

EFFECT OF TALENT RETENTION ON ORGANISATION PERFORMANCE IN COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE IN KENYA

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ABSTRACT

Talent retention aims to take measures to encourage employees to remain in the organization for the maximum period of time. Talent turnover is harmful to a company's productivity because costs of attraction are high. Direct cost refers to turnover costs, replacement costs and transitions costs, and indirect costs relate to the loss of production, reduced performance levels, unnecessary overtime and low morale (Echols, 2007) Mendez et al, (2011) further emphasizes that a company needs to invest in employee retention in order to be successful.

Key Words: Effect, Talent Retention, Organization Performance, Nairobi Security Exchange

Introduction

Managing talent is a challenge to all organizations in the context of globalization irrespective of the country (Gardner, 2002). Moreover, the concern about the scarcity of talent is almost universal. Organizations around the world are competing for the same pool of talents. This is seen as a global labor market for talents. Trend of global integration shows organizations' standardizations in talent recruitment, development and management, to ensure their competitive position and consistency. Therefore organizations have to adapt global best practices of talent management and at the same time adapt the local requirements and local labor market (Stahl et al., 2007).

Aberdeen Group and Human Capital Institute (2005) study which covered '170 human capital management professionals and executives had the following findings that 71 per cent of the firms surveyed had formal retention plans for executive and 65 per cent for the mid-level management staff. Nowadays, land, capital and fixed assets are no longer key resources for the organizations to be highly competitive in the current economy (Gardner, 2002). Human capital is a key resource to adapt the organizations to the worldwide competition. Therefore, organizations are competing against each other to acquire and retain talents in order to maintain their operations and continue to grow (Gardner, 2002).

Literature Review

Talent retention was measured by whether the company has flexible working hours, satisfied and motivated employee, competitive compensation, attractive non monetary rewards. Talent retention will also be measured by existence of good company image, recruitment policy of the company and the style of the leadership,

Retention as the final struggle of the talent war, aims to take measures to encourage employees to remain in the organization for the maximum period of time. Talent turnover is harmful to a company's productivity because costs of attraction are high. Direct cost refers to turnover costs, replacement costs and transitions costs, and indirect costs relate to the loss of production, reduced performance levels, unnecessary overtime and low morale (Echols, 2007). Vaiman et al (2008) define two classifications of retention tool to suffice employee's expectation: extrinsic and intrinsic incentives. Extrinsic incentives includes different sorts of monetary rewards which can satisfy employees' physiological needs, while intrinsic incentives refer to non-monetary rewards that can fulfil employees' psychological needs. The monetary reward is admitted as an essential tool to retaining talent (Vaiman et al, 2008). Hughes et al (2008) (cited in Poorhpsseinzadeh et al, 2012), said various organizations around the world have similarities and differences on the strategies they use to retain talent. For example, in Brazil, France and Netherlands, they retain talent through stimulation; in Japan, the employers use intimidation to earn employees trust and respect; in Italy, organizations conduct effective performance assessments; in South Korea, employees retention is based on performance targets; while in Canada, the determinants of retention include employee satisfaction and motivation.

In other studies, the monetary reward is admitted as an essential tool to retaining talent (Vaiman et al 2008). O'Callaghan (2008) emphasizes that the only way for organizations to retain talented employees is through making sure that the employees are competitively compensated. He identified the strategies that can help in retention of employees to include signing bonuses, stock options with a maturity clause and market-related incentives and pay.

Mendez et al, (2011) further emphasizes that a company needs to invest in employee retention in order to be successful. For example, a good compensation package is important in retaining employees, offering an attractive, competitive; benefits package with components such as life insurance, disability insurance and flexible hours motivates employees to commit themselves to an organization (Lockwood et al, 2008). In light of the above, a salary offered to an employee should not only be viewed as a sum of money, but as a package of remuneration in order for the payment to serve as a retention factor. Gomez-Mejia et al (2006) refers to this as internal and external equity. External equity is the perceived fairness of the remuneration in comparison to how much other employees in the same kind of work are receiving in the same industry. On the other hand, internal equity refers to how an employee perceives his pay to be fair in comparison to another employee who he perceives to be in a similar position within the same organization. For the talent to be cultivated the employee must be able to experience both intrinsic and extrinsic reward from their jobs. Should the employee find job interesting and challenging, they will exert all necessary effort in doing the job and therefore lead to increased productivity.

