The Role of Human Capital Management in Enhancing Engagement and Retention Among Top Talent in Organization: A Critical Literature Review

Roshidi Hassan*

Arshad Ayub Graduate Business School, Faculty of Business and Management, Universiti Teknologi MARA Selangor, Malaysia

Abstract

In this challenging global economic, organizations are fighting in the war of talent to remain competitive. It is no doubt that the role of human capital management (HCM) is the upmost important for organization and there are many aspects of HCM that can be applied and used by human capital practitioners. On the other hand, the organization needs to understand the many aspects of HCM and try to link it in order to make employees engage and retain in the organization especially the top talent. Employees who are engaged are said to become more committed to the organization and thus build some emotional link between the employees and employer, which in turn lead to retention. Detailed literature review was undertaken to explore the role of HCM in enhancing engagement and retention among the top talent. Through the literatures reviewed, it was found that several HCM practices such as creating great work environment, encouraging positive discretionary behaviour, and competitive reward and recognition had actually help in enhancing employee’s engagement. While some HCM practices also such as equitable reward package, continuous training and development program, and fair performance appraisal significantly contributed to employee’s retention. Hence, this paper will focuses on discussing the role of HCM as a vital component to enhance engagement and retention of top talent based on findings and suggestions from reviewing the vast literatures.

Keywords: Human capital management; Enhancing engagement; Retention; Top talent.

1. Introduction

In the current global marketplace, organization around the world has acknowledged the important role of human capital management (HCM) in ensuring the competitive advantage and survival of the organization through the effective management of its human resources. Hence, human resources are the biggest assets of organization that need to be managed effectively (Baron & Armstrong, 2007) and an investment in training and education can further increase the quality of organization’s human capital. The term human capital management is the extension of the human resource management and has been used...
interchangeably by practitioners. Also, the emergence of this concept contemplates employees with their knowledge, experience, education, personality and behavior as a source of competitive advantage that is essential in the current global and knowledge based economy (Afiouni, 2009).

The role of HCM can be seen in terms of enhancing engagement and commitment of the employees. Hence, when employees are committed to their work and motivated to achieve high level of performance that is where job engagement takes place and on the other hand, identification with goals and values of the organization, a desire to belong to the organization and a willingness to display effort on its behalf is what organizational commitment been defined (Baron & Armstrong, 2007). Furthermore, Eyre (2012) stated the KPMG (2012) survey that shows people matters are among the top five concerns for business leaders and based on Smythe (2007) the idea of including the right people in right places at the right time in right way is the first and foremost a management philosophy called employee engagement. Ideally, according to Swarnalatha & Prasanna (2013), “the challenge today is not just retaining talented people, but fully engaging them, capturing their minds and hearts at each stage of their work lives.” On the other hand, Aon Hewitt study (2011) demonstrated that there is an emotional link between the employee and their organization nurtured by employee engagement and this link ultimately assists in retention. Furthermore, employees must be viewed as internal customers of management and resulted in a more proactive approach to employee retention rather than a reactive response to turnover through providing insight and value for managers (Cardy & Lengnick-Hall, 2011).

1.1 HCM and Engagement

There are broad definitions presented by many scholars about work engagement. Kahn (1990, 2010) described engagement as the harnessing of people’s selves to their work, such that they fully invest their physical, cognitive, and emotional resources in their work roles. Principally, energy, involvement and a focused striving towards the achievement of organizational goals is the manifestation of work engagement (Macey & Schneider, 2008; Schaufeli et al., 2002). However, notwithstanding slightly different perspectives, there are core cohesions concerning Kahn (1990) and Schaufeli et al. (2002) conceptualizations and measures of engagement (Schaufeli, 2014). According to Schaufeli, both share the same physical-energetic (vigour), emotional (dedication), and cognitive (absorption) components and with reference of (Bakker et al., 2011) energy, involvement and a willingness to contribute to organizational success are yet core to the construct. Christian et al., (2011) furthered explained that intensity of focus on the task and the decision to invest personal resources toward the tasks to be the two main characteristics need to consider when differentiating the concept in operationalization. Relatedly, employee engagement according to Swarnalatha & Prasanna (2013) is the extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a result of that commitment.

