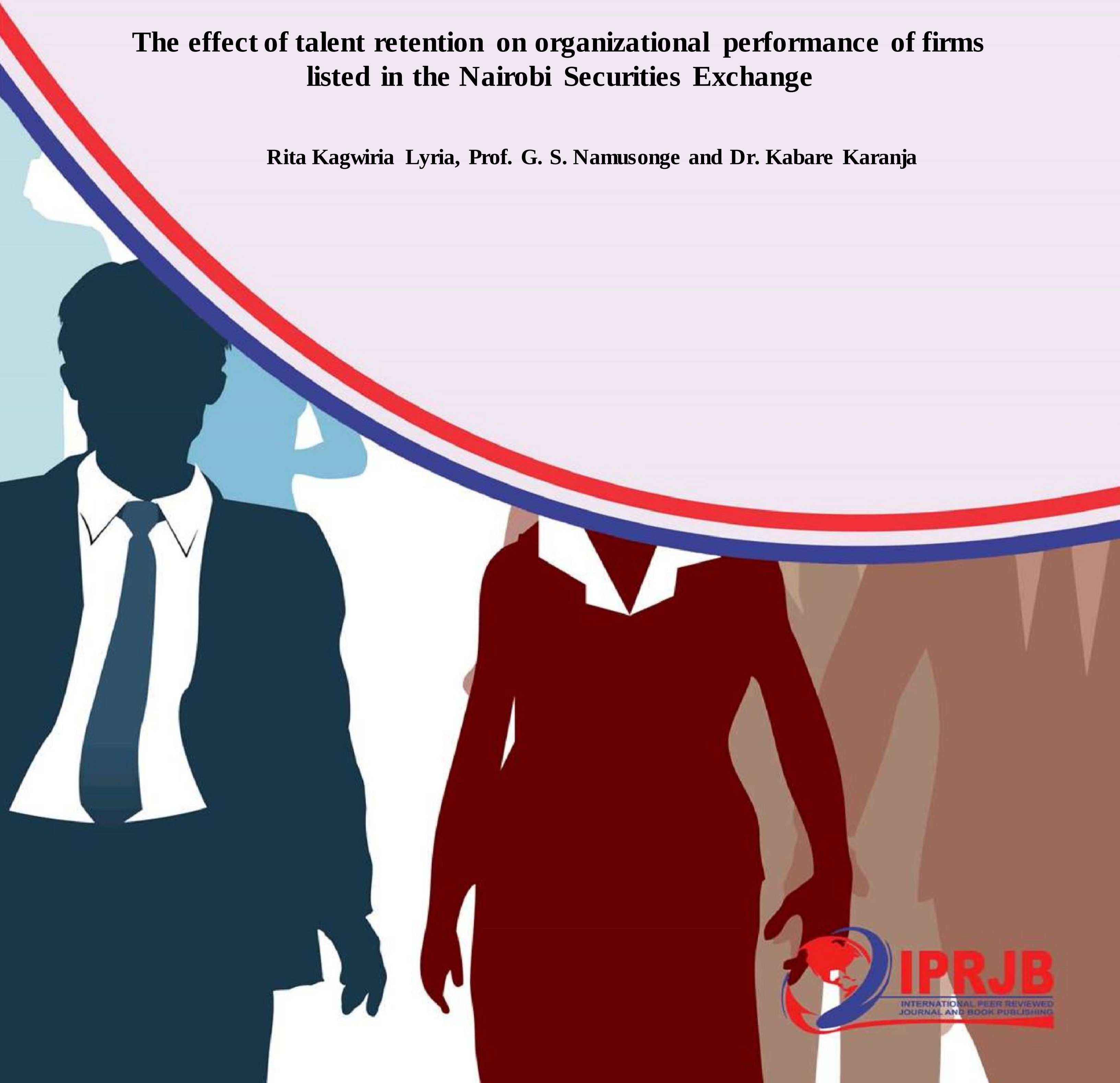
Journal of
Human Resource and Leadership
(JHRL)

