THE IMPACT OF HUMAN RESOURCE MANAGEMENT PRACTICES ON EMPLOYEE RETENTION IN SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM EMPLOYEE-LEVEL SURVEY DATA

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Abstract
Objective: This paper analyses the effect of six HRM practices (compensation & benefits, career development, quality of work life, empowering leadership, performance management, recognition & rewards) on employee retention of SME organizations from a social exchange perspective. Design/methodology-/approach: Employs secondary employee-level survey data on 145 employees of a business process outsourcing firm, SME in size. Constructs were validated via exploratory factor analysis and reliability testing; hypotheses tested using ordinary least squares regression with HC3 robust standard errors, bootstrap confidence intervals, dominance analysis, and an exploratory moderation analysis. Findings: The model accounts for 56.1% of the variance in employee retention. Empowering leadership ($\beta = 0.409$, $p = .021$) and quality of work life ($\beta = 0.329$, $p = .009$) are the only significant unique predictors identified. Compensation and benefits, career development, performance management, and recognition and rewards each display significant bivariate relationships with retention, but do not show significant multivariate associations. An exploratory moderation analysis indicates a substitutive interaction: career development is associated with retention primarily when empowering leadership is low. Originality/value: Providing rare employee-level quantitative data from an SME context, the research shows that relational HRM levers — empowering leadership and quality of work life — rather than financial incentives, drive retention when resources are limited, and offers owner-managers low-cost, high-yield retention strategies.

1. Introduction

Small and medium enterprises (SMEs) make up the vast majority of firms globally and represent a significant portion of private-sector employment and value added, with estimates usually ranging from about half to two-thirds of employment depending on the country (Harney & Alkhalaf, 2021; Kotey & Slade, 2005). The ability of SMEs to grow, innovate, and compete effectively is therefore inherently tied to their capacity to attract and keep a committed workforce. But retention is also one of the most intractable labour challenges for small firms – and becomes all the more problematic in skill-short, competitive labour markets (Harney & Alkhalaf, 2021; Sungwa, 2025). Turnover is particularly damaging to smaller organisations, as departing employees take firm-specific tacit knowledge that is unlikely to be documented within an SME, break ongoing customer relationships, incur the recruiting and training costs that are more significant relative to a small payroll, and destabilise work teams where every worker contributes an outsized portion of overall workload (Harney & Alkhalaf, 2021; Hom et al., 2017).

Since SMEs often do not have a dedicated human resource (HR) department, decisions about retention fall to owner-managers, who must divide limited resources among various needs (Kotey & Slade, 2005). Identifying which human resource management (HRM) practices effectively support retention in SMEs is therefore a matter of both practical and theoretical significance.

Yet until recently, the research literature on HRM and retention has been dominated by large-firm research. The seminal high-performance work system studies (Huselid, 1995; Appelbaum et al., 2000) and meta-analyses (Combs et al., 2006; Zhai et al., 2025) are weighted toward large-firm samples where formalized HRM is ubiquitous. SMEs differ systematically from large firms in the HRM they implement: it is less formal, more owner-mediated, more limited in scope, and more experienced through the lens of daily interactions than through systems (Flamini et al., 2025; Harney & Alkhalaf, 2021). Recent meta-analytic studies have found that the impacts of high-performance work practices are weaker and more variable across organizational units in SMEs and advocate a focus on the employee level of analysis to determine which practices lead to which outcomes (Hansen et al., 2025). New SME-focused research attempts to address this demand, but studies are primarily still qualitative, single-practice, or confined to single national contexts (Mwangi, 2026; Shaikh & Khalique, 2025; Sungwa, 2025).

The present paper fills this gap by using employee-level survey data on 145 employees from a BPO (business process outsourcing) firm of a size range that falls well into the SME category. The six HRM practices (compensation and benefits, career development, quality of work life, empowering leadership, performance management, and recognition and rewards) are examined simultaneously as predictors of employee retention, with a preliminary exploration of whether empowering leadership has a substitutive effect on career development. There are three contributions. First, this paper provides the seldom-available employee-level quantitative evidence about the relative importance of six different HRM practices within a single SME, overcoming the widespread large-firm bias of the mainstream literature (Hansen et al., 2025; Harney & Alkhalaf, 2021). Second, because it integrates robust regression estimation with dominance analysis and bootstrap inference, it can compare the unique versus shared contribution of each practice, rather than providing a yes/no hypothesis test (Tonidandel & LeBreton, 2011). Third, it provides owner-managers with grounded, research-based guidance on the relative importance of retention levers in a small-company context. The rest of the article develops the theory and hypotheses, presents the data and analysis, and discusses the results and implications. 2.1 Employee retention in the SME context Employee retention is defined here as the attitudinal correlate of turnover: it captures the attachment and stay-intention, as a positive impetus, that keeps employees with their organization, rather than the behavior of leaving the organization. In empirical research, retention is often operationalized by a combination of affective commitment and intention-to-stay, as actual departure occurs in real time and is not available for cross-sectional research (Hom et al., 2017; Meyer & Allen, 1991). Affective commitment, the emotional attachment that stimulates stay, has been identified as a reliable proximal predictor of actual retention, and meta-analyses have found a negative association between affective commitment and both actual turnover and turnover intentions (Hom et al., 2017). Employee retention, in this case, is the positive inverse to the withdrawal cycle that the literature on turnover has established for decades.

