

Major causes of
employee turnover in
organizations is
inadequate
compensation



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1. 0 Introduction

Compensation is a way of determining adequate and equitable remuneration to an employee for his/her contribution to the organization (Gupta, 2006).

The concept of compensation can be traced far back to the early 19th century when Fredrick . W. Taylor, brought the concept that employees should receive a fair daily wage relative to their contribution to the organization (Beach, 1980). According to Beach (1980) organization should establishment and implement sound policies and practices of employee compensation. Although in practice it shows that most organizations have established policies on employee compensation yet most employees are in satisfied. This can be supported by a study conducted by Assy (2009) which showed that 74. 7 % of the employees were not satisfied with their jobs and the main factor contributing toward this was inadequate compensation. Another study conducted by Kimbori (2009) showed that 128 out of 138 respondents were finding their compensation package to be inadequate.

A study by Kiuns (2008) also showed that 75% of the employee felt that one of the major causes of employee turnover in organizations was inadequate compensation.

This essay is configured to determine the factors that contribute to the adequate compensations to employees. Topics such as Motivation, Job satisfaction , as well as Types of Compensation will be consecutively portrayed in the structure of this essay these above topics will be simultaneously be analyzed in detail to get the clear understanding to what adequate compensation is and how it relates to the motivation of employees

in Tanzanian context. Finally, conclusion of the essay will provide the aggregate summary of the entire essay.

2. 0 Compensation

As defined earlier compensation is a way of finding the best way to remunerate an employee's contribution to the operations in the organization. Compensation is a phenomenon that has a numerous importance to any organization. One of the reasons why it is considered so important is because human beings are a part of an organization. The nature of human beings involves the need of being recognized and considered for what they have done in terms of contributions and achievements in an arena. The compensation that an organization puts out for its employees can enable the fulfillment of this satisfaction. Therefore organizations always aim at determining appropriate and equitable payments to their employees for their contribution to the success of the organization. When we examine methods of compensation that can actually be applied in the workplace, we can normally look at the following:

2. 1 Methods of compensation

There are many schemes that have been employed for the compensation of individuals in the organizations; literature has divided the compensation system into three main categories namely: Time-wage system, Piece Wage System and Balance or Debt Method. Others have simply categorized these methods into; piece rates, wages, salaries, profit related pay, Profit share: as well as Bonus schemes which include, Sales bonus: Performance bonus: Christmas bonus: below is the explanation of the different methods that are used for the compensation of employees in the organization.

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Time-Wage system

Under this system, wages are paid on basis of time spent on the job regardless of the work done. The unit of work may be a day, week, or month.

The system is suitable in the following circumstances:

Where units of output are non-measurable

When employees have little control over the quantity of output

When delays in work are frequent and beyond the control of the employee

When quality of work is especially important

When supervision is good and supervisors know what constitutes a “ fair day’s work”

When competitive conditions and cost control do not require in advance the precise knowledge of labour costs per unit of output

Where machinery and materials used are very sophisticated and expensive

Work is of a highly varied nature and standards of performance cannot be established

Employees and trade unions strongly oppose incentive payment

When workers are new and learning the job

When collective efforts of a group of persons are essential for completing the job

Piece Wage System

In this method the remuneration is based on the amount of work done or output of a worker. One unit of output is considered as one piece and a specific rate of wage is paid per piece. The system is suitable in the following circumstances:

When work done by an individual worker can be measured accurately. E. g. production of standardized goods in a factory

When the quantity of output depends directly upon the skill and effort of the worker

Where the flow of work is regular and interruptions are minimum, i. e. repetitive jobs

Where quality and workmanship are not very important

In large scale production involving heavy overheads and broad supervision

When competitive conditions and cost control require that labour cost per unit is fixed in order

When methods of production are standardized and the job is of a repetitive nature

Balance or Debt Method

This method involves the combination of Time and Piece Wage Systems.

The worker is guaranteed a time rate with an alternative piece rate

If the wages calculated at piece rate exceed the time rate, the worker gets credit

On the other hand, if the time wages exceed piece wages, the worker is paid time wage and the deficit is carried forward as a debt to be recovered in future.

