



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**EFFECTS OF COMPENSATION ON EMPLOYEE RETENTION:  
THE CASE OF DASHEN BANK S.C.**

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**JUNE, 2024  
ADDIS ABABA, ETHIOPIA**

**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF BUSINESS**

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## **LIST OF ACRONYMS**

<b>ANOVA</b> .....	Analysis of Variance
<b>ATM</b> .....	Automated Teller Machine
<b>HRM</b> .....	Human Resource Management
<b>S.C</b> .....	Share Company
<b>SPSS</b> .....	Statistical Packaging for Social Science
<b>VIF</b> .....	Variance Inflation Factor

## **ABSTRACT**

*The purpose of this study was to examine Effects of Compensation on Employee Retention in Dashen Bank S.C. The study used quantitative research approach with Explanatory and Descriptive research design methods to objectively answer the proposed research questions. 168 sample sizes were selected from 816 target populations using stratified random sampling techniques by classifying homogeneous employees from different branches position as strata. Structured questionnaires consisted of 45 statements with five point Likert scale were used to collect the data. Statistical Package for Social Science (SPSS) 25 software was used to analyzing the questionnaires. Descriptive statistics was also used to measure the central tendency through use of mean scores, percentage and presented in tables and graphs. Correlation analysis was used to establish the relationship between the study variables. The study revealed that there is statistically significant positive relationship between the Compensation parameters and employees' retention. The result of multiple regressions analysis revealed that 96.8% of the variation of employees' retention can be predicted by the independent variables i.e. Salary, Bonus, Employee services, Insurance, Recognition, Advancement, Sound policy and Working Environment are significantly affects employees' retention at 95% confidence level. Sound policy and Recognition specifically exhibit the strongest correlations, suggesting their substantial impact on retention. The reliability test conducted to check the dependability and consistency of the instrument showed, a Cronbach Alpha of 0.920 which is most relevant for the study.*

*All the hypothesis of the study showed that the eight independent variables have statistically moderate significant relationship with employee retention based on their corresponding Pearson correlation and Beta Coefficient with sig.00 (2-tailed) and P-value(<0.05).The study was concluded that compensation has positive and significant effect on employee retention and therefore, effective compensation has an end result of better retaining better employees and the study was ended by strong recommendation on salary that was the bank has to employ strong standards for retaining talent employees by redesigning its salary scale and payment structure based on workload of employees, the inflation rate as well as market condition or industry scale.*

**Keywords:** *Compensation, Salary, Bonus, Employee services, Insurance, Recognition, Advancement, Sound policy, Working Environment and Employee Retention*

## **CHAPTER ONE**

### **INTRODUCTION**

The chapter mainly emphasized on objective of the study, information on its background of the study is provided, problem statement is clarified, the study objectives and research questions were designed. Moreover, Significance, scope, definition of terms and concept, limitation and organization of the study were discussed.

#### **1.1 Background of the study**

Employee compensation refers to all the returns that accrue to employees arising from their employment. Compensation management requires accuracy and precision as, if not adequately and objectively dealt with, it may hamper organization's operations. Compensation is not only in the form of money, but also in non-cash form. Benefits, such as pension, life and health insurance, and retirement plans, and allowances that include company cars or subsidized transportation, represent a significant pay element in many large firms (Dessler G,Merwe and Nazim-ud-Din, 2011).

Employee retention and satisfaction are significantly influenced by compensation. Offering competitive base salaries or hourly wages is an essential factor in retaining employees, as it demonstrates that the organization values their time and energy (Bill Adams,Tariq C.,G.Armstrong, 2023). However, research has shown that other factors, such as a sense of purpose, community, and growth opportunities, are also crucial in retaining talent (Christenson,Drucker and Michael E. Porter, 2021).

Compensation becomes a profound element for reducing turnover and increasing retention.

From the studies (Deckop, J. R., Merriman, K. K., & Gupta, S., 2006) it was evident that a strategized compensation structure increased employee performance to the maximum level. The combination of monetary and non-monetary benefits has a strong positivity towards employee acceptance. Even announcing spontaneous rewards for the achievements of the employee or the team will boosts the morale and the same will be continued further, this gives a healthy

competition at the workplace. This is the base for corporate culture to be acclaimed across the organization. This healthy and win-win situation will impact the organization from macro perspective, success of teams and departments to the micro level, healthy contribution by each individual towards the growth of the organization.

One of the fundamental tasks in Human Resources Management is Compensation Management. It is a complex task that occurs periodically, demand accuracy and must not be delayed. Compensation Management requires integrating employees' processes and information with business process and strategies to achieve optimal organizational goals and objectives. This can be attributed to the fact that Compensation Management is an essential tool to "integrate individual efforts with strategic business objectives by encouraging employees to do the right things with ever improving efficiency" (Horwitz, 2010). In other words, compensation management is a powerful means of focusing attention within an organisation. They send clear messages to all employees of the, organisation informing them about expected attitudes and behaviors (Smith, 1992). For the workers, wage provides the means of satisfying their wants and needs. Compensation packages entail some basic features that tend to make employee satisfy on their job amongst which include salaries, bonuses, incentives etc. and these have significant impact on employee satisfaction (Idemobi, Onyeizugbe and Akpunonu, 2011).

For an organization to achieve its business objectives, human and non -human resources have a vital role. Especially human resources are considered as a valuable asset for an organization to be competitive and to achieve its business objectives. Like organization struggle to attain its objectives through extensive utilization of human resource, the employee also targeted toward achieving individual drives while performing for the organization (Ivancevich J. , 2010).

Studying the effect of Compensation helps to improve employee retention in turn helping the organizations to reach its financial and satisfaction goal by retaining talent and experienced workforce. As a result, this research explores the effect of compensation in Employee retention at Dashen Bank S.C in Addis Ababa and it provides recommendations for organizations seeking to improve employee retention.

## **1.2 Background of the organization**

Dashen Bank SC was established on September 20, 1995 as a share company with an authorized and subscribed capital of birr 50 million. The bank coined its name from the highest peak in the country; “mount Dashen” aspires to be unparalleled in banking. Headquartered in Addis Abeba, it is the biggest private bank in Ethiopia. According to the Bank’s 2023 report, it operates through a network of 850 plus branches, 400 plus ATMs and 1300 point of sales (POS) terminals spread across the country.

The bank is also the most reputable brand in the domestic banking market, a reputation earned through consistent delivery of values and preeminence unmatched by its competitors. The bank works in partnership with leading brands in the industry (VISA, MasterCard, Union Pay and American express) and prominent money transfer operators (Western Union, MoneyGram, Xpress Money, Dahabshiil, EzRemit, Transfast, Ria and World Remit).

