



Applying Partial Least Squares in Tourism and Hospitality Research

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Chapter 7

HRM Practices and Employee Retention: The Moderating Effect of Work Environment

Palwasha Bibi, Ashfaq Ahmad and Abdul H. A. Majid

Introduction

Hospitality is considered one of the fastest growing industries globally, because of its significant contribution to the economy, in Malaysia specifically and across the world generally (ILO, 2010, cited in Bharwani & Butt, 2012). Similarly, the influence of tourism industry in Malaysia to GDP is at MYR 167.5 Billion, 13.7% in 2016. In 2017, it is expected to increase to 4.2%, and to rise by 5.4% per annum, from 2017 to 2027, to MYR 295.6 Billion (15.9% of total GDP) in 2027, directly impacting the increase in employment opportunities (World Travel and Tourism council, 2017). This year, the Malaysian tourism industry accounts for 4.5% of national employment. In addition, it is expected to increase by 1.9% in 2017, and increase by 3.9% per annum to create 956,000 jobs in 2027. This growth in the tourism industry directly affects the demands in lodging (hotels, hostels, guesthouses), subsequently increasing the supply of rooms by 81%.

As a human-based industry, hospitality depends on humans as a part of the product, in which, the humans cannot be separated from the service process (Ghazali, 2010). Primarily, the hospitality industry strongly depends on the human factor and direct contact with customers. According to Bharwani and Butt (2012), employees have become very precious assets to hotel industry, playing a decisive role in enhancing the organizational image. In the competitive market environment of hospitality, retention of high performers is known as a key to delivery of service quality. Nevertheless, employee retention is still a major issue for the hospitality industry. Aksu (2004), Kuean, Kaur, and Wong (2010), and Proudfoot Consulting (2008) found that turnover rates have considerable passive effects on hospitality performance. It is costly for hotels' management to spend money and time on employees who leave a short time later after they go through the employment process.

The hotel industry faces not only difficulty in attracting suitable labor, but it also faces relatively high levels of turnover representing a significant loss of investment in employment process human capital, quality, and training (Davidson, Timo, & Wang, 2010). According to Deery and Shaw (1997) and Lashley and Chaplain (1999), hotel cost structure, workplace efficiency, and productivity are affected due to high turnover and lower retention of employees in hotels. According to the International Labour Organization (2003), the most frequently cited problems, which the hospitality industry faces, are low retention and shortage of committed and skilled employees. Annual labor turnover rates in Malaysia were approximately between 9.6% and 75%, which are extremely high (Malaysian Employers Federation, 2011). It is found that for the hospitality industry, the turnover rate is about 32.4%, suggesting that retention of skilled employees is becoming a major problem in hospitality industry.

Several factors have been suggested to be helpful in retaining employees. Among these factors, human resource management (HRM) practices such as compensation, training and development, and performance appraisal are known as of key importance. In order to retain employees, it is important that the organization uses proper HR practices, that is, compensation, training and development, and performance appraisal support (Walia & Bajaj, 2012). In an attempt to better explain why employees are less committed and retained in organizations, the use of proper HRM practices (i.e., compensation, training and development, and performance appraisal) were advocated (Saba, 2011; Sohail & Delin, 2013). Moreover, social exchange theory (SET) (Blau, 1964), also provides a basis for linking compensation, training and development, performance appraisal, and employee retention. When employees receive benefits from the organization, they, in turn, will repay the organization in the form of commitment and staying with it for a longer period of time (Liao, 2011).

In particular, this study will endeavor to contend how compensation, training and development, and performance appraisal are theoretically significant in improving employee retention, thus adding to the current literature on the part of compensation, training and development, and performance appraisal in employee retention. Moreover, this study offers a theoretical clarification on the part of work environment in moderating the association between compensation, training and development, performance appraisal, and employee retention. This chapter additionally explains that the past studies conducted on the role of HRM practices for influencing employee retention have conflicting results, proposing that a moderator may be liable to clarify better the relationship.

Literature Review

Employees' Retention

Employee retention is a process through which employees are motivated to stay in the organization for a longer period of time (Griffeth & Hom, 1995). According to Singh and Dixit (2011), employee retention refers to the different strategies and practices, which let the workers adhere to an institution for a longer period. The

scholarly debate on the employee retention stemmed from 1900s when scholars and psychologists began to identify various reasons that affected employee's level of interest in their job and possible opportunities (Rowland & Ferris, 1982). The problem of low retention is not new. It has always been a challenge for employers (Mathimaran & Kumar, 2017). The human resource is one of the valuable and significant resources for any organization (Bibi, Ahmad, & Majid, 2016). According to Ng'ethe, Iravo, and Namusonge (2012), retaining employees in their job is necessary, as they are the ones who can make the organization work in a vastly improved manner, keeping in mind the end goal to achieve competitive advantage. Akila (2012) argued that employee retention is very beneficial for all the organizations. Research showed that replacing an old employee with a new one increases operational costs in the form of new employees' training and filling vacancies (Dess & Shaw, 2001).

