

**STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICES AND  
EMPLOYEE RETENTION IN THE SOFTWARE DEVELOPMENT  
INDUSTRY IN KENYA**

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## DECLARATION

This thesis is my original work and has not been presented in any other institution for examination purposes.

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This thesis has been submitted for review with my approval as the University supervisor.

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## **DEDICATION**

I dedicate this research work to my beloved daughter, Jeneil Lihavi (Livi), for her immense love and understanding during my entire studies.

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## **OPERATIONAL DEFINITION OF TERMS**

**Employee retention:** This is a voluntary move by an organization to create an environment which engages employees for a long term. It involves deliberate actions/strategies by the organization to prevent competent employees from leaving the organization

**Employee compensation:** These are all forms of direct and indirect pay and rewards received by employees of an organization for the performance of their jobs

**Career management practices:** These are human resource policies and programs that support the development of employees' competencies (knowledge and skills) in an organization

**Work-life balance:** These are human resource policies and programs that include interventions instituted by an organization that seek to create harmony between an employee's family life and his/her work commitments

**Employee engagement:** It is the positive and fulfilling relationship between an employee and the organization that has employed him/her, where the employee is fully absorbed by and enthusiastic about his/her work and so takes positive action to further the organization's reputation and interests

**Human resource:** These are the employees that form the work force of an organization who contribute through their efforts to the attainment of organizational goals.

**Human resource management:** This refers to the system of firm activities, policies and strategies that deal with the successful and effective utilization of organizational employees at all levels for the achievement of organizational objectives.

**Strategic human resource management:** This is an approach of human resource management that focuses on the alignment of an organization's human resource policies and practices to its overall firm strategy as a means of gaining competitive advantage and enhancing organizational performance.

**Strategic human resource management practices:** This is an approach to managing an organization's work force that involves a distinctive set of integrated employment policies, programmes and practices adopted by an organization which seeks to leverage on people's capabilities in order to support the long-term goals of the organization

## **ABBREVIATIONS AND ACRONYMNS**

<b>BSA</b>	Business Software Alliance
<b>CSK</b>	Computer Society of Kenya
<b>EAPs</b>	Employee Assistance Programs
<b>EE</b>	Employee Engagement
<b>FOSSEFA</b>	Free and Open Source Software Foundation for Africa
<b>HR</b>	Human Resource
<b>ICT</b>	Information and Communication Technology
<b>KeSIA</b>	Kenya Software development Industry Association
<b>KEPSA</b>	Kenya Private Sector Alliance
<b>KIS</b>	Kenya Information Society
<b>KSDA</b>	Kenya Software Developers Association
<b>SHRM</b>	Strategic Human Resource Management
<b>SPSS</b>	Statistical Package for Social Sciences
<b>WLB</b>	Work-Life Balance

## ABSTRACT

The retention of talented employees is paramount to an organization because employees' knowledge and skills are central to its ability to be economically competitive. Employees are a key resource that can be strategically placed for an organization to attain competitive advantage. Organizations can increase and sustain their competitive advantage through effective management of human resource as the success of any organization is dependent on the quality and efficiency of its human resources. The value of effective Strategic Human Resource Management practices cannot be overemphasized especially in the face of a dynamic workforce. Employee turnover is costly given that the cost of replacing the employees is high, finding competent employees can be difficult and investments in training are currently less secure. This study sought to establish the effect of strategic human resource management practices on employee retention in the software development industry in Kenya. Specifically, the study sought to determine the effects of compensation, career management practices, employee work-life balance and employee engagement on employee retention in the software development industry in Kenya. The study adopted a descriptive cross-sectional research design. The study's target population was the employees of the 304 registered software development companies in Nairobi, Kenya. The study applied stratified and simple random sampling techniques in sample selection. The study sample size was 456 respondents. A validated self administered semi-structured questionnaire was used as the data collection instrument. The study data was analyzed using descriptive statistics through the use of mean, frequencies and percentages using the Statistical Package for Social Sciences (SPSS, version 21.0). Further, both regression and correlation analysis were used to test the relationship between the study variables. The study established that majority (>50%) of the respondents shared the opinion that employee compensation, career management practices, employee work-life balance and employee engagement were used to a great extent to enhance employee retention in the software development companies in Kenya. The study findings also revealed the respondents did agree that different types of rewards used in their organizations had a deep and long lasting effect on employees' motivation and retention (mean = 4.192); they had received sufficient training in their organizations to enable them do their job effectively (mean = 4.311); if employees had good work-life balance, the organization would be more effective and successful (mean = 4.308) and that they felt a strong sense of belonging to their organization (mean = 4.198) and were prepared to put in a great deal of effort beyond what was normally expected in order to help their organization succeed (mean = 4.163). The 4 study variables were found to have a significant positive effect on employee retention in the software development companies in Kenya. The study concluded that employee compensation, career management practices, employee work-life balance and employee engagement played a significant role in enhancing employee retention in the software development companies in Kenya. To continually motivate organizational employees, the study recommends that software development companies in Kenya should use a competitive compensation scheme that comprises of both financial and non-financial rewards and that reflects the value of the staff to the organization. Further, the study recommends that software development companies in Kenya should formulate elaborate career development programmes that aim at not

only filling existing competency gaps, but which offer the employees an opportunity to reach new heights in their career progression.

## **CHAPTER ONE: INTRODUCTION**

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

Strategic Human Resource Management (SHRM) is valuable and serves as the backbone of organizations in the whole world and has an immense influence on employee retention. Employees are a key resource that can be strategically placed for an organization to attain competitive advantage (Denisi & Griffin, 2008). Khan (2010) argued that organizations can increase and sustain competitive advantage through effective management of human resource as the success of any organization is dependent on the quality and efficiency of its human resources. The retention of talented employees is paramount to an organization because employees' knowledge and skills are central to a company's ability to be economically competitive. Employee retention becomes increasingly important to organizations because periodic labour shortages can reduce the availability of high performing employees; thus, workers are searching for better employment opportunities, and firms are seeking to improve the productivity of the workforce (Yazinski, 2009). However, there are challenges in attempting to retain employees, and sometimes, organizations can find it difficult to attract and retain best talent due to varied reasons, some of which could be economic, structural or cultural (Samuel & Chipunza, 2009).

Employee retention is a voluntary move by an organization to create an environment which engages employees for the long term (Chan & Kuok, 2011). A more detailed and recent definition of the concept of employee retention is "to prevent the loss of competent and productive employees from an organization" (Chiboiwa, Samuel &

Chipunza, 2010). Some people view employee retention as the result of the implementation of strategic human resource policies and processes that assist employees to remain with the company because of the provision of a work environment that meets the employees' needs (Dernovsek, 2008). Organizations are more worried about retention of employees because loss of key staff can greatly affect organizational performance. According to Lockwood and Ansari (2009), organizations have to tolerate the cost of hiring and the cost of losing employees; and therefore, organizations should try to keep the existing staff. In fact, retention of employees and the employees' appreciated skills helps the organization to save on its investment of employee recruitment and training, the resources of which can be utilized in other value adding activities for the organization. Given this, organizations should take steps to retain employees, to avoid unwanted turnover due to stress, low-job satisfaction, unsatisfactory working condition and inadequate benefits (Atif, Ijaz-Ur-Rehman, Abdul & Nadeem, 2011).

The software development industry in Kenya is by all means one of the most dynamic and exciting industries of the 21<sup>st</sup> Century (Mutuku, 2003), contributing to the growth of the country's economy. In Kenya, several entrepreneurs and investors have joined this dynamic sector with hopes of mimicking these successful global companies. This phenomenon has led to increased competition amongst software firms affecting the firms' level of performance. This is probably associated with the high turnover rates in the major software development companies in Kenya, where workers have been leaving, when they are out, they start own small companies which concentrate on software development (Jones & Skarlicki, 2003). If the employees are treated well via proper rewarding and are engaged in important activities of the

software development companies, then they could be retained. As a result, the software development industry has become turbulent, and probably, the major companies have not been able to identify the reasons behind the employees' lower productivity (Oluoch, 2006). This calls for emphasis on the essence of Strategic Human Resource Management practices so that the software development companies can be able to retain competitive staff and talent for longer periods (Samuel & Chipunza, 2009).

Lockwood and Ansari (2009) stated that the cost of replacing workers is high, finding skilled employees can be difficult as well, and investments in training are currently less secure, hence there is a need for more than just that. According to Fitz-enz (2007), the average company loses approximately \$1 million with every 10 managerial and professional employees who leave the organization. Cascio (2006) also affirms that the costs associated with recruiting, selecting, and training new employees often exceed 100% of the annual salary for the position being filled. Thus, every turnover of skilful employees come at a cost and the combined direct and indirect costs associated with one employee leaving ranges from a minimum of one year's pay and benefits to something more substantial. Also, when knowledgeable employees leave an organization, the consequences go far beyond the substantial costs of recruiting and integrating replacements. Consequently, most employers are seeking better ways to manage turnover in order to retain valued human resources as well as sustain competition and high performance. Indeed several factors contribute to employee turnover or retention and researchers have proposed different theories on what motivates employees to stay or leave an organization (Njenga, 2007).

Sound and proficient strategic human resource management (SHRM) practices normally help out organizations in achieving the most advantageous use of available resources, leading them to consistently contribute to effectiveness and continuous improvement of the organization (Li-Qun, 2013). Competitive organizations worldwide rely on employees to provide innovative solutions to the problems they might have (Waldman & Arora, 2004). Indeed, in the current business environment that is turbulent in that; competition is high, and technologies, processes and products can be easily duplicated by competitors, employees are the key and most reliable resource that can keep an organization a step ahead of its competitors (Samuel & Chipunza, 2009). Pfeffer (2004) affirms that acquisition, development and retention of talent form the basis for developing competitive advantage in many industries and countries. Accordingly, for any organization to thrive and remain competitive it is important that it attracts and retains competent human resources. This implies that human resource plays a vital role in the growth of organizations, specifically by determining the level of employee turnover (Njenga, 2008). The foregoing therefore sought to establish the effect of SHRM practices on employee retention in the software development industry in Kenya.

### **1.1.1 Strategic Human Resource Management Practices**

Research has unveiled three major viewpoints on Strategic Human Resource Management practices. The universalistic approach posits that; the implementation of specific sets of best practices could lead to organizational improvements (Kochan & Osterman, 2004; Pfeffer, 2004). The contingency approach which explains that the various SHRM practices are context specific and thus different organizational milieu may warrant different strategies (Bratton & Gold, 2009). Then the configurationally

approach argues that a good fit between various SHRM practices and organizational strategy would improve the SHRM-firm performance relationship (Becker & Gerhart, 2006). Although the approaches differ, a number of familiar SHRM practices intersect in the three approaches and they aim at improving commitment and retention. This study will focus on compensation, career management, work-life balance and employee engagement as these factors are common across the three theories.

According to Bratton and Gold (2009), Strategic Human Resource Management practice is a strategic approach to managing employment relations which emphasizes that leveraging people's capabilities is critical to achieving competitive advantage, this being achieved through a distinctive set of integrated employment policies, programmes and practices. According to Stavrou-Costea (2005), effective SHRM practices can be the main factor accounting for the success of an organization. Further, SHRM practices can be used to elicit some positive behavioral outcomes as well as advance the skills and abilities of employees.

Nguku (2008) argues that no list of best practices is likely to have universal application because of principles, which if applied, can bring about more effective but different people management. However, there seems to be a growing tendency around the broad human resource management territory that there is plausible list of practices that include selection, training, communication, job design and reward system. There are also practices on the margins such as family friendly and equal opportunity practices as well as some that cannot apply across all sectors such as profit related pay and employee share ownership schemes.

This study acknowledges that best practices in human resource management include career management, appropriate compensation, employees' work life balance and employee engagement. These practices will ensure that the organization is giving equal opportunity to all qualified people without discrimination; proper matching of the individual capabilities and interests with the demands and rewards given by the organization against the job. Also, regular training and development activities that are aimed at not only improving employee performance at work, but also boosting self confidence of the individual employee; use of flexible work arrangements to enable employees to mix work and family responsibilities without hurting any side (Njenga, 2008). Making performance appraisal to be part of the organizations culture and linking it to organizational objectives and good labor relationships that include diversity management is also essential in an organization that wishes to retain good talent (Torrington, Laura & Taylor, 2008).

### **1.1.2 Employee Retention**

Gurbuz and Mert (2011) define employee retention as the ability to hold onto those employees that you want to keep, for longer than your competitors. Li-Qun (2013) on the other hand defines employee retention as a voluntary move by an organization to create an environment which engages employees for long term. According to Armstrong (2006), employee retention takes into account the various measures taken to ensure that an individual employee stays in an organization for the maximum period of time. Glen (2006) asserts that employee retention refers to policies and practices companies use to prevent valuable employees from leaving the jobs they are currently doing. The main purpose of employee retention is to prevent competent

employees from leaving an organization as this could have adverse effect on productivity and profitability (Samuel & Chipunza, 2009).

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 (Lockwood & Ansari, 2009). Turnover costs can be incurred through issues such as reference checks, security clearance, temporary worker costs, relocation costs, formal training costs and induction expenses. Other invisible and hidden costs such as missed deadlines, loss of organizational knowledge, low morale and client's negative perception of company image may also take place (Gurbuz & Mert, 2011). Employee retention has become an important issue to many organisations, because the ability to hold on to highly talented core employees can be crucial to the future survival of the organization. Employee retention brings all kinds of benefits especially since globalization and the creation of regional economic blocs have increased labour mobility across nations. Considering the economic impacts of losing adroit employees it is prudent that organizations do not create an environment that contributes to turnover. Rather, they must introduce and integrate SHRM practices that maximize employee retention for the well-being of the organization (Yazinski, 2009).

