International Journal of Academic Management Science Research (IJAMSR)
ISSN: 2643-900X
Vol. 8 Issue 2 February - 2024, Pages: 38-41

Financial and Non-Financial Incentives in Service Firms in Eastern Region of Sri Lanka on the Retention of Employees

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Abstract: *This research was aimed to understand the correlation between financial, non-financial incentives concerning to retain the employees within the Eastern Region of Sri Lanka Service firms. Data gathered from 113 participants employed in Service companies within the Eastern Region of Sri Lanka was collected through questionnaires. Through multiple regression analysis, hypotheses were examined. Results showed that employee retention in service organizations is highly impacted by both monetary and non-monetary incentives. The study delves into the analysis, limitations, suggestions for future research, and finds that incentives, both monetary and non-monetary, are important for keeping employees. In conclusion, the study demonstrated the beneficial effects of both monetary and non-monetary incentives on staff retention.*

Keywords: Employee Retention, Financial Incentives, Non-financial incentives, Employees

1. Introduction

Ensuring satisfaction across all employee levels and reducing turnover rates stand as primary objectives in any retention strategy. Presently, employee retention holds considerable focus within organizations, given that sustained employee tenure contributes to a positive organizational image, aiding in attracting and retaining talent [1, 2].

The contemporary workforce comprises three primary segments: the Baby Boomers, Generation X (Gen X), and Employees (Gen Y). Given the increasing influx of the younger generation into the workforce, management needs to adeptly handle these millennials who possess distinct expectations, backgrounds, lifestyles, and principles [3,4]. Notably, Employees tends to pivot to new job opportunities if they experience dissatisfaction with their current roles or employers. The human resource managers particularly in the service industry continue to struggle with coming up with appropriate tactics and plans to keep these new hires in their ranks. Workers are particularly difficult to recruit and frequently have a tendency to leave shortly after they are employed. This study's main goal is to look into the relationship between financial and non-financial incentives, mpact on employee's retention [5].

The aspect of employee retention has gained significant attention among Human Resource managers due to heightened business competition and the escalating demand for skilled personnel [6]. This urgency stems from employees experiencing dissatisfaction in their current roles or organizational environments. To counter this, HR managers and top-level management deploy a specialized strategy termed "employee retention," aimed at fostering long-term commitment among employees within an organization. The primary objective behind employee retention is to prevent the departure of skilled individuals, which could adversely impact organizational productivity. High turnover rates not only impede productivity but also impose substantial financial burdens on companies, necessitating considerable expenses in recruitment and training. Despite recognizing the importance of retaining high-performing individuals, HR managers encounter numerous challenges in achieving this goal [7-9]

To effectively attract and retain workers, companies must employ more efficient methods. Multiple factors play a role in employee retention, encompassing training and development, job security, compensation and benefits, fair treatment, supportive work factors in the workplace. Further emphasize remuneration, training opportunities, equitable treatment across all employee levels, and organizational behaviours as pivotal factors contributing to employee retention. However, this study narrows its focus specifically to non-financial and financial incentives as critical elements in retaining employees [10,11].

Financial incentives encompass the monetary benefits provided to employees by their organization. They are termed "financial" because they exist outside the non-financial value of the work itself, and their determination in terms of size and value rests within the management's control. Historically, these incentives held considerable control. They encompass various forms such as bonuses, base pay, financial incentives and commissions. For most employees, striving for improved pay is a primary goal, driven by factors like the rising cost of living. A robust compensation and benefits plan are pivotal in retaining a motivated workforce. The success of a retention program hinges on an employer's commitment to enhancing their compensation strategy, aspiring to lead the market or at the very least, match competitors' salary offerings [12].

Non-financial incentives are challenging to define compared to financial ones, as they originate within the job itself and are shaped by an individual worker's perception. They are intangible and vary uniquely for each worker, beyond the sphere of management control, and are closely tied to job satisfaction. These incentives encompass two elements: physical and non-physical, which complement the each other [13].

The physical non-financial incentives are related to the observable elements of the workplace, such the design, ergonomics, and noise levels. By using new technologies and tools that facilitate employees in carrying out their jobs, management may contribute to the creation of a positive work environment [14].

The work environment, workers' social contacts, and the organization's sense of purpose are all examples of non-financial, non-physical incentives. Employee retention is mostly influenced by a pleasant work environment that is nurtured by co-operative and helpful coworkers. Retention rates are greatly impacted when companies effectively and efficiently assist and motivate their staff [15].

2.4 Material and methods

The study framework that was created based on the previous discussion is shown in Figure 1. This approach outlines a clear connection between financial and non-financial incentives with regard to employee retention. It outlines the central focus of this study, illustrating the interplay between these two types of incentives and their impact on retaining employees within the organizational context.

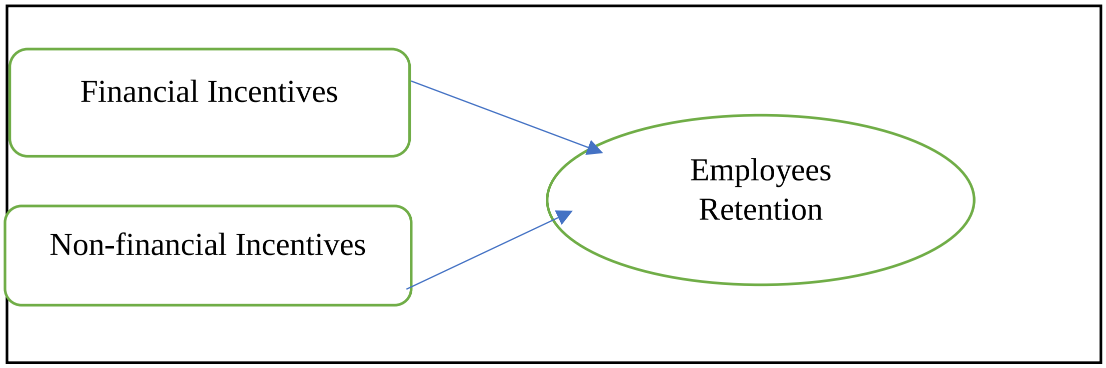

Figure 1. The study framework that was created based on the previous discussion

This study method is clear and focused on quantitative research, employing a convenience sampling technique, a form of non-probability sampling. The study targets Gen Y employees born between 1988 and 1999, specifically within Service companies situated in Eastern Region of Sri Lanka, as the main population.

