
COMPENSATION MANAGEMENT SYSTEM AND EMPLOYEE RETENTION PRACTICE IN THE NIGER INSURANCE PLC, PORT HARCOURT

Godwin Worlu Maru

Department of Business Administration and Management,
Captain Elechi Amadi Polytechnic,
Rivers State, Nigeria.

Mary Omodu

Department of marketing,
Captain Elechi Amadi Polytechnic,
Rivers State, Nigeria.

ABSTRACT

It is crucial that companies formulate employee retention policies and implement them in order to encourage workers to remain in the organization. High employee turnover promotes low performance in the organization therefore; companies need to formulate policies on ways of retaining employees in the organization. The study investigates the association between compensation and employee retention practice in Niger insurance plc in Port Harcourt. The cross sectional survey method which is a technique of quasi-experimental design was used. The population of this study consists of 270 workers in Niger insurance plc in Port Harcourt. The purposive method was used. The sample size of 159 was determined using Krejcie and Morgan (1970) sample size determination table. The primary data and secondary sources of data collection were used. 159 copies of questionnaire were distributed and 153 copies were retrieved. The formulated hypotheses were tested using the Spearman Rank Order Correlation coefficient analysis with the aid of Statistical Package for Social Sciences (SPSS). Result shows that monetary benefit and employee retention practice correlates at .645, when the p-value is $0.000 < (0.05)$. Thus, we reject the null hypothesis. Result from hypothesis 2 shows that non-monetary benefit and employee retention practice correlates at .434, when the p-values is $0.000 < (0.05)$. Thus, we reject the null hypothesis. The findings show that there is significant relationship between monetary benefit, non-monetary benefit and employee retention practice. The study recommended that management should focus more on monetary benefit because it is a strong factor that motivate and keep employees in the organization. They should develop an effective and motivated non-monetary benefit programme in order to retain competent employees. It was concluded that monetary and non-monetary benefits strongly related to employee retention practice of Niger Insurance Plc in Port Harcourt-Nigeria.

Keywords: Monetary benefit, non-monetary benefit and employee Retention.

Introduction

It is crucial that companies focus on formulating employee retention policies and implement them in order to encourage workers to remain in the organization (Gayathri, Sivaraman & Kamalambal, 2012). High employee turnover promotes low performance in the organization. Therefore, companies need to formulate policies on ways of retaining employees to enable workers stay in the organization. Managers globally recognize that having the right employees in the organization is the most vital factor that fuel organizational success.

Scholars believe that compensation plays a major role in retaining productive employees, especially those workers who have unique skill which is requisite to the organization success. Such payment must be seen as timely and tied to effective performance. The worker must recognize the reward given as attractive. Lawler (1971) revealed that to retain employee with pay, companies have developed systems that promote pay equity which also promotes employee retention.

Statement of problem

In the insurance companies, employee retention is a critical human resource management challenge. In Nigeria Insurance companies, workers leaving the organization will reduce the organizations' performance and goodwill. According to Rawat (2013), organizations experience so many difficulties when there is high turnover rate due to workers going out of the organization because of poor remunerations, no decent salary structure and no development in career. It is good for companies to develop effective retention practices to reduce turnover rate.

The manifestations of the problem in insurance companies today could be as a result of lack of good salary structure, low investment in training and development and lack of benefits packages.

Objectives of study

The major aim of this study is the investigation of the effect of compensation and employee retention in Niger Insurance Plc, Port Harcourt.

However, the specific objectives are;

1. To examine the effect of monetary benefit on employee retention in Niger Insurance Plc.
2. To examine the effect of non-monetary benefit on employee retention in Niger Insurance Plc.

Research questions

Based on the forgoing objectives of this study, the following research questions guided the study:

1. What is the relationship between monetary benefit and employee retention?
2. What is the relationship between non-monetary benefit and employee retention?

Research Hypotheses

H₀₁: There is no significant relationship between monetary benefit and employee retention practice of Niger Insurance Plc in Port Harcourt- Nigeria.

H₀₂: There is no significant relationship between non- monetary benefit and employee retention practice of Niger Insurance Plc, Port Harcourt- Nigeria.

