

Exploring the Impact of Compensation and Benefits on Employee Retention: A Comprehensive Analysis

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ABSTRACT

Employees are very important to the success of any organisation. They are the fulcrum that holds the organisation together and they have also been described as the major assets of the organisation. Thus, the main aim of this study is to investigate the relationship between compensation and benefits and employee retention among Small Medium Enterprises (SMEs) in Malaysia. Drawing upon the Social Exchange Theory (SET), this empirical study developed a conceptual framework tested using quantitative method. The study focuses on small and medium enterprises in Malaysia. The unit of analysis is at the level of individual employee who works with these SMEs. This study independent variable is compensation and benefits while the dependent variable is employee retention. The total number of questionnaires distributed were 755. Usable questionnaires were 481 representing 62% response rate. During the process of data screening, it was found that 35 of the obtained questionnaires cannot be used due to ineligible handwriting and other issues. This study utilises confirmatory factor analysis (CFA) and structural equation modeling (PLS-SEM) using both SPSS and SmartPLS software. The findings show that compensation and benefits significantly and positively influenced employee retention. This study contributes significantly to the body of literature in the areas of employee retention and engagement. Theoretically, the study further expands the SET and Job demands-resources (JD-R) theories by building a framework that empirically tested the relationship between compensation and benefits and employee retention.

Keywords: Compensation and benefits, Employee retention.

BACKGROUND OF STUDY

In the globalised competitive labour market, retaining employees has been one of the biggest challenges an organisation face (Bharath, 2023). Retaining employees requires a systematic effort through the creation and fostering of an environment that encourages employees to remain with the organisation while addressing their varied needs. According to Alshurideh (2019), retaining skilled employees significantly contributes to retaining the customers and enhances the operational cost efficiency of organisations (Bharath, 2023). There are so many factors associated with employee retention and these include career development opportunities, supervision, engagement, work stress, leadership style, autonomy, work-schedule flexibility, social support, compensation, crafted workload, work-life balance to mention but few (Spencer, Gevrek, Chambers & Bowden, 2016; Bharath, 2023). Talents and the way they are managed provide organisations with a competitive advantage. Due to the accelerating fierce competition and turbulence in the market, organisations are beginning to give due attention to the strategies necessary to attract and retain the pool of talented workforce (Mutsuddi & Sinha, 2017; Bharadwaj & Yameen, 2021). Scholars of job satisfaction argue that ones' evaluation of job characteristics and the feeling of being content with the current job shape employee attitudes and behaviours (Alferaih, 2017; Bharadwaj et al., 2022). It has been asserted that employees who are dissatisfied with their current jobs are more likely to look for other opportunities (Dechawatanapaisal, 2018) thereby impacting negatively on the organisation's ability to retain their skilled workforce. Empirical evidence on job satisfaction has provided a sound understanding of how personological and environmental factors influence job satisfaction and how job satisfaction further results in favourable workplace outcomes (Waltz, Muñoz, Weber Johnson & Rodriguez 2020; Bharadwaj et al., 2022). Despite the fact that much

rigorous research have been conducted, the issue of employee retention continues to draw attention of both researchers and practitioners in the field of HRM and organisational behaviour (Hom, Lee, Shaw & Hausknecht, 2017; Oruh, Mordi, Ajonbadi, Mojeed-Sanni, Nwagbara & Rahman, 2020). Extant empirical evidence suggests that economic losses associated with inability to retain employees can range from 90 to 200% of annual salary due to recruitment, selection, and training expenses (Reina, Rogers, Peterson, Byron & Hom, 2018). Moreover, the loss of experienced employees can have a negative impact on the morale of those who remain with the organisation, further reducing their productivity and downgrading the organisation's competitive advantage (Holtom & Burch, 2016; Memon, Salleh, Mirza, Cheah, Ting, Ahmad, & Tariq, 2021). The retention of highly skilled employees, therefore, is one of the most pressing challenges facing by Human Resource Management (HRM) department in any organisation. Rewards satisfaction had been investigated in literature albeit with different names. For instance, scholars have called the construct using names such as compensation and benefits (Fahim, 2018; Sepahvand & Bagherzadeh Khodashahri, 2021), compensation (Kakar et al., 2015; Chukwuka & Nwakoby, 2018; Bibi et al., 2018; Krishna, Rao & Datta, 2019; Malik et al., 2020), reward and compensation (Imna & Hassan, 2015) as well as remuneration and promotion (Abdoulaye, 2018). The results of these studies showed that there is a positive relationship between HRM practice – rewards satisfaction and employee retention.

