	6.331	64.754
	JOBSE	-3.199	.635	25.419	1	.000	.041	.012	.142
	Constant	-22.589	3.742	36.448	1	.000	.000		

a. Variable(s) entered on step 1: COMINC, TRDEV, RECSELE, COMINF, and JOBSE.

**Source: output of SPSS**

Depending on the above table it is possible to test the hypotheses of this study in each variable.

**4.7.1 Compensation and incentives**

H<sub>1</sub>. Compensation and incentives have a significant effect on employee retention

From Table 4.10, the effect of compensation and incentives on employee retention was significant in the model (B = 2.566, expB = 13.010, p < 0.01). The odds ratio of 13.010 means that a unit increases in compensation and incentives will lead to 13.010 times more likelihood of

employees staying with their organizations. The alternative hypothesis that Compensation and incentives have a significant effect on employee retention couldn't be rejected. The result compares with previous studies by Chew and Chan (2008) and Hong et.al (2012) who found out that effective compensation reduces employee turnover and increases retention. While Chew and Chan, (2008) employed a Structural Equation Model to establish that remuneration positively predicted organizational commitment and intention to stay on a job; Hong et.al, (2012) used regression analysis and found out that, there is a significantly positive relationship between compensation and retention.

According to March and Simon (1958) as long as an organization pays an individual monetary inducement that matches or exceeds the individual's input into the organization; the individual will remain a member of the organization. Another reason why compensation influences retention is that employees who receive good compensation may feel that they are appreciated by the organizations for their performance and contributions (Lai, 2011). They may then be motivated to contribute more and also stay with the organization. Thus employees place a lot of value on compensation and it is therefore not surprising that compensation has a positive significant relation on employee retention

#### **4.7.2 Training and development**

H<sub>2</sub>. Training and Development have a significant effect on employee retention

Training and development was another human resource practices that significantly influenced employee retention ( $B = 1.810$ ,  $\exp B = 6.111$   $P < 0.05$ ). This means that a unit increase in training and development results in increase (by 6.111 times) in the likelihood of employees staying with their organizations. Thus the alternative hypothesis couldn't be rejected. Training and development has a significant effect on retention. According to Thomas Acton and Wilie Golden in 2002, job-related training can enhance the ability of problem solving of employees. Once they are confident and motivated to perform a task, they are more likely to be committed to their job and reduced the turnover rate. Mikeal suggests that organizations should provide appropriate training and development program to keep them confident and updated to current operation. Through training, they are able to work with little supervision and more committed to the organization (Mikeal, 2011). According to American Public Transportation Association in 2009, it suggested that organizations should give sufficient training program for employee

development to retain employees. Hence, it can show that employee training is important for retaining employees in any industry

#### **4.7.3 Recruitment and selection**

H<sub>3</sub>. Recruitment and selection have a significant effect on employee retention

Recruitment and selection is the other type of human resource management practice that significantly influenced employee retention ( $B = 2.658$ ,  $\exp B = 14.264$   $P < 0.01$ ). Thus the alternative hypothesis couldn't be rejected. Recruitment and selection has a significant effect on retention. A unit increase in recruitment and selection results in a 14.264 times increases in retention. It was indicated by Schuster, (1986) that the right people should always be hired so that the cost of recruitment can always be kept low. Huselid, (1995) also added that hiring the right people increased productivity and that placing the right advertisement, ensuring clarity of job description, inducting and orienting the new employee would help achieve the benefits of good recruitment and selection exercise. On the whole, apart from 'clarity of job description', all the recruitment and selection factors are not usually practiced although it is important. This means that these unpracticed but important factors can impede the retention of talented employees in the company.

#### **4.7.4 Communication and information sharing**

H<sub>4</sub>. Communication and information sharing have a significant effect on employee retention.

Out of the many human resource management practices communication and information sharing is the one and it influences on employee retention ( $B = 3.008$ ,  $\exp B = 20.248$   $P < 0.01$ ). The odds ratio of 20.248 means that a unit increases in communication and information sharing will lead to 20.248 times more likelihood of employees staying with their organizations. Thus the alternative hypothesis could not be rejected. It has been confirmed in the literature that, information sharing fosters organizational transparency which reduces turnover (Ahmad and Schroeder, 2003) and forges synergistic working relationship among employees (Nonaka, 1994). These findings are enough to imply that information sharing helps the organization. On the whole, as a result of a well practiced communication system among the respondents, there is little tendency for employee communication to pose problems to employee retention within the bank.

