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## **The Impact of Compensation and Promotional Opportunities on Employee Retention in Academic Institutions: The Moderating Role of Work Environment**

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### **ABSTRACT**

The present study investigated the relationship between compensation, promotional opportunities and employees' retention. Survey was used to collect data from 220 faculty members working in public sector universities in Pakistan. Partial Least Squares PLS path modeling was employed to analyze data. The results revealed that compensation and promotional opportunities had imperative relationship with employees' retention. Moreover, the results also revealed that work environment moderates the relationships between compensation and employee retention and promotional opportunities and employee retention. Finally, the implications, limitations and recommendations for further research were discussed.

JEL Classification: E24; J21; M51.

Keywords: Compensation; Promotional Opportunities; Employees' Retention.

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### **1. INTRODUCTION**

The most precious asset of an organization is its employees. Hence, retaining these employees is highly necessary for the success of these organizations (Ng'ethe, Iravo & Namusonge, 2012; Osteraker, 1999). Employee retention is defined as the process through which the organization encourages employees to stay for longer period of time or until the completion of a project, it benefits both the employee and the organization (Akila, 2012). Employees' retention is important for organizations because the cost of replacing and re-training new employees is very costly (Irshad & Afridi, 2010), especially for those who are highly talented and possesses specialized skills that are hard to get. There have been considerable number of studies regarding the education system and institutions from management and economic points of view (Kreishan & Al-Hawarin, 2011; Bulut & Sayin, 2010; Katircioglu, 2010; Katircioglu et al., 2014; 2010; Ozsagir et al., 2010; Misra, 2009; Vural & Gulcan, 2008). But further studies are needed with this respect. On the other hand, for an academic institution, its most talented and highly skilled employees are the faculties. Committed and competent faculties are valuable to an institution because they can ensure that good education is being delivered to the clients (i.e. students). This is important because it increases the reputation of the institutions, which in turn lead to the successful future of not only the institution, but also the students and overall economy (Echevarria, 2009).

However, retaining talented faculties is not easy, especially in the current economic conditions, whereby all academic institutions are competing for faculties at the global level. For example, a university in the USA,

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University of Wisconsin-Madison, reported in 2016 that they are able to retain only 77 percent of the faculty members who were offered a job elsewhere (Brown, 2016). The demand for highly talented and skilled faculty has enhanced their mobility (Ng'ethe et al, 2012). According to Blazer, (2006) it has been found that about 20% of faculty members leave the job after three years and about 30% of them leave the profession after five years.

The problem of employee retention is even more significant for the public universities. The public universities are facing harsh competitions from the private universities. In Pakistan, retention of academic faculty has become a problem in higher education sector, specifically in public universities, as more opportunities have become accessible to the small pool of faculty members (Zahra, Irum, Mir & Chishti, 2013). It was said that private universities are able to attract well trained, skilled and experienced staff from public sector universities because they are able to offer better incentives, compensation and promotional opportunities (Khaild, Irshad & Mahmood, 2012). In fact, the use of compensation and promotional opportunities in explaining faculty retention is grounded in the social exchange theory (Blau, 1964). Social exchange theory (Blau, 1964) suggests that a person who feels that he/she gets benefits from someone will feel obligated to repay or compensate through positive behaviors, attitudes, efforts and devotion. The positive relationship between satisfaction with compensation, promotional opportunities and retention can be explained by Social Exchange Theory (Blau, 1964) by arguing that when organization provides proper compensation and opportunities to develop and grow, the employees will feel obligated to reciprocate the organization in form of loyalty and staying for longer period with it (Kuvaas, 2008; Wayne et al, 1997; Lee & Bruvold, 2003). Hence, it is proposed that in order to retain these faculties, the use of proper HRM practices like compensation and promotional opportunities were advocated (Saba, 2011; Sohail & Delin, 2013).

However, both compensation packages (i.e. salary and allowances) and promotions are very costly and some public universities may not be able to afford offering both of them simultaneously. Hence there is a need to identify which one of them is more important in retaining faculties. While the present study contributes to the existing body of knowledge concerning social exchange theory, the main objective of this study was to investigate the effects of compensation and promotional opportunities on faculty retention in academic institutions. It will also determine which of the two variables is more important in helping academic institutions retain their employees. In particular, this study will endeavor to contend how compensation and promotional opportunities are theoretically significant in improving employees' retention, thus adding to the current literature on the part of compensation and promotional opportunities in employees' retention. Moreover, proposing the impact of compensation and promotional opportunities, this study offers theoretical clarification on the part of work environment in moderating the association between compensation, promotional opportunities and employees' retention. This paper additionally explains that the past studies conducted on the role of compensation and promotional opportunities in influencing employee retention have conflicting results, proposing that a moderator may be liable to clarify better the relationship.

