
An Analysis of the Influence of Compensation on the Antecedent Factors of Retention - A study of the software employees in India

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Abstract

Compensation is very often considered as a significant organisational reward or outcome that enables employees to achieve other rewards. Pay satisfaction or the compensation satisfaction is the amount of total positive feeling the employees have with regards to their pay. It is said that an employee's actual pay can be used in understanding and evaluating how satisfied he or she is with the pay. The aim of this study was to analyze the role that compensation plays in the determination of voluntary turnover intentions of the software professionals in India. For the purpose of the study information was obtained from the software employees based in Chennai City. One way ANOVA was used for analyzing the data that was obtained from the respondents.

Keywords: Compensation, Pay satisfaction, Voluntary turnover, Software professionals, India

Introduction

Employees in an organization are very often referred to as human capital. (Carmeli & Weisberg, (2006) observed that recruiting, developing and retaining this valuable human capital is important. For the purpose of retaining these valuable employees it is vital that they not only feel secure in an organisation but also satisfied with the company. Westlund & Hannon (2008) stated that there are nine dimensions of job satisfaction out of which one is pay. He also opined that compensation is also a motivation for performance and a strategy to attract and retain key talent. Ducharme, Singh & Podolsky mentioned that satisfaction with compensatory factor refers to the degree to which an employee is satisfied with the process and level of direct or indirect monetary rewards received for the job performed. Griffeth, Hom & Gaertner highlighted that evaluating and understanding how the different factors might recede, explain, result from or change this compensation satisfaction is critical particularly in understanding voluntary turnover intentions of employees. Voluntary turnover intention may be defined as motive that the present employees develop to leave the job they are currently being offered by the employer for another job. The IT industry in India has developed itself into a valuable brand for itself in the global market. It has transformed the very nature of how business is being done. The IT industry particularly the software segment has carved itself a prominent position in the world. The IT employees in general and the software professionals in particular are paid much above the Indian standards. Even though they enjoy a very high compensation package in relation to the other sectors, employers find it really difficult to retain these employees. Job hopping is a predominant trend in the Indian IT industry.

This trend can be attributed to a variety of reasons. Compensation being the primary cause for job hopping, the researcher in this study attempts to fill the gap in literature by analysing in depth the impact that compensation creates in the determination of voluntary turnover intentions among the software professionals.

Review of Literature

Porter and Steers (1982) had referred to voluntary turnover as the subjective estimation of an employee regarding the probability that he or she will be leaving the company. As observed by Carmeli and Weisberg (2006) voluntary turnover intentions have been linked to pay satisfaction.

(Williams, McDaniel, & Nguyen, 2006) highlighted that it is of primary importance that the companies reduce voluntary turnover intentions among the employees and the best way to do this is to make sure that the employees are happy and satisfied with their current pay and designations. Tang (2010) had opined that the manner in which employees value their compensation also differs with their attitude towards money. Most of the employee's value compensation as a reflection of their achievement, self-esteem and power. Such employees have shown that there exists a stronger link between compensation satisfaction and voluntary turnover in comparison to those who see money as a secondary factor in relation to career progression.

Faulk (2006) observed that pay is the best motivator an employee values. It is seen by an employee as a way of acknowledging good performance or reward and is often equated with how much an employee is valued by the organisation. Heneman and Judge concluded in their research that pay dissatisfaction can have important and undesirable impact on numerous employee outcomes. They stated that when an employee is not happy with his pay it can decrease his commitment towards his job and develop turnover intentions. Newman (2008) opined that the employees view an organization's pay policy as a strategic tool in aligning the interests of the workers and management and improving the firm's performance. This makes compensation an important factor that motivates an employee to remain with the present employer for a longer period of time.

Considering from a financial context turnover is a very costly affair to an organization. When an employee leaves an organization, they have to spend both money and time in finding a new resource and training them. Thus from an organization's viewpoint it is better to retain a happy employee who is satisfied with his pay than employing a new resource. Various researchers have identified a large number of factors that was related to compensation satisfaction. Ram and Prabhakar (2010) have identified numerous studies (for example, Berger & Schwab, 1980; Dreher, 1980; Dreher et al., 1988; Futrell, 1978; Heneman & Schwab, 1985; Judge et al., 2010; Lawler, 1971; Miceli & Lane, 1991; Motowidlo, 1982; Ronan & Organt, 1973; Schwab & Wallace, 1974) that have indicated that a positive relationship exists between pay level (wages or salaries) and pay satisfaction. It was cited by Ram and Prabhakar that higher the pay level the higher will be the pay satisfaction because of a greater ability to acquire more money as well as greater recognition of service.

The basic purpose of this study was to add to the existing knowledge about compensation and its role in the determination of voluntary turnover intentions among software employees in India. For the purpose of the study the respondents were chosen from the software companies in Chennai City.

Objective of the Study

To analyse the impact of compensation on the antecedent factors of retention in the Indian software industry.

Analysis and Interpretation

To test the significant influence of monthly salary on antecedent factors (Pay, Benefits, Training and Development, Career Development, Leadership, Relationship with superiors, Work Aspects, Organisational Culture and Style and Work and Family Demands) of retention among software professionals, one- way ANOVA is applied to ascertain the significant influence of monthly salary on antecedent factors of retention. The following null hypotheses are framed;

Null Hypothesis H₀: There is no significant influence of monthly salary on (a) Pay (b) Benefits (c) Training and Development (d) Career Development (e) Leadership (f) Relationship with superiors (g) Work Aspects (h) Organisational Culture and Style (i) Work and Family Demands in software industry.