Out of the 200 questionnaires distributed, 113 were returned, serving as the basis for analysis. It's worth noting that unit of analysis is at the individual level, focusing on each participant's responses within the returned questionnaires. The questionnaire was having general information, The subsequent sections focused on the independent variables (financial and non-financial incentives) and the dependent variable (employees' retention).

Both the second and third sections contained a series of questions related to these variables, all structured using a five-point Likert scale. For the financial incentives, five items were adapted [16], while the non-financial incentives comprised seven questions, and retention was measured through four questions, following the measurement scale [17]. To distribute the questionnaire, Human Resource officers from participating Service organizations assisted in reaching out to and collecting responses from the respondents who agreed to take part in the study.

The research process involved several sequential stages to ensure the accuracy and reliability of the collected data. It commenced with data screening to assess the responses for accuracy, trustworthiness, and completeness. Following this, descriptive data analysis was conducted to summarize and present the key characteristics of the gathered data. A pilot test likely took place to evaluate the questionnaire's effectiveness and ensure clarity and coherence in the questions before the main data collection. Lastly, hypothesis testing was performed to assess the relationships outlined in the study's framework.

For data interpretation and analysis, the Statistical Package for the Social Sciences (SPSS) software was utilized. SPSS is commonly employed in quantitative research to process and analyze data, ensuring accuracy and validity in the results obtained from the collected quantitative data. This approach aimed to derive accurate and reliable insights from the dataset. A pilot test was conducted to assess the reliability of each item in the questionnaire. The findings of this test are detailed in Table 1.

Table 1. Pilot Test

Construct	No of Items	Cronbach's Alpha
Financial incentives	5	0.993
Non-financial incentives	7	0.974
Retention	4	0.972

3. Result

3.1 Background of respondent

Among the 113 participants surveyed, 52.2% of them were male. Regarding the distribution by race, the largest proportion of respondents (36.3%) identified as Muslim. In terms of marital status, the majority of participants (53.1%) reported being married. Furthermore, 35.5% of respondents had completed secondary or high school education. Performing multiple regression analysis often employed in predicting these connections within a dataset. These tables serve as a means to interpret and understand the extent to which the independent variables predict or influence the dependent variable within the research context.

Table 2. Multiple regression analysis

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	.845[a]	0.715	0.707	0.271

a. Predictors: (Constant), Non-financial Reward and Financial incentives Reward

Examining the influence of incentives on employee retention in manufacturing organizations, it was shown that non-financial and financial incentives accounted for 71.5% of the total extracted variation. Regression analysis demonstrated the significance of both independent variables in influencing retention. Upon further scrutiny, it was observed that financial incentives incentives emerged as the dominant factor, exhibiting a stronger influence with a t-value of 4.191 (p-value = 0.000), in contrast to non-financial incentives (t-value = 3.123, p = 0.002).

4. Discussion

The research's conclusions are important because they shed light on how important it is to create and put into place a comprehensive system of financial and non-financial incentives that benefits both employers and employees. The following section delves into a detailed discussion of the results pertaining to both predictors.

4.1 Relationship between non-financial incentives and retention of employees

According to the multiple regression analysis, financial incentives incentives emerge as the most influential predictor related to retain the employees, displaying a highly significant and positive impact when compared to non-financial incentives. Various components of financial incentives incentives, including basic pay, bonuses, commissions, and other financial incentives, have consistently demonstrated substantial effects on employee retention in previous research [18].

The current study underscores the importance of offering an attractive and distinctive financial incentives reward plan to attract and retain valuable employees. A competitive salary package, as revealed by the findings, not only enhances employee satisfaction but also contributes to sustaining their loyalty to the company over time [18]. This research aims to critically analyze the legal dimensions, identifying gaps, challenges, and opportunities within the regulatory framework to contribute insights that may inform future policy considerations and industry practices[19-20].

4.2 Relationship between non-financial incentives and retention of employees

The research findings demonstrate a positive and significant correlation between non-financial incentives and retention among Employees, aligning with previous study [21], which established a positive connection between non-financial incentives and employee retention. The descriptive results reveal that a majority of respondents express a preference for continued employment in organizations that foster a caring environment. Additionally, respondents indicated a willingness to stay in organizations providing security and flexible work schedules. The organizations enhance employee motivation and commitment by ensuring workplace privacy and safety.

5. Conclusion

Workers receive both financial and non-financial incentives in exchange for their employment. This study aimed to investigate the connection between non-financial and financial incentives incentives in relation to the retention of employees. The study focused on young workers aged 25 to 38 in the service sector. The results of multiple regression analysis indicated that both financial incentives and non-financial incentives were linked to employee retention among the respondents, with financial incentives demonstrating a stronger association compared to non-financial incentives. This finding is consistent with prior evidence highlighting the influential role of financial incentives in employee retention.

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