## **2. LITERATURE REVIEW**

### *2.1 Employee Retention*

Employee retention is a process in which organizations create an environment which encourages employees to stay for longer period of time (Singh & Dixit, 2011). Employees' retention is considered as vital source of achieving competitive edge in the market place (Walker, 2001). Nowadays, most of the organizations are facing the problem of employees' retention. Employing competent staff for the job is important for an organization but retaining them in their jobs is more essential (Ghansah, 2011), as replacing a new employee with a new one increases operational costs in the form of new employees' training and filling vacancies. Several scholars have done work to show the significance of employees' retention (Walker, 2001 & Zaffane, 1994). Carney (1998) found communication as the basic factor for retaining employees. Kwenin et al. (2013) investigated the impact of HRM policies, job satisfaction and rewards on employees' retention. Data was collected from 142 respondents in Vodafone Ghana Limited. And the conclusion was drawn that there is an existence of significant relation between HRM policies, job satisfaction, rewards and employees' retention. Zareen et al. (2013) examined the relationship between retention and performance. They found positive relationship between them.

Michael (2008) studied the influence of intrinsic and extrinsic motivational variables on retention in organizations. Participants were chosen from administrative and non-administrative employees. The findings revealed that motivational variables fundamentally impact employees' retention in private as well as in public organizations. It has been obtained from the literature that very limited research has been carried out on employees' retention of

academic faculty in universities. Thus, further research is required to study employees' retention in Pakistan, especially in the sector of public sector universities.

### *2.2 Compensation*

In literature, compensation is considered to be one of the main elements in employees' retention. In the present research, compensation of faculty is conceptualized as the pay which they receive on monthly basis from institutions (Tessema & Soeters, 2006). According to researchers', compensation helps to increase retention and decreases absenteeism (Arthur, 1994; Delaney and Huselid, 1996; Ichniowski, Shaw & Prenzushi, 1997). Similarly, Harris and Brannick (1999) also highlighted that compensation is the main factor in keeping employees retained for longer period of time. Pay is the key feature of compensation that affects employees' retention and attraction (Williams & Dreher, 1992). Similarly, it has been posited by March and Simon (1958) that when organizations do not provide sufficient compensation, the employees leave the organization. Previous studies have examined the effect of compensation on employees' retention (Choi & Dickson, 2009, Hinkin & Tracey, 2010; Sturman, 2006). For example, Irshad (2000) carried out a research to investigate the impact of compensation on employees' retention. The results revealed a significant relationship between compensation and employees' retention. In a similar study, Ramlall (2013) studied the impacts of compensation on staff retention and found a significant relationship between them. Moreover, Nawab and Bhatti (2013); Saeed et al, (2013); Ramlall (2013) also found a significant relationship between compensation on employees' retention. Thus, drawing from foregoing literature, the following hypotheses were formulated:

H1: There is significant relationship between compensation and employees' retention.

### *2.3 Promotional Opportunities*

Promotional opportunities referred to the transparency of an institutions' policies, and availability of the upward movement of the staff members within the institution (Delery & Doty, 1996). Accenture (2001) argued promotion opportunities make employees loyal, satisfied and reduce their intention of leaving the institute hence it enhances retention. Previously, Miller and Wheeler (1992) stated that lack of promotion opportunity affects employees' decision to stay with the institute. Availability of promotion opportunities makes employees to feel; though social exchange theory (Blau, 1964) postulates that when employees are promoted they feel honored by the organization so they repay the institute through their loyalty, commitment and involvement. Morris and Quarles (2004) empirically studied intent to stay. Survey method was used for data collection. The results revealed a significant positive relation between promotional opportunities and intention to stay. Similarly, numerous past researchers found a significant relation between promotion opportunities and performance of employees (Delaney & Huselid, 1996; Shahzad et al., 2008; Teseema & Soeters, 2006). However, the different view has also been reported in the turnover literature.

