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IMPACT OF COMPENSATION PACKAGE ON EMPLOYEE RETENTION

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ABSTRACT

Employee retention, especially of — “The best”, most desirable employees, is a key challenge in organizations today. The rate at which employees in government organisation jump from one organisation to another is becoming more disturbing and this could be as a result of compensation packages of different organisations to attract competent employees. This study explored the impact of compensation package on employee retention. The major objectives of this study were to determine the impact of compensation package on employee retention, to establish whether there is a relationship between Compensation package and job satisfaction, to establish the relationship between job satisfaction and employee retention. The population under the study was 71 employees of Kollam. Primary data was collected using questionnaire and the collected data was analyzed using SPSS (Mean, Standard deviation, Chi square, and Correlation). Hypotheses were formulated to test the relationships between the independent variable and the dependent variables. Result of the study revealed that there is a significant relationship exist between compensation package and employee retention, the more an employee is rewarded or compensated, the longer they remain in an organization and there is a positive result exist between compensation package and job satisfaction. The result of the study again proved that there is a significant relationship exists between job satisfaction and employee retention, the more an employee is satisfied, the longer they remain in an organization.

KEYWORDS

compensation, compensation planning for retention, employee retention, reward.

1. INTRODUCTION

Employees are the organisation’s key resource and the success or failure of organisations centred on the ability of the employers to attract, retain, and reward appropriately talented and competent employees. Employee’s willingness to stay on the job largely depends on compensation packages of the organization. In an attempt to ensure employees optimal performance and retention, organizations need to consider a variety of appropriate ways to reward the employees to get the desired results. It has been argued that the degree to which employees are satisfied with their job and their readiness to remain in an organization is a function of compensation packages and reward system of the organisation.

Due to competition for scarce skills, the attraction and retention of quality employees has emerged as the biggest challenge in human capital management. To attract, retain and be profitable, organisations need novel reward systems that satisfy employees. Managing turnover is proving to be a challenge to many organizations. Organizations incur very high costs as a result of voluntary turnover. According to Gering and Conner (2002) retaining good workers is critical to any organization. If an organization is not able to retain its employees, it will not be able to capitalize on human assets developed within the organization.

Compensation packages entail some basic features that tend to make employees satisfy on their job amongst which includes salaries, bonuses, incentives, allowances, promotion, recognition. All these have significant impact on employees’ performance. However, to avoid wrong perception and controversy by the employees, compensation system must be clearly communicated to employees with job measurement which will drive the much needed performance in the employees.

Turnover rates are increasing in various organisations; if employees are unhappy with their organisations they tend to leave the organisation (Schuler & Jackson, 2006). This becomes a costly exercise, especially if a valuable employee exits resulting in lost production. In addition, the cost of recruiting another employee is very high and usually takes time. Therefore, the responsibility lies with the employer to ensure that they have the right quality and quantity of employees in an organization. This can be achieved through devising an efficient reward system which addresses employees’ needs.

2. REVIEW OF LITERATURE

Compensation is the human resource management function that deals with every type of reward individuals receive in exchange for performing organizational tasks, with a desired outcome of an employee who is attracted to the work, satisfied, and motivated to do a good job for the employer. A double input-output exchange between employee and an employer.

Organizations need individuals who perform well and choose to remain as their employees. Retention is the ability of a company to keep valued employees who contribute to organizational success for as long as the relationship is mutually favourable (Al- Jarradi, 2011). Employee retention is one of the elements which influence the general employee mobility of labour in an organization, the other being employee turnover which can be considered as the other side of the same coin (Okiooga, 2012). Employee retention means the existence of an on-going employment relationship, while employee turnover indicates the employee separation from a given employment relationship.

An effective compensation package is an integral part of keeping core employees around, and retaining high performing employee is essential to maintain a business that thrives in any market. When staff members are in it for long haul, companies can save time and money that would have been otherwise spent on turnover costs. People are always looking to make the most money they can in their choose profession, and that could mean leaving one business for another that offer higher compensation.

