

# HRM Practices and Employee Retention in Thailand—A Literature Review

Sorasak Tangthong, Jirasek Trimetsoontorn, and Nutthawut Rojniruntikul

**Abstract**—An empirical study is conducted to investigate the effects of HRM practices on employee retention in Thailand's FDI manufacturing industry. HRM practices that will be covered in this research consist of compensation & benefits management and reward system, and training & development. HR Intervening, which acts as the mediating variable, will be employee engagement. As the dependent variable and an observed variable, is employee retention. Thus, the conceptual model created for this study will comprise of two independent variables, one mediating variable and one dependent variable. A total of 5 theoretically-based hypotheses are developed, indicating possible positive and negative relationships among the variables of the model. Input consists of 400 top management, human resources managers/leaders and line managers of Thailand FDI's key industrial zone in Rayong province. The proposed model is empirically tested by using AMOS of a Path Analysis modeling approach. It is hoped that this study will help both academics and those managing human resource to realize, understand and see the influence of HRM practices and employee retention.

**Index Terms**—Employee retention, human resource management (HRM) practices, Thailand's manufacturing industry.

## I. INTRODUCTION

HRM practices are essential for firm performance. Firms have used human resource practices to achieve their performance, particularly in relation to retention. The impact that human resource practices have on firm performance are apparent, as many researchers have shown in their studies from the United States and Europe [1], [2] to Asia [3], [4] and Africa [5]. Human resource management practices consist of many policies and practices that are used by managers to recruit, select, develop, utilize, reward, and maximize the potential of human resources in organizations [6]. They have been studied extensively by researchers, but the ones that have a significant effect on firm performance are compensation & benefits management and reward system, and training & development [7], [8]. These are considered by organizations to be important human resource practices for the following reasons. Compensation & benefits management and reward system are needed in organizations for financial income and well-being of their employees. Employees' living status in society, satisfaction, loyalty, and productivity are influenced by compensation [9]. Employees

need to be provided with training & development to develop their skills and perform better at work. Training and development can lead to superior knowledge, skills, abilities, attitudes, and behavior of employees, thereby enhancing excellent financial and non-financial performance of the organizations [10]. As for firm performance, employee retention is chosen as the observed variable since previous studies have shown how it has been related to effectiveness as a human resource outcome [11]. While there have been many studies on the relationship between human resource practices and firm performance, there are also studies that have managed to identify other factors that could have an impact on the relationship between HRM practices and organizational performance [12]. These factors are the HR Intervening, which mediate the relationship between HRM practices and firm performance. Employee engagement is chosen as the HR Intervening in this study, so as to gain a better understanding of the nature and the impact that employee engagement has on compensation & benefits management and reward system, and training & development as the two HRM practices, and employee retention, as the observed variable of firm performance. Thus, by understanding the relationship between HRM practices and firm performance, it would serve as a platform for managers in organizations by assisting them to achieve better performance.

## II. LITERATURE REVIEW AND HYPOTHESES

This section will focus on prior literature involving HRM practices and their interactions with employee engagement and employee retention as well as the literature surrounding the hypotheses that have been formulated for this study. It will focus, in particular, on the relationships between compensation & benefits management and reward system, and training & development as the two HRM practices, employee engagement as the HR Intervening and employee retention as the dependent variable. Study indicates potential hypothetical associations among these variables, which were derived after a systematic review of the theoretical and empirical literature on the HR-firm performance relationships. Altogether, 5 hypotheses were formulated, which are explained below.

### A. Human Resource Management System

To understand the significance of HR and the way it is able to determine the performance outcome of organizations, the HR process must be viewed as a whole. Researchers have viewed organizations as systems [13], [14] and, as a result, it is important to consider the human resource inputs, processes

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(practices) and outputs that will lead to a sustained competitive advantage [15] in organizations. Thus, human resource has become a unique source for sustained competitive advantage [16] in organizations. The human resource system in an organization consists of the dynamic processes of HR, such as the recruitment and selection, performance appraisals, training, and compensation. These allow the firm to acquire and develop its resources (inputs) to achieve high performance (outputs), and thereby having a competitive advantage. The human resource system model was developed by [13], outlining the various components of the human resource management system. The model is based on [17] resource-based view of the firm, consisting of variables that a person brings to the firm, such as skills and motivation [18], and the human resource processes, which include recruitment, selection, training, reward systems and performance management [19], [20]. These variables create products and services that will lead the firm towards a sustained competitive advantage. In other words, the inputs (skills and motivation) are converted through the human resource processes to achieve the outputs of job and firm performance [15].

### *B. Firm Performance and Organizational Effectiveness*

Firm performance represents the final outcome of an effective HR system [15]. Organizational effectiveness is part of that construct and has been defined as the ability of organizations to produce desired results [21]. It can be used as measures of productivity, service quality and profitability [22]. These measurements were chosen in [22] because they would lead to a full examination of firm performance [23], [24]. In any case, researchers have used both financial and non-financial metrics to measure organizational performance [25]. Financial measures can be profit, sales, and market share. Non-financial measures can include productivity, quality, efficiency, as well as attitudinal and behavioural measures, which include commitment, intention to quit and satisfaction [26]. This study will focus on the latter.

### *C. Human Resource Management Practices*

Using the HR system concept, human resource practice, which is the HR process part of the human resource management system [15], will be examined in this study. HR practices have been defined as a set of distinct yet interrelated activities, functions, and processes aimed at attracting, developing, and maintaining a firm's human resources [15]. They are viewed as independent variables in most studies that can have an impact on firm performance, which is the dependent variable [27]-[29]. They consist of many activities and policies aimed at carrying out the "people" or the human resource aspect of a management position [30]. This study will only focus on two practices, which are compensation & benefits management and reward system, and training & development. These practices are chosen because they are known to have the most impact on firm performance. Each of them will now be considered in turn.

