Organizational Culture and Employee Retention at SMEs in Pakistan; an investigation of mediating role of Quality of Work Life

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Abstract

In the modern age of strong business competition, the issue of employee retention is very critical for survival of SMEs. SMEs have less human capital to survive in the respective industry. This study have examined the importance of employee retention in relations with organization culture mediated by quality of work life of employees. Based on random sampling, 250 employees of SMEs were chosen to respond to the structured questionnaire for the present study. Structured equation model using Smart PLS was used as data analysis technique. Findings of the study exhibit that there are positive and significant direct and indirect relationship between the said variables. The study significantly adds in the current literature and helpful for managers at SMEs in Pakistan to improve employee retention.

Key Words: Employee retention (ER), organizational culture (OC), quality of work life (QWL), Pakistan, SMEs.

Introduction

The business trends in the modern age are highly competition based. To maintain the company’s position in the industry, human resource managers at SMEs need to be competitive. The good organizational culture for competitive performance is needed in SMEs in Pakistan; especially focusing the employee retention. Organizational culture is often called the factor which directs individuals how to behave in an organization followed by shared values, believes and assumptions. These values put firm effects on employee in performing their jobs and acts they do. Organizational culture also plays a vital role in the employee retention. Organizational culture and quality of QWL are very significant factors to affect the employee retention rates in SMEs in Pakistan. In this study the relationship between organizational culture and employee retention has been developed with a mediating role of quality of work life. However, it is being observed that QWL in SMEs is less exhibited due to the small size of the firms. Therefore, the study will find out what factors in relation with organizational culture can increase quality of work life and retention. Organizational culture and turnover always have a significant relationship and a lot of research has been conducted on the topic. The researchers such as Sheridan, (1992) and Biswas, (2009) have discussed the positive relationship between the organizational culture and employee turnover. Employee retention has a strong relationship with organizational culture (OC), if the culture is positive employee will retain and; if negative they will leave, resulting in high turnover. It is a give and take between organization and employees in a way that, organization takes care of employees they will also take care of the organizational goals (Habib, Aslam, Hussain, Yasmeen, and Ibrahim, 2014). Organizational culture is a prominent variable to retain employees. Organizations often use to assess their culture and change it according to the needs of employees to retain the top employees (Meyer and Topolnytsky, 1992). Researchers agree that organizational culture in relation to all other factors is the most important thing to retain the employees especially in major change management process. Employee retention is entirely based on the organizational culture focusing on environment, believes, values and
experiences of the organization. It is of great importance that culture of the organization must be aligned with the mission and vision of the organization to ultimately design retention strategies accordingly (Gleeson, 2017). Studies show that there is a significant relationship between the organizational culture and employee retention (Dwivedi, Kaushik, and Luxmi, 2013). The organizations which provide challenging job roles bear less intention of employees to leave the organization (Carmeli, 2005). Studies also suggest that the human resource department should make effective strategies to equalize the costs associated with leaving employee with the costs of those employees who stay at the organization (Abelson and Baysinger, 1984; Boudreau and Berger, 1985). High costs are incurred by losing a high talented employee than losing a weak performer (Casico, 1982). It is being observed that organizations providing good organizational culture to its employee have a high employee retention rate and organizations can lead by retaining its employee to attain a competitive position in the industry (Iqbal, Guohao and Akhtar, 2017).

Quality of work life is defined as the level to which employees can augment their personal life through the knowledge they gain at workplace and the specific environment at the workplace. Studies have revealed that the perceived quality of work life by the individuals has strong relations with their intentions to leave the organization resulting from lower job commitment. In current business environment quality of work life has become an important factor to enhance the employee retention. Organizations are continuously identifying the ways to increase QWL to attract the best talent and retain them for a longer duration (Sojka, 2014). QWL is often discussed as a factor which motivates employees to contribute in forming the environment of the organization. This is a value adding process which works in two ways to satisfy the needs of organization and employees as well. Some famous definitions of QWL are as following:

“QWL is based on a general approach and an organization approach, the general approach includes all those factors affecting the physical, social, economic, psychological and cultural well-being of workers, while the organizational approach refers to the redesign and operation of organizations in accordance with the value of democratic society” (Chand, 2016). No significant studies were found on the mediating role of quality of work life in describing the effects of organizational culture and employee retention in SMEs of Pakistan. Therefore, this study will build new relation between the said variables to identify how organizational culture effects employee retention when the quality of work life of employees is positive or negative in the SMEs of Pakistan. For the purpose the hypothesis build will be tested to identify the significance of the said relations. Based on this discussion the research framework of this study was
Literature Review

Organizational Culture (OC) and Employee Retention (ER)