1.1. Literature Review and Hypothesis Development

1.1.1. Employee retention in the SME context

With regard to SMEs, the retention challenge has a different flavour. The small-scale, individual nature of most small businesses does not lend itself to categorizing pay grades, set career ladders or well-resourced HR departments; HRM happens in a more individualistic, informal manner through the eyes of owner-manager and line SME employees, as such their employment conditions are felt on a more personal level and therefore many of the cues from which this relationship is mediated emanate from the behavior of managers (Flamini et al., 2025). At the same time, SMEs are structurally deprived of some of the attractions for talent that larger businesses offer in terms of salary and benefit scales and career progression (Hansen et al., 2025; Kotey & Slade, 2005). Taken together, these circumstances provide an ideal setting in which to test the relative strength of various HRM levers on retention in a money driven context. Recent studies focused on SMEs indicate that strategic HRM practices can significantly improve the effectiveness of small, medium, and micro enterprises (Sungwa, 2025). Additionally, HR practices are found to be positively linked to employee retention in SMEs within emerging markets (Mwangi, 2026), although the specific importance of various practices is still not well understood. 2.2 Theoretical framework: This research is primarily based on social exchange theory (SET). Quality of work life (WLQ) describes the overall experience of working, which includes having a physically and

psychologically supportive environment and the capacity to balance work with personal life. Recent findings identify work-life balance as one of the most significant predictors of employee retention across various organizational settings (Shaikh & Khalique, 2025). Career development and empowering leadership both signal that the organization values employee growth and trusts their judgment – career development does so by offering structural opportunities, while empowering leadership achieves this through everyday managerial actions. In small and medium-sized enterprises (SMEs), where formal career progression paths are often limited or brief, empowering leadership may substitute for career development, or the reverse.

1.2. Theoretical framework

Blau (1964) contrasted social exchange, which involves ongoing, trust-based relationships in which the obligations are not clearly defined or delineated, with economic exchange in which specific terms are agreed upon in advance and the exchange is quid pro quo. In employment, SET would hold that employees are motivated to be loyal and engaged and less likely to leave as a result of the positive treatment they perceive to have received (Cropanzano & Mitchell, 2005). An employee will evaluate the socio-emotional resources (support, recognition, development, respectful treatment) provided by the organization, and when those resources accumulate into a perceived relational debt, the employee will respond by increasing attachment and remaining with the organization. Empirically, organizational support and leader support are some of the most powerful predictors of commitment and retention (Cropanzano & Mitchell, 2005; Kim, 2024).

Two perspectives augment this SME framing. The resource-based view (RBV) notes that sustainable competitive advantage derives from resources that are valuable, rare and hard to imitate (Barney, 1991). In SMEs, where capital, technology, and scale are seldom differentiators, the inimitable resource par excellence is the human and relational capital within a stable, engaged workforce – so human capital retention becomes a strategic asset and source of sustainable advantage, rather than simply an administrative HR function. Likewise, the ability–motivation–opportunity (AMO) perspective indicates that practices contribute to outcomes by enhancing capacity, energizing motivation, and providing autonomy and discretion (Appelbaum et al., 2000). These practices have been bundled together in large-firm research into high-performance work systems for which the impacts on performance and retention are well established (Huselid, 1995; Kwon et al., 2024). The bundling was loosened in SMEs: practices are adopted selectively and informally, which renders it analytically meaningful to predict the impact of each practice individually (Hansen et al., 2025; Zhai et al., 2025). Therefore, the present study considers six practices individually as the predictors of retention.

1.2.1. HRM practices and employee retention

Compensation and benefits comprise the economic core of the employment exchange. Equitable and competitive remuneration signals the value the organization places on the employee, and dissatisfaction with pay is a well-known reason for seeking other employment (Hom et al., 2017). However, when relational practices are considered, the evidence on compensation is mixed: pay shows weaker and less consistent links with commitment compared to supervisory and developmental resources (Cropanzano & Mitchell, 2005), and SMEs, which are limited in their pay budgets, may not be able to retain employees through compensation alone (Hansen et al., 2025; Kotey & Slade, 2005). In call-center environments similar to BPO work, perceptions of compensation predict turnover intentions, but these are less influential than relational factors (Benabou & Touhami, 2026). Thus, the present study examines this traditional assumption within the SME context.

Career development encompasses employees' perceptions of promotion chances, the performance/reward link, and employees' perceptions of developmental opportunities. Developmental investments presuppose a long-term focus on the employee and are positively related with commitment and retention (Meyer & Allen, 1991; Shaikh & Khalique, 2025). For SMEs, this constitutes an even more difficult test, where formal promotion prospects are very limited (due to flat hierarchies and narrow promotion slots), but where development opportunities can still constitute a relational signal that the firm is investing in the employee's future (Harney & Alkhalaf, 2021; Mwangi, 2026).

