

Compensation and Career Development on Employee Retention: A Review of the Literature

Azis Rachman¹, Aslan Hamzah²
^{1,2}Universitas Bina Mandiri Gorontalo

Article Info

Article history:

Received September 2023
Revised September 2023
Accepted September 2023

Keywords:

Compensation
Career development
Employee retention

ABSTRACT

This study aims to determine the effect of compensation and career development on employee retention. The writing method uses review literature articles with data from various platforms such as Google Scholar, Mendeley, Semantic Scholar, and other online academic sources. The study results show that compensation has a positive and significant effect on employee retention, and career development has a positive and significant impact on employee retention.

This is an open access article under the [CC BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) license.



Corresponding Author:

Name: Azis Rachman
Institution: Universitas Bina Mandiri Gorontalo
e-mail: azis.rachman@ubmg.ac.id

1. INTRODUCTION

Every company wants a high-quality workforce and loyalty to the company. A qualified and loyal workforce contributes positively to the company's success. One way to ensure employees have high quality and loyalty to the company is to increase employee retention. Employee retention is an effort to reduce employee turnover and increase employee satisfaction.

Employee retention is a proactive step taken by companies to reduce employee turnover rates and, at the same time, increase employee satisfaction levels during their time with the company. This is the foundation for creating a solid and productive work team. Why is employee retention so necessary? First, by keeping existing employees, companies can maintain the knowledge, experience, and skills that have been developed by these employees while working

at the company. This is critical in passing on best practices and ensuring smooth continuity of operations.

In addition, employee retention helps companies save costs that are usually incurred in recruitment, training, and onboarding new employees. This process requires a significant investment in time and financial resources, so keeping existing employees is cost-efficient. Higher levels of employee satisfaction also contribute positively to productivity and quality of work. Employees who feel valued and satisfied with their work environment tend to be more energized and productive and stay longer in the company. In addition, employee retention creates a positive work culture, where employees feel given the opportunity to grow and develop, improving the quality of existing employees.

Employee retention is an integral part of a company's human resources strategy to achieve high quality and employee loyalty. It is a long-term investment that helps companies retain their valuable assets and create a work environment that supports mutual growth and success. By prioritizing employee retention, companies can bridge the path to sustainable success.

One of the steps to increase employee retention rates is through compensation programs. According to Herzberg, as explained by [1], compensation is part of the maintenance factor (hygiene) and the motivation factor, which are critical factors that must be met and considered. Compensation is an essential component of human resource management that includes economic rewards in wages, salaries, benefits, and indirect compensation or additional payments." Fair, appropriate, and attractive compensation can trigger employees' sense of responsibility and motivate them to work harder, which in turn can increase employee retention. Research conducted by [2] shows that compensation is the main factor influencing employee loyalty compared to career development factors and organizational climate. Other findings revealed in the study by [3] show that rewards positively and significantly impact employee retention, while [4] Finding a positive and significant effect of compensation on employee retention.

Not only do compensation programs need to be considered to increase employee retention, but career development programs also need to be considered to increase employee retention. Herzberg, as described by [1], believes that the possibility of growth is part of the motivational factors that can encourage individuals to achieve satisfaction in terms of personal achievement, recognition, improvement in living standards, and so on. Career development programs, as outlined by [5] are an effort from the company to improve managerial performance by providing training, forming attitudes, and developing skills. Meyer & Smith in [4] also confirm that career development can include training,

promotion, and skill development to improve employee performance. Results of previous studies, as reported by [4] and [3], show that career development has a positive and significant impact on employee retention. In other words, if a career development program is implemented well in the organization, it will increase the retention rate of employees. Employees with good career development opportunities tend to be loyal to the company [2]. Therefore, companies must realize the importance of effectively running career development programs.

2. LITERATURE REVIEW

2.1 *Employee Retention*

Employee retention is the company's capability to keep employees who have the potential to remain loyal to the company, as stated by Sumarni [6]. The relationship between employee retention and employee turnover is closely related, with the nature of the relationship being reversed. This means that when a company retains employees well, employee turnover tends to be low. Conversely, when employee retention is low, employee turnover in the company will tend to be high, as explained by Swambawa Putra in [4].