Every organization has different culture which provides basics for the desired behavior of employees within the organization. These values, beliefs and assumptions are considered as guidelines for developing behavioral patterns within the organization to achieve the targeted goal (Mclaughlin, 2014). Studies show that there is a significant relationship between the organizational culture and employee retention (Dwivedi, Kaushik, and Luxmi, 2013). Employee retention has a strong relationship with OC, if the culture is positive employee will retain and vice versa. (Habib, Aslam, Hussain, Yasmeen, and Ibrahim, 2014). It is being observed that organizations providing good organizational culture to its employee have a high employee retention rate and organizations can lead by retaining its employee to attain a competitive position in the industry (Iqbal, Guohao and Akhtar, 2017; Gleeson, 2017). This study develops the relationship as following:

$H_1$: Organizational culture has positive impact on employee retention.

Organizational Culture (OC) and Quality of Work Life (QWL)

Scholars have found direct and significant relationship in organizational culture and quality of work life (Valizadeh and Gahremani, 2012). Benjamin, (2017) have studied direct and significant impacts of organizational culture’s individualistic dimensions on quality of work life. Kim and Jang, (2018) have indicated that organizational culture (support) is the strong predictor (through self-efficacy) to enhance quality of work life. In this study the relationship is developed for SMEs in Pakistan as following:

$H_2$: Organizational culture has a positive impact on quality of work life.

Quality of Work Life (QWL) and Employee Retention (ER)

Significant relationship has been found in quality of work life and employee retention. Studies have identified positive direct relationship of QWL and ER (Tarmizi, 2008; Yin and Yang, 2002). A study by Mosadeghrad, (2013) stated that QWL (job proud, management support, job stress and security) as strong predictors of employee retention. Shankar, (2014) arguments that to attract and retain the best employee quality of work life is an essential factor. In this study the relationship is developed for SMEs in Pakistan as following:

$H_3$: Quality of work life has positive impact on employee retention.
Mediation of quality of work life

Faroq, (2015) have studied the positive mediating effects of quality of work life between the relationship of employee engagement and employee retention. Studies such as Valizadeh and Ghahremani, (2012), Benjamin, (2017), Kim and Jang, (2018) have studied the direct impacts of organizational culture on quality of work life. Whereas, some studies have examined the direct impacts of quality of work life on employee retention (Tarmizi, 2008; Yin and Yang, 2002; Shankar, 2014). No significant studies were found examining the QWL as a mediator between organizational culture and employee retention. In this study the relationship is developed for SMEs in Pakistan as following:

H4: QWL positively mediates the relationship of organizational culture employee retention.

Conceptual Framework

Every organization has a different culture according to the corporate goals and targets of the organization. There are many theories interpreting the organizational culture. The most attractive and authenticated research of cultural differences has been presented by Dr. Geert Hofstede in late 1970s (Mind tools content teams , 2018). This theory strongly relates to the model chosen for this study where organizational culture impact employee retention and the quality of work life mediates the relationship. The theory is linked with the six cultural dimensions and the score for Pakistan in “Table: 1”. The theory develops a strong relationship in independent variable of this study organizational culture with employee retention and the mediating effect of quality of work life which is greatly influenced by the cultural dimension in Pakistan.

Table I: Hofstede Cultural Dimensions Score for Pakistan

<table>
<thead>
<tr>
<th>S.N</th>
<th>Dimensions</th>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Power Distance Index (PDI)</td>
<td>55</td>
<td>Employees do not start any action without proper notice and guidance of the manager or immediate supervisors.</td>
</tr>
<tr>
<td>2</td>
<td>Individualism Vs. Collectivism (IDV)</td>
<td>14</td>
<td>Employees only perform their assigned work and held responsible for that only but in a collaborative environment.</td>
</tr>
<tr>
<td>3</td>
<td>Masculinity Vs. Femininity (MAS)</td>
<td>50</td>
<td>Which means that there are no clear discriminations in roles of male and females</td>
</tr>
<tr>
<td>4</td>
<td>Uncertainty Avoidance Index (UAI)</td>
<td>70</td>
<td>Represents the higher effort to avoid uncertainty. Thus some organizations have rigid code of ethics, values and believes to shape the behaviors of employees.</td>
</tr>
<tr>
<td>5</td>
<td>Pragmatic Vs. Normative (PRA)</td>
<td>50</td>
<td>Represents no preference for its culture, whereas organizations have developed their own sets of cultural values.</td>
</tr>
<tr>
<td>6</td>
<td>Indulgence Vs. Restraint (IVR)</td>
<td>0</td>
<td>Represents the highly reserved society, not much emphasis is put on leisure time such as fun and enjoyment.</td>
</tr>
</tbody>
</table>

Source: scores by Hofstede Insights (2017), descriptions by author.