Empowering leadership captures the extent to which leaders distribute power, solicit input in decision making, express confidence in employees' abilities, and empower workers to choose how to do their jobs (Ahearne et al., 2005). Empowerment is key to satisfying employee needs for autonomy and competence, and increases the relational quality of the leader-employee relationship, which in turn correlates with commitment and performance. In SMEs, the direct supervisor is often the owner or an executive-level manager, and so empowering leader behaviors are experienced directly without the buffer of layers of hierarchy or management, making their relational signaling significantly stronger (Harney & Alkhalaf, 2021; Kim, 2024). High-performance work system studies similarly highlight that participative arrangements influence relationships through relational mechanisms such as the psychological contract, rather than through their formal architecture (Kim, 2024; Kwon et al., 2024).

Performance management involves supervisory methods that track performance, offer feedback, and apply rewards or sanctions based on outcomes. Effective performance management, a core component of HPWS (Huselid, 1995) in large firms, has been associated with lower turnover intention (Benabou & Touhami, 2026) in service environments. Recognition and rewards — the extent to which effort is met with adequate rewards and visible recognition — represent a distinct socio-emotional strand: recognition (among the least expensive HRM levers a resource-constrained SME can leverage) also features prominently in SME retention studies (Hansen et al., 2025; Sungwa, 2025).

After SET and the SME debates above, all six practices should be positively related to retention, but their coefficients are likely to be very different once shared variance is partialed out. Specifically:

H1. Compensation and benefits are positively related to employee retention.
H2. Career development is positively related to employee retention.
H3. Quality of work life is positively related to employee retention.
H4. Empowering leadership is positively related to employee retention.
H5. Performance management is positively related to employee retention.
H6. Recognition and rewards are positively related to employee retention.

1.2.2. Exploratory moderation

Since this reasoning is exploratory in the current data, it is proposed in the form of a question instead of directional hypotheses: Is the relation between career development and employee retention moderated by the level of empowering leadership? The complete model is summarized in Figure 1.

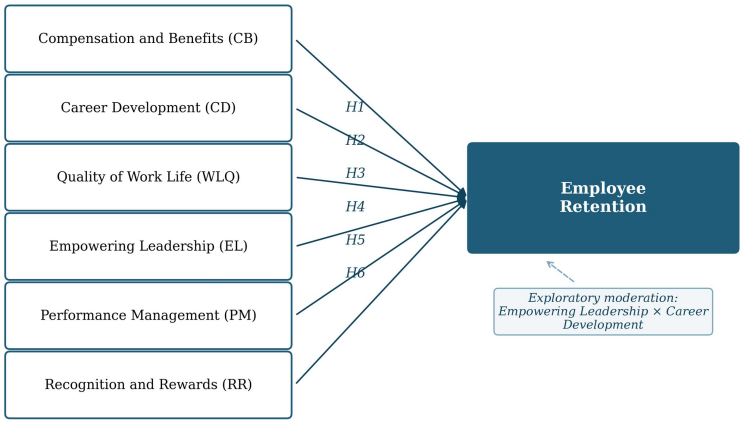


Figure 1. Hypothesized Research Model.

2. Method

2.1. Research design and data

This study uses a quantitative, cross-sectional survey design based on secondary data analysis. The data come from an employee survey conducted in a business process outsourcing (BPO) firm that serves as an external provider to a single international client — a business arrangement where the provider is generally much smaller than the client. The survey was administered online to the firm's employees between November 2019 and February 2020, resulting in 145 complete responses, each linked to an anonymized respondent code. The size of the participating firm's workforce, its single-client model, and the available dataset documentation all suggest that the firm operates below the 250-employee threshold set by the European Commission's (2003) SME definition; with 145 surveyed employees, the firm likely falls within the upper-small to medium category (50–249 employees) of that definition. Because no formal certification was carried out on the firm size, this is treated as an inference and further restated in the limitations section. The complete dataset with item wording and response coding is publicly available in a research data repository with an open distribution license (rgkeat, 2020), allowing independent replication of all the analyses reported in this article.

There are two benefits to using secondary data for the current purpose. First, the data were collected by the original researcher for purposes other than the present hypotheses, whereas purpose-built surveys are subject to greater levels of confirmation bias. Second, as the raw data at the item level are publicly available, the entire analysis pipeline can be replicated. The disadvantages particularly the missing demographic control variables and turnover information are addressed in Section 7.

