

**COMPENSATION AND BENEFIT KEY REASON EMPLOYEES RETAIN  
IN THE ORGANIZATION**

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**Abstract**

There is a huge literature on compensation and benefit offered by the organization nowadays. As there are limited numbers of candidates that can fulfill the requirement and fit with the organization strategy, most of the organization tends to compete one to another by providing better compensation and benefit which can satisfy the employee's needs and wants. Due to the fact that, employee turnover is recognized as costly and disruptive which is organization wants to avoid it. Discussion elaborated on the compensation, benefit, retention, importance of employees' satisfaction and strategies in retaining the employees.

**Keywords:** compensation, benefit, retain, turnover

**INTRODUCTION**

Employees are valuable assets of an organization which are the key to success. Employers need to understand that a content and motivated employee has a higher probability of making significant contributions to the organization. It may result in new orders that are won for the organization or even new ideas for the amendment of the product.

A research indicates that the average attrition rate in India is as high as 25%, as the employers fail to meet the expectations of the employee. On the other hand, another report states that the average attrition rate of employees in the Telecom, BFSI, aviation and financial services is about 31% and is tremendously higher in the information technology or ITES sector.

Unfortunately remuneration and designation are the major factors determining the retention of an employee in an organization. Paucity in opportunities is one of the factors that lead to attrition of the employees. Besides, the employee's relationship with their supervisor plays a key role. Prejudicing and suppressing the growth of an individual leads the employee to search for an alternative.

A survey suggests that employees with experience of less than five years have the highest attrition rate at 39 per cent while the rate is at 27 per cent for employees with 5-10 years of experience and 22 per cent for 10-15 years.

Unwanted employee turnover is one of the biggest and most costly business problems companies may face (Taylor, 2002). Besides, the organization will have to rearrange or re-organize its resources so that business plan, strategies and goals will keep in track when they losing the

costly knowledge base when employee leave. For any team or organization, which is tightly or thinly staffed, losing a member of the team or member of the staff would cause major agony, increase work pressure, drop in employee morale and in extreme cases, failure in achieving desired results (Mobley, 1982). This is because, to hire or get a replacement employee will normally take some time and will incurred cost. Furthermore, the works that need to be put in before hiring or getting a replacement employees require a great deal of effort and involve substantial amount of efforts. Besides effort and time, these activities would also require substantial costs (Mobley, 1982).

According to table 1, Employed Person by Status in Employment Malaysia reported in 2015 and 2016, Malaysia's employer person decreased 14.5 per cent from 568.6 thousand person on 2016 compared to 568.8 thousand person on 2015. Besides, the number of employees rise by 13870 thousand people from 2016 compared to previous year. However, the data indicate the number of own account worker grew with 1.86 per cent change from 10.5 million people on 2016 compared to 10.4 million people in 2015. Finally, unpaid family worker also shown decrease in the number of people with 6500 thousand people from 2016 compared to previous year.

<b>Indicator</b>	<b>2015</b>	<b>2016</b>	<b>Change (%)</b>
<b>Employer ('000)</b>	<b>568.6</b>	<b>486.4</b>	<b>-14.5</b>
<b>Employee ('000)</b>	<b>10395.5</b>	<b>10534.2</b>	<b>1.3</b>
<b>Own Account Worker ('000)</b>	<b>2476.2</b>	<b>2522.3</b>	<b>1.9</b>
<b>Unpaid Family Worker</b>	<b>627.4</b>	<b>620.9</b>	<b>-1.0</b>

**Table 1: Employed Person by Status in Employment Malaysia (2016-2015)**

Based on the table, the number of own account worker increases by 1.9 per cent in 2016 compared to 2015. This indicates most of people in Malaysia start liking to work by their own make their own profit and paid up all the cost incurred independently. One of the reasons is because they are not satisfied with the previous job which the salary and benefit does not meet their expectation as the cost of living is getting higher nowadays.