Another way of looking at the compensation method involves considering the following:

Piece Rate

This is the most simplest of all the payment methods. Here the workers are being paid for each item that they actually produce in their organization. This actually has a way of causing workers to produce as fast as they can because this will increase the amount of money that they will get. The more the production the more they are certain of getting in terms of cash. The payments are made when the work is completed. There is a draw back to this method. The latter is the fact that, there should be a great deal of supervision from the employer to ensure that the goods that are produced very fast are also at a high standard or quality.

Wages

Wages are payment that are made on the basis of the hours that the employees spend working in the organization. For instance an employee may be paid 2000Tshs an hour. There is some security in being paid a wage and those who earn wages will probably be able to work overtime to increase incomes. I do not see that being a waged worker is a problem, as lower <https://assignbuster.com/major-causes-of-employee-turnover-in-organizations-is-inadequate-compensation/>

levels of Maslow's hierarchy are quite often satisfied by a decent wage, but what does matter is the level of the wage. For many large businesses there is one large group of manual or production workers who are paid hourly and a group of administrative and marketing workers who are paid a salary, and this difference in methods of payment can cause resentment and prevent the breakdown of barriers within businesses. A 'them and us attitude' can be reinforced by the artificially created separation of waged and salaried employees, when in fact the only difference may be one group wear suits to work the other does not.

Salaries

Salaries are payments that are made on an annual rate. The incomes of salaries are received in monthly period directly into the accounts of the employees in question. Salaries are a good business way of ensuring that the employees work is awarded at the time when he or she has fully completed the work in the specific period. They therefore make a good business sense in the fact that they ensure they are paid monthly in arrears, this means that employees need to wait up to a month to obtain the income that they have worked for. This also means that there is improved cash flow for the business and improved bank balances. Also it is simpler and safer to pay money by a bank transfer than in cash. Salaried workers are not normally paid overtime but may receive other financial benefits. This non-payment of overtime does not mean that they do not work more than their contracted hours, they often do, but it does mean that employers may not be liable to pay for this extra work.

Profit related pay.

There are those payments that links part of an employee's income to the profits of a company. Normally the people who obtain or are compensated using the profit related pay have salaries which are very small than expected and therefore it ensures that the profit is high to be able to obtain a higher overall income collection. This process also reduces the issue of tax being taken from the salary of the employee. Hence this method is good for not only the business but also the individual.

Bonus schemes

There are many aspects that fall into the category of bonus schemes. These schemes are suitable to the diversity of the employees who are engaged in different jobs that they are doing. These schemes are as follows;

Sales bonus: This is normally paid if a sales target has been reached. For sales people this may make up a significant part of their salary.

Performance bonus: This can be paid to an individual or on a group or factory wide basis, and is often paid for reaching targets of output and quality. This method of payment is an important part of Human Resource Management.

Christmas bonus: Often called a 13 month's salary, paid for loyalty to the business. In some countries such as Germany virtually all companies will pay a Christmas bonus.

Profit share: Some businesses will pay a percentage of profits to employees. The amount that they receive will normally depend on salary and length of service, so rewarding those that had been with the company longest, more.

Fringe Benefits

Other forms of financial motivation include company cars, pension schemes, sickness benefits, subsidized meals and travel, and staff discounts. These are often grouped together under the heading fringe benefits. Some of these fringe benefits can be regarded as essential in encouraging the right applicants for certain types of vacancies. For example a company car is a necessity in financial service firms for anyone involved in sales, and senior management in many companies would expect both an up market car and private health care.

3. 0 Definition and the Concept of motivation

Motivation can be defined as a psychological process that exerts high level of effort to reach organizational goals conditioning by the efforts to some individuals (Prasad, 2001). The term motivation can be traced to the Latin word “ movere” which means to “ move”. Today all people, practitioners and scholars have their own definition of motivation, but usually one or more of the following words are included: desires, motives, wishes, needs, effort, goals, aims, drives, wants and incentives. In order to understand the concept of motivation, we have to examine three main terms before defining motivation and these include motive, motivating and the word itself motivation.

