

How Job Satisfaction Mediates between Compensation and Worker Retention

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Abstract: Compensation and job satisfaction are among the variables that determine worker retention. The literature indicated studies that investigated how compensation affected worker retention. However, investigations on the mediating role of job satisfaction in the relationship between compensation and worker retention in work organisations were scanty. It prompted an investigation, in this regard, in a Nigerian company. A survey was conducted for the study. The questionnaire was used for data collection. The sample size was 347 employees selected by a simple random sampling technique. Data collection was on a four-point scale, from strongly disagree, 1, to strongly agree, 4. Regression technique was used for data analysis. The results indicated positive effect of compensation on worker retention; positive effect of compensation on job satisfaction; and a partial mediation effect of job satisfaction between compensation and worker retention. Given the indicated results of the study, conclusion was drawn. It indicated a need for adequacy of compensation factors such as such basic pay, fringe benefits, allowances, and monetary incentive as well as the importance of making factors that increase satisfaction with job available such as admirable workplace, educational sponsorship, and other opportunities for workers' growth available. These factors would enhance the chances of maintaining high rates of worker retention.

Keywords: Compensation, Job Satisfaction, Mediate, Worker Retention.

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I. INTRODUCTION

High rates of employee turnover give concern to human resource managers. It prompts them to make effort to curtail it in order to minimise the expenses involved in embarking on a recruitment and selection exercise to fill the vacant positions of quitters. A cardinal objective of proactive human resource managers, therefore, is to attract, maintain, and retain high-calibre individuals that can take the company to higher levels of competitive position in the business environment. The intention to change job is among the challenges that confront workers in industries (Oruh et al., 2020) as well as human resource managers. A number of variables motivate employee turnover intentions. These include: poor leadership (Ariyabuddhiphongs & Kahn, 2017; Aashiq et al., 2020), poor reward, absence of recognition (Awan et al., 2021), low job satisfaction, and poor incentives (Aashiq et al., 2020). Given this scenario, this study was carried out to investigate the predictive ability of compensation on employee retention and the role job satisfaction played in mediating dependent and independent variables. A review of extant literature indicated studies that investigated the direct effects of compensation on employee retention (Muguongo et al., 2015; Chin, 2018) and the need for more studies that include mediating variables.

Compensation occupies a central position in employer-employee relationship because accepting or rejecting a job offer is, more often than not, predicated upon an evaluation of the compensation package at a particular time. The prospective employee, in making this evaluation, takes into consideration not only the basic pay but also the fringe benefits that are attached to it. For this reason, the pay structure of a company in a competitive environment has a role to play in employee retention. Ibrahim and Boerhaneoddin (2010) indicated that companies that offer attractive rewards gain commitment and loyalty of employees and provide encouragement for them to stay. The extent of job satisfaction also determines the level of motivation to stay in company or to leave.

➤ Objectives and Hypotheses

The main objective of the study was to determine the role job satisfaction played in mediating compensation and worker retention. The following specific objectives were investigated:

- The impact compensation had on worker retention.
- How compensation affected job satisfaction.

• *The Following Hypotheses were Statistically Tested for Possible Rejection:*

- ✓ H₀1: There is no significant effect of compensation on employee retention.
- ✓ H₀2: Compensation exerts no influence on employee job satisfaction.
- ✓ H₀3: Job satisfaction plays no mediating role between compensation and retention.

➤ *Conceptual Framework*

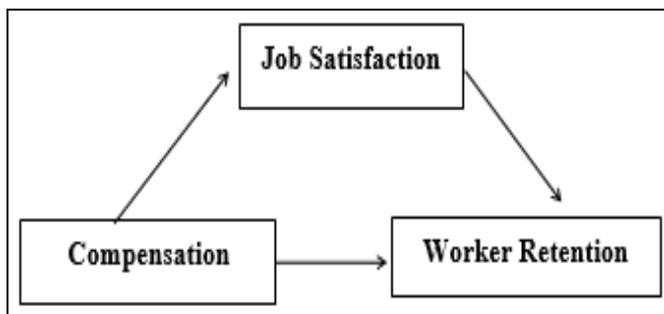


Fig 1 Conceptual Framework of Compensation and Worker Retention Mediated by Job Satisfaction
Source: Researcher, 2024.