Challenging work of compensation department is salary differentials, both within the organisation and in the industry. A valued employee should be given a salary package at par or more than the existing industry average to get him/her to stay within the organization. But at the same time giving more money can have undesired side effects. Firstly, it makes other employees develop a mind-set that the way to get a pay hike is by frightening to leave and secondly when an employee is at the top of his/her salary scale and is offered more money for performing the same duties, it will affect organization-wide differentials (David Pollitt 2007). Therefore, it is important to retain them because of high training and recruitment costs so organizations use rewards to retain employees (Simon North 2011).

Namasivayam et al. (2007) noted that a combination of human resource practices was needed for an effective compensation plan. Kline and Hsieh (2007) felt that a well thought out total compensation plan was essential for the "credibility of the management and the success of the business." They found that if employees perceived that they were not receiving sufficient pay for their work, they were likely to reduce their output or turnover. Kline and Hsieh discussed that high performers were most likely to leave and that the remaining lower performers would stay. Both scenarios would result in lower revenues for the companies. They also remark that a competitive total compensation plan can lead to better hiring practices and retaining high quality employees. Without compensation planning, companies are in danger of creating an unsatisfactory working environment.

3. NEED/IMPORTANCE, STATEMENT & OBJECTIVES OF THE STUDY

NEED/IMPORTANCE OF THE STUDY

Compensation package are a necessity in every organization today. Employees have to be kept motivated at all times through various benefits and incentives. This strengthens their sense of belongingness and responsibility towards the company so that they will retain in the organisation for long. In this background, study is selected to know the compensation package provided and its impact on employee retention.

STATEMENT OF PROBLEM

High turnover is a well pronounced trend in most government institutions. One of the main challenges faced by organisations in employee retention is the competition factor. The challenge for many organisations today is therefore is to come up with an efficient reward strategy for retaining these core employees for the success of the organisation.

Skilled labour migration is also another problem being faced by government institutions. Another challenge is that most employers are unable to predict the future needs of their employees. This is why many organisations face some difficulties in retaining their core employees. According to Birt, Wallis and Winternitz (2004) the fundamental issue for organisations are to keep track of the ever changing needs of employees so that they can become an employer of choice to employees. It is very imperative for organisations to have knowledge of these attributes so that they may be able to match their attraction and retention strategy to the needs of the workforce

Osibanjo, Adeniji, Falola and Heirsmac (2014) in their study mention that compensation is strategic to the goals of any organization and that it ensures employee retention, satisfaction, development as well as better performance of the employees. The study established that there is a positive relationship between salaries, incentives, bonuses which in turn affect employee performance. In order to achieve employee satisfaction and retention, it is critical for organizations to have a structured compensation management system.

Therefore, this study focuses on Compensation package and its impact on employee retention. This study is an attempt to analyse and determine the relationship, further the impact of compensation package on retaining employees

OBJECTIVES

1. To evaluate the impact of compensation package on employee retention
2. To find out how compensation package affect the retention strategy

4. HYPOTHESIS

H01: There is no significant relationship between compensation package and employee retention.

H02: There is no significant relationship between job satisfaction and employee retention.

5. RESEARCH METHODOLOGY

Research design is Descriptive in nature. Simple random sampling is used for this study. Sample of 71 respondents were obtained from the population. The procedure adopted in the present study is probability sampling. The respondents were asked to rate each statement on a five point scale and the Alpha (Cronbach's) reliability of scales used is:

Reliability Statistics

Cronbach's	N of Items
Alpha	
.823	23

The Cronbach's alpha value is more than 0.7. This indicates a high internal consistency, based on average inter-item correlation.

The primary data was collected through questionnaires and personal interviews. The data for the study is collected from a sample of 71 employees. The employees were chosen randomly from various departments. Out of 80 questionnaires distributed only 71 questionnaires were received completed in all respects. Secondary data's was collected from various journals on compensation package and employee retention by various researchers. The period of study extended from April to May 2016.

6. RESULTS & DISCUSSIONS

The data analysis helped in analysing the data collected from the Compensation package and the employee retention surveys and thus enabled to meet the objectives of the study. The data analysis is performed with the help of mean, standard deviation, correlation and Chi square analysis

6.1 MEAN AND STANDARD DEVIATION OF COMPENSATION PACKAGE

SURVEY

The mean and standard deviation results of 15 items of compensation package survey responded by 71 employees are presented in Table 6.1.

