

THE RELATIONSHIP BETWEEN EMPLOYEE COMPENSATION AND EMPLOYEE TURNOVER IN SMALL BUSINESSES AMONG SAFARICOM DEALERS IN ELDORET MUNICIPALITY, KENYA

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Abstract

The main purpose of the study was to establish the relationship between employee compensation and employee turnover in small businesses, a case of Safaricom dealers in Eldoret Municipality, Kenya. A descriptive research design was employed and a census of the employees in the dealer shops was used because of the small population. A semi-structured closed ended questionnaire was used to collect data. Completed questionnaire was verified, coded and summarized using frequencies, table and graphs. Chi-square was applied to establish relationships between employee compensation and employee turnover. Significant variables were included in the logistic regression model to establish strength of relationship. The findings were; that majority of employees in small businesses were between the age of 20- 25 and had tertiary level of education. They intended to stay in their current employment. The study recommended that a comprehensive compensation package be provided to reduce labour turnover.

Keywords: Employee, Compensation, Employee Turnover, Telecommunications

INTRODUCTION

Employee turnover is a part of normal business activity; employees come and go as their life situations change. Employers realize this and, indeed, large firms typically have entire departments devoted to the management of human resources in order to make the transition as painless as possible for both management and employee and to minimize the associated hiring and training costs. In smaller firms, however, each individual incident of employee turnover has a relatively larger effect on the firm; in a ten-employee firm, the loss of one employee translates into a 10 percent turnover rate. Therefore, loss can put a strain on the firm's ability to do business. Small firms also have a higher failure rate than large firms and this adds to the employee's side of the risk equation. To mitigate these and other detrimental employment characteristics of small firms, economic theory posits that small businesses should have to pay higher wages than large firms. Empirically, however, we observe that they pay significantly less (Hope & Mackin, 2007)

According to observations by Hope and Mackin (2007) employees of large establishments stay in their jobs longer than employees of small establishments. Offering benefits improves employee retention. When a firm offers benefits, it decreases the probability of an employee's leaving in a given year by 26.2 percent and increases the probability of staying an additional year by 13.9 percent. Labour turnover is the movement of employees in and out of an organization. It is commonly used to refer to the number of employees leaving an organization. It is also defined as the ratio between the numbers of employees that leave to the total number employees over a given period usually a calendar year. According to a study by Mercer (2003), employees will stay if they are rewarded.

Companies today routinely provide a compensation package that includes both cash benefits (salary, paid leave, paid holidays and bonuses) and non-cash or deferred cash benefits (insurance and retirement plans). Small businesses are expected to be at a competitive disadvantage to larger firms in terms of their ability to match the high salaries and availability of fringe benefits. (Hope & Mackin, 2007). Compensation is the total reward that employees receive in exchange for a service performed in an organization. It can include direct pay (salaries and wages) and indirect pay (benefit programs). The types of compensation are base pay, commissions, overtime pay, bonuses, profit sharing, merit pay, stock options, travel/meal/house allowance, and benefits including dental, insurance, medical, vacations, retirement and taxes. Compensation is the most crucial issue in attracting and keeping talent. Inadequate reward, lack of recognition from managers, peers and customers enhances labour turnover. Employees need to be given opportunities to participate and to influence actions and decisions.

In today's competitive scenario, as awareness and technology play a vital role in developing the telecommunications industry, competition is becoming more vigorous and intense. Companies incur direct and indirect expenses which include the cost of advertising, headhunting fees, human resource costs, loss of productivity, new hire training, and customer retention, every time they have to replace an employee. These expenses can add up to anywhere from 30 to 200 percent of a single employee's annual wages or salary, depending on the industry and the job role being filled (Beam, 2009). Retention becomes one of the biggest issues for the telecom industry in Kenya because employees are the ones who make profits and are considered as the capital or asset of the organization. With increased development in the mobile sector, players are outdoing each other with throat cutting strategies. Similar competition has been extended to the dealers who have invested so much in their employees in terms of training and compensation packages to retain the best labour force.