For instance, the study of Fairris (2004) found the opposite result and argued that employee promotion is actually associated with high turnover. Recently, the most recent study of Joarder et al. (2011) found that employees' opportunity for promotion has less impact on faculty turnover decision. While, the study of Billah (2009) found that promotion opportunity is most significantly correlated to employees. Thus, more research is necessary to better establish the association between promotion opportunity and employee retention. Moreover, Irshad and Afridi (2010); Kwenin et al, (2013); Luthans (2005); Santhapparaj and Alam (2005); also found an imperative association between promotional opportunities and employees' retention. Therefore, it is hypothesized as:

H2: There is significant relationship between promotional opportunities and employee's retention.

### *2.3 Work Environment*

Work environment is one of the factors that affect employee's decision to stay with the organization (Zeytinoglu & Denton, 2005). The historical backdrop of work environment can be followed to the introductory work of Tolman (1926) while working on "cognitive maps." He held that people try to understand their environment. Afterward, Lewin, Lippitt and White (1939) added that environment signifies mutual considerations of a cluster, about their surrounding. Work environment is a vital factor that influences employee retention (Zeytinoglu et al, 2005). Working environment has been denoted as the safe physical working atmosphere (Edgar & Geare, 2005). Work environment tends to have positive or negative effect on certain job outcomes like involvement, commitment and intention to stay in an organization (Ollukkaran et al, 2012). According to Mangi et al. (2011), good working

environment, for example, attractive and clean environment encourages individual employees to complete their work effectively and is expected to have positive impact on employees' retention and commitment. According to Social Exchange Theory (Blau, 1964), proper HRM practices such as compensation and promotional opportunities instituted by an organization must theoretically be able to enhance employees' retention, as individuals and organizations enter into exchanging relationships in which provision of mutual benefits creates obligations to reciprocate (Raihan, 2012).

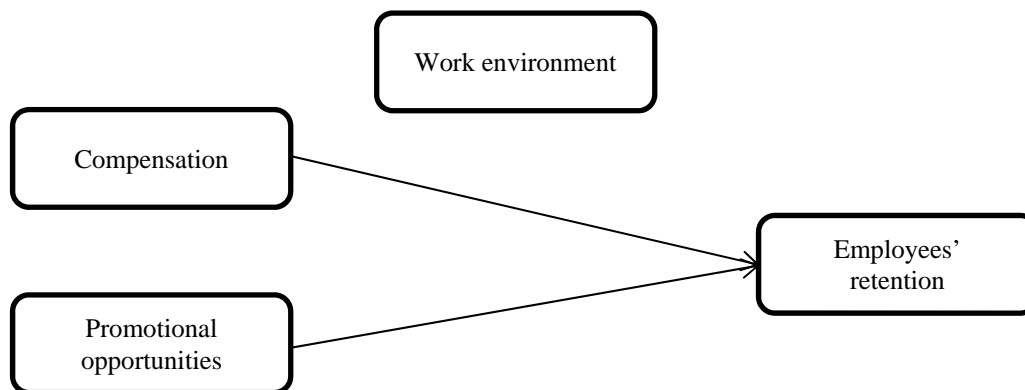
However, empirical results on the effects of compensation and promotional opportunities on employee retention appeared mixed (Abeysekera, 2007; Fairris, 2004; Griffeth et al., 2000; Ovadje, 2009; Riaz et al., 2012). Based on the contradictory findings of prior studies, work environment will be incorporated as moderator on the relationship between compensation, promotional opportunities and employees' retention in the current study. This is in accordance with Baron and Kenny's (1986) statement that when there is a weak or inconsistent relationship between the criterion and predictor variable, a moderating variable is suggested to be incorporated. Similarly, Jaworski (1988) contended that the adequacy of different control mechanisms may be dependent upon internal and external contingency variables. Hence, this suggests the need for a moderator variable. Therefore, in order to better understand the influence of compensation, promotional opportunities and employees' retention, this study suggests that work environment might moderate the relationships. Prior to this, research studies have examined the moderating role of work environment on the relationship between entrepreneurial orientation and firm performance (Aaraki & Kimbugw, 2015), western expatriates' commitment and retention in international assignments (Nguyen, Felfe & Fookan, 2013) and motivation to learn and perceived training transfer (Kim-Soon, Ahmad & Ahmad, 2014). Thus, the literature shows that no study has been done on work environment as moderator on the relationship between compensation, promotional opportunities and employee retention. Therefore, to fill this gap, this study considers work environment as moderator to further investigate the relationship between compensation, promotional opportunities and employee retention. Therefore, this study hypothesized as the following:

H3: Work environment moderates the relationship between compensation and employees' retention.

