
A Study on Compensation Management and its Importance for Employee Retention in IT Industry in India

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Abstract

The purpose of this study was to investigate the organizational factors impacting on employee retention in IT industries in India. The population for the study included 500 employees. According to Hebenstreit (2008:4) employee retention is a significant concern and expense for every organization, with the expense of recruiting and retaining a new worker costing anywhere from half to 200% of the departing employee's annual salary.

Keywords : Compensation , Employee Retention, Productivity,

Introduction

Recruiting people to meet the organisations human resource needs is only half the battle in the war for talent. Keeping these people is the other half. Organisations that keep their employee turnover rates lower gain an advantage against their competitors by reducing overall labour costs and improving productivity.

Moseley, Jeffers and Paterson (2008:53) state that employee retention is important to organisations, as increased turnover creates instability and puts additional workload and stress on remaining staff, increasing job dissatisfaction and therefore potentiating the turnover cycle.

The Importance of Employee Retention

Employee retention has become a serious and complex problem for all organisations. Managing employee retention and keeping turnover rate below target and industry norms is one of the most challenging issues facing organisations (Phillips & Connell, 2003: xi).

Employee turnover is important to individuals, organisations, and society. For the individual, leaving a job may cause temporary loss of income and benefits, family stress, problem with individual self esteem, and possibly sustained unemployment and relocation for the individual and family (Phillips & Connell, 2003:5).

From the organisational perspective, employee turnover may lead disruption of service to clients. The extra time and money spent on recruitment and training of the replacement and the added stress of more work for the remaining staff during the interim are a few of the consequences suffered by the organisation when turnover occurs.

Kaye and Jordan-Evans (2009:17) point out that retention is increasingly important as a result of:

- ☒ The shortage of skilled workers,
- ☒ Changes in employee attitudes,
- ☒ The availability of new employment options,
- ☒ The high costs associated with hiring new talent

The Impact of Compensation on Employee Retention

Compensation has always been at the heart of any employment relationship. Swanepoel et. al. (2003:487) explain that, in its simplest form, this relationship is usually based on an economically motivated process whereby certain inputs (physical and mental work behaviour) are exchanged for some outputs (rewards) that are considered to be desirable in satisfying individual needs or goals. The utilisation of rewards can therefore be a very important and powerful tool for shaping and determining work behaviour aimed at attaining the strategic objectives of an organisation.

The strategic importance of compensation

Like many other aspects of an organisation's approach to managing human resources, compensation can facilitate (or interfere with) the achievement of different strategic objectives. The three main objectives, according to Schuler and Jackson (2006:362) are

- i) Attracting and retaining the talent required for sustainable competitive advantage;
- ii) Focusing the energy of employees on implementing the organisation's particular competitive strategy; and
- iii) Improving productivity.

Literature Review

Bokemeier & Lacy, 1986. Rewards are very important for job satisfaction because it fulfills the basic needs as well as helps to attain the higher level of goals. Employees get to know by earning that how much they are gaining by dedicating their time, effort and skills in a job.

Denton, 1992 follows this up by stating that, "the better the match between recruits and the organization the more likely you are to retain them."

Marx, 1995 concludes this by pointing out that. Employee engagement, recognition, importance of work, and career advancement opportunities are all important, when dealing with employee retention.

Allen, Shore & Griffeth, 2003; Steel et al., 2002 Growth opportunities which were offered by the employers are reduced due to turnover intentions of employees because the lack of training and promotional opportunities was the main cause for high-performers to leave the company.

Manfredi & Holliday, 2004 By applying work-life course of actions, an organization can enhance its ability to respond to demands of customers for better access to services and also the tactics for the organizations to deal with the revolutionized way in order to satisfy both employees and employers.

Borstorff & Marker, 2007 found that employees want trustful supervisors who know them, understand them and treat them fairly. Abusive supervisors create conflicts in worker’s attitude for job, life and organization.

According to Bailey, 1993 effective practices help in retaining the talent employees. According to him a wide-ranging practice should consider the following issues:- Employees must have a lucrative incentive (compensation, recognition, reward etc.); Employees must strengthen their necessary skills and competencies to make their efforts more meaningful (selection, training, development, career opportunities etc.); Employees must grasp opportunity to participate at various levels. (Communication, participation, promotion etc).

Objectives of the Research

The primary objective of this study was to investigate the impact of compensation management on employee retention in IT industries in Indore.

Research Methodology-

This study is primarily a descriptive and analytical study. The study is undertaken on the employees of IT industry in India.

Sample Size: Total 500 employees were selected from IT industry in India.

Source of Data: Questionnaire technique is used to collect primary data from the targeted respondents.