Previously, employee retention has been studied by different scholars. Lynn (1997) argued that to retain employees, the institute must provide career development opportunities that are more dynamic toward the accomplishment of their objectives and target. Denton (1992) contended that when there is good match between the organization and employee, it is easier to retain them. While Carney (1998) found communication as the basic factor for retaining employees. According to Tett and Meyer (1993), one of the main reasons to leave the organization is a psychological factor. Similarly, according to Mendonsa (1998), benefits and rewards provide the basis to achieve competitive advantage; however, these are also significant elements in retaining employees in the organization.

From the above literature, it can be concluded that although employee retention has been studied earlier, these studies lack comprehensiveness in explaining the antecedents of employee retention as most of them focus on different determinants rather than compensation, training and development, and performance appraisal. Therefore, based on the above discussion, the following research questions are developed:

- Is there any positive and significant relationship between compensation and employee retention?
- Is there any positive and significant relationship between training and development employee commitment?
- Is there any positive and significant relationship between performance appraisal on employee commitment?
- Does work environment moderate the relationship between compensation and employee retention?
- Does work environment moderate the relationship between training and development and employee retention?
- Does work environment moderate the relationship between performance appraisal and employee retention?

This study will explain how compensation, training and development, and performance appraisal are important in enhancing employee retention, thus contributing to the existing literature on the role of HRM practices in employee retention.

Compensation

Compensation is one of the main functions of HRM practices. In addition, it has been defined as the forms of pay going to employees arise from their employment (Dessler, 2007). Compensation is considered to be one of the main elements in employee retention. Bibi, Pangil, and Johari (2015) and March and Simon (1958) posited that when the compensation provided by the organization is no longer balanced with the contribution of the organizational members, individuals quit the organization. Bibi, Ahmad, and Majid (2016), Bibi, Pangil, Johari, and Ahmad (2017), and Harris and Brannick (1999) highlighted that compensation is the main factor in keeping employees retained for a longer period. Pay is the key feature of compensation that affects employee retention and attraction (Ahmad, Bibi, & Majid, 2016; Mathimaran & Kumar, 2017; Williams & Dreher, 1992). According to researchers, compensation helps to increase retention and decrease absenteeism (Arthur, 1994; Delaney & Huselid, 1996; Ichniowski, Shaw, & Prenzushi, 1997).

Previous studies have examined the effect of compensation on employee retention (Chiang & Birtch, 2010; Chickwe, 2009; Choi & Dickson, 2010; Hinkin & Tracey, 2010; Sturman, 2001). For instance, Kosoe (2010) studied the impacts of compensation on staff retention and found a significant relationship between them. In a similar study, Irshad (2000) examined the influence of compensation on employee retention. The results revealed a significant relationship between compensation and employee retention. Moreover, Nawab and Bhatti (2013), Saeed et al. (2013), Ramlall (2013) also found a significant relationship between compensation and employee retention. Thus, drawing from foregoing literature, the following hypothesis was formulated:

H1: There is a significant relationship between compensation and employee retention.

Training and Development

Training has been defined as a planned activity aimed at improving employees' performance by helping them realize an obligatory level of understanding or skill through the impartation of information (Forgacs, 2009). Training and development helps in increasing the level of commitment and loyalty of employees in order to stay for a longer period with the organization; hence, it decreases turnover and enhances retention (Samuel & Chipunza, 2009). Chang (1999) demonstrated that when an organization provides sufficient training and development opportunities, the employees are more satisfied (Ahmad, Bibi, & Majid, 2017); hence, they stay with the organization for a longer period. Similarly, SET (Blau, 1964) also supports this notion. According to Grace and Khalsa (2003) and Rosser (2004), training and development influences employees' level of job satisfaction, which, in turn, may affect their decision of staying with the organization. Similarly, according to Bashir and Long (2015), in today's rapidly developing global market, organizations are aware of the significance of training and

ready to spend on training programs to escalate the level of their employees' commitment.

In the same way, [Martin \(2003\)](#) mentioned that the organization that provides training to improve current employees' competency and skills, easily manages employee retention. Similarly, according to [Bibi, Ahmad, and Majid \(2018\)](#), [Bashir and Long \(2015\)](#), [Chung \(2013\)](#), and [Lee and Bruvold \(2003\)](#), training and retention found a significant correlation between training and development and employee retention. Moreover, [Winterton \(2004\)](#) argued that failure to invest in training and development might contribute to lower employee retention. In contrast, [Haines, Jalette, and Larose \(2010\)](#) mentioned that training and development might decrease employee retention by enhancing their skills, which would make them more attractive to other organizations. Similarly, [Batt \(2002\)](#) argued that training and development does not influence employee retention positively.

Hence, from the previous discussion, it is revealed that still there is a lack of clear explanation about the nature of relationship between training and employee retention as different studies have reported inconsistent results. Hence, due to the conflicting results and lack of clear explanation of the relationship nature, further investigation is needed to better comprehend the relationship between training and employee retention. Thus, this study hypothesized that

H2: Training and development will be positively associated with employee retention.