Scope of the Study

The scope of a study defines its purpose, the population size and characteristics, geographical location, the timeframe within which the study will be conducted, the theories to be utilised, etc. The main purpose of this study is to investigate the relationship between HRM practices and employee retention among SMEs in Malaysia. The theories utilised in this study are the SET and JD-R theories. The study population comprises of SMEs in the whole of Malaysia. SMEs are selected because of their importance and contribution to the Gross Domestic Product (GDP), employment and overall economy of Malaysia (Mohamad, Mustapa & Razak, 2021). In Malaysia, SME definition is based on sales turnover and number of full-time employees. For the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million OR number of full-time employees not exceeding 200 and for the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75 (SMEcorp Malaysia, 2020). Under the new definition, all SMEs must be entities registered with SSM or other equivalent bodies (SMEcorp Malaysia, 2020). The landscape of SMEs has grown considerably well since 2016 until 2021. Based on the latest data in Malaysia Statistical Business Register (MSBR) published by the Department of Statistics, Malaysia (DOSM), there were altogether 1,226,494 SMEs in 2021 which accounts for 97.4% of overall establishments in Malaysia. There has been an increment of about 140,000 firms as compared to a total of 1,086,533 MSMEs in 2016, thus registering an average growth rate of 5.2% per annum during the six-year period (SMEcorp Malaysia, 2022). A recent study conducted in North Macedonia estimated that the cost of losing employees is 7% of the total service export and up to \$21,700 per senior staff (Han, 2020). Recent emerging issues relating how to retain employees for a longer period include developments in smart technology, artificial intelligence, robotics, algorithms (STARA) and digitalisation within the workforce and their influence employee retention (Abdul Latif, Saraih & Harada; 2019; Oosthuizen, 2019). Studies suggest that STARA and digitalisation pose challenges and benefits that significantly impact the future of work, and it is important for organisations to ensure their human capital is consistently equipped with relative competencies fundamental to helping organisations stay relevant over time (Antikainen, Uusitalo & Kivikytö-Reponen, 2018; Brougham & Haar, 2018). Deregularisation, digitisation and technological innovation have made Human Resource specialists and leaders to understand the criticality of human resource in organisational success (Bharadwaj et al., 2022).

RESEARCH OBJECTIVE AND RESEARCH QUESTIONS

2.1 Research Aim and Objective

The main aim of this study is to investigate the relationship between compensation & benefits and employee retention among SMEs in Malaysia.

RO1: To investigate the relationships between compensation & benefits and employee retention among SMEs in Malaysia.

2.2 Research Question

RQ1: Is there any relationship between compensation & benefits and employee retention among SMEs in Malaysia?

2.3 Definitions of Key Terms

2.3.1 Compensation & Benefits

The term "compensation and benefits" describes the wage and other financial and non-financial benefits that a company provides to its workers (Aghimien et al, 2024). They are a crucial component of human resource management since they maintain employee motivation (Elsayed et al., 2024). It can also be described as the area of human resources that handles employee payments and benefit provision. It describes the material and intangible benefits that an employee obtains from their employer in return for their service (Berber & Gašić, 2024). In other words, compensation is the monetary value that a team member gets for their contributions.

2.3.2 Employee Retention

Employee retention implies "the desire of organisations to keep and hold on to their competent employees (Fahim, 2018) and involves three basic elements: economics, supply chain and workforce (Hemalatha & Savarimuthu, 2013, p. 45). Simply put, it is a systematic effort to create and foster an environment encouraging employees to remain employed by addressing their diverse needs (Bharath, 2023). It is also a process in which employees are encouraged and motivated to stay in an organisation for a long time (Ansari & Bijalwan, 2017). This process can ensure that the working environment is conducive to encourage skilled employees to remain in the organisation (Yusliza, Faezah, Noor, Ramayah, Tanveer & Fawehinmi, 2020).

2.4 Measurement of Study Variables

2.4.1 Compensation & Benefits

This study defines compensation and benefits in terms of the belief of the employees that they are receiving adequate and competitive compensation relative to what is obtainable for their qualification, experience, and career development. A reward satisfaction is defined in terms of the level of satisfaction attained when something is given in recognition of service, effort, or achievement of an employee. Researchers distinguish between intrinsic and extrinsic rewards, financial and non-financial rewards and membership and performance-based rewards. The study measured compensation & benefits using seven (7) items adapted from Jashari & Kutllovci (2020) and Patiar & Wang (2020).

Table 2.1: Compensation & Benefits

S/N	Compensation & Benefits	Number of items
1	Compensation & Benefits (CB)	7

2.4.2 Employee Retention

Ashraf & Siddiqui (2020) measured employee retention using five items including the employee's plan to stay in the same company in the next five years which achieved reliability coefficient of 0.886. The questionnaire for this study will be divided into four sections namely: demographic analysis section, independent variables section, dependent variable section and the mediating variable section. The demographic section will include questions such as: the age group of the participants, the gender identity, the income range, the number of years that have been working, education level, ownership structure of the organisation, position occupied in the organisation, etc. Likert-7-point scale is utilised in this study.

Table 2.2: Employee Retention

S/N	Items employee retention	Number of items
1	Employee retention	6

2.5 Conceptual Framework

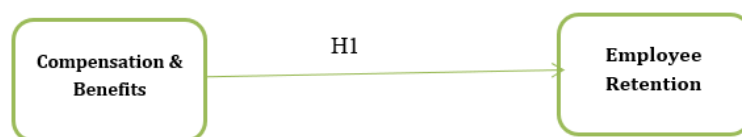


Figure 2.1: Conceptual framework

2.6 Hypotheses Development

2.6.1 Compensation and Benefits Versus Employee Retention

Compensation and benefits as a variable are defined in terms of adequacy and competitiveness of compensation and benefits received by employees. Benefits determination is more organisationally embedded than wages mainly because workplaces have greater ability and incentive to alter benefits. Consequently, workplace compensation practices, including type of employment relations, are more important for benefits than for wages (Kristal et al., 2020). Rewards satisfaction had been investigated in literature albeit with different names. For instance, scholars have called the construct using names such as compensation and benefits (Fahim, 2018; Sepahvand & Bagherzadeh Khodashahri, 2021), compensation (Kakar et al., 2015; Chukwuka & Nwakoby, 2018; Bibi et al., 2018; Krishna et al., 2019; Malik et al., 2020), reward and compensation (Imna & Hassan, 2015) as well as remuneration and promotion (Abdoulaye, 2018). The results of these studies showed that there is a positive relationship between HRM practice – rewards satisfaction and employee retention. In other words, when employees perceive the rewards and compensation, they get from their current organisation to be adequate and competitive as well as having flexibility to vary as performance changes, then the chance of retaining such employees will significantly increase. Therefore, hypothesis H1 below is postulated:

H1: There is a positive significant relationship between compensation and benefits dimension of HRM practices and employee retention.

