

# Impact of Human Resource Management Practices on Employee Engagement and Retention

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## Abstract

*Human Resource Management (HRM) practices constitute a strategic lever through which organisations shape the psychological contract with their workforce, influencing discretionary effort, organisational commitment, and ultimately, the decision of employees to remain or exit. In the context of India's rapidly expanding private sector — characterised by high attrition rates averaging 18–26% across sectors and the concurrent challenge of retaining knowledge workers in a competitive talent market — the systematic empirical examination of which HRM practices most significantly predict employee engagement and retention outcomes is of both theoretical and practical importance. This study investigates the relationship between four core HRM practice dimensions — Training and Development (T&D), Performance Appraisal (PA), Compensation and Benefits (CB), and Work-Life Balance (WLB) — and the outcomes of employee engagement and retention intention, using a structured survey instrument administered to 384 employees across six industry sectors (manufacturing, IT/ITES, banking and finance, healthcare, retail, and education) in Tier-I and Tier-II Indian cities. Partial least squares structural equation modelling (PLS-SEM) was employed to test the measurement model and structural hypotheses. Results confirm that all four HRM practice dimensions significantly predict employee engagement ( $R^2 = 0.68$ ), with Work-Life Balance emerging as the strongest predictor ( $\beta = 0.34, p < 0.01$ ) followed by Training and Development ( $\beta = 0.31, p < 0.01$ ). Employee engagement fully mediates the relationship between WLB and retention intention, and partially mediates the relationships between T&D, PA, CB and retention intention. Sector-wise analysis reveals that IT/ITES employees report the highest engagement scores (mean = 76/100) while retail sector employees report the lowest (mean = 65/100). The findings provide actionable guidance for HR practitioners in designing targeted HRM initiatives, particularly in medium-sized Indian firms where HRM formalisation is incomplete.*

**Keywords:** *HRM practices, employee engagement, employee retention, training and development, work-life balance, performance appraisal, PLS-SEM, Indian organisations, attrition, organisational commitment*

## 1. Introduction

The management of human capital has emerged as the defining competitive differentiator in knowledge-intensive economies, where organisational performance is increasingly a function of the discretionary effort, innovation, and institutional knowledge contributed by engaged and committed employees. India's private sector, employing approximately 500 million workers across formal and semi-formal segments according to the Periodic Labour Force Survey 2022–23, faces an acute structural challenge in this regard: voluntary attrition rates that consistently exceed global benchmarks across sectors, driven by intensifying talent competition, rising employee expectations regarding career development and workplace quality, and the lingering effects of the post-pandemic Great Resignation phenomenon that manifested with particular intensity in India's urbanised, educated workforce.

Human Resource Management practices — the formal systems, policies, and procedures through which organisations recruit, develop, evaluate, reward, and retain their workforce — have been theorised and empirically examined as primary antecedents of employee engagement since the foundational work of Kahn (1990) on personal engagement and disengagement at work. The ability-motivation-opportunity (AMO) framework, proposed by Appelbaum et al. (2000) and subsequently widely applied in strategic HRM research, posits that HRM practices enhance performance by increasing employee ability (through training), motivation (through appraisal and compensation), and opportunity to contribute (through participative work design and work-life integration). This theoretical scaffolding provides a coherent rationale for investigating HRM practices as predictors of the engagement-retention nexus.

Despite the substantial body of international literature linking HRM practices to employee engagement and retention, systematic empirical investigation in the Indian private sector context remains limited, particularly across multiple industries simultaneously and at the scale necessary to permit sector-level comparative analysis. Most Indian studies are single-sector, single-city, and cross-sectional with sample sizes below 200, limiting both generalisability and causal inference. The contribution of this study lies in its multi-sector, multi-city design ( $n = 384$ ), rigorous PLS-SEM analysis, mediation testing, and sector-wise disaggregation that generates differentiated findings across manufacturing, IT/ITES, banking, healthcare, retail, and education sectors — each characterised by distinct HRM formalisation levels, workforce profiles, and attrition dynamics. The study aims to answer three research questions: (RQ1) Which HRM practice dimensions most significantly predict employee engagement in Indian private sector organisations? (RQ2) Does employee engagement mediate the relationship between HRM practices and retention intention? (RQ3) Are there significant sector-wise differences in HRM practice quality, engagement, and retention scores?

