

# Impact of Compensation Packages on Turnover Intentions with mediating effect of Organizational Culture

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**Abstract-** *This study aims to determine and examine impact of Compensation Packages on employee's turnover intentions with mediating effect of organizational culture. It has utilized a quantitative survey through the use of a questionnaire to empirically test the impact of the Compensation Packages on turnover intentions of employees with mediating effect of organizational culture. A total of 300 questionnaires were distributed and results were evaluated through primary and secondary data.*

*The research finding reflects that the Compensation Packages are vital to reduce the employee turnover intentions at workplace. This research has identified the mechanism through which a favorable Compensation Packages system can be justified for employees so as to avoid high rates of turnover. The results clearly show that, with reference to Pakistan's banking sector, organizational culture has a very significant relationship with Compensation Packages, as well as an employees' intention to quit.*

## 1. INTRODUCTION

In the past decade, the field of management sciences HRM has emerged as one of the most investigated area. It is seen that for the success of the organizations the practices of human resource plays a key role because it enhances the strength of the organizations and their employees (Mohamed *et al.*, 2011)[12]. It is the ultimate objective of the HR department to positively 'influence' the performance of the employees, so that they can concentrate on achieving the organizational goals. Hence, there is a strong connection between the 'effectiveness' of HR practices particularly compensation packages and subsequent employee performance. Employee turnover has generally been defined as a 'state' where employees tend to leave an organization, due to dissatisfaction over organizational policies and procedures (Riberio&Semedo, 2014)[15]. This indicator is considered one of the key indicators of organization's general management and effectiveness of HR practices(Laursen & Foss, 2012).

This study tends to *investigate the relationship between Compensation Packages and Employee Turnover Intentions, with the mediating role of Organizational Culture in the Banking Sector of Pakistan.* The focus of this study is the private banks of Pakistan and the sample is collected from South Punjab, Pakistan.

## 2. LITERATURE REVIEW

### 2.1 Compensation Packages

Compensation can be defined as total amount of financial and the nonfinancial rewards that corporations give to workers in return for work done (Nadarajah, 2012)[13]. Others than wage or salary Compensation can be explicated in comprehensive terms. It can be comprised of bonuses, commissions, reimbursements,

fringe benefits, and expense allowances. Compensation and benefits are the utmost basic components that affect worker performance and subsequently organization performance. It is remuneration or an incentives of pay that can rouse persons to join, retain and make well in the long run.

In consideration to agree to a job offer, researchers frequently recognize compensation among the most significant motivator for potential candidates. Though, is the impact is not so clear that salary has in respect to retaining of the new worker after hiring (Barber and Bretz, 2000). This is significant as the salary contentment of a staff upon their original hiring does not unavoidably mean that staff will remain to be content and satisfied with their pay in the future. As per Currall, Towler, Judge, & Kohn (2005) in a study of public school teachers, salary satisfaction is meaningfully related with the intent to resign. To support this verdict, salary satisfaction has been related with better organizational obligation, work contentment, and more intent to stay in the same position (Farrell, Rusbult, 1981; Lum, Kervin, Clark, Reid, & Sirola, 1998). Hence, it is obvious that compensation is a significant practice to overcome the turnover intentions of employees in the current study. There are lots of work benefits like paid holidays, disability insurance, paid leaves, retirement, health and life insurance, flexible hours, and educational support.

### 2.2 Employee Turnover Intentions

There are various organizational aspects, including HR policies, procedures and practices, which can help increase or decrease the motivation level of employees working in an organization. In accordance with the prior studies, researcher Egan, Toby, Baiyin& Kenneth (2004)[3], conducted a detailed study to determine various effects of organizational learning culture and job

satisfaction on motivation and employee turnover intention. The study objectively concluded that employee turnover intentions are based on organizational theory model and practices and were negatively connected with organization learning culture that leads towards the employee's dissatisfaction with job.

In another study conducted by Ahuja and Manju (2010), the determinants of organizational learning, organizational culture and job satisfaction level were measured. It was concluded that all these factors contributed towards the intent of an employee to quit an organization and end his/her long term association with a company.

This is the major responsibility of human resource department when employee turnover intentions increase, then designing and development of extra ordinary policies and procedures is necessary to slow down this process (Huselid & Mark, 2010). Similarly, if employee turnover intentions are high, then the reputation of such an organization gets negatively effected in the market. This is also not considered as a good sign for more organizational growth.