H₀₅: Suitable Compensation has no positive significant impact on Employee Retention.

H₁₅: Suitable Compensation has positive significant impact on Employee Retention.

TABLE 1 (A) DESCRIPTIVE STATISTICS ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

	Mean	Std. Deviation	N
Employee Retention	6.7020	1.15926	500
Suitable Compensation	7.2620	1.65857	500

TABLE 1 (B) CORRELATIONS ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

		Employee Retention	Suitable Compensation
Pearson Correlation	Employee Retention	1.000	.356
	Suitable Compensation	.356	1.000
Sig. (1-tailed)	Employee Retention	.	.000
	Suitable Compensation	.000	.
N	Employee Retention	500	500
	Suitable Compensation	500	500

Above table shows the correlations and it is evident from this table that Pearson’s correlation coefficient between Suitable Compensation and Employee Retention is 0.356 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between Suitable Compensation and employee retention. Furthermore, since the value of

correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

TABLE 1 (C) MODEL SUMMARY^B ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.356 ^a	.127	.125	1.08418	.127	72.507	1	498	.000

a. Predictors: (Constant), Suitable Compensation

b. Dependent Variable: Employee Retention.

TABLE 1 (D) ANOVA^A ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	85.228	1	85.228	72.507	.000 ^b
	Residual	585.370	498	1.175		
	Total	670.598	499			

a. Dependent Variable: Employee Retention.

b. Predictors: (Constant), Suitable Compensation

TABLE 1 (E) COEFFICIENTS^A ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.892	.218		22.446	.000
	Suitable Compensation	.249	.029	.356	8.515	.000

a. Dependent Variable: Employee Retention.

