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HUMAN RESOURCE

COMPENSATION STRATEGIES AND TURNOVER INTENTIONS IN HOSPITALITY SECTOR IN SOUTH AFRICA

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ABSTRACT

Purpose of the Study: The main purpose of the study was to establish the relationship between employee compensation and employee turnover in star rated hotels in Cape Town in South Africa.

Methodology: The study applied a multi-stage strategy where the population was divided in to a number of groups from which the sample was drawn from. Descriptive statistics data analysis method was applied to analyse quantitative data using SPSS version 25 and quantitative method. Completed questionnaire was verified, coded and summarized using frequencies, table and bar chart. Chi-squire was applied to establish relationships between employee compensation and employee turnover.

Result: The findings were; that majority of employees in the star rated hotels were between the age of 31- 40 and had Diploma level of education. Although base pay and commissions were the most popular compensation alternatives, they were not significantly related to employee turnover, whereas indirect and non-financial compensation were significantly associated with employee turnover with 42.2% indicating that they would likely leave.

Recommendation: The study recommends that the hotels under study apart from base pay and commissions, should also provide their employees with special employee retention packages such as retirement benefits, insurance cover, medical allowance, travel, and meal and recognition allowances. In addition, periodic review of employee benefits based on the prevailing market dynamics.

Keywords: *Compensation strategies, Turnover intention, Real estate sector, South Africa.*

INTRODUCTION

The workforce is changing at a rapid pace across the world. It has been proposed by the demographers that tomorrow's workforce will be quite different from the workforce of yesterday (Barot & Chhaniwal, 2020). According to Huang, Du, Wu, Achyldurdyyeva, Wu, & Lin (2021), one can ascribe these changes to the departure of the baby boomers from the workplace or the boom which we see in longevity which has been caused by the life expectancy increase from 47 years around the year 1900 to 77 years which is the average life expectancy today in lot of countries especially in the advanced countries. Hassan, Jambulingam, Alagas, Uzir and Halbusi (2020) contend that, while the economic condition which prevails today requires that employees have to strive to maintain their current position, it is expected that as the baby boomers leave the organisations, firms will face shortage of skilled labours which will further increase because of the voluntary turnover by number of workers in an effort to get better jobs (Putri, Dhewanto & Nurdayat, 2020). To build readiness in an organisation for such an occurrence, Jamrog (2004) has suggested that human resource professionals need to focus on building a culture where both retention and engagement in the workplace can take place. A prepared organisation will be able to manage these challenges associated with job satisfaction, retention and turnover intention (Lockwood, 2017).

A compensation strategy communicates to employees the definition of the organization's position regarding pay, and typically includes a definition of external competitive market and internal equity objectives, definition of pay programs that will be utilized and why, and information about how plans will be administered One of the key human resource decisions made by any organization is the design of its compensation strategy (Kang & Lee, 2021). When choosing a compensation strategy, hospitality executives must make a variety of complex decisions that will ultimately impact a company's recruitment and retention efforts, as well as the attainment of organizational goals (Yandori & Marter, 2013).

Ong and Koh (2018) state that, given the high costs spent, organizations focus on retaining talented employees and reducing turnover. Bambacas and Kulik (2013) stated that, if there is employee change, it will interfere with company activities, especially if employees with good performance leave the company, while the company still relies on them. Hay (2002) found that most employees choose career, learning and development opportunities as the main reason for staying in an organization, which leads to job satisfaction. According to Ingsih et al. (2020), most companies will measure employee satisfaction every year by using surveys to reduce the employee turnover rate, which is most important for the company. Hassan (2014) stated that it is important that employees are satisfied with their overall salary because this can affect their attitudes and behavior.

The problem of turnover has been found to be ineffectively addressed even though human resource professionals have found it to be problematic. International Survey Research (ISR, n.d.) has found that most of the organizations follow a reactive strategy of addressing this problem by obtaining data through exit interviews. According to ISR, this is problematic, since the data is not only reactive, but the data which is captured at the time of employee leaving the organization doesn't truly reflect the state of the mind of the individual when he was working with the organization. Thus to be truly proactive, it is important for the organizations to understand the key factors which are influencing the turnover. Turnover intention has been defined by Carmeli and Weisberg (2016) to refer to three specific elements in the cognition process at the time of withdrawal. The first one is the thoughts of leaving the job, the second one is the intention to search for a different job and the third one is the intention to quit. While employees may leave a specific job for personal reasons such as relocation of spouse, changes in the personal role of the employee etc., the major concern for the employer should arise when highly productive and key employees tend to leave based on reasons which are often within the control of the employer.

Kline and Hsieh (2007) felt that a well thought out total compensation plan was essential for the "credibility of the management and the success of the business." Creating a total compensation plan must be part of the hotel's overall business plan. They found that if employees perceived that they were not receiving sufficient pay for their work, they were likely to reduce their output or turnover. Kline and Hsieh further discussed that high performers were most likely to leave and that the remaining lower performers would stay. Kysilka and Csaba (2013), state that below average payment is a one of major cause of employee turnover. Employee also tends to leave their current employer because of other offer.

