

Effects of Promotion, Training and Compensation on Employee Retention in Commercial Banks in Nepal

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Abstract

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Employees are a company's enormous asset and are crucial to its competitiveness and successful operation. Today, most of the organizations struggle to manage and retain their employees. This study aims to examine the relationship between promotion, training, and compensation, as well as the impact of these factors on employee retention in commercial banks in the context of Nepal. A cross-sectional research design was undertaken to determine the degree of a relationship among variables under investigation. A structured questionnaire with 5 5-point Likert scale was designed to collect the data from the population. This study used a non-probability convenience sampling technique, and data were collected from 215 employees working in A- class commercial banks who hold various hierarchical positions. For analyzing the data, the SPSS 20 version has been used to test the study model and proposed hypotheses. The results indicate a significant positive correlation between employee retention and promotion, training, and compensation. Additionally, the findings indicate that compensation significantly impacts employee retention, followed by promotion and training in commercial banks in Nepal.

1 Introduction

Employees are the enormous assets of an organization and are important to its competitiveness and smooth operation. Retaining a knowledgeable and competent employee is essential to human resource management. It is a process in which the employees are motivated to remain with the organization for the maximum period or until the completion of the project (Das & Baruah, 2013). Maintaining and retaining competent employees ensures continuity, reduces recruitment costs, and enhances organizational efficiency. Today, retaining employees, including those in the banking

sector, has become challenging (Ghansah, 2011). Increased competition and the movement of highly skilled employees are the leading causes of this problem (Ng'ethe et al., 2012).

Various studies have explored the multifaceted factors influencing employee retention, highlighting its importance. According to Patro (2014), effectively designed employee retention strategies positively influence organizational productivity and sustainability by lowering turnover rates and retaining a skilled workforce. In contrast, poorly executed retention strategies may lead to decreased performance and increased turnover intentions, negatively impacting productivity (Sutanto & Kurniawan, 2017).

Yousuf and Siddqui (2018) undertook a comparative study of Karachi's information technology and banking sectors, which identified performance evaluations, training and development, and workplace ambiance as essential factors influencing employee retention. The analysis indicated that performance evaluations significantly influence employee retention within the IT domain, while training and development strategies are more impactful in the banking industry. It suggests that customized retention strategies are important for different industries to successfully retain their personnel (Yousuf & Siddqui, 2018).

Another theoretical investigation emphasized the importance of motivational elements such as financial rewards, career progression, job attributes, managerial support, acknowledgment, work-life balance, and leadership style in promoting employee retention. The study concluded that organizations must develop appropriate retention policies to decrease attrition rates and increase employee commitment for the sustainability of an organization (Ramachandran & Prasad, 2022).

Kyndt et al. (2009) conducted research focusing on both organizational and individual factors, which revealed that employee recognition and engagement significantly influence employee retention. Additionally, opportunities for personal growth help improve retention. The analysis further indicated that individual differences, such as leadership skills and tenure, positively influence retention, while factors, including willingness and initiative related to learning, are negatively correlated (Kyndt et al., 2009).

Studies conducted within Bangladesh's banking sector identified career advancement, training and development, job satisfaction, competitive remuneration packages, employee voice, and transformational leadership as beneficial influences on employee retention. The research highlighted that these elements significantly impact employee performance. Furthermore, the authors suggested that retention strategies should integrate these factors to improve productivity (Tania, F. T. J., & Kowser, S. U., 2022).

Samuel and Chipunza (2009) studied administrative and non-administrative employees to analyze the influence of intrinsic and extrinsic motivational variables on retention in organizations. The findings revealed that motivational variables fundamentally impact employee retention in private and public organizations.

The Social Exchange Theory (Blau, 1964) explains the positive correlation between employee satisfaction, opportunities for advancement, and retention. The theory states that when an organization offers adequate compensation and growth opportunities, its employees will feel

valued and will return the favor by remaining with the company for a more extended period (Kuvaas, 2008).

Employee retention has emerged as one of the primary organizational challenges of any organization. Organizations need to focus on retaining their knowledgeable employees for their competitiveness. Based on the literature review, the study tries to analyze the factors of promotion, training, and compensation as retention determinants. The present study contributes to the existing body of knowledge concerning social exchange theory, which considers compensation and promotion as independent variables. In addition, training is also considered as an independent variable. The study investigates the association and effects of promotion, training, and compensation on employee retention in commercial banks in Nepal. The conceptual model for the study is presented in figure1.