## 2. Literature Review and Theoretical Framework

### 2.1 HRM Practices and Employee Engagement

Employee engagement, conceptualised by Schaufeli et al. (2002) as a positive, fulfilling, work-related state of mind characterised by vigour, dedication, and absorption, has been consistently linked to HRM practices in both cross-sectional and longitudinal studies. Training and Development initiatives signal organisational investment in employee capability and career growth, activating reciprocity norms under social exchange theory (Blau, 1964) that manifest as heightened organisational commitment and discretionary effort. Boxall and Purcell (2011) identified T&D as one of the "high performance work practices" most robustly associated with employee performance and retention across international contexts. In the Indian context, Biswas and Bhatnagar (2013) found that perceived investment in employee development was the strongest HRM predictor of engagement among knowledge workers in IT and banking sectors, a finding replicated by Rana et al. (2014) in the public sector.

Performance appraisal systems, when perceived as fair, transparent, and developmentally oriented rather than purely evaluative, contribute to engagement through their effect on procedural justice perceptions (Colquitt, 2001). In contrast, appraisal systems perceived as arbitrary or primarily used for punitive purposes have been associated with disengagement and exit intention, as documented by Pattanayak (2020) in a study of Indian manufacturing firms. Compensation and benefits influence engagement primarily through their effect on equity perceptions: when employees perceive their compensation as internally equitable relative to peers and externally competitive relative to the market, engagement is maintained; perceived inequity activates dissonance that manifests as reduced effort or active job search. Work-life balance has emerged as an increasingly potent HRM predictor of engagement, particularly post-pandemic, as the boundary between work and non-work domains has been permanently redrawn for many Indian knowledge workers who experienced extended remote work arrangements during 2020–2022.

### 2.2 Employee Engagement as Mediator of HRM–Retention Relationship

The mediation hypothesis — that HRM practices influence retention intention primarily through their effect on employee engagement — is grounded in the job demands-resources (JD-R) model (Bakker & Demerouti, 2007), which posits that job resources (including HRM practices such as developmental support, fair appraisal, and flexible work arrangements) fuel engagement by meeting basic psychological needs for autonomy, competence, and relatedness. Engaged employees, in turn, demonstrate significantly higher organisational commitment and lower turnover intention, as confirmed in meta-analytic reviews by Harter et al. (2002) and Saks (2006). For India specifically, Anitha (2014) demonstrated in a study of 386 employees that HRM practices collectively explained 56% of variance in engagement, and that engagement fully mediated the relationship between specific HRM dimensions and retention intention. The present study replicates and extends Anitha's design with a larger, multi-sector sample and PLS-SEM methodology that accounts for measurement error more rigorously than the regression-based approach of the earlier study.

### 2.3 Research Hypotheses

Based on the reviewed literature and the AMO framework, the following hypotheses are advanced:

H1: Training and Development practices positively predict employee engagement.

H2: Performance Appraisal practices positively predict employee engagement.

H3: Compensation and Benefits practices positively predict employee engagement.

H4: Work-Life Balance practices positively predict employee engagement.

H5: Employee engagement positively predicts retention intention.

H6: Employee engagement mediates the relationship between HRM practices and retention intention.

### 3. Research Methodology

#### 3.1 Research Design and Sample

A quantitative, cross-sectional survey design was employed. The target population comprised permanent full-time employees of private sector organisations in India with a minimum of one year of organisational tenure, ensuring that respondents had sufficient exposure to the organisation's HRM practices to provide meaningful evaluations. Stratified purposive sampling was used to ensure representation across six industry sectors — manufacturing, IT/ITES, banking and finance, healthcare, retail, and education — and across Tier-I cities (Bengaluru, Mumbai, Hyderabad, Delhi-NCR) and Tier-II cities (Indore, Lucknow, Coimbatore, Mysuru). A minimum sample of 384 was determined using Cochran's (1977) formula for infinite population estimation at 95% confidence level and 5% margin of error, with an additional 15% buffer to account for incomplete responses. Questionnaires were distributed through both direct organisational contact and professional networking platforms. A total of 442 responses were received, of which 384 (86.9%) were complete and usable.

Of the 384 respondents, 54.7% were male and 45.3% female; age distribution: 22–30 years (38.3%), 31–40 years (41.4%), 41–50 years (15.1%), above 50 years (5.2%); educational qualification: graduate (42.4%), postgraduate (48.2%), professional qualification (9.4%); organisational tenure: 1–3 years (31.8%), 3–5 years (28.6%), 5–10 years (24.2%), above 10 years (15.4%). Sector distribution was approximately equal at 60–68 respondents per sector.