### **1.1.3 The Software Development Industry in Kenya**

The local software development industry has remained highly informal until recently with the launch of the Kenya Software Developers Association (KSDA) in May 2008 and the founding of the Kenya Software development Industry Association (KeSIA) in June 2008. KeSIA was launched by the Kenya Information and Communications

Technology Federation (KIF) which is the ICT arm of the Kenya Private Sector Alliance (KEPSA). Other professional bodies exist such as the Computer Society of Kenya (CSK), the Kenya Information Society (KIS), the Business Software Alliance (BSA) and the Free and Open Source Software Foundation for Africa (FOSSFA) just to name a few. In light of its informal history, the local software development industry is now guided by policy, regulation and structure with the enactment of the Kenya ICT Board in February 2007 as a state corporation (World Bank, 2002).

Research by World Bank (2002) has shown that over 80% of software application products sold locally comprise of off-the-shelf packages made by leading international software houses such as Oracle, Microsoft, SAP and Accpac. A separate study carried out by World Business Council for Sustainable Development (2004) revealed that; although local software companies have the advantage of leapfrogging older obsolete technologies, they still have not kept up with cutting edge technological innovations, have had problems with retention of employees, hence inadequate performance or performance that still below the expected point.

Retention of employees in a competitive organization is crucial in enhancing sustainability as well as organizational productivity (Ouko, 2008). Software companies in Kenya need to address this issue in order for them to capture the entire technologically growing market, and to earn a higher competitive advantage. This way, they can embark on strategies for compensating performing employees, creating a platform for work-life balance; encourage employee engagement in company related activities and ensuring career management for the employees as a way of ensuring that talent is retained. However, sometimes when companies have a problem with

human resource management, talent retention becomes untenable. This implies that competitive Human Resource Management practices have to be emphasized in order for the software development industry to not only attract competent individuals in the field of ICT but also retain that talent.

## **1.2 Statement of the Problem**

The aim of human resource strategy is to devise ways of managing people in order to assist in achievement of organizational objectives (Njenga, 2007). The current environment in major companies in Kenya, especially in the software development industry is turbulent, and marked by overwhelming challenges facing employee retention. First, the majority of organizations have poor human resources management strategies; which imply a negative effect on workplace productivity. In most cases, workers are not enthusiastic or engaged in job duties and responsibilities due to the failure of organizations to recognize them as equally productive and important (Derrick, Laura & Stephen, 2007). In many cases, poor management, lack of motivation and changes in organizational structure are at the forefront of an unproductive workplace. Thus; studies carried out recently have shown that turnover rates are high in most companies; meaning that retention of competitive employees is currently posing a big challenge.

Additionally, today's companies have problems in regard to hiring and training of employees. As much as employees have high academic achievements, they need to fit to the ever-changing world via regular training through seminars and other available methods (Baraza, 2008). Human resource managers in some companies do not emphasize on this; and in the long run, employees will quit and move to those

companies that offer what they lack in others. Also, today, there is rampancy of unorganized and poorly planned hiring practices that lead to the employment of unqualified and inept workers due to Human Resource (HR) departments' failure to plan practical recruiting strategies. Hence, the integrity of the workforce is compromised, making it hard for companies to attract competent talents (Hitt, Bierman, Shimizu & Kochhar, 2011). This is worsened by poor compensation structures and a lack of engagement of employees in decision making processes and other important functions carried out within the organization (Hytter, 2007).

Rajendran and Chandramohan (2010) maintains that all firms seek to gain competitive advantage through proper strategies and evidence has shown that effective service delivery is achieved by systematically melding strategic human resource management practices with selected employee retention strategies. According to Derrick, Laura and Stephen (2007), there are certain strategic human resource management practices and approaches which will invariably help an organization in achieving competitive advantage. These strategic human resource management practices include; attractive compensation, appropriate career management, appropriate employee work-life balance as well as adequate employee engagement in organization functions.

A number of local studies have been done, focusing on employee retention aspects. For example, a study by Kilonzi (2008) found out that recruitment practices, training of employees and job satisfaction help in reducing turnover rates in Transami. Another study by Limo (2008) found out that quality human resource management practices were essential in counteracting high turnover rates at the Kenyatta National Hospital. The practices discussed by Limo (2008) included increasing employee skills and abilities, promoting positive attitudes and increasing motivation and providing

employees with expanded responsibilities so that they can make full use of individual skills and abilities. Also, Mutuku (2003) did a survey of managers' attitude and responses to work force diversity in telecommunication sector in Nairobi and found out that the attitudes of the managers as well as how they treated the workforce had great impact on employee retention. Where managers value and engage employees in decision making and other important processes, employee turnover was found out to be lower compared to where managers' attitudes and responses were not pleasing.

However, though there are various local studies that have focused on employee retention, none was identified by the researcher that sought to explain employee retention in the software development industry in Kenya. It is against this background that this study sought to establish the effects of strategic human resource management practices on employee retention in the software development industry in Kenya.

### **1.3 General Objective**

The general objective of this study was to establish the effect of strategic human resource management practices on employee retention in the software development industry in Kenya.

### **1.4 Specific Objectives**

- i. To examine the effect of compensation on employee retention in the software development industry in Kenya.
- ii. To explore the effect of career management practices on employee retention in the software development industry in Kenya.

- iii. To establish the effect of employee work-life balance on employee retention in the software development industry in Kenya
- iv. To find out the effect of employee engagement on employee retention in the software development industry in Kenya

### **1.5. Research Questions**

- i. How does compensation affect employee retention in the software development industry in Kenya?
- ii. How does career management practices on employee retention in the software development industry in Kenya?
- iii. How does employee work-life balance affect employee retention in the software development industry in Kenya?
- iv. How does employee engagement affect employee retention in the software development industry in Kenya?

### **1.6 Justification of the Study**

Today's business operating environment is dynamic and highly competitive and for an organization to out-compete its rivals in its industry, it needs to attain a competitive advantage. Organizational employees are one of the key resources that can help in achieving this competitive advantage. Losing one's best employees to competitors can hurt a firm's performance. As such the issue of employee retention is of paramount importance among organizations that appreciate the value of their employees in supporting attainment of organizational goals. There is a persistent

employee retention problem among most of the software development firms in the country yet this is an area that is currently under-researched. This study sought to establish how strategic HRM practices affect employee retention in the software development companies in the country. The choice of employee compensation, career management practices, employee work-life balance and employee engagement as the study variables that affect employee retention was informed by the knowledge that these variables form an integral part of the work environment and are key components of any HRM policy.

### **1.7 Significance of the Study**

This study on SHRM practices and employee retention is relevant to many stakeholders. First, the findings of the study provide an insight as to the effects of SHRM practices on employee retention in companies operating in the software development industry in Kenya. This may inform the decisions of the software development companies in Kenya as to how to leverage on SHRM practices to achieve talent retention.

Additionally, the study is of great significance to the Government of Kenya and particularly to the Ministry of Labour that governs the welfare of public service workers as the Ministry would be able to appreciate the importance of various SHRM practices on employee retention. This may allow for formulation and strengthening of existing HR policies that govern employment in the country and which would in turn help enhance employee retention in the software development industry and other industries in Kenya.

Theoretically, this study is significant as it adds to the existing literature in the area of strategic human resource management practices and employee retention. The study has enumerated suggested areas of further research that can form the basis of research for other scholars.

### **1.8 Scope of the Study**

The study was limited to the investigation of the effects of strategic human resource management practices on employee retention in the software development industry in Kenya. Specifically, the study analyzed the effect of compensation, career management practices, employee work-life balance and employee engagement on employee retention. The unit of analysis was the employees of the 304 registered software development companies in Nairobi, Kenya, from whom relevant study data was collected in the course of a month to meet the study objectives.

### **1.9 Limitations to the Study**

The researcher encountered various limitations that could have hindered access to information sought for the study. First, the respondents approached were initially reluctant in giving the required information fearing that the information could be used to intimidate them or paint a negative image of the organization. To counter this limitation, the researcher assured them of confidentiality of information provided and that the information would be used for the purpose of the research only. The researcher also approached the targeted respondents personally to explain the purpose of the research.

The researcher also encountered time constraints as well as high costs associated with data collection. To counter this, the researcher had to seek a two weeks break from

work to facilitate the data collection. The researcher also encountered challenges of the staff being too busy at their workplace. To counter this, the researcher had to extend the data collection period by two weeks to allow the respondents adequate time to respond to the research tool.

### **1.10 Organization of the study**

This thesis is structured as follows: the foregoing chapter one provides the research background, research objectives, significance of the study, scope, and the limitations encountered in the course of the study. Chapter two presents literature review on the determinants of retention of employees in ICT industry in Kenya and a conceptual framework. Chapter three deals with the methodology employed in the study; the study findings and their interpretation are presented in chapter four; while chapter five has conclusions of the study and the policy implications.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents the theoretical review, the empirical review and the conceptual framework of the study. The chapter further gives the summary of the empirical review and the research gap of the study.

### **2.2 Theoretical Review**

This section should discuss current/relevant theory that supports the research problem been studied.

#### **2.2.1 Social Exchange Theory**

The Social Exchange Theory was developed by Sociologist George Homans who defined social exchange in his published work "Social Behavior as Exchange" as the exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons. Other theorists particularly Peter M. Blau and Richard M. Emerson, also significantly contributed to the development of this theory more so within sociology (Jones, 2006). The theory is based on a social psychological and sociological perspective that explains social change and stability as a process of negotiated exchanges between parties. The theory has roots in economics, psychology and sociology. Social exchange theory features many of the main assumptions found in rational choice theory and structuralism. Social exchange theory posits that human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives. It is also used quite frequently in the business world to

imply a two-sided, mutually contingent and rewarding process involving transactions or simply exchange (Cook, Cheshire, Rice & Nakagawa 2013).

In relation to human resource management practices and employee retention, the exchange theory views employment relationship as consisting of social or economic exchanges (Aryee, Budhwar & Chen, 2002). Economic exchange relationships involve the exchange of economic benefits in return for employees' efforts and are often dependent on formal contracts which are legally enforceable. On the other hand, social exchanges are 'voluntary actions' which may be initiated by an organization's treatment of its employees with the expectation that the employees will be obligated to reciprocate the good deeds of the organization (Gould & Davies, 2005). The exchange approach view of organizational commitment and engagement posits that individuals attach themselves to their organizations in return for certain rewards from the organizations. According to this view, employees enter the organization with specific skills, desires and goals, and expect to find an environment where they can use their skills, satisfy their desires and achieve their goals. Perception of favorable exchange and rewards from the employees' viewpoint are expected to result in increased retention to the organization. On the other hand, failure by the organization to provide sufficient rewards in exchange for employees' efforts is likely to result in decreased organizational retention (Gong, Chang & Cheung, 2010).

From this perspective, social exchange theory suggests that employees respond to perceived favorable working conditions by behaving in ways that benefit the organization and or other employees. Equally, employees retaliate against dissatisfying conditions by engaging in negative work attitudes such as absenteeism; lateness of preparing to quit the organization (Khan, 2010). The exchange theory has

also been used to explain the employees' retention to the organization. According to the exchange perspective, employees exchange their identification, loyalty and attachment to the organization, in return for incentives from the organization. This implies that an individual's decision to become and remain a member of an organization is determined by their perception of the fairness of the balance of organizational inducements and the employee contribution (Gould & Davies, 2005). Cascio (2006) argue that unless employees believe they have been treated fairly, they will not be committed to the organization.

### **2.2.2 Human Capital Theory**

Human capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964) as cited in his publication titled "Human Capital: A theoretical and Empirical Analysis to special reference to education". Human capital theory was developed in the 1960s on the realization that the growth of physical capital was only a small part of the growth of organizational income (Becker & Gerhart, 2006). Economist Theodore Schultz introduced return-on-investment, which highlighted the cost-benefit analysis of training and education. On his part, Becker developed the human capital theory based on Schultz's research on return-on-investment. Becker introduced the concept of general-purpose human capital and firm-specific human capital that is widely used by human resource development practitioners worldwide (Dernovsek, 2008).

This theory suggests that education or training raises the productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings (Becker & Huselid, 1999). Human capital theory

postulates that expenditure on training and education is costly and should be considered an investment since it is undertaken with a view to increasing personal incomes. The human capital approach is often used to explain occupational wage differentials (Campbell, Coff & Kryscynski, 2012). Human capital can be viewed in general terms, such as the ability to read and write, or in specific terms, such as the acquisition of a particular skill with a limited industrial application (Denisi & Griffin, 2008). In Becker's view, human capital is similar to "physical means of production", e.g., factories and machines meaning one can invest in human capital (via education, training, medical treatment) and a firm's output depends partly on the rate of return on the human capital one owns. Thus, human capital is a means of production, into which additional investment yields additional output (Bratton & Gold, 2009). Therefore, by investing in human capital the organization is able to have talented workforce who will feel motivated and be part of the firm (retention of employees) hence leading to better organizational performance (Gurbuz & Mert, 2011).

However, there is criticism to this theory that argued on the assumption that education in fact guarantees employee retention. The theorists clearly did not take into account the transfer of learning. Is the duration of education and training an assurance of retaining the employee in the organization? Certainly, this notion is ideal, but questionable. This is because a highly skilled employee could as well look for a much more paying job (Hutchings, De Cieri & Shea 2011).