PROBLEM STATEMENT

There is a significant high voluntary staff turnover rate among SMEs in Malaysia. Across industries, the voluntary attrition rate was at 6.5% in 2019. It was noted that the consumer goods industry in Malaysia came out with the highest voluntary turnover rate at 8.4%. The chemical industry, on the contrary, shows the lowest attrition rate of 4.1% in the period indicating healthy employment engagement and retention rates. Among the top reasons for employees leaving their organisations in Malaysia are competitive pay, manager interaction, clearer career path and job security (Mercer, 2020). SMEs possess low innovativeness, which might be due to many internal barriers such as lack of human capital, lack of structural capital, lack of relational capital and/or lack of entrepreneurship orientation (Hanifah et al., 2022). As a result, understanding HRM practices as well as work engagement among Malaysian SMEs is of importance empirically. HRM practices among SMEs in Malaysia are known to be sub-standard because they majorly hire unskilled labour. According to Ali, Jaaffar & Ali, (2021), Malaysian small and medium-sized enterprises (SMEs) are facing human capital development issues due to unskilled employees. HRM in SMEs and large companies differ in four significant ways: size, responsibilities, resources and recruiting. Due to these differences, HRM strategies need to be customised to serve small and medium businesses in the best way. SMEs often cannot compete with big corporations in terms of salary, but they can keep an eye on current market rates to ensure they are not too far off the mark. To make the offer even more attractive, benefits like health insurance, flexible working hours and more paid leave can make a big difference to a potential candidate. SMEs investment in training and career development, engagement in people management is found to be very low which has had a significant impact on employees' performance and attrition. To perform well and competently for the company and to improve services and products for customers, employees require adequate training and development programmes and high work engagement which should create a win-win situation for all. There are several conflicting outcomes relating to the impact of Human Resources Management (HRM) practices on employee behavioural intention (Kloutsiniotis, Katou & Mihail, 2021) and further studies are required to establish the impact of the variables on each other. This research is explanatory in nature as the findings are expected to explain the changes in employee retention as a result of changes in HRM practices. In explanatory research, the occurrence relation causally relates one determinant to the

occurrence (of an event or a state) taking into account other relevant characteristics (confounders and modifiers) (Bentouhami, Casas & Weyler, 2021). This study also examines the relationship between HRMS practices and employee retention. The distinguishing aspect of explanatory research is that analysts are interested in explaining a specific phenomenon that is treated as a dependent variable (employee retention).

LITERATURE REVIEW

4.1 Compensation & Benefits and Employee Retention

Rewards satisfaction had been investigated in literature albeit with different names. For instance, scholars have called the construct using names such as compensation and benefits (Fahim, 2018; Sepahvand & Bagherzadeh Khodashahri, 2021), compensation (Kakar et al., 2015; Chukwuka & Nwakoby, 2018; Bibi et al., 2018; Krishna, Rao & Datta, 2019; Malik et al., 2020), reward and compensation (Imna & Hassan, 2015) as well as remuneration and promotion (Abdoulaye, 2018). The results of these studies showed that there is a positive relationship between HRM practice – rewards satisfaction and employee retention. In other words, when employees perceive the rewards and compensation, they get from their current organisation to be adequate and competitive as well as having flexibility to vary as performance changes, then the chance of retaining such employees will significantly increase. Aman-Ullah et al. (2023) in their study conducted to investigate the impact of compensation on employee retention and turnover intentions among healthcare employees in public hospitals of Pakistan, found out that there is a significant relationship between compensation and employee retention as well as turnover intentions. Similarly, Berber & Gašić (2024) investigated the role of employee commitment in the relations between the compensation system and turnover intentions of employees in the Republic of Serbia. The results show a positive statistically significant relationship between compensation system and commitment, as well as a negative statistically significant relationship between the compensation system and turnover intentions. Kintani & Wahyuningtyas (2024) conducted their study in Indonesia and found that compensation has a negative and significant effect on employee turnover intention, which means that an increase in compensation & benefits can reduce employee intention to move. Contrary to the above, Awwad & Heyari (2022) in their study found that salary competitiveness does not affect employee turnover. They investigated the impact of some financial indicators (salary competitiveness, employee productivity, etc.) on employee turnover in Jordanian pharmaceutical companies listed on the Amman Stock Exchange (ASE).

METHODOLOGY

5.1 Population Size and Sampling Technique

The research population for this study comprises of 7.31 million people employed by SMEs in Malaysia by 2021. Small and Medium Enterprises are the backbone of Malaysian economy, representing 97.4% of overall business establishments in the year 2021. In Malaysia, sales turnover and number of full-time employees are the two criteria used in determining the definition of SME with the “OR” basis as follows:

1. For the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million OR number of full-time employees not exceeding 200.
2. For the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75 (SME Corp, 2021).

Under the new definition, all SMEs must be entities registered with SSM or other equivalent bodies. It however, excludes:

1. Entities that are public listed on the main board; and
2. Subsidiaries of:
 - a) Publicly listed companies on the main board.

