

EMPLOYEE COMPENSATION STRATEGIES AND LABOUR TURNOVER IN STAR RATED HOTELS IN NAIROBI CITY COUNTY-KENYA

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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 Nairobi County in Kenya.

Statement of the Problem:

Many studies have found a negative relationship of financial compensation on employee turnover intentions. This impacted negatively in business sustainability due to high costs of training new employees, replacement and separation. By the compensation strategies in the star rated hotels in Nairobi City County, Kenya this study has provided empirical significant data on the role of compensation strategy's play in determining the Turnover of employees in star rated hotels in Nairobi City County, Kenya.

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-square 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.

Conclusion: The results of this study indicate that compensation has an influence on employee intention to leave. This means that good compensation can improve employee motivation and make them stay. From this study it can be argued that if employees in the Star rated hotels in Nairobi County, Kenya are compensated well they will be encouraged, confident and will have positive feelings towards their job and this would make them stay.

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: *Employee, Compensation, strategies, Labour, Turnover, Star rated, Hotel*

INTRODUCTION

Employee compensations refer to all forms of pay or reward going to employees arising from their employment (varma, 2018). People work for a living. It is rational that employees demand an appropriate level of compensation for their effort. Such compensation may be offered in monetary (direct) reward, such as salary and bonus, or bundled with other non-monetary (indirect) reward such as medical insurance (Mondy, 2010)

(Krishnendu,Partha&Sumit,2018) state that wage and salary administration is one of the most important areas of H.R.M. Wage and salaries represent a substantial part of total costs in most of the organization. A good compensation plan is to motivate employees; job satisfaction controls compensation costs and ensures equity. Wage is compensation to the employees for services rendered to the organization they further state. Normally, the wage period is shorter than the salary

period. Some experts argue that wages are the compensation of the wage earners, the numerous employees who use the tools and equipment's for their employers to produce goods and services that are sold by their employers. There is a need to examine the significant relationship between compensation and employees' commitment and determines compensation packages in an organization in the hotel industry.

In the age of global competition, it is very essential to identify and retain the efficient, competent and knowledgeable employees in organization by developing and maintaining an effective compensation program for getting the best job performance from the employee (Akter and Moazzam, 2016). 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 Nairobi County. The study hypothesized that;

H₀₁: There is no significant relationship between direct and indirect financial compensation strategies and intention to leave/stay among employees in star rated hotels in Nairobi County, Kenya.

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).

Operationalization of the conceptual frame work

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 concepts were represented diagrammatically as shown in Figure 1.