1.2 Creating a great environment at work

Subsequently, the role of HCM in enhancing employees’ engagement is essential as the employees are the backbone of the organization’s survival. There are the most important assets and their tasks at the workplace need to be prioritized effectively (Dash, 2013). Furthermore, organization can be perceived as ‘a great place to work’ when employees engagement is enhanced (Baron & Armstrong, 2007). Thus, the role of HCM is to create a great place to work for the employees. Purcell et al. (2003) on their basis of longitudinal research of 12 companies concluded that:
“What seems to be happening is that successful firms are able to meet people’s needs both for a good job and to work ‘in a great place’. They create good work and a conducive working environment. In this way they become an ‘employer of choice’. People will want to work there because their individual need are met - for a good job with prospects linked to training, appraisal and working with a good boss who listens and gives some autonomy but helps with coaching and guidance”. Hence, Baron & Armstrong (2007) stated some criteria in identifying ‘The 100 best companies to work for 2005, among others were: leadership at senior management level; ‘my manager’ – local management on a day-to-day basis; personal growth – opportunities to learn, grow and be challenged; well being – balanced work-life issues; ‘my team’ – immediate colleagues; giving something back – to society and the local community; ‘my company’ – the way it treats staff; and ‘fair deal’ – pay and benefits.

According to Baron & Armstrong (2007), the above criteria must be taken into consideration in initiating the HR policies and programmes and further providing guidance and advices to develop the image of organization so that it is known as one that achieved results, delivers quality products and services, behaves ethically and provides good conditions of employment. Additionally, Aon Hewitt (2011) reported that best employer organizations have higher employee advocacy and display the following characteristics: strong organizational alignment; better growth and development opportunities; address needs by employee segments; strong belief in importance of HR function; and culture of reward and recognition.

On top of that, Stevens-Huffman (2011) postulates that enablement and energy are two critical elements in order for employee engagement to ensue. Enablement exists when employees have the necessary support and tools to work efficiently and effectively over time and on the other hand, energy arises from a healthy work environment that supports employees’ physical, social and emotional well-being. Moreover, the role of line managers is important in ensuring employee engagement as Bratton and Gold (2007) remark, “at the heart of the learning climate or learning environment lies the line-manager-employee relationship. A line manager can create a positive approach to lifelong learning”. Thus, the communications with team members, behavior, emotion and assertiveness vital to engender positive interactions for the employees. Likewise, people need to be led so they are fully engaged with their work (Kusuma & Sukanya, 2013).

Consequently, the importance of coaching and mentoring by managers and their ability to help employees to understand his potential and lead to developmental plan is a big enabler for an employee and this has been supported by Megginson & Clutterbuck (1995) in Bratton & Gold (2007) that mentoring is the assistance given by one person to another person to find new meaning in work and life though it is more of a long term approach as compared to coaching.

1.3 Positive discretionary behavior

As explained by Baron & Armstrong (2007), there is a close link between high levels of engagement and positive discretionary behavior and according to Keenoy (2014) it encompasses the willingness of an employee to employ discretionary effort to completing tasks important to the achievement of organizational goals. Positive discretionary behavior indicates to the choices that people have at work on the way they do the job and the amount of effort, care, innovation and productive behavior they exhibit (Purcell et al., 2003). It can be seen either in positive way as people ‘go extra mile” to achieve high level of performance or in a negative way as people employ their discretion to be inattentive at their work.
Additionally, it is tough for the employer to define, monitor and control the amount required but something for sure is that positive discretionary behavior can be expected when people are engaged at their work. Pertaining to this matter, some suggestions has been made Purcell et al. (2003) on discretionary behavior such as: performance-related practices only work if they positively induce discretionary behavior, once basic staffing requirements have been met; discretionary behavior is more likely to occur when enough individuals have commitment to their organization and/or when they feel motivated to do so and/or when they gain high levels of job satisfaction; commitment, motivation and job satisfaction, either together or separately, will be higher when people positively experience the application of HR policies concerned with creating an able workforce, motivating valued behaviors and providing opportunities to participate; this positive experience will be higher if the wide range of HR policies necessary to develop ability, motivation and opportunity are both in place and are mutually reinforcing; the way HR and reward policies and practices are implemented by frontline managers and the way top-level espoused values and organizational cultures are enacted by them will enhance or weaken the effect of HR policies in triggering discretionary behavior by influencing attitudes; and last but not least the experience of success seen in performance outcomes helps reinforce positive attitudes.

Eventually, an understanding of innate human drives and what people value and view as important vitalize employee engagement in a manner that is meaningful and motivating way (Mielach, 2012). Similarly, Gallup Business Journal (2012) in its research discovers that workplace friendship promotes innovation. About three fourth’s of engaged employees strongly agreed that they felt more comfortable sharing new ideas with colleagues who they treat as their friends.