While lower paying job roles experience an overall higher average of employee turnover, they tend to cost the company less per replacement than do higher paying job roles. However, they incur the cost more often. For these reasons, companies focus on retention strategies regardless of pay levels (Beam, 2009). Reducing employee turnover is a strategic and very important issue. No business can enjoy and sustain the success until it deals with this turnover problem efficiently and successfully. Most crucial issue is to lay the ground work for long-term commitment. Without valuable employees, a business cannot generate revenue and prosper. Every individual has a purpose to perform and without a single one, the picture becomes invisible to be successful in real manner. It is against this background that the study will seek to identify the effect of employee compensation on employee turnover among Safaricom dealers in Eldoret Municipality. Thus, the study hypothesized that;

H₀₁: Compensation packages have no significant effect on employees' turnover among Safaricom Dealers In Eldoret Municipality?

THEORETICAL FRAMEWORK

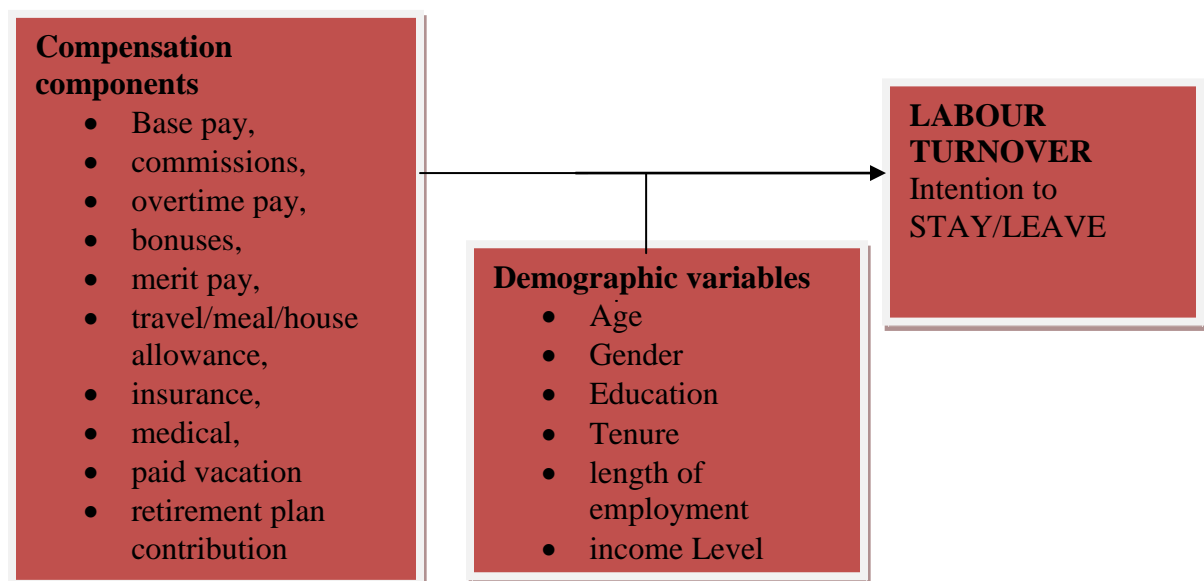
Reinforcement theory states that a response followed by a reward is more likely to recur in the future (Thorndike's Law effect). The implications for compensation management are that high employee performance followed by a monetary reward is more likely. By the same token, high performance not followed by a reward will make it less likely in the future. The theory emphasizes the importance of the person actually experiencing the reward. Like reinforcement theory, expectancy theory (instrumentality perceptions Like reinforcement theory, expectancy theory (Vroom, 1964) focuses on the link between rewards and behaviors (instrumentality

perceptions), although it emphasizes expected (rather than experienced) rewards (i.e., incentives). Motivation is also a function of two other factors: expectancy, the perceived link between effort and performance, and valence, the expected value of outcomes (e.g., rewards). Compensation systems differ according to their impact on these motivational components. Generally speaking, pay systems differ most in their impact on instrumentality: the perceived link between behaviors and pay, also referred to in the pay literature as "line of sight." Valence of pay outcomes should remain the same under different pay systems. Expectancy perceptions often have more to do with job design and training than pay systems.

Operationalization of the conceptual frame work

Employee compensation can take the form of cash and non cash benefits. Only compensation components that can be adopted by small businesses are considered in the conceptual framework. The effectiveness of the compensation component can be influenced by the employee demographic characteristics. The relationship between compensation components and turnover will be established controlling for the demographics. Labour turnover measured through turnover intention was the dependent variable in the study. Turnover intention has been used very often in past research. Shore and Martin (1989) noted that turnover intention is an appropriate dependent variable because it is linked with actual turnover. Bluedorn (1982) and Price and Mueller (1981) even recommended use of turnover intention over actual turnover because actual turnover is more difficult to predict than intentions as there are many external factors that affect turnover behavior.