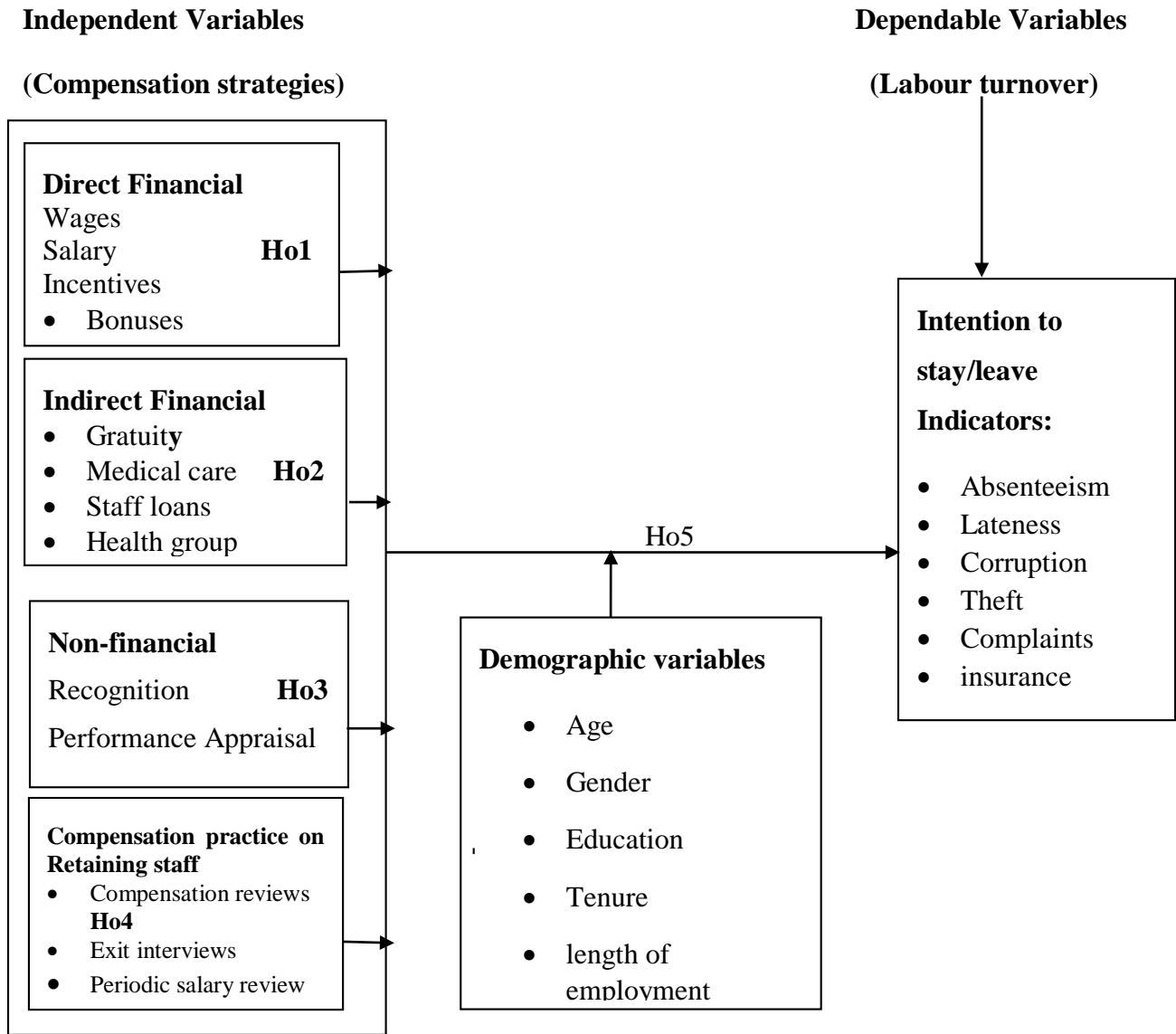


Figure 1: Conceptual Framework

Source: Modified from: Chepchumba & Kimutai (2017)

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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 study adopted a Conceptual framework to guide in exploring the factors influencing HRM of Compensation and Training in regard to Turnover in five star Hotels in Nairobi County. The conceptual framework took into account the independent variables as those concepts that influence the decision (independent variables). Employee compensation can take the form of cash and non-cash benefits. The compensation components that can be adopted by hotels are considered in the conceptual framework. The effectiveness of the compensation component can be influenced by the employee demographic characteristics.

The relationship between compensation components and turnover will be established controlling for the demographics. Labour turnover measured through turnover intention was the dependent variable in the study. Turnover intention has been used very often in past research. (Shore & Martin, 1989) noted that turnover intention is an appropriate dependent variable because it is linked with actual turnover. (Bluedorn, 1982) and (Price & Mueller, 1981) even recommended use of turnover intention over actual turnover because actual turnover is more difficult to predict than intentions as there are many external factors that affect turnover behaviour.

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: Descriptive Analysis

| | 1 | 2 | 3 | 4 | 5 | Mean | SD |
|---|---------------|---------------|---------------|---------------|---------------|-------------------------------|------------------------------|
| Variables | %(n) | %(n) | %(n) | %(n) | %(n) | (\bar{x}) | (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: Primary Data (2020)

As can be seen from item one of Table 1, 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.

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 above table, 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 3 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 | | | | |

The Table 3 shows 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%. The adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to the alterations in the independent variables.

CONCLUSION

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.

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