

The Impact Of Reward System On Employee Turnover Intention: A Study On Logistics Industry Of Sri Lanka

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Abstract: Human capital is a paramount important part of today's business world. For any company to achieve its corporate strategies, it is important to have motivated, committed workforce within the company. Therefore keep employees satisfied is a necessity for any organization. Otherwise they may leave the company as there are lots of job opportunities remain in this modern business world. This study focuses on how reward system of an organization impacts on employee turnover intention. This study empirically evaluated five independent variables (remuneration, cash incentives, work life balance, supervisor support and employee recognition) and their relationship to the turnover intention of non-executives in the logistics industry of Sri Lanka. The sample consists of 97 non-executive staff in the logistics industry of Sri Lanka. The data collection was done by using a self-administered structured questionnaire. The results indicated that remuneration, cash incentives, work life balance, supervisor support and employee recognition variables were negatively and significantly correlated with turnover intention. And those relationships were strong. Results of regressing the reward system on turnover intention showed that reward system is a powerful predictor of labour turnover in logistics industry of Sri Lanka. The research findings give evidence that better financial and non-financial rewards have strong impact on employee turnover intention. Therefore to reduce employee's high intention to leave the company, the management needs to develop well balanced reward system in both financial and non-financial aspects.

Index Term: Logistics Industry, Reward system, Sri Lanka, Turnover intention.

1 INTRODUCTION

In today's changing environment and organizations, buffered by globalization, social variation and intense competitive environment, the sources of sustained competitive advantage have lifted from finance concept to technology side and now to human assets. To be able to achieve the organizations goals, management need to understand how to motivate their employees. In order to do it management need to understand their attitude to work and life and understand different personality types. Inability of accomplishment of above mission, may lead to leaving employees from the work place resulting huge financial and non-financial losses in the organization. Employee turnover is the most challenging issue of modern organizational environment. Most of the time employee turnover; movement of employee from one firm to another within particular time period, may result deterioration of quality of the organization. In Sri Lankan context, this issue is more critical in operation level employees of many industries. Rajapaksha (2015) stated that employee turnover significantly affects to the role of an organization in apparel industries. Nowadays organizations are looking for better ways to help their employees to be more productive and to be happier in their work place with the aim of keeping high retention rate. Employees want to be appreciated of their efforts and they expect a fair return on that effort as well. Most organizations implement many strategies which makes employees happier. A systematic way of a scheme or a program which gives incentives for those individuals or groups who perform well in the firm called a Reward system. Reward system can be categorized into two areas (Armstrong, 2007). Those are financial rewards and non - financial rewards. Financial rewards mean those which satisfy the employees by providing rewards in terms of money. Besides the financial

rewards, there are certain non - financial rewards which can satisfy the ego and self-actualization needs and wants of employees. Lack of fair rewards and recognition system may cause to create unsatisfactory workforce within the organization, because today's employees want to be treated like a valuable resource not a disposable asset. Therefore, in the current context retention of the qualified blood within organizations has become one of the most common challenges and thereby one of the major problems managers of organizations face today is employee turnover. Intention to turnover refers to an individual's perceived probability of staying or leaving an employing organization (Cotton and Tuttle, 1986). The objective of this paper is to explore the relationship between reward system and turnover intention of non-executives in logistics industry of Sri Lanka. Logistics industry in Sri Lanka thrives towards a great extent. In terms of quality and competency, logistics service in Sri Lanka has increased the logistics performance index from 2.10 - 2.70 since 2010 - 2014 (Index Mundi, 2014). 10% of contribution coming towards Sri Lankan economy by logistics sector and 12%-14% of employment opportunities also covered through logistics sector as well (Jayalal, 2015). Employee turnover intention is an important concept that every manager wants to eliminate within their organizations. However the available studies do not provide empirical evidence with regard to the relationship between reward system and turnover intention of non-executive employees in logistics industry of Sri Lanka. So this study will focus on whether there is a relationship between reward system and non-executive employees' turnover intention in the logistics industry of Sri Lanka.