Figure 1. Conceptual Framework



EMPIRICAL REVIEW

A survey of labour turnover, published in December 1997, by the Institute of Personnel and Development indicated that the cost of replacing staff has increased significantly in the UK in the last twelve months. Taking a detailed look at the available data on the labour in the UK the independent employment researchers, industrial relations services argued in 1997 that the economic recovery in the UK is leading to increasing numbers of resignations and skill shortages, which in turn are leading to substantial resourcing problems for employers. At the same time labour turnover is being adopted by many organizations in the UK as a “bench mark” indicator of performance and business efficiency (Betts, 2000). The overall conclusion of the IPD survey was that the cost of labour turnover associated with all occupational groups, with the exception of unskilled workers had increased over the period of the survey

Griffin, (2000) in his study argues that remuneration strategy influences key outcomes like job satisfaction, attraction, retention, performance, skill acquisition, co-operation, motivation and turnover intent of employees. Retention and motivation of personnel has become a major concern for HR especially in the Indian Retail industry. Compensation & Benefits have been ascribed to be one of the factors responsible for the high attrition rate. A study of remuneration strategy and turnover intent shows that there is a negative relationship between the two factors. Forest, (2001) in his study argues that the compensation strategy is extremely important as the right compensation strategy helps to build the effective and competitive organization and the wrong setting of the compensation strategy, which does not fit with the needs of the organization and with the HR and Business Strategies, can destroy the organization within several years and the organization suffers from decreased performance and not utilizing the full potential of employees.

Emma, (2007) argues that base pay is an employee's initial rate of compensation, excluding extra lump sum compensation or increases in the rate of pay. An employee's base pay can be expressed as a base hourly rate of pay or as an annual salary. Extra forms of compensation that are excluded from base pay typically include shift differential pay, on-call pay, pay for special assignment or incentive-based pay and bonuses and these types of compensation lead to low staff turnover.

Armstrong, (2010) argues that lump sum merit awards provide financial recognition for an individual's job performance in lieu of merit-based salary increases hence more employee retention. This is an effective way to provide financial recognition, especially to those individuals whose base salary is already relatively high. The lump sum merit award must be re-earned each year and is usually paid during an annual salary review period.

According to Robbins (2003), employee compensation can include many different types of rewards and benefits such as salaries, incentive payments and other benefit and services that trigger the level of motivation. If an employee believes he/she is underpaid, that employee will likely reduce expected effort through go slows and being absent. Motivation is described as an inner force that derives individual to act toward something (Ivancevich, 2007). Research result of by Ghazanfar, Muhammad and Mohsin (2011), showed that satisfaction with compensation has strong and significant effect on work motivation. Flexible pay incentives, overtime, bonuses and benefits has positive effect but insignificant on workers motivation. Research by Vecchio and Wagner (2010), found that pay variable significantly effects on motivation intrinsic of salesperson in California

Igalens and Rousell (2000), examine relationship between work motivation and compensation for working comfort. Results show under uncertainty conditions, individual compensation can become a factor to increases work motivation, flexible pay of specific workers cannot motivate and increase job satisfaction and benefits for specific workers cannot motivate and increase job satisfaction.

Research of Paik, Praveen and Wonshul (2007), found positive and significant relationship between compensation received by Korean workers expatriate and Mexico local workers on employee motivation. Compensation has positive effect on worker motivation and performance. Anvari et al. (2011), indicate that there is a positive and significant relationship between practical compensation strategies with organizational motivation.