The bank is pioneer in Ethiopia to launch full-fledged payment card service that enables customers to withdraw cash wherever they are in need and procure goods and services from various commercial locations. Currently, its paid up capital has recorded birr 11.2 billion as at June 30, 2023.

Following the strategic partnership established with American Express, Dashen bank not only accepting but also issuing Amex Gold, Green Cards and Master Cards. This strategic alliance reaffirmed the Bank’s continued aspiration to set landmarks in the country’s banking industry.

Recently, Dashen bank has started Omni-channel internet banking dubbed Amole. The product comprises unique features that competitors do not have. Amole enable the customers to make payment for airlines ticket, airtime purchase, DSTV payment, buy concert and football matches ticket ,buy books and different items online in collaboration with the ecosystem players, and many more.

### 1.3 Statement of the Problem

In modern business world, businesses are facing major challenges when it comes to retaining their best employees. However, human resource management has a significant role in ensuring the company for retaining best employees in their companies. According to (Phillips,J. and Patricia, 2012) employee compensation is very important since it has enduring impact on the representative and keeps on substantiating the employees' an incentive to the association they work for. Employees who are valued and compensated well by the organizations they work for get satisfaction and work for a longer time. (Mahal, 2012) Exhibits that reward is essential component, which demonstrates how much workers, advance by devoting their opportunity and exertion towards the accomplishments of organization targets, so that managers have the duty to outline alluring prize bundle to pull in and hold significant employees.

As (Fitz-enz, 1997) explained that for every ten employees in the higher level leaving the organization will results in \$1 million loss, and the cost to company in the present situation is much higher. This in turn affects the productivity, profitability, and product/service quality. Out of the plentiful practices available, the reward system is one strategy to retain, motivate and attract talent in an organization.

According (Ethiopian Business Review, 2022); Banks that has sound policies to deal with the biggest challenge of staff turnover secures the benefit of retaining productive staff in the current banking industry. Twenty two (22) in 2022 and Thirty (30) employees in 2023 have left Dashen Bank and moved to other similar company due to the offer of better salary and compensation package (D.Bank, 2024). Therefore, retaining experienced employees and attracting new employees have to be strategic objective for the bank. However, with the current expansion rate of the banking industry, and low number of experienced human resource, it will be impossible to retain the skilled and experienced human resource unless having a competitive compensation and benefit package.

According to (Khatun,M.,Rahaman,S.N. and Khatun,M., 2023), the study showed that both development opportunities and compensation are significantly correlated with employee retention. However, compensation was found to be more significant than development opportunities. The study suggested that competitive salary packages, along with growth prospects, are essential for retaining employees.

The research gap of this study is that even if previous study showed the recognition of compensation as a critical factor in employee retention, there is a lack of comprehensive studies that specifically address the compensation system gaps in the Ethiopian banking context. This research aims to fill this gap by examining the effects of various compensation components—such as salary, bonuses, employee services, and insurance—on employee motivation and retention at Dashen Bank. By identifying these gaps, the study seeks to provide actionable insights to enhance the bank's ability to retain talented and experienced employees, ultimately contributing to the achievement of its organizational goals.

Therefore, the researcher was interested to study the gaps aimed at to identify existing compensation system gaps by endeavoring to provide an answer to the question; “what is the effect of compensation system on employee retention at Dashen bank S.C?” Also, the researcher identified how various types of the Compensation system helps the bank in retaining talented and experienced employees within the organization in achieving its defined goals.

#### 1.4 Research Questions

For the purpose of doing this research, the following research questions are answered based on the **variables** that are determined in the conceptual framework.

1. To what extent does salary significantly effect on employee retention?
2. How bonus significantly affects employee retention?
3. What is the significant effect of employee services on employee retention?
4. How insurance significantly affects employee retention
5. How recognition significantly affects employee retention?
6. What is the significant effect of Advancement on employee retention?
7. What is the significant effect of sound policies on employee retention?
8. How working environment significantly affect employee retention?

## **1.5 Objectives of the study**

### **1.5.1 General objective**

The general objective of the study is to examine the effect of compensation on employee retention in Dashen Bank S.C.

### **1.5.2 Specific Objectives**

1. To identify the significant effect of salary on employee retention.
2. To determine how bonus significantly affects employee retention.
3. To identify the significant effect of employee services on employee retention.
4. To identify how insurance significantly affects employee retention.
5. To determine the significant effects of recognition on employee retention.
6. To determine the significant effects of Advancement on employee retention.
7. To find out the effect of sound policies on employee retention.
8. To identify how working environment significantly affects employee retention.

## **1.6 Significance of the Study**

Although the primary purpose of this study is for academic use it is expected that findings from this study will be important to the management and members of Dashen Bank as well as to other organizations in the same industry to understand the relationship between compensation and employee retention. This study has practical significance to Dashen Bank in understanding the effects of compensation and reward on employee performance and their intended impact on the organizational achievements. The general finding of the study reflects the employee's point of view towards compensation and employee retention at Dashen bank Addis Ababa city branches. It also serves as reference for the company in evaluating their current compensation and salary system and suggests possible recommendations for improvement.

The study also increases employee's awareness about the relationship between compensation and Employee retention, as well as to what extent compensation and rewards affects their job performance. The study will also help employees to evaluate the current compensation and reward system in the organization and its competitiveness in the market. Additionally, this study will have a paramount importance in providing a better ground for banking industry's human resource management, business professionals, business initiatives and policy makers. Moreover,

the research will also contribute an insight point as a stepping stone for further study in the area to future researchers.

### **1.7 Scope of the Study**

As the branches are located in a far dispersed manner, it is not feasible to include all branches' staff in the study in terms of time and cost. Hence, the study is confined to Employees of Dashen bank in Addis Ababa specifically at western Addis Ababa District having 93 branches and 816 employees. Since its branches throughout the country are homogeneous in its policies and procedures, the application of compensation and benefit management system is over-viewed by HRM Department. In such a way, it gives the whole picture of the compensation and benefit practice of the Bank.

The researcher sampled employees in all level of management and non-management staff from 816 staffs by using probabilistic sampling technique specifically stratified random sampling method by taking 20% of Employee's from the entire branches based on their position in providing needed information.

Compensation refers to a combination of financial and non-financial rewards provided to employees in recognition of their services to the organization. However, they vary depending on the industry and organization. Since the study area is Bank, the researcher selected appropriate and mostly used compensation variables such as salary, bonus, employee services and Insurance from financial compensation and recognition, advancement, working environment and sound policy from non-financial compensation to study their effect on employee retention.