#### 4.7.5 Job security practice

H<sub>5</sub>. Job security has a significant effect on employee retention

The above table shows that the influence of job security is  $B = -3.199$ ,  $\exp B = .041$ ,  $P < 0.01$ . This shows that even though it has a significant relationship ( $P < 0.01$ ), its effect is in negative direction. Thus the alternative hypothesis is rejected. In the other word a unit increases in job security will lead to decrease by 0.041 times more likelihood of employees staying with their organizations. But here opponent empirical reviews are observed in different literatures that employees would always want to feel secured about the jobs they do. This is a practice that can compel employees to have an intention to quit the job they were doing. It was indicated by Pfeffer (1998) that a company that has learnt that job security contributes to its performance, invests again in job security and that the company must signal a clear message that jobs are secure; then, employees believing that this is true, feel confident and commit them to expend extra effort for the company's benefit. It therefore means that the company enjoys from ensuring that employees' jobs are secured.

The reason for the output differ from this empirical review is that most of the respondents are from the bank which is owned by the government, CBE, and only few are from the other bank which is owned by private, Awash bank, that may feel confident relating with job security.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter will provide a summary; conclusions and recommendations are discussed based on researcher's insights gained regarding study findings and limitations. In addition, recommendations are presented for the Banks under the study and for other professionals interested in pursuing additional research to exceed the scope and findings of this study

### **5.2 Summary**

Human resource is valuable and serves as the backbone of organizations the world over. Indeed resources that are rare and valuable create competitive advantage. It is therefore imperative for organizations to institute appropriate measures to retain adroit employees because employee turnover is costly and can negatively affect organizational effectiveness. The banks in Ethiopia, however suffers the risk of labor turnover due to intensive competition. Effective HRM practices can however help organizations to retain their valued employees.

The main purpose of this study was to extent of the effects of HRM practices on employee retention in CBE and Awash banks. To achieve this, some specific objectives were set.

The research followed an explanatory cross-sectional design. Data for the study was collected through both close-ended questionnaires (in the form of five point likert scale) and interview. The target population for this study consists of various categories of employees working in the banks of CBE and Awash. Descriptive statistics (mean and standard deviation), correlation and logistic regression analysis were used to test the strength and direction of relationship been the independent variables and the dependent variable. Correlation coefficient was computed for the purpose of determining the strength of the relationship that exists between the selected human resource practices and employees' retention. The result of the correlation tests revealed a strong positive and significant relationship with employee retention except for job security which came up as weak but positive relationship. Here the independent variable, job security, becomes significant but in negative relationship when communication and information sharing is controlled. Finally, Binary Logistic Regression analysis was employed to test hypotheses. Basically, one out of the five hypotheses was rejected. Thus based on the results, it was

established that compensation and incentives, training and development, recruitment and selection, communication and information sharing and job security significantly predicted employee retention (62.8%). The rest 37.2% will be other contributors to stay employees in their organization

The full interpretation and discussion of data have been done in chapter four and chapter five provides among other things the summary of the main findings as well as conclusions and recommendations.

### **5.3 CONCLUSION**

The study sought to examine the effects of HRM practices on retention of employees and has identified almost all selected practices that significantly affect retention and only one that do not. The conclusions drawn from the study are discussed below.

It could be concluded from the findings that, there was a very youthful staff population with average of age below thirty years. Again, the employees had enviable level of education with two-thirds of the employee having bachelor degree. Also, most of the employees are newly employed having spent up to three years with the company.

HRM practices such as compensation and incentives, training and development, recruitment and selection, and communication and information sharing are important and indeed influence employee retention in the banks.

This study provides evidence that compensation and incentives has a significant effect on employee retention in the banks. However compensation and incentives alone is not enough to retain a highly skilled, motivated and experienced workforce that the organization needs to excel.

Training and development is the other type of HRM practices that influences to retain employee in the organization. The necessary training and development program which depends on employee gap assessment and that well aligned with the organization objective can excel employees' retention as is described in this study. Indeed training and development play a very important role in any organization, and it is said to be the backbone of strategy implementation. In addition, it is central in nurturing and strengthening of employee competencies.

As the study reveal that recruitment and selection significantly affect on employee retention and except in two points, putting the right person in the right job and accuracy of person specification, the organizations invest on other parts of recruitment and selection like an orientation of newly hired employees, on designing of induction programs, on providing of job description and on providing of relevant information to candidates.

Communication and information sharing can significantly affect on employee retention which can be observed from the study. This can be possible if and only if there is friendly dialogue, if employees are allowed to air their view and if they are invited to participate on policy design and soon.

Also, though there was evidence that job security does not lead to employee retention it is necessary for the effective functioning of an organization.