1.4 Reward and recognition

Mielach (2012) expressed the opinion that less engaged and less productive people are the one who do not feel properly rewarded and Markos & Sridevi (2010) pointed out that both managers should consider both financial and non-financial benefits for employees who show more engagement in their jobs. Hence, by adopting the total reward policies as part of HCM, it can help organization to enhance employee engagement and productive discretionary behavior (Baron & Armstrong, 2007). This can be realized by combining the transactional rewards – tangible rewards concerning the pay and benefits arising from transaction between the employer and employees and also relational rewards – intangible rewards concerned with learning and development and the work experience (Baron & Armstrong, 2007). Further, Baron and Armstrong stated that the total reward methodology is holistic and taken into account every aspects in which people can be rewarded and attain satisfaction through their work. Thus, it aims to maximize the combination of impact on variety of reward initiatives on motivation, job engagement and organizational commitment.

In addition to the total reward policies, Baron & Armstrong (2007) suggested a model total reward developed by Towers Perrin in Armstrong & Brown (2006) as depicted in Figure 1. The upper two quadrants: pay and benefit crucial to recruit and retain staff but imitative to competitors by which denote the transactional rewards that are financial in nature. Unlike the lower two quadrants, it is difficult to duplicate as it represent relational (non-financial) rewards and it can be used to increase the upper two quadrants. Hence, the organization can gain true power when it can combine both the relational and transactional reward (Thompson, 2002).
Besides that, Jauhari et al. (2013) demonstrated that recognition of employees also vital in engaging employees. In her research, Lupfer (2012) identified that 69 percent of employees would work harder if they are recognized for their performance while 49 percent of employees would leave their jobs for a company that recognizes performance. Likewise, 89 percent of the engaged employees believe that their managers would advocate them in front of their customers and upper management. Moreover, as explained by Jauhari et al. (2013) another substance factor is compensation. They stated that recognition of employees could be exhibited in terms of share options offered to employees or other bonuses. Also, another way to engage employees is through displaying a caring attitude of the employer by establishing childcare facilities or flexible work hours.

![The Tower Perrin Model of Total Reward](image)

Fig.1. The Tower Perrin Model of Total Reward

1.5 HCM and Retention

As organization recently operating in the decade of globalization and facing the war of talent thus high performing employees necessary to be retained (Gentry et al., 2007) and failing to do that Rappaport et al. (2003) stated that will either be understaffed or faced with a low performing work force with the
approaching retirement of “Baby Boomers”. In particular, firms need to redefine retirement and transform management and human resource practices in order to attract and retain workers of all ages and backgrounds (Dychtwald et al., 2006). Furthermore, Cardy & Lengnick-Hall (2011) argued that retaining valuable employees must be one of the top priorities that industry leaders must adopt if sustainable competitive advantage want to be achieved through human capital and Chen (2014) postulated that in the current working environment, organizations have acknowledged the important role of human capital and they are more aware of the fact that it is of significant importance to keep their talented employee in the organization. Also, (Gentry et al., 2007) claims that companies can direct their resources for development and performance enhancing efforts through retention of employees. On the other hand, Chaminade (2007) considered retention voluntary move by an organization to create an environment which engages employees for long term.

Lockwood (2006), lamented that retention is “the implementation of integrated strategies or systems designed to increase workplace productivity by developing improved processes for attracting, developing, retaining, and utilizing people with the required skills and aptitude to meet current and future business literature needs” that serves as a precarious element of organization’s general approach to talent management. Also, Hausknche et al. (2009) commented that this definition thus entails the importance of talent management programs as part of HCM and should be directed towards the organization’s success. Furthermore, the competitive advantage of an organizations can increase if it can retain outstanding talent for a long period of time but when human capital is high, individuals find it easier to tap its value by moving around the labor market, making it difficult to retain the best talent thus proved that human capital is by nature embedded in individuals who can move freely between organizations (Wei, 2015). Thus, losing a talented employees can have a significant impact on organizational performance (ALDamoe et al., 2013) and negatively affected from the operational to the strategic level (Cardy & Lengnick-Hall, 2011). According to Chen (2014), employee retention is a critical problem that exists for all types of organizations. This is because employee retention helps to keep the knowledge from going out from the organization and created a knowledge gap. Thus, if turnover of talented employees is high, organization will face loss particularly in reduction organizational performance. Hence, it is rather indispensable for the organization to analyze the reason of employee turnover and come up with possible employee retention solutions in order to preserve the human capital.