This study is carried out in the month of March to May 2024. In terms of its methodology, this research used Quantitative approach with Explanatory Design method together with close ended Questionnaire.

### 1.8 limitation of the study

The research sample population of this study was taken from employees who work in West District, Addis Ababa of the Bank. Since the branches of Dashen Bank are scattered around different side of the country and the total population of the Bank is large, conducting and taking sample from the whole population is not feasible.

This might affect the generalization of the research findings to the whole Dashen Bank employees. However, the implications of the findings are expected to be useful and applicable for the other areas because the compensation policy of the bank in the entire country is similar.

### 1.9 Definition of Terms

Below terms are key concepts given to create common understanding between the researcher and the reader.

**Reward:** is a thing given to any one because of his contribution to organization, it can be financial or non-financial (Armstrong, Ahand Book of Human Resource management practice, 2009).

**A rewards system:** is a planned and structured approach to reward one or more employee who act in a desirable way (Armstrong, Ahand Book of Human Resource management practice, 2009)

**Compensation:** refers to the entire pay package given to workers for their services which include employee wages and salaries, incentives, bonuses and commissions (Idemobi,Onyeizugbe and Akpunonu, 2011).

**Salary:** is a fixed amount of money or compensation paid to an employee by an employer in return of work done (Bill Adams,Tariq C.,G.Armstrong, 2023).

**Employee retention:** refers to policies and practices companies use to prevent valuable employees from leaving their job (Curtis,S. and Wright,D., 2001).

### **1.10 Organization of the Study**

The paper consisted of five chapters. The first chapter consists of an introduction part where back ground of the study, statement of the problem, objectives of the study, scope, significance, limitation, definition terms of the study are presented. Chapter two is review of literature in which theories, empirical evidence and conceptual frame work are identified. Chapter three contained research methodology where research design, research approach, population, sampling method, sample size, sources of data, instruments, data analysis technique and model specification were covered. Chapter four focused on the results and discussion in which the findings results that are interpreted. The fifth chapter, which is the closing chapter, focused on the conclusions, summary of major findings, forwarded recommendations and Directions for future researches.

## CHAPTER TWO

### REVIEW OF LITERATURE

This section presented theoretical and empirical review on the effect of compensation on employee retention in case of Dashen bank. Accordingly, the first part presented about theoretical literature about effects of compensation on employee retention. The second part discussed about various empirical studies. The conceptual framework depicted in the third part along with variable determination and Hypothesis formulation.

#### 2.1 Theoretical Review

##### 2.1.1 The Theory of Compensation

Compensation is all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (Milkovich,G.T,& Newmann,J.M, 2008) i.e., compensation surrounded by the employee wages and salaries, incentive-payments, bonuses, and commissions.

Employee compensation contains all forms of pay and rewards received by employees for the performance of their jobs (Snell.S., 2007). According to (Dessler G,Merwe and Nazim-ud-Din, 2011) employee compensation means all forms of pay or rewards going to employees and arising from their employment and it may be direct financial payments (Pay in the form of wages, salaries, incentives, commissions, and bonuses) and indirect financial payments (Pay in the form of financial benefits such as insurance). Likewise, (Hasibuan, 2013) defines compensation as all income in the form of money, direct or indirect goods received by employees or repayments provided to the company. From the above definitions we can say that compensation is a systematic approach to provide monetary value and other benefits to employees in exchange for their work and service.

Someone works to give time, thoughts, and energy to the organization and as a counter achievement, the organization must provide appropriate compensation to meet the needs of life for themselves and their families. Compensation plays an important role because in general employees want balanced compensation from the company; also expect guaranteed welfare for themselves and also their families while they are still actively working and when they reach

retirement. With a balanced compensation employee welfare will be met and it is hoped that employees will get satisfaction, which increases organizational commitment of employees to the organization. In this regard, (Ivancevich J. , 2010)states that: Compensation is the Human Resources Management function that deals with every type of reward individuals receive in exchange for performing organization tasks. Compensation is important for employees as individuals because the amount of compensation reflects the size of their work among the employees themselves, family and community. The community sees compensation as fairness, where the company in determining salary does not look at gender but qualifications. While managers see compensation as the biggest expense (labor cost) and a tool to influence workers to increase performance, for employees compensation is a return to membership in the company and prize in getting the job done.

For an organization to supervise compensation efficiently, the employer need to have a positive influence on the performance of its employee, and understand the various aspect of compensation as motivators that motivate employees and direct their behavior towards achieving organizational objectives. Generous reward retain employee and ultimately lead to job satisfaction, commitment and loyalty. Compensation is the reward that workers receive for their service or contribution to the organization.

### **2.1.2. Components of Employee Compensation**

#### **2.1.2.1. Direct Financial Compensation**

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, commission, etc. They are given at a regular interval at a definite time. Direct financial compensation is sometimes usually restricted to the direct money advantages that is received by the staff on monthly, bi-monthly or on a weekly basis for what they offer as workers of a given establishment. It might even be within the kind of stock bonus remunerate, wherever workers of the business area unit given the chance to possess shares within the establishment they work for and at the top of each year they need the chance once more to achieve some divided within the kind of equity on their dividends thus once direct monetary compensation is

emphasized properly within the organization it will facilitate enhance worker productivity. (Christenson,Drucker and Michael E. Porter, 2021)

- **Salaries and wages:** Different definitions have been advanced on salaries and wages usually to show the differences that exist between both terms. AS (Surbhi, 2015)defined salary as a fixed amount paid to the employees at regular intervals for their performance and productivity whereas wages are the hourly- based payment given to the labor for the amount of work finished in a day. He further argued that while salaried persons are generally said to be doing “white collar office jobs” which implies that an individual is well educated, skilled and is employed with some firm and holds a good position in the society, whereas the waged person are said to be doing “blue collar labor job” which implies that an individual is engaged in the unskilled or semi-skilled job and is drawing wages on a daily basis.

One purpose of a person as an employee of a company is to earn income in the form of salary. Received salary is used to meet basic needs such as food, clothing and housing. Every company in determining the amount of salary paid to the employee must be feasible, so that the lowest wage/salary that is given to meet the needs of their life (Bill Adams,Tariq C.,G.Armstrong, 2023) . As direct financial rewards, salaries are the most emphasized by the employees, thus they sort of take a center stage in the scheme of things as far as rewards for work is concerned. Salary is seen that most people choose to enterprise, one of the most important factors in business, and reasonable salary system more increase productivity, attract talent to the company and reduce personnel turnover rate (Adibah A. K., Adnan A. H., Fadillah I., & Norseha S., 2019).