Finally, all the variables considered in this study combined are able to predict intention to stay about 62.8% of the time which huge at any rate. This means that the rest 37.2% will be other contributors to stay employees in their organization

#### **5.4 Recommendations**

From the summary of the findings made from examining the relationship between the selected human resource practices and employee retention and review of related literatures, the following points are forwarded as recommendation in order to help the Banks solve the identified gap relating to employee retention and to foster better retention practices. In order to make employees stay in organization, banks need to accept HR practices as a tool for effective employee retention so as to realize their objective set with ease

In order to maintain productive employees in the Bank, revision of the current compensation and incentives scheme must be undertaken for the improvement and implementation of a competitive and fair compensation and incentives scheme. It will also be an evidence to suggest that benefits are at the top of the list of reasons why employees choose to stay with the Bank or to join it in the first place. Flexibility in benefits packages can also enhance retention, as it creates responsiveness to the specific needs and circumstances of individual employees. Here needs to take in to account that although compensation plays a significant role in the life of employee, it is

recommended that employers must not interpret it as the only basis for retaining their employees because among other things, employees must deserve the kind of compensation they receive. Certainly their qualifications, experience and productivity must be commensurate with the compensation and incentives they receive.

From this study, it is evident that banks are investing in the training of their employees. However, they are also losing the employees they have trained to their competitors. Indeed, it seems poaching is common in the banking in Ethiopia. To address this problem, it is recommended that the banks assess employees knowledge gap before offering training to their employees and should collaborate and formulate appropriate measures to help control these happenings. Keeping up the training and career development practice of the Bank to ensure the provision of opportunities for every employee, in order to ensure that the workforce is highly skilled and thereby enhancing employees' organizational citizenship and commitment, and bring direct positive impact on employee intention to stay. The Bank can adapt one of the most common retention strategies, which is job rotation. Job rotation is the practice of moving the employees around different functions of the organization with a clear emphasis on making sure that they operate in domains other than the ones assigned to them initially. This ensures that the employees get trained on competencies beyond that of their assigned role and this would lead to greater motivation to gain additional skills and motivate them to perform better.

Putting the right person or skill in the right place ends in a good output of the organization (Schuster, 1986). Even though the organizations invest on recruitment and selection, still there is a gap on putting the right skill in the right place and person specification. So to address this problem it is recommended that banks need to review their recruitment and selection criteria and use more recruitment and selection tools

To retain skillful employees of the organization, firms need to communicate and inform all information about the firm performance, make them participate in policy design, give opportunity to air their view and communicate them friendly. This in turn fosters organizational transparency (Ahmed and Schroeder, 2003) and increases synergistic working relationship among employees (Nonaka, 1994). Every time organizations are recommended to review what their organizations communication and information sharing policy.

As this study reveals that job security affects on employee retention negatively, but studies show that it has a positive relationship with employee retention. This may be happened because of it is a new field practice. So banks are advised to design a policy relating to job security, train employees, implement it properly and review it depending on the results.

### **5.5. Suggestions for further research**

Some extensions to this study may provide further insights into the important issues of retaining employees. Some suggestions for other future studies have been provided below.

First of all the research on HRM practices and its effect on retaining employees is a very significant area due to the importance of human resources. However, most of the studies are not carried out in Ethiopia which necessitated this study. It is therefore important that more researchers especially those in Ethiopia continue to explore the area empirically.

Secondly, due to time and financial constraints, this research was cross sectional and was also restricted to the two banks of CBE and Awash bank. It is therefore suggested that in future, other researchers will undertake a longitudinal study to assess the practices that affect retention. Such a study will have the potential to reveal if the HR practices leading to retention which is measured at one time will be the same or vary from the outcomes at a later point in time.

This research study was limited to only five of Human Resource Management practices that is compensation and incentives, training and development, recruitment and selection, communication and information sharing and job security. The study therefore recommends further studies on the effects of other HRM practices that influence employee retention in different organizations.

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## ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

### QUESTIONNAIRE

#### EFFECTS OF HRM PRACTICES ON EMPLOYEE RETENTION:-THE CASE STUDY OF COMMERCIAL BANK OF ETHIOPIA AND AWASH BANK

Dear Respondents,

This questionnaire is designed to collect information on the effects of HRM practices on employee retention in the banking industry as part of a study for the award of masters of HRM. I will be most grateful if you could take time off your busy schedule to respond to the questions. This is only an academic exercise and you are assured of mystery and confidentiality.