The study (Chikumbi, 2011) was initially carried out through literature review and later empirical study. Findings from both the literature review and the survey were compared to establish whether there was any distinction between the findings of the literature review and practices of talent retention in Zambian Banks. The study found that successful talent retention involved planning the goals of the organization through to succession planning. However, workers complained that the compensation and reward system was biased and therefore many employees felt that their career progression was jeopardized. Moreover, there was problem of adoption of organizational culture among the respondents to poor perception of the same.

As an element of talent management, talent retention implies that the organization intends to retain its most talented employees or those employees that will likely leave (Armstrong, 2006). Organizations are not always successful at retaining talented workers but can use tried and tested strategies to retain their best employees (Armstrong, 2006). Talent retention is affected by specific demographic factors such as age, gender and the profile of talented employees. There is a tendency amongst younger workers to change jobs regularly whereas older workers require security and job stability. Other factors that influence talent retention are company image, recruitment, selection and deployment, leadership (employees join companies and leave managers), learning opportunities as well as performance recognition and rewards (Armstrong, 2006). Before going out the organization to look for talent, it is prudent to consider in-house pool first .selecting an internal staff provides a moral boost for serving employees and allows them to grow.

The following theories were applied to explain the concept of talent retention and organization performance; first was the equity theory of motivation as advanced by Adams (1965) .The theory is related to the potential rewards that are promised to an individual. The major tenet of the theory is balance or equity. For example, an individual motivation level is determined by how he/she perceive equity, fairness and justice practiced by the management (Nzuve, 2007). This implies that the higher the degree of employees perceiving fairness, the more they are motivated to perform and also their levels of commitment increases and hence they are loyal to the organizations and are likely to remain there for long. This theory is based on the assumptions that individuals are concerned both with their own rewards and also with the reward of others in the same rank, and employees anticipate that an organization will treat them with fairness and equitability in terms of the input they make and the reward they receive. Moreover, Adam (1965) argues that those employees who perceive that their job input does not match the reward they get will seek to address this perception by either low performance or turnover.

In the context of this study, equity theory was important for employee retention, as it influenced the perception of employees working for firms listed in the NSE that they are getting fair and equal rewards. Drafke et al (2002) in support of this relationship argue that employees are probable to compare the inputs they devote to the work with the outputs they receive from the organization. Once they feel they get less output for the work they have done, they perceive this as unfairness and unequal and tend to be unsatisfied or not motivated and hence are likely to leave the organization .On the other hand, if employees perceive fairness and equity they are unlikely to leave. In the context of the current study it can be inferred that organizations can retain their employees by having policies and strategies that employees perceive as fair and equitable for instance having competitive compensation system that has both internal and external equity.

Secondly talent retention was also expounded by use of the Herzberg (1974) two-factor theory. It is based on the tenet that there are two factors that need to be present in an employee's job situation: hygiene and motivation. According to Herzberg (1974), there are some job factors that result to satisfaction while others prevent dissatisfaction. According to Herzberg, hygiene factors are those job factors that are important for motivation to take place at the work place. If these factors are not present, they lead to dissatisfaction. These factors include pay, working conditions, supervision and company policies and administrative policies (Nzuve, 2009).

On the other hand, motivational factors are those factors that lead to satisfaction of employees. These factors motivate employees to perform. These factors include recognition, sense of achievement, growth and promotion opportunities, responsibility and meaningfulness of the work (Nzuve ,2009) .In the context of this study, the researcher argued that hygiene factors such as competitive compensation system and company policies like having flexible working hours and offer of insurance and education for children cover are associated with employees retention and hence talent management which leads to good organization performance, motivational factors too such as growth and promotion opportunities could be associated with talent retention strategies .

Methodology

The researcher used cross-sectional descriptive survey design .Descriptive design was considered the best in answering the questions of who, what, which, when, where as well as how, key questions that were expected to be raised in this study. Moreover, the correlation survey research design was able to determine the strength of relationship between the variables..Stratified sampling technique was used in order to achieve the desired representation from various sub groups in the NSE listed companies and questionnaires were the main data collection instrument.

