Impact of Compensation Policy and Job Security on Employee Turnover

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In Nepal compensation and job security are considered as the major determinants of employee motivation. Motivated employees only stay in the organization for the longer period of time So, This study is trying to see the impact of compensation policy and employee turnover on employee turnover. The main purpose of this study is to examine the impact of compensation policy on employee turnover. Financial institutions should is considered as the major problem to labour turnover in Nepal. So, the banking sector was considered as the areas of study. Samples are selected based on knowledge on the issues under study 490 officer level employees were taken as sample which is nine percent of the population and sample size was determined based on statistical method. Officer level employees were selected as sample considering their understanding level over the research construct. Structure five point Likert scale questionnaire were used to collect data. Questionnaire was administered personally and only 407 useable questionnaire were returned. For the analysis of data factor analysis and linear regression techniques were used. The major finding of this study is ; compensation policy and job satisfaction has negative and significant impact on employee turnover. It means financial institutions that manages good compensation package and high level of job security to their employees can retain for longer period of time.

Key words: Compensation policy, Job security, Employee turnover, Financial institutions.

Employee turnover is considered as the major problem in the Nepalese business organizations especially in the financial institutions. Job security creates a climate of confidence among employees and reinforces their commitment to the company. Job security requires a certain degree of reciprocity: first, a company must signal a clear message that jobs are secure; then, employees believing that this is true, feel confident and commit themselves to expend extra effort for the company's benefit; finally, having learned that job security contributes to its performance, the company continues to invest in job security (Pfeffer 1998). Probst (2002) has developed a conceptual model of the antecedents and consequences of job security. Antecedents include worker characteristics, job characteristics, organizational change and job technology change. Consequences include psychological health, physical healthy, organizational withdrawal, unionization activity, organizational commitment and job stress. Job involvement, cultural values, and procedural justices moderate job security perceptions and attitudes.

Buitendach and Witte (2005) assess the relationship between job insecurity and employee turnover of maintenance workers in a parastatal in Gauteng. The Study's result reveals that there exist small but significant relationships between job insecurity and extrinsic job satisfaction and job insecurity and employee turnover.

However, today's business environments are far from providing job security to their employees. For example, in an analysis of the changes in the risks of involuntary jobs loss in France between 1982 and 2002, Givord and Maurin (2004) have found evidence that technological changes contribute to decreasing the incentive to keep workers for long period of time and works to increase job insecurity.

When companies do provide job security, then empirical evidence suggests that it has a positive effect on to firm performance. Following Pfeffer (1998), Ahmad and Schroeder (2003) have found that, among others, job security impacts operational performance indirectly through organizational commitment. Delery and Doty (1996) have studied the US banking sector and have found some support for a positive relationship between employment security and firm performance. In their study of 101 foreign firms operating in Russia, Fey *et. al.* (2000) found evidence that HR practices indirectly improve employee turnover problem. The results indicate that not only, is there a direct positive relationship between job security and performance for non managerial employees but also a direct negative relationship between job security and employee turnover.

Compensation policy and labor turnover

Some researchers suggest that empowerment practices can influence employees' beliefs regarding the extent to which the firm is interested in the welfare of its workforce (Eisenberger, Huntington, Hutchinson, & Sowa, 1986), which lead them to reciprocate by developing positive and emotional bonds, (Shore & Tetrick, 1991; Shore & Wayne, 1993) and exerting discretionary effort on behalf of the firm (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001; Piercy, Cravens, Lane, & Vorhies, 2006). These favourable job attitudes and behaviors are likely to result in lower level of turnover (Harrison, Newman & Roth,2006). Some empirical research provides evidence for the positive relationship between human capital and firm level outcomes (Hitt, Bierman, Shimizu, & Kochhar, 2001; Subramaniam & Youndt, 2005; Youndt, Subramaniam, & Snell, 2004). Some researchers also have suggested that human capital levels, in turn, can be enhanced through the use of such practices as recruiting large pools of applicants and selecting the ones most qualified using structured and validated selection tools, and by providing job security and good compensation can reduce employee turnover (Becker & Huselid, 1998; Takeuchi, Lepak, Wang, & Takeuchi, 2007). This is because, as predicted by the Attraction Selection Attrition model (Schneider, 1987; Schneider, Goldstein, & Smith, 1995), selective staffing practices are likely to lead to the hiring of workers who possess desired qualities, and job–security and good compensation package is likely to enhance the job satisfaction that leads to less turnover (Arthur, Bennett, & Edens, 2003). in addition to providing the socialization necessary for integration into the organization (Autry & Wheeler, 2005). The resulting employee organization fit has been found to be negatively related to employee turnover levels (Kristof–Brown, Zimmerman, & Johnson, 2005), and the aggregate–level of qualities or collective human capital at the unit level has been shown to be linked with unit performance (Stewart, 2001; Takeuchi *et. al*., 2007).