When the company succeeds in carrying out employee retention effectively, employee performance will be optimal, and company goals can be achieved. Employee retention also reduces the wastage of resources, such as the time, effort, and money required to recruit and train new employees. One of the main goals of employee retention is to prevent the loss of skilled employees from the organization. Efficiency in keeping employees afloat within the company is a critical factor in optimizing performance and achieving organizational goals. When companies can manage employee retention effectively, the results are very positive, resulting in near-peak employee performance and helping to achieve the goals that have been set.

One of the most significant benefits of effective employee retention is reduced waste

of valuable resources. Recruiting and training new employees requires considerable time, effort, and financial investment. When potentially contributing employees leave the organization, companies also have to bear high recruitment and retraining costs in addition to losing their knowledge and expertise. Therefore, keeping existing employees is a priority. One of the main goals of employee retention is to prevent the loss of individuals with specific skills or essential knowledge required in the organization. Experienced and trained employees are valuable assets, and losing them can negatively impact an organization's ability to operate efficiently. By retaining employees who have proven competent and contributing, companies can continue to utilize the knowledge and skills developed by these employees, ultimately supporting organizational goals and success.

Recognizing that employees are vital to achieving business success is at the core of managing employee retention. Companies can create an environment where employees feel valued, supported, and motivated to perform high through an approach focused on nurturing and developing existing employees. Thus, companies can avoid unnecessary resource losses and ensure that they can rely on employees with valuable knowledge and skills to succeed in the future.

According to Jennifer [7], Employee retention is a strategy management implements to keep employees within the company for a specified period. When employees cannot actualize their full potential and feel less recognized or heard in the work environment, they tend to leave the company due to pressure and dissatisfaction.

2.2 Compensation

Fair compensation is crucial in spurring employee motivation to increase their productivity and strengthen their loyalty bonds to the company, as mentioned in research by Armanu, W, & Sudjatno [2]. Kumar et al., in [7] Reveal that employees feel recognized by the company when they receive fair compensation. This indirectly increases employee motivation and encourages their

intention to stay within the company. The payroll system's efficiency significantly influences employee retention because employees tend to remain in the organization when the compensation received matches their contributions.

Ardana, et al. in [4] Explain that any reward received by employees in return for their contribution to the company or organization can be considered compensation. Effective management of this compensation can help the company achieve its goals, while poor management can interfere with its operations. This compensation includes all forms of rewards given to employees as a form of compensation for the work they do in the organization, including money or other conditions such as salaries, wages, bonuses, incentives, as well as various benefits such as health benefits, holiday benefits, meal fees, leave, and so on.

In all its forms, compensation can be viewed as a reward given to employees as a token of appreciation for their contribution to the company or organization. It includes various elements such as salaries, wages, bonuses, and incentives, which are forms of monetary compensation. In addition, compensation also has multiple benefits, such as health benefits, holiday benefits, meal allowances, leave, and other non-monetary elements that provide added value for employees. The importance of effective compensation management lies in its significant impact on employees, the company, and overall productivity. When compensation is well managed, employees feel valued and motivated to perform high. They think their contributions are recognized and respected, thus increasing their sense of ownership of their work. This can result in better performance and higher employee loyalty to the company.

On the other hand, poor compensation management can result in employee dissatisfaction, decreased motivation, and even potential conflict within the organization. This can disrupt the company's operations and negatively affect productivity. Therefore, companies need to

understand the importance of carefully evaluating, designing, and managing compensation packages to match the company's strategic objectives as well as the needs and expectations of employees. In this view, compensation is not only an element of corporate expenditure but also an investment in valuable human resources. Careful and efficient management of compensation will ensure that employees feel valued, motivated, and engaged, which will contribute positively to the company's or organization's long-term success.

2.3 Career Development

Successful career advancement in self-development must be pursued to reach a higher position, which will bring more significant responsibility in the future. At the same time, employee training should focus on reducing or eliminating harmful habits and improving new skills, which can positively affect their performance and, thus, are expected to increase their loyalty to the company, as suggested by Harlie in [2]. The opinion indicates that successful self-development in employees can increase their commitment to the company. When employees feel supported and valued through ongoing training and opportunities to develop themselves, they tend to be more attached and loyal to their company. This employee loyalty is a valuable asset that can contribute to the sustainability and long-term success of the company.