Results

The elements that measured talent retention included; effective leadership style, competitive compensation, internal recruitment policy, flexible working hours, Employee are satisfied and motivated, and offers attractive non-monetary rewards, in order to attract the right talents.

4.1 Effective Leadership Style

The study sought to establish the extent to which the NSE listed companies used effective leadership style and how they handled employee issues. Effective leadership style and ways of handling employees' issues in NSE listed companies were crucial of talent retention.

Results in Table 4.1 shows that majority 75% of the respondents agreed that they used effective leadership style and were careful on how they handled employee issues. Results also reveal that 21% disagreed while 4 % neither agreed nor disagreed with the statement.

The findings agree with those in Armstrong (2006) who found out that other factors that influence talent retention are company image, recruitment, selection and deployment, leadership (employees join companies and leave managers), learning opportunities as well as performance recognition and rewards.

The findings imply that effective leadership style contributes positively to talent retention and organization performance.

4.2 *Attractive Non-Monetary Rewards*

The study sought to establish if the NSE listed companies offered attractive non-monetary rewards to employees. Attractive non-monetary rewards in a NSE listed companies was crucial of talent retention

Results in table 4.1 shows that 94% agreed that their company offered attractive non-monetary rewards to employees, 2.4% disagreed while 3.7% neither agreed nor disagreed with the statement.

The findings agree with those in Armstrong (2006) who noted that other factors that influence talent retention are, learning opportunities as well as performance recognition and rewards which are all non monetary in nature . The findings also agrees with those in Nzuve (2009) who argued that hygiene factors like having flexible working hours and offer of insurance and education for children cover are associated with employees retention and hence talent management which leads to good organization performance, motivational factors too such as growth and promotion opportunities (nzuve ,2009) can be associated with talent retention strategies and may influence the employees decision to remain in the organization for long .

The findings imply that listed companies offers attractive non-monetary rewards to employees and this may have contributed positively to talent retention. The findings also imply that attractive non-monetary rewards may have contributed positively to organization performance.

4.3 *Internal Recruitment Policy*

The study sought to establish if the company internal recruitment policy had helped to raise the loyalty and morale of their employees. Internal recruitment policy in a company was crucial for talent retention.

Results in Table 4.1 shows that 88% agreed that they had internal recruitment policy that helped to raise the loyalty and morale of their employees, 7.4% disagreed while 4.3% neither agreed nor disagreed with the statement.

The findings agree with those in Armstrong (2006) who noted that before going out the organization to look for talent, it is prudent to consider in-house pool first as selecting an internal staff provides a moral boost for serving employees and allows them to grow.

4.4 *Company Image*

The study sought to establish the extent to which the company image remained good all the time in order to retain the talented employees. Company image in a company was crucial to talent retention.

Results in table 4.1 shows that majority 87% agreed that the company ensured their company image remained good all the time in order to retain their talented employees. Results also reveal that 5.2% disagreed while 6.8% neither agreed nor disagreed with the statement.

The findings agree with those in Armstrong (2006) who noted that other factors that influence talent retention are company image, recruitment, selection and deployment, leadership (employees join companies and leave managers), learning opportunities as well as performance recognition and rewards

This implies that company image should be maintained to retain the talented employees as this will contribute positively to organization performance.

4.5 Competitive Compensation System

The study sought to establish if the company had competitive compensation system in comparison to other organizations in the same industry. Competitive compensation system in a company was crucial for talent retention.

Results in table 4.1 shows that 95% agreed that their company had competitive compensation system in comparison to other organizations in the same industry which was a motivating factor to their employees, 1.3% disagreed while 3.7% neither agreed nor disagreed with the statements.

The finding agrees with those of O'Callaghan (2008) who emphasizes that the only way for organizations to retain talented employees is through making sure that the employees are competitively compensated. He identified the strategies that can help in retention of employees to include signing bonuses, stock options with a maturity clause and market-related incentives and pay. Also the findings of Vaiman et al, (2008) who found the monetary reward as an essential tool to retaining talent agrees.

This implies that competitive compensation system should be maintained to retain the talented employees and is talent management which leads to good organization performance.

4.6 Employee Satisfaction and motivation

The study sought to establish if the company ensured employee were satisfied and motivated all the time. Employee satisfaction and motivation in a company was crucial of talent retention.