- **Bonuses and Incentives:** (Investopedia, 2016) defined bonus as an additional compensation given to an employee above his/her normal wage. A bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company. As stated by (Heathfield, 2016)bonus pay is compensation over and above the amount of pay specified as a base salary or hourly rate of pay. The base amount of compensation is specified in the employee offer letter, in the employee personnel file, or in a contract. Employers can distribute bonus pay randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract. A decision is made to pay it to one, a group or all employees, based on criteria decided by management to reward past

achievements, such as reaching a specific profit or some important milestones for the organization, or in a totally discretionary manner but defined an incentive as a plan which is forward-looking. Payment is tied to the achievement of specific objectives that have been pre-determined and communicated to the employees that are on the plan. The purpose of the incentive scheme is to influence behavior to reach the objectives by providing an incentive to work towards the goals. She further stated that incentive can be paid in cash or in non-monetary award, for example some gifts or travel (especially for sales). The incentive plan is not discretionary: if the upfront, agreed objectives are reached, the payment or award is made.

As (Romanoff, 2008) defined bonus as a single payment made at the end of the performance period typically a year to reward extraordinary effort or achievement while incentive is a tangible or intangible reward that is designed to motivate a person or group to behave in a certain way. He further stressed that incentives differ from bonuses in that incentives define both what needs to be accomplished, what the employee will receive in return for accomplishing it. As a result incentives have greater behavioral and motivational impact.

#### **2.1.2.2 Indirect Financial Compensation**

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Employee services ,Leave Policy, Overtime

Policy, Car policy, Hospitalization, Insurance, Leave travel Assistance Limits, Retirement Benefits, Holiday, Homes. They are indirect forms of compensation that are intended to maintain or improve the quality of life for employees. Indirect financial rewards come in form of

Subsidized benefits such as retirement plans, paid sick leaves and purchase discounts. (Bill Adams,Tariq C.,G.Armstrong, 2023) Also says that benefits are sometimes called indirect compensation as they are given to employees in form of plan rather than cash to improve their performance; they provide security for employees and their family members. Indirect compensation or worker advantages are parts of remuneration given additionally to the assorted styles of money pay. They additionally embrace things that don't seem to be strictly remuneration like annual holidays. Organization uses it mostly to facilitate its enlisting effort or influence the potential of staff returning to figure for an organization, influence their keep or

produce larger commitment, uplift employee morale, scale back absence normally and improve worker productivity.

### **2.1.3 Compensation Strategy and Compensation system**

According to (Abou-Moghli, 2019), compensation strategy should be able to ensure the retention of the employee, employee's satisfaction, the development as well as performance the employee. General findings showed that it possesses positive notable connections among incentive allowances, bonuses, fringe benefits, and salary. In brief, there is a co-bonding between these variables, which undoubtedly consider performance as a connection among the compensation benefit schemes, levels of employee contentment, and turnover rate. This concluded that organizations with upgraded compensation system may have an impact on their employees. Linking "Compensation to performance" is one of the strategies being followed all over the world in all Sectors for talent management and employee retention. Generally, it is called "Pay for Performance" or "Performance-based (Milkovich,G.T,& Newmann,J.M, 2008) pay" to describe that compensation depends on the performance of the employees and their contributions to attain the organizational goals .The vigorous relationship between the compensation elements schemes leads to a strong assumption of employee retention. Compensation strategy needs to have upgrade frameworks that can motivate, retain, attract, and satisfy the employees and thus leads to employee retention and satisfaction.

Compensation systems are designed keeping in minds the strategic goals and business objectives. Compensation system is designed on the basis of certain factors after analyzing the job work and responsibilities. Compensation provided to employees can direct in the form of monetary benefits and/or indirect in the form of non-monetary benefits known as perks, time off, etc.

Compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their services. If the compensation offered is effectively managed, it contributes to high organizational productivity. (Abou-Moghli, 2019)

### **2.1.4 Compensation Administration**

Compensation management may be a part of management or human resources management that focuses on planning, organizing, and controlling the direct and indirect payments employees receive for work performed. Compensation can be in direct forms such as base salary, performance-based compensation, or performance-linked compensation, or indirect forms such

as vacation pay, credit, or insurance. Compensation, however, does not refer to other forms of employee compensation such as awards ceremonies or celebrations.

The basic concept of compensation administration-compensation management- is fairly simple. Employees work for their employers, and companies pay employees for the work they do (Ezeh, 2004). Compensation, therefore, is an exchange or transaction in which parties, employer and employee, benefit. For giving something, both parties receive something. Compensation involves more than this simple transaction, however. From an employer's perspective, compensation is a matter of both affordability and employee motivation. Organizations must weigh the amount they can afford to pay their employees adequately against the consequences of that decision (Khan W. O., 2012)

In addition, some employers and managers believe that salaries have an impact on employee work ethics and behavior. Moreover, social, economic, legal, and political forces also exert influence on compensation management, making it a sophisticated yet important part of managing a business (Dessler, 2011)

### **2.1.5 Compensation and Benefit Policy**

The compensation & benefit policy (Hear after compensation policy) describes the small print of the compensation components in the organization, how they're used and the conditions for the employees as the compensation component can be applied in their specific situation (P.Flannery, 2020) .

The compensation policy belongs to most read and discussed internal policies of the organization because it drives the salaries of the individual employees. Each employee is curious about the structure of the salary and the potential total cash achievable in the organization. The compensation policy is that the main tool to find out the details about the compensation components and the way, the way to achieve the highest total cash (Dessler, 2011). The compensation policy drives the trouble and performance of employees as the employees will find the smart and easiest way how to achieve the highest possible income with the smallest possible individual performance. The compensation policy has got to be set the smart way as it avoids the potential work-around and abuse (Dessler G,Merwe and Nazim-ud-Din, 2011) .

## **The Common Goal/objectives of Compensation Policy**

- To reward employees' past performance
- To remain competitive in the labor market
- To maintain Salary equity among employee
- To motivate employees' future performance
- To attract new employee
- To maintain the budget
- To reduce unnecessary turnover (Armstrong M. , 2012)

### **2.1.6 The Importance of Compensation in organization**

In today fast moving world, developments have made it more important than ever for companies to make sure they have a strategic, holistic and integrated approach to compensation. To compete in a tough arena, organizations now more than ever need the support of an informed, involved and motivated their employees (Chew, 2015). Here compensation and Benefits is a primary motivator and rewards for employees.