Performance Appraisal

Performance appraisal can be defined as the basic HRM function such as the evaluation of employees' performance periodically to improve the utilization of human resources within the organization ([Raihan, 2012](#)). [Waldman, Bass, and Einstein \(1987\)](#) argued that performance appraisal helps the organization in enhancing and measuring the performance of employees. According to [Kuvaas \(2006\)](#), an appropriate performance appraisal system is used as a tool for, developing, retaining, and motivating employees in the organization. Moreover, from the perspective of SET ([Blau, 1964](#)), when employees feel that decisions are made honestly and performance is evaluated fairly, they are more likely to stay for a longer period with the organization.

Previously, [Kuvaas \(2006\)](#) prompted that performance appraisal has significant influence on enhancing employee retention. Similarly, [Jehad and Farzana \(2011\)](#) and [Levy and Williams \(2004\)](#) argued that developmental performance appraisal increased employees' perceptions of being valued by the organization, and this positive perception, in fact, makes them to stay for a longer period with the organization. However, [Riaz, Ayaz, Wain, and Sajid \(2012\)](#) argued that performance appraisal did not influence employee retention. While, [Johari, Yean, Adnan, Yahya, and Ahmad \(2012\)](#) found a non-significant relationship between performance appraisal and intention to stay.

Although, the previously mentioned studies have made significant contributions to the literature by demonstrating the effect of performance appraisal on employee retention, still it is worth noting that the findings of these studies are inconsistent; hence, more research is needed to explain the relationship in a better way. Thus, the current study hypothesized the following:

H3: Performance appraisal will be positively associated with employee retention.

Work Environment

Working environment is defined as the perceived entirety of non-pecuniary elements that provides surroundings to employees' job (Chao, 2008). Work environment is one of the factors that affects employees' decision to stay with the organization (Zeytinoglu & Denton, 2005). It is considered a vital factor that influences employee retention (Bibi, Ahmad, & Majid, 2016; Bibi, Pangil, Johari, & Ahmad, 2017). According to Ollukkaran and Gunaseelan (2012), work environment tends to have positive or negative effect on certain job outcomes like involvement, commitment, and intention to stay in an organization. Kundu and Lata (2017) and Mangi, Soomro, Ghumro, Abidi, and Jalbani (2011) argued that good working environment, such as, attractive and clean environment, encourages individual employees to complete their work effectively and is expected to have a positive impact on employee retention and commitment.

According to the SET (Blau, 1964), proper HRM practices such as compensation, training and development, and performance appraisal instituted by an organization must theoretically be able to enhance employees retention, as individuals and organizations enter into exchange relationships in which a provision of mutual benefits creates obligations to reciprocate (Raihan, 2012). However, empirical results on the effects of compensation, training and development, and performance on employee retention appeared mixed (Abeysekera, 2007; Dockel, Basson, & Coetzee, 2006; Johari et al., 2012).

Keeping in view the previous contradictory findings of prior studies, work environment will be incorporated as a moderator on the relationship between compensation, training and development, performance appraisal, and employee retention in the current study. This is in accordance with Jaworski's (1988) statement that the adequacy of different control mechanisms may be dependent upon internal and external contingency variables. Similarly, Baron and Kenny (1986) also contended that when there is a weak or inconsistent relationship between the criterion and predictor variable, a moderating variable is suggested to be incorporated. Hence, this suggests the need for a moderator variable. Therefore, in order to better understand the influence of compensation, training and development, performance appraisal, and employee retention, this study suggests that work environment may moderate the relationships.

Moreover, work environment has been used as a moderating variable on the relationship between entrepreneurial orientation and firm performance (Aaraki & Kimbugw, 2015), western expatriates' commitment and retention in international assignments (Nguyen, Felfe, & Fookun 2013), and motivation to learn and perceived training transfer (Kim-Soon, Ahmad, & Ahmad, 2014). Thus, the literature shows that no study has been done on work environment as a moderator of the relationship between compensation, training and development, performance appraisal, and employee retention in the hospitality industry. Therefore, to fill this gap, this study considers work environment as moderator to further investigate the relationship between compensation, training and development, performance appraisal, and employee retention. Thus, this study hypothesized the following:

H4: Work environment moderates the relationship between compensation and employee retention.

H5: Work environment moderates the relationship between training and development and employee retention.

H6: Work environment moderates the relationship between performance appraisal and employee retention.

Social Exchange Theory

SET is used in the current study, which was developed originally by Thibaut and Kelley (1959), as it has been utilized increasingly as a theoretical base of turnover and retention research to comprehend the employer and employee relationship (Coyle-Shapiro & Conway, 2005). SET postulated that good acts and performances must be reciprocated (Blau, 1964). The SET suggests that a person who feels that he/she gets benefits from someone will feel obligated to repay or compensate through positive behaviors, attitudes, efforts, and devotion (Mossholder, Settoon, & Henagan, 2005). Moreover, SET (Blau, 1964) has mentioned that institutions utilize different HRM practices. Furthermore, SET described that employees perform better, when an organization supports and values them (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001).