2.2. Measures

The questionnaire included 23 statements measured on a 5-point Likert-type scale (ranging from 1 (strongly disagree) to 5 (strongly agree)). Item content was mapped directly onto the six HRM practice constructs of the research model plus a retention outcome, and the measurement model put forward in Table 1 was delineated by the identification of content-to-construct links and the test of its dimensionality (Section 4.1). Employee retention was conceptualized as a 3-item scale of willingness to put forth effort for the firm, willingness to work at any job to keep working for it, and concern for the firm's image (an index reflecting the affective-commitment component of the measurement of retention, following definitions used when behavioral data were lacking, e.g., Meyer & Allen, 1991; Hom et al., 2017). Compensation and benefits were measured with items about pay fairness, allowance satisfaction, and benefits competitiveness. One reverse worded benefits item did not load on the expected factor and instead created its own method factor, a common problem with negatively worded items in brief scales (Podsakoff et al., 2003); it was dropped and the other three were used.

Table 1. Operationalization of constructs, item composition, and reliability (N = 145).

Construct	Role	Items	Sample item	α
Compensation and benefits (CB)	IV	Q1, Q2, Q4	I feel I am being paid a fair salary for the work I do	.67
Career development (CD)	IV	Q5, Q6, Q17	I am satisfied with the ample development opportunities offered at work	.70
Quality of work life (WLQ)	IV	Q7, Q8, Q19, Q20	I can balance work priorities with my personal life	.75
Empowering leadership (EL)	IV	Q11, Q12, Q15, Q16, Q21	My direct superior(s) provides me freedom to make important decisions regarding my work	.87
Performance management (PM)	IV	Q13, Q14	My direct superior(s) gives appropriate rewards and punishments for my performance	.89
Recognition and rewards (RR)	IV	Q18, Q22	I notice that my efforts are properly recognized	.79
Employee retention (RET)	DV	Q9, Q10, Q23	I would accept any form of job assignment in order to keep working for this organization	.82

Note. IV = independent variable; DV = dependent variable. α = Cronbach's alpha. All items were scored on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Sample items are quoted verbatim from the original instrument (rgkeat, 2020). The reverse-worded benefits item (Q3) was excluded after exploratory factor analysis revealed a distinct method factor.

2.3. Analytical strategy

The analysis was performed in five stages, all using Python 3.12 and the pandas, stats models, factor analyzer, and matplotlib libraries (see the code base in the supplementary code document attached to this article). First, the 23-item scale's dimensionality was assessed through exploratory factor analysis (EFA) using principal-components factor extraction with promax rotation following evaluation of the Kaiser–Meyer–Olkin (KMO) sampling adequacy and Bartlett's test of sphericity. Second, construct scores were calculated as means across items, and internal consistency was examined through Cronbach's alpha (Cronbach, 1951). Third, the distribution of values was characterized using descriptive statistics, and Pearson correlations were used to justify the use of parametric analyses and to identify multicollinearity. Fourth, the six hypotheses were tested via ordinary least squares (OLS) regression by regressing employee retention on the six practice scores (entered simultaneously). HC3 heteroskedasticity-consistent standard errors and t-distribution inferences were based on residual degrees of freedom. In addition, a bootstrap procedure (random seed 2026, 5,000 resamples) was used to derive percentile confidence intervals of the standardized coefficients. Eigenvalues of the item correlation matrix were greater than 1 for the first five factors (λ = 9.36, 2.34, 1.42, 1.12, and 1.03) with a fairly strong first factor. For simplicity, a four-factor promax solution was reported that accounted for 60.9% of the overall item variance (24.2%, 16.4%, 14.9%, and 5.4% rotated factor). The relative importance of each practice was assessed through general dominance analysis, averaging each predictor's incremental R2 contribution across all possible predictor orderings (Tonidandel & LeBreton, 2011). Fifth, the exploratory moderation question was addressed by including a product term between mean-centered empowering leadership and career development in the regression. Simple slopes were examined at one standard deviation below the mean, at the mean, and at one standard deviation above the mean. All regression models, including those for moderation and robustness checks, were estimated with HC3 standard errors. A robustness check was performed by re-estimating the main model with a more conservative two-item retention criterion. All statistical tests were two-tailed with a significance level of .05.

3. Results and Discussion

3.1. Results

3.1.1. Measurement model

The data were appropriate for factor analysis: the KMO measure of sampling adequacy was .89, which is well above the standard .60 threshold, and Bartlett's test of sphericity was significant, $\chi^2(253) = 1972.4$, $p < .001$. The rotated solution also extracted separate factors for the compensation-and-development content, supervisory-and-treatment content and commitment content, generally consistent but not quite congeneric with the seven content-based composites in Table 1. Composite scores were thus based on item content and the problem of their discriminant validity will be noted as a limitation (Section 7). Internal consistency was .67 to .89 across each of seven scales, with the compensation-and-benefits scale (α = .67) lying below the usual convention of .70, and the career-development scale (α = .70) on the threshold of that standard (considered tolerable for brief, exploratory scales; Nunnally, 1978). The other scales ranged from .74 to .89, and the retention scale was .82. Descriptive statistics and correlations: Table 2 shows the means, standard deviations, and correlations; Figure 2 indicates the distributions of scores for all constructs with fitted normal curves, and Figure 3 depicts the correlation structure.