TABLE 6.1: MEAN AND STANDARD DEVIATION RESULTS OF 15 ITEMS –COMPENSATION PACKAGE SURVEY RESPONDED BY 71 EMPLOYEES

Item No:	STATEMENT	(N=71)	
		Mean	S.D
1	I have better understanding of the benefits and compensation package offered	3.5211	1.04004
2	I receive my pay on a regular basis	4.0704	.25768
3	I am satisfied with the modifications made in compensation package from time to time.	3.5070	.73433
4	I am satisfied with the existing compensation package and benefits.	3.7887	.80915
5	I am satisfied with the following schemes		
	✓ PF	3.6901	.82100
	✓ Gratuity	3.6761	.62734
	✓ Bonus	3.5775	1.06452
	✓ ESI	3.8169	.51575
6	There is mechanism in the organisation to reward good work done or contribution made by employees.	2.9577	.94773
7	Employees express or discuss their expectation regarding compensation package, without any fear with their superior as well as subordinates.	3.4648	1.11907
8	I am happy with the following allowances		
	✓ Housing allowances	3.6338	.76044
	✓ Dearness allowance	3.8873	.54901
	✓ Travel allowance	3.8028	.64630
	✓ City compensation allowance	3.1408	1.11221
9	My organisation offer increment for better performance	3.0141	.83654
10	I am satisfied with the opportunity I get to participate in revising the existing compensation package	2.9155	1.03849
11	I believe that compensation package offered is competitive as compared to other organisations.	3.8028	.57619
12	I am happy with the benefits getting from paid holidays, overtime and fringe benefits	4.1127	.80266
13	I am happy with the following indirect compensations	3.4507	.82443
	✓ Housing Loan		
	✓ Vehicle Loan	3.3239	.89082
	✓ Festival Advances	3.6901	.97967
	✓ Welfare Fund	3.7465	.99597
	✓ Medical benefits	3.5070	1.02641
	✓ Death In Service	3.1127	1.17776
14	I find myself motivated by the organisation to put more effort in my performance.	3.7606	.83606
15	My job provide fair pay and I am happy with my company as a whole.	3.9859	.74629

The item wise mean scores of the total sample of 71 employees are presented in table 6.1. Since the questionnaire used 5 point scale, mean score of 3 around indicate a moderate tendency on that dimension. Scores around 4 indicate a good degree of existence.

Among the compensation package survey the mean score for Item No. 2 (4.0704), 12 (4.1127) and 15 (3.9859) was found to be much higher than other items which indicates that employees are happy with the benefits getting from paid holidays, overtime and fringe benefits and they are receiving fair pay on a regular basis and they are quite happy with the company as a whole.

Likewise the mean score of ESI (3.8169), DA (3.8873) TA (3.8028) and Welfare Fund (3.7465) was also found to be higher than other items, which indicates that employees are getting fair benefits and the mean score of item No: 4 (3.7887) and 11 (3.8028) indicates that the employees are satisfied with the existing compensation package, which shows that the organisation is considering the needs and satisfaction of employees and the company is providing competitive compensation package as compared to other organisations.

6.2 MEAN AND STANDARD DEVIATION OF EMPLOYEE RETENTION SURVEY

The mean and standard deviation score of 8 items of employee retention survey responded by 71 employees are in the bale 6.2

TABLE 6.2 MEAN AND STANDARD DEVIATION RESULTS OF 8 ITEMS – EMPLOYEE RETENTION SURVEY RESPONDED BY 71 EMPLOYEES

Item No:	STATEMENTS	(N=71)	
		Mean	S.D
1	I agree that compensation paid helps to attract and retain the employees	3.4648	1.10623
2	I am preparing to remain in the organisation because of the reward I receive from my Organisation	3.7042	.90070
3	My organisation understands what motivates their employees to increase retention	3.3380	1.12051
4	I often think about quitting my job	2.1408	1.13761
5	Considerable amount of money is invested to ensure employee retention	4.0282	.67553
6	I would leave the company if I would find a similar position for more compensation at another company.	3.0141	1.42922
7	Effective compensation package has a positive effect towards employee retention.	4.2676	.60846
8	Ineffective pay leads to employee turnover	3.9859	.85345

The item wise mean scores of the total sample of 71 employees are presented in the table 6.2. Since the questionnaire used 5 point scale, ranging from 5 strongly agree to 1 strongly disagree.