2 LITERATURE REVIEW

2.1 Turnover Intention

Hom and Griffeth (1995) define turnover intention as the relative strength of an individual's intent toward voluntary permanent withdrawal from an organization. Cotton and Tuttle (1986) define turnover intention as an individual's perceived probability of staying or leaving an employing organization.

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Employee turnover is always costly for the organization. Employee can quit for many reasons. Smith (2009) listed out twelve major reasons for employees to leave from their positions. Those were rude behavior, work-life imbalance, inability to meet expectations, employee misalignment, feeling undervalued, lack of coaching and feedback, lack of decision making ability, inadequate skills, organization's instability, stagnation, lack of growth opportunities and lack of appreciation.

2.1.1. Remuneration and employee turnover intention

A'yunnisa & Saptoto (2015) suggested that pay level dimension has a higher correlation with intention to leave than other dimensions like affective commitment. This result conveys that the pay level is more important with regard to turnover intention in a way that employees want to quit from the company and looking for another opportunity. Further author has highlighted that pay level was moderately and negative correlated with the turnover intention dimension where the pay level satisfaction was the most significant other than the pay raise satisfaction. This shows that employees who are extremely happy with their pay level are the most satisfied and less expected to search for another job opportunity to quit from the current job role. In another words this study indicated that turnover intention has direct and indirect impact on pay level satisfaction where the turnover intention can be reduced by increasing the level of pay structure. This further notified that if some employee is not happy with the pay level that they get for their hand is not enough to cope up with the economic levels, that will be a turning point to stay in the company or not. Naeem Akhtar, Abdul Waheed Ahmad Awan, Muhammad Akmal Anwar, Sohail Saeed, Sajid Ali & Muhammad Qurban (2016) also, revealed that the turnover intention is significantly negative associated with the salary which means that when salary decreases as a result of that turnover intention goes high vice-versa.

2.1.2. Cash incentives and employee turnover intention

Mohammad Atiq and Afshan Bhatti (2014) indicate that cash incentives have a strong relationship against employee turnover in different age groups. Even though the age groups are differing it's important to have a right incentive schemes to cater employees where employees have an intention not to quit the current job. Furthermore, Authors observed that a good combination of incentive type is more important and it lies on the different age groups. Other hand side it also needs to be attainable with the respective objectives given for each employee. This concludes that type of incentive scheme purely depends on the age groups of employees and companies should be able to match the correct incentive scheme concerning their age groups and business environment. Babangida Mohammed Musa, Ibrahim Ahmed and Abubakar Bala (2014) stated that there is a linear relationship among fringe benefits and turnover intention in the hotel industry. Authors recommended having monetary and non-monetary incentive schemes in place to reduce the high turnover since high frequency of turnover has a huge impact on overall company achievements. Monetary and non-monetary incentives enhance the employee retention and employee commitment as well.

2.1.3. Work life balance and employee turnover intention

According to the many researchers, there is no universally accepted definition for work life balance. However, Clutterbuck (2003) defined work life balance is a state where individual try to manage potential demand on his or her time and energy in a way that fulfilled needs for his or her well-being. Klopping (2011) defined that work life balance is a measure of control where, when and how individual work. What is best balance between work and life is different for everyone as they have different priorities and different lives. Rashid, Rab, Khalil, Zahid & Moeed (2013) conducted a survey to find out the relationship of work life balance and stress with turnover rate for employees. They found that, work life balance has a strong positive correlation with rate of turnover. Ghayyur & Jamal (2012) also concluded that, work life balance and employee turnover intention has significant and positive correlation, despite of all demographic characters such as gender, material status and designation. Work- family conflicts create problems for workforce which influences on their intention to leave. Further researcher postulate that, mostly employees who are suffering from heavy working hours have to struggle to manage the needs of their family life and he suggested that, flexible working schedules may positively impact on employees in their intention to stay job, satisfaction and commitment. The matter of maintaining the balance between person's personal and professional life is mostly talkative topic in modern globe. Noor (2011) revealed that, there is a negative correlation between work life balance satisfaction and intention to leave. And this relationship is mediated by job satisfaction and organizational commitment.