Results in table 4.1 shows that 86% agreed that their company ensured employee were satisfied and motivated all the time, 6.1% disagreed while 7.4% neither agreed nor disagreed with the statement.

The findings also collaborated with in Nzuve (2009) who asserted that motivational factors are those factors that lead to satisfaction of employees. These factors motivate employees to perform. These factors include recognition, sense of achievement, growth and promotion opportunities, responsibility and meaningfulness of the work. The findings also agrees with those of Hughes et al (2008), who said various organizations around the world have similarities and differences on the strategies they use to retain talent for example in Canada, the determinants of retention include employee satisfaction and motivation.

The findings imply that listed companies have emphasised on employee satisfaction and motivation and this may have contributed positively to talent retention. The findings also imply that the employee satisfaction and motivation may have contributed positively to organization performance.

4.7 Company Flexible Working Hours

The study sought to establish if the company working hours was a motivating factor to their employees. Company flexible working hours in a company was crucial of talent retention.

Results in table 4.1 shows that 92% agreed that the company flexible working hours was a motivating factor to their employees, 4.3 % disagreed while 3.7% neither agreed nor disagreed with the statement.

The findings agree with those in Nzuve (2009) who argued that company policies like having flexible working hours and offer of insurance and education for children cover are associated with employees retention and hence talent management which leads to good organization performance. The findings also agree with Lockwood et al, (2008) who said that offering an attractive competitive benefits package with components such flexible working hours motivates employees to commit themselves to an organization

The findings imply that NSE listed companies having flexible working hours may have contributed positively to talent retention. The findings also imply that the company flexible working hours may have contributed positively to organization performance.

Table 4. 1: Talent retention

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
We use effective leadership style and we are careful on how we handle employee issues	9.90%	11.1%	4.30%	35.80%	38.90%
My company offers attractive non-monetary rewards to employees	1.20%	1.20%	3.70%	59.90%	34.00%
We have internal recruitment policy that helps to raise the loyalty and morale of our employees	3.10%	4.30%	4.30%	61.70%	26.50%
This company ensures our company image remains good all the time in order to retain our talented employees	1.90%	4.30%	6.80%	56.80%	30.20%
My company has competitive compensation system in comparison to other organizations in the same industry which is a motivating factor to our employees	0.60%	0.60%	3.70%	53.70%	41.40%
My company ensures Employee are satisfied and motivated all the time	1.20%	4.90%	7.40%	46.30%	40.10%
My company flexible working hours is a motivating factor to our employees	0.60%	3.70%	3.70%	38.30%	53.70%

Table 4.2 shows the factor analysis results for statements regarding talent retention affects organization performance and seven statements attracted a coefficient of more than 0.4 hence were retained for further analysis.

Table 4. 2: Talent Retention Factor Analysis Component Matrix

Statement	Component
We use effective leadership style and we are careful on how we handle employee issues	0.891
My company offers attractive non-monetary rewards to employees	0.815
We have internal recruitment policy that helps to raise the loyalty and morale of our employees	0.810
This company ensures our company image remains good all the time in order to retain our talented employees	0.517
My company has competitive compensation system in comparison to other organizations in the same industry which is a motivating factor to our employees	0.436
My company ensures Employee are satisfied and motivated all the time	0.427
My company flexible working hours is a motivating factor to our employees	0.355

Table 4.3 shows Cronbach alpha values for talent retention. From these findings it can be concluded that the construct measured had adequate reliability for the subsequent stages of analysis since the Cronbach Alpha values was greater than 0.7.

Table 4. 3: Talent Retention Cronbach alpha

Cronbach's Alpha	N of Items
0.760	7

4.8 Relationship between talent retention and organizational performance

Figure 4.7 shows the scattered plot of talent retention and organization performance. The figure reveals that there was strong and positive relationship between the two variables. Therefore, an increase in effective talent retention affects organization performance of all listed companies.