Literature Review

Theoretical Framework

The equity theory of motivation is used as foundation of this study. The equity theory was developed by Adams in 1963. The equity theory centers on employees' perceptions on fair and equal treatment in terms of general work conditions compared to other organizations. According to Jones and George (2003), equity theory is a theory of motivation that purely focused on employees' perceptions of the fairness of workers work outcomes relative to, or in proportion to their work inputs. Equity theory is focused on the idea that employees are satisfied by fairness in rewards on input or output ratio, they will seek to change their input to reach their perceived equity. Adams suggested that the higher workers' perception of equity, the more motivated they will be; if a worker perceives an unfair treatment, he will not be motivated, and will be ready to leave the organization.

The concept of compensation

Compensation is a systematic approach of providing monetary and non monetary values to employees in exchange for task performed. According to Arul (2013), compensation means a wide range of financial and non financial rewards to employees for their services rendered. Rihman (2011) also noted that compensation represents all forms of financial returns and tangible benefits that employee receives as part of employment relationship. In the same vein, Brown (2003) stated that compensation is a return in exchange between employee and employer as an entitlement for being an employee of the organization, or as a reward for a job done. It is a tool used by management to enable the company attain its generic goals. Bod (2011) noted that compensation processes are based on compensation philosophies and strategies and contains arrangement in the shape of policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriation types and levels of pay, benefits.

Managing compensation effectively is concerned with measuring job value designing and maintaining pay structure, paying for performance and productivity employee benefits. Armstrong and Brown (2005) noted that compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization. According to Odunlade (2012), compensation is a basic motivator for which consists of monetary and non-monetary incentives. Bernadin (cited in Odunlade, 2012) posits that

compensation is divided into two parts such as cash compensation which means cash direct pay and non-monetary compensation which refers to employee fringe benefits programme.

Monetary benefit

Monetary benefit refers to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes. Monetary incentives refer to the monthly rate of pay, irrespective of the number of hours put in by the employee (Arul, 2013). Rihman (2011) opined that salary is an effective tool for employee's motivation and retention.

Monetary benefit means amount of monetary reward that a worker receives for task performed. Heery and Noon (cited in Luddy, 2005) defined salary as payment for work, which can take a number of different forms, including a basic wage or salary, supplementary cash payments, such as shift pay and overtime pay. Erasmus, van and Schenk (cited in Luddy, 2005) also defined monetary benefit as the financial reward offered by a company for the time, skills and effort made available by the worker for satisfying job requirements aimed at accomplishing organizational objectives. Armstrong and Brown (2005) noted that base pay is the fixed pay and is usually the largest compensation reward to workers in organizations. Contingent pay is pay for workers that concern performance.

Non-monetary benefit

Money is not the only cause of motivation. Non-monetary benefits are the greatest incentives over the long run. According to Lawler (cited in Marth and Herbert, 2013), monetary benefits are significant in the short term while non-monetary benefits are in the form of meaningful work and recognition inclined to sustain motivation in the long term. Non-monetary benefits are incentives such as job advancement, medical aid, status and recognitions offered to employees. Imhoff (2006) stated that non-monetary benefits are work recognition, opportunity for career advancement and opportunity for further learning and development. Falola, Ibidunni and Olonkundun (2014) supported that non-monetary benefits come in form of more enabling authority, award, promotion, holidays, better work environment, written recognition, gifts, formal dinners and informal parties. Some employees are motivated by a well written recognition and awards, some are also motivated by a better work environment and decided to stay in an organization that offered a low monetary benefit. Willis (2001) stated that non-monetary benefit is one of the methods of compensation that motivate employees and retain talented employees in the organization. Ngcobo and Naido (2015) supported that non-monetary benefits are crucial factors which significantly relate to employees retention that cannot be ignored. A better work environment without huge monetary benefits served as an effective means of keeping employees and also encourages successful employee retention practice.