In addition, the main postulation of SET is that a person makes social relationships on the basis that these relationships would be mutually beneficial. Similarly, employees' performance depends on how they are treated in the organization. This is called benefits reciprocation between employers and employees. Thus, as long as employees' values and expectations are met, employee embeddedness and commitment will be increased, which in turn increases employee retention.

From the previously mentioned literature and theoretical highlights on employee retention, compensation, training and development, and performance appraisal, the following research framework has been derived (see Fig. 1).

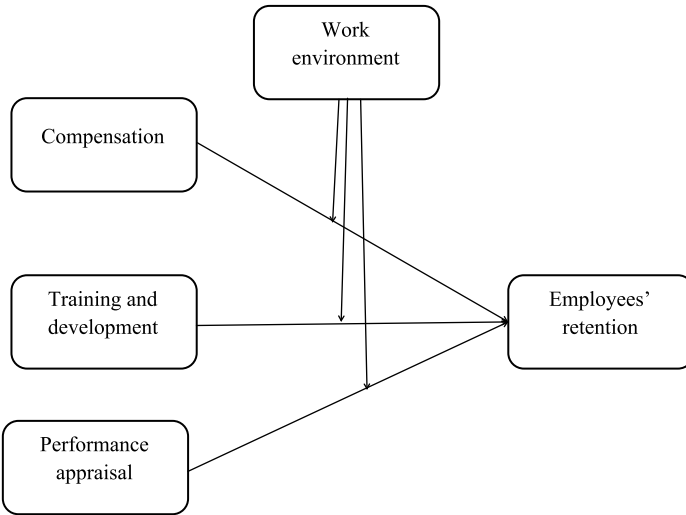


Fig. 1: Research Framework.

Method

Participants and Respondents' Profile

The unit of analysis was the individuals (i.e., full-time employees) who have been working in the hotel industry in Malaysia (e.g., Kuala Lumpur, Kedah, and Melaka), in the departments of food and beverage service, food production, and customer services for more than six months. Survey questionnaires were used to gather relevant data for the study. The respondents were asked to express their perceptions through 7-point Likert scale. The survey involved measures of compensation, training and development, performance appraisal, work environment, and employee retention. Total 610 questionnaires were collected from hotel employees. Out of 610 respondents, most of the respondents were male 59.3%. Almost, 51% of the participants held an undergraduate degree. Moreover, most of the participants' 56.3% were single. Regarding the age group, 42.4% of the respondents were in the group of 25–35 years of age. Mostly, 49.9% of the participants were from five-star hotels and majority of the participants (41.9%) had a monthly income ranging from RM2000 to RM3500.

Measurement

The 29 items used in the present study were drawn and modified from previous studies. Seven-point Likert scale was used to measure all the items, where 1 showed strongly disagree and 7 specified strongly agree. To measure employee retention, 11 items were adapted from [Kyndt, Dochy, Michielsen, and Moeyaert, \(2009\)](#). A sample item is “I intend to remain working in this institute”. Five items measuring compensation were adapted from [Tessema and Soeters \(2006\)](#);

for example, “The salary at my institution encourages better performance.” Similarly, four items of [Delery and Doty \(1996\)](#) were used to measure training and development, “My institution provides extensive training for faculty development.” While five items measuring performance appraisal were adapted from [Delery and Doty \(1996\)](#). A sample item is “I am evaluated fairly based on my performance.” To measure work environment, four items were adapted from [Edgar and Geare \(2005\)](#). A sample item is “Work environment at my institution is good.”

Common Method Variance Test

The current study adopted Harman’s single-factor test proposed by [Podsakoff and Organ \(1986\)](#) to examine common method variance. The main assumption of [Harman’s \(1967\)](#) single-factor test is that if a substantial amount of common method variance is present, either a single factor may emerge, or one general factor would account for most of the covariance in the predictor and criterion variables ([Podsakoff & Organ, 1986](#)). Following [Podsakoff and Organ \(1986\)](#), all items in this study were subjected to a principal components factor analysis. The results of the analysis yielded factors, explaining a cumulative of 64.82% of the variance; with the first (largest) factor explaining 33.60% of the total variance, which is less than 50% ([Kumar, 2012](#)). Additionally, the results indicated that no single factor accounted for the majority of covariance in the predictor and criterion variables ([Podsakoff, MacKenzie, & Podsakoff, 2012](#)). Hence, this suggests that common method bias is not a major concern and unlikely to inflate relationships between variables measured in the present study.

Results

In the current study, Smart PLS version 2.0 was used to analyze the data.