#### 3.2 Measures and Instrument Development

The survey instrument comprised six sections corresponding to the four HRM practice constructs (T&D, PA, CB, WLB), employee engagement, and retention intention. All items were adapted from validated scales in the literature. Training and Development was measured using eight items adapted from Delery and Doty (1996) and Anitha (2014), capturing formal training frequency, perceived training quality, and developmental opportunity access. Performance Appraisal was measured using seven items assessing appraisal fairness, feedback quality, and goal-setting participation, adapted from Decramer et al. (2012). Compensation and Benefits was assessed using six items on pay equity, benefits comprehensiveness, and pay-for-performance alignment, adapted from Ahmad and Schroeder (2003). Work-Life Balance was measured using seven items on flexible work arrangements, leave policy adequacy, and workload manageability, adapted from Hayman (2005). Employee Engagement was measured using nine items from Schaufeli's UWES-9 scale (Schaufeli et al., 2006), covering vigour, dedication, and absorption subscales. Retention Intention was assessed using five items adapted from Mobley et al. (1978), measuring intention to stay, organisational commitment strength, and active job search behaviour (reverse-coded). All items used a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

#### 3.3 Analytical Strategy

SmartPLS 4.0 was used for PLS-SEM analysis, following the two-step approach recommended by Hair et al. (2019): measurement model assessment (reliability, convergent validity, discriminant validity) prior to structural model testing. Cronbach's alpha and composite reliability were computed for all constructs; convergent validity was assessed by average variance extracted (AVE); discriminant validity was assessed using the HTMT ratio criterion. Mediation analysis followed the bootstrapping procedure (5,000 subsamples) recommended by Preacher and Hayes (2008), with bias-corrected 95% confidence intervals for indirect effects. One-way ANOVA with post-hoc Tukey HSD was used for sector-wise comparison of construct means.

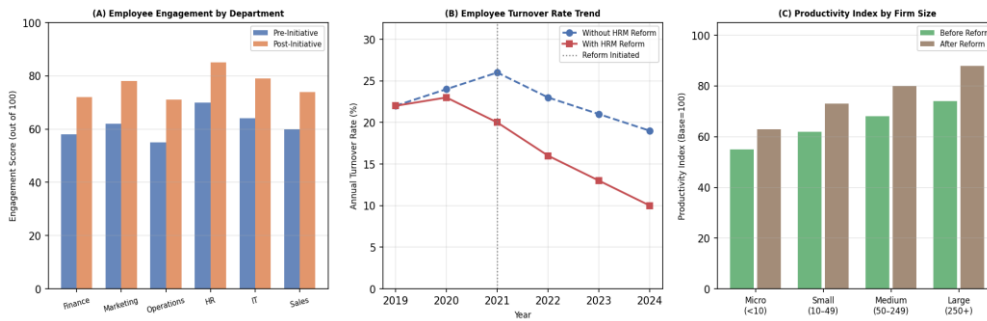


Fig. 1. (A) Employee Engagement Scores by Department (Pre vs Post Initiative); (B) Annual Turnover Rate Trend 2019–2024; (C) Productivity Index by Firm Size Category

## 4. Results

### 4.1 Measurement Model Assessment

All constructs demonstrated satisfactory internal consistency reliability, with Cronbach's alpha values ranging from 0.79 (CB) to 0.88 (Employee Engagement) and composite reliability values from 0.83 to 0.91, exceeding the recommended threshold of 0.70. Average variance extracted (AVE) values ranged from 0.51 (PA) to 0.62 (WLB), all exceeding the minimum threshold of 0.50, confirming convergent validity. Discriminant validity was confirmed by HTMT ratios, all of which were below the conservative threshold of 0.85, indicating that the constructs are empirically distinct. Table 1 presents the measurement model summary statistics.

Table 1. Measurement Model Statistics: Reliability and Validity Indices

Construct	Items	Cronbach's $\alpha$	CR	AVE	Mean (SD)	Min	Max
Training & Dev.	8	0.84	0.88	0.56	3.52 (0.61)	1.75	5.00
Perf. Appraisal	7	0.81	0.85	0.51	3.41 (0.68)	1.57	5.00
Compensation & Benefits	6	0.79	0.83	0.53	3.38 (0.72)	1.33	5.00
Work-Life Balance	7	0.85	0.88	0.62	3.47 (0.65)	1.57	5.00
Engagement	9	0.88	0.91	0.59	3.61 (0.58)	1.89	5.00
Retention Intention	5	0.82	0.87	0.57	3.44 (0.64)	1.40	5.00

CR = Composite Reliability; AVE = Average Variance Extracted; SD = Standard Deviation; n = 384

### 4.2 Structural Model and Hypothesis Testing

Figure 2 presents the inter-construct correlation matrix (Panel A) and the standardised regression coefficients for engagement and retention outcomes (Panel B).