Subsequently, as identified by Anonymous (2011), rewards, autonomy and image must be develop as the retention strategies in order to keep talented individuals in the focus to keep people in organization. Efforts to maximize retention on board. Nevertheless, according to Cardy & Lengnick-Hall (2011) there are differences are consistent with a concern for employees and a desire to make the organizational environment as “sticky” as possible in order to keep employees. Efforts to minimize turnover, on the other hand, can be seen as motivated to reduce or avoid a cost. As identified by Kakar et al. (2015), employee retention refers to the ability of the organization to retain its employees. Thus, organization attempts to make policies that are aimed to meet the needs of the employees, enhance their job satisfaction, encourage and motivate them in order to maintain such an environment that supports staff to remain within the organization for this purpose. Moreover, it is rather important and challenging to retain those employees although hiring of competent employees is also crucial. Employee Retention involves taking measures to encourage employees to remain in the organization for the maximum period of time (James & Mathew, 2012).
1.6 Reward

To have a better understanding on the role of reward in enhancing retention, the earliest model of turnover by Porter and Steers (1973) presented that several work-related and personal factors were important antecedents of turnover and this was the first major updates to the March and Simon model and asserted. According to Porter and Steers, extrinsic rewards (e.g., pay, benefits) and advancement opportunities two of their five dimensions in the model should be related to staying because employees are sensitive to receiving fair rewards for their efforts and may leave when opportunities to receive greater rewards exist elsewhere. Furthermore, the earliest work of Price & Mueller (1981) contribute to the model of distributive justice which drawn form the equity theory that suggested employees would be satisfied (and thus more likely to stay) if they felt that the outcomes they received reflected the effort and other inputs that they had invested.

Similarly with engagement, the role of HCM to enhance retention includes reward to help keep talented individuals on board and Anonymous (2011) explained that the customary way to fulfill the desire of employee to know that their contributions are properly acknowledged are by offering a generous pay and benefits package. However, in order to ensure that employees are satisfied and motivated, the rewards must be attractive. It can be done by ensuring that pay levels are suitable to rank and it is rather imperative in relation to whether to stay or leave. Reward also has been confirmed as a primary retention factor after job satisfaction in the study done by Hausknecht et al. (2009) which involves employees from leisure and hospitality industries. Based on the findings of Mathis & Jackson (2004) it can be concluded that retention of talents are influenced by a balanced, transparent and competitive reward and competition systems.

Similarly, Taylor et al. (2010) stated that employment is a relationship in which individuals trade effort and loyalty for tangible benefits and social rewards provided, or at least facilitated by the employer and this explained the basic ideology of social exchange theory. However, there is also a growing consensus that competitive, or even generous compensation will not single-handedly guarantee that a company will be able to keep its most valuable employees even though there is a general agreement about the importance of competitive compensation for employee retention (Samgnanakkan, 2010).

1.7 Training and Development

Researchers have long debated the correlation between training and development and retention. Specifically, Gruber & Madrian (1994) postulates that human resource practices benefits and training as the motivator these practices “lock” the employees or retain them to the job. According to them, these practices are negatively related to turnover and have positive effect on employee retention. Alternatively, with the aim to reduce employee turnover and stimulate retention, organization consider training and development as an investment which yield to tangible outcome such as enhanced productivity, superior quality products and services, resource maximization or optimization and intangible result such as high self esteem, enhanced morale and satisfaction of subordinates ALDamoe et al. (2013) together with other enormous benefits (Blair & Sisakhti (2007). Wimbush (2005) stated that training and development expressively encourage social networks between members and indirectly lead to competitive advantage while Castrogiovanni & Kidwell (2010) implies that workforce capabilities and current skills will be enhanced and improved for long term purposes with training implementation. Correspondingly, organization can create retention equity from investments in employee development, enhanced career
opportunities, socialization, and training besides advancing advance retention through employee investments in seniority, pension, and other financial tools (Black & Ashford, 1995). Simultaneously, Chen (2014) asserted that the core organization strategy influencing both employee retention and human capital growth is training and development. To keep those who have ambition to seek career advancement in their work, training and development n be seen as an incentive to enhance employee retention. Presently, employees are keen to learn more new things and taken up new tasks. Hence, training can make them realize the organization is helping them to achieve their career goal as well as motivate them to build organizational commitment and loyalty. Similarly, (Bashir & Long, 2015) postulates that with the intentions to of increasing organization performance, organizations are spending huge amount of money and resources to train their employees.