3.1.2. Descriptive statistics and correlations

Respondents rated empowering leadership (M = 4.22, SD = 0.67), performance management (M = 4.18, SD = 0.91), and quality of work life (M = 4.08, SD = 0.70) most favorably, while compensation and benefits (M = 3.03, SD = 0.91) and recognition and rewards (M = 3.47, SD = 1.01) received the lowest scores — a pattern typical of SMEs that cannot match large-firm pay and formal reward systems (Kotey & Slade, 2005). Employee retention averaged 4.22 (SD = 0.72). All six HRM practices were positively and significantly correlated with retention, ranging from $r = .26$ ($p < .01$) for compensation and benefits to $r = .69$ ($p < .01$) for empowering leadership. The predictors' intercorrelations were large (largest $r = .81$ between empowering leadership and performance management), and variance inflation factors were below 4. However, the high overlap of the two

supervisory measures means the individual effect for each supervisory construct is estimated with limited accuracy, which is accounted for in the dominance analysis of Section 4.4.

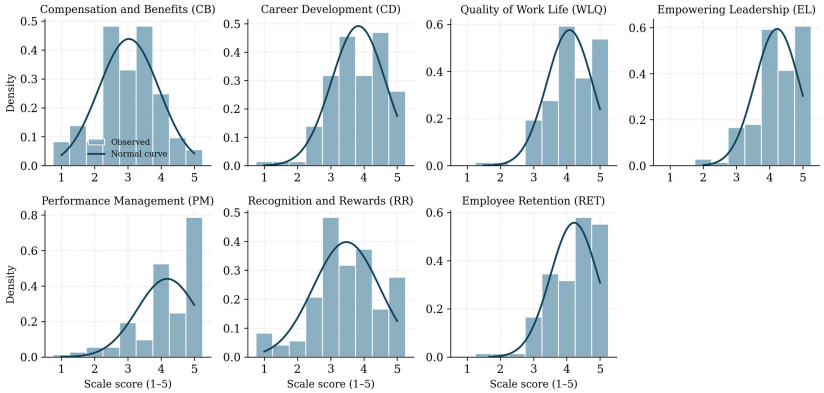


Figure 2. Distributions of construct scores with fitted normal curves (N = 145).

Table 2. Descriptive statistics, correlations, and reliabilities (N = 145).

Variable	M	SD	1	2	3	4	5	6	7
1. Compensation and benefits	3.03	0.91	(.67)						
2. Career development	3.83	0.81	.42**	(.70)					
3. Quality of work life	4.08	0.70	.38**	.62**	(.75)				
4. Empowering leadership	4.22	0.67	.23**	.54**	.71**	(.87)			
5. Performance management	4.18	0.91	.20*	.52**	.58**	.81**	(.89)		
6. Recognition and rewards	3.47	1.01	.56**	.60**	.58**	.46**	.45**	(.79)	
7. Employee retention	4.22	0.72	.26**	.53**	.68**	.69**	.56**	.44**	(.82)

Note. Cronbach's alpha on the diagonal in parentheses. * p < .05. ** p < .01 (two-tailed).



Figure 3. Correlation heatmap of study constructs (N = 145).

3.1.3. Hypothesis testing

Table 3 presents the OLS regression results for employee retention based on six HRM practices, while Figure 4 displays the standardized coefficients along with their bootstrap confidence intervals. The model was significant, robust Wald $F(6, 138) = 27.41$, $p < .001$, accounting for 56.1% of the variance in employee retention (adjusted $R^2 = .542$; 95% bootstrap CI for R^2

[.444, .705]). Variance inflation factors ranged from 1.53 to 3.94, remaining below commonly accepted thresholds.

Supporting H4, empowering leadership was the most important unique predictor of retention, B = 0.436, SE = 0.187, β = .409, t = 2.33, p = .021, 95% CI for β [.060, .686]. Supporting H3, quality of work life was the next most important predictor, B = 0.340, SE = 0.129, β = .329, t = 2.63, p = .009, 95% CI for β [.110, .576]. The other four practices were not significantly uniquely related to retention once the relational predictors were statistically controlled: career development was in the hypothesized direction (β = .120, p = .235), but was not significantly different from zero; compensation and benefits (β = −.003, p = .974), performance management (β = −.018, p = .909), and recognition and rewards (β = −.001, p = .990) were all statistically indistinguishable from zero. As a result, H1, H2, H5, and H6 were not supported in the multivariate test, although all six practices had statistically significant positive bivariate correlations with retention as reported in Table 2.

Table 3. OLS regression of employee retention on HRM practices (N = 145).