Thus the study tried to raise the issues of relationship between job security and compensation policy and employee turnover. Nepalese banking sector is facing the challenge of employee retention. Average retention rate is very poor in Nepal. Thus, the researcher intends to examine the impact of job security and compensation policy on employee turnover.

Job security and employee turnover

Job security creates a climate of confidence among employees and reinforces their commitment to the company. Job security requires a certain degree of reciprocity: first, a company must signal a clear message that jobs are secure; then, employees believing that this is true, feel confident and commit themselves to expend extra effort for the company's benefit; finally, having learned that job security contributes to its performance, the company continues to invest in job security (Pfeffer 1998). Probst (2002) has developed a conceptual model of the antecedents and consequences of job security.

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However, today's business environments are far from providing job security to their employees. For example, in an analysis of the changes in the risks of involuntary jobs loss in France between 1982 and 2002, Givord and Maurin (2004) have found evidence that technological changes contribute to decreasing the incentive to keep workers for long period of time and works to increase job insecurity.

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Michie and Maura Sheehan–Quinn (2001) have examined labour market flexibility in over 200 manufacturing UK firms. They have found that jobs security is negatively correlated with corporate performance along with employee turnover. In contrast, results show that 'highly job secured' organizations are positively correlated with good corporate performance and improves employee turnover problems. Kraimer, Wayne and Liden (2005) have used psychological contract and social cognition theories in order to understand the role of full–time employees' job security when temporary workers are employed. As expected, results demonstrate that job security is negatively related to full–time employees' perceptions that temporaries are a threat to their jobs. Furthermore, for those employees with low job security, there exist a negative relationship between threat perceptions and performance. On the contrary, for those employees with high job security, the study uncovers a positive relation between benefit perceptions and employee turnover.

Methodology

This study examines the impact of job security and compensation policy on employee turnover in the settings of Nepalese banking and financial institutions. All togather 20 financial institutions were taken from the financial sector which are located in Kathmandu. Total number of employees in all 20 commercial banks is 5432. Out of them tentatively 9% of the populations were taken as sample. It was determined based on the statistical calculations. Questionnaire were distributed to 490 officer level employees but out of them 407 questionnaire were collected. Questionnaire were designed based on the construct compensation policy, job security and employee turnover. Officer level employees were selected with the purpose of their understanding level over the construct. Organizations were selected based on their ownership type i.e. joint venture and national.

Instrument

The five point Likert sacle questionnaire was used based on the core model of Vlachos (2008) but the instruments developed by Vlachos are based on the instruments used by Guest (1997) and Pfeffer (1998). Pfeffer developed instrument to measure HR practices and Guest developed that instrument to measure behavioral outcome of individuals. The response format range from 1 = fully disagree and 5 = fully agree. The analysis was made using factor analysis for measuring the consistency in the factors to measure the scope of the variables; compensation policy , job security and employee turnover and regression model was used to examine the relationship between compensation and job security and employee turnover.

Analysis

Data were analysed using linear regression models. Factor analysis was undertaken to measure the content validity of the constructs.

Factor analysis for compensation policy

The conformity factor analysis was conducted with varimax rotation on the basis of principal component analysis so as to identify whether the factors used in the study are able to measure the compensation policy variables and whether the factors used in the questionnaire are related to compensation policy variables or not. It is confirmed that out of all together 8 items two items i.e. our remuneration package is designed to reward long term employees and our remuneration package is intended to promote employee retention are not relevant and all other factor loads are more than 0.5 . Thus all other items are principal components and are enough to measure compensation policy variable. Table 1 presents the factor loads of items used in the compensation policy.

Table 1 Factor analysis for compensation policy

Factors	Component
	1
We use incentives to boost individual performance	.756
Employees are paid based on their contribution	.777
Employees that help to attain firm's objectives are rewarded	.767
We emphasize individual contribution more for determining remuneration	.669
We emphasize external pay compatibility and determining compensation	.646
Promotion opportunities are provided to the employees on a regular basis	.654

Extraction Method: Principal Component Analysis

Factor analysis for job security

The conformity factor analysis with varimax rotation on the basis of principal component analysis so as to identify whether the factors used in the study are able to measure the job security variable and whether the factors used in the questionnaire are related to job security variable or not. It is confirmed that out of all together eight items one item i.e. the regulatory provisions of this organization are clear in job security is not relevant and all other factor loads are more than 0.5. Factor analysis classified to all items into two groups. Thus, all other items are principal components and are enough to measure job security variable. Table 2 presents the factor loads of each items used in the job security.