According to Wahyuni in [6], career development is a process in which individual abilities are improved from the beginning in planning activities and achieving goals. This process focuses on personal efforts to enhance capabilities and involves interaction with the organization in which the individual works. Career development creates valuable opportunities for employees to grow and develop. In the process of career development, training plays an important role. Employees have the opportunity to attend training relevant to their work. Through this training, they can improve their skills and gain new knowledge that can be applied in their daily work. Thus, exercise

helps strengthen the competence and performance of employees in an organization.

Career development creates opportunities for employees to train, move through the ranks, and expand their skills to improve their performance within an organization, as suggested by Meyer & Smith in [4]. In this case, career development benefits individuals and provides added value to the company. Career development is a process that includes planning, training, promotion, and overall individual development. This creates opportunities for employees to enhance their capabilities and organizational performance. While career development efforts can greatly benefit individuals, companies can also benefit from more skilled, high-performing employees, in line with the views in the cited research.

According to Rivai in [7], aspects related to the career development of an employee or employee include work performance, exposure, network relationships, the decision to quit, loyalty to the organization, guidance and support, the vital role of subordinates, growth opportunities, and experience.

3. METHODS

This study uses a literature review as the primary method to gain an in-depth understanding of the subject under investigation. The first step in the study is to determine the subject of the study. After deciding on the topic, researchers research literature through various sources, such as books, articles, scientific journals, and electronic sources. Next, data collected from these multiple sources is analyzed, evaluated, and organized into a consistent series of stories.

4. RESULTS AND DISCUSSION

Compensation has a significant effect on employee retention [4]; [3]; [2]; [7]; [8]; [9]; [10]; [3]; [11]; [12]; [13]; [14]. This indicates that the better compensation employees receive, the more employee retention will increase. Increasing the compensation received by

employees is one of the critical steps to ensure that the company still has a quality workforce and can retain its top talent. This phenomenon can be seen as an indicator of the success of the company's human resource management strategy. The better compensation employees receive, the more likely the company is to retain them in the long run.

Employees who feel valued and rewarded according to their contributions will be more motivated to stay with the company. Employee satisfaction will increase, and thus, employee retention will also increase. Employees who are satisfied with their compensation tend to be more loyal and not easily move to companies that offer similar opportunities. Increased employee retention also has other positive effects. Employees who stay longer within the company will have more profound knowledge and experience in their work. This can contribute to increased overall productivity and efficiency. In addition, companies can also save costs that are usually associated with hiring and retraining new employees.

Therefore, companies should actively consider their compensation strategies to ensure they provide sufficient employee incentives. By doing this, the company will not only increase employee satisfaction. Still, it will maintain a higher employee retention rate, which will help the company achieve long-term success.

Career development has a significant effect on employee retention [4]; [3]; [2]; [6]; [7]; [8]; [9]; [10]; [3]; [11]. This proves that the better the career development in the company, the more employee retention will increase. Increased employee retention is often closely tied to a company's ability to provide clear and ongoing career development opportunities. Robust career development in companies is one of the key factors that prove a company's commitment to their employees' professional growth. The better the career development in the company, the greater the chances of retaining potential employees.

Employees who feel they have opportunities to learn, develop, and move up within the company tend to be more motivated to stay there. This illustrates that the company provides a clear path for employees' development and career growth, which increases their satisfaction and attachment to the company. Companies offering internal solid training, mentoring, and promotion programs tell employees they are valued and invested in their growth. It also creates an environment where employees feel inspired to constantly improve their skills and knowledge, which benefits the company in the long run.

It is important to remember that career development is not just about promotion but also about providing opportunities to grow horizontally, such as expanding knowledge in new areas, taking on additional responsibilities, or getting involved in strategic projects. The better the company is at creating a climate that supports these developments, the more likely employee retention will increase. Thus, companies need to see career development as a long-term investment. This will help retain valuable talent and increase employee productivity, loyalty, and motivation, all of which contribute to the company's long-term success.

5. CONCLUSION

Compensation has a significant impact on employee retention. The better balance an employee receives, the more likely the company is to retain its quality workforce and top talent in the long run. Employees who feel valued and rewarded according to their contributions will be more motivated to stay with the company. This will increase employee satisfaction and, in turn, increase employee retention.