Methodology

As an empirical study the quantitative approach has been implemented for this study to
get the expected results. The selection of quantitative method is justified for two reasons. First, to explore the direct relationship of organizational culture and quality of work life with employee retention. Second, to examine the mediating role of quality of work life between the relationship of organizational culture and employee retention. Therefore, data analysis techniques such as Smart PLS (Partial least square) bootstrapping for structure equation model were used to generate the results.

Research Instruments
A structured questionnaire was established to collect the responses of private sector organizations’ employees, by guiding them to record their views on a 5 point Likert scale ranging from “1= strongly agree to 5= strongly disagree”.

Organizational Culture was measured by utilizing 18 items of organization culture developed by Suh, (1986), Quality of Work Life was measured by 13 items developed by Walton, (1975), and Employee Retention was measured on the items developed by Kyndt, Dochy, Michielson, and Moeyaert (2009).

Participants and Respondents: By utilizing the random sampling a total of 250 questionnaires were distributed among the SMEs’ employees. Out of them 234 questionnaires were recived back, 3 of them were rejected due to missing information or incomplete responses. Total 231 (92%) response rate was recorded for this study.

Descriptive Statistics: Among the validated responded the male respondents were 79.22% (183) and females were 21% (48). Whereas the age distribution among the respondents was 53% (20-30 years), 35% (31-40 years), 9% (41-50 years old) and 3% (51-60 years). On the bases of career levels 48% (entry level), 45% (middle level) and 7% (higher level).

Results

Measurement Model Assessment

Item reliability: To discuss the measurement model; according to the researchers Hair et al., (2012), Duarte and Raposo, (2010) the outer loadings of the individual items should be within 0.40 to 0.70. The individual item loadings in the present study are 0.6 or more (Table II); therefore, the present study met the rule of thumb.

Composite reliability (CR): internal consistency reliability (composite reliability) has been threshold by the researchers Hair et al. (2011), and Bagozzi and Yi, (1988) at 0.7 or above. The composite reliability for the present study has been presented in the Table II; which ranges from 0.851-0.914. This suggests the internal consistency reliability as per rule of thumb.

Convergent validity (AVE): average variance extracted is used for the assessment of the convergent validity. The threshold of the AVE is at least 0.50 by Chin, (1998). This study demonstrated the convergent validity as per rule of thumb; as shown in Table II all AVE value are more than 0.50.

Cronbach alpha (CA): Table II shows the CA values in the range of 0.7 to 0.9; as it is suggested by researchers as rule of thumb (Hinton, Brownlow, McMurray and Cozens, 2004).

<table>
<thead>
<tr>
<th>Table II - Measurement Model</th>
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<tbody>
<tr>
<td>Items</td>
</tr>
<tr>
<td>Employee Retention</td>
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<tr>
<td></td>
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Findings in the Table III shows that the square roots of the AVE are >0.50; furthermore, the values of AVE are greater than the correlation in the latent variables (Fornell and Larcker, 1981).

The present study has used the HTMT ratio to measure the issue of multicollinearity. Scholars (Gold, Malhotra and Segars, 2001; Teo, Srivastava and Jiang, 2008) set a rule that HTMT ration should not be greater than 0.9. The results of the present study in Table IV meets the rule of thumb.

<table>
<thead>
<tr>
<th>Employee Retention</th>
<th>Organizational culture</th>
<th>Quality of Work Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee retention</td>
<td>*0.757</td>
<td></td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>0.555</td>
<td>*0.801</td>
</tr>
<tr>
<td>Quality of Work Life</td>
<td>0.536</td>
<td>0.629</td>
</tr>
</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>Employee retention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>0.713</td>
<td></td>
</tr>
</tbody>
</table>

Table III - Discriminant Validity (Fornell - Larcker Criterion)

Table IV - Heterotrait Monotrait Ratio (HTMT)
Correlation: The correlation among the variables have been exhibited in the Table VI. Where 0.757 shows the positive relationship between ER and OC, 0.636 shows the positive relationship between ER and QWL and 0.526 shows the positive relationship between OC and QWL.