# The effect of talent retention on organizational performance of firms listed in the Nairobi Securities Exchange

Rita Kagwiria Lyria, Prof. G. S. Namusonge and Dr. Kabare Karanja



IPRJB
INTERNATIONAL PEER REVIEWED
JOURNAL AND BOOK PUBLISHING

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 3No.5, pp 56-68, 2017 www.iprjb.org

# The effect of talent retention on organizational performance of firms listed in the Nairobi Securities Exchange

**[*1] Rita Kagwiria Lyria, [2] Prof. G. S. Namusonge and [3] Dr. Kabare Karanja**

**[1]Post graduate student, Jomo Kenyatta University of Agriculture and Technology, Kenya**
**[2,3]Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya**

**Corresponding email address: kagwiriarita@yahoo.com**

## Abstract

**Purpose:** The purpose of this study was to examine the effect of talent retention on organizational performance of firms listed in the Nairobi Securities Exchange.

**Methodology:** Descriptive and correlation survey research designs was used. Stratified simple random sampling technique was employed to enable select the respondents from the ten stratums of NSE listed companies. The target population was 534 top managers of listed companies in the NSE. A sample size of 224 respondents was picked from the listed firms.

**Results:** Results revealed that there is a strong and positive relationship between talent retention and organization performance of all listed companies. Organizational performance was positively correlated with talent retention. An R squared of 0.489 indicates that 48.9% of the variances in the talent retention by listed companies are explained by the variances in the organization performance. The results also revealed that talent retention is statistically significant in explaining organization performance.

**Policy recommendation:** It is recommended that listed firms with poor talent retention practices need to improve as an improvement in talent retention practices contributes positively to organizational performance.

**Keywords:** *Talent retention, organizational performance, Nairobi Securities Exchange*

### 1.0 INTRODUCTION

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

Talent management involves positioning the right people in the right jobs (Devine *et al.,* 2008). This ensures that the employees maximize their talent for optimal success of the organization. As talent management is a relatively new area for both public and private sector organizations, most organizations have prioritized it to ensure they acquire the right staff. This is because talent management has been linked to successful attraction, retention and development of employees (Beheshtifar *et al.,* 2011). The prominence of talent management can be traced to around the start of the year 2000. This is the period when a management consulting firm, 'McKinsey' reported that employers face a 'war for talents' characterized by difficulties in recruitment of employees due to tight labor market (Hartmann *et al.,* 2010). Talent management is of essence because organizations are able to successfully attract and maintain necessary talent. Moreover, talent identification and development helps organizations identify employees who are capable of playing leadership roles in future. This approach emphasizes developing talent pools that have high leadership ability (Beheshtifar *et al.,* 2011).

Chief Executive Officers (CEOs) in Africa are hiring, but it's becoming more difficult to find the right people. So talent management has become top CEO agenda that is 85% said that they planned to focus on the strategies for managing talent over the next years and 75% said that a lack of available talent was a threat to growth (Price Water House Coopers, 2012). Also, many poor African countries have lost some of their highly skilled professionals to the United States, Canada, France, the United Kingdom, Australia and the Gulf States (Gara, 2007).

Business Review Management (2013), reports that Kenya faces the challenge of shortage of talent. These challenges include hiring, retaining, training and motivating professional talent. Moreover, shortage of talent management is felt in both professional and non professional management in Kenya. For example, early retirement leads to shortage of staff as there are no qualified personnel to fill these positions. Kenani (2011) established that there seemed to be an urgent need for increasing scientific knowledge and skills of the employees at geothermal companies in Kenya. Human Resource Management needed to put more emphasis on the productive development and use of people in the company to collectively achieve the organization's strategic business objectives.