Examining the scores of the individual items of the employee retention Scale, the mean score of item No: 5 (4.0282) and Item No: 7 (4.2676) are higher than other items in the scale which indicates that considerable amount of money is invested by the organisation to ensure employee retention and the organisation knows that effective compensation package has a positive effect towards employee retention. Likewise, the mean score of item No: 2 (3.7042) and item No: 8 (3.9859) are also high, which indicates that employees are happy with the compensation package and they are preparing to remain in the organisation because of the reward they are receiving from the organization

TESTING OF HYPOTHESIS

H 01: There is no significant relationship between compensation package and employee retention.

TABLE 6.3: ASSOCIATION BETWEEN COMPENSATION PACKAGE AND EMPLOYEE RETENTION

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	44.355a	9	.000
Likelihood Ratio	35.444	9	.000
Linear-by-Linear Association	8.771	1	.003
N of Valid Cases	71		

a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .25.

A chi-square test of association was performed by cross tabulating two variables namely compensation package and employee retention. Result from table 6.3 showed a chi-square value of 44.355a and 9 degrees of freedom with a probability value of 0.000. The p-value is less than 0.005 therefore the null hypothesis is rejected and conclude that there is a significant relationship exist between compensation package and employee retention, the more an employee is rewarded or compensated, the longer they remain in an organization.

TABLE 6.4: CORRELATION BETWEEN COMPENSATION PACKAGE AND JOB SATISFACTION - CORRELATIONS

level of satisfaction on existing compensation package	Pearson	1	level of satisfaction on existing compensation package	Overall satisfaction level
	Correlation			.563**
	Sig. (2-tailed)			.000
	N	71		71
Overall satisfaction level	Pearson	.563**		1
	Correlation			
	Sig. (2-tailed)	.000		
	N	71		71

** Correlation is significant at the 0.01 level (2-tailed).

The relationship between compensation package and job satisfaction was also tested. The result shows that a significant positive correlation of 0.563 exists between them. Therefore, table 6.4 proves that there is a correlation exist between compensation package and job satisfaction and an improvement in compensation package is essential for improving the level of satisfaction, which in turn bring positive changes in performance of the company. Hence the analysis concludes that a highly satisfied employee is more likely to remain in the same organization for a very long time.

H 02: There is no significant relationship between job satisfaction and employee retention

TABLE 6.5: ASSOCIATION BETWEEN JOB SATISFACTION AND EMPLOYEE RETENTION

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.739a	6	.002
Likelihood Ratio	28.430	6	.000
Linear-by-Linear Association	12.922	1	.000
N of Valid Cases	71		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is 1.68.

A chi-square test of association was performed by cross tabulating two variables namely job satisfaction and employee retention. Result from table 6.5 shows a chi-square value of 20.739a and 6 degrees of freedom with a probability value of 0.002. The p-value is less than 0.005 therefore the null hypothesis is rejected and concludes that there is a significant relationship between job satisfaction and employee retention, the more an employee is satisfied, the longer they remain in an organization.

Therefore, the analysis proves that an effective compensation package can enhance the satisfaction level of employees and a satisfied employee will remain in the organisation for long.