### **2.2.3 Universal Theory**

The universal theory proposes that strategic human resource is composed of a single set of HR policies and practices that is suitable for all organizations in all

circumstances (Becker & Gerhart, 2006). According to Baraza (2008) universal or best practice human resource management also known as high-commitment or high performance was originally identified in the early United States models of human resource management many of which advanced the idea that adoption of certain best practice HR practices would lead to improved organizational performance, through improved attitudes and behaviors, lower levels of absence and turnover, higher levels of skills and thus improved quality and efficiency (Armstrong, 2006). The model may take many forms and there is no consensus on the correct bundle of HR policies and practices since it is difficult to demonstrate the link between best practice HRM and improved organizational performance (Cascio, 2006).

The universal theory may not reflect reality because what works well in one organization will not necessarily work in another. HR techniques adopted may not fit the local customs, organizational or social traditions about the role of managers and their relationship with employees will determine which HR strategies are likely to be effective and also the relationship between employees' attitude to work in their lives (Derrick *et al.*, 2007). Social factors may need to be taken into account at the technical design stage to avoid demoralized working arrangements with the motivational problems that may arise as a consequence (Porter, 2008). Walsh and Taylor (2007) argue that although an organizational HRM policies and practices should be coherent in all its operations, companies operating in more than one country need to decide whether this is possible and sensible.

Samuel and Chipunza (2009) argued that there are various advantages for organizations adopting universal/best practice since this is applying the practices within which they are most familiar with, and which appear to promise high returns in

the performance regardless of the location of their subsidiary. Best practices discovered in one location can be spread across the world, without the costly and often ineffective need for each subsidiary to re-invent the wheel and also due to the fact that global alignment of systems will facilitate an internal labor market and make expatriation and other forms of cross border movement of personnel easier (Chiu, Luk & Tang, 2002).

#### **2.2.4 Resource Based View Theory**

The origins of the Resource Based View Theory can be traced to the works of Birger Wernerfelt who developed an article titled “A Resource-Based View of the Firm” in 1984. However, the concepts of the Resource Based View Theory can be traced back to earlier research in the works of Coase in 1937, Selznick in 1957, Penrose in 1959, Stigler in 1961 and Williamson in 1975, where emphasis was put on the importance of resources and its implications for firm performance (Khan, 2010). This theory argues that organizations should not try to achieve strategic fit with the external environment but aim to maximize their internal resources to create and dominate future opportunities (Porter, 2008). This approach assumes that the core competencies in the organization are unique; people are viewed as an investment and not a cost, learning, knowledge sharing, innovation and experimentation are encouraged, and employees are involved in decision making (Wright, Dunford & Snell, 2011).

According to Torrington *et al.* (2008), the resource-based view argues for an exclusive form of “fit” based on the idea that an organization’s resources are the key sources of competitive advantage. This theory thus assumes that an organization’s

workforce is a unique and inimitable resource that can generate a competitive advantage for the organization if effectively harnessed (Falcone, 2006).

Armstrong (2006) argues that a resource-based view approach to strategic human management focuses on satisfying the human capital requirements of the organization. Wright *et al.* (2004) suggests that the human resource policies and values of an organization constitute an important non-imitable resource and this is achieved by ensuring that; - the firm has higher quality people than its competitors, organization learning is encouraged, organization-specific values and a culture exist which bind the organization together (and) gives it focus, and the unique intellectual capital possessed by the business is developed and nurtured. Thus, the aim of a resource based approach is to improve resource capability achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of resources (Mello, 2010). Critiques of this theory however argue that the effectiveness of the resource-based approach is inextricably linked to the external context of the firm and that the resource-based approach provides more value when the external environment is less predictable (Hitt *et al.*, 2011).

## **2.3 Empirical Review**

This chapter presents a review of the literature related to the problem and purpose of the study.

### **2.3.1 Employee Compensation and Employee Retention**

According to a study carried out by Parker and Wright (2010) on ‘pay and employee commitment: the missing link’, they found out that direct compensation served as the most critical issue when it comes to attracting and retaining talents. They also asserted

that there is an underlying assumption that money can influence behaviour hence a fair remuneration is understood to be the cornerstone of the contractual and implied agreement between employees and employers. They noted that, as a result, some companies may even provide remuneration packages which are well above the market rate to attract and retain critical talents. They also found that most managers believed that money was the prime retention factor. Similarly, many employees cited better pay or higher compensation as the reason for leaving one employer for another. Parker and Wright (2010) concluded that comprehensive compensation and rewards augmented by an effectual system of disbursement played an important role in attracting the best candidates, shaping employee behaviour, enhancing employees' performance outcomes and facilitating retention of talents.

Abeyskera (2007) carried out a study on the impact of human resource management practices on marketing executive turnover of leasing companies in Sri Lanka. This study empirically evaluated six Human Resource (HR) practices (realistic job information, job analysis, work family balance, career development, compensation and supervisor support) and their likely impact on the Marketing Executive Intention to Leave (MEIL) in the Sri Lankan leasing companies. The sample consisted of hundred marketing executives working for 10 different leasing companies in Sri Lanka. The results indicated job analysis, career development, compensation, realistic job information variables were negatively and significantly correlated with MEIL. The work family balance was not negatively correlated with MEIL. Results of the regression on the HR practices on MEIL showed that employee compensation was a strong predictor of MEIL.

Mokaya and Kipyegon (2014) did a study on the determinants of employee engagement in the banking industry in Kenya using a case of Cooperative Bank. The study sought to assess the determinants of employee engagement in the banking industry in Kenya. The determinants covered were performance management system, personal development and growth opportunities, and workplace recreation and remuneration. The study adopted a descripto-explanatory research design, covering a sample of 214 respondents drawn from a target population of 496 employees of Cooperative Bank of Kenya. The data was collected through a self-administered questionnaire and analyzed using descriptive and inferential statistics. All the variables covered had a positive influence on employee engagement. However, remuneration was the highest contributor of employee engagement with workplace recreation having the least influence. The study recommended that bank managers should give special attention to programmes and activities that promoted employee engagement through fair and competitive remuneration packages with outstanding job performance being rewarded through various financial and nonfinancial incentives.

In a study of an examination of employee retention strategy in a private organisation in Zimbabwe, Chiboiwa *et al.* (2010) found that fair salaries in an organization showed a strong correlation with employees' intention to remain. However, their study established that as long as the compensation is competitive, financial rewards were not the primary factor in employee retention. They indicated that the actual level of pay was less important than feelings about pay raises and the process used to administer them. They concluded that employees wanted to understand how the pay system works and wanted to know how they could earn pay increases. Once the pay level had been reached, employee turnover was minimized. Similarly, in their study of

retaining and motivating employees - compensation preferences in Hong Kong and China, Chiu *et al.* (2002) observed that rewards were substantially related to employees' retention as employees who were satisfied with the organizational rewards and who believed that they would not find such compensation elsewhere, were likely to choose to stay. They concluded that organizational rewards to employees enabled them to form a calculative and psychological attachment to the organization.

Cho, Woods, Jang and Erdem (2006) in a study of the relationship between HRM practices and organizational performance found out that companies providing incentive plans to employees are more likely to experience lower turnover rates among non-managerial employees. They further asserted that, a firm would further reduce its labour turnover rate if it applies reward systems in the form of incentive plans to more employees across the organisation. In their study, Casper and Buffardi (2004) asserted that an organisation can compensate for moderate salaries in a form of non-cash compensation, by offering a large amount of benefits. They proved that potential employees, irrespective of sex and culture, were willing to accept lower salaries if benefits of importance to them were also offered. Employee benefit packages increase worker commitment to the organisation and reduce the tendency to think about other job opportunities.

However, according to a study by Shoaib *et al.* (2009) on determinants of employee retention in Telecom Sector in Pakistan, gaining employee satisfaction with organizational rewards is not a simple matter. They established that an individual's satisfaction with his/her job is in part related to what is expected and how much is received. They argued that overall satisfaction results from a mix of rewards rather

than any single reward. Both intrinsic and extrinsic rewards must be seen as timely and tied to performance and the employee must perceive the reward being offered as attractive. Similarly, according to a study by Tian-Foreman (2009) on job satisfaction and turnover in the Chinese retail industry, to maintain employee satisfaction with pay, corporations have developed systems that are intended to maintain pay equity with comparable internal persons or groups. The study noted that the consequences of inequity in employee pay regarding the external labour markets are potentially very severe for a corporation, which would be unable to attract and keep the talent required. The study concluded that, high total compensation does not however, ensure that the best employees are retained. To keep them, a company must also pay its better performers more than it pays poorer performers and the difference must be significant in the judgments of the employee. If employees feel the company takes good care of them, they are, in return, likely to take time to provide a better service to meet and/or exceed customers' expectations (Tian-Foreman, 2009).

### **2.3.2 Career Management Practices and Employee Retention**

Hussain and Rehman (2013) conducted a study on whether human resource management practices inspire employees' retention. Human resource management practices deployed in the study were training and Development, development of teams, performance appraisal, internal communication system, employment security, person-organization fit, employee empowerment and reward and compensation. Four hundred questionnaires were distributed among the middle management cadre employees of textile industry. It is explored that four human resource management practices: person-organization fit, employment security, communication and training and development are contributing strongly in developing the employees' intentions to

stay with organization. Further, strong positive inter-relationships were found between human resource management practices and employees' retention. It is concluded that adoption of human resource management practices enhances employees' retain-ability of organizations.

In a study of the effects of human resource management practices on organisational performance of the oil and gas industry in Pakistan, Khan (2010) established that knowledgeable and highly skilled employees improve productivity, enhance quality of products and services, effect positive changes in processes and deliver quality service to customers. Khan concluded that most organisations may use career management programmes to assist employees to properly plan one's career because it is believed that, generally, employees react positively to career development and advancement opportunities (Khan, 2010). Similar view was expressed by Gurbuz and Mert (2011) who in their study of the impact of the strategic human resource management on organizational performance in Turkey concluded that by providing opportunities for training and career development which forms part of career management, organisations are supporting employees to become more knowledgeable and skilled which enhances their job competence leading to higher performance. They further noted that if employees are regularly provided with the opportunity to attend training and development workshops, they will recognize the company's commitment to improve staff's skills and will be more likely to remain in the environment where they have a continual opportunity to learn. This is mutually beneficial for employee and the company, as it improves the strength of the organization and retains key talent.

Wambui (2014) did a study on effect of human resource management practices on employees' retention in institutions of higher learning in Kenya: a case study of

Kenyatta University. Descriptive statistics and inferential statistics were used in this study to analyze quantitative data, which was obtained from the closed ended questions. The study established that there is a positive relationship between the employees training and employee retention at Kenyatta University. The study found that Kenyatta University does not conduct a needs analysis before offering training. In addition, training helps organization to increase employee retention and decrease turn over, helps employees to develop and identify the career development strategies, serves as a tool to enhance the commitment with organization and improves employee's skills.

Mutahi (2015) did a study on the effect of human resource management practices on performance of public universities in Kenya. Specifically, the study sought to establish the effect of resourcing practices, reward management and training and development on the performance of public universities in the country. The study was carried through a correlational research design. Data was collected using a semi-structured questionnaire and was subsequently analyzed using SPSS. Research findings suggested that strategic human resource management practices have a significant effect on the performance of public universities in Kenya. The study found that satisfactory meeting of employees' training and development needs was one of the key determinants of employee retention within the public universities. The key recommendations of the study were that: the management of public universities should develop employment policies that encourage job security; they should invest in HR information systems to automate resourcing practices; the government should ensure that selection in public universities is based on equal employment opportunity principle and the management of the public universities should conduct staff

competency analysis on regular basis in order to address staff training and development needs.

Nyanjom (2013) evaluated factors influencing employee retention in the state corporations in Kenya. The study adopted a cross-sectional design. The target population of the study included all 155 state corporations in Kenya as of December 31st, 2012. The study took a sample of 54 state corporations and collected primary data using a self-administered questionnaire. The data was analyzed using descriptive statistics. A summary of the findings showing the relative importance of factors influencing employee retention in the state corporations in Kenya ranked employee training and career development first as the most important factor followed by performance appraisal, employee empowerment, employee commitment and lastly employee compensation. The study concluded that employee's retention is significantly influenced by training and career development, performance appraisal, employees' empowerment aspects.

### **2.3.3 Employee Work-Life Balance and Employee Retention**

Hutchings *et al.* (2011) carried out a study on the employee attraction and retention in the Australian resources sector. The study was a survey exploring human resource (HR) managers' perceptions of how their organisational practices and external contextual changes in industrial relations legislation presented challenges for the sector and influenced attraction and retention of highly skilled employees. Their study findings suggested that in response to skills shortages and critical changes in legislation, resource sector organisations utilized at least some 'good' employment practices, such as safe working conditions, high remuneration relative to other sectors

and urban locations, and effective communication strategies. They however noted that more needed to be done by employers in the sector to attract employees through offering more flexible work practices for employees, and better work-life balance particularly for firms operating in the remote locations. They identified a need for employers to give greater attention to diversity and work-life balance issues. The study recommended that there was a need for work-life balance strategies to increase the attractiveness of work in remote locations.

In their study of human resource work-family support services and employees' performance within the banking industry in Nairobi County in Kenya, Muli, Muathe and Muchiri (2015) found that there was a significant positive statistical relationship between HR work family support services with employee performance. Furthermore, their findings supported the theoretical foundations of the social exchange theory that employees tend to exchange profitable efforts with the gains they perceive to be mutual from their employers. They recommended that there is a need to include all cadres of employees into the HR work family support services programs and standardize the services to all sectors. In their study of work-life balance and work-family conflicts in the United Arab Emirates, Forster, Ebrahim and Ibrahim (2013) established that many employees seek jobs where they can establish a balance between their work and personal lives. They further state that when balance interferes with family time and relationships, there is a higher absenteeism rate and turn-over than when the individual is able to work and meet family needs with the support of organizational programmes. When organizations support employees' non-work activities, work objectives are met, and employees are more satisfied and loyal.