### 1.2 Problem statement

At a time when organizations need to optimize their workforces, most agree that talent management is of strategic importance. Determinants of talent management include; talent attraction, talent retention, learning and development and career management, each of these processes must be designed to fit the strategic requirements of the business. To be successful the talent strategy must be aligned with the organizations business strategy. Aligning talent strategy with business strategy is usually unmet need in many organizations, Heinen et al. (2004). 50% of the top managers across the globe think there is lack of alignment between talent management strategy and corporate strategy and that is why talent management is not an issue of Human Resource department but other organizations top managers are also involved (Collings et al., 2010).

The logic behind talent management is based on the fact that business is run by people, they are the ones who create value by using corporate assets to create products and services that people need. The implication is that the better the people an organization has the better it will perform and this is the rationale behind talent management to attract, develop, and utilize the best brains to get superior business results (Tonga, 2007). Basing on these arguments, the researcher intends to find out the role of talent management on organisation performance in companies listed in Nairobi Security Exchange.

In today's competitive climate in business concerning people issues is to find a method of attracting, developing, retaining, and motivating competent people (Sara et al, 2010). However , A survey by Aberdeen Group and Human Capital Institute's (2005) found that out of the 170 companies studied, 57% said that they were unable to attract the talent they needed to have a competitive edge while 79 per cent of the companies' chief concern was the issue of challenges in implementing succession planning also CIPDs (2012) learning and development survey found that about 75% of organizations in England reported a deficit of management and leadership skills which led to low performances in their organizations .

To gain competitive advantage through greater performance, the demand for human capital drives talent management in NSE listed companies. To the researcher's knowledge there is limited empirical study done locally on the role of talent management on organization performance in NSE listed companies. This study seeks to fill the existing research gap by conducting a study to examine the effect of talent retention on organization performance of firms listed in the Nairobi Securities Exchange.

### 1.3 Research Objective

i. To examine the effect of talent retention on organizational performance of firms listed in the Nairobi Securities Exchange.

## 2.0 LITERATURE REVIEW 2.1 Theoretical framework

The researcher relied on talent management model by Optimis, HCM consultancy firm (optimis, 2011). The talent management model identifies various talent management components and links them to workforce performance which eventually leads to organization performance.

### 2.2 Empirical review

Talent retention was measured by whether the company has flexible working hours, training opportunities, career growth, effective performance assessment, satisfied and motivated Employee, competitive compensation , attractive non monetary rewards .Talent retention will also be measured by existence of good company image, recruitment policy of the company and the style of the leadership,

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

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

Mendez et al, (2011) further emphasizes that a company needs to invest in employee retention in order to be successful. For example, a good compensation package is important in retaining employees, offering an attractive, competitive; benefits package with components such as life insurance, disability insurance and flexible hours motivates employees to commit themselves to an organization (Lockwood et al, 2008). In light of the above, a salary offered to an employee should not only be viewed as a sum of money, but as a package of remuneration in order for the payment to serve as a retention factor.

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

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

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

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

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

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

**2.2 Conceptual Framework**

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 3No.5, pp 56-68, 2017
www.iprjb.org

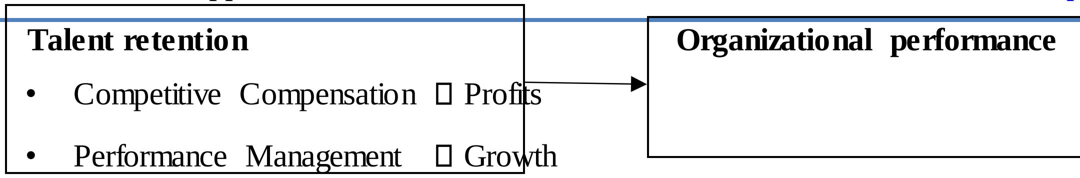



**Figure 1: Conceptual Framework**

## 3.0 METHODOLOGY

This adopted descriptive and correlation survey research design. The target population of this study is 534 top managers of NSE listed companies. The researcher used stratified sampling in order to achieve the desired representation from various sub groups in the NSE listed companies. A sample size of 224 respondents will be used. Questionnaire was used in this study to collect data. Cronbach alpha was used to test reliability of the study instrument.