Therefore, the main objective of this study is to examine the relationships between compensation and benefit with retention. Besides, it also consist of importance of employees satisfaction in order prevent employees turnover and strategies to retain employees in the organization.

## **COMPENSATION, BENEFIT AND RETENTION**

### ***COMPENSATION***

Compensation is defined as the cumulative financial and non-financial rewards payable to employees in return for their services (Mondy and Noe, 2005). Financial rewards are related to wages, bonus, profit sharing, pension plans, paid leaves and purchase discount which the employees received as the exchange for their contribution to the organization. However, non-financial rewards are relational return which emphasizes making life on the job more attractive consists of recognition and status, employment security, challenging work and learning opportunities. The financial and non-financial rewards are usually based on the value of job, level of personal contributions, efforts and performance (Milkovich and Newman, 2005).

At the organizational level, compensation is critical in attracting, retaining and motivating the employees to continue contributing towards organization's success (Philips and Fox, 2003). Compensation also being the important reason to influence individuals' choice to work with an organization.

Many organizations not only use the compensation system to reward and recognize employees' efforts and contributions, but also as a motivation tool (Chiu, Luk and Tang, 2002) to improve employees' productivity through improving job performance, preventing the intention to leave and increasing career satisfaction.

Compensation systems have traditionally been designed to attract and retain employees and to motivate them to increase their effort and outputs toward the achievement of organizational goals (Bergmann and Scarpello, 2001). Compensation is also considered as one of the most important costs to conduct a business. Most importantly, it does not only influence hiring and retention decisions only but it is also an significant tool to align employees' interest with organizational goals by designing and providing rewards for meeting specific goals assigned to them.

### ***BENEFIT***

Benefits are optional, non-wage compensation provided to employees in addition to their normal wages or salaries. These types of benefits may include group insurance such as health, dental, vision and life disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation, funding of education, as well as flexible and alternative work arrangements.

A fringe benefit is a meandering incentive contracted to an employee or a group of employees as a part of executive membership, which has an effect on performance and employee retention (Alexander et al., 1994). It can be argued that benefit scheduling is a critical section of human resource planning process on account of huge expenditures and financial resources approved for the future (Weiss and Cropanzano, 1996). At the managerial level, benefit is critical to attract, retain and motivate the employees to continue work for organizational success. It also plays an important role to persuade individual's interest to work with an organization. In fact, many organizations provide benefits, incentives and recognize employee's achievement and directing a device of motivation.

Finally, many studies have indicated that many different vesting schedules for compensation and benefits can be linked to occupancy requirements to have a positive effect on employee retention. Benefits with relatively long-term vesting schedules such as stock options, employee stock ownership plans and retirement plans have been proven to effectively manage employee turnover. Hence, vesting schedules should be long enough in order to retain employees for a reasonable period of time and to retain employees' motivational power.

### ***RETENTION***

Employee turnover is described to a situation in which employees depart the organization for several reasons, and thus, negatively affect the organization in terms of overall expenditure and the abilities to distribute the minimum required services (Yankeelov et. al., 2008). This situation will not only impact on organization but also on workforce itself.

It is also employees' intention to stay in the current employment relationship with their present employer on long term basis. This is an opposite concept of turnover intention or intention to quit. Vandenberg and Nelson (1999) defined employees' intention to quit as an individual's estimated probability that they are permanently leaving their organization at some point in the near future. Undesirable, unwanted, and voluntary attrition that companies experience when highly valued employees quit to take another job elsewhere is a much bigger problem than the frequency of corporate layoffs reported (Mobley, 1982). This aspect is increasing in significant as the competition for best talent is high and continuously growing.

Therefore, people need to feel that their contributions to the organization are valued (Taylor, 2002). To keep employees in the company, they need to feel part of the organization. Besides, to clarify the problem about employees leaving, several relevant measures need to be taken as organizations are now competing for talent (Mitchell et al., 2001). The solutions to improve retention within employees are by competitive salaries, comprehensive benefits, incentive programs, and similar initiatives are important to be executed (Taylor, 2002). Besides, pay and financial incentives also work to increase employees' satisfaction and commitment.