Table 2 Factor analysis for job security

Factors	Component	
	1	2
Performing employees are never fired	.700	
It is very difficult to dismiss an employee	.811	
Job security is almost guaranteed to employees in this organization	.767	
Employee downsizing is rarely done in this organization even during economic crisis	.691	
Prior permission of regulating authority is essential to downsize the employees		.605
The regulatory provisions of this organization are clear in job security	.563	
Contract is signed for duties and job security		.797
All employees are issued a letter of appointment as per the regulation		.610

Extraction Method: *Principal Component Analysis*

Factor analysis for employee turnover

The conformity factor analysis with varimax rotation on the basis of principal component analysis so as to identify whether the factors used in the study are able to measure the employee turnover variable and whether the factors used in the questionnaire are related to employee turnover variable or not. It is confirmed that out of all together eight items one item i.e. I never intend to quit this job as I love my job and the organization is not relevant and all other factor loads are more than 0.5. Factor analysis classified to all items into two groups. Thus, all other items are principal components and are enough to measure employee turnover variable. Table 3 presents the factor loads of each items used in the employee turnover.

Table 3 Factor analysis for employee turnover

Factors	Component	
	1	2
I never intend to quit this job as I love my job and organization		
I often think about quitting the job	.651	
I will probably not stay with this organization for much longer	.752	
I have started looking at job offers in the newspapers	.727	
I want to leave the job because of better job prospects outside	.763	
I want to leave the job because of dissatisfaction in the job	.776	
More people leave this organization compared to other organizations	.675	
Employees generally prefer to stay in the job in this organization		.739

Extraction Method: ***Principal Component Analysis***

Results

Test of assumptions of regression model

To test the hypotheses in perceptual data, regression model can be used if the data is normally distributed and no multicollinearity (Sheehan, Cooper, Holland and Cieri; 2007). Burns and Burns (2008) have suggested that test of normality, multicollinearity and homocedasticity is essential to use regression model for data analysis. Thus, before using the regression model for testing hypotheses, this study has tested assumptions of regression and regression is used to see the relationship between compensation policy and job security and employee turnover.

Test of normality

Regression model has certain statistical assumptions. Out of them, one of the key assumptions is normality of data. Burns and Burns (2008) claimed that normality of collected data is essential to have a correct prediction of dependent variable by the independent variables. Sheehan, *et.al.* (2007) argued that test of normality of data is essential for testing the hypothesis using regression model. Normality of data can be tested through scateergraphs and histograms and Kolmogorov–Smirnova test. In this study, normality of data was tested using Kolmogorov–Smirnova test using Spss 20 version. The result of the test is given in the table 4.

Table 4 Test of Normality using Kolmogorov– Smirnova Test

	Kolmogorov–Smirnov[a]		
	Statistic	df	Sig.
Compensation	.071	403	.632
Job security	.103	403	.086
Employee commitment	.066	403	.529

Table 4 shows that all the variables are insignificant at 5 percent significance level. It accepts null hypothesis i.e. data is normal. Thus, it is claimed that the data is normally distributed and parametric test can be used in such normally distributed data.

Test of multi–collinearity

One of the key assumptions of regression model is that the independent data should not have strong relationship to each other for the accurate prediction of dependent variable using regression model. Burns and Burns (2008) claimed that there must be the independence of independent variables for the accurate prediction of dependent variables using regression model. Sheehan, *et.al.* (2007) have argued that test of multicollinearity is essential for testing the hypothesis using regression model. This study tested the multicollinearity using VIF statistic using Spss 20 version. The result of the test is given in the table 5.

Table 5 Test of multicollinearity regressing compensation policy and job security and employee turnover using collinearity statistics

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	1.247	.188		6.645	.000		
Compensation	–.016	.058	–.017	–.280	.779	.504	1.982
Job security	.151	.048	.173	3.138	.002	.584	1.711

As per the theory of statistics if the VIF value is less than 5, it is assumed that those independent variables are not strongly correlated. It means there is no multicollinearity. While observing the data, all independent variables have less than 5 VIF value. So, there is no multicollinearity while regressing HR practices with dependent variable employee turnover.

Test of heterocedasticity

Burns and Burns (2008) have suggested that data should be homogeneously distributed to forecast the impact of independent variables on dependent variables using regression model. Sheehan, *et.al.* (2007) argued that test of heterocedasticity is essential for testing the hypothesis using regression model. This study tested the heterocedasticity using regression between the errors of dependent and independent variables.

Table 6 Test of heterocedasticity using regression (p-values)

Independent / Dependent variables	Employee turnover
Compensation	.989
Job security	.896

While regressing to the errors of compensation policy and job security with employee turnover, errors are found insignificant. Thus, it can be concluded that the data used in research does not have heterocedasticity problem and they are randomly distributed. Heterocedasticity was checked using Spareman rank correlation.

