A Review on Relationship between Reward and Turnover Intention

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Abstract – Turnover intention of employees is one of the critical issues in private higher learning institutions. The turnover intention of employees has a negative impact on the organization if it is not controlled. Past research shows that the turnover intention of work is related to internal and external factors of an organization. In addition, previous studies also explained that there are strategies to manage turnover intention among employees. This paper reviews the relationship between extrinsic reward and intrinsic reward on turnover intention. The role of job satisfaction and work-family enrichment had also been studied in mediating the relationship between extrinsic reward and intrinsic reward on turnover intention. Copyright © 2016 Penerbit Akademia Baru - All rights reserved.

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1.0 INTRODUCTION

An essential tool for organizations to motivate and retain their workforce and to attract new employees is by providing a favorable work-life [1], and constructing a good and equitable compensation system [2, 3]. Willis [4] stated that “compensation is the most critical issue when it comes to attracting and keeping talent.” According to [5], compensation includes “all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.”

Notwithstanding the general acceptance of money, a financial and tangible incentive is an important and common used manner to motivate employees [6], and it is certainly not the only form of compensation [7]. Authors like [8, 9] supported this view by arguing that money is an effective way to get employees through the door, but it does not keep them there. A study conducted in 2002 by Nelson Motivation Inc. resulted in a ranking of employee motivators, showing that financial (cash) rewards only took the 15th place. Obtaining learning activity, flexible working hours and verbal praise are respectively rated as the top-three motivators [10].

Therefore, a more comprehensive definition of rewards would be the definition that is proposed by [2]: “Rewards are all of the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform.” Their definition suggests three major types of employee remuneration: financial/monetary rewards such as monthly paycheck, bonuses, and financial benefits; non-financial/non-monetary rewards such as learn and grow opportunities, flexible working hours,
interesting work content; and last but not least, psychological rewards like receiving compliments, recognition, gratitude, and a ‘pat on the back’. A study conducted by [11] resulted in a reward classification consisting of these same three categories. The study was executed within the non-profit sector encompassing a Belgian nursing population. In addition to this reward categorization, the results showed that next to the traditional monthly wage and other monetary incentives, some non-financial and psychological rewards were also valued by the surveyed nurses. Especially the appreciation for performing the job, the received compliment and gift, as well as the contact with patients were perceived as highly rewarding.

The importance of non-monetary and psychological rewards to employees is supported by several major consulting studies [12, 13]. The results from the McKinsey Quarterly study [12] showed that respondents consider three non-cash motivators – praise from immediate managers, attention from leaders and a chance to lead projects – as equal or even more effective than the three highest-rated financial incentives. In another research by [13] known as the ‘What’s working’ surveys, the author identified four global drivers contributing to employee engagement including ‘recognition and rewards’. This suggests that the so-called psychological rewards (recognition) are an effective part of a reward mix that stimulates engagement.

Although the previously mentioned psychological rewards are considered important to both employers and employees, the scientific research is only six years old and therefore is still in its infancy [11, 14-16]. Earlier studies neglected their motivational role and solely focused on the financial side of rewards, examining the antecedents, measurement and consequences of pay satisfaction. The reason researchers focused on the attitude towards pay (i.e. satisfaction) and not on pay itself originates from the fact that employees’ satisfaction with rewards influences their work attitudes and behavior [15].

This research resulted in a thorough understanding of pay satisfaction, with important implications for managers since pay can be used as a tool to satisfy employees and as a mechanism for improving productivity [5]. Malhotra, Budhwar & Prowse [17] define pay satisfaction as “the perceived satisfaction with the amount of pay one gets for the amount of work done, as well as satisfaction with pay compared to the amount paid in similar organizations.”

### 2.0 EXTRINSIC REWARD

Extrinsic reward is a means to recruit and retain valuable employees, but it is not recognized if better job performance and satisfaction are the results of such initiatives [18]. Armstrong [19] suggested that extrinsic reward are motivators because it satisfies needs. Armstrong stated that money is essential as it is required to satisfy basic needs of survival and security. In the organizational employee relationship, according to [20], companies pay employees in exchange for their labor. Milkovich and Newman [21] suggested that money is used by organizations as an attraction, motivation and retention tool. Organizations use money to reward and recognize, and they withhold it as punishment.