- b) Multinational corporations (MNCs);
- c) Government-linked companies (GLCs);
- d) Syarikat Menteri Kewangan Diperbadankan (MKDs); and
- e) State-owned enterprises (SME Corp, 2021).

Figure 3.1 below shows the detailed categorisation of Malaysian SMEs.

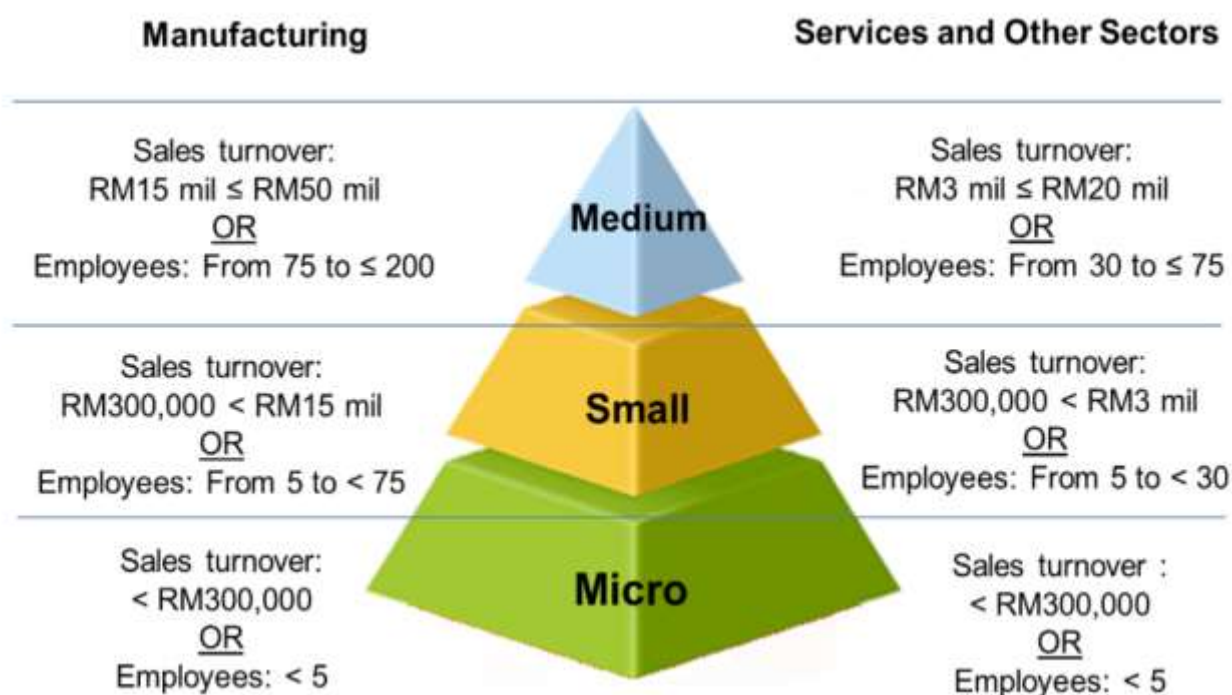


Figure 5.1: Detailed categorisation of Malaysian SMEs: source: (SME Corp, 2021)

SMEs' employment in Agriculture sector continued to register an increase of 1.5 per cent to record 791 thousand persons (2020: 779 thousand persons). SMEs' employment in the agriculture sector contributed 42.2 per cent from overall employment in this sector in 2021 (2020: 41.8%). Meanwhile, the contribution of SMEs' employment in Mining & quarrying sector was 27.9 per cent, with 21 thousand workers in 2021. SMEs' employment in this sector rebounded marginally by 0.3 per cent from negative 1.3 per cent in 2020 (Department of Statistics Malaysia, 2022). There were 1.21 million workers in the MSMEs' Manufacturing sector, which comprised 46.2 per cent of Manufacturing's total employment (2020: 46.5%). Although the share of SMEs' employment in this sector declined in 2021, the number of employments increased by 2.0 per cent (2020: -0.4%). It was contributed by two sub-sectors, namely Food, beverages and tobacco (2020: 1.0%; 2021: 4.2%) and Petroleum, chemical, rubber and plastic products (2020: 1.5%; 2021: 3.5%) (Department of Statistics Malaysia, 2022). SMEs' employment in the Construction sector contributed 48.2 per cent (2020: 48.1%) of overall employment in this sector with 668 thousand persons in 2021. The Construction sector was the only sector that remained on the declining trend, albeit improved negative by 0.7 per cent (2020: -4.9%). The number of SMEs' employment for the Services sector accounted for 4.62 million persons, contributing 49.5 per cent of overall employment in this sector. In terms of annual change, SMEs' employment in Services sector grew marginally by 0.7 per cent as compared to negative 0.6 per cent in 2020. The increase was largely contributed by two sub-sectors namely Wholesale & retail trade, food & beverage and accommodation (1.2%) and Other Services (2.0%) (Department of Statistics Malaysia, 2022).