2.1.4. Supervisor support and employee turnover intention

Maertz, Griffeth, Campbell & Allen (2007) found in their study that the effect of perceived organizational support and perceived supervisor support on employee turnover, there is strong negative relationship between organizational and supervisor support and employee turnover intention. They concluded that, both organizational and supervisor supports are quite valuable implication in turnover management. Therefore supervisor should be responsible to maintain supportive work environment to build constructive relationships with employees. Such an action will eventually help to increase retaining employees within the organization. Son (2014) discussed that, as supervisors act as agent of the organization, employee who receive better support from his superior and favorable treatments from the organization, they reciprocate by retaining in the organization and it has psychological contact, employee tend to perceive employer by fulfilling its obligations.

2.1.5. Employee recognition and employee turnover intention

According to beliefs of many employers, turnover rate rises, when employees are not satisfied. They mostly apply simple measures of recognition to slow down the rate of turnover. Gary Dessler (2011) explains that recognition positively effect on employee performance. Recognition mostly refers to the formal program like employee of the year. Employers in many country use recognition program such as long service award or loyalty award for employees who complete many years. Such an action enhances the retention of employees in industries where turnover rate is high. Mosley (2016) stated

that, modern organizations are tend to implement recognition program as part of their strategies to be recognized as “best place to work” in their industry. It further elucidates that, a company can experience better results in both business and culture by implementing sound recognition program by aligning with values and having a great culture is the key to reduce staff turnover and maintaining top talents.

2.2 Reward System

A reward system consists with financial rewards, other benefits as well as non-financial rewards such as recognition, responsibility career prospects etc. The total reward system consists with mix of financial rewards, employee benefits and non- financial rewards (Armstrong, 2002). According to the above definition the below figure shown how the total reward system can be illustrated.

Components of Total Reward

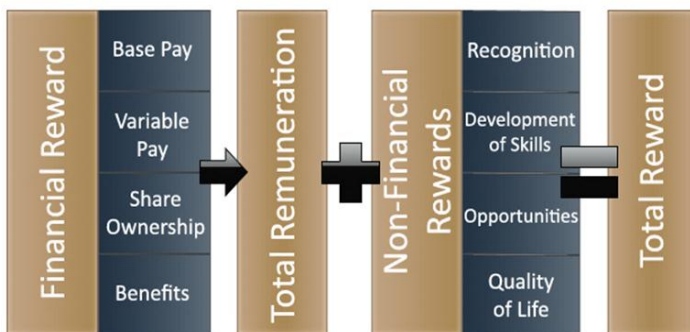


Fig. 2.1 The Components of Total Reward System

2.3 Conceptual Framework

The objective of this study is to examine the relationship between reward system and turnover intention of the non-executive employees in the logistics industry of Sri Lanka. An analysis and review of the relevant literature have used to develop the following conceptual framework (Fig. 2.2). The five (5) independent variables such as remuneration, cash incentives, work life balance, supervisor support and employee recognition can be identified as dimensions of reward system that have negative relationships with turnover intention. Turnover intention of the employees is the dependent variable.

Independent Variables

Dependent Variable

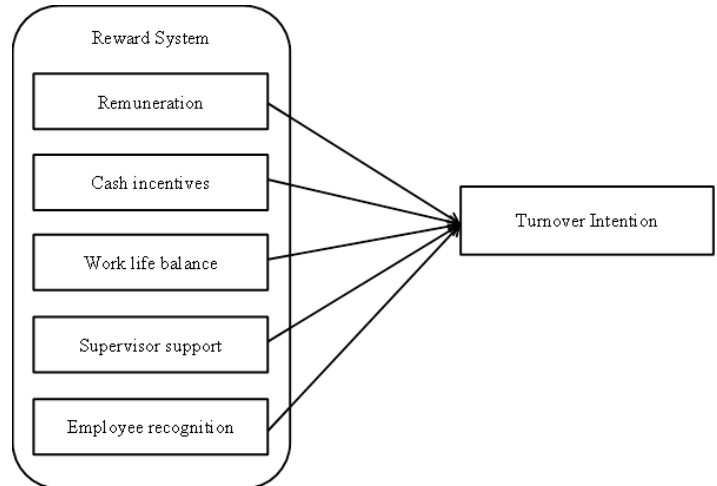


Fig. 2.2: The Conceptual Framework

3 RESEARCH METHODOLOGY

3.1 Hypotheses

Based on the above conceptual model the following hypotheses (H) has been formulated for this study.