3. 1 motives

Motive can be described as restlessness, a lack, a yen or a force. Once in a grip of motive the organism does something to reduce the restlessness, to remedy the lack, to alleviate a yen or to mitigate the force. From the above description we can differentiate the term needs, wants and demand.

A need can be defined as a desire which includes both physiological and psychological for something. It can also be said as basic human requirement. It includes education, shelter, sex, food and clothes.

Wants are needs which are directed towards specific thing. Example a person is hungry but to satisfy this need the person wants to eat chicken and French fries. Therefore here the need is not any type of food but specific food that is chicken and French fries.

Demand can be defined as wants for specific product backed by ability and willingness to pay for it. Example a person wants to travel by air to Arusha but if he/she has the ability to pay for the airfare and also if he/she is willing to pay for it is known as demand. (Davis, k and Newstrom, J 2004).

3. 2 Types of motives

There are three types of motives which include: Primary motives, general motives and secondary motives. These motives are explained below.

Primary motives

This is also known as physiological, biological or unlearned motive. For a motive to be included in this category it must be unlearned and physiological

based. Examples of this type of motive include: hunger, thirst, and sleep, avoidance of pain, sex and maternal concern.

General motives

Usually such category of motive does not need to exist but it seems necessary as there are number of motives which lie between primary and secondary category. For a motive to be included under this category it must be unlearned and not physiologically based. Example include: Affection motive (Love and affection is a very complex form of general motive)

Secondary Motives

These are closely tied to the learning concept. A motive must be learned in order to be placed under this category. Example includes: need for achievement, need for power, need for affiliation, need for security and need for status.

Motivating. This is a term which implies that one person; in the organization context a manager induces another say employee, to engage in action (work behavior) by ensuring that a channel to satisfy the motives becomes available and accessible to the individual. This satisfies both the individual and the organization.

One of the common definitions of motivation is as follows: Motivation is a psychological process that exerts high level of effort to reach organizational goals conditioning by the efforts ability to satisfy some individual. (Prasad 2005, p145)

The figure below shows the relationship between motives, motivating and motivation

Motive

Motivating

Motivation

Needs in the individuals

Engagement in work behavior

Activating needs and providing need satisfaction environment

Source: (Robins, S 2004).

3. 3 nature of motivation

Based on the definition of motivation we can derive its nature relevant to organizational behavior. Following characteristics of motivation clarify its nature.

1) Based on Motives. Motivation is based on individual's motives which are internal to the individual. These motives are in form of feelings that the individual lacks something. In order to overcome this feeling of lackness he/she tries to behave in a manner which helps in overcoming this feeling. (Gupta, C. B, 2006)

2) Affected by motivating. Motivation is affected by ways individual is motivated. The act of motivating helps in satisfying the need and activate the latent need in the individual. (Gupta, C. B, 2006)

3) Goal- directed Behaviour. A goal directed behaviour is the one which satisfies the causes for which behaviour takes place. Motivation has profound influence on human behaviour in the organization context. .(Gupta, C. B, 2006)

4) Related to satisfaction. Satisfaction refers to the contentment experience of an individual which he/she derived out of the need fulfillment. Satisfaction is a consequence of rewards and punishments associated with past experience. It provides the means to analyse outcomes already experienced by the individuals. . (Gupta, C. B, 2006)

5) Person Motivated in Totality. A person is motivated in totality and not in part. Each individual in an organization is a self - contained unit and his/her needs are interrelated. This affects his/her behaviour in different ways. Feeling of needs and their satisfaction is a continuous process. (Gupta, C. B, 2006)

6) Complex process. Motivation is very complex . This is because of the needs are also very complex. (Gupta, C. B, 2006)

3. 4 Types of motivation

Self -Determination Theory (SDT) which was conducted by Edward L . Deci and Richard Ryan generally gives us to type of motivation.

a) Intrinsic Motivation

This is a type of motivation that comes from personal satisfaction of work itself, for instance one volunteer's for a community work such as cleaning

the environment by draining the clogged drains and collection of garbage. Here the motivation for doing the job does not come from explicit rewards but linked to the job since the involvement is voluntary. (Robins, S 2004).

b) Extrinsic Motivation

This type of motivation is mostly tangible and visible by others. They are distributed by other people (or agents). In a work place extrinsic motivation includes pay, benefits and promotion. Usually a person works hard in an organization so that he/she is promoted or given a better pay. (Robins, S 2004).