Measurement Model

Convergent Validity

Construct validity was examined following a two-step modeling approach recommended by [Anderson and Gerbing \(1988\)](#). Convergent validity was assessed, followed by the discriminant validity and internal consistency reliability as given in [Tables 1 and 2](#), respectively. As recommended by the researchers – [Gefen, Straub, and Boudreau \(2000\)](#), [Hair, William, Barry, and Rolph \(2010\)](#), and [Hair, Anderson, Tatham, and Black \(1998\)](#) – construct validity is assured when composite reliability is greater than 0.7, the loadings are greater than 0.7, and average variance extracted (AVE) is greater than 0.5. Composite reliability refers to the degree to which the construct indicators indicate the latent construct, which also exceeded the recommended value of 0.7 ([Hair et al., 2010](#)). The AVE measures the variance captured by the indicators relative to measurement error, which is also more than the suggested value 0.5 ([Barclay et al., 1995](#)).

Table 1: Results of the Measurement Mode.

Construct	Item	Loading	Composite Reliability	AVE
	COMP1	0.918	0.953	0.804
	COMP4	0.932		
	COMP5	0.918		
	COMP2	0.772		
	COMP3	0.934		
	TD1	0.886	0.893	0.736
	TD3	0.808		
	TD2	0.877		
	RET1	0.897	0.981	0.823
	RET4	0.883		
	RET11	0.927		
	RET6	0.904		
	RET7	0.907		
	RET8	0.850		
	RET2	0.951		
	RET10	0.895		
	RET3	0.914		
	RET5	0.924		
	RET9	0.923		
	PA1	0.792	0.946	0.854
	PA2	0.983		
	PA3	0.983		
	WE1	0.809	0.846	0.734
	WE2	0.902		

Discriminant Validity

Similarly, discriminant validity, which refers to the extent to which a particular latent construct is different from other constructs (Duarte & Raposo, 2010), was accessed considering the Fornell and Lacker's (1981) suggestion. On the premise of this recommendation, the average variance shared between each construct and its measures ought to surpass the variance shared between the construct and other constructs.

As shown in Table 2, the square root of the AVE exceeds the correlations for each construct signifying appropriate discriminant validity of the construct (Hair, Anderson, Tatham, & Black, 1998; Hair et al., 2010).

Another alternative to handle discriminant validity issues in variance-based structural equation modeling is Heterotrait-Monotrait Ratio (HTMT) as

Table 2: Discriminant Validity of Constructs.

	COMP	PA	RET	TD	WE
COMP	0.897				
PA	0.331	0.924			
RET	0.210	0.087	0.907		
TD	0.363	0.551	0.072	0.858	
WE	0.188	0.124	0.844	0.057	0.857

Note: The square root of the AVE is represented by diagonals (boldface), while the other entries signify the correlations.

proposed by (Henseler, Ringle, & Sarstedt, 2015). The precise threshold value of the HTMT is debatable; some authors recommend a threshold of 0.85 (Kline, 2011). However, others recommend a value of 0.90 (Gold, Malhotra, & Segars, 2001; Teo, Srivastava, & Jiang, 2008).

Table 3: HTMT Results.

	COMP	PA	RET	TD	WE
COMP					
PA	0.497				
RET	0.316	0.457			
TD	0.404	0.303	0.768		
WE	0.286	0.299	0.554	0.768	

As shown in Table 3, all the HTMT values are below the threshold value of 0.80, which shows discernment validity has been established. Furthermore, the bootstrapping procedure allows for constructing confidence intervals for the HTMT ratio. The columns lower 2.5% and upper 97.5% show the bounds of the 95% confidence interval. The lower and upper bounds of HTMT for the relationship between COMP and RET are 0.264 and 0.465, for TD and RET are 0.320 and 0.538, for PA and RET are 0.584 and 0.713, and similarly, for WE and RET are 0.589 and 0.743. The results of bootstrap confidence interval of HTMT criterion show that all the value are below 1, which is in favor of the discriminant validity of constructs.

Structural Model

Structural model was analyzed in the next step. The results for structure model are shown in Table 4 and Fig. 2.

There is significant relation between compensation and employee retention as presented in Table 4, beta = 0.112, *t* = 2.200, and *p* < 0.01. The outcome also presented that there is an imperative and positive relationship between training

Table 4: Path Coefficients and Hypothesis Testing.