According to Ross and Zander [22], in order to attract and retain employees in an organization, their needs must first be satisfied. Those needs would include a reasonable
competitive salary and other competitive benefits. According to [23] and Tang [24], money is related to achievement and recognition, status and respect, freedom and control and power. They argued that money is therefore an aspect of motivation because of what it stands for. The results about the importance of extrinsic reward as a motivator come from Agarwal’s study [25] based on a literature review on motivation and executive compensation. Agarwal stated that money is still the most crucial motivating factor for employees and that it makes them perform well in the company.

A contrasting view from [26] suggests that whether individuals distinguish money as a motivator or not depends on what they distinguish as motivation. The motivation theories suggest that motivation is an inner driven aspiration to achieve a goal. Herzberg’s hygiene-motivator theory, such as compensation, organizational benefits or working conditions do not motivate, as they simply confirm that performance is at a satisfactory level.

3.0 INTRINSIC REWARD

Although extrinsic reward can be seen as an employee motivator, it is not the only cause of motivation. “The management of remuneration was once straightforward with a strong link between job and pay” [27]. It is not that simple anymore. Organizational designs, especially compensation designs that focus mainly on compensation benefits, fail to influence a source of motivation that can lead individuals to perform at greater levels [26].

According to [28], the greatest incentives over the long run are intrinsic reward incentives. Furthermore, [29] stated that while extrinsic rewards are significant in the short term, intrinsic rewards in the form of meaningful work and recognition incline to sustain motivation in the long term. Moreover, [30] stated that intrinsic rewards include no direct transfers of cash or cash equivalents such as vacations, token awards or entertainment. Consequently, intrinsic rewards are the ones that do not involve money.

According to [31], organizations face negative consequences when they ignore the importance of intrinsic rewards on employee retention. In their study on incentives in health care industries, Llewellyn, Eden and Lay [32] defined intrinsic reward incentives as status, the liking of work, job advancement and medical aid benefits offered to employees. Nelson [33] argued that individuals assume work-life balance, flexibility, job participation, significant in their role and more personalized acknowledgment.

Intrinsic rewards that play an important role in shaping employees’ conduct are job designs. Oldham and Hackman introduced The Job Characteristics Model. This model that is based on Vroom’s expectancy theory highlights that the existence of certain attributes in jobs can increase the chance that individuals will find the job and the role meaningful and will experience responsibility for work outcomes [34]. If this is experienced by individuals, it results in their motivation to perform better.

4.0 TURNOVER INTENTION
According to Lam, Lo and Chan (2002), employee level of turnover intention has increasingly attracted the attention of many academics and researchers, particularly regarding human resource issues. Assuming there has been an increased number of staff turnovers and employee turnover intention, this may have cost staggering amounts to many organizations for hiring and training new employees, and the costs for malingering employees who are not working towards the company goal but have not left the organization [35].

However, introducing work-life balance policies have proven to assist organizations to retain their talented employees [36]. The cost of replacing valuable staff members, using an organization in Australia as an example, was cautiously estimated at $AUS 75,000 per individual, which may also substantially affect retention of valuable costumers [36]. [37] suggested that organizations with high rates of turnover intention will increase the chance of actual turnovers of talented staff members and consequently suffer from the high financial costs of finding, hiring and replacing new workers.

Organizational commitment and the level of job involvement have been the main predictors of increased levels of turnover intention [38]. To reduce the level of turnover intention, employers would have to target factors that predict turnover intention by introducing work-life balance benefits and making them available to their employees [39]. Few researchers investigated the link between the perception of the organization’s support of work-life balance and turnover intentions. In this case, the reduction of turnover intention would have been affected by levels of job satisfaction and the reduction of work pressure. They found that staff members who perceive their organization as supportive by providing them with assistance to reach a work-life balance resulted in an increased job satisfaction, as well as a decreased work pressure. Additionally, improved job satisfaction and reduced stress at work consequently lead to a reduction in leaving intention. This research predicted comparable results to those of [39].