### 2.3 Mediating Role of Organizational Culture

Carmeli (2005) examined the influence of organizational culture on employees' intention to quit and found that an organizational culture that provides challenging jobs diminishes employees' absenteeism and withdrawal intentions from the occupation, job, and the organization. Many research studies (Diwvedi, 2013; Egan et.al, 2004)[3] have examined the relationship between organizational culture (as independent variable) on employee turnover intentions (dependent variable). Commonly used dimensions of Organizational Culture are

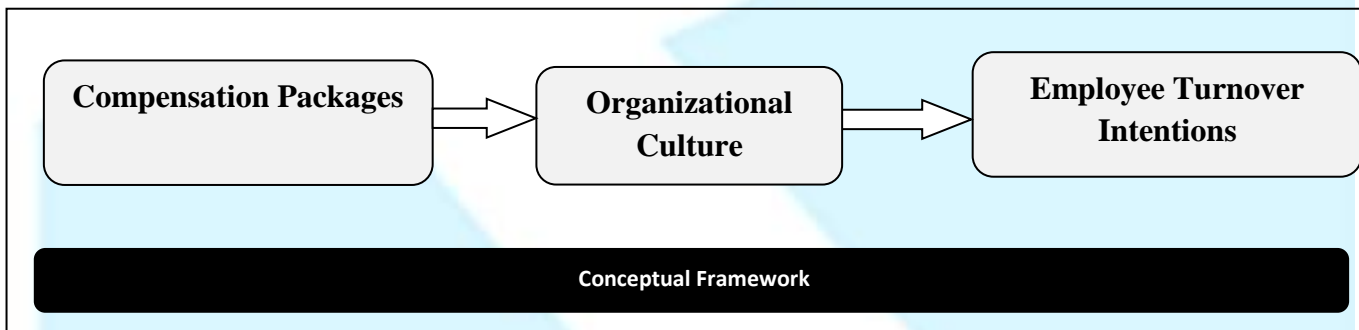
Job Challenge, Communication, Trust, Innovation and Social Cohesiveness.

Studies of Shahnawaz and Hazarika (2004) and Yiing and Ahmad (2009)[17] have established a relationship between organizational culture and commitment of employees; however they suggest that results vary from region to region. Although researchers have found several dimensions of organizational culture, but 'team work' and 'trust' have been found to be the biggest predictors of organizational commitment. The research study by Hussain and Asif (2012)[6] investigated if employee turnover intention is due to lack of organizational commitment or negative perceived organizational support. Qureshi and Muhammad (2013)[14] conducted a research study (for the textile industry of Pakistan) to suggest that given the present situation of the country, job stress, enhanced workload and a stressful organizational environment are the main factors which contribute towards employee turnover intentions.

### 2.4 Banking Sector of Pakistan

Pakistan started off without a very formal banking network in 1947, however, since then the development in this sector has been tremendous. The nationalization decision in 1970s was not very beneficial for the banking industry as it experienced turbulence in terms of outflow of talented employees. However, in 1990s this sector witnessed some change in terms of privatization, deregulation and restructuring. Today, Pakistan's banking sector is one of the most developed sectors in the country. The country now has a well-developed banking network, consisting of different institutions including a Central Bank and many commercial banks (Mahmood, Iqbal & Sahu, 2014).

### 2.5 Theoretical Framework



### 2.6 Hypotheses Development

**H1:** Compensation Packages have a significant impact on Employee Turnover Intentions

**H2:** Compensation Packages are significantly influenced by Organizational Culture

**H3:** Organizational Culture has significant impact on Employee Turnover Intentions

**H4:** The association between Compensation Packages and turnover intention will be mediated by Organizational Culture

## 3. RESEARCH METHODOLOGY

In accordance with the defined research objectives, the population for this research study comprised of employees working in Pakistani banks, which have either switched their jobs or have the intention to quit. Questionnaire was personally distributed in the selected branches of banks. Majority of the questionnaire were administered personally and the queries of the respondents were addressed on the spot. A total of 300 survey forms were distributed amongst the bank employees. A total of 220 survey forms were returned by

the respondents, out of which 212 were considered as complete. The response rate for the study is approximately 71%.

## 4. RESULTS

### 4.1 Correlation Analysis

Table 1

	Compensation & Rewards	Turnover Intention	Org. culture
Compensation & Rewards	1		
Turnover Intention	.488**	1	
Org. culture	.699**	.590**	1

Pearson's correlation coefficient (r) has been measured for all constructs used in the study. Result shows the following trends:

- Rewards and Compensation and Turnover Intention having positive relationship, correlation value is .488\*\*.
- Result shows the positive relationship between (mediator) organizational culture and turnover intentions, correlational value is .590\*\*.
- Rewards and compensation and Organizational Culture having a very strong positive relationship, correlation value are .699\*\*.

