

The Impact of Rewards on Job Satisfaction and Employee Retention

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Doi:10.5901/mjss.2014.v5n1p481

Abstract

This study explored the impact of rewards on job satisfaction and employee retention among nurses. The objectives of this study were to determine the impact of rewards on employee retention, to establish whether there is a relationship between rewards and job satisfaction, to establish the relationship between job satisfaction and employee retention and to make recommendations to the policy makers in the organization on possible ways/strategies to improve employee retention based on the research findings. The study utilized a quantitative research design and 180 nurses were randomly selected as research participants. Self-administered questionnaires were administered to participants/respondents. The data was analysed using Statistical Package for the Social Sciences (SPSS), version 20.0. Hypotheses were formulated to test the relationships between the independent variable and the dependent variable. The study revealed that employee rewards lead to employee retention but however, they do not result in job satisfaction.

Keywords: Impact, Rewards, Job Satisfaction, Employee Retention, Human Resource Management.

1. Introduction

Due to competition for scarce skills, the attraction and retention of quality employees has emerged as the biggest challenge in human capital management. This has resulted in a high turnover rate in most organisations especially in public institutions. Many skills shortages have been reported especially in South Africa's public health sector (Pillay, 2009). Nurse turnover has been linked to nurse shortages (Goodwin, 2003). The retention of highly skilled employees is now the major concern for many of South Africa's public institutions. To attract, retain and be profitable, organisations need novel reward systems that satisfy employees.

Managing turnover is proving to be a challenge to many organizations. Organizations incur very high costs as a result of voluntary turnover. According to Gering and Conner (2002) retaining good workers is critical to any organization. If an organization is not able to retain its employees, it will not be able to capitalize on human assets developed within the organization. Literature and best practices indicate that, to some extent, if employers treat their employees as valued contributors, they tend to remain in the organization (Frost, 2001). It is therefore of great importance that organizations keep their employees satisfied to improve employee retention. DeYoung (2000) reveals in his studies that many organisations are facing challenges in the development of an employee retention strategy, Turnover rates are increasing in various organisations; if employees are unhappy with their organisations they tend to leave the organisation (Schuler & Jackson, 2006). This becomes a costly exercise, especially if a valuable employee exits resulting in lost production. In addition, the cost of recruiting another employee is very high and usually takes time. Therefore the responsibility lies with the employer to ensure that they have the right quality and quantity of employees in an organization. This can be achieved through devising an efficient reward system which addresses employees' needs. Employee rewards mainly in the form of salary are one of the most identified factors when employees describe their employer of choice ref.

2. Problem Statement

High turnover is a well pronounced trend in most government institutions especially in the health sector. One of the main

challenges faced by organisations in employee retention is the competition factor. Frost (2001) states that many professional organisations are in a dilemma as a result of the competition that is present in attracting and retaining highly skilled workers because they fail to match the salaries being offered by their competitors or to offer more than their competitors. The challenge for many organisations today is therefore is to come up with an efficient reward strategy for retaining these core employees for the success of the organisation.

South Africa's public health sector is characterised by high job mobility as many health professionals leave the public sector to join the private sector. Skilled labour migration is also another problem being faced by the health sector. Pillay (2009) stipulates that many foreign organisation especially in western countries offer better rewards than in Africa therefore many of South Africa's health professionals have been flocking overseas. This brain drain is challenge that needs to be addressed.

Another challenge is that most employers are unable to predict the future needs of their employees. This is why many organisations face some difficulties in retaining their core employees. According to Birt, Wallis and Winternitz (2004) the fundamental issue for organisations are to keep track of the ever changing needs of employees so that they can become an employer of choice to employees. It is very imperative for organisations to have knowledge of these attributes so that they may be able to match their attraction and retention strategy to the needs of the workforce.

Relatively, there is little published research on reward system practices and their outcomes especially in South Africa's health sector. Therefore, this study will focuses on Human Resource Management (HRM) practices and their outcomes as well as how (HRM) practices influence the retention of employees at a selected health department in the Buffalo City Municipality in Eastern Cape Province of South Africa.

3. Research Objectives

The research objectives are to:

- To determine the impact of rewards on employee retention
- To establish whether there is a relationship between rewards and job satisfaction
- To establish the relationship between job satisfaction and employee retention
- To make recommendations to the policy makers in the organization on possible ways/strategies to improve employee retention based on the research findings.