Employee Retention

Employee retention is the organization's ability to keep talented workers in the organization. According to Armstrong (2006), employee retention refers to how an organization keeps their workers from leaving the organization thus coming up with retention strategies to ensure that workers remain in the company. Employee retention refers to policies and practices companies use to prevent valuable employees from leaving their jobs. Griffeth and Hom (2001) opined that employee retention involves taking measures to encourage employees to remain in the organization for the maximum period of time. Employees can remain in organizations which focus on how to keep their employee satisfaction at the highest level. Sohail (2011) noted that employee retention is a crucial process for organization performance to remain competitive among others. Thus, for organizations to remain competitive, they need to have in place employees who are focused, equipped with effective skills and committed to their work. It means therefore, that crafting and implementing retention practice is a core function of human resource management. It follows therefore that before implementing employee retention practice, companies have to understand employees' expectation in the workplace. Failure to understand employees' expectations results to erroneous practice and low retention intentions.

Employee retention practice is a plan or policies that are practiced by an organization to retain its employees throughout their work life. In other words, Retention means the long-term relationship between employee and the organization. Effective implementation of employee retention practices increases employee loyalty, commitment and minimizes employee turnover cost. By having a better handle of why the employees are leaving or want to leave the organization, effective retention practices can be adopted and reduce turnover (James & Mathew, 2012).

Investment on employee training and career development is considered important factor in employee retention. Organization has the incentive to make investment in form of training & development only on those workers, from whom organization expect to return and give output on its investment. Organizations are increase development for talented employees, through proficiency analysis, input on employee interests, need development and multisource appraisal of capabilities and formulate plans for action. Training enhances the skills of employees. When employees are hired to enhance the skill, organization needs to start training program. According to Parker & Wright (2001), employees have the vision to obtain new knowledge and skills which they can use on current the job and also share with others.

Training and development enables existing worker to acquire new knowledge, skills and abilities to ensure that they remain in the organization and attain their personal desires for advancement. In organizations where there is no career development workers tend to leave.

The organizational culture represents the vision, mission and values of an organization. According to Friedman (2006), failing to integrate the worker into the organizational culture is a good step to reduce retention level. Culture is a powerful way of

controlling and managing employee behaviors than organizational rules. According to Rosenberg (2008), attractive culture retain more employees as everybody knows the reason that close to 80% of people leave an organization is because of conflict in the workplace. The organization must clarify its mission and value system. The good understanding of cultural value enables employees to have positive feelings among them. Attractive and supportive culture promotes employees retention.

Relationship between Compensation system and Employee Retention

Today, employee retention is the most critical problems of business organizations because all organizations needs competent worker who is ready to take responsibilities. Muhmmah and Almal (2016) opined that the retaining an active and vital employee has become essential to remain competitive in the business. Borgoham (2010) also noted that employee retention is the ability of an organization to keep its workers to work and stay long in the organization. Compensation and employee retention is very significant because the organization is at loss when the workers leave their job once they are fully trained.

Employees will consider remaining or leaving the organization when they are not satisfied with compensation paid for tasks performed. Gerhart, Minkoff and Olsen (1995) supported that through compensation an employee can influence the attitude of employee with reference to attraction and retention. In the same vein, Lawler (cited in Muhammad and Almal, 2016) opined that employees' retention is influenced by the type compensation and general work conditions. Compensation should commensurate with employees' input in order to attract and retain committed employees. Muhammad and Almal (2016) identified a positive significant relationship between compensation and employee retention. Willis (2001) also opined that compensation is one of the vital issues as far as keeping talented employees is concerned and employers should differentiate themselves from others through their compensation strategy in order to retain qualified employees. Employees will remain in the organization if they are rewarded and also they may leave if they are poorly rewarded. Therefore, compensation vividly related to employees retention practice.

Research Methodology

The cross sectional survey method which is a technique of quasi-experimental design was used because it makes use of questionnaire and examines the inter-relationship among a number of variables.

The population of this study consists of 270 workers in Niger Insurance Plc in Port Harcourt. The purposive method was used. The sample size of 159 was determined using Krejcie and Morgan (1970) sample size determination table. The primary data and secondary sources of data collection were used. 159 copies of questionnaire were distributed and 153 copies were retrieved. The formulated hypotheses were tested using the Spearman Rank Oder Correlation coefficient analysis with the aid of Statistical Package for Social Sciences (SPSS).