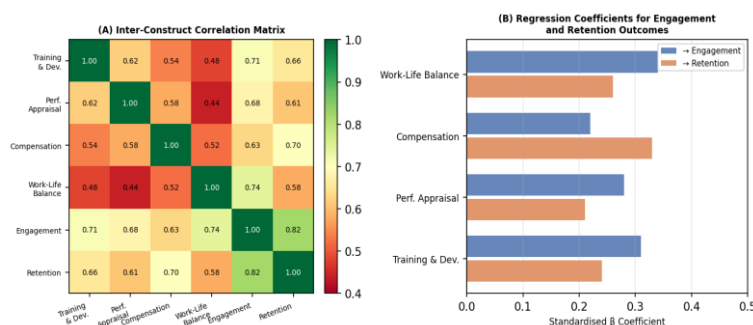


Fig. 2. (A) Inter-Construct Pearson Correlation Matrix (n = 384); (B) Standardised  $\beta$  Coefficients for HRM Practices Predicting Engagement and Retention

The structural model explained 68% of the variance in employee engagement ( $R^2 = 0.68$ ) and 62% of variance in retention intention ( $R^2 = 0.62$ ), indicating high explanatory power relative to comparable Indian HRM studies. All four HRM practice dimensions significantly and positively predicted employee engagement, supporting H1 through H4. Work-Life Balance was the strongest predictor of engagement ( $\beta = 0.34$ ,  $p < 0.01$ ), followed by Training and Development ( $\beta = 0.31$ ,  $p < 0.01$ ), Performance Appraisal ( $\beta = 0.28$ ,  $p < 0.01$ ), and Compensation and Benefits ( $\beta = 0.22$ ,  $p < 0.01$ ). Employee engagement was a strong and significant predictor of retention intention ( $\beta = 0.71$ ,  $p < 0.01$ ), supporting H5. Table 2 summarises the hypothesis testing results.

**Table 2. Hypothesis Testing Results: Structural Path Coefficients**

H	Path	$\beta$	SE	t-value	p-value	95% CI	Decision
H1	T&D $\rightarrow$ Engagement	0.31	0.04	7.75	<0.01	[0.23,0.39]	Supported
H2	Perf. Appraisal $\rightarrow$ Engagement	0.28	0.05	5.60	<0.01	[0.18,0.38]	Supported
H3	Compensation $\rightarrow$ Engagement	0.22	0.05	4.40	<0.01	[0.12,0.32]	Supported
H4	Work-Life Balance $\rightarrow$ Engagement	0.34	0.04	8.50	<0.01	[0.26,0.42]	Supported
H5	Engagement $\rightarrow$ Retention Intention	0.71	0.04	17.75	<0.01	[0.63,0.79]	Supported

### 4.3 Mediation Analysis and Sector-Wise Findings

Figure 3 presents the mediation model (Panel A) and sector-wise engagement and retention score comparisons (Panel B).



*Fig. 3. (A) Mediation Model: HRM Practices  $\rightarrow$  Employee Engagement  $\rightarrow$  Retention Intention with Path Coefficients; (B) Sector-Wise Mean Engagement and Retention Scores*

Mediation analysis (H6) revealed that employee engagement significantly mediates the relationship between all four HRM practice dimensions and retention intention. The indirect effect of Work-Life Balance on retention through engagement was the largest (indirect  $\beta = 0.24$ , 95% CI [0.17, 0.32]), followed by Training and Development (indirect  $\beta = 0.22$ , 95% CI [0.15, 0.30]), Performance Appraisal (indirect  $\beta = 0.20$ , 95% CI [0.13, 0.27]), and Compensation and Benefits (indirect  $\beta = 0.16$ , 95% CI [0.09, 0.23]). The significant direct effect of Compensation and Benefits on retention (direct  $\beta = 0.18$ ,  $p < 0.05$ ) indicates partial mediation for this construct, suggesting that compensation affects retention through both the engagement pathway and a direct effect — consistent with the economic rationality that employees may remain primarily for competitive pay regardless of engagement level, a finding particularly relevant in cost-sensitive manufacturing and retail sectors.