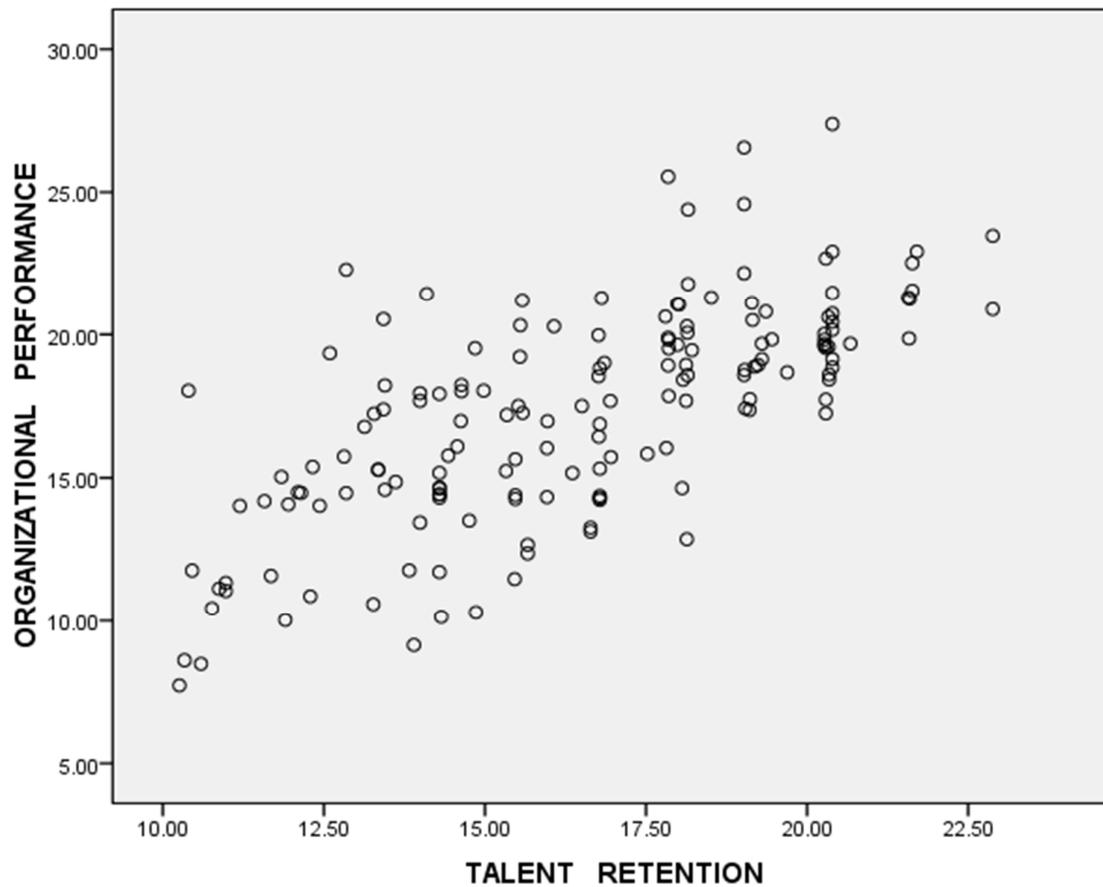


Figure 4.1 Correlation between Talent retention and Organizational Performance

Table 4.4 displays the results of correlation test analysis between the dependent variable (organization performance) and talent retention. Results on Table 4.4 show that acceptance of organizational performance was positively correlated with talent retention. This reveals that any positive change in talent retention on organizational performance led to increased acceptance of organizational performance.

Table 4. 4: Relationship between Talent retention and Organizational Performance

Variable		Organizational Performance	Talent Retention
Organizational Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Talent Retention	Pearson Correlation	0.699	1
	Sig. (2-tailed)	0.000	

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

A graphical illustration of the relationship between talent retention and acceptance of organization performance was presented in figure 4.2.