### **IMPORTANCE OF EMPLOYEES' SATISFACTION IN RETAINING EMPLOYEES**

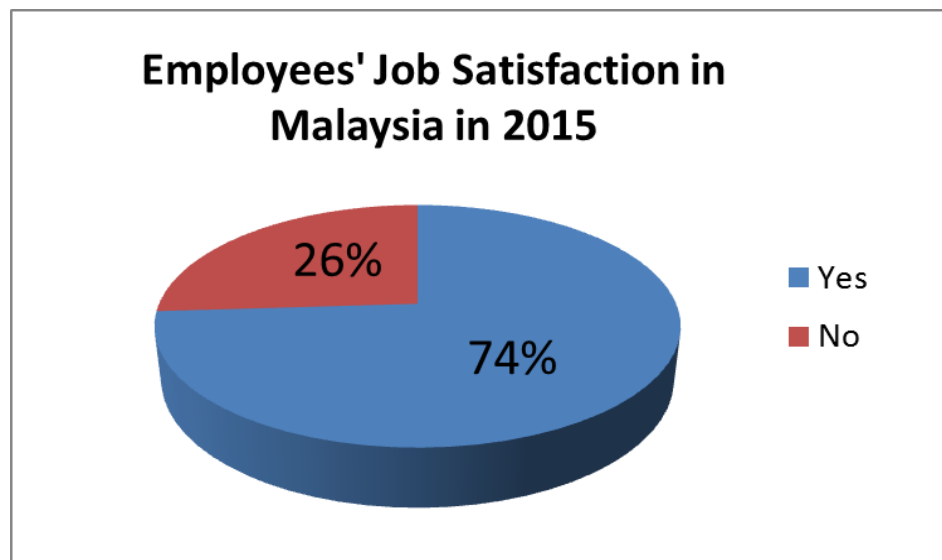
“Satisfaction refers to the level of fulfilment of one's needs, wants and desire. Satisfaction depends basically upon what an individual wants from the world, and what he gets” (Nancy C. Morse 1997). Basically, employee satisfaction is a measure of how happy workers are with their job and working environment. It is sure that there may be many factors affecting the organizational effectiveness and one of them is the employee satisfaction. Effective organizations should have a culture that encourages the employee satisfaction, Bhatti & Qureshi, (2007).

Besides, employees are more loyal and productive when they are satisfied Hunter & Tietzen, (1997), and these satisfied employees affect the customer satisfaction and organizational productivity, Potterfield, (1999). There is no limit for the employees to obtain the full satisfaction and it also may differ from one employee to another. Sometimes they need to change their behaviors in order to execute their duties more effectively to gain greater job

satisfaction, Miller, (2006). Having high salary, good working conditions, career developments, training and education opportunities, good relationship with the colleagues or any other benefit may be related with the increasing of employees' satisfaction.

Everyone in the organization from manager, HR to retention agents should get a handle on employee satisfaction and loyalty. Therefore, how committed is the workforce to the organization are depends on if workers are really satisfied with the way of things for evaluating their likelihood to stay with organization. Companies should make sure that employee's satisfaction is high so that they will increase productivity, responsiveness and quality and customer service.

Employee satisfaction influenced employee productivity, absenteeism and retention, Derek R. Allen & Merris Wilburn, (2002). The success of any company is directly link to the satisfaction of the employees who embody that company, that retaining talented people is critical to the success of any organization, Freeman, (2005). The success of any company is directly link to the satisfaction of the employees who embody that company, that retaining talented people is critical to the success of any organization, Freeman, (2005).



**Figure 1: Job Street Malavsia 2015**

Based to the JobStreet.com survey on Employees' Job Satisfaction in Malaysia on 2015, a staggering 74% of the respondents claimed that they were not satisfied with their current jobs. However, the results showed some slight improvement from 78% when compared to a similar survey conducted in September 2012. Despite the 4% improvement, the number of dissatisfied employees is still high. Hence, salaries are often perceived as the main factor that influences job satisfaction. However, only 11% of the respondents disclosed that their salaries were a

compelling factor in their job dissatisfaction. A majority at 71% have revealed that the main cause for this dissatisfaction is due to poor quality of leadership or management in companies. The disturbing matter, however, is that more than half of these discontented employees include senior executives and managers.