Relationship	Beta Value	Standard Error (STERR)	t-statistics (O/STERR)	p-Value	Decision
Compensation → Retention	0.112	0.051	2.200	0.01**	Supported
Training and Development → Retention	0.105	0.053	2.150	0.02**	Supported
Performance Appraisal → Retention	0.124	0.056	2.422	0.01**	Supported
Compensation × Work Environment → Retention	0.138	0.108	2.089	0.02**	Supported
Training and Development × Work Environment → Retention	0.398	0.170	2.978	0.00**	Supported
Performance Appraisal × Work Environment → Retention	0.185	0.124	1.875	0.03**	Supported

Note: **p < 0.01

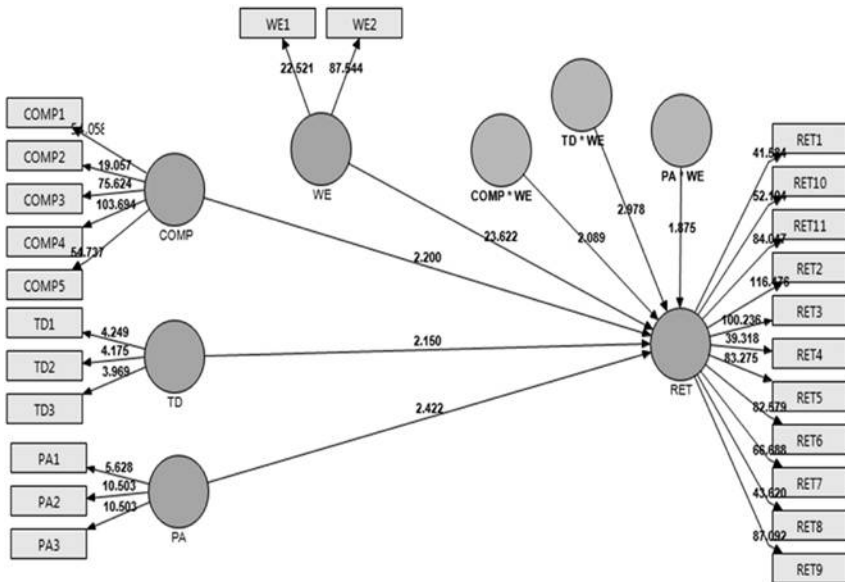


Fig. 2: Structural Model.

and development and employee retention $\beta = 0.105$, $t = 2.150$, and $p < 0.02$. In addition, the imperative and positive association was identified between performance appraisal and employee retention $\beta = 0.124$, $t = 2.422$, and $p < 0.01$.

The present study applied a product-indicator approach using partial least squares-structural equation modeling (PLS-SEM) to detect and estimate the strength of the moderating role of work environment on the relationship between compensation, training and development, and performance appraisal, and employees' retention (Helm, Eggert, & Garnefeld, 2010; Henseler & Chin, 2010a). The moderating variable is continuous; hence, the product-term approach was considered appropriate for this study (Rigdon, Schumacker, & Wothke, 1998). Moreover, Henseler and Fassott (2010a) also suggested that "the results of the product term approach are usually equal or superior to those of the group comparison approach, we recommend always using the product term approach" (p. 721). The results are shown in Table 4 and Figs. 3, 4, and 5.

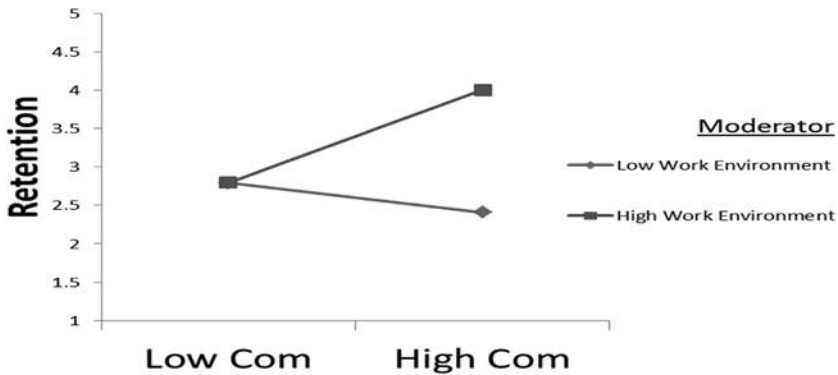


Fig. 3: Interaction Effect of Work Environment on Compensation and Retention.

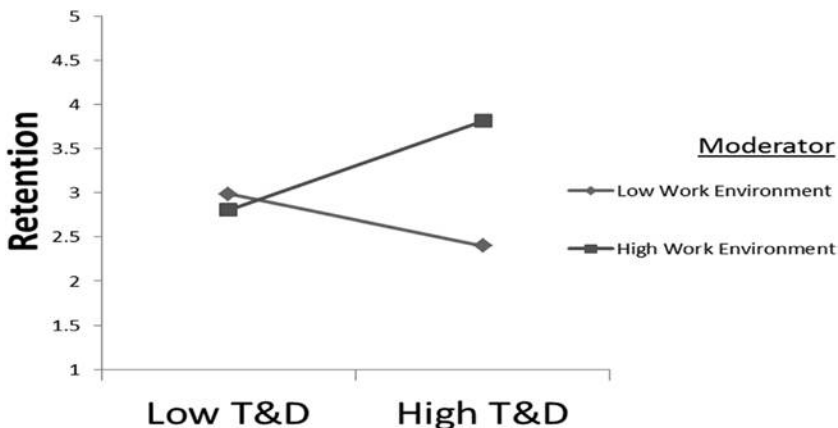


Fig. 4: Interaction Effect of Work Environment on Training, Development, and Retention.