Table 1 shows the results of significant influence of monthly salary on antecedent factors of retention in Software industry.

Table 1

Influence of monthly salary on antecedent factors of retention

Factors	Monthly salary	N	Mean	SD	F-value	p-value
Pay	Below 30000	34	3.80	0.430	2.609*	0.034
	30001-40000	151	3.93	0.451		
	40001-50000	284	3.91	0.424		
	50001-60000	337	3.85	0.369		
	Above 60001	136	3.81	0.415		
Benefits	Below 30000	34	3.73	0.631	0.116	0.977
	30001-40000	151	3.80	0.545		
	40001-50000	284	3.78	0.581		
	50001-60000	337	3.79	0.557		

	Above 60001	136	3.78	0.562		
Training and development	Below 30000	34	3.76	0.542	1.777	0.131
	30001-40000	151	3.70	0.475		
	40001-50000	284	3.69	0.466		
	50001-60000	337	3.71	0.457		
	Above 60001	136	3.59	0.518		
Career development	Below 30000	34	3.69	0.831	2.415*	0.047
	30001-40000	151	3.50	0.797		
	40001-50000	284	3.56	0.813		
	50001-60000	337	3.50	0.826		
	Above 60001	136	3.32	0.908		
Leadership	Below 30000	34	3.62	0.789	1.592	0.174
	30001-40000	151	3.45	0.848		
	40001-50000	284	3.57	0.856		
	50001-60000	337	3.46	0.919		
	Above 60001	136	3.37	0.925		
Relationship with superiors	Below 30000	34	3.66	0.545	1.517	0.195
	30001-40000	151	3.46	0.779		
	40001-50000	284	3.57	0.771		

	50001-60000	337	3.52	0.773		
	Above 60001	136	3.41	0.798		
Work aspects	Below 30000	34	3.82	0.634	1.272	0.279
	30001-40000	151	3.64	0.726		
	40001-50000	284	3.68	0.755		
	50001-60000	337	3.66	0.748		
	Above 60001	136	3.54	0.763		
Organisational culture and style	Below 30000	34	3.60	0.583	1.579	0.178
	30001-40000	151	3.46	0.894		
	40001-50000	284	3.53	0.823		
	50001-60000	337	3.48	0.884		
	Above 60001	136	3.32	0.906		
Work and family demands	Below 30000	32	3.65	0.586	1.429	0.222
	30001-40000	147	3.66	0.785		
	40001-50000	274	3.62	0.743		
	50001-60000	335	3.53	0.735		
	Above 60001	135	3.50	0.751		

*Significant at 5% level

Findings

Pay

The obtained 'F' value is 2.609 and it is significant at 5% level. The value indicates that there is significant influence of monthly salary on pay in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on pay in Software Industry" is rejected.

The mean table 4.34 indicates that the respondents getting salary of 30001-40000 have scored higher mean value of (3.93) and the lowest mean value was scored by the respondents getting salary less than 30000(3.80). This shows that the respondents getting salary of 30001-40000 agrees that the pay is an important variable in retaining an employee.

Benefits

The obtained 'F' value is 0.116 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on benefits in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on benefits in Software Industry" is accepted.

Training and Development

The obtained 'F' value is 1.777 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on training and development in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on training and development in Software Industry" is accepted.

Career Development

The obtained 'F' value is 2.415 and it is significant at 5% level. The value indicates that there is significant influence of monthly salary on career development in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on career development in Software Industry" is rejected.

The mean table 4.34 indicates that the respondents getting salary less than 30000 have scored higher mean value of (3.69) and the lowest mean value was scored by the respondents getting salary above 60001(3.32). This shows that the respondents getting salary less than 30000 agree that the career development is an important variable in retaining an employee.

Leadership

The obtained 'F' value is 1.592 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on leadership in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on leadership in Software Industry" is accepted.

Relationship with Superiors

The obtained 'F' value is 1.517 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on relationship with superiors in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on relationship with superiors in Software Industry" is accepted.

Work Aspects

The obtained 'F' value is 1.272 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on work aspects in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on work aspects in Software Industry" is accepted.

Organisational Culture and Style

The obtained 'F' value is 1.579 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on organisational culture and style in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on organisational culture and style in Software Industry" is accepted.

Work and Family Demands

The obtained 'F' value is 1.429 and it is not significant at 5% level. The value indicates that there is no significant influence of monthly salary on work and family demands in Software Industry. Therefore, the formulated hypothesis "There is no significant influence of monthly salary on work and family demands in Software Industry" is accepted.

Conclusion

In the modern world, an organisation survives in an ever changing environment. Thus change is a constant phenomenon that affects commitment and satisfaction of the employee as well as organisational development. The study about compensation satisfaction is not novel but its relation to understanding voluntary turnover intentions is a relatively a new area adding to the existing literature. Since the employees particularly the workforce in the Indian software industry is exposed to a number of opportunities, it becomes highly important for the companies to evaluate and understand the significance of pay or compensation. Gone are the days when pay was a mere compensatory element. This study proves that compensation has a positive impact on the various antecedent factors of retention. Today it is the most important factor responsible for keeping an employee glued to his organisation. Rewards and pay are often used as an incentive for performance as well as means to retain an employee. This research paper throws light on the individual impact that pay exhibits on the various antecedent factors of retention. Further research in this area can be carried out in areas such as pay satisfaction and gender studies and the impact on voluntary turnover.

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