A study by Maxwell (2005) indicated that HRM policies such as the introduction of flexible working hours and arrangements, provision of better training, breaks from work and better work support do not only address WLB issues but also enhance employee retention. He noted that flexible work plans allow employees to adjust working conditions within constraints set by the company and may include such options as flex-time, a compressed work-week, job sharing, and home-based work. Flex-time involves adjusting an employee's daily time schedule; it can be as simple as allowing a worker to come into work an hour earlier and leave an hour earlier than the normal 8-to-5 work day. His study indicated that the existence of family support (such as alternative schedules, supervisor support, co-worker support, flex-time, work-family culture and family benefits etc) within the organization helped a lot in the retention of talented employee. He concluded that organizations that supported their employees in integrating family responsibilities and work reduce the employees' intentions to leave the job.

Shoaib *et al.* (2009) in their study of the determinants of employee retention in the Telecom Sector in Pakistan, examined the relationship between employee turnover intention and organization support services such as supervisor support, flex time work family culture and co-worker support etc, and they concluded that organization support reduced the employee turnover intention. Similar view was expressed by Samuel & Chipunza (2009) who also investigated employee retention & turnover and concluded the statistical importance of relationship between work family support and employee retention, the recent research recognized that existence of family support within the organization reduce the turnover intention and help the retention of talented employees in the organization. Thompson and Prttas (2005) examined the

relationship between employer turnover intention and organization support such as supervisor support, flex time, work family culture and coworker support and concluded that organization support reduced the employee turnover intention. In Kenya Safaricom has managed to retain most of their female employees through provision of child care facilities.

#### **2.3.4 Employee Engagement and Employee Retention**

Alnaqbi (2011) did a study on the relationship between human resource practices and employee retention in public organisations in the United Arab Emirates. The study sought to look into employee retention problems within the socio-economic context of the UAE. The purpose of the study was to identify HR practices and other factors such as job satisfaction, organisational commitments and leadership practice that affected employee retention in public organizations in the UAE with emphasis on a comparative study of Sharjah and Dubai. Both quantitative and qualitative research approaches were employed in the study. The study targeted 300 respondents, and used a survey questionnaire as the data collection tool. The research findings indicated that lack of employee engagement in organizational affairs was one of the leading factors that contributed to the low retention of employees in UAE public organisations. There were indications that employees liked to actively participate in decision making and that their decisions on intention to leave or stay were affected by the perception of feeling recognized and valued within the organizations. The study recommended that there was a need for the public organizations to redesign jobs in a manner that ensured full participation and engagement of the employees.

Oketch (2016) did a study on the effect of employee engagement on a firm's competitive advantage using a case of Kenya Electricity Generating Company Limited. The study reviewed available literature that focused on employee commitment, employee voice, employee motivation and employee productivity and how it affected competitive advantage of a firm. The study adopted descriptive research design and used a sample of 196 respondents. The study findings showed that employees who are committed to their respective firms are more likely to remain with the firm and will probably exert more efforts on behalf of the firm and work towards its success, exhibiting better performance than the uncommitted employees. The study findings also showed that a firm which provides an environment that allows staff to develop skills and talents, and acquire knowledge is highly likely to have committed staff which ensures a high guarantee of enhancing competitive advantage within the business environment. This is because employees who are committed and highly motivated to contribute their time and energy in the pursuit of organizational goals and objectives are increasingly recognized to be a major benefit to an organization. It was revealed that a firm can enhance its competitive advantage by enabling employees to feel able to voice improvement-oriented ideas, communicate with the management on issues affecting them, for the benefit of the firm. This increases the levels of employee engagement which has been established to have a significant effect on competitive advantage.

Melcrum (2005) conducted a study on employee engagement: how to build a high-performance workforce. The study sought to establish the effect of employee engagement on job performance in UK. The study employed a descriptive research design. The target population comprised of 49 employees from two UK firms. A

census method was used since the sample was equal to the target population. A questionnaire was used as the data collection instrument. Data was analyzed both descriptively and inferentially. The study established that organizational support and growth opportunities foster learning which enhances employee competence. It was further established that engaged employees were more involved in organization's issues and performed better. The findings led to the conclusion that employees would work harder if they were well engaged in organizational activities. The study recommended that organizations should provide more participation opportunities for their employees in decision making in an attempt to enhance their commitment to the organization.

Waithiegeni (2015) did a study on effect of talent management on employees' retention in Kenya's state corporations. The objective of the study was to establish the effect of talent management on employees' retention in Kenya's state corporations. Specifically, the study sought to establish whether competency mapping, employee engagement, career development and performance management influenced employee retention in state corporations in Kenya. The study adopted a cross sectional design. The target population comprised of all the employees in the 162 state corporations in Kenya as in December 2011 with the respondents being the heads of departments and HR managers in the state corporations. The study findings indicated that talent management had a positive and significant effect on employee retention. Obtained results showed that there was a significant positive relationship between employees' engagement and employee retention in Kenyan state corporations. The study recommended that state corporations in Kenya should devise measures of retaining employees through employee engagement in decision making.

On her part, Agoi (2015) studied the effect of work engagement on employee turnover intention in public sector in Kenya. The main objective of the study was to determine the effect of work engagement and employee turnover intention in Kenyan public institution. The study employed explanatory research design and the target population was the managers from the public institutions. The researcher used questionnaires as the data collection tool and relied on both primary data and secondary data which was analyzed through descriptive statistics. The study findings indicated a negative significant effect of dedication and absorption on turnover intention. It is therefore important for organizations to employ individuals with a secure attachment style since they are more likely to experience at work. It is utmost necessary for the organization to reward dedicated employees by promoting them. The organizations should therefore design employees job schedule in such a way that they can find meaning and purpose in the work that they do.

#### **2.4 Summary of Literature and Research Gaps**

In discussing the rationale for employee retention, the literature pointed to the fact that, retaining employee is an important issue for organizations because staff turnover is very costly in terms of the economic impact, time, money and other resources especially when critical and knowledgeable employees leave the organization. To minimize these potential problems, forward-thinking organisations must strive to create a positive organizational climate through various SHRM practices that aim to retain valuable employees. The theoretical and empirical reviews revealed that SHRM practices that affect employee retention are varied and include compensation, career management practices, work-life balance, and employee engagement (Bratton & Gold, 2009; Alnaqbi, 2011; Glen, 2006). According to Baumruk and Gorman (2006)

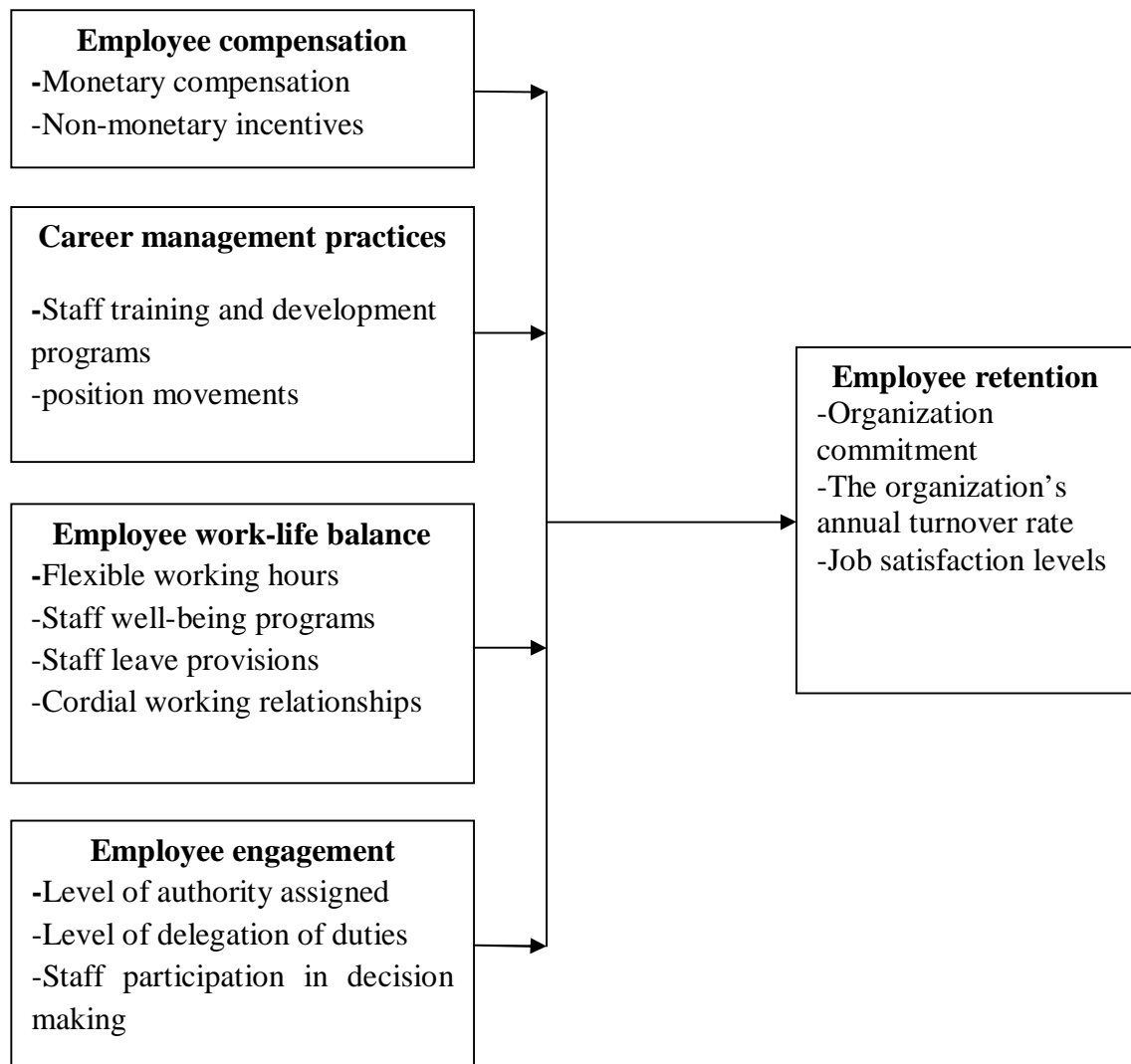
organisations with career management systems, positive employee engagement and a good work-life balance for the organization's staff have lower employee turnover, higher productivity and better results. It is important that these positive assertions are empirically tested.

However previous studies on best practices in SHRM have been fragmented and researchers have not arrived at an effective blend of practices that could improve organizational commitment and retention (Chew & Chan, 2008). Also most of the studies on retention were conducted mainly in the Western world with limited empirical literature on employee retention particularly in the software development industry in Africa and especially in Kenya (Samuel & Chipunza, 2009). Accordingly, this study sought to fill this research gap by investigating the effect of SHRM practices on employee retention in the software development industry in Kenya.

## 2.5 Conceptual Framework

### Independent variables

### Dependent variable



**Figure 2.1 Conceptual framework**

Based on the conceptual framework illustrated above, the dependent variable of this study was *retention of employees*. This was measured by considering the employees' job satisfaction levels, employees' level of commitment/loyalty to the organization and the companies' annual turnover rate. The study's independent variables included;

*employee compensation* which refers to the forms and level of rewards (both financial and non-financial) given to the employees for their work within the organization; *career management practices* which refers to human resource policies and programs that support the development of employees' competencies in an organization and was measured by looking at available career opportunities, staff training and development programs and position movements in the organization; *employee work-life balance* which refers to perceiving a satisfactory balance between one's personal life and work schedule, with minimal conflict between the multiple roles one has to fulfill in terms of one's personal and work lives. This was measured by considering the nature of working relationships among the employees, whether there are flexible work schedules and existence of other employee well-being programs such as work leaves and organization supported family events; *employee engagement* which refers to an organisational initiative to get employees to be fully involved in, motivated, enthusiastic and committed to the organization. This was measured by assessing the level of delegation of duties and employees' level of participation in decision making.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter covers the methodology that the researcher used to conduct the study. It is presented in the following order: research design, target population, sampling design, data collection and analysis and ethical considerations.

### **3.2 Research Design**

The research design chapter emphasizes on defining the design, revealing its merits and providing justification for its selection.

This study adopted a descriptive cross-sectional research design. This was because descriptive cross-sectional research design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions at a given point in time (Cooper and Schindler, 2011). The design was also suitable since it helped to describe the state of affairs as it existed without manipulation of variables which was the aim of the study (Kothari, 2004).

### **3.3 Target Population**

Target population in statistics is the specific population about which information is desired. According to Mugenda and Mugenda (2003), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The target population of this study was the employees of software development companies operating in Nairobi, Kenya. As of December 2016, there were 304

registered software development companies operating in Nairobi, Kenya (CAK database, 2016). The target respondents comprised of a mix of low-level, middle-level and top-level management employees working in the head offices of the 304 firms. In all, there were 4,560 employees working in the head offices of the 304 software development firms (HR Departments of the firms). This formed the study's target population.

### **3.4 Sample and sampling design**

In this study, employees working in the 304 software development companies operating in Nairobi, Kenya were sampled. In all, the firms had a total employee population of 4,560, working in their head offices, of which 10% represented the top level management employees, 30% represented the middle level management employees and 60% represented the low level management employees.