Predictor	B	SE	β	95% CI for β	t	p
Constant	0.653	0.319	—	—	2.05	.042
Compensation and benefits	−0.002	0.061	−.003	[−0.150, 0.132]	−0.03	.974
Career development	0.106	0.089	.120	[−0.071, 0.286]	1.19	.235
Quality of work life	0.340	0.129	.329	[0.110, 0.576]	2.63	.009
Empowering leadership	0.436	0.187	.409	[0.060, 0.686]	2.33	.021
Performance management	−0.014	0.125	−.018	[−0.266, 0.279]	−0.12	.909
Recognition and rewards	−0.001	0.083	−.001	[−0.198, 0.229]	−0.01	.990
R^2 / Adjusted R^2	.561 / .542					
Robust Wald F(6, 138)	27.41***					
95% CI for R^2	[.444, .705]					
VIF range	1.53–3.94					

Note. SE = HC3 heteroskedasticity-consistent standard error; inference based on the t distribution with 138 residual degrees of freedom; β = standardized coefficient; CI = percentile bootstrap confidence interval for β based on 5,000 resamples (seed 2026). *** p < .001.

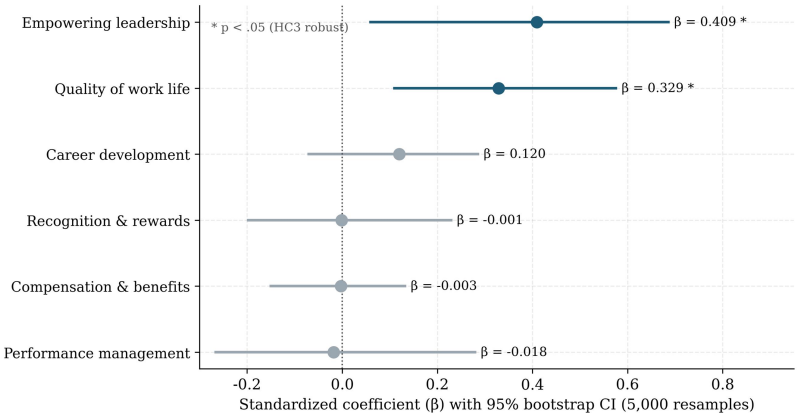


Figure 4. Standardized regression coefficients with 95% bootstrap confidence intervals (N = 145).

3.1.4. Relative importance of the practices

Because the six practices are highly correlated with each other (Table 2), the regression coefficients underrepresent the total variance accounted for by each practice. General dominance analysis (which apportions R^2 for all orderings of the predictors, Tonidandel & LeBreton, 2011) provides a more accurate accounting. As can be seen from Figure 5, empowering leadership (31.7% of the explained variance) and quality of work life (30.1%) contributed nearly two-thirds of the total variance in the model, with performance management (15.2%), career development (13.3%), recognition and rewards (7.4%), and compensation and benefits (2.4%) following in that order; dominance weights indicate the total variance explained by each predictor, including its variance in

common with the other predictors, and can be interpreted together with the unique effects in Table 3; percentages do not necessarily sum to 100 due to rounding. When read in this fashion, the two relational practices that produced the unique effects also account for the shared variance, adding to the evidence that they form the core of the SME retention structure.

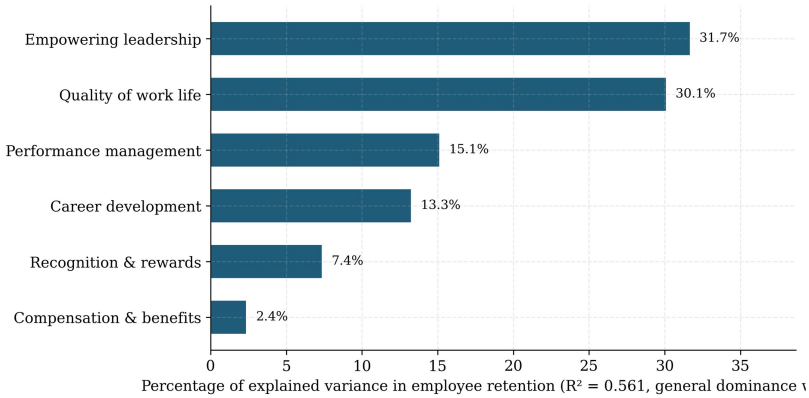


Figure 5. General dominance analysis: percentage of explained variance in employee retention attributable to each HRM practice.

3.1.5. Exploratory moderation analysis

The exploratory moderation analysis examined whether the relationship between career development and retention varies based on the level of empowering leadership. Including the mean-centered interaction term in the regression raised the explained variance to 57.4% and revealed a significant negative interaction, B = −0.158, p = .031. As shown in Figure 6, simple-slopes analysis indicated that career development was significantly and positively related to retention when empowering leadership was low (one standard deviation below the mean), b = 0.236, SE = 0.105, p = .025. At the mean level of empowering leadership, the association was positive but not significant, b = 0.130, SE = 0.089, p = .147. When empowering leadership was high, the relationship was statistically non-significant, b = 0.023, SE = 0.098, p = .815. This pattern aligns with a substitution logic: when daily managerial empowerment is limited, perceived career development becomes more important for retention, whereas in contexts with high empowering leadership, additional career development has less impact.