Suitably, Samgnanakkan (2010) claimed in his research that the essential determinants of employee retention are the human resource practices such as training, appraisal system, and compensation. According to the researcher, training has positive relation with employee retention and further regards training as an essential factor that motivates the employees and retains them in the organization and through it organizations invest on their employees to enhance their knowledge and skills that leads to their career development. Correspondingly, Tangthong et al. (2014) has found positive relationship between human resource management practices (compensation and benefits, reward system and training and development) on employee retention with employee engagement as mediating variable. Nonetheless, this study also contribute to other findings that training cannot stand alone to increase employee retention but rather be accompanying with other practices as well. Separately, the research done by Newman et al. (2011) in examining the effect of training on organizational commitment which will eventually effects employee turnover in multinationals of Chinese service sector suggested that training is essential in order to develop the commitment with organization as raining produces idea that can become a imperative asset to an organization.

On top of that, Anis et al. (2011), skills can become obsolete very fast as technology is changing rapidly. Hence, organizations need to give training to their employees to keep pace and sustain the competitiveness. According to the researchers also, training is defined as the planned intervention that is designed to enhance the determinants of individual job performance. The skills of employees should be develop and so the organizations must conduct an analysis and assessment on the need of training as well as identified what areas that need to be focus. According to the same study by Anis et al. (2011) which examined the relationship between training and retention of employees with compensation as the mediating variable, the researchers found out that employees tend not to retain without the increment in compensation after their training and development because the employees felt that there is an increase in their abilities and perfection in field.

Alternatively, (Bashir & Long, 2015) found out that there exist a positive relationship between availability of training and affective and normative commitment among academic staff in one of the public universities in Malaysia. This signifies that academic staffs are more likely to be emotionally attached, be loyal or morally obliged to remain with the organization whenever they felt that there is adequate access to training or there is a probability of attending training. Also, it leads to the perception that support for training by employer is a sign of care and recognition of their contribution.
1.8 Performance Appraisal

Employees’ performance is being evaluated through a mechanism called performance appraisal Khan et al. (2014); Phin (2015) by which, the fairness of appraisal system can motivate the employees, their commitment to work Khan et al. (2014), have control over the employees Arora (2013), maximized the intention to stay (Khan et al., 2014; Samgnanakkan, 2010) and that employees trust as being fair, both in terms of procedure and in terms of the potential benefits arising from such evaluations (Samgnanakkan, 2010). Gruman & Saks (2011) performance appraisal as a process through which employees are evaluated in accordance to their job performance that smooth the progress of career development Gruman & Saks (2011) and can spell out the job duties and responsibilities by focusing and emphasizing on organizational communication, shared values and objectives (ALDamoe et al., 2013). In determining on whether to stay or leave the organization, employee’s perception on performance appraisals is prominently important (Khan, 2013). By having the right performance appraisal organization can identify problems areas beforehand and reduce turnover costs Phin (2015), lead to job satisfaction which in turn increase the likelihood to stay loyal towards the organization or stimulate retention and Lee & Lee (2007); Rahman (2006) has confirmed the positive relationship between performance appraisal and organizational performance and accordingly, quality and productivity of firm performance and the increase of subordinate’s commitment enhanced by client-bases performance appraisal.

Therefore, several scholars have suggested that it is the utmost important for organizations to understand fairness or organizational justice in performance appraisal process and practices as it involves the relationship with employees’ job satisfaction and organizational commitment and, subsequently, their propensity to search for another job (Ahmed, Mohammad, & Islam, 2013; Sudin, 2011). Performance appraisal thus analyses the individual’s general involvement to the organization and his/her potential to attain higher position in the organization (Gruman & Saks, 2011). Separately, performance appraisal focus on flourishing good subordinate relationship through fair appraisal system Sudin (2011) and changing of appraisal process from measurements to raters in which rater put their decision about the performance in order to increase the accuracy of appraisal (Spence & Keeping, 2011). Nonetheless, problems also occurred from the evaluator/managers side in choosing their own way of carrying out an appraisal process instead of fairness (Sudin, 2011).

2. Conclusion

Conclusively, organization can further keep their talented employees by focusing on the role of HCM towards enhancing both engagement and retention. In this context, the role of HCM included the use of talent management, which consisted of several interventions that can be applied to give effect on engagement and retention. The elements of attracting, engaging and retaining employees must be considered as a strategic business priority. By fully utilize the human capital, management can focus on defining the role people play to execute that strategy by clearly communicating the business strategy to the workforce. Creating a well and positive environment to work in can keep employees engaged despite the rewards and recognition given to employees by the organization. Moreover, retaining the talented employees also need some extra effort by the organization as organizations are facing the war of talent in this recent globalization era. The human capital must be given such a good motivation to stay and be loyal. As such, they need to be developed by encouraging them to go for training, giving feedback on their performance to further improve themselves and last but not least to compensate them with appropriate reward be it in terms of tangible or intangible one.
References