Stratified random sampling procedure was used to categorize the employees into the top, middle and low management levels. The study used simple random sampling technique across the strata. According to Mugenda and Mugenda (2003), stratified sampling technique is useful for heterogeneous samples that require to be grouped into categories/cadres based on a set criterion while simple random sampling technique accords each element in a population an equal probability of being sampled hence eliminating representative biasness. The study sample size was 456 respondents, which was 10% of the target population. According to Kothari (2004) a sample of 10-30% of the target population is usually representative and generalizable and is adequate for statistical reporting. Table 3.1 depicts the sample size distribution.

**Table 3.1 Sample size distribution**

<b>Management category</b>	<b>Target population</b>	<b>Target population %</b>	<b>Sample size</b>	<b>Sample size %</b>
Top level	456	10	45	10
Middle level	1,368	30	137	10
Low level	2,736	60	274	10
<b>Total</b>	<b>4,560</b>	<b>100</b>	<b>456</b>	<b>10</b>

**Source: Researcher, 2016**

### **3.5 Data Collection**

For the purpose of this study, the researcher used primary data. The primary data was collected using a self administered semi-structured questionnaire; distributed to the employees to respond then collected after two weeks . The questionnaire contained close ended questions based on the study objectives. The questionnaire was structured to capture respondents' demographic data in the first section i.e. Section A. The other parts of the questionnaire included Section B which focused on employee compensation and employee retention; Section C which focused on career management practices and employee retention; Section D focusing on employee work-life balance and employee retention and Section E which focused on employee engagement and employee retention.

### **3.6 Validity of the Research Instrument**

Validity indicates the degree to which an instrument measures what it is supposed to measure; the accuracy, soundness and effectiveness with which an instrument measures what it is intended to measure (Kothari, 2004) or the degree to which results obtained from the analysis of the data actually represent the phenomena under study (Mugenda & Mugenda, 2003). The research instrument was availed to the lecturers in the School of Business in Kenyatta University and peers who helped establish its content and constructed validity to ensure that the items were adequately representative of the subject under study.

### **3.7 Reliability of the Research Instrument**

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Nsubuga, 2006). The reliability of the instrument was estimated using Cronbach's Alpha Coefficient which is a measure of internal coefficient. A reliability of at least 0.70 at  $\alpha=0.05$  significance level of confidence was accepted while adjustments were made accordingly.

### **3.8 Data Analysis**

Data collected was coded and classified into different components to facilitate a better and efficient analysis. The quantitative data generated from the closed ended questions was analyzed through descriptive statistics using the Statistical Package for Social Science (SPSS version 20.0) and presented through percentages, means and frequencies. Tables, pie charts and graphs were used to present the study findings as appropriate.

The study also used both regression and correlation analysis to test the relationship between the study variables. Mugenda and Mugenda (2003) postulate that regression analysis helps one understand how the typical value of a dependent variable (or ‘criterion variable’) changes when any one of the independent variables is varied, while the other independent variables are held constant while correlation analysis helps in identifying the form/nature and strength of the relationship between the independent variable(s) and the dependent variable. Thus, Pearson Correlation Coefficient was used to test the direction and magnitude of the relationship between the dependent and independent variables at 95% confidence level (or 5% level of significance).

The regression model specification was as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

Y = Dependent variable (employee retention)

X<sub>1</sub> = Employee compensation

X<sub>2</sub> = Career management practices

X<sub>3</sub> = Employee work-life balance

X<sub>4</sub> = Employee engagement

β<sub>1</sub> - β<sub>4</sub> = coefficients of independent variables

ε = error term

α = constant

The operationalization and measurement of the study variables was as shown in Table 3.2 below.

**Table 3.2 Operationalization of study variables**

<b>Type</b>	<b>Variable</b>	<b>Operationalization</b>	<b>Level Of Measurement</b>	<b>Hypothesized Direction</b>
Dependent variable	Employee retention	-Intent to stay/leave -Job satisfaction level -Organization commitment level	Ratio	
Independent variables	Employee compensation	Monetary and non-monetary compensation	Ordinal	Positive
	Career management practices	-Availability of staff training and development opportunities -Position movement -Mentoring programmes -Career progression policy	Ordinal	Positive
	Employee work-life balance	-Flexible work hours -Work leave policy -Company sponsored	Ordinal	Positive

		family events -Nature of work environment		
	Employee engagement	- Level of delegation of duties -level of staff participation in decision making	Ordinal	Positive

**Source: Researcher, 2016**

### **3.9 Ethical Considerations**

The researcher sought approval to conduct the study from Kenyatta University and from the managers of the sampled software development companies in Nairobi, Kenya. Further, the researcher explained the purpose of the study to the respondents before seeking their informed consent. The respondents were also made aware that they could withdraw from the study at any stage of the data collection with no penalties. The respondents were assured of their confidentiality since the questionnaire did not include their personal details. The risks and benefits of the study were also effectively communicated to the respondents. All information given was only used for research purposes. The participation of the respondents was voluntarily.

## CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

### 4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The results were presented on the effect of strategic human resource management practices on employee retention in the software development industry in Kenya.

#### 4.1.1 Response Rate

The study targeted 456 employees of software development companies in Kenya as study respondents. Out of the 456 questionnaires administered, 338 were adequately filled and returned contributing to a response rate of 74.1% (Table 4.3). This response rate was sufficient and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good while a response rate of 70% and over is excellent.

**Table 4.3 Response rate**

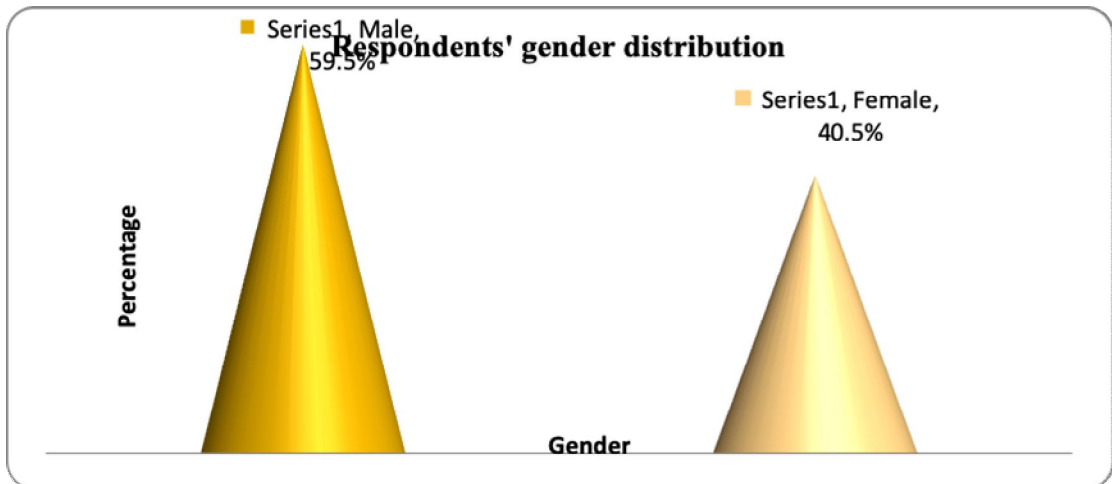
	Frequency	Percent
Responses received	338	74.1
No response	118	25.9
<b>Total</b>	<b>456</b>	<b>100.0</b>

**Source: Researcher, 2018**

## 4.2 Demographic Information

### 4.2.1 Gender Distribution of the Respondents

The study sought to establish the gender of the respondents. The findings are as shown in Figure 4.2.

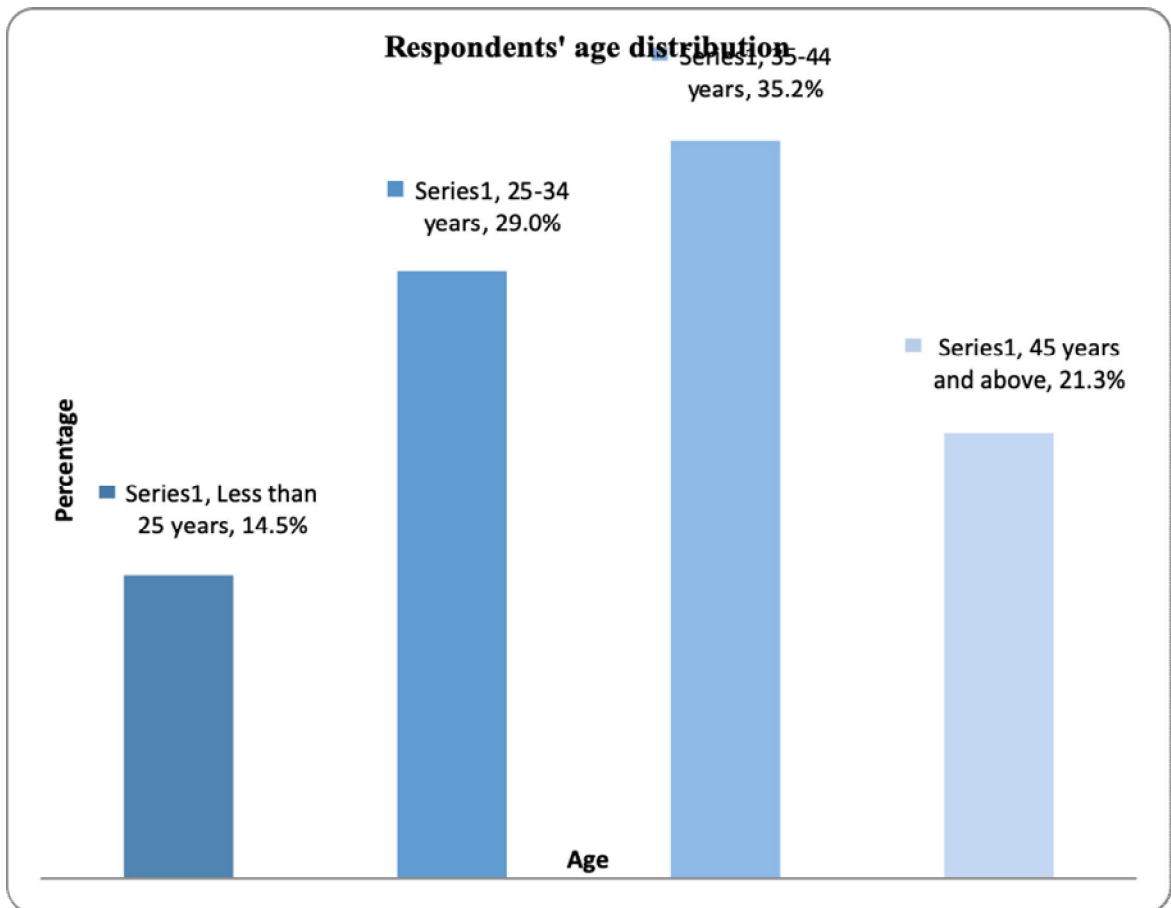


**Figure 4.2 Respondents' gender distribution**

Based on Figure 4.2 above, majority (59.5%) of the respondents were male while 40.5% were female. This showed that the study did not suffer from gender biasness as it involved both male and female respondents though the majority of the study respondents were male.

### 4.2.2 Age Distribution of the Respondents

The study sought to establish the age of the respondents. The findings are as shown in Figure 4.3.



**Figure 4.3 Age distribution of the respondents**

Based on Figure 4.3 above, 35.2% of the respondents were aged between 35-44 years, 29% were aged between 25-34 years, 21.3% were aged 45 years and above while 14.5% of the respondents were aged less than 25 years. These depicted that majority of the employees in software development companies in Kenya were aged 25 years and above and as such were old enough to fully appreciate the significance of strategic human resource management practices on employee retention in their organizations.

### 4.3.3 Education Level of the Respondents

The study sought to establish the education level of the respondents. The findings are as illustrated in Table 4.4.

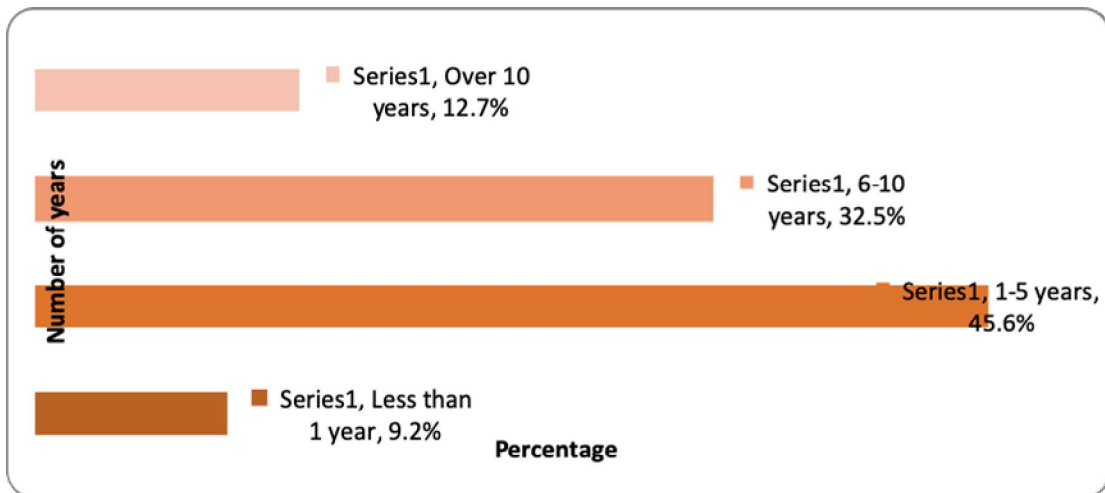
**Table 4.4 Education level of the respondents**

	<b>Frequency</b>	<b>Percent</b>
Certificate	25	7.4
Diploma	101	29.9
Graduate	156	46.1
Masters	52	15.4
PhD	4	1.2
<b>Total</b>	<b>456</b>	<b>100.0</b>

According to Table 4.4 above, most (46.1%) of the respondents were graduates, 29.9% were Diploma holders, 15.4% were Masters holders while 7.4% were Certificate holders. Only 1.2% had a PhD. This inferred that majority of the respondents had a sound academic background and as such had a good understanding of the effect of strategic human resource management practices on employee retention in their organizations.