4. Research Hypothesis

H0: There is no relationship between rewards and employee retention

H1: There is a significant positive relationship between rewards and employee retention

H0: Employee rewards do not lead to job satisfaction

H2: Employee rewards lead to job satisfaction

H0: There is no relationship between job satisfaction and employee retention

H3: There is a significant positive relationship between job satisfaction and employee retention.

5. Research Questions

1. What is the impact of rewards on employee retention?
2. Does rewards lead to job satisfaction?
3. What is the impact of job satisfaction on employee retention?

6. Review of Related Literature

Compensation and reward is an important feature of Human Resources Management. The compensation system that an organisation offers to its employees plays an important role in determining the commitment levels of employees and their retention. According to Willis (2001), compensation is one of the crucial issues as far as attracting and keeping talent in organisations is concerned. The fundamental hypothesis is that money influences employee behaviour through shaping their attitudes (Parker & Wright, 2001). Therefore wages influence the attraction and retention of the workforce (Parker & Wright, 2001). The provision of a lucrative remuneration package is one of the broadly discussed factors of retention. Not only do rewards fulfill financial and material needs but they also provide a social status and position of power within an

organization. In a past study, Allen, Shore and Griffeth (2003) reported that employees have to differentiate themselves from others through their compensation strategy in order to attract and retain quality employees. Therefore, an organization's compensation strategy should be able to attract the right quality of employees, retain suitable employees and also to maintain equity amongst the employees.

One way through which employers can retain the workforce is through offering a good compensation package. An organisation can only be successful in its retention strategy if it offers competitive, market-related pay and benefits because this motivates employees to become committed to the organisation (Lockwood and Walton, 2008). A study by Mercer (2003) reports that employees will remain in an organisation if they are rewarded and also they may leave if they are poorly rewarded. Employees are likely to stay in organisations where they believe that their capabilities, contributions and efforts are appreciated (Davies, 2001). Gomez-Mejia, Balkin and Cardy (2004) also stated that internal equity and external equity should be observed in terms of remuneration if the compensation package is to be used as a retention strategy.

In a study of nurses conducted by Pillay (2009), it was identified that monetary and non-monetary rewards are important in order to raise employee retention. Monetary rewards reported to significantly increase employee retention included performance bonuses, reasonable salaries, and remuneration for scarce skills. Non-monetary rewards included promotions, child care facilities, extended leave and recreation facilities. It was also reported that nurses view salary as the main source of dissatisfaction which often resulted to high employee turnover (Pillay, 2009). South African professional nurses who migrated overseas also cited financial reason as key reasons that influenced their decision to leave South Africa (Oosthuizen, 2005).

In contrast, Cappelli (2001) argues that due to the recent movement towards benchmarking, organizations are now facing difficulties in setting themselves apart from their competitors by means of remuneration hence the impact of financial rewards on employee retention is reduced. However, regardless of many studies reporting that financial rewards to be a poor motivating factor, remuneration packages still remain as a tactic employed by several organisations to improve employee commitment (Mitchell, Holtom & Lee, 2001). A study conducted by Horwitz, Heng and Quazi (2003) also reported that compensation practices is still one of the most popular retention strategy. According to Teseema and Soeters (2006) there is a positive correlation between compensation practices and employee retention, hence their explanation that voluntary turnover is high among those employees who value high monetary rewards as part of their compensation package.

7. Research Design and Methodology

In this study, the quantitative approach in the form of cross-sectional or correlation research design was used as it appeared to be more appropriate in exploring the impact of rewards practices on job satisfaction and employee retention of nurses.

7.1 Population and Sample.

The study population consisted of the both male and female nurses from a selected hospital in the Eastern Cape Province of South Africa. The total size of the population was 337(N=337). Using the RaoSoft sample size calculator, a minimum recommended sample size of 180 respondents was obtained. The respondents were selected using a simple random sampling method.

7.2 Measuring instrument

A structured questionnaire was used to collect data for this research. According to Babbie (2013), a questionnaire contains questions and other types of items designed to seek appropriate information for data analysis. Four instruments were used to compute the variables in this study. These are the biographical questionnaire, compensation and rewards questionnaire, a Minnesota Satisfaction Questionnaire and the intention to leave questionnaire. A self designed biographical and occupational questionnaire was used for sample description.