Compensation is a major driver in the success of any organization and it is also true that it is one of the highest expenses for organization. Therefore, compensation is always under scrutiny by the top management of a company. Compensation is not only carefully analyzed by the management, but also analyzed by employees.

If properly executed, effective compensation design can improve organizational effectiveness, support human capital requirements of the organization, and motivate the employees to achieve key corporate strategic and financial goals (BR., 2007)

Effective compensation and benefits strategy is not easy task, especially with the large organizations and every changing demands of the workforce. To construct the most attractive compensation and benefit package, organizations must know to tackle the fundamental landscape change in workforce requirements and demands.

Compensation is very important to employees and organizational performance. Employee compensation and benefits is one of the very useful and important human resource management practices now days and it includes all forms of pay and rewards received by employees for the performance of their Jobs (Snell.S., and Bohlander, G.W., 2007)

The compensation function contributes to organizational effectiveness in four basic ways.

1. Compensation can serve to attract qualified applicants to the organization. Other things being equal, an organization offering a higher level of pay can attract a large number of qualified applicants than its competing units (Snell.S., and Bohlander, G.W., 2007).

2. Compensation helps to retain competent employees in the organization. Although retaining competent workers is contingent on many factors, compensation policies help by maintaining a fair internal pay structure and by providing attractive benefits. Turnover thus reduced, along with costs associated with recruiting, selecting and training replacements (Snell.S., and Bohlander, G.W., 2007).

3. Compensation serves as an incentive to motivate employees to put forth their best efforts. Manufacturing and sales organizations, For example, use monetary incentives to attain higher levels of production or sales without hiring additional employees. When employees put forth their best efforts, average productivity of labor increases. With increased productivity, fewer employees are needed to achieve the same level of output. Thus, labor costs are reduced and organizational profitability is increased (Snell.S., and Bohlander, G.W., 2007).

4. Minimizing the costs of compensation can also contribute to organizational effectiveness since compensation is a significant cost for most employers. (Snell.S., and Bohlander, G.W., 2007)

### **2.1.7 Employee Retention**

Employee retention refers to policies and practices companies use to prevent valuable employees from leaving their job. It involves taking measures to encourage employees to remain in the organisation for the maximum period of time. Hiring knowledgeable people for the job is essential for an employer; but retention is even more important than hiring. Previous research has identified several factors that have an influence on employee retention. A first important indicator of employee retention is their organizational commitment (Curtis,S. and Wright,D., 2001).

Employees with a high organizational commitment are those who have a strong identification with the organisation, value the sense of membership within it. This commitment is influenced by the organization's norms and practices, especially the organizational climate (Kaliprasad, 2006).

(Hyttter, 2007) Found that the personal premises of loyalty, trust, commitment, and identification and attachment with the organisation have a direct influence on employee retention. She also demonstrated that workplace factors such as rewards, leadership style, career opportunities, the training and development of skills, physical working conditions, and the balance between professional and personal life have an indirect influence (Hyttter, 2007) .

(Newstrom, 2009) States excessive employee turnover can have several negative effects on an organisation. They include:

- Separation costs (exit interview time, separation pay, unemployment and tax increase)
- Training costs for few new employees (both orientation and skill development instruction; both formal and informal learning experiences)
- Vacancy costs (temporary help or overtime pay; productivity loss and service disruption)
- Placement costs (attracting, screening, and relocating new hires)
- Morale effects (loss of friendship, concerns about personal job loss during downsizing)

### **2.1.8 The relationship between Compensation and Employee Retention**

Enormous studies have confirmed that for the company to withstand the competition, a well formulated strategy to retain the employees is vital. Employees are the intellectual capital for the organization, and it is very important for the organization to make the employee responsible for the growth of the organization (Siddiqi K., 2021). This develops an everlasting bond between the employee and the organization – a win-win strategy. The employee grows both financially and also in the level of hierarchy along with the organization.

From the viewpoint of compensation, training can be termed as the non-monetary benefit provided by the organization to enhance the skill levels of the employees. A well-defined training increases learning, this leads workforce development. On-the-job, training impacts positively on the pay structure of the employees, because of enhanced levels of skills, abilities, the productivity increases, giving an incremental rise to organizational productivity, thereby, increases revenue and profits (Deckop, J. R., Merriman, K. K., & Gupta, S., 2006)

Compensation becomes a profound element for reducing turnover and increasing retention.

From the studies (Deckop, J. R., Merriman, K. K., & Gupta, S., 2006) it was evident that a strategized compensation structure increased employee performance to the maximum level. The

combination of monetary and non-monetary benefits has a strong positivity towards employee acceptance. Even announcing spontaneous rewards for the achievements of the employee or the team will boost the morale and the same will be continued further, this gives a healthy competition at the workplace. This is the base for corporate culture to be acclaimed across the organization. This healthy and win-win situation will impact the organization from macro perspective, success of teams and departments to the micro level, healthy contribution by each individual towards the growth of the organization.

Another vital element is the work environment, this increases the fitment of workforce with the organization, a person-organization fit. With a good P-O fit, the individual rarely think about switching over to other environment. There by reducing turnover. Many studies have proclaimed that working environment has a great impact in bonding the talent force together, the positive the working environment the more is the bonding and vice-versa. (Deckop, J. R., Merriman, K. K., & Gupta, S., 2006) The more adaptable work environment will unite talent and is more efficient in retaining the talent than compared with the compensation (Moncarz E, Zhao J, Kay C., 2009). The more an employee has positive affinity towards the organization the more will be the demonstration of skills, abilities and responsibility on accomplishing the tasks.

This increases commitment and longevity of the employee with the organization. Maintaining a healthy work environment will be a tool for employee development (Deckop, J. R., Merriman, K. K., & Gupta, S., 2006)

With flexible work systems organizations provide employees an opportunity to balance both work life and personal wellbeing especially in the present pandemic (COVID-19), and the system itself designed such that the stress levels are maintained at the lowest possible levels, where the employees are excited to work at high levels of efficiency. (Moncarz E, Zhao J, Kay C., 2009) Hence, maintain well-balanced work systems, termed as one of the elements of non-monetary supplies the organization providing to the employees. On the other hand, apart from good payroll system, good relationship with peers, will shoot up productivity to a high scale, a positive sign towards being with the organization. Sharing of knowledge, experiences, beliefs and ideas will psychologically bond the employees with peers, and become a great tool for retaining (Abou-Moghli, 2019).