Thank you

#### SECTION A: SOCIO-DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

Please respond to each item by choosing the response that best describes you

1. Gender             male             female
2. AGE               below             30-39         40-49             50 yrs and above
3. Highest level of education  diploma  degree  masters degree  other (specify)---
4. Length of service in your current organization please specify  2yr  3yr  4 yr  
 5yr         6yr and above
5. Current position  CSO     SCSO     CSM
6. Monthly income  below 2,500     2,500-5,000     5,001-7,000     7,001-10,000  
 above 10,000

Please indicate the extent to which you agree to the following statements by ticking (√) the appropriate response.

**1 = STRONGLY DISAGREE**

**4 = AGREE**

**2 = DISAGREE**

**5 = STRONGLY AGREE**

**3 = NEITHER AGREE NOR DISAGREE**

No	Statement	Ranks				
		1	2	3	4	5
	<b>SECTION: B COMPENSATION AND INCENTIVES</b>					
1.	Our organization follows the policy of matching pay with Performance					
2.	The pay we receive is competitive compared to that of Employees doing similar work in other organizations.					
3.	We are satisfied with the benefits we receive.					
4.	The benefits we receive in our organization are similar to what most of the other organizations in the industry provide to their employees					
5.	Rewards and incentives are fairly distributed in our Organization.					
6.	Rewards in our organization are strictly linked to employee Performance.					
7.	The existing reward and incentive plans do not motivate us for better performance					

	<b>SECTION D: RECRUITMENT AND SELECTION</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>13.</b>	<b>Our organization places the right person in the right job.</b>					
<b>14.</b>	<b>There is a good orientation for the newly hired employees</b>					
<b>15.</b>	<b>There is an accuracy of person specification in our organization</b>					
<b>16.</b>	<b>Selection of a candidate in our organization is strictly based on his/her merit.</b>					
<b>17.</b>	<b>There is a well designed induction program for new hired employees</b>					
<b>18.</b>	<b>I have given a clear job description that describes about my job</b>					
<b>19.</b>	<b>Adequate and relevant information about the organization and job is provided to the candidate at the time of recruitment.</b>					

	<b><i>SECTION E: COMMUNICATION AND INFORMATION SHARING</i></b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>20.</b>	<b>There is smooth and friendly employer- employee dialogue</b>					
<b>21.</b>	<b>I always can get an opportunity to air my views</b>					
<b>22.</b>	<b>There is a Free flow of information to both employees and management on the achievements of the company</b>					
<b>23.</b>	<b>There is a quarter meeting that are open to all to discuss the work progress</b>					
<b>24.</b>	<b>Managers Clearly communicating us exactly what the firm's expectation is</b>					
<b>25.</b>	<b>We have given an opportunity to participate in the policy design that guide and rule our working lives</b>					

	<b>SECTION F: JOB SECURITY PRACTICES</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>26.</b>	<b>We do not work under the threat of losing our jobs.</b>					
<b>27.</b>	<b>Continuous efforts are made in our organization to create a sense of belonging among employees and feel like a member of the Corporate family.</b>					
<b>28.</b>	<b>Management identifying employee problems and helping solve them</b>					
<b>29.</b>	<b>Most of the supervisors in our organization encourage us to discuss our problems with them</b>					
<b>30.</b>	<b>There is fairness, transparency and equitability of management during decision making</b>					

**SECTION G- RETENTION**

**31. I will remain with this organization even if I am offered a better opportunity elsewhere.**

yes

no

**32. Any other comment if you have-----**  
 -----  
 -----

## **INTERVIEW QUESTIONS**

1. As a corporate, do you laid down policies on these identified HRM practices? If so who is the responsibility for the implementation of the policies which are laid down on **HRM** practices? Is there any evaluation mechanism for its efficient and effectiveness? if so, when? Who do this? How can you alien this with the organizational and employee goal? Is there a mechanism for involvement of employees on design and evaluation of any policies regarding HRM practices?
2. What activities you perform to retain skillful employees in your organization?
3. How can you express the HR department in your organization structure? Is it represented at the top management level?
4. Is there a regular meeting to discuss and review of HRM practices? If so who participate in it? Under whose supervision it takes place? Apart from these is there information sharing like a corporate achievement? A general weakness and strong side issues of the organization on such a regular meeting?
5. What kind of training you offer to your employees? Off-job or on job training? How can you assess their skill gap? Is the training you offer to your employees refers to the changing need of the business?
6. What tools you use to recruit and select employees to fill the position? What activities you perform after a new employee hired?