Reducing employee turnover is a strategic and very important issue. No business can enjoy and sustain the success until it deals with this turnover problem efficiently and successfully. Most crucial issue is to lay the ground work for long-term commitment. Without valuable employees, a business cannot generate revenue and prosper. Every individual has a purpose to perform and without a single one, the picture becomes invisible to be successful in real manner (Mcevoy, Glenn &Cascio 2020). It is against this background that the study will seek to identify the effect of employee compensation strategies on employee labour turnover in star rated hotels in Cape Town. The study hypothesized that;

Ho: There is no significant relationship between direct and indirect financial compensation strategies and intention to leave/stay among employees in star rated hotels in Cape Town, South Africa.

THEORETICAL FRAMEWORK

The theoretical framework used in this study is based on the Expectancy Theory which focuses on link between rewards and behaviour. In this study the reward is compensation while the behaviour is job satisfaction. According to the theory, Motivation is the product of valence, instrumentality and expectancy. Expectancy theory propounded by Vroom (1964) is a process theory that explains the mental process of an employee in interpretation and perception of organizational compensation leading to behaviours of commitment, motivation and effort increase. Compensation systems differ according to their impact on these motivational components and pay systems differ most in their impact on instrumentality. There is a perceived link between behaviour and pay. Employees reports of their satisfaction with their jobs, are directly related to the extent to which their jobs provide them with such rewarding outcomes, as pay, variety in simulation, consideration from their supervisor, a high probability of promotion, close interaction with co-workers, an opportunity to influence decisions and control over their pace of work (Gupta, 2003).

According to Dessler (2011), "employee compensation refers to all forms of pay going to employees and arising from their employment." The phrase 'all forms of pay' in the definition does not include non-financial benefits, but all the direct and indirect financial compensations. Direct financial compensation consists of pay received in the form of wages, salaries, bonuses and commissions provided at regular and consistent intervals while indirect financial compensation includes all financial rewards that are not included in direct compensation and can be understood to form part of the social contract between the employer and employee such as medical cover, payment for time not worked, retirement plans, extra cash payments other than those based on performance, costs of subsidized café, among other such benefits.

The Expectancy theory states that employee's motivation is an outcome of how much an individual wants a reward (Valence), the assessment that the likelihood that the effort will lead to expected performance (Expectancy) and the belief that the performance will lead to reward (Instrumentality) (Mathibe, 2008). In short, Valence is the significance associated by an individual about the expected outcome. It is an expected and not the actual satisfaction that an employee expects to receive after achieving the goals. People often make decisions based on the reward they expect to receive from their work. This concept, known as the expectancy theory of motivation, can help you gain insight into the different ways you can encourage your team members. By learning what motivates your colleagues to work harder, you can better assign tasks, set goals and distribute meaningful rewards (Fudge & Schlacter, 1999). In this article, we will review what expectancy theory is and how you can use it to motivate others in the workplace. The expectancy theory of motivation or the expectancy theory is the belief that an individual will choose their behaviours based on what they believe will lead to the most beneficial outcome. This theory is dependent on how much value a person places on different motivations, resulting in a decision they expect will give them the highest return for their efforts. Instrumentality is the belief that a person will receive a desired outcome if the performance expectation is met (Wabba & House, 1974). Instrumentality reflects the person's belief that, "If I accomplish this, I will get that." The desired outcome may come in the form of a pay increase, promotion, recognition, or sense of accomplishment. Having clear policies in place preferably spelled out in a contract guarantees that the reward will be delivered if the agreed-upon performance is met. Instrumentality is low when the outcome is vague or uncertain, or if the outcome is the same for all possible levels of performance.

RESEARCH METHOD

The study applied a multi-stage strategy where the population was divided in to a number of groups from which the sample was drawn from Two hundred and ten employees from the sampled hotels were selected to form a reparative population and at the secondary sampling stage the researcher employed proportionate stratification and the sample size of each stratum was proportionate to the size of the stratum. In conducting the study both quantitative and qualitative methods were used to gather information through a questionnaire and interview as primary source of data. Two hundred and ten questionnaires were distributed to selected respondents of the Hotels under study, out of which one hundred and ninety seven questionnaires were filled and returned. Descriptive statistics data analysis method was applied to analyse quantitative data using SPSS version 25 and quantitative method.