- H1: There is a significant negative relationship between remuneration and turnover intention of employees
- H2: There is a significant negative relationship between cash incentives and turnover intention of employees
- H3: There is a significant negative relationship between work life balance and turnover intention of employees
- H4: There is a significant negative relationship between supervisor support and turnover intention of employees
- H5: There is a significant negative relationship between employee recognition and turnover intention of employees

3.2 Collection of Data

The study relied on survey method as the researcher assumed it to be the most appropriate method according to the nature of the study. The sample of the study is 97 non executives working in logistics industry. The stratified random sampling method was used as the sampling technique. Further the data collection was done by using a self-administrated structured questionnaire. The questionnaire consists of three sections and the section one of the questionnaire designed to obtain demographic characteristics, including gender, age and the length of work experience etc. In the second section there are questions regarding reward system (financial and non-financial rewards). Finally the third section consists of questions regarding employee turnover intention. Some of the questions were close ended, while others scored on a 5-point Likert scale. Point 1 for strongly agree, 2 for agree, 3 for neutral, 4 for disagree and 5 for strongly disagree have been provided to analyze data. To test the hypotheses, Pearson's product moment correlation analysis, and multivariate analysis were used. The statistical computer package SPSS version 20.0 was utilized to analyze the data. The reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument (Sekaran, 2006). This can be tested statistically by using Cronbach's alpha. The

reliability statistics indicated 0.970 for remuneration, 0.934 for cash incentives and 0.956 for work life balance, 0.948 for supervisor support, 0.939 for employee recognition and finally 0.975 for employee turnover intention (Cronbach's alpha values) which suggest that the items have relatively high internal consistency.

4 RESULTS

4.1 Testing of Hypotheses

Table 4.1: Pearson Correlation for all selected independent variables and turnover intention

Independent variables	Dependent variable (Turnover intention)	Sig.
Remuneration	-0.905	0.000
Cash incentives	-0.657**	0.000
Work life balance	-0.911	0.000
Supervisor Support	-0.886**	0.000
Employee Recognition	-0.957**	0.000

**Correlation is significant at the 0.01 level (1-tailed).

The analysis of the results indicate a negative correlation between remuneration and turnover intention ($r = -0.905$) and is significant at 0.01. This shows that when the remuneration is not up to the required level according to the needs of the employees their intention to leave the organization is affected. There is a negative relationship between cash incentives and turnover intention. The correlation coefficient ($r = -0.657$) is significant at 0.01. The negative relationship between work life balance and turnover intention ($r = -0.911$) is also significant at 0.01. The results of supervisor support reveal its significant negative correlation with turnover intention ($r = -0.886$) at $p = 0.01$. Employee recognition gave a negative correlation with turnover intention ($r = -0.957$) at 0.01 shows that employees' turnover intention is highly correlates to the employee recognition in the organization. Multivariate analysis evaluates the simultaneous effects of all the independent variables on dependent variable. The results of multivariate regression of the five independent variables against the dependent variable turnover intention are shown in the Table 4.2.

Table 4.2: Aggregate impact of the employee reward system on turnover intention of employees

R	R ²	Adjusted R ²	Std. error of the estimate	F	Sig. F
0.980	0.960	0.958	0.30710	438.928	0.000

The adjusted square of the multiple R is 0.958 indicating that the 95.8% of variance in turnover intention is explained by the five independent variables jointly. There is statistical evidence to claim that five independent variables have significantly explained the 95.8% of the variance in turnover intention in the selected domain.