The outcome also shows that work environment moderates the relationship between the compensation and employee retention $\beta = 0.138$, $t = 2.089$, and $p < 0.02$. Fig. 3 shows the moderating effect of work environment on the relationship between compensation and retention. This relationship is stronger for individuals in public universities with high conducive work environment than it is for individuals in public universities with low conducive work environment.

Similarly, in Table 4 and Fig. 4 also revealed that work environment moderates the relationship between training and development and retention $\beta = 0.389$, $t = 2.978$, and $p < 0.00$. This relationship is stronger for individuals in public universities with high conducive work environment than it is for individuals in public universities with low conducive work environment.

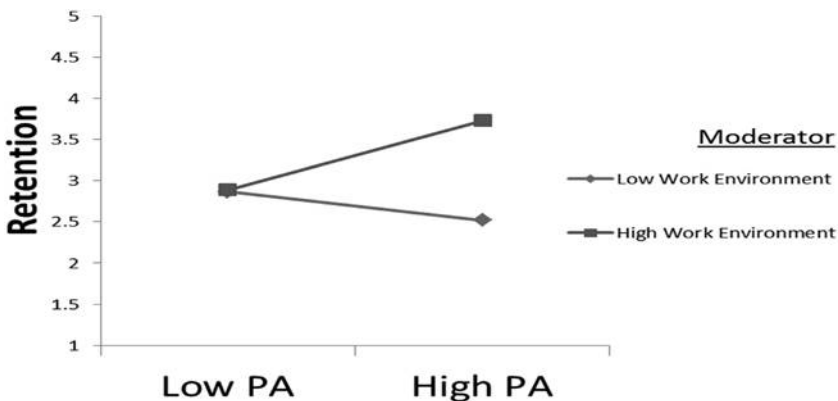


Fig. 5: Interaction Effect of Work Environment on Performance Appraisal and Retention.

Likewise, in Table 4 and Fig. 5 also revealed that work environment moderates the relationship between performance appraisal and retention $\beta = 0.185$, $t = 1.875$, and $p < 0.03$. This relationship is stronger for individuals in public universities with high conducive work environment than it is for individuals in public universities with low conducive work environment.

Furthermore, the R^2 value was 68, suggesting that the modeled variables can explain 68% of the variance of the employee retention.

Assessment of Effect Size (f^2)

In addition to the assessment of R^2 values of all endogenous variables, this study also evaluates effect size. The f^2 shows the effect of particular exogenous latent variable on endogenous latent variable through the means of changes in the R^2 (Chin, 1998). Hence, effect size can be calculated as follows (Cohen, 1988; Wilson, Callaghan, Ringle, & Henseler, 2007):

$$\text{Effect size: } f^2 = \frac{R^2_{\text{Included}} - R^2_{\text{Excluded}}}{1 - R^2_{\text{Included}}}$$

R^2 included and R^2 excluded represent R^2 value of the exogenous latent variable when selected exogenous variable is included or excluded from the model. Cohen (1988) suggested that f^2 value of 0.02, 0.15, and 0.35 as weak, moderate, and strong effect, respectively. Table 4 shows the calculation and the result of the effect size of each of latent variables.

Table 5: Effect Sizes on Exogenous Construct.

	Included	Excluded	f^2	Effect Size
Compensation	0.68	0.67	0.031	Small
Training and development	0.68	0.64	0.125	Small
Performance appraisal	0.68	0.59	0.281	Medium

As shown in Table 5, the effect sizes of the exogenous constructs (compensation, training and development, and performance appraisal) for explaining employee retention (the endogenous variable) have effect size of 0.031, 0.125, and 0.281, respectively. Thus, applying the Cohen’s (1988) recommendation, the effect sizes of all the exogenous latent variables on employee retention can be considered small, small, and medium, respectively.

Assessment of Predictive Relevance

After evaluating effect sizes, the current study also assessed predictive relevance technique as suggested by (Hair et al., 2010). For this purpose, the current study used blindfolding. Similarly, blindfolding method was only used for reflected measurement model (Sattler, Völckner, Riediger, & Ringle, 2010). Thus, in the current study all the endogenous latent variables were reflective; therefore, blindfolding procedure was used. Similarly, the cross-validated redundancy measure (Q^2) was used to probe the predictive relevance (Hair, Hult, Ringle, & Sarstedt, 2013; Henseler & Chin, 2010). According to Henseler, Ringle, and Sinkovics (2009), to have the predictive relevance, the redundant communality should be higher than zero for endogenous variables.

Table 6: Construct Cross-Validated Redundancy.

Total	SSO	SSE	1-SSE/SSO
RET	3,707.000	1,533.879	0.586

As shown in [Table 6](#), the cross-validated redundancy for the endogenous variables is 0.586. This value reveals sufficient predictive capability of the model based on Fornell and Cha's (1994) standards, which required these values to be larger than zero.

