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Determinants of employee retention in Nepalese commercial banks

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Abstract

Employee retention remains a critical concern for Nepalese commercial banks amidst increasing competition and a rapidly evolving labor market. This study investigates the determinants of employee retention, focusing on compensation, career opportunities, training and development, work-life policies, and organizational prestige. The research employs a descriptive and causal-comparative design, analyzing data collected from 226 officers and assistants across two major banks using structured questionnaires. Findings indicate that compensation, career opportunities, and organizational prestige significantly influence retention, underscoring the importance of fair pay, career advancement prospects, and a positive organizational image. Conversely, training and development programs showed a negative impact on retention, suggesting misalignment with employee expectations. The study also highlights the moderating effects of demographic variables, such as age, gender, and job position, on retention outcomes. These results provide strategic insights for policymakers and practitioners, emphasizing the need for competitive compensation packages, effective career development programs, and supportive work environments to enhance employee retention. The study's findings offer a foundation for addressing retention challenges and promoting long-term stability and growth in Nepal's banking sector. Future research should expand to diverse industries and regions, integrating longitudinal studies for deeper insights into retention strategies' long-term impacts.

Keywords: Employee retention, compensation, career opportunities, training and development and organizational prestige

Introduction

Employee retention remains a critical concern for organizations across industries, including Nepalese commercial banks. With the increasing competition in the banking sector and a rapidly evolving labor market, the ability to retain skilled employees has become essential for maintaining organizational stability and achieving long-term growth. Employee turnover, whether voluntary or involuntary, poses significant challenges to productivity, operational continuity, and financial health. Moreover, the high costs associated with recruitment, onboarding, and training further emphasize the need for effective retention strategies.

In Nepal, the banking sector serves as a key driver of economic development, providing essential financial services and employment opportunities. Despite its importance, the sector faces persistent issues related to employee dissatisfaction, turnover intentions, and limited career growth opportunities. The study underscores the importance of identifying the determinants of employee retention in this context to address these pressing challenges and enhance organizational performance.

Research Problem

Employee turnover is a significant issue affecting the banking industry in Nepal. High attrition rates not only disrupt business operations but also incur substantial costs related to hiring and training replacements. The lack of robust retention strategies exacerbates the problem, particularly when employees perceive a lack of career advancement, inadequate compensation, or an unfavorable work environment. The banking sector's reliance on human capital highlights the need for targeted interventions to address these challenges.

Retention challenges are influenced by both voluntary factors, such as career opportunities and work-life balance, and involuntary factors, such as layoffs or organizational restructuring.

Understanding these dynamics is crucial for developing effective strategies to retain valuable employees, reduce turnover rates, and improve organizational outcomes. This study aims to investigate the key determinants of employee retention in Nepalese commercial banks. It seeks to achieve the following objectives:

1. Identify the factors that influence employee retention, including compensation, career opportunities, training and development, work-life policies, and organizational prestige.
2. Evaluate the current retention practices adopted by Nepalese banks.
3. Analyze the moderating effects of demographic variables such as age, gender, and job position on employee retention.

The hypotheses for this study were developed to investigate the relationship between organizational factors and employee retention in Nepalese commercial banks. These hypotheses are structured to explore the influence of compensation, career opportunities, work-life policies, organizational prestige, and training and development on employee retention. They are as follows:

Compensation and Retention

Alternative Hypothesis (H1): Compensation significantly affects employee retention. Employees who perceive their compensation packages as fair and competitive are more likely to remain committed to their organization.

Career Opportunities and Retention

Alternative Hypothesis (H1): Career opportunities have a positive influence on employee retention. Providing clear pathways for career advancement reduces turnover intentions and fosters long-term employee commitment.

Work-Life Policies, Organizational Prestige, and Retention

Alternative Hypothesis (H1): Work-life policies and organizational prestige play a crucial role in retaining employees. Flexible work arrangements, supportive work environments, and a reputable organizational image enhance retention rates.

Training and Development and Retention

Alternative Hypothesis (H1): Training and development programs significantly affect employee retention. The alignment of training programs with employee expectations and career goals positively impacts retention outcomes.

These hypotheses provide a foundation for analyzing the determinants of employee retention and identifying actionable strategies to address retention challenges in the Nepalese banking sector.

Literature Review

Theoretical Review: Several theories provide a conceptual framework for understanding employee retention.

Social Exchange Theory (SET): This theory posits that retention is influenced by reciprocal relationships between employers and employees. Organizations that invest in employee well-being through rewards, recognition, and career opportunities foster a sense of loyalty and commitment, reducing turnover intentions (Thibaut &

Kelley, 1959; Coyle-Shapiro & Conway, 2005) ^[15, 5].