### **STRATEGIES TO RETAIN EMPLOYEES**

There many reasons why the employees quit the jobs and one of the major reasons is because pay that is being given to them is not meet their expectation. Besides, they also often quit to take job that are higher paid elsewhere which many of the organization know that competing for top talents on price alone which no-win proposition.

There are several strategies to make the employees retain to the organization one of it is through compensation structure by calculating the amount of pay dispersion across organizational levels, matters in employee turnover. Bloom and Michel have shown that wide gaps between an organization's lowest paid and highest paid employees increase the likelihood that manager and other employees will voluntarily leave the organization.

Besides, procedures such as administration and determination of pay raises can also affect employee turnover through their perceptions of organizational support. Employees' higher levels of satisfaction with pay procedures are associated with higher perceptions of organizational support, which it will reduce their likelihood to voluntarily leave.

In additional, type of compensation also has an effect on employee turnover. Beyond pay raises and cash bonuses, stock options do have an effect on executive turnover (Dunford, Oler, and Boudreau, 2000). Besides, the studies shown that companies with retirement benefit and higher level of insurance usually experience lower levels of employee turnover.

Furthermore, Heshizer found that in managing employee commitment and turnover perceptions of pay fairness and equity are significant. In other research also reveals that reductions in turnover were shown to be result of compensation and benefit system that employees observe as fair in terms of equity theory.

Moreover, beyond compensation and benefit, indicators of the withdrawal process are the strongest predictors of individual turnover decisions. Hence, organizations should consider assessing and managing employee mobility, job search and turnover intentions in order to manage employee turnover effectively and efficiently. When assessing attitudes and withdrawal, well-developed measure should be consider by the organization and measure frequently than annually and link individual responses to individual behaviors and outcomes.

Likewise, organizations should consider assessing and managing both job satisfaction and job commitment. This is because, job satisfaction and organizational commitment are key attitudes and consistent predictors will lead to individual turnover decisions.

The nature of the relationship with one's immediate supervisor always is a consistent predictor of individual turnover decisions. Organizations can do it by providing leadership training to all managers and should hold leaders accountable for retention.

Employees who linked by positive relationships with colleague in the organization are less likely to leave the organization. Thus, organizations and managers should foster positive relationships among co-workers, provide opportunities for interaction and help newcomers form and develop relationships.

## **CONCLUSION**

Retention teams as well as management should initiate further programs to identify why employees quit the job and leave the organization and analyse the issues to attract and retain them in the organizations. Job satisfaction is the key element of turnover intention. Hence, if the above strategies are applied, there is a likelihood that business organizations continue to exist in a vibrant environment by taking into account their workforce as a significant resource.

The outcome of compensation has been widely studied and reported in the literature, for instance Trevor, Barry, and Boudreau (1997) found that salary growth and other non-salary benefits provided to employees have a significant influence on their intention to quit. Miller and Wheeler (1992) found that employees' intention to stay is significantly affected by the total compensation package. Several studies on productivity emphasize that high talent individuals often seek for high pay. Thus, if organization able to offer an attractive compensation package for them, they might retain with the current organization (Shepherd and Mathews, 2000; Jardine and Amig, 2001). Therefore, failure by organizations to provide equitable compensation would result in employees' negative attitudes toward the organization such as unwilling to retain with the current organization.

Finally, unmanaged employee turnover is costly to organizations. Hence, great managers know that competing to retain top talent on price alone which higher pay and more benefits is a losing strategy. As a consequence, the intent of this paper is discovering how compensation and benefit affect the retention of the employees in general. Besides, these study also regarding the importance of the employees' retention and strategies to increase employees' satisfaction as well to retain them in the organization.

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