

Compensation Policy a Tool ; Fostering Employee Retention

Dr. Yogita Mandhanya

Lecturer - Human Resources

Shri Vaishnav Institute of Management
Indore

Abstract

In a world of mom-and-pop operations, offering competitive employee benefits is what will set one business apart from another and will attract and retain valuable employees. This trend is evident even in times of economic recession. Viewing the same phenomenon from a different perspective, organizations today are at greater risk of losing capable human resources to other organizations. The keyword in terms of human resource management is 'Employee Retention.' Employee turnover hike the costs of any organization. An insight to which are the most effective retention strategies that can have a long-term impact. Compensation is the most important factor favoring employee retention. The purpose of the paper is to highlight the importance of designing an effective compensation as a key to retain employees. Compensation might not be the most important factor in determining whether an employee will stay with you, but it can tip the balance. The study comprises of a sample of 300 employees from automobile sector. This study explores the relationship between compensation policy and employee retention in Automobile sector. The sample size consists of 300 employees. Data was analyzed with Descriptive Statistics. Pearson Correlation Coefficient was employed to establish the relationship among the variables. The findings indicated that effective compensation package had positive relationship with employee retention and thus affects employees' decision to stay in the company. The implication of the study is that, the management should provide effective working environment to retain employees. Finally the study also recommends that thriving and friendly environment should be provided at the workplace to make employees more satisfied to remain in the company.

Key Words: Employee Retention, Compensation Strategy, Motivation, Employee Satisfaction.

Introduction

Human Resource as the word suggests is one of the most important factors of production without which no industry can survive. Long term organizational success depends upon the recruitment, development, reward and retention of the right people. Employee retention refers to adopting measures to prevent valuable employees from leaving their jobs. How to retain employees is one of the biggest

problem that plague companies in the competitive marketplace. Nowadays, businesses often find that they spend considerable time, effort, and money to train an employee only to have them develop into a valuable asset and leave the company for greener pastures. In order to create a successful company, employers should consider as many options as possible when it comes to retaining employees, while at the same time securing their trust and loyalty so they have less of a desire to leave in the future. Hiring good people is tough, but keeping them can be even tougher. The solution is attractive, effective, compatible practices.

Thus efficient human resource practices are a base for retention of employees in any organization. There are various practices followed by different organizations but important among them is the compensation strategy. Money is the most important criteria nowadays for employees to leave the organization. In this dynamic environment opportunities are in ample which motivates them to leave. Thus an effective compensation strategy holds the highest percentage for retaining an employee. Compensation encompasses variety of variables like incentives, increments, allowances, reward for effective performance, career advancement and growth etc.

Employee compensation is one of the major determinants of employee satisfaction and retention in an organization. The compensation policy and the reward system of an organization are viewed by the employees as indicators of the management's attitude and concern for them. A good compensation system should be able to attract and retain employees, give them a fair deal, keep the organization competitive and motivate employees to perform their best. Bevan et al (1997) found that people leaving jobs gave dissatisfaction with pay as their main reason and that attitude surveys also found relative difference in terms of pay satisfaction between people who leave and colleagues who stay in the same organization. A study by Graham, Murray and Amuso (2002) supports this study where they concluded that compensation and reward schemes signify an organization's appreciation for employee efforts and this encourages individuals to remain with the firm.

Compensation: A Tool for Retaining Employee

Employees should be paid appropriately and fairly for the work they do. So companies should research what other companies are offering in terms of salary and benefits and pay approximately. It is also important to research what is the standard compensation package and benefits for the particular position, particularly related to non monetary benefits like insurance, retirement benefits, paid vacation etc. The compensation package offered should be competitive enough, so that team members will not go out and look for employers who are willing to offer more

competitive compensation packages. It constitutes the largest part of the employee retention process. Employees always have high expectations regarding their compensation packages. Compensation packages vary from industry to industry. So an attractive compensation package plays a critical role in retaining the employees. Compensation includes various aspects like salary and wages, bonuses, benefits, prerequisites, stock options, bonuses, vacations etc. setting up of a package must be done very effectively and efficiently.