Maslow's Hierarchy of Needs: According to Maslow (1943, 1954) ^[10], human needs are arranged in a hierarchy, ranging from basic physiological needs to self-actualization. Organizations that address safety, belongingness, and growth needs through supportive policies and career development programs enhance employee satisfaction and retention (McLeod, 2007) ^[11].

Equity Theory: Equity Theory (Folger, 1965) ^[6] emphasizes the importance of perceived fairness in reward allocation. Employees compare their inputs, such as effort and skills, with the outcomes they receive (e.g., pay, benefits). Perceptions of inequity can lead to dissatisfaction and increased turnover (Beardwell & Clark, 2007) ^[3].

Expectancy Theory: Vroom's Expectancy Theory (1964) ^[16] suggests that employee motivation is influenced by the belief that effort will lead to desired performance and rewards. Aligning organizational goals with employee expectations fosters motivation and retention (Klitzner & Anderson, 1977) ^[9].

Herzberg's Two-Factor Theory: Herzberg (1959) ^[8] identified intrinsic motivators (e.g., achievement, recognition) and extrinsic factors (e.g., pay, work conditions) as key determinants of job satisfaction. Providing meaningful work and opportunities for personal growth positively impacts retention (Armstrong, 2009) ^[2].

Empirical Review

Extensive research highlights various factors influencing employee retention. Studies emphasize the role of compensation, career development, and organizational culture in reducing turnover rates. For instance, Ghimire *et al.* (2023) ^[7] and Subedi *et al.* (2023) ^[13] identified organizational prestige, work-life balance, and competitive compensation as critical determinants of retention in Nepalese banks. Similarly, Al Jamil *et al.* (2022) ^[1] found that job satisfaction mitigates workplace stress, enhancing employee loyalty.

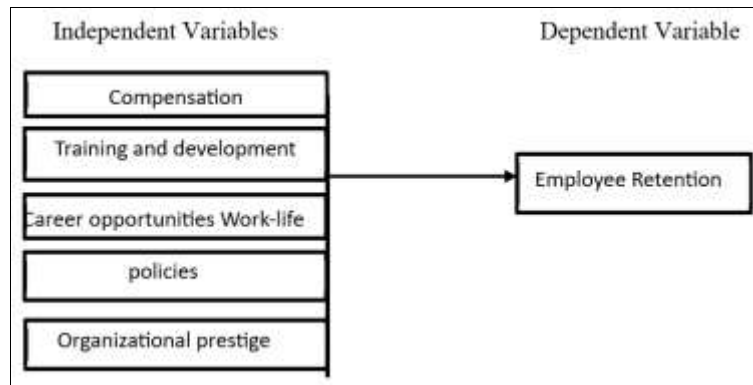
Other studies underscore the significance of demographic factors, such as age and tenure, in shaping retention outcomes. Research by Shrestha and Parajapati (2024) ^[14] revealed that recruitment practices, pay structures, and career management strategies significantly influence retention rates in Nepalese banks.

Research Gap: While existing studies provide valuable insights into employee retention, there is limited research focused on Nepalese commercial banks. Moreover, few studies integrate demographic and organizational factors into a single model, creating an opportunity for further exploration.

Theoretical Framework

The theoretical framework is presented as follows:

- **Independent Variables:** Compensation, Training and Development, Career Opportunities, Work-life Policies, Organizational Prestige
- **Dependent Variable:** Employee Retention
- On the basis of theoretical framework this article used following conceptual model was used for the study.



Methodology

Research Design

The study employs a descriptive and causal-comparative research design to evaluate the relationships between independent variables, such as compensation and training, and employee retention. This approach allows for a comprehensive analysis of the causal factors influencing retention in Nepalese banks.

Population and Sample

The target population includes 518 officers and assistants employed at Prime Bank and Global IME Bank International. A purposive sampling technique was used to select a representative sample of 226 respondents, ensuring diversity in demographic characteristics.

Data Collection and Instrumentation

Primary data was collected using a structured questionnaire based on a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree." The questionnaire was pre-

tested for validity and reliability, with Cronbach's alpha values exceeding 0.7 for all constructs. Secondary data from peer-reviewed journals and industry reports informed the questionnaire design.

Data Analysis Tools

The study utilized SPSS software for data analysis. Descriptive statistics summarized respondent profiles, while correlation analysis explored relationships between retention factors and turnover intentions. Regression analysis assessed the impact of independent variables on retention, providing robust insights into the determinants of employee retention.

Results

Reliability Analysis

Reliability analysis confirmed the internal consistency of the questionnaire. Cronbach's alpha values for compensation 0.807 and retention 0.704 which is more than 0.51 demonstrated acceptable reliability, validating the constructs for further analysis (Nunnally,1978) [12].