3. 5 motivation and behaviors

Motivation causes goal- directed behaviour. Needs is the base for a motivation which is a kind of mental feeling in an individual that he/she needs something. This lack of something creates tension in the mind of individual. Since the tension is not an ideal state of mind the individuals tries to overcome this by engaging himself in a behaviour through which he satisfies his needs.

If the environment is favorable goal directed behaviour leads to goal- fulfilling and the individual succeeds in fulfilling his needs thereby overcoming his tension.

Summary of Goal – directed behaviour

Need

Goal fulfillment

Tension

Goal - directed behaviour

Favorable environment

Source: (Gupta, C. B, 2006)

If the environment is unfavorable the needs of individuals is not fulfilled and therefore leads to frustrations. Frustrations can be defined as the accumulation of tension due to non fulfillment of needs. (Prasad 2005, p149)

At this stage the individual will try to adjust his behaviour to overcome the factors responsible for non fulfillment of his/her needs. This means using defensive mechanism like (i) Aggression which include displacement, negativism, and fixation. (ii) Withdrawal which includes fantasy, regression, repression and flight. (iii) Compromise which includes identification, rationalisation, reaction and projection.

Summary of Need non – fulfillment and defensive mechanism

Non -Fulfillment of needs

Frustration

Behaviour

Need

Tension

Withdrawal

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Barrier

Aggression

Defensive mechanism

Compromise

Source: (Robins, S 2004).

3. 6 Motivation performance

Motivation has a direct relationship with performance. If people do not feel inclined to engage themselves in work behaviour they will put in necessary effort to perform well.

However individual performance also depends on other factors beside level of motivation. How motivation works with other factors in shown in the figure below.

Extrinsic

Motivation

Resource

Abilities

Reward

Performance

Role of perception

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Sense of competence

Intrinsic

Source: (Robins, S 2004)

3. 7 Motivational theories

Below are some theories that may put an insight to the aspect of motivation:

Maslow's theory

Maslow's hierarchy of needs has proved to be a valuable guide to managerial personnel regarding employees' individual needs. It confirms that in addition to their financial needs, employees are motivated by their social, esteem, and self-actualisation needs, which they expect to be duly considered by management.

ERG Model

The ERG theory resembles the hierarchy of needs theory inasmuch as it partly recognises the tendency for individuals' desires to progress upwards as they satisfy lower-level needs. It differs from the hierarchy of needs theory however, in two respects. First, it permits more than one category of needs to operate at the same time. Secondly, the ERG theory recognises frustration, i. e. if a person continually fails in his or her attempts to satisfy one category of needs, say growth needs, the previous need category i. e. relatedness needs can re-emerge and dominate the person's behaviour. For instance, an employee who fails to make it to a managerial job may still redirect efforts towards co-operation with others, i. e. a relatedness need. In

this way, it is less rigid than Maslow's theory, which is a uni-directional step-like progression.

Three need theory

Another motivation theory based on needs is the three needs theory proposed by David McClelland and his colleagues. Their needs classification includes achievement, power, and affiliation, which are explained as follows:

Achievement needs i. e. the desire to excel, to strive to succeed, to achieve in accordance with a pre-set standard.

Power needs i. e. the desire to make others do what you want them to do, which they would otherwise not have done.

Affiliation needs i. e. the desire for friendship, and to cultivate good interpersonal relationship with people.

Equity Theory

The equity theory, propagated by Adams, states that the existence of feelings of inequity will motivate an individual employee to reduce that inequity. That is, the employee's feelings that compared to his or her peers, he or she is putting more effort into the job than he or she is earning in terms of satisfaction, salary, and benefits, will motivate him or her to work harder in order to reduce if not eliminate the existing inequity.

4. 0 Compensation with motivation

The issues of motivation have for a long period of time been linked to the concept of motivation. The initial theorists such as Frederick Taylor had put out that the workers in an organization will become more active and hence more motivated if they were paid for their work.