➤ *Regression Equations*

$$WR = \alpha + \beta_1 CO + U \tag{1}$$

$$JS = \alpha + \beta_2 CO + U \tag{2}$$

$$WR = \alpha + \beta_3 CO + \beta_4 JS + U \tag{3}$$

Where

WR = Worker retention

α = WR-intercept

CO = Compensation

JS = Job satisfaction

$\beta_1 - \beta_4$ = Coefficients

U = Standard error of the estimate

II. LITERATURE REVIEW

➤ *Worker Retention*

Worker retention is a human resource management practice that involves formulating and implementing strategies that aim at encouraging employees to stay and keep working for the organisation. It is a technique that the management of a company uses to make employees stay in the company for a very long time (Ragupathi, 2013). Fukofuka (2014) defined employee retention as the ability of an organisation to reduce the rate of employee turnover.

Employee retention is of great importance to organisations because a high rate of losing talent affects competitiveness. Harzing and Pinnington (2011) indicated that when people with valuable knowledge leave an organisation, the organisation loses some competitive advantage. Although, organisations cannot stop people from leaving, they can devise strategies to curtail a radical loss of talent. Some retention strategies indicated by Rehman (2012) include: a continuous review of job descriptions, job specifications, leadership styles, compensation practices, career planning and development; encouraging flexible work hours; recognition; and counselling. Organisations that are able to achieve low rate of employee turnover improve their chances of satisfying customers in many respects. They provide improved service quality to customers thereby enhance the chances of survival and success in the marketplace. Other benefits of employee retention include: reduced employment and training cost, increased productivity, better quality work, elaborate corporate knowledge, and undisturbed customer relationships (Sept, 2020).

➤ *Compensation*

Compensation refers to an employee’s salary or basic pay, fringe benefits, and incentives. An employee’s basic pay, also known as base pay, is a fixed cash payment made at regular intervals, usually monthly. Fringe benefits, also referred to as perks, consists of monetary rewards and amenities an employer makes available to an employee such as annual leave allowance and educational sponsorship. Kappel (2021) refers to fringe benefits as monetary rewards to an employee that is part of the employee’s salary such as vacation pay, personal use of company’s car, and educational assistance. Incentives refer to payments or offer to employees such as commissions, bonuses, and stock options for becoming part owners of the company. Other motivational factors such as recognition and conducive work environment are components of compensation.

➤ *Job Satisfaction*

Job satisfaction refers to the extent of contentment a worker feels concerning the features associated with a job such as work environment, working hours, interaction with co-workers, opportunities for advancement, remuneration and other factors (Ebuzoeme, 2023). Job satisfaction has also been defined as the general attitude of employees towards jobs (Elatotagam, 2017) so that nice attitude and feelings indicate job satisfaction while nonchalant attitude indicate job dissatisfaction.

Some of the factors that affect job satisfaction in workplaces include working hours, equal opportunity, psychological support and fun, fringe benefits, promotional opportunities, and co-worker relationships organisations (Aziz et al., 2020). Working hours denote that the number of hours people spend in their workplaces vary in various organisations. Aida (2016) indicated that flexible working hours resulted in more job satisfaction and employee retention than a rigid work schedule of forty hours per week. Promotional opportunity refers to a workplace situation where the worker that has put in effort that yields commendable performance is not denied promotion when

due. Pandey and Rai (2018) conducted a study on bank employees and reported that pay and promotional opportunities were among the factors responsible for producing job satisfaction. Fringe benefits consist of the various provisions and facilities such as educational sponsorship, leave allowance, and non-monetary benefits that employers make available to employees. A study by Hosain (2017) on selected Bangladeshi firms reported that compensation and fringe benefits had a strong positive correlation with job satisfaction.

➤ *Theoretical Framework*

The expectancy theory proposed by Vroom in the 1960s states that a person’s motivation can increase or decrease depending on three factors - valence, expectancy, and instrumentality (Tarver, 2020). Expectancy refers to a person’s perception that increased effort would result in better performance; instrumentality refers to a person’s perception that increased effort would lead to desired outcome; while valence is the importance or weight attached to the outcome (Tarver, 2020). The expectancy theory constitutes the theoretical framework of this study. The theory is applicable to this study because of the relationship between the value employees associate with the compensation they receive and job satisfaction as well as the relationship between the value of compensation to employees and their retention.