Rewards practices were measured using a 6-item measure developed by Teseema and Soeters (2006) and it has an alpha coefficient of .82. Job satisfaction was measured using the shortened version of the Minnesota satisfaction questionnaire (Johnson & Weiss, 1971). Employee retention was measured by the intention to leave questionnaire developed Cowin (2002). Responses to each of the six items were rated using a 5-point Likert scale with anchors

labelled: 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5= strongly agree. The alpha coefficient for this six-item scale has been 0.96 in previous studies.

7.3 Administering the questionnaire

The questionnaire was self-administered. Permission was requested from the HR Director of the institution to give out the questionnaires. The questionnaires were left with the HR officials for distribution. The anonymity and confidentiality of the information to be obtained from questionnaires was stressed to the HR department and to the respondents through a cover letter. To facilitate a good response rate, an agreement was made that the collection of data should take a period of one month.

7.4 Data Analysis

Descriptive statistics (e.g. frequencies and percentages) was used to describe the data in summary form. Chi- square test was used to measure the association between the variables. Correlation analysis was also carried out to test the relationship between rewards, job satisfaction and employee retention. The level of statistical significance was measured at $p < 0.05$.

8. Results

This section will present the results obtained in this study.

8.1 Descriptive Statistics

Below are the gender distribution results of respondents. Out of a sample of 180 nurses, (70%) were females and (30%) were males. These results show that both genders were represented in the sample. However, it can be deduced that the nursing sector in Buffalo City Municipality is female dominated. The reason could be the fact that the nursing profession is still seen by a lot of people as a female profession. In terms of the age, 35% of the respondents were in the age group 35-44 years, followed by the age group 25-34 years with 30% respondents. This shows that the samples comprised of mainly the youth and the middle ages and these are the age groups where labour mobility is highly pronounced (Andersen *et al.*, 2008) as depicted in the table 1 below.

Table 1: Frequency distribution for demographic variables. Sample (n=180)

Demographic variables	Percentage
Gender (n=180)	
Male	30%
Female	70%
Total	100
Race (n=180)	
Black	72%
White	8%
Colored	15%
Other	5%
Total	100
Age (n=180)	
16-24	5%
25-34	30%
35-44	35%
45-54	20%
55+	10%
Total	100

Table 2 below also show that competitive reward packages improve employee retention in an organisation. The results

show that 90% of the participants indicated that competitive and lucrative reward packages can make them to stay with their institution. Similarly, Pillay (2009) also reported that employee rewards also positively influence employee retention and that poor reward structure demoralise employee's thereby triggering high employee turnover.

Table 2: "I am prepared to remain in the organization because of the compensation/ rewards I receive from this organization".

	Frequency	Percentages
Strongly Agree	45	25
Agree	90	50
Neutral	9	5
Disagree	18	10
Strongly Disagree	18	10
Total	180	100

8.2 Inferential Statistics

In order to test the relationship between the independent variables (rewards) to the dependent variable (job satisfaction, retention), several statistical models were used. A chi-square test was conducted in order to test the association between the independent variable and the dependent variables. Pearson Correlation also used to test the strength and direction of the relationship between variables. Results from the analysis indicated that rewards alone cannot predict employee retention. The results are shown below.

Table 3: Association between adequate rewards and job satisfaction

<i>Chi-Square Tests</i>			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.789 ^a	2	.617
Likelihood Ratio	1.239	2	.538
Linear-by-Linear Association	.744	1	.388
N of Valid Cases	180		

a. 4 cells (66.7%) have expected count less than 5. The minimum expected count is .10.

To test whether there is an association between rewards and job satisfaction, a chi-square test of association was performed by cross tabulating the two variables. Results from Table 3 above shows a Chi-square value of .789^a and 2 degrees of freedom with a probability value of 0.617. The p-value is above 0.05 therefore the null hypotheses is accepted and conclude that rewards do not result in job satisfaction.

To determine whether there is an association between rewards and retention, a chi-square test was also used as shown in table 4 below.

Table 4: Association between rewards and employee retention.

<i>Chi-Square Tests</i>			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.000 ^a	1	.000
Likelihood Ratio	7.434	1	.005
Linear-by-Linear Association	20.000	1	.000
N of Valid Cases	180		

a. 3 cells (75.0%) have expected count less than 5. The minimum expected count is .05.