H4: Work environment moderates the relationship between promotional opportunities and employees' retention.

#### 2.4 Social Exchange Theory

Social Exchange Theory (SET) is used in the current study, which was developed originally by Thibaut and Kelley in 1959, as it has been utilized increasingly as theoretical base of turnover and retention research to comprehend the employer and employee relationship (Coyle-Shapiro & Conway, 2005). SET postulated that good acts and performances must be reciprocated (Blau, 1964). According to Mossholder, Settoon, and Henagan (2005), the SET suggests that a person who feels that he/she gets benefits from someone will feel obligated to repay or compensate through positive behaviors, attitudes, efforts and devotion. Moreover, SET (Blau, 1964) has mentioned that institutions utilize different HRM practices (i.e., compensation & promotional opportunities) that provide distinct exchange relationships. Furthermore, SET described that employees perform better when they are supported and valued by organization (Eisenberger et al., 2001). From the above literature and theoretical highlights on employees' retention, compensation and promotional opportunities, the following research framework has been derived (see Figure 1, below).



**Figure 1.**  
**Research Framework**

### **3. METHOD**

#### *3.1 Profile of Participants and Respondents*

Out of 380 distributed questionnaires among the faculty members in public higher education institutes in Pakistan, only 220 were collected and used for further analysis. The survey measured compensation, promotional opportunities and employees' retention. Out of 220 respondents, 85% were males, remaining 15% were females; 65.5% were lecturers, 28.5% assistant professors; 5% of associated professors and only 1% professors. Most of the respondents 72% hold Ms/M.Phil degree; 24% hold Master's degree and the remaining 4% hold a doctorate degree. 68 % of the respondents were married while the remaining 32 were single. The average age of the respondents was 37 years.

#### *3.2 Measurement*

The 24 items used in the present study were drawn and modified from previous studies. Point seven likert scale was used to measure all the items, where 1 showed strongly disagree and 7 specified strongly agree. To measure employees' retention, eleven items were adapted from Kyndt, Dochy, Michielsen and Moeyaert (2009). A sample item is "I intend to remain working in this institute". Five items measuring compensation were adapted from Tessema & Soeters (2006), for example "The salary at my institution encourages better performance". While four items measuring promotional opportunities were adapted from Delery & Doty (1996). A sample item is "faculty members who desire promotion have more than one potential position they could be promoted to". To measure work environment, four items were adapted from Edgar and Geare (2005). A sample item is "Work environment at my institution is good".

### **4. RESULTS**

In the current study, Smart PLS version 2.0 was used to analyze the data:

#### *4.1 Measurement Model*

##### *4.1.1 Convergent Validity*

Construct validity was examined following a two-step modeling approach recommended by Anderson and Gerbing (1988). Convergent validity was assessed, followed by the discriminant validity, internal consistency reliability as given in Table 1 and Table 2 respectively. As recommended by researchers, Gefen, Straub and Boudreau (2000); Hair et al. (2010); Hair, Anderson, Tatham, and Black, (1998), construct validity is assured when composite reliability is greater than 0.7, the loadings are greater than 0.7 and average variance extracted (AVE) is greater than 0.5. Composite reliability refers to the degree to which the construct indicators indicate the latent construct, which also exceeded the recommended value of 0.7 (Hair et al., 2010). The AVE measures the variance captured by the indicators relative to measurement error, which is also more than the suggested value 0.5 (Barclay et al., 1995).

##### *4.1.2 Discriminant Validity*

Similarly, discriminant validity which refers to the extent to which a particular latent construct is different from other constructs (Duarte and Raposo, 2010). It was assessed considering the Fornell and Lacker's (1981) recommendation. On the premise of this recommendation, the average variance shared between each construct and its measures ought to surpass the variance shared between the construct and other constructs.

As shown in Table 2, the square root of the average variance extracted exceeds the correlations for each construct signifying appropriate discriminant validity of the construct ( Hair et al., 1998 & Hair et al., 2010).