## 4.0 RESULTS FINDINGS 4.1 Response Rate

The number of questionnaires administered was 224. A total of 162 questionnaires were properly filled and returned. This represented an overall successful response rate of 72%. **Table 1: Response Rate**

| **Response** | **Frequency** | **Percent** |
|---|---|---|
| Successful | 162 | 72% |
| Unsuccessful | 62 | 28% |
| **Total** | **224** | **100%** |

### 4.2 Descriptive statistics

The second objective of the study was to establish how talent retention affects organizational performance. The elements that measured talent retention included; effective leadership style, competitive compensation, internal recruitment policy, flexible working hours, Employee are satisfied and motivated, and offers attractive non-monetary rewards, in order to attract the right talents. The results were shown in table 2.

The study sought to establish the extent to which the company used effective leadership style and how they handled employee issues. Effective leadership style and ways of handling employees' issues in a company were crucial of talent retention. Results in Table 2 shows that majority 75% of the respondents agreed that they used effective leadership style and were careful on how they handled employee issues. Results also reveal that 21% disagreed while 4 % neither agreed nor disagreed with the statement.

The study further sought to establish the extent to which the company image remained good all the time in order to retain the talented employees. Company image in a company was crucial to talent retention. Results in table 2 shows that majority 87% agreed that the company ensured their company image remained good all the time in order to retain their talented employees. Results also reveal that 5.2% disagreed while 6.8% neither agreed nor disagreed with the statement.

The statement if the company's competitive compensation system in comparison to other organizations in the same industry was better. Results showed that 95% agreed that their company had competitive compensation system in comparison to other organizations in the same industry which was a motivating factor to their employees, 1.3% disagreed while 3.7% neither agreed nor disagreed with the statements.

**Table 2: Talent retention**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| We use effective leadership style and we are careful on how we handle employee issues | 9.90% | 11.10% | 4.30% | 35.80% | 38.90% |
| This company ensures our company image remains good all the time in order to retain our talented employees | 1.90% | 4.30% | 6.80% | 56.80% | 30.20% |
| My company has competitive compensation system in comparison to other organizations in the same industry which is a motivating factor to our employees | 0.60% | 0.60% | 3.70% | 53.70% | 41.40% |
| We have internal recruitment policy that helps to raise the loyalty and morale of our employees | 3.10% | 4.30% | 4.30% | 61.70% | 26.50% |
| My company flexible working hours is a motivating factor to our employees | 0.60% | 3.70% | 3.70% | 38.30% | 53.70% |
| My company ensures Employee are satisfied and motivated all the time | 1.20% | 4.90% | 7.40% | 46.30% | 40.10% |
| My company offers attractive nonmonetary rewards to employees | 1.20% | 1.20% | 3.70% | 59.90% | 34.00% |

The study sought to establish if the company internal recruitment policy had helped to raise the loyalty and morale of their employees. Results showed that 88% agreed that they had internal recruitment policy that helped to raise the loyalty and morale of their employees, 7.4% disagreed while 4.3% neither agreed nor disagreed with the statement. Further, the study sought to establish if the company working hours was a motivating factor to their employees. Results in table 2

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 3No.5, pp 56-68, 2017 www.iprjb.org

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

On the statement if the company ensured employee were satisfied and motivated all the time. Employee satisfaction and motivation in a company was crucial of talent retention. Results showed that 86% agreed that their company ensured employee were satisfied and motivated all the time, 6.1% disagreed while 7.4% neither agreed nor disagreed with the statement. Finally, the study sought to establish if the company offered attractive non-monetary rewards to employees. Attractive non-monetary rewards in a company was crucial of talent retention. Results showed that 94% agreed that their company offered attractive non-monetary rewards to employees, 2.4% disagreed while 3.7% neither agreed nor disagreed with the statement.