#### *1) Compensation & benefits and reward system*

Compensation refers to all forms of financial returns and tangible benefits that employee receives as part of the employment relationship [31]. Benefits are indirect financial

and non-financial payments employees receive for continuing their employment with an organization [32]. Reward system is anything that is extrinsically or intrinsically reinforced, maintain and improve the employees' behavior in an organization [33]. Compensation is one of the main features used by organizations to attract and retain their most valuable and worthy assets [34]. It is known to have a positive relationship with employee retention [35]. Benefits are also positively related to retention [36]-[38]. Reward system can affect the performance of the employee and their desire to stay with the organization [39], [40]. Reward system also plays a vital role in employee engagement, which depends on staff feeling that they are fairly rewarded for their skills, knowledge and contribution [41]. Thus, we hypothesize that:

- H<sub>1</sub>: Compensation & Benefits and Reward System have a relationship with Employee Retention.
- H<sub>2</sub>: Compensation & Benefits and Reward System have a relationship with Employee Engagement.

#### *2) Training & development*

Training & development refers to a systematic development of the knowledge, skills and attitudes required by employees to perform adequately a given task or job [42]. It is regarded as the most common human resource practice [43]. When employees feel that training is available at all times, they will have a sense of emotional attachment and commitment to the organizations, and are thus less likely to leave their jobs [44]. [20] also suggested that training is an important determinant of employee retention. This is further supported by [36]-[38]. Furthermore, when managers provide opportunities for training and support regarding career development, they help create employee development and drive employee engagement [45]. From the above, we hypothesize that:

- H<sub>3</sub>: Training & Development have a relationship with Employee Retention.
- H<sub>4</sub>: Training & Development have a relationship with Employee Engagement.

### *D. Employee Engagement*

Employee engagement is a feeling of positive emotions by employees toward their work, find their work to be personally meaningful, consider their workload to be manageable, and have hope about the future of their work [46]. To become fully engaged is to be involved in and enthusiastic about the work [47]. There are two aspects of employee engagement, which are cognitive engagement and emotional engagement/physical engagement. Cognitive engagement is the extent to which a worker is aware of their mission at work and their role in the organization. Emotional engagement/physical engagement is the extent to which the worker empathizes with others at work, and connects in a meaningful way with their co-worker [48]-[50]. According to previous studies, employee engagement has a positive effect on organizational performance outcomes, such as employee retention [51]. Thus, we hypothesize that:

- H<sub>5</sub>: Employee Engagement has a relationship with Employee Retention.

### III. RESEARCH FRAMEWORK

Having reviewed the literature, it is possible to develop a comprehensive framework, presented in Fig. 1, consisting of HRM practices, which include Compensation & Benefits Management and Reward System, and Training & Development as the independent variables. Employee Engagement as the HR Intervening and firm performance, which has one observed variable of employee retention, as the dependent variable.

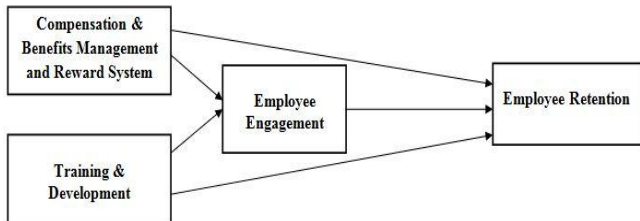


Fig. 1. Conceptual model.

### IV. EXPECTED RESULT AND CONCLUSION

The aim of this research was to carry out an empirical study on the effect of human resource management (HRM) practices on employee retention in Thailand's FDI manufacturing industry, focusing in particular on compensation & benefits management and reward system, and training & development. By reviewing the literature, studies have shown the significance of both HRM practices and the effect that they can have on employee retention, both directly and indirectly. In relation to the former, benefits and training are said to be positively related to retention because they motivate employees and "lock" them to their jobs [36]-[38]. Compensation and reward system are known to attract employees to stay with the organization [34], [35], [39], [40]. But despite the support for these two HRM practices, there is a caveat to one of them, namely training. While training can play a role to increase staff retention, it cannot address all of the factors that contribute to retention, such as excessive caseloads and promotional opportunities [35]. Thus, training will need to be accompanied by other HRM practices, such as compensation & benefits management and reward system, which are considered to be more effective in retaining employees. Furthermore, from the review of the literature, compensation & benefits management and reward system have more studies to support their relationship with employee retention, totaling seven, compared to training & development with five studies. With more studies to support its relationship with employee retention, compensation is not only considered to be the return and benefits for the work done by employees, but it also reflects their accomplishments [52]. Employees will feel that they are appreciated by their organizations for their performance and contributions if they get good salary [53], and are thus more likely to stay with the organization. As for employee engagement, there is an equal amount of study to support its role as the HR Intervening. Reward system and training help encourage employee engagement [41], [45], which in turn has a positive effect on employee retention [51].

Therefore, to conclude, both compensation & benefits management and reward system, and training & development have a direct and indirect effect on employee retention, even if training & development does not have a complete role in determining employee retention for direct effect. By reviewing the literature, their studies have shown that the two HRM practices, as a whole, do have a positive relationship with firm performance. But there are also other contexts, countries and industries. Researchers expect this to be an empirical study, specifically for Thailand's manufacturing industry, in particular FDI firms, where their positive relationships of firm performance with HR practices will provide a useful insight to all relevant academics. As for HR practitioners, the two key HR management practices, which are compensation & benefits management and reward system, and training & development, will be of continuing concern to their organizational performance.

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