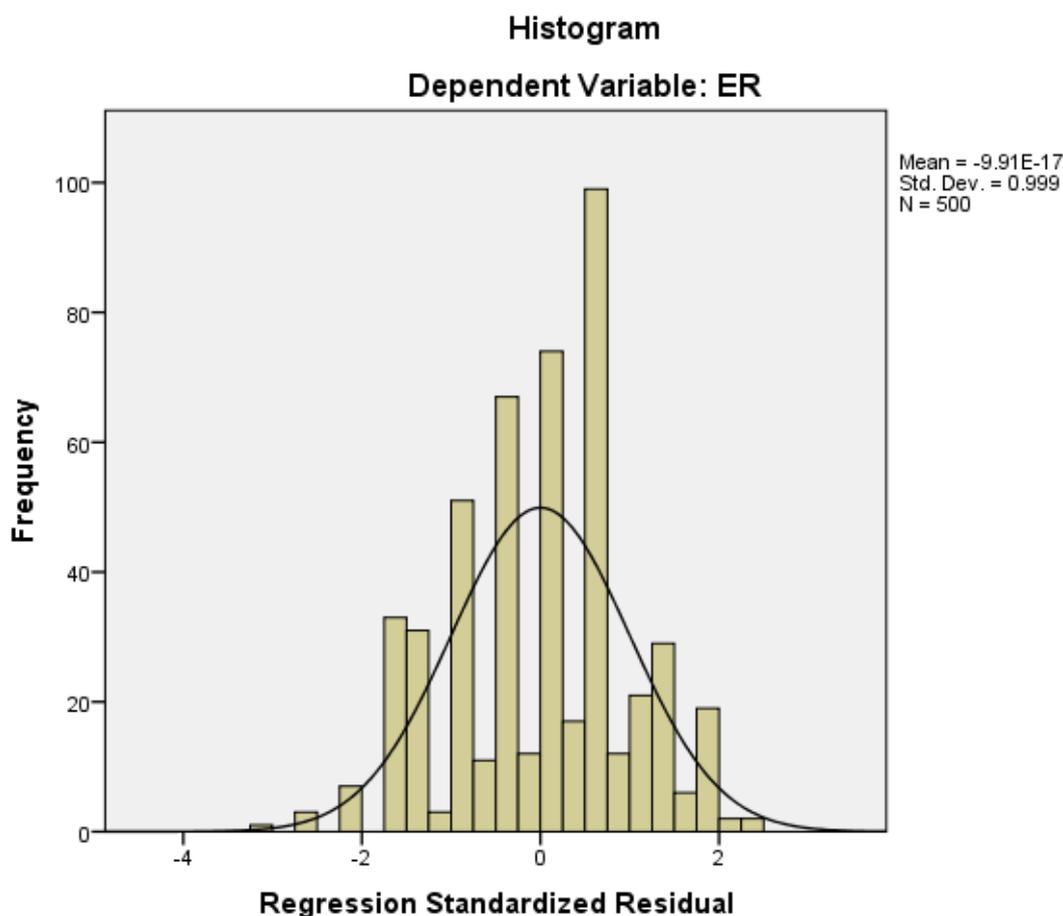


FIGURE 1: HISTOGRAM ON SUITABLE COMPENSATION & EMPLOYEE RETENTION

Over all model summary shows the value of linear correlation coefficient $R=0.356$, it is the linear correlation coefficient between observed and model predicted values of the dependent variable, Its large value indicates a strong relationship. R^2 , the coefficient of determination is the squared value of the multiple correlation coefficients. Adjusted $R^2=0.125$, R^2 change is also 0.127 and these values are significant which shows that overall strength of association is moderately noteworthy. The coefficient of determination R^2 is 0.127; therefore, 12.7% of the variation in employee retention is explained by Suitable Compensation.

ANOVA is used to exhibit model’s ability to explain any variation in the dependent variable. ANOVA table exhibits that the hypothesis that all model coefficients are 0 is rejected at 1% as well as 5% level of significance which means that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Suitable Compensation is useful as predictor of employee retention.

From the table of coefficients, the regression equation can be obtained as

Employee Retention = 4.892 + .249* Suitable Compensation

The normal probability plot is obtained to test the assumption about the normality of residuals and it appears that the residuals are approximately normally distributed. Thus the assumptions for regression analysis appear to be met.

Findings and Discussion:

Findings revealed results in the expected direction for the hypothesis has proven that: : *Suitable Compensation has no positive significant impact on Employee Retention* is rejected and the alternate hypothesis that : *Suitable Compensation has positive significant impact on Employee Retention* is accepted at 5% level of significance. To test the hypothesis correlation and regression were applied and it is concluded that suitable compensation has positive relationship with employee retention. The important values, generated by SPSS through running regression on the data collected are as follow: Coefficient of Correlation, R-.356, Coefficient of Determination, R²-.127, F-Test Value- 72.507 at P-value-.000 and lastly tolerance level is determined through Coefficient of independent variable, Beta-.249. The calculated value of F is higher than tabulated value at 5% significant level, so null hypothesis is rejected and alternate hypothesis is accepted. The value of T-test is 8.515{Refer Table No. 1 (E)} is significant at 5% level of significance. F value is greater at 1 degree of freedom.

Hence, the relationship between independent variable and dependent variable is .127 and 12.7% change is explained in the variable of employee retention {Refer Table No. 1 (C)}. The estimated regression model of data shows that there is a (moderate effect) positive relation between employee retention and suitable compensation also tells us that a change in suitable compensation (a strategy of retention) will enhance up to .249 employee retention. The F-calculated value is 72.507, so, the overall model is significant under the condition that F- calculated > F- tabulated. In this case the data shows that the model is significant at p-value. The p-value from the result is less than 0.05. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted. The findings are statistically significant at the 5% level.

The study established that employees were satisfied with the compensation strategies implemented by the organization and that rewards and benefits offered were comparable with what the market offered. These findings are consistent with Reville, Boden and Biddle (2003)¹, benefits, such as pension, life and health insurance, retirement plans and allowances that include company cars or subsidized transportation, all represent a significant pay element in many large firms which go a long way in improving employee commitment to an organization and hence employee retention. Well remunerated employees will find little reason to leave to another organization provided the tasks are challenging enough.

The study also established that an effective and transparent performance appraisal process was in place at state corporations and that feedback from performance appraisals led to enhanced employee development and that performance appraisal systems encompassing mentoring and coaching of employees were also in place. The employees were also proud to tell others that they were part of the organizations and that job security had an influence on employee retention in the organizations. The employees were recognized and rewarded for their commitment and dedicated service to the organizations.

CONCLUSION

The purpose of this study was to analyze and interpret the data obtained from the research questionnaire. The study included an analysis of organizational factors impacting on employee retention. From the study it can be concluded that retention strategies are complex and are not easy to implement. In order for retention strategies to be effective, the employees, and their managers or supervisors need to be actively involved in the development and implementation of the strategies. Managers need to have a clear understanding of the needs, abilities, goals and preferences of the workforce. Compensation Management and Staff engagement play a very important role to retain employees in an organization. From the above discussion it can be concluded that compensation / remuneration constitutes the largest part of the employee retention process. Employees always have high expectations regarding their compensation packages. These packages vary for organisation to organisation. An attractive compensation package plays a critical role in employee retention. Employees want to be paid well for the job they do, both for their self-esteem and as a practical means to living. The importance of compensation in employee retention depends somewhat on the type of job and industry.

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