#### *4.2 Structural Model*

The next step was analyzing the structural model. The results for structure model are shown in Table 3 and Figure 2.

Table 1. Results of Measurement Mode

Construct	Item	Loading	CR	AVE
Compensation	COMP2	0.765	0.895	0.741
	COMP3	0.889		
	COMP4	0.921		
Promotional Opportunities	PO1	0.808	0.917	0.736
	PO2	0.921		
	PO3	0.900		
	PO4	0.795		
Employees Retention	RET1	0.818	0.952	0.664
	RET11	0.802		
	RET2	0.870		
	RET3	0.841		
	RET4	0.744		
	RET5	0.887		
	RET6	0.864		
	RET7	0.804		
	RET8	0.752		
RET9	0.755			
Work Environment	WE1	0.874	0.939	0.793
	WE2	0.941		
	WE3	0.886		
	WE4	0.858		

Table 2. Discriminant Validity of Constructs

	COMP	PO	RET	WE
COMP	<b>0.861</b>			
PO	0.019	<b>0.858</b>		
RET	0.290	0.689	<b>0.815</b>	
WE	-0.294	0.127	0.163	<b>0.890</b>

Note: the square root of the average variance extracted is represented by Diagonals (bold face) while the other entries signify the correlations.

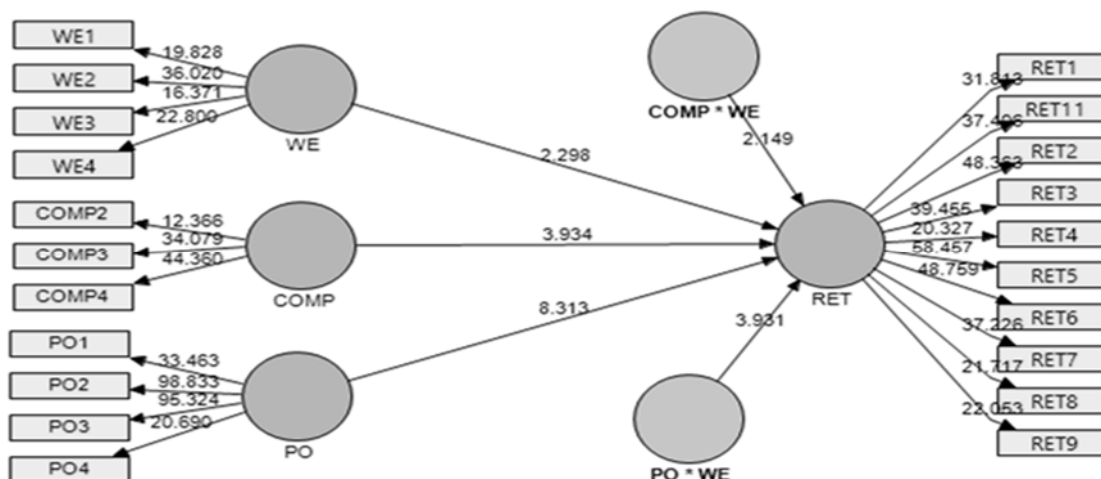


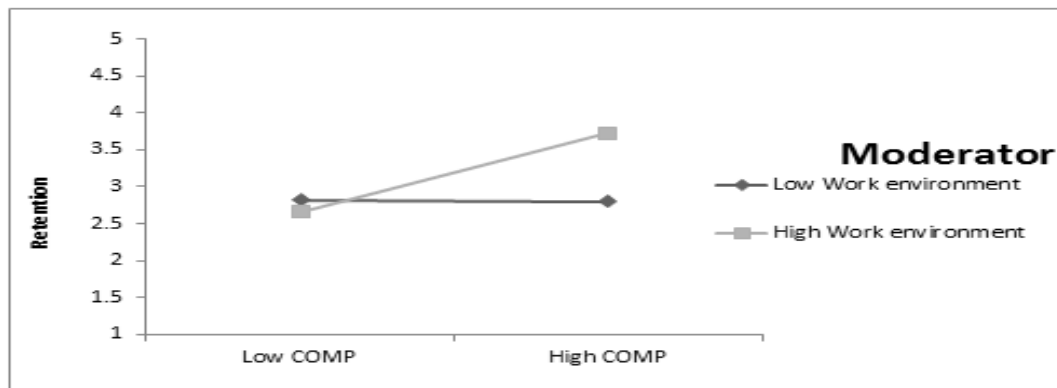
Figure 2. Structural Model

**Table 3. Path Coefficients and Hypothesis Testing**

	Beta value	Standard Error (STERR)	T Statistics ( O/STERR )	P-VALUE	Decision
<b>Compensation -&gt; Retention</b>	0.262	0.067	3.934	0.00	supported
<b>Promotional Opportunities -&gt; Retention</b>	0.521	0.063	8.313	0.00	supported
<b>Compensation * Work environment -&gt; Retention</b>	0.274	0.128	2.149	0.02	supported
<b>Promotional Opportunities * Work environment -&gt; Retention</b>	0.254	0.065	3.931	0.00	supported

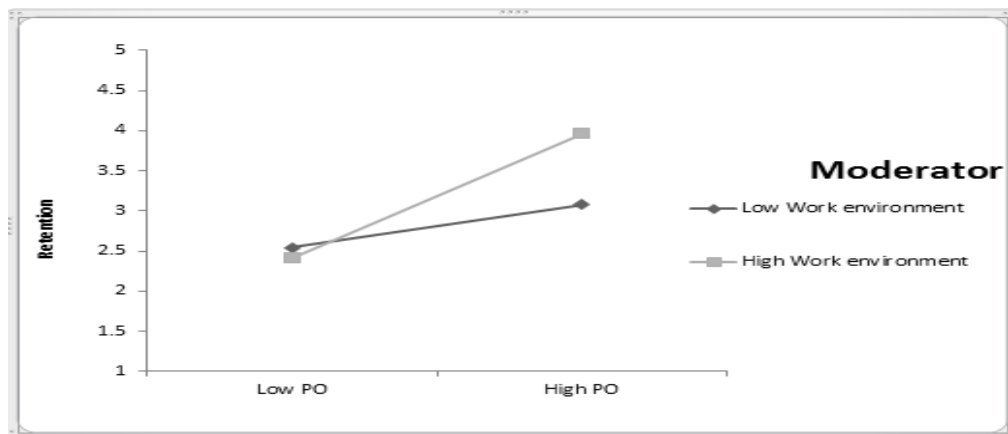
Note: \*\*p <0.01

There is significant relation between compensation and employees retention as presented in above Table 3, beta=0.262, t=3.934 and p <0.00. The outcome also presented that there is imperative and positive relationship between promotional opportunities and employees' retention beta=0.521, t=8.313 and p <0.00.



**Figure 2.**  
**Interaction effect of Work environment on Compensation and Retention.**

The outcome also showed that work environment moderates the relationship between the compensation and employees retention beta=0.274, t=2.149 and p <0.02. Figure 2 shows the moderating effect of work environment on the relationship between compensation and retention, this relationship is stronger for individuals in public universities with high conducive work environment than it is for individuals in public universities with low conducive work environment.