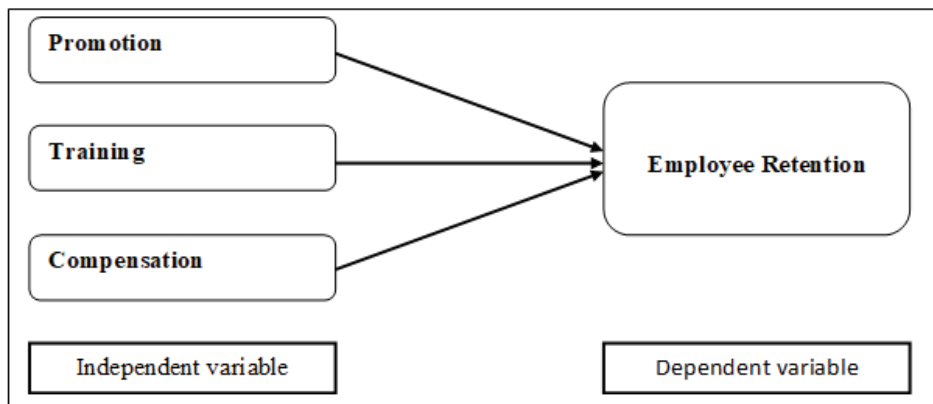


Fig1: Conceptual Framework

Hypotheses:

H1: There is a significant positive impact of promotion on employee retention

H2: There is a significant positive impact of training on employee retention.

H3: There is a significant positive impact of compensation on employee retention.

Multiple Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where,

Y = is the dependent variable (Employee Retention)

X_1 = is independent variable (Promotion)

X_2 = is independent variable (Training)

X_3 = is independent variable (Compensation)

β_0 = intercept

β_1 = intercept

β_2 = intercept

β_3 = intercept

ϵ = error term

2 Research Methodology

A quantitative approach using a cross-sectional research design was undertaken to determine the degree of a relationship among variables under investigation. The study's target population is all employees working in A-class commercial banks in Nepal.

A non-probability convenience sampling technique was used for data collection. To meet the objectives of the study, a structured questionnaire was developed to collect primary data and distributed it to all the employees working in A-class commercial banks online by making Google Forms. The study used a 5-point Likert scale to collect the data, which ranges from strongly disagree to strongly agree, where 1= strongly disagree, 2= disagree, 3 = Neutral, 4= agree, and 5= strongly agree. Data was gathered from 215 respondents in the Commercial Banks of A class.

The research consisted of descriptive analysis to summarize the attributes of a collected data set. To test the hypotheses and analyze the effects of independent variables on dependent variables, inferential analysis was carried out. Excel and SPSS 20 versions were used for data analysis.

3 Results

Table1: Reliability Statistics

Variables	Cronbach's Alpha	No. of items
Promotion	.768	5
Training	.712	3
Compensation	.751	3
Employee retention	.723	6

The table 1 shows that all Cronbach's alpha values are within the acceptable range 0.70–0.79, indicating that the sets of items are reliable for measuring their respective constructs (George & Mallery, 2003).

4 Respondent's Profile

Table 2: Demographic Profiles of the Respondents

Age	Frequency	Valid percent
Under 20	19	8.8
21-30	91	42.3
31-40	82	38.1
41-50	23	10.7
Total	215	100.0
Marital Status		
Unmarried	88	40.93
Married	127	59.06
Total	215	100
Job Position		
Assistant	106	49.3
Officer	70	32.6
Manager	35	16.3
CEO/ DCEO	4	1.9
Total	215	100.0

Table 2 represents the demographic profiles of the respondents, including age, marital status, and job position. According to the data, the largest age group in the sample falls under the 20-30 age group, representing 42.3% of the respondents, followed by the 31-40 age group, which represents 38.1%. The age group under 41- 50 represents 10.7 %, and the age group under 20 makes up only 8.8% of the respondents.

The majority of the respondents are married, constituting **59.06%**, while the remaining are unmarried, representing 40.93%. Most of the respondents are of the assistant level, with 49.3%, followed by Officers, representing 32.6%. Managers make up 16.3% of the respondents, while CEO/DCEO comprise 1.9%.

5 Descriptive Statistics

Table 3: Descriptive Statistics and Correlation

	Mean	SD	ER	Pro	Tra	Com
ER	20.69	3.687	1			
Pro	16.93	3.314	0.647	1		
Tra	11.53	1.654	0.6	0.541	1	
Com	10.08	2.078	0.671	0.538	0.525	1

Note: SD: Standard deviation; ER: Employee retention; Pro: Promotion; Tra: Training; Com: Compensation

The table 3 shows the relationship between variables: training, compensation, promotion and employee retention. Training (0.600), Compensation (0.671), and Promotion (0.647) are significantly positively correlated with employee retention at 0.01 significance level.