Stratified random sampling was used to extract sample from the overall population because the method highlights the differences between groups in a population, as opposed to simple random sampling, which treats all members of a population as equal, with an equal likelihood of being sampled (Rahman, Zahid, Khan, Al-Faryan & Hussainey

2024). This study employs proportionate stratified random sampling. Strata were formed based on sub-sectors (shared attributes) in the main two sectors namely Manufacturing and Services & Other Sectors. The sample size is based on the four sub-sectors of Manufacturing Sector and Services & Other Sectors. There were no available data for the breakdown of Services & Other Sectors into sub-sectors. Therefore, the whole sector is categorised into one. The number of employees working in the sub-sectors of manufacturing sector is Agriculture (791,000, Mining & Quarrying (21,000), Manufacturing (1,211,000) and Construction (668,000). The total number of employees working in the Services & Other Sectors is 4,620,000. The proportionate stratified random sample was obtained using the following formula: $(\text{Sample size}/\text{Population size}) * \text{Stratum size}$ (Bryman, 2016; Mukaram, Rathore, Khan, Danish & Zubair, 2021). Sample size for this study is 385 employees. Table 5.1 below illustrates the proportionate stratified random sampling.

Table 5.1: Population and Sample

S/N	Sectors/Strata	Population	Percentage	Sample
1	Agriculture	791,000	10.82%	42
2	Mining & Quarrying	21,000	0.29%	1
3	Manufacturing	1,211,000	16.56%	64
4	Construction	668,000	9.14%	35
5	Services & Other Sectors	4,620,000	63.19%	243
	Total	7,311,000	100%	385
	Formula = $(\text{Sample size}/\text{Population size}) * \text{Stratum size}$	385		

5.2 Respondents

The population for the study comprises of employees working the SMEs located in the thirteen states and three federal territories in Malaysia. The total number of questionnaires distributed were 775. The highest number of questionnaires (111) were distributed in Kula Lumpur, and this followed closely by Selangor (96). The least represented state was PERLIS with only 18 participants. Furthermore, the 775 participants were drawn from service, construction, manufacturing and agriculture sectors. The most represented sector was service with 378 participants followed closely by construction with 265. The least represented sector was agriculture with only 8 participants. The number of participants who completed their questionnaires correctly were 481 representing 62% response rate. During the process of data screening, it was found that 35 of the obtained questionnaires cannot be used due to ineligible handwriting and other issues. The total questionnaires used for data analysis were 446. The diagrammatic representation of the analysis is shown in Table 5.2 below.

Table 5.2: Analysis of study population

Description	Total Number	Percentage
Questionnaire distributed	775	100%
Questionnaire received	481	62%
Ineligible questionnaire	35	5%
Eligible questionnaire	446	58%

5.3 Data Collection

This study utilised primary data source via survey questionnaire. Data was collected via self-administered questionnaire distributed face-to-face to the target population. This researcher personally visited the SMEs and obtained the consent of the owners for the survey questionnaire. It was emphasised to the employees that participation in the survey is voluntary. Printed questionnaires were distributed to employees and pictures were taken for reference purpose. The final data collection process began on the 20th of November 2023 and ended by 14th

of March 2024. Data were collected from employees working in the thirteen states (13) and one of the three federal capital territories that made up Malaysia. The Table 5.3 below shows the total number of questionnaires distributed per state and sector.

Table 5.3: Number of employees per state and sector

STATE	SERVICE	CONSTRUCION	MANUFACTURING	AGRICULTURE	MINING	TOTAL
SELANGOR	75	7	6	8	0	96
W/P KL	55	49	7	0	0	111
JOHOR	42	35	10	0	0	87
PULAU PINANG	28	24	8	0	0	60
SARAWAK	27	24	6	0	0	57
PERAK	26	21	9	0	0	56
SABAH	27	23	7	0	0	57
KEDAH	18	15	8	0	0	41
KELANTAN	17	15	7	0	0	39
PAHANG	16	13	9	0	0	38
NEGERI SEMBILA	13	11	8	0	0	32
TERENGGANU	12	10	9	0	0	31
MELAKA	12	10	10	0	0	32
PERLIS	10	8	0	0	0	18
W/P LABUAN	0	0	0	0	0	0
W/P PUTRAJAYA	0	0	0	0	0	0
TOTAL	378	265	104	8	0	755

5.4 Data Analysis Plan

This study utilised confirmatory factor analysis (CFA) and structural equation modeling (SEM). The latter represents a theory-driven data analytical approach for the evaluation of a priori specified hypotheses about causal relations among measured and/or latent variables. Such hypotheses may be expressed in a variety of forms, with the most common being measured variable path analysis models, confirmatory factor analysis models, and latent variable path analysis models. For analysing models of these as well as more complex types, SEM is not viewed as a mere statistical technique but rather as an analytical process involving model conceptualization, parameter identification and estimation, data-model fit assessment, and potential model re-specification. PLS-SEM has now become a popular analytical tool with many international journals or scientific research using this method (Purwanto & Sudargini, 2021). Partial Least Square abbreviated is a type of component-based SEM analysis with formative construct properties. PLS was first used to process data in the field of econometrics as an alternative to SEM techniques with a weak theoretical basis. PLS only serves as a predictor analysis tool, not a model test (Purwanto & Sudargini, 2021). Statistically analyses were conducted using IBM SPSS and SmartPLS 4.0 software.