### 4.3 Relationship between talent attraction and organization performance

Figure 2 showed that the scattered plot of talent retention and organization performance. The figure reveals that there was strong and positive relationship between the two variables. Therefore, an increase in effective talent retention affects organization performance of all listed companies.

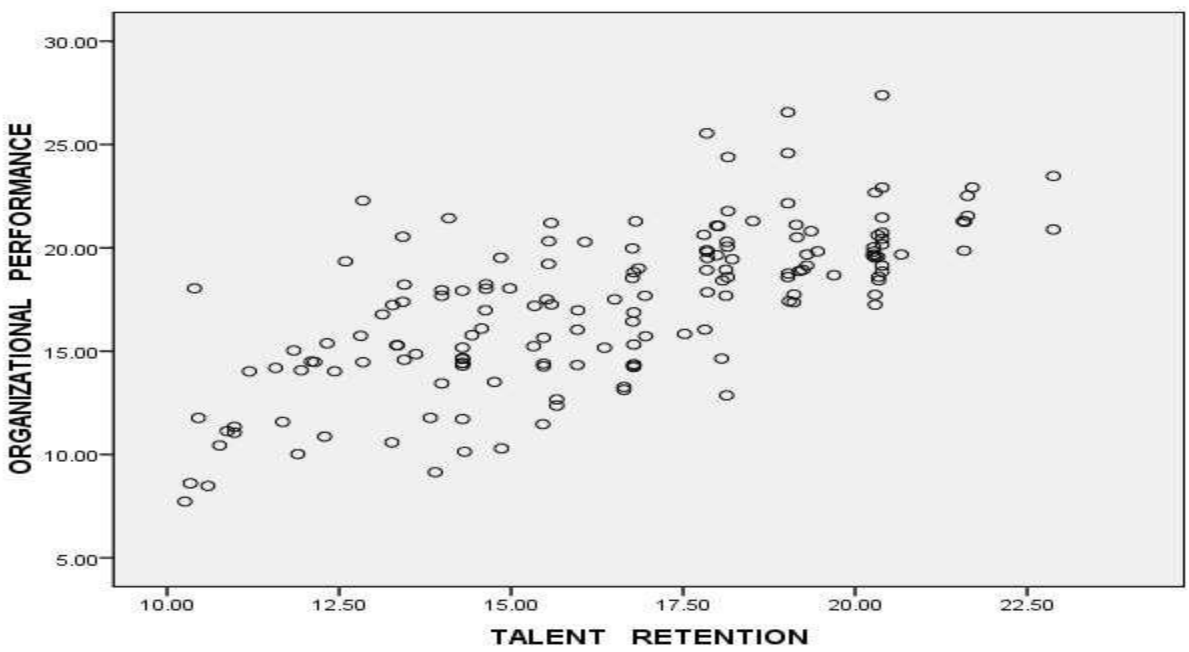



**Figure 2: Scatter Plot Relationship between Talent retention and Organizational Performance**

Table 2 displays the results of correlation test analysis between the dependent variable (organization performance) and talent retention. Results on Table 2 showed that acceptance of organizational performance was positively correlated with talent retention. This reveals that any positive change in talent retention on organizational performance led to increased acceptance of organizational performance.

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 3No.5, pp 56-68, 2017


**Table 3: Relationship between Talent retention and Organizational Performance**

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

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

A graphical illustration of the relationship between talent retention and acceptance of organization performance was presented in figure 3.