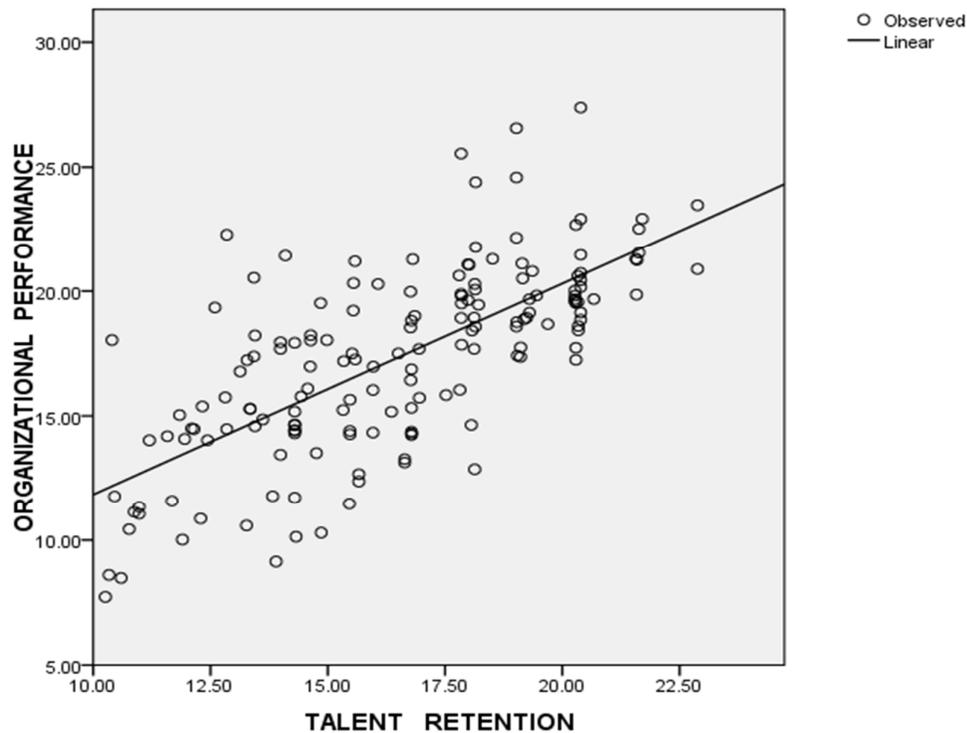


Figure 4.2: Regression between Talent retention and Organization Performance

Regression analysis was conducted to empirically determine whether talent retention was a significant determinant of organization performance listed companies. Regression results in table 4.5 indicate the goodness of fit for the regression between organization performance and talent attraction was satisfactory. An R squared of 0.489 indicates that 48.9% of the variances in the talent retention by listed companies are explained by the variances in the organization performance. The correlation coefficient of 69.9% indicates that the combined effect of the predictor variables have a strong and positive correlation with organization performance.

Table 4.5: Model Summary for Talent Retention

Indicator	Coefficient
R	0.699
R Square	0.489
Std. Error of the Estimate	2.69302

The overall model significance was presented in table 4.6. An F statistic of 153.182 indicated that the overall model was significant. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). The probability of (0.000) indicated that there was a very low probability that the statement “overall model was insignificant” was true and it was therefore possible to conclude that the statement was untrue.

Table 4. 6: ANOVA for Talent Retention

Table 4.6: ANOVA for Talent Retention

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	1110.928	1	1110.928	153.182	0.000
Residual	1160.378	160	7.252		
Total	2271.307	161			

Table 4.7 displays the regression coefficients of the independent variable (talent retention). The results reveal that talent retention is statistically significant in explaining organization performance of listed companies.

The regression results were used to test the null hypothesis “H0: There is no relationship between talent retention and organizational performance in companies listed in the NSE.” The null hypothesis was rejected at 0.05 level of significance. This implies that there is a relationship between talent retention and organizational performance in companies listed in the NSE

Table 4.7: Regression Coefficient for Talent Retention

Variable	Beta	Std. Error	t	Sig.
Constant	3.372	1.146	2.942	0.004
Talent Retention	0.847	0.068	12.377	0.000

Conclusion

It may be concluded firms listed on the NSE have put in place effective talent retention practices. This came after the realization that a company needs to invest in employee retention in order to be successful. This has been achieved through a good compensation package which involves, offering an attractive, competitive; benefits package with components such as life insurance, disability insurance and flexible hours motivates employees to commit themselves to an organization.

It was concluded that talent retention had a positive and significant effect on organization performance.

Recommendations

It is recommended that the NSE listed firms should keep valuing and ensuring that talent retention strategies are in place because the study found a great influence of talent retention on organization performance. It is also recommended that companies with poor talent retention should improve as an improvement in talent retention practices contributes positively to organizational performance.

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