5.5 Theoretical backGROUND

5.5.1 Social Exchange Theory

Social exchange theory which suggests that interactions between two parties must be reciprocated interdependently has been widely used in studies relating to workplace behaviour (de Souza Meira & Hancer, 2021). The initiation of social exchange process begins with the organisation through activities to show that employees' contributions are valued and their right respected and their well-being of utmost concern to the organisation. The employees will then reciprocate the gestures of the organisation with suitable behaviours and performance channeled through trust, loyalty and mutual commitment. The idea is that the dedication shown by employees to the organisation stems from the belief that the organisation has also shown dedication to them. Put simply, employees feel that they are under obligation to contribute to the success of the organisation by giving their best performance and productivity in helping the company achieves its strategic goals (Jaiswal & Dhar, 2016; Kurtessis, Eisenberger, Ford, Buffardi, Stewart & Adis, 2017). The proponents of the SET suggest that people engage in exchange relationships with the expectation of

deriving various economic and social benefits (Zhang, Lu & Zheng, 2020). The idea of social exchange pertinent to human behaviour was introduced by Homans (1958) and was employed subsequently in the organisational context by Blau (2017) on social and economic dimensions. In the modern context, the idea of social exchange denotes self-interest pioneered through the idea of maximising benefits at the minimum cost where reciprocity is considered as an essential rule during the exchange processes (Cropanzano, Anthony, Daniels & Hall, 2017). Therefore, the exchange relationships will develop and evolve to manifest trust, loyalty and commitment with mutual interest if both parties abide by and follow the implied rules (Liyanaarachchi, Deshpande & Weaven, 2021). This study develops a conceptual framework based on employee-organisation relationships using SET as the theoretical framework. In the context of this study, SET is used to examine the impact of compensation & benefits on employee retention. The contributions from the organisation i.e., compensation & benefits and reciprocity from employees is measured by employee retention rate. Perceived organisational support is considered the psychological empowerment antecedent, representing the organisation's side in the exchange relationship, giving to the employee support, autonomy, and freedom to make decisions (Kang, Kim, Choi & Li, 2020). Then the employee feels psychologically empowered and reciprocates the organisation with work engagement (Cain, Busser and Kang, 2018; de Souza Meira & Hancer, 2021).

FINDINGS

6.1 Demographic Analysis

The Table 6.1 below shows eleven (11) categories of demographical analysis of the sampled population. All the 446 participants agreed to voluntarily participate in the study. The age group, gender, marital status, education qualifications, income range, designation, length of service, employment type, company status and ownership structure are presented below.

Table 6.1: Demographic analysis

S/N	Demographics	Items	Frequency	Percentage	Cumulative Percentage
1	Voluntary participation	I agree to participate voluntarily	446	100%	100%
		I do not agree	0	0%	100%
		Total	446	100%	
2	Age group	Below 21 years age	45	10%	10%
		21 – 30 Years Old	153	34%	44%
		31 – 40 Years Old	148	33%	78%
		Above 40 Years Old	100	22%	100%
		Total	446	100%	
3	Gender	Male	205	46%	46%
		Female	241	54%	100%
		Total	446	100%	
4	Marital status	Single	186	42%	42%
		Married	240	54%	96%
		Widowed	7	2%	97%
		Divorced	13	3%	100%
		Total	446	100%	
5	Education qualification	Diploma	197	44%	44%
		Bachelor	146	33%	77%
		Masters	65	15%	91%
		PhD	24	5%	97%
		Professional qualifications	14	3%	100%
		Total	446	100%	
6	Income range/month	Less than RM2,000	87	20%	20%
		RM2,001-3,000	131	29%	49%
		RM3,001 to 5,000	145	33%	81%
		RM 5,000 above	83	19%	100%
		Total	446	100%	
7	Designation	Clerical officer	153	34%	34%
		Supervisor	143	32%	66%
		Manager	92	21%	87%
		Senior Manager	42	9%	96%
		Director	16	4%	100%
		Total	446	100%	
8	Length of service	Less than 2 years	112	25%	25%
		2 – 5 years	138	31%	56%
		6-10 years	109	24%	80%
		Above 10 years	87	20%	100%
		Total	446	100%	

9	Employment type	Contract	69	15%	15%
		Part-time	85	19%	35%
		Full-time	292	65%	100%
		Total	446	100%	
10	Company status	Micro	117	26%	26%
		Small	143	32%	58%
		Medium	186	42%	100%
		Total	446	100%	
11	Ownership structure	Local	290	65%	65%
		Foreigner	87	20%	85%
		Mixed	69	15%	100%
		Total	446	100%	

6.2 Validity and Reliability

The Cronbach alpha (α) coefficients of the two variables are shown on Table 6.2 below. While the Cronbach alpha (α) coefficient of Compensation & Benefits (CB) is 0.864, that of Employee Retention (ER) is 0.898. These coefficients are considered to be very good. Therefore, all measurement items are considered reliable.

Table 6.2: Cronbach's Alpha Coefficients

S/N	Constructs	Number of items	Cronbach's Alpha Coefficient
1	Compensation & Benefits (CB)	7	0.864
2	Employee Retention (ER)	6	0.898

6.3 CFA

In SmartPLS, results are highlighted depending on whether a certain threshold is reached for a particular analysis. As shown on Table 6.3 below, the standardised factor loadings of all items are greater than 0.5 except for one out of seven constructs used to measure Compensation & Benefits (CB), however, this was not removed in accordance with Stevens (2002) who proposed that a factor loading's value should be more than 0.4 for interpretational purposes. Both variables have AVE in the range of 0.558 and 0.664. Therefore, all AVE and CR met the required rule of thumb having exceeded the minimum value of 0.50 and 0.70, respectively. The Cronbach's Alpha (CA) coefficients of both variables also exceeded the threshold 0.7, therefore, it can be concluded that the data used in this study are reliable and valid.