Turnover intention refers to the voluntary intention of employees to leave an organization. Intention to turnover refers to an individual’s perceived probability of staying or leaving an employing organization [40]. On the other hand, [41] referred to turnover intentions as a conscious and deliberate willfulness to leave the organization. [42] in their review of antecedents to turnover argued that many studies use intent to leave rather than actual turnover as the outcome variable due to the following main reason. There is evidence to indicate that workers typically make a conscious decision to do so before actually leaving their jobs. This relationship is supported by the attitude-behavior theory [43], which holds that one’s intention to perform a specific behavior is the immediate determinant of that behavior.

5.0 RELATIONSHIP BETWEEN REWARD AND TURNOVER INTENTION

The term ‘reward’ is discussed frequently in the literature as something that the organization gives to the employees in response to their contributions and performance, and also something which is desired by the employees [25]. A reward can be extrinsic or intrinsic. It can be a cash reward such as bounces or it can be recognition such as naming a worker employee of the month. In other times, a reward refers to a tangible incentive. A reward is also the thing that an organization gives to the employee in response to their contribution or
performance so that the employees become motivated for future positive behavior. In a corporate environment, rewards can take several forms. It includes cash bonuses, recognition awards, free merchandise and free trips. It is very important that the rewards have a lasting impression on the employee and it will continue to substantiate the employee’s perception that they are valued [44].

The objective of this study is to propose the relationship between turnover intention and reward employees. Reward factors are divided into two; extrinsic and intrinsic. Extrinsic rewards include salaries, working conditions, job security, annual bonuses and supervision. Meanwhile, intrinsic rewards cover recognition, appreciation and promotion. Both factors are important for an organization to improve employee performance to the levels of excellence and pride. These factors have a strong relationship with the employee turnover intention tendency among lecturers in institutions of higher learning. A study showed that wages can contribute to organizational commitment. In other words, dissatisfaction with wages can rise to a variety of undesirable behaviors such as skipping work and stop working.

Researchers often identify compensation as among the most important factor for potential employees in considering to accept a job offer; however, the impact that has to be paid in regard to retention of the new employee after they are hired is not clear [45]. This is important as the pay satisfaction of an employee upon their initial hiring does not necessarily mean that they will continue to be satisfied with their pay in the years to come. [46] found that pay satisfaction is significantly associated with the intent to quit in a study of public school teachers.

In support of this finding, reward has also been associated with increased organizational commitment, job satisfaction, as well as greater intent to stay in the position [47, 48]. Therefore, it is evident, that compensation is an important variable to be included in the present study. Employment benefits include items such as retirement, health insurance, life insurance, disability insurance, paid leave, paid holidays, flexible scheduling, and educational assistance, to name a few. These benefits have been shown to bond an employee to the employing organization and result in a strong correlation between reward and turnover intention [49].

However, policies that allow for work-life balance are becoming increasingly important. These policies allow employees to manage their daily activities outside of the work environment, such as caring for children, or allowing for involvement in personal activities. Flexible schedules, part-time options, job sharing, telecommuting and phased retirement are common approaches.

The studies done on employees are increasingly bring awareness to psychologists that the reward system adopted by the organization has a major impact on employee loyalty to the organization. A study showed that wages can contribute to organizational commitment. In other words, dissatisfaction with wages can rise to a variety of unwanted behaviors such as skipping work and stop working. Lately, the reward system has been steadily gaining ground as a measure of employee loyalty in the organization [50]. In addition, the reward system is said to be a psychological bond between employees and organizations affected by job satisfaction and interest in the job [51]. Rewards are substantially related to turnover as employees who are satisfied with organizational rewards will believe losing such a
competitive reward to be costly and would not find such compensation elsewhere, and therefore they choose to stay. Rewards effectively form a calculative and psychological attachment with an organization [52]. Organizational behavioral researchers [53, 54] argued that organizational rewards reflect appreciation and recognition of individual performance. As reward increases with tenure, skills and work experience, satisfaction with rewards implies willingness of both parties to invest time and effort in the continuation of the employment relationship. From an employer’s point of view, the amount of reward represents the magnitude and willingness to invest on employees in exchange for improved performance. Hence, employees who perceive monetary rewards as a satisfactory form of appreciation would not consider alternatives from other organizations. In most studies, rewards are effective in attracting talents and retaining good performers [55-57]. As the contributions of knowledge workers are influential on the long-term performance of an organization, they are often recruited using a more attractive form of remuneration package compared to other professions. It could be seen as an exchange of loyalty for benefits among knowledge workers [58, 59].