A chi-square test of association was performed by cross tabulating two variables namely rewards and employee retention were cross-tabulated through chi-square test. From the results we got a chi-square value of 19.000^a and 1 degrees of freedom with a probability value of 0.000. The p-value is less than 0.005 therefore we reject the null hypothesis and conclude that the more an employee is rewarded or compensated, the longer they remain in an organization..

The relationship between job satisfaction and employee retention was also tested. It was found that there is a

significant positive relationship between job satisfaction and employee retention ($r=19.000$; $p=0.002$). Therefore we reject the null hypothesis. Hence one may conclude that a highly satisfied employee is more likely to remain in the same organization for a very long time as illustrated in table 5 below.

Table 5: Correlations between job satisfaction and employee retention

		Mean Retention	Mean Job Satisfaction
Mean Turnover intentions	Pearson Correlation	20.000	0.002**
	Sig. (2-tailed)		.007
	N	180	180
Mean Job Satisfaction	Pearson Correlation	0.002**	1
	Sig. (2-tailed)	0.007	
	N	180	180

9. Discussion

The purpose of this study was to investigate the impact of rewards on job satisfaction and employee retention. It was hypothesized that there is no relationship between rewards and employee retention. It was also hypothesized that employee rewards do not result in job satisfaction. In this section, the results and findings of this study will be discussed. From this discussion, conclusions for this research and suggestions for future research will be drawn regarding rewards, job satisfaction and employee retention. Therefore, based on the above results, the following section will answer the research questions and hypothesis.

9.1 Rewards and job satisfaction

The results of this study show that there is no significant relationship between rewards and job satisfaction amongst employees. Results in table 3 shows that there is no association between rewards and job satisfaction ($r=-0.789$, $p=0.617$). This means that rewards are not the only determinant of job satisfaction especially in the nursing sector. Pillay (2009) in his study with nurses also reported that there is no positive significant relationship between rewards and job satisfaction.

9.2 Rewards and employee retention

Results from research indicate a positive relationship between rewards and employee retention ($r=19.000$, $p=0.000$). This means that the more an employee is rewarded, the more likely they are to remain in that same organization. This also reveals that most employees stay in the same institution for a long time because of the economic gains they receive from that institution.

9.3 Job satisfaction and employee retention

The study also tested the relationship between job satisfaction and employee retention. The results show that high levels of job satisfaction often results in improved employee retention. This shows that employers have to keep their employees satisfied if they want to keep their highly qualified and valued staff. Job satisfaction has proved to be a very crucial factor in employee retention. Similarly, Kabungaidze, Mahlatshana and Ngirande (2013) also reported a statistical significant relationship between job satisfaction turnover intentions based on a study of 150 administrators.

10. Conclusion and Recommendations

From the findings of this study, it is clear that employee rewards lead to employee retention but however, they do not result in job satisfaction. It is also however very clear that job satisfaction also results in employee retention. Therefore this study concludes that employee rewards and job satisfaction are very important dimensions when comes to employee

retention. This means that compensation is a major factor that employees consider when making the decision to leave or remain in an organisation. Employees also consider their happiness when making the decision to stay with an organisation

However, it is very clear from these results that rewards do not determine the job satisfaction of employees because the relationship between job satisfaction and rewards was insignificant. This shows that employee rewards alone do not result in job satisfaction among employees yet job satisfaction is a key factor when it comes to employee retention.

The results from this study show that rewards and job satisfaction are key factors in retaining employees. Therefore, it is very important for management to develop a retention strategy that addresses employee compensation and job satisfaction as major factors. This means that management should be able to create a total reward structure that includes more than just compensation. Compensation and benefits package of employees should be lucrative so that it attracts the valued employees to remain in the organization. This retention strategy should make an organisation a great experience. Whenever an employee resigns, reasons for leaving the organisation are known. These exit interviews are another way of shaping an organisation's retention strategy.

The results of the study also show that the relationship between rewards and job satisfaction is insignificant. This shows that other than rewards, there are other factors that contribute to the job satisfaction of employees. Organizations should therefore investigate on other factors that result in the satisfaction amongst employees so that they can be incorporated in the retention strategy. Allen, Shore and Griffeth (2003) identify training and development opportunities, promotion and performance management as some of the factors that contribute to employee job satisfaction. Finally, future research should aim to improve the internal validity of the research by controlling confounding and extraneous variables. It will also be interesting to investigate how other factors other than rewards impact on employee retention.

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