Regression

Linear regression was used to examine influence of job security and compensation policy on employee turnover.
Result of H1
Job security is positively related to employee commitment.

Relationship between compensation policy and employee turnover

The employee turnover is considered as dependent variable Y and compensation policy independent variable X. The regression equation has been estimated as;

Y = a+ bX
= 3.648 + –.219
t = (44.980) (–8.699)
P = (.000) (.000)
R2 = 0.157 Adjusted R2 = .155 F(1 405) = 75.762
p – value for overall significance = .000

The calculated value of F (1 405) = 75.762 and p–value for F–test is .000. It means F– value is significant at 5 % significant level. It shows that the model used in this study is fit and shows the relationship between the compensation policy and employee turnover. Overall and individual p-value (.000 and .000) is significant at 5 percent level of significant but beta value is negative. Thus, Data analysis result clearly shows the negative relationship between compensation policy and employee turnover. It means null hypothesis is rejected.

H2. Job security is positively related to employee turnover

The employee turnover is considered as dependent variable Y and job security as independent variable X. The regression model has been estimated as;

Y = a+ bX
= 3.329 + –.096
t = (21.404) (–2.293)
P = (.000) (.000)
R2 = 0.013 Adjusted R2 = .010 F(1 404) = 5.259
p – value for overall significance = .022

The calculated value of F (1 404) = 5.259 and p–value for F– test is .022. It means F– value is significant at 5 % significant level. It shows the relationship between the job security and employee turnover. Thus, job security affects the employee turnover adversely. Individual and overall p-value (.000 and .022) is significant at 5 percent level of significant but Beta coefficient is negative. Thus, Data analysis result clearly shows an adverse relationship between job security and employee turnover. It means null hypothesis is rejected.

Discussion and conclusion

While analyzing separately the individual compensation policy and job security both are found significant with employee turnover but the relationship is negative. It shows that job security and compensation policy negatively influence to the turnover intention of the employees. Hence, there is need to accord importance to appropriate compensation policy and job security scheme to retain employees in the organization for longer period of time. It means that better deployment of compensation policy and job security scheme reduces employee turnover. This study is consistent with the prior studies (Katou & Budhwar, 2007; Pfeffer, 1998; Marchington & Grugulis, 2000, Huselid & Becker , 1996; Gerhart, 1999). It may be so because the behavior of the employees all around the world is similar. Thus, it can be concluded that the financial institution which gives more priority in compensation policy and job security can reduce employee turnover.

Compensation policy and job security have been found as the significant predictors of employee turnover. They are negatively related to employee turnover. It means that Nepalese financial sector can decrease employee turnover if it focuses on compensation policy and job security while formulating HR policies. It means one of the prominent reasons of employee turnover may be due to discontentment with the compensation policy. Alternatively, compensation policy may be used to encourage turnover in competing companies.

Implications for managers

This study provides some insights for managerial level employees for managing human resources in the financial sector of Nepal. This study allows the organizations to understand the two dimensions of HRM i.e. compensation policy and job security. It presents the relationship between compensation policy and job security and employee turnover in Nepalese financial sector. The research result is consistent with the previous findings. The major problem of Nepalese financial institutions is turnover. So, they can use this study while formulating. Managers can focus on compensation policy and job security to reduce employee turnover.

Finally, the managers in the Nepalese financial sectors should formulate HR strategy paying attention on compensation policy and job security so as to reduce turn which is a prominent problem of Nepalese financial sector.

Implications for future research

There are various studies conducted specially in the developed countries like the USA and UK, emerging economies like China (Ahlstorm, *et.al.* 2005; Deng, *et.al.* 2003) and transitional economy like China (Zupan & Kase, 2005). Nevertheless, although it is accepted that compensation policy and job security is positively related to employee turnover but there are some inconsistent results. Therefore, there is a greater need of further robust study and quantitative evidence to support the compensation policy and job security – performance link (Gerhart, 2005) and investigation from different contexts (Ericsen & Dyer, 2005 ; Wright *et. al*., 2005) but studies conducted in the least developed countries like Nepal is very few. There are no consistent findings of the studies that make a link between compensation policy and job security and employee turnover. Therefore, further studies are needed in the field of compensation policy and job security – employee turnover link in the Nepalese setting for further comparison and new conclusion. Thus, the following areas are suggested for further studies:

- This study has not used intervening variable but more researches are needed incorporating intervening variables that moderate the two end point variables in the exploration of the impact of time, individuals, culture and economy.
- This study has considered organizational outcomes i.e employee turnover but further studies can be conducted taking into account to the financial performance indicators.
- This study has explored the position of Nepalese financial sector but the researches can be conducted in the other sectors of Nepal so as to find out the impact of compensation policy and job security on employee turnover.

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