6.0 JOB SATISFACTION AS A MEDIATOR FOR THE RELATIONSHIP BETWEEN REWARD AND TURNOVER INTENTION

The concept of reward satisfaction, along with its antecedents, measurement and consequences, has been thoroughly investigated over the past five decades. That line of research has provided consistent evidence of the reward satisfaction turnover intention relationship. In addition to reward satisfaction, some researchers recently examined and demonstrated the importance of psychological reward satisfaction in predicting turnover intention. However, reward satisfaction id not the only work attitudes affecting turnover intentions. Job satisfaction has likewise gained enormous interest within turnover intention research (e.g. [48, 60-70, 72-74]. Not only job satisfaction is cited within the international nursing literature as a major contributing factor in intent to stay, but it is also related to pay satisfaction [15, 71]. The results of the latter studies, the first conducted on nurses and teachers and the second on junior military officers, demonstrated that pay (level) satisfaction has an important positive relationship with overall job satisfaction. A study by [75] performed on a sample of 2,000 middle managers, confirmed the positive relationship between global pay satisfaction and global job satisfaction. These findings correspond to the 2009 Employee Job Satisfaction Survey [76], where ‘job security’, ‘benefits’ and ‘compensation/pay’ were considered as ‘very important’ top-three aspects of job satisfaction. A recent meta-analysis on the contrary, revealed that although pay level is positively correlated with the overall job satisfaction, the relationship is rather weak. A possible explanation, suggested by the authors, is that a pay increase may be quickly psychologically spent, thereby losing its satisfying value.
Figure 1: Conceptual model - The relationship between financial and psychological reward satisfaction on the one hand and turnover intention and work effort on the other hand. The mediating role of job satisfaction on these relationships.

The traditional and rather limited view of financial incentives as being the single most important motivator to employees seems outdated. According to the literature review, employees’ satisfaction with their psychological rewards is of equal importance in comparison with financial reward satisfaction when predicting their turnover intentions. The additional fact that only psychological reward satisfaction has a significant impact on staff’s work efforts further highlights the importance of psychological based incentives. Next to both types of reward satisfaction, a great abundance of research gives support to the predeceasing role of job satisfaction in intent to turnover. Besides its impact on turnover intention, studies further show that job satisfaction has an influence on work effort and is related to both financial and psychological reward satisfaction.

Based on these interrelationships and the hypotheses formulated throughout the literature review, a conceptual model has been developed. Job satisfaction is depicted as playing a moderating role between both types of reward satisfaction and the outcomes (turnover intention and work effort). The main goal of this empirical study is to thoroughly investigate this mediating model, along with its encompassing hypotheses.

7.0 WORK-FAMILY ENRICHMENT AS A MEDIATOR FOR THE RELATIONSHIP BETWEEN REWARD AND TURNOVER INTENTION

Fundamentally, work-family enrichment focuses on assisting employees to improve management of their time by introducing a number of work-life balance policies. These include reducing work hours, part-time jobs, flexible time, compressed working time, and where work takes place, such as virtual work (work from home) [77]. The level of balance best for employees varies depending on the needs of the individuals and of the company [77].