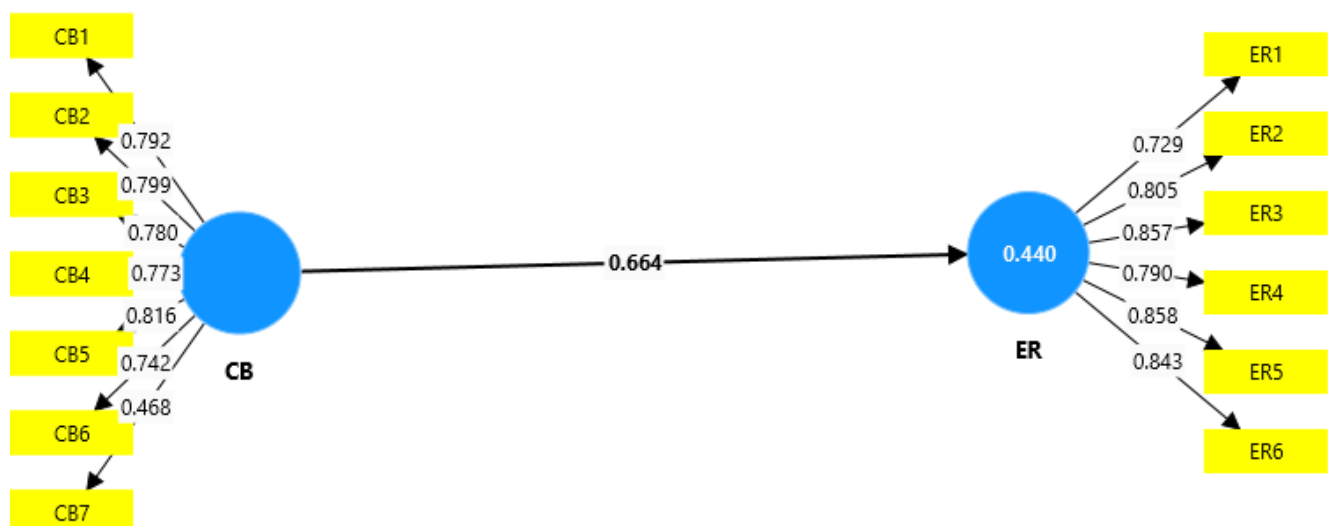


Figure 6.1: CFA

Table 6.3 Construct reliability and validity

Constructs	Items	Loadings	AVE	CR	CA
Compensation & Benefits (CB)	CB1	0.792	0.558	0.896	0.861
	CB2	0.799			
	CB3	0.780			
	CB4	0.773			
	CB5	0.816			
	CB6	0.742			
	CB7	0.468			
Employee Retention (ER)	ER1	0.729	0.664	0.922	0.899
	ER2	0.805			
	ER3	0.857			
	ER4	0.790			
	ER5	0.858			
	ER6	0.843			

6.4 SEM

Bootstrapping is employed to determine the path coefficient and t-value for the relationship between constructs. The bootstrapping procedure's start dialog allows you to pick the significance level (e.g., 0.05). In the bootstrapping result report, p values over this value appear in red, while all bootstrap p values less than or equal to this value appear in green. In order to ascertain the significance of the correlations, Hair et al. (2014) recommend using a bootstrapping approach with 5000 resamples to obtain the path coefficients and corresponding t-values. After that, at a predetermined significance level, the resultant t-value is contrasted with the crucial t-value. This study utilised two-tailed because a two-tailed test uses both the positive and negative tails of the distribution. In other words, it tests for the possibility of positive or negative differences. T-value is simply the calculated difference represented in units of standard error. The greater the magnitude of t-value, the greater the evidence against the null hypothesis. When interpreting t-value, the researcher can reject the null hypothesis ($H_0: \beta=0$) if the t-value is greater than 1.96 in absolute value with a level of significance of 0.05 (Hair et al., 2014). The study utilised 95% power (0.05). The p-value for each term tests the null hypothesis that the coefficient is equal to zero (no effect). A low p-value (< 0.05) indicates that you can reject the null hypothesis. If 95% of the t distribution is closer to the mean than the t-value on the coefficient the researcher is looking at, then the p-value of 5%. This is also referred to a significance level of 5%. This study utilised 95% of the t distribution (Hair et al., 2014). A p-value of 5% or less is the generally accepted point at which to reject the null hypothesis. With a p-value of 5% (or .05) there is only a 5% chance that results the researcher generates would have come up in a random distribution, so the researcher can conclude that with a 95% probability of being correct that the variable is having some effect, assuming the model is specified correctly (Hair et al., 2014).