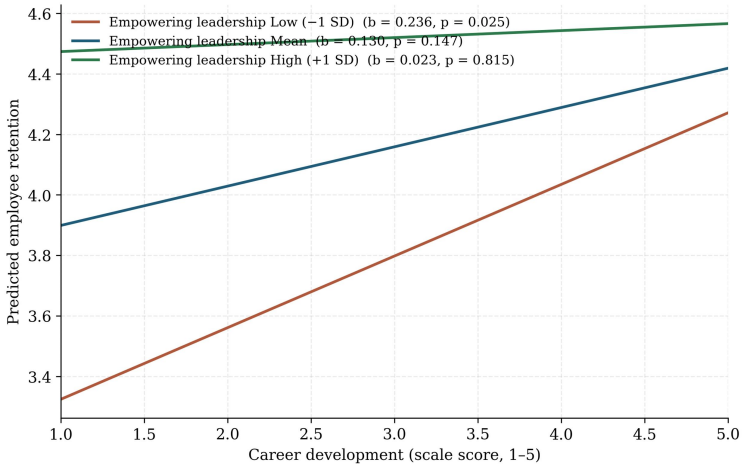


Figure 6. Simple slopes of career development predicting employee retention at low, mean, and high levels of empowering leadership (N = 145).

3.1.6. Robustness Checks

Two robustness checks confirmed the direction and sequence of the effects. First, when the main model was re-estimated on the harsher two-item retention decision rule (for the two willingness-to-stay items; α = .76), I found the same order of effect sizes and significance levels as

above: quality of work life was significant (β = .316, p = .028), empowering leadership was similar in magnitude but narrowly missing p = .05 (β = .341, p = .066), replicating the same relatively lower reliability of the two-item outcome; and monetary and formal practices remained ineffective (all |β| ≤ .16). Second, I could reach the same conclusions as above with the bootstrap confidence intervals in Table 3, which are largely consistent with the HC3 inference (except only for the intervals for the two relational practices do not contain zero). This, then, is not a substantive matter of how the operationalization of retention is decided nor the standard-error estimator used, although the stricter retention rule yields a less precise estimate of the empowering-leadership effect. This study asked which HRM practices impact employee retention, in an SME context where financial and other resources are constrained, and organizational structure remains flat, HRM gets expressed through the hands-on behavior of managers on the ground.

3.2. Discussion

The results are crystal clear in just one dimension, however: For the two practices that had statistically and significantly different effects in the main model (1) empowering leadership, and (2) quality of work life – both were aspects that were communicated via ongoing interactions and the workplace climate, rather than compensation, formal performance management, or reward systems. The substitution effect provides support for the notion that HRM systems can be substituted in the message they communicate to employees (Cropanzano & Mitchell, 2005): Development opportunities and daily empowerment both signal that the organization cares about the employee's development, and so a high level of one can compensate for the lack of the other. This is hopeful for flat SME hierarchies – it suggests that sparse promotion opportunities can be supplemented by managers communicating with, granting authority to, and trusting employees as part of the organizational family (Harney & Alkhalaf, 2021). Supervisory empowerment skills should be part of selecting employees for promotion, rather than promoting and then spending a lot of time developing new supervisors. Last, do lightweight coaching for current supervisors instead of formal leadership training. Before discussing this pattern further, the findings are summarized in relation to the hypotheses. H4 and H3 were supported: empowering leadership (β = .409) and quality of work life (β = .329) were significant unique predictors of retention. H1, H2, H5, and H6 were not supported in the multivariate model, although all six practices were positively correlated and significantly so with retention at the bivariate level and the exploratory moderation question was answered affirmatively by a substitutive interaction between career development and empowering leadership.

The contrast between the bivariate and multivariate results is informative rather than contradictory. Compensation and benefits correlated .26 with retention, consistent with research on pay satisfaction and withdrawal cognitions (Hom et al., 2017), but its unique coefficient was nearly zero when empowering leadership and quality of work life were controlled. According to SET, in this SME and its labor market segment, pay perceptions are closely linked with the relational climate. Employees who feel fairly paid also tend to feel heard, supported, and well led, and it is this relational bundle, rather than pay alone, that explains retention. This concurs with the conclusion that compensation-related perceptions matter relatively weakly compared to relational factors in service environments (Benabou & Touhami, 2026), and further substantiates the claim that, in the battle of the wage, the small- and medium-sized firm wins on the social exchange side of the employment relationship (Hansen et al., 2025; Kotey & Slade, 2005).

The primacy of empowering leadership is much in keeping with the theory and with emerging SME evidence. Delegating is a signal of trust and autonomy, two socio-emotional resources that employees reciprocate with attachment (Ahearne et al., 2005; Cropanzano & Mitchell, 2005). In an SME, where the supervisor is likely to be the owner and – without organizational layers – there are none to blur that signal, it may be experienced undiluted – which may be why leadership itself accounted for 31.7% of the explained variance. This echoes Kim's (2024) new finding that high-performance practices influence outcomes through relational psychological contracts rather than their formal design, and Kwon et al.'s (2024) finding that the quality of the employee-relations component of HPWS influences their performance effects. Quality of work life, the second relational pillar, aligns with recent multi-predictor findings that work life balance is among the strongest factors influencing retention (Shaikh & Khalique, 2025). It also reflects the increasing agreement that well-being is a key mechanism connecting HRM to sustainable workforce outcomes (Makhdoom & Jamali, 2025).