The observed trends in correlation analysis are aligned with the hypothesis statements proposed for this research study.

### 4.2 Regression Analysis

First hypothesis was to check Simple Regression Analysis between Compensation and Rewards and Employee Turnover Intentions. When Compensation and Rewards is taken as a predictor, the value of  $\Delta R^2$  is .235 with  $R^2$  value of 0.239. This indicates that 23.9% of the variance in data is explained through this linear equation. The model is also significant. When Compensation and Rewards as the predictor and turnover intentions as the dependent variable, the Beta value is 0.488 and the t-value is 8.111. The significance level is also acceptable.

Second Hypothesis was to check Simple Regression Analyses between Compensation and Rewards and Organizational Culture. In this step the  $\Delta R^2$  is .486 with  $R^2$  value is .488 i.e. a healthy 48.8% variance in the data can be explained through Compensation and Rewards. As indicated in the last column, the model is significant. The beta value in this case is 0.699 and the t-value is 14.148. The significance level is also acceptable.

Third Hypothesis was to check Simple Regression Analyses between Organizational Culture (Predictor) and Employee Turnover Intentions. In this step, the relationship of Organizational Culture and Turnover Intentions is being determined. The  $\Delta R^2$  is 0.348, whereas the  $R^2$  value is 0.345 i.e. 34.5% of the variance in data is explained through this linear equation. The model is also significant. The standardized coefficient (Beta) value is 0.590, the T-value is 10.589 and the significance level is also acceptable for this relationship. Hence, we move forward to the fourth step of mediation analysis.

The fourth and most important hypothesis was to test the combined impact of Multiple Regression Analysis between Compensation and Rewards (Predictor), Organizational Culture (Mediator) and Employee Turnover Intentions. When both Compensation and Reward and Organizational Culture are added as predictors, the  $\Delta R^2$  is 0.353 and  $R^2$  is 0.359. This means that, with both of them combined, 35.3% of the variance in data can be explained through this linear equation. The model is also fit. This table shows the final step of the mediation analysis between Compensation and Rewards, Organizational Culture and Turnover Intentions. It is clearly shown that with the addition of the suspected mediator (organizational culture) as a predictor, the relationship of Compensation and Rewards with turnover intentions becomes *insignificant* i.e. 0.556 and the mediator begins to 'control' the relationship. As per theory, this is an example of **Full Mediation**. The significance level is also acceptable. Therefore, we can conclude that Organizational Culture fully mediates the relationship between Compensation and Rewards and Turnover Intentions.

## 5. CONCLUSION

The research study has shown that sound Compensation packages play a very progressive role in motivating the employees and leads towards minimizing the turnover intention rate within the banks operating in Pakistan. The results of this study have also shown strong correlation between Compensation packages and employee turnover intentions. This strong correlation proves the primary hypothesis for this research i.e. *the effective use of Compensation packages leads towards lowering the turnover intentions*. The study of Chughtai (2013) [2] has also shown similar results.

Another study conducted in the Malaysian context, by Long and Perumal (2012) have shown results similar to the present study. With the help of a conceptual model, the researchers have shown that compensation and reward have a significant relationship with staff turnover intentions i.e. the more effective this practice is more satisfied the employees are, therefore reducing the turnover rate. This research study has shown similar results for the employees working in the banking sector of Pakistan.

The results have shown a positive correlation between organizational culture and turnover intentions ( $r=0.590$ ).

This is found to be consistent with some prior studies such as those conducted by Kumar, Ramendran *et al.*, (2012) and Habib, Aslam *et al.*, 2014. Likewise, Singh (2010)[16] demonstrated similar results i.e. the empirical analysis proved that there is a positive and meaningful relationship between Compensation packages and Organizational Culture.

The results of the study have shown the following trends:

- Organizational Culture fully mediates the relationship between Compensation and Rewards practices and employee turnover intentions. Value of R2 changes from 0.239 to 0.359.

## 6. LIMITATIONS AND FUTURE RESEARCH

This study is cross-sectional in nature. Due to time and cost constraints study was restricted banks within Pakistan with small sample size. The survey was restricted only among banks. The future research in this domain should expand the sampling criteria of the banks within Pakistan, so as to present a more comprehensive analysis. It must be conducted in a longitudinal frame. Similar research can be conducted for other countries in South Asia and a comparative analysis can be presented. It may be conducted in any private sector instead of banks.

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