6 Regression Analysis

Table 4: Model Summary

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773 ^a	.598	.592	2.35449

a. Predictors: (Constant), Compensation, Training, Promotion

b. Dependent Variable: Employee Retention

Table 5: ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1740.032	3	580.011	104.626	.000 ^b
	Residual	1169.708	211	5.544		
	Total	2909.740	214			

a. Dependent Variable: Employee Retention

b. Predictors: (Constant), Compensation, Training, Promotion

Table 6: Coefficients

Coefficients ^a							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			Tolerance VIF
1	(Constant)	2.030	1.171		1.734	.084	
	Promotion	.355	.062	.319	5.749	.000	.619 1.616
	Training	.508	.123	.228	4.146	.000	.630 1.586
	Compensation	.674	.097	.380	6.928	.000	.633 1.579

a. Dependent Variable: Employee Retention

Table 4 illustrates the strength of the relationship between the model and employee retention. All three predictors—Compensation, training, and Promotion—explain around 59.8 % of the total variation of job retention, which shows a good model fit and a highly significant model.

In addition, the regression analysis output Table 6 depicts that the unstandardized B weights of Promotion, training, and Compensation are statistically significant at $p < .001$. The unstandardized Beta weight of Promotion is 0.3555, which means a one-unit increase in Promotion is associated with a 0.355 increase in employee retention. The unstandardized Beta weight of training is 0.508, which means a one-unit increase in training is associated with a 0.508 increase in employee

retention. The unstandardized B weight of Compensation is 0.674, which means a one-unit increase in Compensation is associated with a 0.674 increase in employee retention. The standardized beta weight of Compensation (0.380) has the most significant impact on employee retention compared to Promotion (0.319) and training (0.228). The VIF values are all close to 1.6, suggesting no issue of multi-collinearity. Top of Form

Bottom of Form

Based on the unstandardized coefficient, the following regression equation was obtained,

Where, promotion; = training; = compensation

Table 4 shows that the unstandardized B weights of Promotion, training, and Compensation are statistically significant at $p < .001$. The unstandardized Beta weight of Promotion is 0.3555, which means a one-unit increase in Promotion is associated with a 0.355 increase in employee retention. The unstandardized Beta weight of training is 0.508, which means a one-unit increase in training is associated with a 0.508 increase in employee retention. The unstandardized B weight of Compensation is 0.674, which means a one-unit increase in Compensation is associated with a 0.674 increase in employee retention. The standardized beta weight of Compensation (0.380) has the most significant impact on employee retention compared to Promotion (0.319) and training (0.228). The VIF values are all close to 1.6, suggesting no issue of multi-collinearity.

7 Discussions

This study examines the effect of Promotion, training, and Compensation on employee retention. The findings show that employee retention is significantly positively influenced by Promotion, training, and Compensation. The results of this study are in line with the results of previous research conducted by Bwana et al. (2022) in the banking sector of Tanzania, which stated that there is a positive and significant relationship between promotion opportunities and employee retention, indicating that employees tend to stay when they perceive potential advancement in the same organization. The research conducted by Salum et al. (2023) also highlighted that internal recruitment strategies, particularly promotions, strongly influence employee retention. The result is also in line with a study on public secondary school teachers conducted by Ekabu et al. (2018), which revealed that Promotion is negatively correlated with turnover intentions, which means a lack of career opportunities leads to higher turnover. However, contrasting findings emerged in a comparative analysis of Karachi's banking and educational sectors. They found that promotions were insignificant for job satisfaction and retention, which indicates sector-specific variations in the impact of promotions (Zafar & Siddiqui, 2019). The result of this study relating to training and Compensation is in line with the previous research conducted by Kakar et al. (2017), which stated that Training and Compensation positively influence employee retention in the banking sector in Quetta. The research undertaken by Devaraju & M L (2015) highlighted that Training and Compensation have a significantly positive correlation with employee retention in IT sectors. These factors play a crucial role in retaining employees.

This study also shows that Compensation significantly impacts retention, followed by Promotion and training in Nepal's commercial banks. Fair and competitive Compensation will improve employee commitment and retention. The result of the study indicates that Compensation plays a

significant role in the Nepalese banking sector. The result is in line with the study undertaken by Kiran et al. (2023), which indicated that Compensation, training, and development positively and directly contribute to employee retention. Another study stated that Compensation and culture have a positive relationship with employee retention, whereas training and development negatively influence employee retention (Munich & Agrawal, 2018). Further, the study conducted in Maldives in the retail industry revealed that Training and Compensation do not significantly influence employee retention individually. However, they positively impact retention when linked with career development (Imna & Hassan, 2015).

8 Conclusions

Employees are a valuable asset to an organization and must be retained for its growth and success. Today, employee retention has become a challenging issue for every organization as employees quit when they are offered better packages and opportunities by other organizations. Given the growing need for organizations to retain their best employees in the face of competition, the study's findings suggest that variables like compensation, promotion, and training programs influence the employees to stay. Competitive compensation packages need to be developed to retain employees. The result of the study shows that compensation is a significant factor in employee retention. However, compensation alone cannot retain the employees. A more holistic approach that integrates compensation, promotion, and training is essential for organizational success and employee retention. Moreover, the degree of influence may vary by sector or industry; therefore, additional considerations must be made.

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