**Figure 3.**  
**Interaction Effect of Work Environment on Promotional Opportunities and Retention**



Similarly, Table 3 and Figure 3 also revealed that work environment moderates the relationship between promotional opportunities and retention  $\beta=0.254$ ,  $t=3.931$  and  $p<0.00$ . This relationship is stronger for individuals in public universities with high conducive work environment than it is for individuals in public universities with low conducive work environment. Furthermore, the  $R^2$  value was 0.58 which suggests that the modeled variables can explain 58% of the variance of the employees' retention.

## 5. DISCUSSION

This current study examined the influence of compensation and promotional opportunities on employees' retention among academic faculty members in public higher education institutions in Pakistan. The findings of this study revealed a significant positive relationship between compensation and employees. This finding is consistent with the results of previous research (e.g., Nawab & Bhatti, 2011; Saeed et al., 2013). This suggests that when organizations provide proper compensation package and care about the employees, it makes the employees to stay for longer period of time and enhances their retention (Williams & Dreher, 1992). The findings were also supported by SET which implies that when employees receive proper compensation from organization they are more satisfied and feel obligated to repay through positive attitudes, loyalty and devotion (Mossholder, Settoon & Henagan, 2005). Moreover, the finding of this study also indicated a positive significant relationship between promotional opportunities and employees' retention. This finding also in line with results of previous researches (e.g., Kwenin et al., 2013; Luthans, 2005). This indicates that employees are provided with sufficient opportunities of promotion, they remain stay longer in that particular organization (Miller and Wheeler, 1992).