### **2.1.9 The Impact of Compensation on Employee Retention**

Employee retention via efficient human resource management strategies in the Maldives: Mediating impacts of salary and incentives system (Hassan, 2022). The investigation discovered that reward and compensation practices have a significant positive effect on employee retention in the retail sector of Maldives. However, career development, training and development, and performance appraisal were not found to have a significant effect on employee retention. Reward and compensation also had mediating effects on the relationship between training and development as well as performance appraisal with employee retention but there were no moderating effects observed between these factors. The paper further suggested that organizations in the retail sector of Maldives should focus on improving their reward and compensation practices to increase employee retention. According to (Goel, A.K., Popova, S. and Popova, L., 2021) emphasized that the importance of fair compensation in retaining employees in an organization. The need for a well-formulated compensation strategy and design of a compensation system is to improve employee retention and achieve organizational goals. The impact of employee compensation is on organizational performance, employee turnover and retention, job satisfaction and burnout, and training and development. The role of training and development is for retaining employees and improving their skills. The significance of supportive work environment plays important role in facilitating the application of supervisory skills training. The need for flexible work-life policies and formal flexible arrangements to improve employee engagement and expected retention. (Naveed, A.R. and Akhtar, C.S. , 2020) the result of their research showed a strong relationship between relational compensation and employee retention. Responsibility and autonomy were found to be more influential than recognition or respect for retaining employees. Hotel management should focus on both monetary benefits as well as non-monetary benefits when trying to retain staff members.

## 2.2 Empirical Review

As (Khatun, M., Rahman, S.N. and Khatun, M. , 2023) showed that both development opportunities and compensation were significantly correlated with employee retention. However, multiple regression analysis revealed that compensation was more significant than development opportunities for retaining employees. Furthermore, it was found that managers need to project different levels of perceived compensation plans so that organizational goals can be easily reached. This means offering competitive salaries based on job roles as well as other benefits such as bonuses or promotions based on performance evaluations. Overall, this study highlighted how important it is for organizations to offer competitive salary packages along with growth prospects if they want their employees to stay loyal over time.

The work of (Maru, G. and Omodu, M, 2020) directed research that monetary benefits have a strong positive correlation with employee retention while non-monetary benefits have moderate correlation. Based on these findings, the authors recommended that management should focus on both types of benefit programs to effectively motivate competent employees to stay within an organization.

As (Abou-Moghli, 2019) exhibited that compensation management has a significant positive effect on employee retention in the Jordan commercial banking industry. The study also found that structural capital partially mediates the relationship between compensation practices and employee retention. This suggested that firms should focus on developing their structural capital to enhance their ability to retain talented employees. The study further highlighted the importance of compensation practices in retaining talented employees, and suggested that firms should focus on developing their structural capital to enhance their ability to retain employees.

This was particularly important in an industry like banking, where there was a high degree of mobility among skilled workers. The findings suggested that firms should focus on developing compensation practices that align with employee goals and objectives, while also investing in their structural capital to create a supportive work environment that encourages employee retention. The findings proposed that firms should focus on developing compensation practices

that align with employee goals and objectives, while also investing in their structural capital to create a supportive work environment that encourages employee retention.

The research undertaken by (Rakhra, 2018) found that many employees feel their companies are not doing enough to retain them, and they have plans to change jobs if it continues. The research also presented potential reasons that may compel an employee to leave a job, such as dissatisfaction with the current job or relationship with colleagues, problems with the working environment, lack of growth opportunities, or dissatisfaction with salary among others. Moreover, the research suggested several strategies that can help organizations retain their top performers. These strategies included providing learning and development opportunities, offering fair and unbiased appraisal systems, providing better working conditions, offering rewards and other benefits, and ensuring freedom while working. The study also highlighted the importance of timely yearly bonuses as a prominent factor in wages and compensation.

Researches of (Mwakidim and Obwogi, 2015) examined the effect of pay and work environment on employee retention in Hotel industry in Mombasa. Their findings revealed that pay had a weak influence on employee retention while work environment has a strongest influence. They recommended that employers in the industry need to re-evaluate the current weaknesses associated with pay.

As (Ruby, 2012) employed a survey method in finding out the impact of indirect compensation on employee retention in Central University College (CUC) of Ghana. There were 280 responses for the survey. Questionnaire administration and condition of service manual of CUC were used to measure the relationship between variables. The study uncovered that though management implements some of the indirect compensation available, there are other benefits which are not satisfactorily administer and this has contributed to a lack of zeal towards work, which has affected the productivity negatively. The study recommends that management of CUC should provide the necessary attention that indirect compensation deserves, as this will help boost the moral of employee which will result in higher productivity.

### 2.3 Conceptual Framework

Depending on the previously assessed related literatures, the researcher selected the explained factors as measurement scales for the study under investigation to examine the effect of Compensation on employee retention in Dashen bank.