| Quality of Work Life | 0.785 | 0.677 |

Hypothesis Constructs Analysis: The following Table VII shows the beta, mean, standard deviations, t-values, p-values and the decisions for the constructed hypothesis. The results for H1 (OC have positive effects on ER) were found positive (β = 0.584, t = 9.059, P = 0.000). The findings follow the rule of thumb p<0.01 and t>2. The findings of the study were supported by Mclaughlin, (2014), Dwivedi, Kaushik, and Luxmi, (2013), Habib, Aslam, Hussain, Yasseen, and Ibrahim, (2014), Iqbal, Guohao and Akhtar, (2017); Gleeson, (2017). Similarly, H2 (OC have positive effects on QWL) have positive results (β = 0.529, t = 13.803, P = 0.000). The findings follow the rule of thumb p<0.01 and t>2. The findings of the study were supported by Benjamin, (2017), Valizadeh and Ghahremani, (2012), Kim and Jang, (2018). Furthermore, H3 (QWL have positive effects on ER) also have positive results (β = 0.327, t = 4.053, P = 0.000). The findings follow the rule of thumb p<0.01 and t>2. The findings of the study were supported by Tarmizi, (2008), Yin and Yang, (2002), Mosadeghrad, (2013) and Shankar, (2014). H4 which depicts that QWL acts as a mediator between the relationship of OC and ER is also positive with indirect effects (β = 0.173, t = 4.252, P = 0.000). The findings follow the rule of thumb p<0.01 and t>2. This study uniquely examined the role of QWL as a mediator between OC and ER in SMEs of Pakistan. The R² value for this model shows the coefficient of determination. Results exhibits that 0.649 (64.9%) change occurs in ER due to OC, similarly 0.380 (38%) change occurs in ER due to QWL. Both of the paths in this study were found positive and significant.

<table>
<thead>
<tr>
<th>Table VII - Hypothesis Constructs Analysis</th>
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<tbody>
<tr>
<td>β</td>
</tr>
<tr>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>H1: OC ➔ ER</td>
</tr>
<tr>
<td>H2: OC ➔ QWL</td>
</tr>
<tr>
<td>H3: QWL ➔ ER</td>
</tr>
<tr>
<td>H4: OC ➔ QWL ➔ ER</td>
</tr>
</tbody>
</table>

Discussion and recommendations

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The present study was conducted to examine the direct effect of organizational culture on quality of work life (the results of the present study were supported by Mclaughlin, (2014), Dwivedi, Kaushik, and Luxmi, (2013), Habib, Aslam, Hussain, Yasmine, and Ibrahim, (2014), Iqbal, Guohao and Akhtar, (2017); Gleeson, (2017) and organizational culture on employee retention (the results of the present study were supported by Benjamin, (2017), Valizadeh and Ghahremani, (2012), Kim and Jang, (2018). Similarly, the study examined the direct impacts of quality of work life on employee retention and the findings of the study were supported by the previous studies of Tarmizi, (2008), Yin and Yang, (2002), Mosadeghrad, (2013) and Shankar, (2014). Furthermore, the study have examined the positive mediation of quality of work life between the relationship of organizational culture and employee retention. This relationship was uniquely examined in the SMEs of Pakistan.

The present study is based on many facts such as organizational culture has been studied for decades and found numereouse studies in the literature reltaed to that. But SMEs in Pakistan specially start ups needs to focus on it a lot to improve the employee retention conditions. This study strongly supports that human resource managers and owners of the SMEs should focus on building a motivating organizational culture to enhance employee retention and quality of work life at the same time. Furthermore, by improving the quality of work life of employees will also decrease their leaving intensions. SMEs have limited resource both financially and human capital, they need fundamental strategies to keep their few experienced employees for longer duration to improve their company’s performance. This study supports the SMEs to develop strategies, by highlighting the importance of organizational culture, employee retention and quality of work life.

Conclusion

Limitations: the limitations associated with this study are few; first the time limit that bounded to get maximum responses. More longitudinal studies are required for the in depth knowledge and grasp on the variables relations. The data for this study was gathered from 250 employees of SMEs in Pakistan, the sample size can be increased and comparative analysis in private and public sector organizations for same model can be checked. Moreover, the study is purely related to the SMEs of Pakistan. Utilizing these results to different cultural contexts and populations may require alterations accordingly.

Future research recommendations: the main objectives of this study are achieved. The study verified the positive links in the chosen variables and validates the increase in employee retention by the predictors. The future research may include the study of other mediating variables such as job satisfactions, work place deviant behavior, supervisor conflicts and so on. Furthermore, there can be multiple approaches to check the relationships among the direct and indirect paths of model depending upon the needs.

Practical implications: this study have high value for the organizations to practically implement the strategies developed in the light of results. This will help boost the organizations their employee retention. This study shows that how organizational culture is important in managing ER and the mediation of quality of work life positively links between the relationships. Similarly, organizations can also focus on developing strategies on quality of work life to improve employee retention.

References


[30]. Benjamin, O. (2017). Impact or organizational culture and leadership on quality of