Result and Discussion of Findings

Hypothesis 1.

H₀₁: There is no significant relationship between monetary benefit and employee retention practice of Niger Insurance Plc in Port Harcourt- Nigeria.

Table 1: Correlation analysis showing the relationship between monetary benefit and employee retention practice.

Correlations				
			Monetary Benefit	Employee Retention practice
Spearman's rho	Monetary Benefit	Correlation Coefficient	1.000	.645**
		Sig. (2-tailed)	.	.000
		N	153	153
	Employee Retention practice	Correlation Coefficient	.645**	1.000
		Sig. (2-tailed)	.000	.
		N	153	153

** . Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS data Output (2020).

Table 1 indicates that monetary benefit and employee retention practice correlate at .645, when the p-value is $0.000 < 0.05$. This signified a strong correlation. Thus, we reject the null hypothesis and accept that there is significant and a strong positive relationship between monetary benefit and employee retention practice.

Hypothesis 2.

H₀₂: There is no significant relationship between non- monetary benefit and employee retention practice of Niger Insurance Plc in Port Harcourt- Nigeria.

Table 2: Correlation analysis showing the relationship between non-monetary benefit and employee retention practice.

Correlations				
			Non-monetary Benefit	Employee Retention practice
Spearman's rho	Non-monetary Benefit	Correlation Coefficient	1.000	.434**
		Sig. (2-tailed)	.	.000
		N	153	153
	Employee Retention practice	Correlation Coefficient	.434**	1.000
		Sig. (2-tailed)	.000	.
		N	153	153

** . Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS data Output (2020).

Table 2 indicates that non-monetary benefit and employee retention practice correlates at .434, when the p-value is $0.000 < 0.05$. This signified a moderate correlation. Thus, we reject the null hypothesis and accept that the there is significant and a moderate relationship between non-monetary benefit and employee retention practice.

Discussion of findings

The findings from hypothesis one shows that monetary benefit and employee retention practice correlate at .645, when the p-value is $0.000 < 0.05$. This indicates a strong correlation. Thus, the null hypothesis was rejected and concludes that there is significant and a strong positive relationship between monetary benefit and employee retention practice of Niger Insurance Plc in Port Harcourt- Nigeria. This finding is supported by the work of Rihman (2011) which revealed that salary is an effective tool for employee's motivation and retention. In the organization, salary and wage are paid to attract competent and talented employees.

The findings from hypothesis two revealed that non-monetary benefit correlate with employee retention practice at .454 when the p-value is $.000 < 0.05$. This indicates a moderate relationship. Therefore, we reject the null hypothesis and conclude that there is a significant and moderate relationship between non- monetary benefit and employee retention practice of Niger Insurance Plc in Port Harcourt-Nigeria. This finding is in line with the work of Ngobo and Naido (2015) which revealed that non-monetary benefits are crucial factors which significantly relate to employees retention that cannot be ignored.

Conclusion

Employees react negatively when they perceive that pay system and retention policies are not stable. The insurance companies paid less attention to the payment of non-monetary benefits such as medical aid, holidays and awards. It was also observed that workers in the insurance companies do not stay long period in the organization because of the pay system and little non-monetary packages. Therefore, monetary and non-monetary benefits strongly relate to employee retention practice of Niger Insurance Plc in Port Harcourt-Nigeria.

Recommendations

Based on our findings and conclusion, it is recommended that:

1. Management should focus more on monetary benefit because it is a strong factor that motivates and keeps employees in the organization
2. They should develop an effective and motivated non-monetary benefit programme in order to retain competent employees.
3. Management should target towards effective employee retention practice in order to acquire high potential employees and also achieve desired goals.