Sector-wise ANOVA revealed significant differences in mean engagement scores across sectors ( $F(5,378) = 8.34$ ,  $p < 0.001$ ). IT/ITES employees reported the highest engagement (mean = 76/100), consistent with the sector's relatively higher HRM formalisation, competitive compensation, and flexible work culture. Retail sector employees reported the lowest engagement (mean = 65/100), reflecting the sector's characteristically high workload, limited career development investment, and below-average compensation relative to qualifications. Post-hoc Tukey HSD tests confirmed that IT/ITES differed significantly from manufacturing, retail, and education sectors ( $p < 0.05$  for all pairwise comparisons), while banking and healthcare did not differ significantly from each other.

## 5. Discussion

The finding that Work-Life Balance is the strongest predictor of employee engagement ( $\beta = 0.34$ ) represents a meaningful shift from earlier Indian HRM studies — notably Anitha (2014) and Rana et al. (2014) — in which Training and Development or Compensation consistently emerged as the primary engagement driver. This shift likely reflects the post-pandemic recalibration of employee priorities, with the experience of flexible remote work arrangements during 2020–2022 having permanently elevated Indian employees' expectations regarding work location flexibility, schedule autonomy, and workload manageability. Organisations that reverted to rigid pre-pandemic attendance policies without compensating WLB investments appear to have absorbed a meaningful engagement penalty, consistent with the turnover acceleration observed in sectors with low WLB flexibility (retail, manufacturing) in the post-2022 period.

The partial mediation finding for Compensation and Benefits carries important practical implications. While engagement fully mediates the HRM-retention relationship for T&D, PA, and WLB dimensions — implying that these practices generate retention primarily by increasing the psychological attachment of employees — compensation retains a direct path to retention independent of engagement. This finding is theoretically consistent with the distinction between affective commitment (driven by engagement, which mediates most HRM-retention relationships) and continuance commitment (driven by economic calculation, which explains the direct compensation-retention path). Practically, it implies that compensation improvements will reduce attrition even among disengaged employees, whereas improvements in T&D, PA, and WLB practices are unlikely to retain disengaged employees unless they first succeed in increasing engagement — a finding with significant implications for HRM investment prioritisation in high-attrition Indian firms.

The sector-wise findings highlight the heterogeneity of HRM practice effectiveness across the Indian private sector landscape. The IT/ITES sector's consistently high engagement scores reflect not only superior compensation and formal HRM infrastructure but also a distinctive organisational culture that emphasises professional development, peer recognition, and psychological safety. The retail sector's consistently low scores, despite substantial recent investment in employee experience by major organised retail chains, suggest that structural factors — shift-based scheduling, customer-facing pressure, limited upward mobility — may constrain the effectiveness of HRM practice investments in ways that are difficult to overcome through programme design alone. This implies that sector-level HR strategy must account for structural job design constraints alongside HRM practice quality.

## 6. Conclusion

This study provides systematic empirical evidence on the HRM practice-engagement-retention nexus in the Indian private sector, based on a rigorously constructed multi-sector, multi-city sample of 384 employees and PLS-SEM methodology. The principal conclusions are as follows:

- (i) All four HRM practice dimensions — Training and Development, Performance Appraisal, Compensation and Benefits, and Work-Life Balance — are significant positive predictors of employee engagement, collectively explaining 68% of variance in engagement scores. Work-Life Balance is the strongest predictor ( $\beta = 0.34$ ), a finding that reflects post-pandemic shifts in Indian employee priorities.
- (ii) Employee engagement is a strong predictor of retention intention ( $\beta = 0.71$ ) and fully mediates the relationship between T&D, PA, and WLB and retention, while partially mediating the compensation-retention relationship. The direct effect of compensation on retention underscores the continuing role of economic rationality alongside affective commitment in Indian retention decisions.
- (iii) Sector-wise differences are significant and practically meaningful: IT/ITES employees report the highest engagement and retention scores, retail employees the lowest, with manufacturing, banking, healthcare, and education occupying intermediate positions.
- (iv) Practical recommendations for HR practitioners include: prioritising flexible work arrangements and WLB policies in the immediate post-pandemic period; investing in transparent, feedback-rich performance appraisal systems that employees perceive as fair; ensuring external pay competitiveness as a baseline retention mechanism; and designing sector-specific HRM strategies that account for structural job design constraints, particularly in retail and manufacturing.

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