Career development has a significant impact on employee retention. The better the company provides clear and ongoing career development opportunities to employees, the more likely the company is to retain potential employees. Robust career development

reflects the company's commitment to employees' professional growth.

REFERENCES

- [1] Priyono, *Human Resource Management*. Zifatama Publisher: Sidoarjo, 2010.
- [2] N. P. D. Purnamasari and D. K. Sintaasih, "The Effect of Career Development, Compensation, and Organizational Climate on Employee Loyalty," *E-Journal Manage.*, Vol. 8, No. 9, p. 5762, 2019, DOI: 10.24843/ejmunud.2019.V08.i09.P20.
- [3] L. Disa Zhafira and I. Djastuti, "Analysis of the Effect of Reward and Career Development on Employee Retention with Job Satisfaction as an Intervening Variable," *Diponegoro J. Manag.*, vol. 8, no. 1, pp. 81–95, 2019.
- [4] I. G. Manik Aditya Budi Suta and I. K. Ardana, "The effect of compensation, perception of organizational support and career development on employee retention," *E-Jurnal Manaj. Univ. Udayana*, vol. 8, no. 2, p. 8047, 2019, doi: 10.24843/ejmunud.2019.v08.i02.p18.
- [5] G. Dessler, *Human Resource Management*. Indek Kelompok Gramedia: Jakarta, 2017.
- [6] N. K. A. P. Darmika and A. A. A. Sriathi, "The Effect of Career Development, Organizational Commitment and Perceived Organizational Support on Employee Retention," *E-Jurnal Manaj. Univ. Udayana*, Vol. 8, No. 7, p. 4153, 2019, Doi: 10.24843/ejmunud.2019.V08.I07.P06.
- [7] P. S. A. Pradipta and I. G. M. Suwandana, "The Effect of Compensation, Job Satisfaction and Career Development on Employee Retention," *E-Journal Manage.*, Vol. 8, No. 4, pp. 2409–2437, 2019.
- [8] K. A. R. Aditeresna and N. W. Mujiati, "The Effect of Compensation, Job Satisfaction and Career Development on Employee Retention at Kutabex Hotel," *E-Jurnal Manaj. Univ. Udayana*, Vol. 7, No. 11, p. 5814, 2018, DOI: 10.24843/ejmunud.2018.v07.i11.p01.
- [9] K. O. E. Dewi and I. G. Riana, "The Effect of Career Development, Compensation and Organizational Commitment on Employee Retention at Bintang Kuta Hotel," *E-Jurnal Manaj. Univ. Udayana*, vol. 8, no. 2, p. 876, 2018, doi: 10.24843/ejmunud.2019.v08.i02.p11.
- [10] C. A. Wirayudha and I. G. A. D. Adnyani, "Compensation and career development affect job satisfaction and employee retention of BPR Lestari," *E-Jurnal Manaj. Univ. Udayana*, Vol. 9, No. 5, p. 1676, 2020, DOI: 10.24843/ejmunud.2020.v09.i05.p02.
- [11] R. Arya, Kadek Aditeresna and N. W. Mujiati, "The Effect of Compensation, Job Satisfaction and Career Development on Employee Retention at Kutabex Hotel," *E-Journal Manage. Unud*, Vol. 7, No. 11, pp. 5814–5845, 2018.
- [12] Bunga Dinda Hernawan and Veronika Agustini Srimulyani, "The Impact of Compensation on Employee Retention with Job Satisfaction as Mediation," *Accounting, Management, and Business Review*, vol. 1, no. 2, pp. 115–125, 2021, doi: 10.35912/rambis.v1i2.888.
- [13] Zahara Tussoleha Rony, Heri Fitriadi, and Warkianto Widjaja, "The Effect of Turnover Intention and Compensation on Employee Retention Rate in Manufacturing Companies in West Java," *J. Businessman Ris. Business and Manaj.*, vol. 5, no. 1, pp. 45–54, 2023, doi: 10.52005/bisnisman.v5i1.133.
- [14] R. Wulandari and Virya, "The Effect of Training and Development, Compensation and Organizational Culture on Employee Retention," *J. Ekon.* 2, Vol. 10, No. 1, p. 52, 2019.