➤ *Empirical Review - Compensation and Worker Retention*

Compensation has a role to play in determining job satisfaction and worker retention while job satisfaction also plays a role in determining worker retention. Studies that attest to this statement are found in the literature. Muguongo et al. (2015) studied how compensation affected the job satisfaction of 214 secondary school teachers in Kenya. The findings indicated that compensation factors of basic pay, allowances, and work environment had positive effect on job satisfaction. It was further stated that poor compensation was associated with teacher job dissatisfaction. The recommendation of the study was that the Kenyan government should review the compensation of the teachers in order to make it commensurate with the services being rendered by the teachers. A study by Chin (2018)

investigated how job satisfaction associated with turnover intention in the Malaysian manufacturing industry. Convenience sampling technique was used to collect data for the study. An insignificant positive correlation ($r = .23, t > .05$) was indicated for the relationship between salary, as a factor of job satisfaction, and turnover intention. It was further stated that the managerial employees that were studied had more interest in other factors associated with job satisfaction.

There are other studies that investigated how compensation affected job satisfaction and how job satisfaction mediated between compensation and turnover intention. Bede (2022) studied 120 employees of a company. Partial Least Square (PLS) technique was adopted for data analysis. The findings indicated that job satisfaction had negative effect ($\beta = -.479, t = .001$) on turnover intention; compensation had insignificant positive effect ($\beta = .212, t = .083$) on turnover intention; compensation had a significant negative effect ($\beta = -.222, t = .003$) on turnover intention with job satisfaction mediating. It was also reported that high job satisfaction and better compensation reduced turnover intention. The study by Ashari et al. (2020) determined the mediating role of job satisfaction as it relates to compensation predicting employee retention. Data analysis was based on structural equation modelling (SEM). The results indicated that compensation had a positive effect on employee retention, and job satisfaction played a mediating role in retaining employees.

III. RESEARCH METHODOLOGY

A survey research design was adopted for this study. The population of study consisted of two thousand six hundred people. Questionnaire was the instrument for data collection. The sample size was 347 and the response rate was 75 percent. A four-point scale ranging from strongly disagree, 1, to strongly agree, 4, was used to quantify obtained responses. Inferential statistics based on simple and multiple regression analyses produced results that determined the effects of independent variables on the dependent variable.

IV. RESULTS AND DISCUSSION

Table 1 Regression Analysis of Compensation on Employee Retention

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.211	.125		1.682	.094
	Comp	1.009	.010	.989	105.945	.000

a. Dependent Variable: Employee Retention

Source: Researcher, 2024

Table 1 indicates that compensation has positive effect ($\beta_1 = 1.009, t = 105.945, p < .05$) on employee retention. The test is statistically significant.

Table 2 Regression Analysis of Compensation on Job Satisfaction

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.608	.230		6.981	.000
	Comp	.960	.018	.962	54.820	.000

a. Dependent Variable: Job Satisfaction

Source: Researcher, 2024

Table 2 shows a positive effect of compensation ($\beta_2 = .960$, $t = 54.820$, $p < .05$) on job satisfaction.

Table 3 Compensation and Job Satisfaction on Employee Retention

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.487	.083		-5.891	.000
	Comp	.592	.021	.581	28.242	.000
	Job Sati	.434	.021	.425	20.675	.000

a. Dependent Variable: Employee Retention

Source: Researcher, 2024

It is shown in table 3 that the effect of compensation on employee retention is reduced ($\beta_4 = .592$, $t = 54.820$, $p < .05$) with the inclusion of the mediating variable, of job satisfaction. Therefore, null hypothesis 3 is rejected at 5

percent level of significance. This result indicates partial mediation since the effect of compensation on retention is statistically significant while controlling for the effect of job satisfaction.

Table 4 Effect Size

Effect	Direct	Indirect	Total
Compensation on employee job satisfaction	.960		.960
Job satisfaction on employee retention	.434		.434
Compensation on employee retention	.592	.417	1.009

Statistically significant effect ($p < .05$)

Source: Researcher, 2024

The effect sizes indicated on table 4 were obtained based on tables 1 to 3. Table 4 indicates that compensation produced direct effect on job satisfaction; job satisfaction had direct effect on retention; while compensation had direct and indirect effects retention. These effects are positive.

in order to enhance the chances of maintaining high rates of employee retention.

V. CONCLUSION

The objectives of this study were to determine: how compensation affected employee retention; how compensation influenced employee job satisfaction; and the mediation effect of compensation in the relationship between compensation and job satisfaction. The results of the study established positive effect of compensation on employee retention as well as positive effect of compensation on employee job satisfaction. The results also indicated evidence of partial mediation of job satisfaction between compensation and employee retention.

Given the results of the study, it was considered essential for the management of the studied company to ensure adequacy of compensation factors such as such basic pay, fringe benefits, allowances, and monetary incentive and also ensure the availability of factors that increase job satisfaction such as educational sponsorship, and flexible working hours, and opportunities for growth in the company

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