### 4.2.4 Years Worked in the Organization

The study sought to establish the number of years that the respondents had served in their organizations. The findings are as illustrated in Figure 4.4.



**Figure 4.4 Respondents’ distribution based on the number of years worked in their organization**

Figure 4.4 above indicates that 45.6% of the respondents had worked in their organization for 1-5 years, 32.5% had worked for 6-10 years, 12.7% had worked for over 10 years while 9.2% of the respondents had worked in their organization for less than 1 year. This implied that majority of the study respondents had worked in their respective organizations for long enough to be able to provide crucial information relating to the effect of strategic human resource management practices on employee retention in their organizations.

#### **4.2.5 Respondents’ Level of Management in their Organization**

The study sought to establish the respondents’ management level in their organization. The findings are as shown in Table 4.5.

**Table 4.5 Respondents' Management Level in their Organization**

<b>Management level</b>	<b>Frequency</b>	<b>Percent</b>
Top	31	9.2
Middle	81	24.0
Low	226	66.9
<b>Total</b>	<b>456</b>	<b>100.0</b>

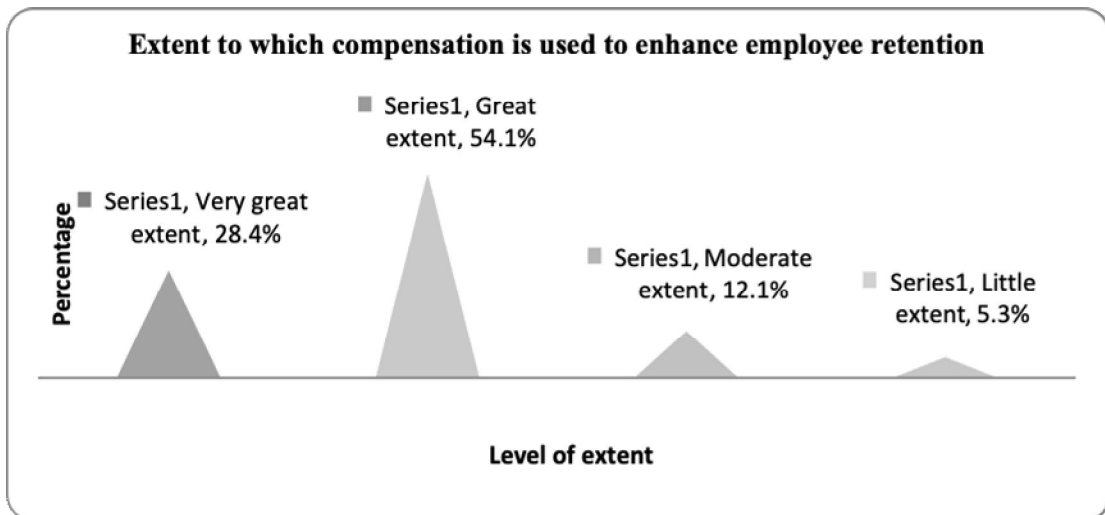
Table 4.5 above indicates that majority (66.9%) of the respondents served as low level management employees in their organization, 24% served as middle level management employees while 9.2% of the respondents were in top management positions in their organization. This implied that the opinions expressed in the study by the respondents were representative of the organizations' workforce.

### **4.3 Employee Compensation and Employee Retention**

The first objective of the study sought to examine the effect of compensation on employee retention in the software development industry in Kenya. The findings are as discussed in the subsequent subsections.

#### **4.3.1 Extent to which Compensation was used to Enhance Employee Retention in Respondents' Organization**

The study sought to establish the extent to which compensation was used to enhance employee retention in the respondents' organizations. The findings are as shown in Figure 4.5.



**Figure 4.5 Extent to which compensation was used to enhance employee retention in respondents' organization**

According to Figure 4.5 above, majority (54.1%) of the respondents indicated that compensation was used to a great extent to enhance employee retention in their organization, 28.4% said compensation was used to a very great extent to enhance employee retention in their organization, 12.1% indicated that compensation was used to a moderate extent to enhance employee retention in their organization while 5.3% of the respondents indicated that compensation was used to a little extent to enhance employee retention in their organization. This implied that employee compensation as a strategic HRM practice was applied to a great extent to enhance employee retention in the respondents' organizations. This agreed with Parker and Wright (2010) who in a study on pay and employee commitment, found out that direct compensation served as the most critical issue when it came to attracting and retaining talents as many employees cited better pay or higher compensation as the reason for leaving one employer for another. The findings were also in line with Chiu *et al.* (2002) who observed that rewards were substantially related to employees' retention as employees

who were satisfied with the organizational rewards and who believed that they would not find such compensation elsewhere, were likely to choose to stay.

#### **4.3.2 Respondents' Level of Agreement with Statements on Employee Compensation**

The study evaluated the respondents' level of agreement with various statements on employee compensation using a scale of 1-5 where 5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings are as illustrated in Table 4.6.

**Table 4.6 Respondents' level of agreement with statements on employee compensation**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev</b>
I earn more than others who occupy similar positions in other software development companies	3.077	1.1709
I feel that the non-monetary benefits, such as vacation time and medical insurance that I receive here are better than those I could get in other software development companies	4.083	0.8327
People who are hard working and results-oriented are rewarded in my organization	4.225	0.6420
The salary and benefits I receive in my organization is commensurate with my responsibilities	3.926	0.9036
Compensation is satisfactorily reviewed from time to time	4.068	0.8429
Different types of rewards used in my organization have a deep and long lasting effect on employees' motivation and retention	4.192	0.7439

The study findings as shown on Table 4.6 above showed that the employees of the software development companies in Kenya agreed that people who were hard working and results-oriented were rewarded in their organization (mean = 4.225); different types of rewards used in their organizations had a deep and long lasting effect on employees' motivation and retention (mean = 4.192); they felt that the non-monetary benefits, such as vacation time and medical insurance that they received in their organization were better than those they could get in other software development companies (mean = 4.083); compensation was satisfactorily reviewed from time to time (mean = 4.068) and that the salary and benefits they received in their organizations was commensurate with their responsibilities (mean = 3.926). However, the employees of the software development companies in Kenya neither agreed nor disagreed with the statement that they earned more than others who occupied similar positions in other software development companies (mean = 3.077). This implied that employee compensation as a strategic HRM practice played a significant role in enhancing employee retention in the software development companies in Kenya.

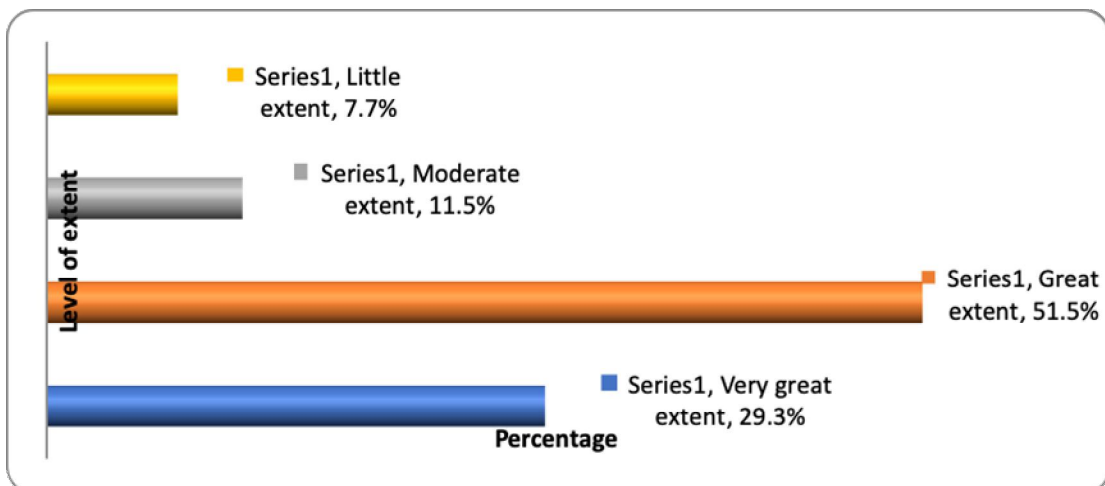
The findings agreed with Tian-Foreman (2009) who argued that staff appreciation through a commensurate pay plays an important role in motivating employees and enhancing their intention to stay. The findings also concurred with Mokaya and Kipyegon (2014) who found staff compensation affects retention intention through job satisfaction and organizational commitment. On their part, Chiboiwa *et al.* (2010) argued that an effective rewarding policy gives the organization the ability to attract and retain talented employees while at the same time making the organization become a great place to work for.

#### 4.4 Career Management Practices and Employee Retention

The second objective of the study sought to explore the effect of career management practices on employee retention in the software development industry in Kenya. The findings are as discussed in the subsequent subsections.

##### 4.4.1 Extent to which Career Management Practices were used to Enhance Employee Retention in Respondents' Organization

The study sought to establish the extent to which career management practices were used to enhance employee retention in the respondents' organizations. The findings are as illustrated in Figure 4.6.



**Figure 4.6 Extent to which career management practices were used to enhance employee retention in respondents' organization**

Regarding the extent to which career management practices were used to enhance employee retention in the respondents' organizations, Figure 4.6 above shows that majority (51.5%) said it was to a great extent, 29.3% said it was to a very great extent, 11.5% said it was to a moderate extent while 5.3% of the respondents said it was to a

little extent. This implied that career management practices as a strategic HRM practice were applied to a great extent to enhance employee retention in the respondents' organizations and hence were integral to employee retention in the software development companies in the country. This agreed with Nyanjom (2013) who in a summary of findings on factors influencing employee retention in state corporations in Kenya found employee training and career development ranked first as the most important factor. The findings were also in line with Hussain and Rehman (2013) who argued that adoption of career management practices enhanced employees' retain-ability of organizations given that, generally, employees react positively to career development and advancement opportunities.

#### **4.4.2 Respondents' Level of Agreement with Statements on Career Management Practices**

The study evaluated the respondents' level of agreement with various statements on career management practices using a scale of 1-5 where 5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings are as depicted in Table 4.7.

**Table 4.7 Respondents' level of agreement with statements on career management practices**

Statements	Mean	Std. Dev
I have received sufficient training in my organization to enable me do my job effectively	4.311	0.5723
My organization provides opportunities for staff training and career development on a regular basis	4.228	0.7216
I feel there are better career and learning opportunities in my organization as compared to others	4.041	0.8637
My organization sometimes sponsors me to participate in training or career development programmes	4.234	0.8126
My supervisor takes an interest in my professional growth and career development	4.266	0.6934
There are opportunities for me to advance my career in my organization	3.979	0.9756

The study findings as shown on Table 4.7 above showed that the employees of the software development companies in Kenya did agree that they had received sufficient training in their organizations to enable them do their job effectively (mean = 4.311); their supervisors took an interest in their professional growth and career development (mean = 4.266); their organizations sometimes sponsored them to participate in training or career development programmes (mean = 4.234); their organizations provided opportunities for staff training and career development on a regular basis (mean = 4.228); they felt there were better career and learning opportunities in their organization as compared to others (mean = 4.041) and that there were opportunities for them to advance their career in their organization (mean = 3.979). This implied that career management practices as a strategic HRM practice played a significant role in enhancing employee retention in the software development companies in Kenya.

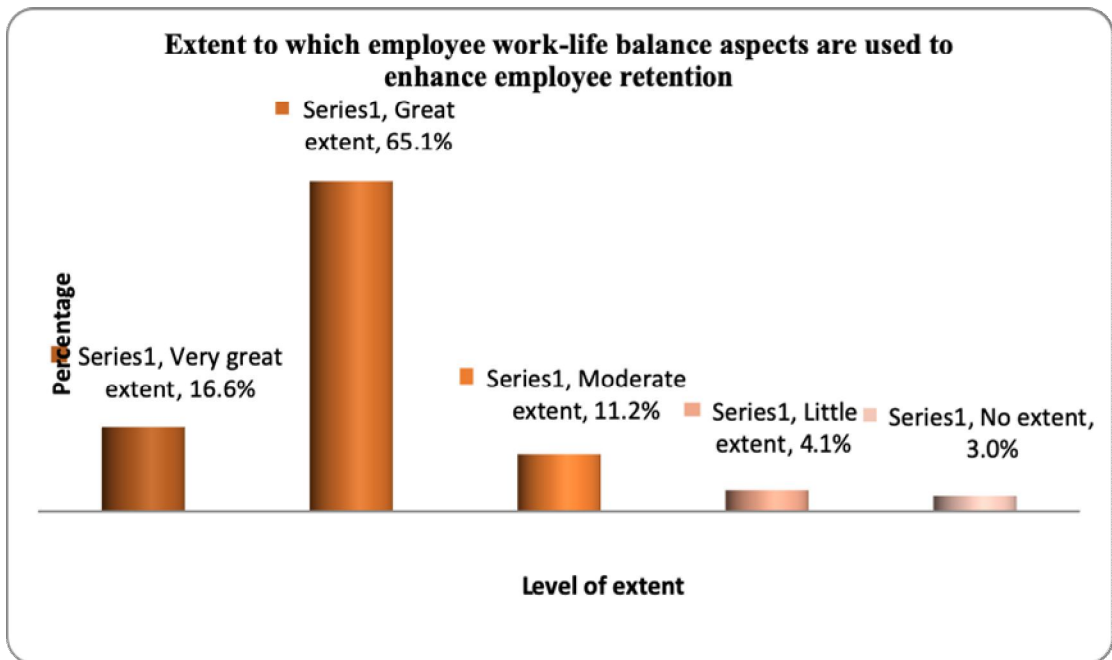
The findings were in agreement with those of Khan (2010) who revealed that career management was ranked amongst the highest HRM motivational practices often mentioned by employees. They argued that efforts aimed at training employees to equip them with necessary skills and knowledge improved staff retention rates. The findings concurred with Gurbuz and Mert (2011) who argued that by providing opportunities for training and career development which forms part of career management, organisations are supporting employees to become more knowledgeable and skilled which enhances their job competence leading to higher employee retention. Mutahi (2015) observed that satisfactory meeting of employees' training and development needs was one of the key determinants of employee retention within the Kenyan public universities.