As previously mentioned, this study is also interested in the mediating role of work-family enrichment in explaining the relation between flexible work arrangement and turnover. Thus far, we predicted flexible work arrangements to be related to enrichment, which in turn, we expected to be positively related to job satisfaction and negatively related to turnover intentions. It is also likely that flexible work arrangements are related to both job satisfaction and turnover intentions. For example, [78] meta-analysis found that both flexible work schedules and compressed workweek schedules had a positive effect on job satisfaction. [79]
also found that flexible benefits were positively related to job satisfaction and negatively related to turnover intentions. Similarly, [80] found that access to flexible scheduling practices predicted lower turnover intentions.

![Diagram: Relations between flexible work arrangements, work-family enrichment, and organizational outcomes]

The most common work-family enrichment benefits are provided by major organizations in Australia, New Zealand, the US and many other countries in order to help employees balance their work and family responsibilities [81]. The list of benefits below does not represent the total number of existing benefits. Not until the 1970s did the focus on work-family enrichment policies become more of interest to academics and professionals. This was mainly due to the rise in the number of women participating in the workforce [82]. Work-family enrichment policies were first established to facilitate the management of individuals' work and family responsibilities. This is to sustain a healthier lifestyle [83]. Research shows that organizations have initiated work-family enrichment policies despite the increased organizational costs for their implementation, and have managed to address a number of key issues that many organizations are facing.

In New Zealand, work-family enrichment policies are predominantly utilized when the need for developing a productive work culture increases; that is when the tension between employees' work and private lives has begun to increase [39]. Forsyth and Polzer-Debruyne [39] investigated the cause of perceived support and employees' performance and turnover intention in New Zealand organizations. They identified a significant relationship between the perception of work-family enrichment support provided by the employers for their employees and an increase in employees' loyalty to their employers. In addition, they found that much work-family enrichment support provided by employers was perceived positively by the employees and tended to enhance employees' level of job satisfaction. Employees who manage to sustain greater levels of job satisfaction are more likely to experience reduced work pressure, which may therefore lead to a decrease in the level of work to family conflict [39]. Workplace flexibility is one of the most desired work policies and refers to different factors or variables in work-family enrichment policies provided by organizations [84]. Due to the reported effects of workplace flexibility on work-family enrichment, part of this research focused on four workplace flexibilities. However, the emphasis on workplace flexibility benefits is not exclusive. The workplace flexibility (benefits), one of the factors, is used in this research. The first is the flexible working hours provided to employees, such as part-time, rostered hours and night versus day shift availability. Second, the flexibility regarding workplace consists of, for example, the flexibility to work from home (e.g. in order
to fulfill childcare responsibilities). Third, the support for care responsibilities would be, for example, elderly care and childcare, extra financial childcare support (provided by the organization) and flexible leave for important family matters. Lastly, managerial support was investigated, such as flexible schedule arrangements (level of control over working hours spent and daily flexi-time).

8.0 CONCLUSION

Based on models studied and previous studies, the turnover intention of employees is one of the critical issues in private higher learning institutions. The turnover intention of employees has a negative impact on the organization if it is not controlled. Past research shows that the turnover intention of work is related to internal and external factors of an organization. In addition, previous studies also explained that there are strategies to manage turnover intention among employees.

Although in previous studies, there are numerous factors that cause turnover intention employees, but this study only focused on the reward. This is because extrinsic and intrinsic rewards are of higher significance in accordance with the problems that occur in private higher education institutions. The model studies have shown there are various factors that mediated the turnover intention of employees. This study only focused on job satisfaction and work-family enrichment.

Reber stated that employee attitudes that are vigorous against career is a driving force towards achieving performance excellence. Thus, employees who have a positive attitude will continue to focus on his job and stay longer in the organization. In addition to interest, the employee must also have willingness and readiness to pay attention or focus on something. This is because willingness and readiness will motivate employees to achieve goals. Motivation is an action to achieve a specific purpose [85]. This clearly shows the importance of the interest and motivation of the employees in a job. Lee Shok Mee [86] also pointed out that the interests of employees work plays an important role in influencing the willingness of people to be loyal and long lasting. The employees will have an interest in things that they do to achieve better performance.

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