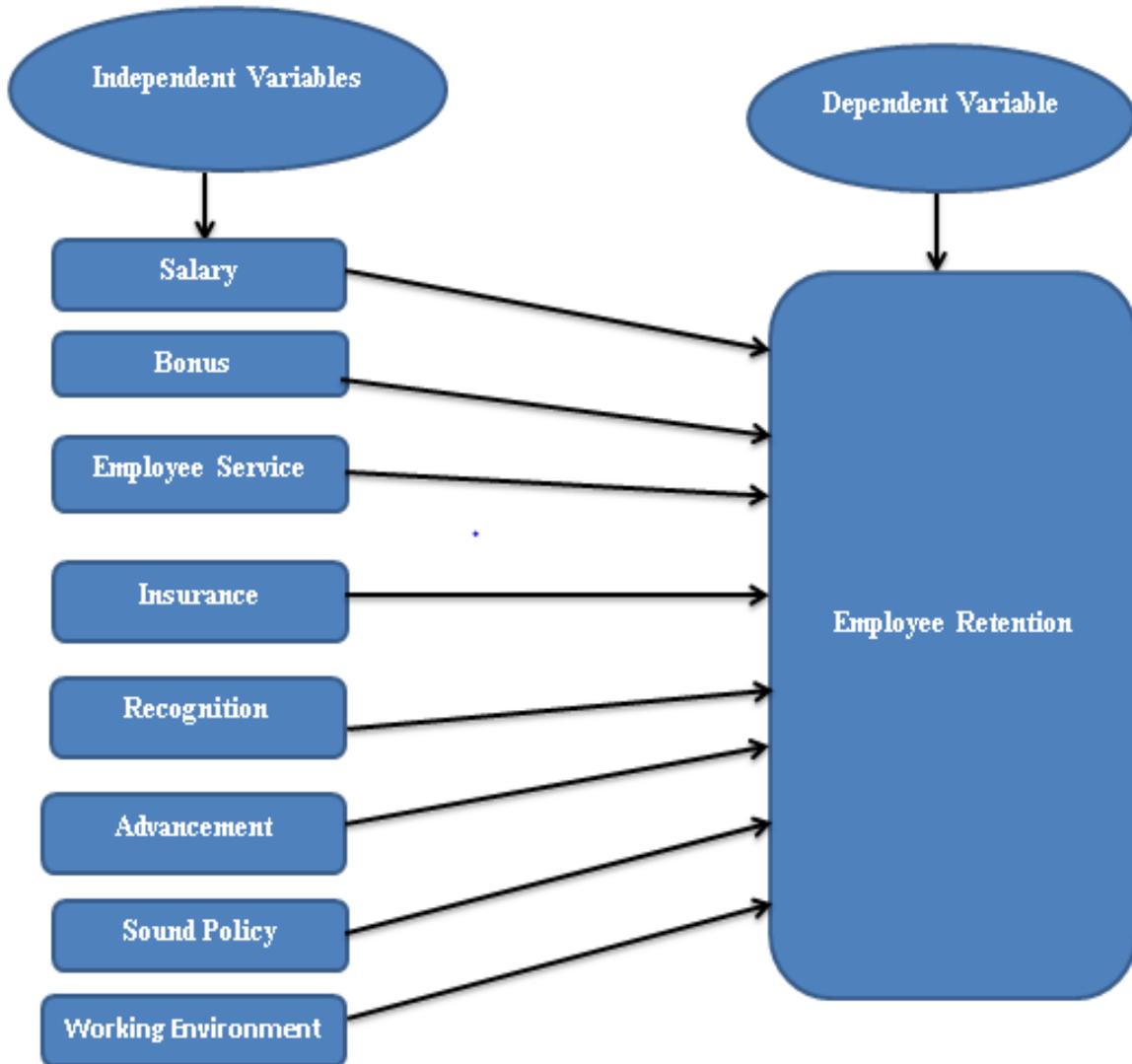


Figure 1 Conceptual Framework

**Source:-**Developed by the researcher for the study based on (Abou-Moghli, 2019)

## 2.4 Research Hypothesis

Based on the conceptual framework and related literature of the study, the researcher formulated the following hypothesis to test the significant effects of independent variables on Employee retention.

**H<sub>1</sub>:** Salary has positive and significant effect on employee retention.

**H<sub>2</sub>:** Bonus has positive and significant effect on employee retention.

**H<sub>3</sub>:** Employee services have positive and significant effect on employee retention.

**H<sub>4</sub>:** Insurance has statistically positive significant effect on employee retention.

**H<sub>5</sub>:** Recognition has positive and significant effect on employee retention.

**H<sub>6</sub>:** Advancement has positive and significant effect on employee retention.

**H<sub>7</sub>:** Sound policies have positive and significant effect on employee retention.

**H<sub>8</sub>:** Working Environment has positive and significant effects on employee retention.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This chapter dealt with research methodology used to carry out the research. The chapter is organized in nine sub sections. In its first part there is a research design, then after it subsequently presents about research approach, population, sample and sampling technique, data type, sources and instruments, data analysis, model specification.

#### **3.1 Research Design**

The research applied mainly explanatory research style and additionally descriptive research style is used to explain the descriptive analysis of the findings and for interpreting result. However, based on the nature of the research title, more emphasis is given to explanatory research design because it adds knowledge on the topics and identified the cause and effect of data collected from employees in the form of questionnaire and simply helps to present those data and clarify the situation on the ground (Kothari C. , 2004).

(Cresswell, Research design, qualitative, quantitative and mixed method approaches., 2009) Discussed that explanatory studies unlike descriptive studies, go beyond observing and describing the condition and tries to explain the reasons of the phenomenon. Thus, explanatory research design was used in this research because the study conducted to examine the effect of compensation on employee retention in case of Dashen bank and additionally this type of research examines cause and effect of the dependent and independent variable which are appropriate for the objective of the study.

#### **3.2 Research Approach**

When conducting a research, there are different ways of approaching the problem. According to (Creswell, 2009) there are three approaches of research; quantitative, qualitative and mixed. The following discussions briefly presents the basic features of these research approaches. Quantitative research is a means for testing objective theories by examining the relationship among variables On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively. Finally, mixed methods approach is an

approach in which the researchers emphasize the research problem and used all approaches available to understand the problem (Creswell, 2009). Hence, based on the above discussions of the three research approaches and by considering the research problem and objective, this study used quantitative approach.

### **3.3 Types and Sources of Data**

There are two types of data, primary and secondary. The primary data are those which are gathered for the first time and a fresh and thus collect for the case at hand (Kothari C. , 2004). Secondary data is defined as Data that have been previously collect for some purpose other than the one at hand. For the purpose of the study in order to obtain relevant information both primary and secondary data were collected. Also, the bank used official websites and use different magazines as well as annual reports and communication reports and those secondary ways of data collection would be implemented to make sure the fullness of the study.

### **3.4 Data Gathering Tool**

To fulfill the objective stated, the data from structured questionnaires were analyzed using descriptive statistical techniques which include tables, graphs, frequency distribution and percentages. The questionnaire was distributed to each of selected employee of Dashen Bank using hardcopy.

## **3.5 Population, Sample Size and sampling techniques**

### **3.5.1 Population of the Study**

The target population of the study consisted of 816 employees of Dashen Bank S.C at western Addis Ababa District office. As it was impossible and unfeasible to do census, the researcher took a sample. According to (Cooper and Emory, 1995), the basic idea of sampling is that by selecting part of the elements in a population, conclusion may obtain about the entire population. As it is impractical to perform census, the researcher used sampling techniques to draw a sample from which could be inferred to the total population.

### 3.5.2 Sample Size

In line with the study's objectives and within the confines of its scope, representative samples were chosen. As indicated by (Roscoe, 1975), most research studies can benefit from sample sizes greater than 30 and smaller than 500. Having this in mind and the above mentioned limitations, the study used stratified sampling method. This method is used because; the advantage of this sampling technique is that there is less sampling variation than with simple random or systematic sampling, more precise, unbiased, and economical. To use this method, the researcher used position of the employee as strata and the heterogeneous employers are classified in to six homogeneous groups. Based on (Nardi P.M. 2003), for populations under 1000, it is advisable to use 10%-30% of the population to ensure the representativeness of the sample. By considering the time and cost of the researcher, 20% of employees from each corresponding position (strata) were taken as shown in the table below.