#### **4.5 Employee Work-Life Balance and Employee Retention**

The third objective of the study sought to establish the effect of employee work-life balance on employee retention in the software development industry in Kenya. The findings are as discussed in the subsequent subsections.

##### **4.5.1 Extent to which Employee Work-Life Balance Aspects were used to Enhance Employee Retention in Respondents' Organization**

The study sought to establish the extent to which employee work-life balance aspects were used to enhance employee retention in the respondents' organizations. The findings are as shown in Figure 4.7.



**Figure 4.7 Extent to which employee work-life balance aspects were used to enhance employee retention in respondents' organization**

Regarding the extent to which employee work-life balance aspects were used to enhance employee retention in the respondents' organizations, Figure 4.7 above indicates that majority (65.1%) said it was to a great extent, 16.6% said it was to a very great extent, 11.2% said it was to a moderate extent while 4.1% of the respondents said it was to a little extent. Only 3% of the respondents said it was to no extent. This implied that employee work-life balance as a strategic HRM practice was applied to a great extent to enhance employee retention in the respondents' organizations. Thus, employee work-life balance aspects were an important HRM practice in employee retention within the software development companies in the country. This agreed with Samuel and Chipunza (2009) who in their research recognized that existence of family support within the organization reduce the turnover intention and help the retention of talented employees in the organization.

The findings also agreed with Forster *et al.* (2013) who in a study of work-life balance and work-family conflicts in the UAE, established that many employees sought jobs where they could establish a balance between their work and personal lives and that when work obligations interfere with family time and relationships, there was a higher absenteeism rate and turn-over than when the individual was able to work and meet family needs with the support of organizational programmes. They concluded that when organizations support employees' non-work activities, work objectives are met, and employees are more satisfied and loyal.

#### **4.5.2 Respondents' Level of Agreement with Statements on Employee Work-Life Balance**

The study evaluated the respondents' level of agreement with various statements on employee work-life balance using a scale of 1-5 where 5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings are as illustrated in Table 4.8.

**Table 4.8 Respondents' level of agreement with statements on employee work-life balance**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev</b>
My working life balances well with my family life	4.192	0.7237
My organization offers flexibility as to when to start and end the day's work	3.766	1.0228
The volume of work that I have been assigned does not give me stress	4.059	0.8831

Once I notify my supervisor, I am sometimes allowed to work from home	4.015	0.7246
I can easily take time off for 'home crisis' such as accidents or illness involving loved ones	4.198	0.8220
I think that if employees have good work-life balance the organization will be more effective and successful	4.308	0.6163

The study findings as shown on Table 4.8 above showed that the employees of the software development companies in Kenya were in agreement that if employees had good work-life balance, the organization would be more effective and successful (mean = 4.308); they could easily take time off for 'home crisis' such as accidents or illness involving loved ones (mean = 4.198); their working life balanced well with their family life (mean = 4.192); the volume of work that they had been assigned did not give them stress (mean = 4.059); once they notified their supervisor, they were sometimes allowed to work from home (mean = 4.015) and that their organizations offered flexibility as to when to start and end the day's work (mean = 3.766). This implied that employee work-life balance as a strategic HRM practice was critical in enhancing employee retention in the software development companies in Kenya.

The findings agreed with Maxwell (2005) who indicated that HRM policies such as the introduction of flexible working hours and arrangements, provision of better training, breaks from work and better work support do not only address work-life balance issues but also enhance employee retention. The findings also concurred with Muli *et al.* (2015) who found that there was a significant positive statistical relationship between HR work family support services with employee retention and as such there was a need for employers to give greater attention to work-life balance issues at the workplace. On their part, Shoib *et al.* (2009) held that organizations that

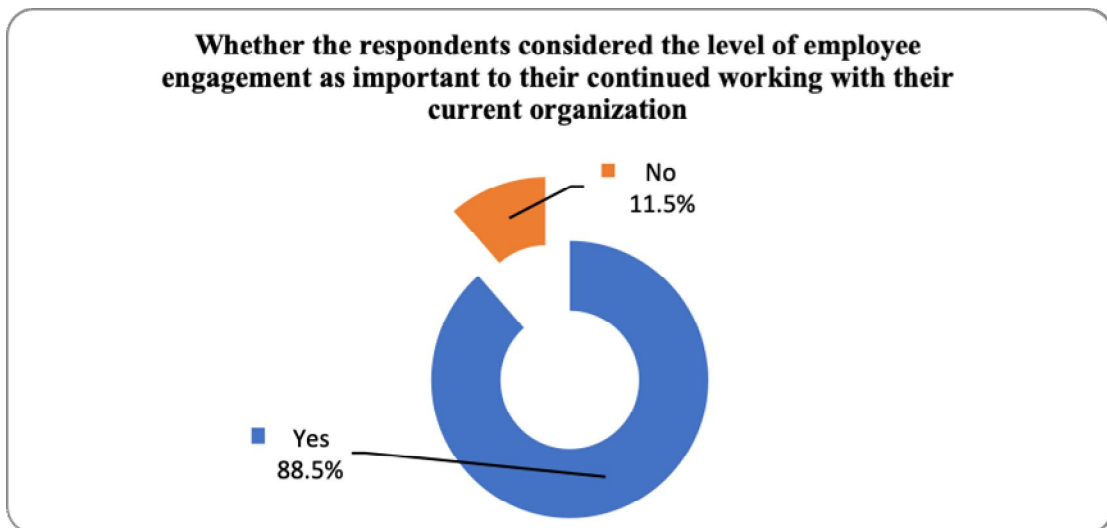
supported their employees in integrating family responsibilities with work responsibilities reduced their employees' intentions to leave.

#### **4.6 Employee Engagement and Employee Retention**

The last objective of the study sought to find out the effect of employee engagement on employee retention in the software development industry in Kenya. The findings are as discussed in the subsequent subsections.

##### **4.6.1 Level of Employee Engagement and Respondents' Continued Working with their Organization**

The study sought to find out whether the respondents considered the level of employee engagement as important to their continued working with their current organization. The findings are as illustrated in Figure 4.8.

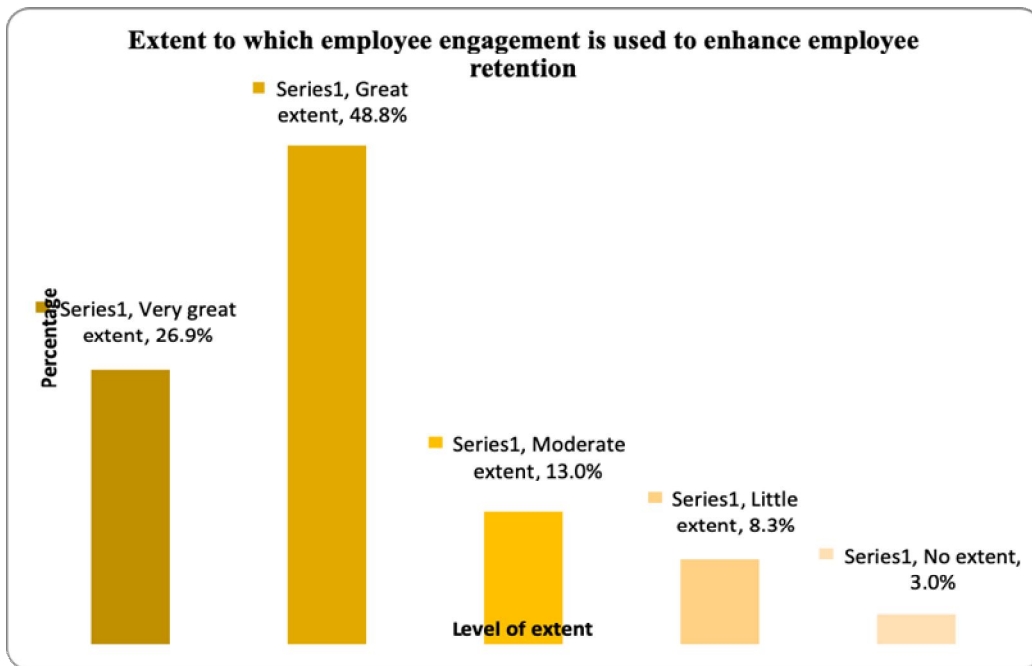


**Figure 4.8 Whether the respondents considered the level of employee engagement as important to their continued working with their current organization**

From Figure 4.8 above, majority (88.5%) of the respondents indicated that they considered the level of employee engagement as important to their continued working with their current organization while 11.5% of the respondents indicated that they did not consider the level of employee engagement as important to their continued working with their current organization. This implied that the level of employee engagement was important with respect to the software development companies employees continued working with their organizations. The findings agreed with Alnaqbi (2011) who found that lack of employee engagement in organizational affairs was one of the leading factors that contributed to the low retention of employees in UAE public organisations.

#### **4.6.2 Extent to which Employee Engagement was used to Enhance Employee Retention in Respondents' Organization**

The study sought to establish the extent to which employee engagement was used to enhance employee retention in the respondents' organizations. The findings are as shown in Figure 4.9.



**Figure 4.9 Extent to which employee engagement was used to enhance employee retention in respondents’ organization**

Regarding the extent to which employee engagement was used to enhance employee retention in the respondents’ organizations, Figure 4.9 above indicates that most (48.8%) said it was to a great extent, 26.9% said it was to a very great extent, 13% said it was to a moderate extent while 8.3% of the respondents said it was to a little extent. Only 3% of the respondents said it was to no extent. This implied that employee engagement as a strategic HRM practice was applied to a great extent to enhance employee retention in the respondents’ organizations and hence was an important HRM practice with respect to employee retention in the software development companies in Kenya. This agreed with Oketch (2016) who argued that employees who are allowed to actively participate in organizational decisions and activities are more likely to remain with the firm and will probably exert more efforts on behalf of the firm and work towards its success exhibiting better performance that

the unengaged employees. The findings also concurred with Melcrum (2005) who observed that employees tend to work harder if they were well engaged in organizational activities and as such organizations should strive to provide more participation opportunities for their employees in decision making in an attempt to enhance their commitment to the organization.

#### **4.6.3 Respondents' Level of Agreement with Statements on Employee Engagement**

The study evaluated the respondents' level of agreement with various statements on employee engagement using a scale of 1-5 where 5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings are as shown in Table 4.9.

**Table 4.9 Respondents' level of agreement with statements on employee engagement**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev</b>
I care about the success of my organization	4.086	0.7399
I am prepared to put in a great deal of effort beyond what is normally expected in order to help my organization succeed	4.163	0.7743
I feel a strong sense of belonging to my organization	4.198	0.6530
I plan to build my career with my organization	4.172	0.7228
My supervisor creates a motivating and supportive work environment	3.988	0.8884
My supervisor recognizes and values my ideas, suggestions and opinions	4.018	0.9465

The study findings as shown on Table 4.9 above indicate that the employees of the software development companies in Kenya agreed that they felt a strong sense of belonging to their organization (mean = 4.198); they planned to build their career with their organization (mean = 4.172); they were prepared to put in a great deal of effort beyond what was normally expected in order to help their organization succeed (mean = 4.163); they cared about the success of their organization (mean = 4.086); their supervisors recognized and valued their ideas, suggestions and opinions (mean = 4.018) and that their supervisors created a motivating and supportive work environment (mean = 3.988). This implied that employee engagement as a strategic HRM practice was critical in enhancing employee retention in the software development companies in Kenya.

The findings agreed with Agoi (2015) who found employee work engagement to be one of leading HRM practices that was integral to staff retention strategies within Kenya's public sector. The findings also concurred with Falcone (2006) who pointed that that a firm which provides an environment that allows its staff to fully participate in its core decision making activities is highly likely to have a committed staff which ensures a high guarantee of talent retention especially in the face of a highly competitive operating environment.

#### **4.7 Inferential Statistics**

In order to determine the relationship between employee compensation, career management practices, employee work-life balance as well as employee engagement and employee retention in the software development companies in Kenya, the study conducted a multiple regression analysis. The results are as summarized below;

**Table 4.10 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.890 <sup>a</sup>	0.792	0.737	.561

Predictors: (Constant), employee compensation, career management practices, employee work-life balance, employee engagement

According to Table 4.10 above, R squared is the coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables. From Table 4.10 above, the value of R squared was 0.792 which means that 79.2% variation in the studied software development companies' employee retention was due to changes in the firms' employee compensation, career management practices, employee work-life balance and employee engagement. Hence, 20.8% of variation in the software development companies' employee retention was explained by other factors not in the model or not focused on in the current study.