How can you make your employee feel belonging to your organization? Do you identify and solve their problems? Have you ever discussed their problem with you? What seems the fairness and transparency of your decision making

**LISTS OF BOTH CBE AND AWASH BANK BRANCHES IN NAAD**

<b>S.NO</b>	<b>CBE NORT ADDIS DISTRICT BRANCH</b>	<b>AWASH BANK North Addis DISTRICT BRANCHES</b>		<b>remarks</b>
1	41 Eyesus Branch	1	Abware	
2	Abebe Bikila Branch	2	Addisu Gebeya	
3	Abune Petros Branch	3	aleltu	
4	Abware Branch	4	Arada giorgis	
5	Addis Ababa Branch	5	Arat killo	
6	Addis Alem Branch	6	Balderas	
7	Addisu Gebeya Branch	7	Chancho	
8	Adwa Dildey Branch	8	Churchil Road	
9	Alem Ketema Branch	9	Dale Dembel	
10	Ambo Branch	10	Debrebirhan	
11	Arada Ghiorgis Branch	11	Dera Gundo Meskel	
12	Arat Kilo Branch	12	Desie Ber	
13	Arbegnoch Branch	13	Ferensay legasiyo	
14	Asko Branch	14	Fitch	
15	Atse Minilik Branch	15	Gerbeguracha	
16	Bela Branch	16	Gojam berenda	
17	Birhanina Selam Branch	17	Gulele Finance	
18	Buba Branch	18	Gurd shola	
19	Burayu Branch	19	H/giorgis	

20	Burka Harbu Branch	20	Kara Alo
21	Chancho Branch	21	Kara Mazoria
22	Chilot Branch	22	Kara Road
23	Churchill Godana Branch	23	Kebena
24	Debre Tsige Branch	24	kechene
25	Degem Branch	25	Kechene Chilot Adebabay
26	Degolo Branch	26	kotobe
27	Dejach Wube Branch	27	Lamberet
28	Dil Ber Branch	28	Legetafo
29	Dire Bedas Branch	29	Megenana
30	Dire Godo Branch	30	Megenagna adebabay
31	Enchine Branch	31	Mehal Arada
32	Enkulal Fabrica Branch	32	Mukaturi
33	Entoto Branch	33	Piazza
34	Farisi Branch	34	Rufael
35	Fenance Branch	35	Sandford
36	Ferensay Legasion Branch	36	Sendafa Beke
37	Fetra Branch	37	Sheger
38	Filwuha Branch	38	Sheno
39	Fitche Branch	39	Shiro Meda
40	Gebre Guracha Branch	40	Shogole

41	Gedam Sefer Branch	41	Sadist killo	
42	Gefersa Branch	42	signal	
43	Genet Tsigie Branch	43	Sululta	
44	Ginchi Branch	44	T/tsihifet bet	
45	Ginde Beret Branch	45	Wara Jarso	
46	Goha Tsion Branch	46	Weserbi	
47	Guder Branch	47	Wosen sefer	
48	Gullele Branch	48	Yared	
49	Gundo Meskel Branch	49	Yeka	
50	Gurara Kidane Mihret Branch	50	Yeka Abado	
51	Hamle 19 Branch			
52	Hidebu Abote Branch			
53	Holeta Branch			
54	Huluka Branch			
55	Jeldu Branch			
56	Kebena Branch			
57	Kechene Branch			
58	Keta Medhanialem Branch			
59	Ketero Branch			
60	Kidiste Mariam Branch			
61	Kokebe Tsibah Branch			

62	Lege Dima Branch
63	Leku Keta Branch
64	Lemi Branch
65	Mahteme Ghandi Branch
66	Mehal Ketema Branch
67	Menagesha Branch
68	Menbere Patriarch Branch
69	Mender 7 Branch
70	Meta Robi Branch
71	Mida Branch
72	Mikililand Branch
73	Minilik Hospital Branch
74	Muger Branch
75	Muketuri Branch
76	Mulo Branch
77	Olonkomi Branch
78	Paster Square Branch
79	Piassa Branch
80	Ras Desta Branch
81	Ras Mekonnen Branch
82	Rema Branch

83	Rufael Branch
84	Sansusy Branch
85	Sebara Babur Branch
86	Selassie Branch
87	Semen Gebeya Branch
88	Semen Mazegaja Branch
89	Seyo Branch
90	Sheger Branch
91	Shegole Branch
92	Shenen Branch
93	Shiro Meda Branch
94	Sidist Kilo Branch
95	Silk Amba Branch
96	Sululta Branch
97	Tayitu Bitul Branch
98	Theodros Square Branch
99	Tikur Anbessa Branch
100	Tsion Condominium Branch
101	Tulu Selale Branch
102	Welmera Branch
103	Weserbi Branch

104	Wingate Branch
105	Yared Branch
106	Yaya Gullele Branch
107	Yohannes Branch