Review of Literature

- **Rajnish Ratna (2012)**, With secondary research the author had identified ten factors (importance of training, consultation of the employees during target setting, satisfaction with compensation level, rewards and recognition given to the executives, working conditions, job capability, ability to meet targets, plans to start their own business, satisfaction with the initiatives taken by hr, and participation in management) which play an important role in employee retention. After analysis of primary data, it was found that their some factors such as compensation level, and rewards and recognition etc. their satisfaction is less while in other factors like training, and working conditions are most important affecting employee retention. He further concludes that in the factors mentioned above wherein the satisfaction level of employees is less, companies' needs to take initiatives for betterment then only required retention level will be achieved.
- **Hiroshi Yamamoto (2011)**. In his study of 1228 employees he concludes that enrichment of the employee benefits management policies has a positive impact on satisfaction and retention of employees. These practices are helpful in improving Work Life Balance and retention management. The introduction of employee benefit practices improved job attitude and are intermediary factors in the relationship between family friendly policies and retention. In other words, the number of introduced employee benefit practices, which is more objective and easy to understand for organizations, was found to be important as a retention-promoting factor.
- Small businesses are in a constant battle to recruit and retain qualified employees. One key strategy for attracting and maintaining a valuable workforce in today's marketplace is to offer competitive employee benefits programs. According to Watson Wyatt's 2006 Strategic Rewards study, 22 percent of top-performing employees cited benefits as one of the top three reasons they would leave their employer. Replacing upper-level employees is even more difficult and costly than replacing lower level ones, so satisfying their desires for

competitive benefits is imperative. Employers should talk directly to their employees to find out which benefits are perceived to hold the most value to them. Employee demographics will play a significant role in perceived value of benefits as younger people may want flexible time off while older people may want retirement planning services. September 1, 2008 Hudson Valley QVSWES JOURNAL

- Kulshreshtha, Ashutosh Kumar, T. Krishna (2005), develops a theoretical model for employee contribution and compensation and explores the problem of attrition from an economic point of view. Model based on the characteristics of the employee and the organizational environment; Employee value and employee cost to company; motivation and salary hike.
- Rewarding loyalty often involves introducing a benefits package that improves with the increasing duration of service. Benefits such as company cars and company-paid private medical insurance are often expected features of benefits packages for senior staff. For non-senior staff, one way is to introduce flexible or 'cafeteria' benefits which involve employees choosing from a menu of benefits. This may also be the easiest and cheapest way for employers to satisfy the needs of the majority of their employees (Curtis and Wright, 2001: 61).
- In the retention concept, organizations are the key players and retention is a specific organizational management issue, namely 'retention management,' which can be defined as 'the entire human resource management policies for retaining the current or expected high-performing employees within organizations for long periods of time, enabling them to exercise or develop their capabilities.' (Yamamoto 2009, pp. 14–15).
- Taylor (2002) discussed that employee retention is increasing in importance as the competition for talent is high and still growing. The solutions to improve retention management are usually assumed to hinge on assessment, selection practices, and on increasingly comprehensive HR programs and services. Competitive salaries, comprehensive benefits, employee services, incentive programs, and similar initiatives are important when attracting employees. It is not hard for a competitor to compete with individual element of employment such as salaries and benefits. Continuously Taylor argues that undesirable, unwanted, and voluntary attrition that companies experience when highly valued employees quit taking another job elsewhere is a much bigger problem than the frequency of corporate layoffs reported. To keep employees in the company, they need to feel part of the organization. People need to feel like their contributions to the organization are valued along

with competitive packages.