**Table 4.11 ANOVA (Analysis of Variance)**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	74.05	4	18.5125	194.134	.0000 <sup>a</sup>
1	Residual	31.85	334	0.0954		
	Total	105.90	338			

a. Predictors: (Constant), employee compensation, career management practices, employee work-life balance, employee engagement

b. Dependent Variable: employee retention

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The "F" column provides a statistic for testing the hypothesis that all  $\beta \neq 0$  against the null hypothesis that  $\beta = 0$  (Weisberg, 2005). From the findings the significance value is .0000 which is less than 0.05 thus the model is statistically significant in predicting how employee compensation, career management practices, employee work-life balance and employee engagement affect employee retention in the software development companies in Kenya. The F critical at 5% level of significance was 6.26. Since F calculated (value = 194.134) is greater than the F critical (6.26), this showed that the overall model was significant.

**Table 4.12 Regression analysis results**

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	7.012	.641		10.939	.0000
Employee compensation [X <sub>1</sub> ]	0.806	.301	.626	2.678	.0119
Career management practices [X <sub>2</sub> ]	0.661	.295	.428	2.241	.0326
Employee work-life balance [X <sub>3</sub> ]	0.762	.303	.572	2.515	.0175
Employee engagement [X <sub>4</sub> ]	0.729	.311	.514	2.344	.0259

Based on the regression results in Table 4.12 above, the regression model becomes;

$$Y = 7.012 + 0.806 X_1 + 0.661 X_2 + 0.762 X_3 + 0.729 X_4 + \varepsilon$$

From the regression equation above, taking all factors (employee compensation, career management practices, employee work-life balance and employee engagement) constant at zero, employee retention would be 7.012. The results further indicate that a unit increase in employee compensation would lead to a 0.806 increase in employee retention; a unit increase in career management practices would lead to a 0.661 increase in employee retention, a unit increase in employee work-life balance would

lead to a 0.762 increase in employee retention while a unit increase in employee engagement would lead to a 0.729 increase in employee retention. At 5% significance level [or 95% level of confidence], employee compensation had a 0.0119 level of significance; career management practices had a 0.0326 level of significance; employee work-life balance had a 0.0175 level of significance while employee engagement had a 0.0259 level of significance. All the variables were significant ( $p < 0.05$ ) with the most significant factor being employee compensation followed by employee work-life balance, employee engagement and career management practices, respectively.

This agreed with Chew and Chan (2008) who observed that employee reward systems, employee engagement, employee career planning and development and employee work-life balance as human resource management practices had a significant positive influence on employee retention. Similar sentiments were shared by Hussain and Rehman (2013) who also found that various human resource management practices including staff training and development, performance based pay, appropriate work-life balance, employee engagement and talent management all had a significant positive relationship with employee retention. In a review of employee retention and turnover using motivational variables as a panacea, Samuel and Chipunza (2009) identified staff compensation, training and development, performance management, employee engagement and work-life balance as top human resource management practices that were core to employee retention strategies in modern day organizations.

**Table 4.13 Correlation analysis results**

	Employee retention	Employee compensation	Career management practices	Employee work-life balance	Employee engagement
Employee retention (r) (p) Sig. (2 tailed)	1				
Employee compensation (r) (p) (2 tailed)	.718*	1			
Career management practices (r) (p) (2 tailed)	.612*	.127	1		
Employee work-life balance (r) (p) (2 tailed)	.683*	.225	.303	1	
Employee engagement (r) (p) (2 tailed)	.630*	.298	.155	.131	1
	.000	.372	.139	.176	

Pearson's product moment correlation analysis \* Significant at 5%

Results of the Pearson correlation as shown on Table 4.13 above indicates that there is a significant positive correlation between employee compensation and employee retention ( $r=0.718$ ,  $p$  value  $<0.05$ ); a significant positive correlation between career management practices and employee retention ( $r=0.612$ ,  $p$  value  $<0.05$ ); a significant positive correlation between employee work-life balance and employee retention

( $r=0.683$ ,  $p$  value  $<0.05$ ) and a significant positive correlation between employee engagement and employee retention ( $r=0.630$ ,  $p$  value  $<0.05$ ). This indicates that employee compensation, career management practices, employee work-life balance and employee engagement as strategic HRM practices are positively related with employee retention and as such increases in these HRM practices enhance employee retention. This agreed with Alnaqbi (2011) and Wambui (2014) who also found compensation, employee training and development, employee engagement and a healthy work-life balance to be leading human resource management practices that had a significant positive impact on employee retention.

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

### **5.1 Introduction**

This chapter presents summary of findings, conclusions and recommendations of the study based on the study objectives. The chapter also highlights suggested areas for further research. The study sought to establish the effect of strategic human resource management practices on employee retention in the software development industry in Kenya.

### **5.2 Summary**

#### **5.2.1 Employee Compensation and Employee Retention**

The study findings showed that the employees of the software development companies in Kenya did agree that people who were hard working and results-oriented were rewarded in their organization; different types of rewards used in their organizations had a deep and long lasting effect on employees' motivation and retention; they felt that the non-monetary benefits, such as vacation time and medical insurance that they received in their organization were better than those they could get in other software development companies; compensation was satisfactorily reviewed from time to time and that the salary and benefits they received in their organizations was commensurate with their responsibilities. The findings also found that majority of the employees of the software development companies in Kenya shared the opinion that compensation was used to a great extent to enhance employee retention in their organizations. This implied that employee compensation as a strategic HRM practice

played a significant role in enhancing employee retention in the software development companies in Kenya.

### **5.2.2 Career Management Practices and Employee Retention**

The study findings showed that the employees of the software development companies in Kenya did agree that they had received sufficient training in their organizations to enable them do their job effectively; their supervisors took an interest in their professional growth and career development; their organizations sometimes sponsored them to participate in training or career development programmes; their organizations provided opportunities for staff training and career development on a regular basis; they felt there were better career and learning opportunities in their organization as compared to others and that there were opportunities for them to advance their career in their organization. The findings also found that majority of the employees of the software development companies in Kenya shared the opinion that career management practices were used to a great extent to enhance employee retention in their organizations. This implied that career management practices as a strategic HRM practice played a significant role in enhancing employee retention in the software development companies in Kenya.

### **5.2.3 Employee Work-Life Balance and Employee Retention**

The study findings showed that the employees of the software development companies in Kenya agreed that they were of the opinion that if employees had good work-life balance the organization would be more effective and successful; they could easily take time off for 'home crisis' such as accidents or illness involving loved ones; their working life balanced well with their family life; the volume of work that they

had been assigned did not give them stress; once they notified their supervisor, they were sometimes allowed to work from home and that their organizations offered flexibility as to when to start and end the day's work. The study findings also revealed that majority of the employees of the software development companies in Kenya agreed that employee work-life balance aspects were used to a great extent to enhance employee retention in their organizations. This implied that employee work-life balance as a strategic HRM practice was critical in enhancing employee retention in the software development companies in Kenya.

#### **5.2.4 Employee Engagement and Employee Retention**

The study findings showed that the employees of the software development companies in Kenya did agree that they felt a strong sense of belonging to their organization; they planned to build their career with their organization; they were prepared to put in a great deal of effort beyond what was normally expected in order to help their organization succeed; they cared about the success of their organization; their supervisors recognized and valued their ideas, suggestions and opinions and that their supervisors created a motivating and supportive work environment. The findings also found that majority of the employees of the software development companies in Kenya shared the opinion that employee engagement was used to a great extent to enhance employee retention in their organizations. This implied that employee engagement as a strategic HRM practice was critical in enhancing employee retention in the software development companies in Kenya.

Further, the regression analysis results revealed a significant positive relationship between employee compensation, career management practices, employee work-life

balance as well as employee engagement and employee retention in the software development companies in Kenya as indicated by beta values of 0.806; 0.661; 0.762 and 0.729 (with all having  $p < 0.05$ ), respectively.

### **5.3 Conclusions**

The study concluded that employee compensation played a significant role in enhancing employee retention in the software development companies in Kenya especially in light of the deep and long-lasting effects it has on employees' motivation. The study also concluded that there existed a significant positive relationship between employee compensation and employee retention in the software development companies in Kenya.

The study concluded that career management practices as a strategic HRM practice played a significant role in enhancing employee retention in the software development companies in Kenya especially given that employees react positively to career development and advancement opportunities. By providing career development opportunities, employees recognize the company's commitment to improve their competencies and are thus more likely to remain in the environment where they have a continual opportunity to learn. In addition, the study also concluded that there existed a significant positive relationship between career management practices and employee retention in the software development companies in Kenya.

The study also concluded that employee work-life balance as a strategic HRM practice was critical in enhancing employee retention in the software development companies in Kenya especially given the view that when organizations support employees' non-work activities, work objectives are better met, and employees are

more satisfied and loyal. Further, the study concluded that there existed a significant positive relationship between employee work-life balance and employee retention in the software development companies in Kenya.

The study also concluded that employee engagement played a significant role in enhancing employee retention in the software development companies in Kenya especially given the fact that employee engagement in important organizational decisions makes them feel recognized and valued within their organizations. The study also concluded that there existed a significant positive relationship between employee engagement and employee retention in the software development companies in Kenya.

#### **5.4 Recommendations**

To continually motivate organizational employees, the study recommends that software development companies in Kenya should use a competitive compensation scheme that comprises of both financial and non financial rewards and that reflects the value of the staff to the organization.

To enhance the knowledge and skill level of their employees, the study recommends that software development companies in Kenya should formulate elaborate career development programmes that aim at not only filling existing competency gaps but which offer the employees an opportunity to reach new heights in their career progression.

To enhance employee work-life balance, the study recommends that software development companies in Kenya should adopt suitable employee work-life balance strategies and policies such as health clubs, child care services for working mothers,

flexible working schedules, job sharing, team building activities and focusing on work outcomes rather than the hours worked.

To enhance employee engagement with the organization, the study recommends that software development companies in Kenya should redesign jobs in a manner that employees can find meaning and purpose in the work that they do while ensuring their full participation in important organizational decisions and activities.

### **5.5 Suggested Areas for Further Research**

Since this study explored the effect of strategic human resource management practices on employee retention in the software development industry in Kenya, the study recommends that similar studies should be done in other industries in Kenya for comparison purposes and to allow for generalization of findings on the effect of strategic human resource management practices on employee retention in Kenya. In addition, while the current study focused on 4 strategic HRM practices namely compensation, career management practices, work-life balance and employee engagement, other studies may broaden the review by focusing on other strategic HRM practices not covered in this study.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### Section A: Demographic information

1. What is your gender?      Male      [ ]      Female      [ ]

2. What is your age in years?

Less than 25 years      [ ]      25-34 years      [ ]

35-44 years      [ ]      45 years and above      [ ]

3. What is your highest level of education?

Certificate [ ]      Diploma [ ]      Graduate [ ]

Masters [ ]      PhD [ ]

4. For how long have you worked in your organization?

Less than 1 year      [ ]      1-5 years      [ ]

6-10 years      [ ]      Over 10 years [ ]

5. Indicate your management level?

Low [ ]      Middle [ ]      Top [ ]

#### Section B: Employee compensation and the retention of employees

6. To what extent is compensation used to enhance employee retention in your organization?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

7. What is your level of agreement with the following statements on effect of employee compensation on the retention of employees in your organization? Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree

	1	2	3	4	5
I earn more than others who occupy similar positions in other software development companies.					
I feel that the non-monetary benefits, such as vacation time and medical insurance that I receive here are better than those I could get in other software development companies					
People who are hard working and results-oriented are rewarded in my organization					
The salary and benefits I receive in my organization is commensurate with my responsibilities					
Compensation is satisfactorily reviewed from time to time					
Different types of rewards used in my organization have a deep and long lasting effect on employees' motivation and retention					

**Section C: Career management practices and the retention of employees**

8. To what extent is career management practices used to enhance employee retention in your organization?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

9. What is your level of agreement with the following statements on effect of career management practices on retention of employees in your organization? Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree

	1	2	3	4	5
I have received sufficient training in my organization to enable me do my job effectively					
My organization provides opportunities for staff training and career development on a regular basis					
I feel there are better career and learning opportunities in my organization as compared to others					
My organization sometimes sponsors me to participate in training or career development programmes					
My supervisor takes an interest in my professional growth and career development					
There are opportunities for me to advance my career in my organization					

**Section D: Employee work-life balance and the retention of employees**

10. To what extent are employee work-life balance aspects used to enhance employee retention in your organization?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

11. What is your level of agreement with the following statements on effect of employee work-life balance on employee retention in your organization? Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree

	1	2	3	4	5
My working life balances well with my family life					
My organisation offers flexibility as to when to start and end the day's work					
The volume of work that I have been assigned does not give me stress					
Once I notify my supervisor, I am sometimes allowed to work from home					
I can easily take time off for 'home crisis' such as accidents or illness involving loved ones					
I think that if employees have good work-life balance the organisation will be more effective and successful					

**Section E: Employee engagement and the retention of employees**

12. Do you consider the level of employee engagement as important to your continued working with your current organization?

Yes [ ] No [ ]

13. To what extent is employee engagement used to enhance employee retention in your organization?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

14. What is your level of agreement with the following statements on effect of employee engagement on employee retention in your organization? Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree.

	1	2	3	4	5
I care about the success of my organization					
I am prepared to put in a great deal of effort beyond what is normally expected in order to help my organization succeed					
I feel a strong sense of belonging to my organization					
I plan to build my career with my organization					
My supervisor creates a motivating and supportive work environment					
My supervisor recognizes and values my ideas, suggestions and opinions					

**Thank you for your time and co-operation**