The exploratory moderation introduces a theoretically relevant detail. Career development showed a positive link with retention only when empowering leadership was low; when leadership already empowered employees, career development did not provide additional benefits.

Finally, the strong overall model, which explains 56.1% of the variance, compares well with individual-level HRM studies and supports the view that employee-level outcomes are where SME HRM effects are most apparent (Hansen et al., 2025). The order of importance (empowering leadership, quality of work life, performance management, career development, recognition, compensation) provides a prioritized framework that builds on country-level and organizational-level research on HPWS in SMEs (Naskar et al., 2025; Zhai et al., 2025), illustrating how the hierarchy of factors appears from the perspective of an employee within a single SME.

3.3. Practical Implications

For owner-managers of SMEs, the results suggest a practical and low-cost approach. Leadership behavior offers the greatest return for retention: training supervisors to delegate meaningful decisions, seek employees' input, provide autonomy in work methods, and show clear respect is much less expensive than increasing pay and, according to these data, was a stronger predictor of retention than any financial incentive (Ahearne et al., 2005).

Second, quality of work life should be proactively managed on a cost-effective basis: straightforward, predictable scheduling; selectively adjusting workloads to avoid chronic overtime; authentic flexibility when the business form can support it; and visible concern for the state of the physical work environment. These factors affect the day-to-day work experience, not budget line-items; the very prospect of managing them rationally makes sense for firms that cannot attract on pay alone (Kotey & Slade, 2005; Shaikh & Khalique, 2025). Third, developmental enhancement (via cross-training, skills seminars, exposure to high-value clients, etc) makes a very real relational difference in contexts of low empowerment (notably: strong supervisors, rapid growth); moderation analysis suggests career development is more influential where empowerment is low. Fourth, the near-zero unique effect of pay cannot justify discounting it: below-market pay is certainly an incentive to depart, but at least for pay levels within the normal range, extra pay probably does less to retain than equivalent extra attention to leadership and work life. The pragmatic recommendation is to set the pay at an appropriate local benchmark and then to use the extra manager leeway toward the other relational levers, which we propose here. Our results should be taken with six caveats. First, it is a single BPO provider within the SME-size class; although this consistency strengthens internal validity, validation of the results in other SME industries, ownership types, and cultures will need to wait for other replications. Second, the firm's SME class was determined by headcount and business form, not officially certified, which we acknowledge as a limitation.

3.4. Limitations and Future Research

Third, the research is cross-sectional and correlates practices with retention as indicated by attitudes; since affective commitment is a known predictor of real departure (Hom et al., 2017; Meyer & Allen, 1991), a longitudinal study linking these practices with real turnover and costs would have significantly clearer causal implications. Fourth, all measures rely on self-reports, so common-method variance cannot be ruled out (Podsakoff et al., 2003); the theoretically derived measurement model, the EFA-based refinement of the reverse-worded item, and robustness checks help mitigate but do not fully resolve this issue. Fifth, the compensation-and-benefits scale was below the .70 reliability threshold, and the career-development scale was at the threshold, while no demographic controls were present in the archived data, leaving potential composition effects unaddressed. Sixth, the four-factor item-level structure, though aligned with the content-defined composites, did not completely distinguish all seven constructs — especially empowering leadership and performance management ($r = .81$) — so composite distinctiveness depends in part on content validity, and discriminant validity was not formally assessed.

Future research could extend these findings in three ways. Multi-firm SME samples with verified size data would allow the retention architecture documented here to be compared across industries and growth stages, and would test whether the substitution between empowering leadership and career development generalizes. Combining employee-level surveys with

administrative turnover records could link the attitudinal outcomes measured here to behavioral endpoints and the financial cost of churn (Makhdoom & Jamali, 2025). Finally, machine-learning approaches applied to richer HRM datasets can complement regression-based explanation with predictive modeling of turnover risk (Benabou & Touhami, 2026), while qualitative work can further explore how owner-managers in different SME contexts enact the relational levers identified as decisive (Flamini et al., 2025).

4. Conclusion

Using social exchange theory and employee-level survey data from a business process outsourcing firm in the SME size segment, this research estimated the relative strength of six HRM practices in predicting SME retention. Empowering leadership and quality of work life – the two lowest-cost and most relational variables – were the only statistically significant unique influences (accounting jointly for almost two-thirds of the explained variance), while compensation and benefits, career development, performance management and recognition and rewards were only statistically significant bivariate. An exploratory moderating analysis showed that career development aids retention mainly in the absence of empowering leadership, indicating substitution among the signals that an SME can send. For smaller firms, unable to outbid the best bidders for talent, this is encouraging: retention relies less on money than on management, on supervisors who share power, and on a working climate that values employees' lives.

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