- According to Bailey (1993) effective practices will help in retaining the talent /employees. According to him a comprehensive practice should consider the following:-
 - 1) Employees must have an incentive (compensation, recognition, reward etc.)
 - 2) Employees must possess the necessary skills to make their efforts meaningful (selection, training, development, career opportunities etc.)
 - 3) Employees must have opportunity to participate at various levels. (Communication, participation, promotion etc).
- Lawler (1990) maintained that the key issue in retention is the amount of total compensation relative to levels offered by other organizations. "Organizations that have high levels of compensation have lower turnover rates and larger numbers of individuals applying to work for them". Furthermore, he argued, high wage workplaces may create a culture of excellence and competitive compensation packages can signal strong commitment on the part of the company, and can therefore build a strong reciprocal commitment on the part of workers. However, to the extent that it contributes to retention, competitive compensation is also likely to affect both desirable and undesirable turnover: it will help to retain workers, irrespective of the quality of their contribution to the company. He also states that the key issue in retention is the amount of total compensation relative to levels offered by other organizations. Furthermore he states that organizations that have high levels of compensation will have lower turnover rates and larger numbers of individuals applying to work for them. High wage workplaces may create a culture of excellence.

Objective of the Study

- To study the role of compensation packages in retaining the employees.
- To have further insight into what practices should be incorporated to make the compensation package more attracting.

For this purpose the following hypothesis was formulated

- H_0 Compensation policies have no significant impact in retaining the employees.

Research Methodology

- **Sample**
- The population for the study comprised the employees of automobile companies in Pune district of Maharashtra. Total 300 questionnaires were distributed to the employees. The

SPSS has been used for the analysis of the data.

- **Research instrument**

The data has been collected through self structured questionnaire (after checking its reliability and validity) based on five point likert scale. It consisted questions based on compensation schemes, rewards, recognition, incentives, fringe benefits, facilities, etc. For the analysis of data step

wise regression analysis was used. Compensation scheme has been taken as independent variable and employee retention as dependent variable.

Analysis and Discussion

Table 1.1 Descriptive Statistics

	Mean	Std. Deviation	N
Employee Retention	215.5400	26.45919	300
Compensation	40.9933	7.75934	300

Table 1.2 Correlations

		Talent Retention	Compensation
Pearson Correlation	Employee Retention	1.000	.916
	Compensation	.916	1.000
Sig. (1-tailed)	Employee Retention	.	.000
	Compensation	.000	.
N	Employee Retention	300	300
	Compensation	300	300

The value of correlation coefficient between Compensation and Employee Retention is 0.916, and it is significant at 5% level of significance thus, it may be concluded that Compensation policies have significant role in sustaining

the talent. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to obtain a relationship between the variables.

Table 1.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.916 ^a	.839	.839	10.61872
a. Predictors: (Constant), Compensation				
b. Dependent Variable: Employee Retention				

Table 1.4 Model Summary

Model	Change Statistics				
	R Square Change	F Change	df1	df2	Sig. F Change
1	.839	1558.435	1	298	.000
b. Dependent Variable: Employee Retention					

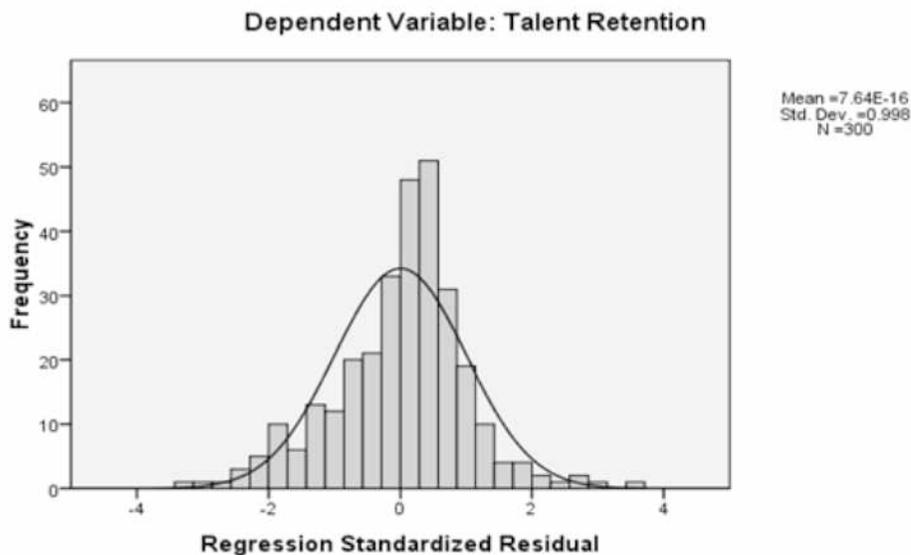
Table 1.5 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	175724.857	1	175724.857	1558.435	.000 ^a
	Residual	33601.663	298	112.757		
	Total	209326.520	299			
a. Predictors: (Constant), Compensation						
b. Dependent Variable: Employee Retention						