Research of Gungor (2011), examines relationship between application of rewards management system and worker performance with motivation as intervening variable in Istanbul bank. Research results found that Financial Reward has a positive and significant effect on employee motivation. Javedet al. (2010), examined relationship between compensation and employee motivation. This study results show that compensation has significant effect on organization motivation. Research by Siswanto (2001), examines effect of compensation on motivation and lecturer performance at Economics Faculty at some private colleges in Kediri-Indonesia. Study results show that financial and non-financial compensation significantly affects work motivation of workers

RESEARCH METHOD

This study used a descriptive survey design whereby data was collected, analyzed and interpretation given at a given point and time. The target population consisted of 60 employees from 7 Safaricom dealers operating business in Eldoret Municipality, Kenya. The research therefore undertook a census to include all the employees in the population to achieve the

minimum target of a large sample, above 30 sample units. A total of 60 employees were considered in the study. A semi-structured questionnaire was employed as the main data collection tool. The chi-square test was done to assess relationships between categorical variables while T-Test was used in case of a continuous variable of employee compensation. Significant variables at bivariate level ($P \leq 0.005$) were subjected to a logit model to identify significant explanatory variables of employee turnover. Results were considered significant at 95% confidence level.

ANALYSIS AND DISCUSSIONS OF FINDINGS

Sample characteristics

Most 30(50%) of the employees were aged between 20-25 years old and 31(54.4%) had contract type of employment. Half 30(50%) were male, 38(63.3%) were single and 35(58.2%) had tertiary level of education. The mean length of employment, household size and monthly gross income were 2.9 ± 1.8 , 3(1, 9) and 11740(5000, 45000) respectively.

Employee Turnover

Less than half of the employees 27(48.2%) strongly disagreed on intending to actively look for a new job in the next year and more than half strongly disagreed on intending to quit and probably look for a new job in the next year 35(64.8%) and 29(52.7%) respectively

Table 1. Employee intentions

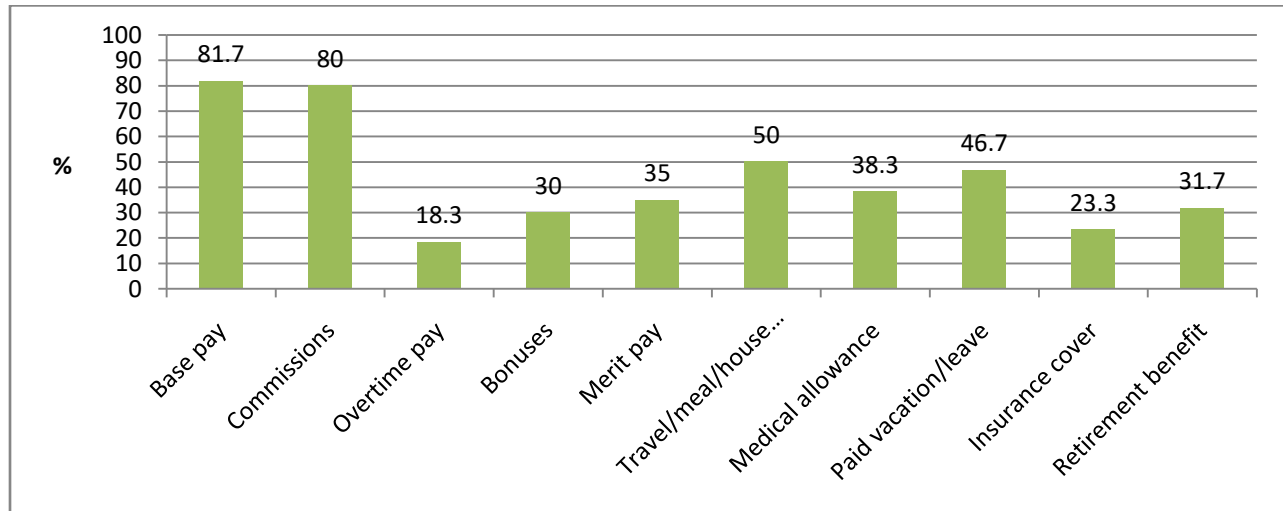
Intention	SD	D	U	A	SA
Will actively look for a new job in the next year	27(48.2)	10(17.9)	12(21.4)	1(1.8)	6(10.7)
Often think about quitting	35(64.8)	9(16.7)	3(5.6)	1(1.9)	6(11.1)
Will probably look for a new job in the next year	29(52.7)	8(14.5)	5(9.1)	7(12.7)	6(10.9)

Employee compensation

Majority of employees were entitled to Base pay and Commission compensation alternatives 49(81.7%) and 48(80%) respectively as indicated in figure 2. Half of the respondents, 30(50%) were entitled to travel/meal/house allowance as compensation alternative. Less than half of the respondents were entitled to paid vacation or leave while overtime pay and insurance cover were the least forms of employee compensation alternatives with 18.3% and 23.3% response.