RESEARCH RESULT AND DISCUSSIONS

Table 1: Financial Compensation Strategies

	Variables	1 %(n)	2 %(n)	3 %(n)	4 %(n)	5 %(n)	Mean ($\bar{x}$)	SD (σ)
1	The amount of pay I receive for my job is about equal to others doing similar work in other hotels	9.2% (18)	26.5% (52)	30.6% (60)	25.5% (50)	8.2% (16)	3.97	0.855
2	I feel that I am well paid in comparison with my experience, responsibilities and qualification that is equal to the required job	9.7% (19)	25.0% (49)	23.0% (45)	32.1% (63)	10.2% (20)	3.08	1.169
3	I feel that the performance bonus structure fairly rewards my effort	7.2% (14)	24.2% (47)	36.1% (70)	21.6% (42)	10.8% (21)	3.75	0.986
4	I am fairly rewarded taking into account the amount of education, training and experience that I have had	7.7% (15)	24.0% (47)	20.9% (41)	37.8% (74)	9.7% (19)	4.16	0.754
5	Salary packages/monetary incentives are sufficient in my hotel	15.3% (30)	15.3% (30)	31.6% (62)	31.6% (62)	6.1% (12)	4.09	0.552
6	The current salary and benefit being offered by the hotel is adequate to cope with the ongoing cost of life	20.4% (40)	26.0% (51)	23.5% (46)	24.0% (47)	6.1% (12)	3.68	0.89
7	Salary and Reward available in your hotel is fair	11.7% (23)	26.5% (52)	26.5% (52)	30.1% (59)	5.1% (10)	3.69	1.112
8	I feel that I am rewarded with better appraisal rates and grade promotions on my actual performance	10.7% (21)	17.3% (34)	32.7% (64)	32.1% (63)	7.1% (14)	3.98	0.961
	Note: 1 = Strongly Disagree. 2 = Disagree. 3 = Undecided. 4 = Agree. 5 = Strongly Agree							

Source: Field Data (2021).

As some researches state, the common reason for employee turnover to become high is the amount of pay they receive, as a result employees are always searching for jobs that pay well. Price, (2004) stressed that pay is the main reason why people work and it is an important feature of human resource management. Shukla & Sinha (2013) indicate that one common cause of high employee turnover rates is low pay and benefits packages. When a worker is employed in a low wage position with limited benefits, there is little incentive to stay if a similar employer offers even a slight increase better rate of pay. Accordingly, as can be seen from item one of table 4.5 above, the respondents were asked to confirm whether the amount of pay the hotel gives to its employee is fair relative to other employees in the industry. As can be seen in the table, 35% of the respondents confirmed that the amount of pay they receive is not equal to others doing similar work in other hotels. On the other hand 30.6% remained neutral. In addition, 33.7% of the respondents confirmed that the amount of pay they received for the job is equal to others doing similar work in other hotels.

Hypothesis one: Test of Relationship between direct financial Compensation strategies and intention to stay/leave using Chi-square as shown on Table 2

Table 2: Test of Relationship

Compensation strategy	**Turnover intention**		**Chi-Square (P-Value)**
	Stay	**Leave**	
Direct Financial Compensation	120(61.2%)	76(38.8%)	67.854(0.001)
Direct Financial Compensation (P<0.05) influences turnover intention in an organization			

The study findings revealed that, 61.2% (n=120) have an intention to stay with 38.8% (n=76) stating otherwise. The relationship between direct financial compensation and turnover intention was reported as statistically significant ($X^2=67.854,\ P<0.05$). This implies that direct financial indicators affect employee turnover.

MULTIPLE LINEAR REGRESSION

The research conducted multiple regression analysis to determine the relationship between the dependent variable and the predictor variables. Table below summarizes multiple regression analysis.

Table 3: Multiple Regression Analysis

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.965[a]	.931	.929	3.418
a. Predictors: (Constant), Direct Financial, Indirect Financial, Non – Financial, Compensation Practice				
b. Dependent Variable: Employee turnover intention				

Table 3 show that the coefficient of determination that the percentage variation determination in the dependent variables is supported by the variation in independent variables. R is the correlation coefficient which shows the relationship between the factors contributing employee turnover intention. Findings revealed that there exists a strong positive relationship by 0.965. R squared is 0.931 which implies that 93.1% of determinants of employee turnover intention can be accounted to Direct Financial compensation, Indirect Financial compensation, Non – Financial compensation and Compensation Practice. Thus, it can be concluded that other determinants of turnover intention contribute to 6.9%.

CONCLUSION AND RECOMMENDATION

On the basis of the findings, it suffices to conclude that compensation has an influence on the middle managers intention to leave. This means that good compensation can improve employee motivation and make them stay. One of the main objectives of this study was to examine the effects of career concern on turnover intention, and the findings confirm that this variable has a significant positive effect on turnover intention. In this case, when middle managers are highly concerned about their careers, especially if their prospect of advancing their career is not clear or non-existence, they will move from one organization to another. Compensation is one of the drives that motivate workers all over the world.

From this study it can be argued that, if middle managers teachers are compensated well, they will be encouraged, assured and will have positive feelings towards their job and this would result in making them stay. It can be concluded that, for effective and seamless flow of activities in a hotels whilst ensuring that employees are happy and settled, an urgent intervention that include a balance mix between the compensation strategies, salary packages and improved working environment is likely to incentivise employees to stay long. A proper balance will go a long way to creating a strong workforce committed to service delivery since the services will not be disrupted and the friction costs are likely not to be incurred. Normally, when an employee leaves his companies, there are interesting exit procedures and documents that can be a source of data to get a more accurate reason for leaving.

The study recommends that future studies should get more accurate results by examining sub-groups in relation to certain professions, in other industries, and in other cultural settings. The cooperation from peers or managers may be useful to minimize distortion from self-serving bias. Future research may use the longitudinal design and multisource data to find out the cause-effect linkage among the variables proposed in the model and to determine the effect on actual turnover behaviour.

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