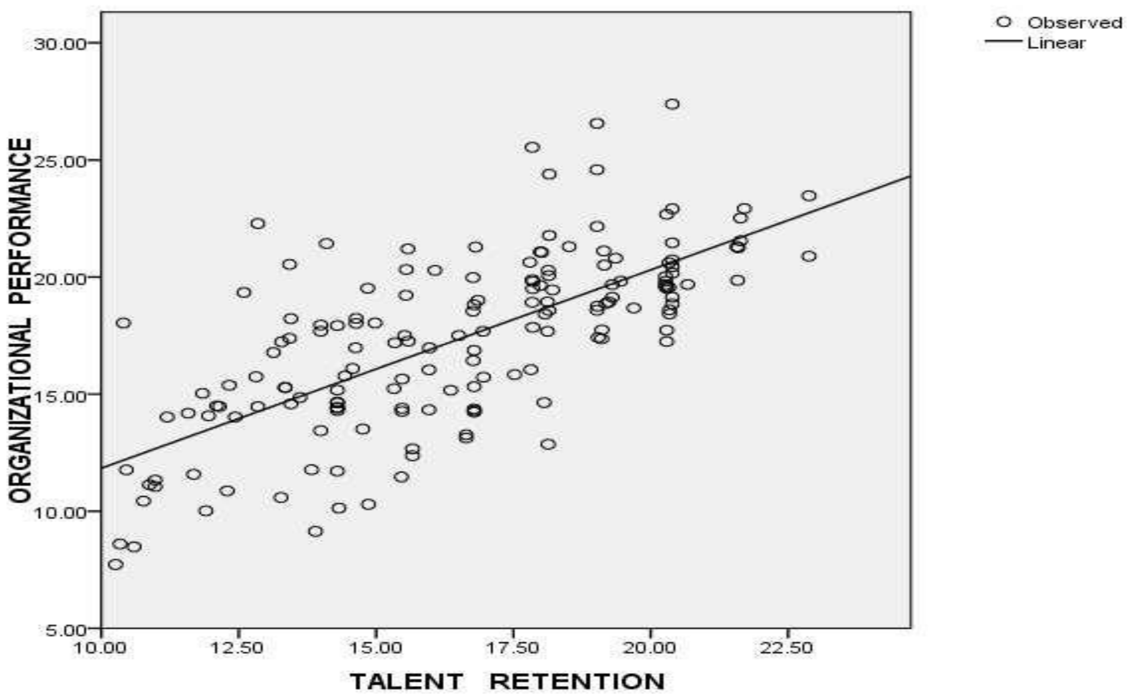



**Figure 3: Linear Relationship between Talent retention and Organization Performance**

Regression analysis was conducted to empirically determine whether talent retention was a significant determinant of organization performance listed companies. Regression results in table 4 indicate the goodness of fit for the regression between organization performance and talent attraction was satisfactory. An R squared of 0.489 indicates that 48.9% of the variances in the talent retention by listed companies are explained by the variances in the organization performance.

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 3No.5, pp 56-68, 2017 www.iprjb.org

The correlation coefficient of 69.9% indicates that the combined effect of the predictor variables have a weak and positive correlation with organization performance.

**Table 4: Model Summary for Talent Retention**

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

The overall model significance was presented in table 5. An F statistic of 153.182 indicated that the overall model was significant. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). The probability of (0.000) indicated that there was a very low probability that the statement "overall model was insignificant" was true and it was therefore possible to conclude that the statement was untrue.

**Table 5: ANOVA for Talent Retention**

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

Table 6 displays the regression coefficients of the independent variable (talent retention). The results reveal that talent retention is statistically significant in explaining organization performance of listed companies. The regression results were used to test the null hypothesis " H0: There is no relationship between talent retention and organizational performance in companies listed in the NSE." The null hypothesis was rejected at 0.05 level of significance. This implies that there is a relationship between talent retention and organizational performance in companies listed in the NSE

**Table 6: Regression Coefficient for Talent Retention**

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

**5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS 5.1 Summary of Findings**

Results indicated that the listed companies had applied talent retention at the workplace and this may have affected organizational performance.