Generally many small businesses do not commit to pay bonuses, merit pay, medical allowance and retirement benefit plan contributions as indicated in figure 2 below.

Figure 2: Compensation alternatives



More than half 35(67.3%) had a collective agreement for compensation in their organization. This implies that there exist agreements that control employee compensation programs.

Relationship between Employee Compensation and Employee Turnover

Among the compensation alternatives, merit pay, travel/meal/house allowance and medical allowance were significantly associated with employee turnover ($p=0.002$, <0.001 and $p=0.025$) respectively as indicated in table 2. Although base pay and commissions were the most popular compensation alternatives, they were not significantly related to employee turnover. Insurance cover and retirement benefit plan remain the most insignificant factor to employee turnover as indicated in table 2 below.

Table 2. Relationship between Employee Compensation And Employee Turnover

Compensation	Turnover		Chi-square	P-value
	Stay	Leave		
Base pay	29(70.7)	12(29.3)	0.966	0.663
Commissions	32(80)	8(20)	3.742	0.101
Overtime pay	7(100)	0(0)	2.949	0.167
Bonuses	10(83.3)	2(16.7)	1.076	0.461
Merit pay	16(100)	0(0)	9.665	0.002

Travel/meal/house allowance	24(96)	1(4)	13.293	<0.001
Medical allowance	18(90)	2(10)	5.426	0.025
Paid vacation/leave	16(69.6)	7(30.4)	0.435	0.537
Insurance cover	7(70)	3(30)	0.035	1.000
Retirement benefit plan	12(75)	4(25)	0.005	1.000

Logistic Regression Model results

Controlling for age, education level, merit pay, travel/meal/house allowance and medical allowance, employment type was a significant predictor of employee turnover (OR: 95%CI; 0.113: 0.022-0.589). Those with permanent type of employment were less likely to leave as compared to those on contract. Similarly, those with secondary education were more likely to leave compared to those with tertiary level of education though not statistically significant (OR: 95%CI; 4.307: 0.727-25.520) as in table 3 Small businesses concentrate on base pay and commissions neglecting other forms of employee compensation alternatives.

Model results however indicated that salary was not significant in determining employee intention to leave the present employment. Small businesses should consider using merit pay, medical allowance and travel, meal and house allowance as effective employee compensation alternatives on employee retention though with cost implications. Employee demographics like age, type of employment, education are significant predictors of employee turnover. Offering permanent employment terms and hiring the tertiary educational level employees are likely to retain employees as compared to contract form of employment and secondary level of education.

Table 3: Predictors Of Employee Turnover

	B	S.E.	Wald	Sig.	OR
Age			3.386	.184	
20-24	-.599	1.195	.251	.616	.550
25-29	1.016	1.084	.878	.349	2.762
Employment (Permanent)	-2.182	.843	6.698	.010	.113
Education (Secondary)	1.460	.908	2.587	.108	4.307
Merit pay	.762	1.569	.236	.627	2.142
Travel/Meal/house allowance	-.981	1.284	.583	.445	.375
Medical allowance	-1.711	1.219	1.971	.160	.181
Constant	.778	.961	.656	.418	2.177

CONCLUSION AND RECOMMENDATIONS

Quarter (25%) of the employees in small businesses are dissatisfied with their current employee compensation benefits and intend to leave. Salary and commissions are insignificant predictors of employee turnover in small businesses although salary increments are very important in controlling employee turnover. A part from salary, merit pay, travel/meal/house allowance and medical allowance were significantly associated with employee turnover. Small businesses should improve working environment, appreciate employees and provide leadership to control turnover. Hiring older employees does not guarantee control over employee turnover. Small businesses should hire tertiary and graduate level employees over secondary graduates to minimize employee turnover. Based on the findings, the study recommends that: Small businesses should employ staff on permanent basis and train to enhance performance and retention. Apart from base pay and commissions, businesses should also provide their employees with retirement benefits, insurance cover, medical allowance, travel and meal allowances and merit pay. Salaries should be reviewed frequently to offer competitive packages. These businesses should improve work environment and ensure employee work life balance. Clear job descriptions should be provided and match employee skills with their work. Supervision should be adequate and objective. To improve retention, the dealer shops should ensure that performance appraisal is satisfactory to all employees. Proper management and leadership style will create employees loyalty to the organization.

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