The behavioral theorists however have come with a different approach. They have highlighted that money is not a motivator. Till today though it is argued that money does motivate individuals, but when the reward to individuals is given as a bonus on say profit made and the like, then the employees become highly motivated to do their work.

Others say that there should be an appropriate scheme such as those which are related to profit bonuses etc that will motivate employees.

Therefore organizations should carefully observe their compensation schemes to try ensure that they do motivate their employees with this in mind, one should know that there are specific compensation schemes that will work for a specific individual, company, sector, industry etc.

There are other industries that may not be affected by the aspect of monetary compensation in general while there are other industries that will completely depend on the monetary compensation as a key to their employee motivation.

5. 0 Job satisfaction

Job satisfaction refers to describes how content an individual is with his or her job. The happier people are within their job, the more satisfied they are

said to be. Job satisfaction is not the same as motivation, although it is clearly linked. There has been a huge linkage that most scholars have developed between the concepts of job satisfaction and how compensation is one of the many aspects that contribute to this satisfaction.

Herzberg's two factor theory

One of the earliest theories on how to ensure that employees are satisfied and remain in the organizations is that of Fredrick Herzberg's motivator-hygiene theory, Herzberg's theory proposes that every worker has two sets of needs or requirements: motivator needs and hygiene needs (George & Jones, 1999). Motivator needs are associated with the actual work itself and how challenging it is. Job facets such as interesting work, autonomy on the job, and responsibility satisfy motivator needs. Hygiene needs are associated with the physical and psychological context in which the work is performed. Job facets such as the physical working conditions (for example, the temperature and pleasantness of the surroundings), the nature of supervision, pay, and job security satisfy hygiene needs.(Mohamed, 2009).

Facet model of job satisfaction

The facet model of job satisfaction focuses on work situation factors by breaking a job into its component elements and looking at how workers are satisfied with each element. A worker's overall job satisfaction is achieved by summing up his/her satisfaction with each job element/work element.

The facet model of job satisfaction outlines the work elements as ability utilization, achievement, activity, advancement, authority, company policies and practices, compensation, co-workers, creativity, independence, moral

values, recognition, responsibility, security, social service, social status, human relations supervision, technical supervision, variety and working conditions (David, 2008).

The discrepancy model of job satisfaction

This model states that for workers' to determine their levels of job satisfaction, they compare their jobs to some 'ideal job' and that 'ideal job' could be what one thinks the job should be like, what one expects the job to be like, what one wants from the job or what one's former job was like when workers expectation about their 'ideal jobs' are high and when these expectations are not met then workers will be dissatisfied and the opposite is true (David, 2008).

The steady -state theory of job satisfaction

The theory suggests that each worker has a typical characteristic level of job satisfaction, called the steady state equilibrium level. Different situational factors/events at work may move a worker temporarily from this steady state, but the worker will eventually return to his/her equilibrium level. Example, promotion may boost the worker's job satisfaction but eventually the worker will return to equilibrium level (David, 2008).

6. 0 Conclusion

If you pay peanuts you get monkeys, this was one of Herzberg's favourite sayings, and although many commentators focused on his motivation factors, he was often at pains to stress the importance of hygiene factors. Herzberg stressed that pay and other forms of financial remuneration are key methods of ensuring the satisfaction of workers and therefore we must

consider, how workers can be motivated, by the different types of financial offered by employers. Therefore the aspect of compensation to employees is of significance to the well being of organizations. The benefits of compensating employees adequately include the following, adequate employee compensation enables the employees to be motivated thereby increasing their productivity. In a good compensation package is also important to retain employees in the organization thus avoiding cost in training and developing new employees. Studies have indicated that appropriate employee compensation is related to employee motivation, job satisfactions as well as employee retention. The relationship between adequate employee compensation, employee motivation, employee job satisfaction and employee retention have a positive relationship has been scaled to be positive and therefore imperative to be for the banking industry to realize the role of adequate employee compensation as it would directly lead to employee motivation, employee job satisfaction and employee retention in the organization.