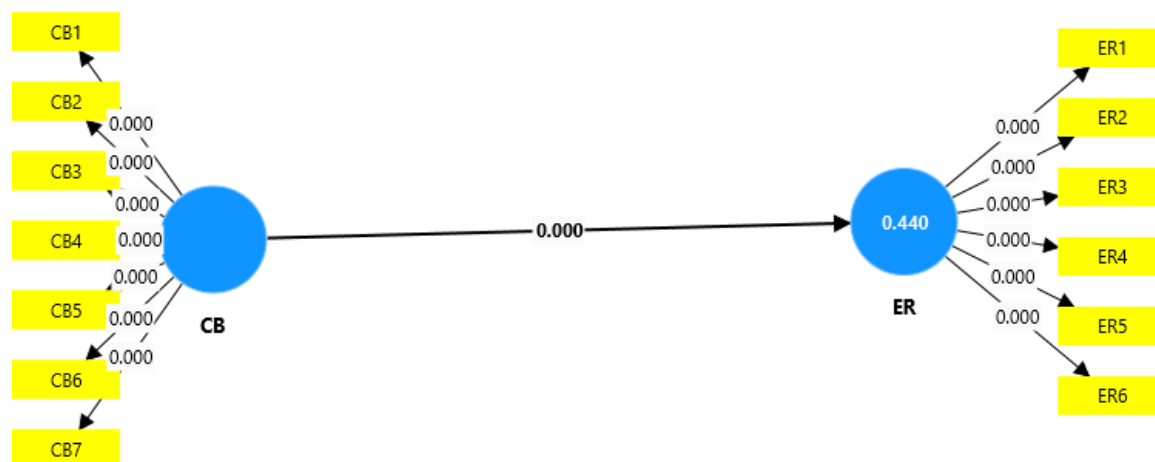


Figure 6.2: SEM

The results of this study as shown on Table 6.4 below show that the R^2 values for the direct relationships between Compensation & Benefits and Employee Retention (ER) is 0.440 indicating that the independent variables contributed 44.0% to the variation in the dependent variable Employee Retention. In other words, the remaining 56.0% (ER) are explained by other factors that are not tested in this study.

Table 6.4: Summary of coefficient of determination value

Predictor Construct	Target Construct	R^2	Predictive Accuracy
CB -> ER	Employee Retention (ER)	0.440	Moderate

6.5 Hypotheses

Table 6.5: Hypotheses

S/N	Hypotheses	Relationship	Path Coefficient (β)	t- value	p-value	Decision
H1	There is a positive significant relationship between compensation & benefits dimension of HRM practices and employee retention	CB -> ER	0.664	24.397	0.000	Supported

H1: There is a positive significant relationship between compensation & benefits dimension of HRM practices and employee retention

This hypothesis assumes that, as compensation & benefits increases, the employee's retention ability of the firm also increases. In other words, low compensation & benefits will decrease firm ability to retain employees while high compensation & benefits will increase the employee's retention ability of the firm. From Table 6.5 above and looking at the three statistical measures, it can be deduced that the hypothesis is statistically supported by the PLS model. The decision is arrived at having checked that the t-value and p-value met the required rules of thumb. The t-value of 24.397 is significantly higher than 1.96 (95% distribution) and the p-value of 0.000 is significantly lower than 0.05. This can be interpreted that the null hypothesis is statistically rejected, and this confirmed that there is a significant positive relationship between the two variables. Simply put, HRM dimension of compensation & benefits did significantly influence employee retention among employees of SMEs in Malaysia. The Beta value of 0.664 signified a positive relationship of 66.4% strength between the variables. Hence, the hypothesis 1 which states that there is a positive significant relationship between compensation & benefits dimension of HRM practices and employee retention is statistically accepted. The findings of this study correspond with that of other researchers who found positive significant relationship between the variables. For examples, Imna & Hassan, 2015, Kakar et al., 2015,

Abdoulaye, 2018, Chukwuka & Nwakoby, 2018, Bibi et al., 2018, Krishna, Rao & Datta, 2019, Malik et al., 2020) in their studies found that there is a positive relationship between HRM practice – rewards satisfaction and employee retention. In other words, when employees perceive the rewards and compensation, they get from their current organisation to be adequate and competitive as well as having flexibility to vary as performance changes, then the chance of retaining such employees will significantly increase.

CONCLUSION

This study investigated the direct relationship between Compensation & Benefits and employee retention among SMEs in Malaysia. Drawing upon the Social exchange theory and Job demands-resources theory, the study developed a conceptual framework tested using quantitative method. The unit of analysis is the level of individual employee who works with these SMEs. The total questionnaires used for data analysis were 446 and this study utilised confirmatory factor analysis (CFA) and structural equation modeling (PLS-SEM) using both SPSS and SmartPLS software. The findings show that the direct hypothesis is statistically supported. In other words, Compensation & Benefits has a direct positive relationship with Employee Retention. Put simply, SMEs in Malaysia have higher chances of retaining their employees if compensation & benefits giving to them are perceived be adequate, competitive and satisfactory.

SIGNIFICANCE, CONTRIBUTION AND LIMITATIONS

8.1 Research Significance and Contribution

The findings of the study show that compensation & Benefits play a significant role in employee retention and work engagement. The study further proves that compensation & benefits play a role in aligning sustainability with the organisation's internal practices, which contributes to the firm's competitiveness. Additionally, through compensation & benefits, strategic and operational support can be provided by integrating the area with organisational sustainability and producing synergistic results. Adequate and competitive compensation & benefits increase positive attitudinal and behavioural outcomes and investment in employees, and providing them with a voice, support and an engaging work in a positive environment foster work-related well-being. Theoretically, this study contributes and advances emerging literature on employee retention which has previously produced conflicting results. While some studies found out that compensation & benefits significantly influenced employee retention others argued otherwise. Based on the tenets of SET theories, the primary contribution of this study lies in exploring the paradoxical consequences of compensation & benefits on employee retention. Practically, the findings of the study are significant in enhancing HRM practices and work engagement among SMEs in Malaysia. This should have positive impact employee retention and thereby helping these SMES to retain knowledge within the organisations.

8.2 Limitations of the Study

The study has some limitations especially in relation to data collection and analysis. This study focusses on SMEs in Malaysia; however, it was not an easy task getting the list of total SMEs in Malaysia and this researcher faced many challenges before the data were realised by the body responsible for collating SMEs data. The researcher was unable to visit all states in Malaysia due to some constraint. Furthermore, language created a barrier during data collection. Questionnaire was converted to Bahasa Melayu for easy understanding; however, some meanings were lost in translation. This resulted in some missing values and outliers; however, this limitation was addressed during data analysis.

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