REFERENCES

- Armstrong, M. and Brown, D. (2005). Relating Competences to pay: The United Kingdom Experience. *Compensation and Benefit Review*, 18(2), 2905-310.
- Armstrong, M. (2006). *Handbook of Human Resource management Practice*. London: Kogan Page Limited.
- Arul, P.G. (2013). *Compensation management*. Department of international Business, Directorate of Distance Education, pondichery University.
- Bob, N. (2011). Making Employees Suggestions Count. *Journal of personnel management*.17; 20 -41.
- Brown, A. (2003). Reward strategies. *Journal of personnel management*, 1; 17-29.
- Falola, H. O., Ibidunmi, S. & Olonkundun, M.(2014). Incentive Packages and Employee's Attitudes to Work: A Study of selected Government Parastatal in Ogun State, South – West Nigeria. *International Journal of Business and Social Science*, 3(1),63-74
- Friedman, D. (2006). The Dilbert syndrome: How employee cynicism about ineffective management is changing the nature of careers in organizations. *American Behavioral Scientist*, 43, 1286-1301.
- Gayathri, R., Sivaraman, G., &Kamalambal, R. (2012). Employee Retention Strategies in BPO's: An Empirical Investigation. *Interdisciplinary Journal of Contemporary Research in Business*, 3 (12), 186-197.
- Griffeth, R.W., &Hom, P.W. (2001). *Retaining valued employees*. Thousand Oaks, CA: Sage.
- Gerhart,B., Minkoff, H.B. & Olsen , R.N(1995). *Employee Compensation: Theory, Practice and Evidence*. School of Industrial and Labour Relation: Cornell University.
- Imhoff, S. (2006). Meaning of Money: An individual difference perspective. *Academy of Management Review*, 5(3), 567-588.
- James, L. & Mathew, L., (2012). Employee Retention Strategies: IT Industry. *SCMS Journal of Indian Management*, 9(3), 41-59.
- Jones, G. R. and George, J.M. (2003). *Contemporary management*. North America: McGraw Hill.
- Lawler, E. (1971). *Pay and Organizational Effectiveness: A Psychological View*. New York: M-Craw-Hill.
- Leighn, B. (2002). *Keeping People Who Keep You in Business; 24 Ways To Hang Onto Your Most Valuable Talent Publication*. New York: A Macon Books.

- Luddy, N.(2005). *Job satisfaction amongst employee's at a public health institution in the Western Cape*. Master's Thesis, Department of Industrial Psychology, Faculty of Economics and Management Sciences, University of the Western Cape.
- Mercer, R.(2003).Rewards system and employees Retention. *Journal of Administrative Science*, 5(4), 74-93
- Muhammad, S & Almal, M.(2010). Motivation and compensation as predictors of employees' retention: Evidence from Public Sector Oil and Gas selling Organizations. *Journal of Behavioural Sciences*, 26(2), 174-188
- Martha, H. & Herbert, K.(2013). The Impact of Monetary and Non-monetary Rewards on Motivation among lower level Employees in Select Retail Shops. *African Journal of Business Management*, 3(2), 12-29.
- Ngobo, S. & Naido, V. (2015). Effectiveness of Non-monetary Factors on Staff Retention within the South African Banking Sector. *Journal of Governance and Regulation*, 4(1), 34-51
- Odunlade, R.O. (2012). Managing employee compensation and benefits for job satisfaction in Libraries and information centres in Nigeria. *Library Philosophy and practice Review*, 1(2),1-11.
- Parker, O. & Wright, L. (2001). Pay and employee commitment: the missing link. *Ivey Business Journal*,6(3), 70-79.
- Rawat, R. (2013). Emerging Employee Retention Strategies in IT Industry. *SCMS Journal of Indian Management*, 6(2) 96-119.
- Rihman,S. (2011). Reward and compensation in business. *International Journal of business management*, 3(2)45-56.
- Rosenberg, M. (2008). A Retention Strategy for forward thinking Organizations. *Journal of World Business*, 4(5),105-108.
- Sohailat, M. (2011). The Importance of Management Style in Labour Retention. *International Journal of Sociology and Social Policy*, 27 (2), 5 – 18.
- Willis, N. (2001). Compensation and Employee job satisfaction. *Journal of Management Sciences*,3(1), 105-120