Table 1.6 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	87.463	3.302		26.490	.000
	Compensation	3.124	.079	.916	39.477	.000

a. Dependent Variable: Employee Retention

Histogram

Regression Analysis

Employee Retention is taken as a dependent variable and Compensation is taken as independent variable. Model summary shows the values of R^2 , adjusted R^2 and R^2 change, which are all same in this case. Here R^2 is 0.839 with standard error of estimate equal to 10.618. We can interpret this as 83.9% of the variation in Employee retention is explained by compensation. This value of coefficient of determination (R^2) is significant and therefore the association can be considered as significant. ANOVA table gives results of Analysis of variance. Since the p value is less than 0.01 and

0.05 it is significant at both the levels of significance and it lead to reject the hypothesis of all model coefficients being zero or we can say that variation explained by the model is not due to chance. And we should conclude that all the model coefficients differ significantly from zero and Compensation can be used to judge the retention of employees.

The regression equation, which can be formed using coefficients table, is

$$\text{Employee Retention} = 87.463 + 3.124 * \text{Compensation}$$

Since p-value is less than 0.05 the hypothesis that the slope of the regression line is zero is rejected. The model is considered to be statistically acceptable. A Residual is the difference between observed and model predicted value of the dependent variable. A histogram is used to check the assumption of normality error term or residuals. Since the shape of the histogram for regression standardized residuals is approximately normal. Thus the assumption of regression analysis about the normality of residuals is fulfilled.

Research Findings

The study contributes towards extending the knowledge base of practices followed with regards to employee retention. It provides practical implications for Compensation practices which are mostly significant from an organization development perspective and offers strategic tool for progressive organization. Results of the study suggest that organizations that design an effective Compensation package may have higher retention of their employees. More specifically, the findings provide relatively strong supports for the existence of a positive relationship between Compensation and Employee Retention. The study supports the findings of Fitz-enz (1990), which advocate that retention management as driven by several key factors which should be managed congruently namely organizational culture and structure, recruitment strategy, pay and benefits philosophy, employee support programs, and a training and career development system. Managing core employees effectively means identifying their needs and satisfying them through various practices. It was explored that compensation constitutes the largest part of the employee retention process. An attractive compensation package plays a critical role in retaining the employees. Higher and continuous increment in salary was the most common reason for wanting to change jobs, and when asking how the remuneration system should be designed, base pay with additional bonus and benefits were preferred. Comprehensive compensation and benefits provide a leading edge in automobile industry with respect to retention. This is very consistent with the famous theory on Maslow's hierarchy of needs, that certain employees or groups of employees are drawn largely to pecuniary gains and are less drawn to non-pecuniary benefits that an employment may offer. Compensation and benefits, however, have the most significant relationship with intention to stay in comparison with career development, training and development and performance appraisal and achievement. Thus this study shows that compensation and reward schemes signify an organization's appreciation for employee efforts and this encourages individuals to remain with the firm.

Conclusion

Thus we can conclude that compensation has a positive

impact on employee retention. An attractive compensation package is a motivating factor to retain the employee in his job. Employee appraisal should be encompassing various enrichments. An upward career growth should come with corresponding salary and merit increases. In addition, performance-based bonuses motivate employees in terms of aligning their individual goals with company goals. Implementing incentives such as stock options, profit sharing and spot rewards are other ways compensation affects retention. These forms of compensation demonstrate how critical employee performance is to the organization's overall profitability. Spot rewards are usually not as lucrative; however, they provide immediate recognition, reward and compensation when company leadership observes an employee performing superior work. Appreciation recognition along with motivational policies are the keys to employee retention, and if compensation is a part of recognition, then compensation is likely to increase employee retention.

The study can further be explored in other areas apart from automobile sector for new arenas.

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