5 DISCUSSION

As hypothesized it was found that there are significant negative relationships between remuneration, cash incentives, work life balance, supervisor support and employee recognition and turnover intention of employees. The overall relationships of different elements of reward system showed that employee recognition has the strongest negative relationship with turnover intention. When reviewing the existing literature it was also found that according to Henryhand (2009) employee recognition has significant impact on turnover intention. Analysis of the collected data revealed that reward system has a significant impact on the employees' turnover intention. The sample indicated that majority of the non-executive employees are male (87.6%). And the age of 55.7% of non-executive employees are in the range of 18 -25 years and 60.8% of the non-executive employees have less than 12 months' experience. 53.6% of the non-executive employees are General Certificate in Education (Ordinary Level) qualified.

6 CONCLUSION

The research findings give evidence that better financial and non-financial rewards lead to decrease employee turnover intention. The problem of the research was that to what extent the current reward system affects to the non-executive level employees' turnover intention in logistics industry of Sri Lanka. Based on the existing literature, a conceptual framework is developed so as to test the relationship between financial and non-financial rewards (remuneration, cash incentives, work life balance, supervisor support and employee recognition) and turnover intention. As per the research findings, it can be concluded that there is a strong negative relationship between financial and non-financial rewards and non-executive level employees' turnover intention in logistics industry of Sri Lanka and this relationship is significant. We can conclude the research findings as the reward system of organizations in logistics industry of Sri Lanka need to be improved in both financially and non-financially because there is a strong negative relationship between reward system and turnover intention of employees. That means if the reward system is effective and attractive to employees their turnover intention will be reduced gradually.

7 RECOMMENDATION

According to the research findings remuneration is a significant variable that reduces the turnover intention of non-executive employees. The equity theory of Adams (1965) emphasizes that pay satisfaction is caused by feeling regarding the equity of one's pay. Not only increasing pay is enough to reduce turnover intention of employees, but also employees' perception of whether they are being paid fairly for their work do matter. Therefore the company should follow equity pay system where each and every employee gets paid fairly for their contribution to the company. Therefore current reward system should consider about this. Attractive cash incentive is another significant value that reduces the turnover intention of non-executive level employees in logistics industry. Company should take necessary steps to upgrade employee incentive programmes such as providing bonuses depending on performance (goal attainment) and the goals must be realistic and closely matched to the business and people involved. Introducing new profit sharing scheme where a pre-determined percentage of profit is shared among all employees. Other than that good work life balance is

also another significant variable that reduces the turnover intention of non-executive level employees. Company should attempt to provide flexible working hours, telephone access which ensuring all employees are able to receive urgent telephone calls or messages from family members at work and have access to a telephone to remain contactable with their family during working hours also contributes to reduce turnover intention. Arranging transport for the daily travel from office to home is also effective method to have good work life balance. According to the findings of the research, it was discovered that supervisor support also contribute to reduce the turnover intention of non-executive level employees. Therefore, company should build a social culture that focuses on friendly relationships among co-workers and supervisors adopt a "people-first" attitude, implementing programs which help to improve the employees' attitudes towards team work, good team atmosphere, etc. Finally, employee recognition is also a significant variable that reduces the turnover intention of non-executive level employees. Since the majority of employees want their superiors to see them as effective contributors, because it reinforces their positive image of themselves and their self-worth, effective employee recognition system is a must. Employee recognition needs to be a common practice in the organization. To be effective, employee recognition must be sincere and heartfelt. Therefore, top management of the company should create a working environment where employee recognition is a normal day-to-day process. As a result, the non-executive level employees' turnover intention can be reduced.

8 FUTURE RESEARCH IMPLICATIONS

In Sri Lankan context, there are very few researches on the concept of reward system. Therefore, future researches can be conducted to investigate the relationship between reward system and employee retention, recruitment, employer attractiveness and employee engagement. In addition to the structured questionnaire which has been distributed in this study, conducting face to face interviews with a reasonable number of respondents could be given some valuable information. Further it is also recommended to perform similar study in different organization or industry in Sri Lanka.

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