The study showed that the respondents agreed that they used effective leadership style and that they were careful on how they handled employee issues; the company ensured their company image remained good all the time in order to retain their talented employees, their company had competitive compensation system in comparison to other organizations in the same industry which was a motivating factor to our employees, they had internal recruitment policy that helped to raise the loyalty and morale of their employees, their company flexible working hours was a motivating factor to their employees , their company ensured employee were satisfied and motivated all the time and that their company offered attractive non-monetary rewards to employees.

### 5.2 Conclusion

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

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

### 5.3 Recommendations of the Study

It is recommended that listed firms with poor talent retention practices need to improve as an improvement in talent retention practices contributes positively to organizational performance.

### 5.4 Areas for Further Research

The study suggested that further studies focusing on talent management should be conducted in non listed firms.

## REFERENCES

Adams, J.S. (1965). 'Inequity in social exchange', *Adv. Exp. Soc. Psychol.* 62:335-343.

Baheshtiffar maliken, Role of career competencies in organization *European journal of economics, finance and administrative sciences*, issue 42, 2011.

Chikumbi, C.N. L. (2011). *An investigation of talent management and staff retention at the bank of Zambia*. Unpublished thesis (Dept of Business Administration). Nelson Mandera Metropolitan University.

CIPD (2010). *Annual survey report: learning and talent development*. Retrieved 25th May 2013Fromhttp://www.cipd.co.uk/NR/rdonlyres/BC060DD1-EEA7-4929-91421AD733F95E7/5215Learningtalentdevelopmentsurveyreport.pdf-annual

Devine M,Powel (2008)talent management in public sector .Ashridge sbusiness School .Htttp/www.ashridge .org.UK.

Echols, M. (2007). Winning the turnover war. Retrieved 20th May 2013 from www.talentmgt. .com

Gara, R. (2007). 'Talent management in Egypt.' Paper prepared for presentation at the Global Talent management Centre, July.

Gardner, T.M. (2002). 'In the trenches at the talent wars: competitive interaction for scarce human resources', *Human Resources Management*, Wiley periodicals *41*, 225–237

Hartman Evi,Faisel Ema &Schober Hoiger (2010)talent management of western MNCs in China ;balancing global integration and local responsivess ;*journal of world business* 45(2)169-178.

Heinen Stephen J and Colleen O'neill (2004) *managing Talent to maximize performance*.Published onlinein wiley interscience .www.interscience willey .com.Retrived on 15th October 2013.

Herzberg, F. (1966). *Work and the nature of man*. Cleveland: World.

Kenani, D.M. (2011). '*Strategic options to human resource challenges in geothermal operations in Kenya*. PROCEEDINGS, Kenya Geothermal Conference 2011 Kenyatta International Conference Centre, Nairobi, November,

Lockwood, N.R. (2006). '*Talent management: Driver for organizational success', research Quarterly*, Society for Human Resource Management.

Lockwood, T. & Walton, W. (2008). *Developing an Innovative Organization*. Allworth Press,New York.

Nzuve N.M Stephen(2007)*Elements of organizational Behaviour* .University of Nairobi press.

O'Callaghan, A. (2008). *Talent management review*. Retrieved 2nd June 2013 from http://wwwFasset.rog.za/downloads/events/talent_man_sdf_long_articvle_website.pdf

Poorhosseinzadeh, M. & Subramaniam, I.D. (2012). 'Determinants of successful talent management in MNCs in Malaysia', *Journal of Basic Applied Science Research*, 2: 12

Sara Ballesteros R.and Inmaculada De la Fuente(2010)*Talents ;the key for successful Organization.* Unpublished thesis, Linnaeus School of Business &Economics ,Linnaeus University.

Stahl, K. G., Björkman, I., Farndale, E., Morris, S. S., Paauwe, J., Stiles, P., Trevor, J., & Wright, M. P. (2007). *Global talent management: How leading multinationals build and sustain their talent pipeline. INSEAD*, 34 p.

Vaiman V. & Vance C.M. (2008). *Smart talent management: building knowledge assets for competitive advantage.* Edward Elgar Publishing Ltd.