SET also supported the findings by arguing that when organization provides proper promotional opportunities, the employees in turn will show more loyalty and will stay in the organization (Woo & Chelladurai, 2012). The findings revealed that promotional opportunity had stronger positive significant relationship with employees' retention when compared to the relationship between compensation and employees' retention, suggesting that promotional opportunities are considered more important in retaining employees. The possible reason for such results might be that the faculty members working in HEIs' of Pakistan are more career conscious and give priority to career development over money. Additionally, the result also revealed that work environment buffer the relationship between the compensation and employee retention. Additionally, the studies of Sutherland (2004), and Sjoberg and Sverke (2000) also suggested that organizations should focus on creating supportive work environment to keep talented employees in the organization for longer period of time. Thus, it means that work environment plays key role in motivating and retaining employee and indicates that when academic staff receives competitive salary as well as support from organization by providing conducive work environment in the organization, it helps to enhance the commitment level of the academic staff especially in the public sector universities.

Similarly, the outcome of PLS structural Modeling revealed that work environment moderates the relationship between promotional opportunities and employee retention. Previous studies such as Kyndt et al. (2009) and Irshad (2000) highlighted that work environment significantly affect employees' retention. It means that organization that provides high conducive work environment, its employees feel more embedded, has higher level of employees' retention rate than those who have lower conducive work environment in the public sector university in Pakistan.

### *Implications*

On the premise of above results, there are couple of suggestions and implications for administration and management of public higher education institutions (HEIs) and their faculty members. Theoretically, this study has provided some empirical evidence on the relationship between compensation, promotional opportunities and employees' retention. One of the main theoretical contributions of the present study is in the introduction of work environment as a moderating variable to better explain and understand the relationship between the compensation, promotional opportunity, and employee retention. The outcomes of the present research study have also contributed to the knowledge and literature on employees' retention. The research findings validated the notion that compensation and promotional opportunities are of utmost significance in increasing faculty retention, which covers the practical importance of the study for the policy makers and practitioners. Furthermore, there are few implications for human resource managers and policy makers of public higher institutions in Pakistan as they decide how to allocate resource and retain competent staff. Firstly, the present study suggests that compensation is the main resource in enhancing employees' retention. The HR department and HEIs needs to certain that there is equity compensation system among faculty members.

When faculty members feel that they receive fair wages from the institution, they stay for longer period of time with the institution (Manzoor, Usman, Naseem & Shafiq, 2011). Secondly, promotional opportunities were also found to have significantly related with employees' retention. Therefore, management of higher education institutions needs to provide adequate promotional opportunities to faculty members which will enhance their loyalty (Miller & Wheeler, 1992). Similarly, Dockel, Basson and Coetzee (2006) also found that sufficient availability of promotional opportunities enhances employees' retention. Moreover, HR department and HEIs should also understand the moderating effect of work environment on the relationship of compensation, promotional opportunities, and employee retention. This means that work environment plays vital role in enhancing the employees' retention, and indicated that when faculty members are provided with conducive work environment, adequate compensation, and promotional opportunities all together in the organization, it helps to enhance their commitment and make them stay for longer period of time with the organization, especially in the public sector universities in Pakistan. Thus, HEIs should provide proper compensation, adequate promotional opportunities as well as conducive work environment in order to retain their faculties.

#### *Limitations and Suggestions for Future Research*

The current study has certain limitations that need to be discussed. First, data was collected from academic faculty working in KP province of Pakistan only because of time limitations and financial constraints. Hence, future research can be extended to other areas in Pakistan. Second, only the academic faculty members were considered as the respondents in the current study. Thus, the findings may be generalized by selecting non-academic staff members as respondents in future research. Other sectors such as services and manufacturing sectors are also suggested to be investigated in future research. Third, the present study considered cross sectional approach. Thus, future study may consider longitudinal method. And finally, this study reported R<sup>2</sup> values of 58% of the variance of the employees' retention, suggesting that compensation and promotional opportunities are not the only predictors of employees' retention. Therefore, future studies should integrate some other variables such as training and development, job security and performance appraisal.

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