Table 1: Correlation Analysis

Variables	Employee Retention	Compensation	Career Opportunities	Training and Development	Work-Life Policies	Organizational Prestige
Employee Retention	1.000	0.950**	0.519**	0.045	0.378**	0.739**
Compensation	0.950**	1.000	0.432**	0.031	0.402**	0.652**
Career Opportunities	0.519**	0.432**	1.000	0.128	0.501**	0.321**
Training and Development	0.045	0.031	0.128	1.000	0.098	0.204
Work-Life Policies	0.378**	0.402**	0.501**	0.098	1.000	0.472**
Organizational Prestige	0.739**	0.652**	0.321**	0.204	0.472**	1.000

Note: $p < 0.01$, $p < 0.05$

The correlation analysis provided insights into the strength and direction of relationships among the studied variables. As presented in Table 1, organizational prestige exhibited the strongest positive correlation with employee retention (0.739, $p < 0.01$). This suggests that employees who perceive their organizations as prestigious are more likely to remain loyal. Compensation also demonstrated a very strong positive correlation with retention (0.950, $p < 0.01$), underscoring its critical role in shaping employees' decisions to stay.

On the other hand, training and development showed a weak correlation with retention (0.045), indicating limited influence. Career opportunities (0.519, $p < 0.01$) and work-life policies (0.378, $p < 0.01$) displayed moderate positive correlations, highlighting their importance in fostering employee commitment.

Regression Analysis

The regression analysis evaluated the predictive influence of

the independent variables-compensation, career opportunities, training and development, work-life policies, and organizational prestige-on employee retention. The results are summarized in Table 2 below.

Table 2: Regression Analysis

Predictor Variables	Beta	Std. Error	t-value	p-value
Constant	1.216	0.175	6.953	<0.01
Compensation	0.198	0.045	4.356	<0.01
Career Opportunities	0.321	0.057	5.588	<0.01
Training and Development	-0.251	0.037	-6.762	<0.01
Work-Life Policies	0.148	0.028	5.218	<0.01
Organizational Prestige	0.332	0.037	9.022	<0.01

Model Summary

R²: 0.821, F-statistic: 90.857 and p-value: <0.01

The regression analysis highlights organizational prestige as the most influential factor in employee retention, with a beta coefficient of 0.332 ($p < 0.01$). Career opportunities (beta = 0.321, $p < 0.01$), compensation (beta = 0.198, $p < 0.01$), and

work-life policies ($\beta = 0.148$, $p < 0.01$) also significantly and positively influence retention. Conversely, training and development negatively impacts retention ($\beta = -0.251$, $p < 0.01$), suggesting potential areas for improvement. The model explains 82.1% of the variance in employee retention ($R^2 = 0.821$), indicating a robust fit.

Discussion

The study highlights the critical role of organizational prestige in retaining employees. A positive organizational image fosters loyalty and commitment, reducing turnover intentions. Compensation and career opportunities also emerged as significant factors, reinforcing the importance of competitive pay structures and growth prospects. The negative impact of training and development on retention raises concerns about the effectiveness of current programs. Organizations must review their training initiatives to ensure they align with employee needs and career goals. The findings suggest that addressing these gaps can enhance employee satisfaction and retention outcomes.

Conclusion

Employee retention in Nepalese commercial banks is influenced by a combination of organizational and demographic factors. The study confirms the significance of compensation, organizational prestige, career opportunities, and work-life balance in shaping retention outcomes. These findings provide valuable insights for policymakers and practitioners seeking to address retention challenges in the banking sector.

Limitations and Implications

Limitations

The study is limited to two banks, restricting the generalizability of the findings. Additionally, the reliance on self-reported data introduces potential biases, while the scope of variables considered may not capture all factors influencing retention.

Implications for Future Research

This study highlights key implications for future research and policy-making to address employee retention challenges. Future research should expand its scope to include diverse industries and regions, providing more generalizable insights. Longitudinal studies can offer a deeper understanding of the long-term impacts of retention strategies, while focused investigations into the effectiveness of specific training programs can address existing gaps.

On the policy front, enhancing organizational prestige through strategic branding and employee recognition is crucial for attracting and retaining talent. Competitive compensation packages and well-structured career development programs aligned with employee aspirations can significantly improve retention. Promoting work-life balance through flexible policies and supportive environments is equally important. Additionally, refining training programs to better address employee needs and career goals will further strengthen organizational commitment. These strategies provide a clear pathway for Nepalese commercial banks to build a stable, satisfied, and loyal workforce.

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