Discussion

The present study examined the influence of compensation, training and development, and performance appraisal on employee retention among the hotel employees in Malaysia. The findings of this study revealed a significant positive relationship between compensation and employee. This finding is consistent with results of previous research (e.g., [Nawab & Bhatti, 2011](#); [Saeed et al., 2013](#)). This suggested that when the hotel management provided proper compensation package and cared about the employees, it made the employees to stay longer and enhanced their retention ([Williams & Dreher, 1992](#)). The findings were also supported by the SET, which implies that when employees receive proper compensation, they are more satisfied and feel obligated to repay through positive attitudes, loyalty, and devotion ([Mossholder, Settoon, & Henagan, 2005](#)).

Moreover, the findings of this study revealed a significant positive relationship between training and development, and employee retention. This finding is consistent with results of previous research (e.g., [Choi & Dickson, 2009](#); [Saritas, 2007](#)). In order to retain the employees, the hotel managements are proposed to provide adequate training opportunities to improve their skill and cope with new technological changes. This suggested that when the hotel management provided adequate training programs and cared about the employees, it encouraged the employees to stay for a longer period and enhanced their retention ([Dockel, Basson, & Coetzee, 2006](#)). The SET also supported the findings by arguing that when an organization provides proper training and development opportunities, the employees, in turn, will show more loyalty and stay with the organization ([Woo & Chelladurai, 2012](#)).

Furthermore, the findings of this study also revealed a significant positive relationship between performance appraisal and employee retention. This finding is consistent with results of previous research (i.e., [Kuvaas, 2006](#)). This suggested that fair performance appraisal increases employees' perceptions of being valued by the organization, and this positive perception, in fact, leads them to stay for a longer period with the organization ([Levy & Williams, 2004](#)). This finding is also supported by the SET, which suggests that when employees perceive that the organization is evaluating their performance fairly, they feel obligated to repay through positive attitudes, loyalty, and devotion ([Blau, 1964](#)).

Additionally, the results also revealed that work environment buffers the relationship between the compensation, training and development, performance appraisal, and employee retention. The studies of [Sutherland \(2004\)](#) and [Sjoberg and Sverke \(2000\)](#) also suggested that the organizations should focus on creating supportive work environment to keep talented employees in the organization for longer. Thus, it means that work environment plays a key role in the motivating and retaining employee. This indicates that when the hotel employee receives competitive salary, adequate training and development opportunities,

fair performance appraisal as well as support from the organization in the form of conducive work environment in the organization, it helps to enhance the commitment level of employees working in hotels in Malaysia.

Implications

On the basis of previously mentioned results, there are couple of suggestions and implications for HR department and administration of the hotel industry. Theoretically, this study has provided some empirical evidence on the relationship between compensation, training and development, performance appraisal, and employee retention.

One of the main theoretical contributions of the present study is in the introduction of work environment as a moderating variable to better explain and understand the relationship between the compensation, training and development, performance appraisal, and employee retention. The outcomes of the present research study have also contributed to the knowledge and literature on employee retention. The research findings validated the notion that compensation, training and development, and performance appraisal are significant factors in increasing employee retention, which covers the practical importance of the study for the hotel management and administration.

Furthermore, there are a few implications for HR managers, HR department, and administration of hotels in Malaysia, as they decide how to allocate resource and retain competent employees. First, the present study suggests that compensation is the main resource in enhancing employee retention. The HR department needs to make it certain that there is equity compensation system among employees. When employees feel that they receive fair wages from the organization, they stay for a longer period with the institution (Manzoor, Usman, Naseem, & Shafiq, 2011). Second, training and development and performance appraisal were also found to be significantly related to employee retention. Thus, HR department should also focus on the provision of proper training and developmental programs and fair performance appraisal system, in order to retain the hotel employees in Malaysia.

Moreover, HR department and higher education institutes (HEI) should also understand the moderating effect of work environment on the relationship of compensation, training and development, performance appraisal, and employee retention. This means that work environment plays a vital role in enhancing employee retention. Thus, when faculty members are provided with a conducive work environment, adequate compensation, training and development opportunities, and fair performance appraisal all together in the organization, it helps to enhance their commitment and make them stay for a longer period with the organization, especially in the hotel industry in Malaysia. Thus, it may contribute to managerial decisions process in relation to hotel employee retention strategy.

Limitations and Suggestions for Future Research

This study has certain limitations that need to be highlighted. First, data were collected from employees working in the hotels of Kedah, Kuala Lumpur, and

Melaka, Malaysia only, due to time limitations and financial constraints. Hence, future research can be extended to other areas in Malaysia. Second, only the hotel employees were considered as the respondents in the current study. Other sectors such as airlines, hospitals, banks, and manufacturing are also suggested to be investigated in future research. In addition, finally, this study reported R^2 values of 68% of the variance of the employee retention, suggesting that compensation, training and development and performance appraisals are not the only predictors of employee retention. Therefore, future studies should integrate some other variables such as supervisors' and coworkers' support, organizational culture, and organizational climate.

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