FINDINGS

- Employees are happy with the benefits getting from paid holidays, overtime and fringe benefits with the highest mean score of 4.1127, (Table 6.1)
- Employees are receiving their pay on a regular basis and they are happy with it with the mean score of 4.0704, (Table 6.1)
- A mean score of 3.9859 (Table 6.1) indicates that the organisation is providing fair pay and employees are happy with the company as a whole.
- From the study it was also found that employees were not sufficiently encouraged to improve their performance, because there is no mechanism in the organisation to reward good work done or contribution made by employees with the least mean score of 2.9577, (Table 6.1)
- Considerable amount of money is invested to ensure employee retention with a highest mean score of 4.0282, (Table 6.2)
- The organisation understands that effective compensation package has a positive effect towards employee retention with a high mean score of 4.2676, (Table 6.2)
- Employees in the organisation are found to be unhappy because they are not getting enough opportunity to participate in revising the existing compensation package with the least mean score of 2.9155,
- Employees are preparing to remain in the organisation because of the reward they receive from the organisation with a mean score of 3.7042, (Table 6.2)
- The organisation knows that ineffective pay leads to employee turnover (mean score 3.9859), that is why they are providing attractive and fair benefits to employees and employees are satisfied with the ESI (3.8169), Dearness allowance (3.8873), Travel allowance (3.8028) etc., (Table 6.1)
- Employees who have spent more than 8 years in the organisation are more likely to remain in the organisation than new employees
- Employees in the age bracket of 31-40 are more prepared to remain in the organisation, whereas employees in the age bracket of 18-20 are least preparing to remain in the organisation
- Almost 71.8% of employees have clear understanding of the benefits and compensation package offered and 66.2% employees are satisfied with the existing compensation package
- 71.8% employees agree that organisation offer competitive compensation package as compared to other organisations whereas 25% says that they do not express their expectation regarding compensation package to superiors freely.
- 54.9% employees agree that they are motivated to put more effort in their performance because of the reward they are receiving from the organisation.
- A chi-square test of association was performed by cross tabulating two variables namely compensation package and employee retention (Table 6.3). The result rejected the null hypothesis and conclude that there is a significant relationship between compensation package and employee retention, the more an employee is rewarded or compensated, the longer they remain in an organization
- The relationship between compensation package and job satisfaction was also tested (Table 6.4). The result shows that a significant positive correlation of 0.563 exists between them. This make it clear that an improvement in compensation package is essential for improving the level of satisfaction, which in turn bring positive changes in performance of the company
- A chi-square test of association was performed by cross tabulating two variables namely job satisfaction and employee retention (Table 6.5). The result rejected the null hypothesis and conclude that there is a significant relationship exists between job satisfaction and employee retention, the more an employee is satisfied, the longer they remain in an organization.

RECOMMENDATIONS/SUGGESTIONS

Offer an attractive and fair compensation package which helps in improving the satisfaction level of employees. Developing a mechanism of rewarding good work done or contribution made by employees, that can motivate employees to improve their performance and also enable them to remain in the organisation for long

time. Raising bonus and allowance are an excellent way to keep employees. The more significant is to appreciate the employee feels. Give opportunity to employees for participating in revising the existing compensation package and allow them to express their expectations regarding compensation package without any fear, this will create a sense of belongingness among employees.

Generous paid leave policies also go a long way towards helping employees felt they are valued by the organisation. Provide a competitive compensation package as compared to other organisations, so that employees would not leave the company if they find more compensation for similar position at another company. Offer financial awards for employees who exceed performance goal or who stay with the organisation for certain time period. Offer benefits such as health and life insurance, retirement plans, provide flexible working schedules etc.

CONCLUSION

From the findings of this study, it is clear that effective compensation package lead to employee retention and they do result in job satisfaction. It is also however very clear that job satisfaction also results in employee retention. Therefore, this study concludes that employee rewards and job satisfaction are very important dimensions when comes to employee retention. This means that compensation is a major factor that employees consider when making the decision to leave or remain in an organisation. Employees also consider their happiness when making the decision to stay with an organization. However, it is very clear from these results that there is a significant relationship between compensation package and employee retention and there is a positive correlation between compensation package and job satisfaction. The results from this study show that rewards and job satisfaction are key factors in retaining employees. Therefore, it is very important for management to develop a retention strategy that addresses employee compensation and job satisfaction as major factors.

LIMITATIONS OF THE STUDY

The data collected pertains only to a short period of time. The study was restricted to only few employees of the organisation. The reluctance of few employees to freely express their views regarding level of satisfaction on compensation package offered by company might have adversely affected the findings of this study. The employees were interviewed during the course of their working time, so they were in a hurry to respond to the questions, which may have affected the quality of data.

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