Table 1 Sample size determination

No	Position of Employees	Numbers of employees	Sample taken (20% of employees)
1	Branch Manager	93	19
2	Customer Service Manager(CSM)	98	20
3	Customer Service Officer(CSO)	478	96
4	Customer Relations Manager(CRM)	42	8
5	Accountant	30	6
6	Senior Customer Service officer (Cash)	95	19
<b>Total</b>		<b>816</b>	<b>168</b>

**Source:** HRM office of Dashen Bank S.C, Western Addis Ababa District (January, 2024 G.C)

As seen above, the researcher selected 168 employees from the entire 816 staff by using stratified sampling technique. The calculation from a population of 816 resulted into 168 samples. Based on the calculation above; a total of 168 employees is required to constitute the sample size.

### **3.5.3 Sample Technique**

This study used probabilistic sampling techniques specifically stratified random sampling techniques which categorized branches based on their number of employees and calculated the sample number from each branch accordingly. Also, the advantage of this sampling technique is that there is less sampling variation than with simple random or systematic sampling, more precise, unbiased, and economical.

As (Shalabh, 2013) pointed out, the fundamental concept underlying stratified sampling involves breaking down the diverse overall heterogeneous population into smaller clusters or subgroups. These clusters ensure that the elements being sampled are homogeneous in terms of the studied attribute within each subset and heterogeneous in terms of diversity among the subgroups. These subsets are referred to as strata. Treat each subpopulation as a separate population and draw a sample by Simple random sample from each stratum.

According to (Cooper and Emory, 1995), a simple random sample can be taken within each stratum after a population is divided in to the appropriate strata. The sampling results can be taken within each stratum. The entire employees at District level stratified in to six strata based on the number of departments. The samples from each position collected based on the number of Employees in the Branches. The sample size 168 was proportionately distributed into six strata to guarantee appropriate representation.

### **3.6 Method of Data Analysis**

To fulfill the objective stated, the data from structured questionnaires were analyzed using descriptive statistical techniques, correlation and regression analysis which include tables, graphs, frequency distribution and percentages. Additionally, Inferential data analysis such as Correlation and regression are used to increase the level of confidence and also both descriptive and inferential statistical techniques can be used for quantitative analysis.

Both descriptive and inferential statistics were used to analyze the quantitative data gained through structured questionnaire. Descriptive statistics was used to describe the usefulness of the data set while the inferential analysis for examining the relationships between the variables. In order to describe the data, preliminary descriptive statistics such as frequency, percentages, and mean scores were computed. Inferential Statistics was also carried out to explain the effects of

compensation on employee retention. Inferential analysis is mainly meant for Correlation and multiple regression analysis.

### 3.7 Reliability and Validity

#### 3.7.1 Reliability

A pilot study was undertaken to assess the reliability of the research instrument. The initial version of the instrument, developed in English, was administered to a specific sample comprising 30 respondents to check the reliability of the data for testing the consistency of the questionnaire. Measuring reliability (Bryman et al., Data Reliability and Validity Test, 2013) is the evaluation of how consistently a measurement yields results. Internal consistency, or how closely connected a group of sample items are to one another, is measured by Cronbach's alpha. It functions as a scale dependability indicator. A Cronbach's alpha value of more than 0.7 is considered to be acceptable. The variables were categorized into 9 and reliability test was done. All the categories show Cronbach's alpha value more than 0.7.

Table 2 Reliability of variables

Variables	Cronbach's Alpha Coefficients	No. of Items
Salary	.778	5
Bonus	.748	5
Employee Service	.878	5
Insurance	.773	5
Recognition	.935	5
Advancement	.874	5
Sound policy	.784	5
Working Environment	.790	5
Employee Retention	.823	5
<b>Total Reliability</b>	<b>.920</b>	<b>45</b>

Source: Own Survey, (2024)

### 3.7.2 Validity

The degree to which a measuring device measures what it is intended to assess depends on the test's validity (Saunders, Research Method for business Student, 2009) Specialists in the field, such as advisers, have access to copies of the survey in order to produce validity in terms of idea, substance, criteria, and face validity to make it appropriate for the study's objectives. The validity of the research is also assessed using its face and content validity. Study items measure study variables, whereas face validity entails in-person confirmation, and content validity judges how well a measuring device captures the current investigation.

### 3.8 Model Specification

Multiple linear regression analysis is a statistical method to deal with the formulation of a mathematical model depicting relationships amongst variables which can be used to predict the value of a dependent variable, given the value of the independent (Kothari C. , 2004).

Regarding the model specification, in this study, Compensation dimensions namely Salary, Bonus, employee Services, Insurance, Recognition, Advancement, Sound policy and working environment are considered as independent variables while employee retention is a dependent variable. To do so, the model is formulated among the study variables to address the objectives of the study. The relationships are formulated as:

- **The effect of compensation on employee retention.**

$$Y = X_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + e$$

**Where:**

Y=Employee Retention; X<sub>1</sub> =Salary; X<sub>2</sub> =Bonus; X<sub>3</sub> = Employee Service; X<sub>4</sub> = Insurance; X<sub>5</sub>= Recognition; X<sub>6</sub>= Advancement; X<sub>7</sub>=Sound Policy; X<sub>8</sub> = Working Environment; e = error term; X<sub>0</sub> = constant term;  $\beta_1, 2,3,4,5,6,7,8$  = coefficient terms.

Before conducting the multiple regression analysis, correlation test was conducted to quantitatively describe the strength of the association among the variables. According to (Hair, Correlation and Regression Analysis for research methods,2nd edition, 2016), the Pearson correlation coefficient measures the degree of linear association between two categorical variables. It varies from -1.00 to +1.00, with 0 representing absolutely no association b/n the two

variables. Then, assumptions for regression model tests (multi-collinearity, homoscedasticity, linearity and normality) were also carried out to affirm the fitness of the data for multiple linear regression models. Regression analysis was conducted to examine the effect of compensation on employee retention in terms of coefficient of determination ( $R^2$  value), the regression coefficient and the p-values (ANOVA Test) for the significance of each relationship.

### **3.9 Ethical Consideration**

In order to keep the confidentiality of the data given by respondents, the respondents were not required to write their names and be assured that their responses were treated with strict confidentiality. The purpose of the study has already been disclosed in the introductory part of the questionnaire. Furthermore, the researcher tried to avoid misleading or deceptive statements in the questionnaire. Lastly, the questionnaires were distributed to voluntary participants after having their full consents; those who were not willing wouldn't be contacted.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

This chapter focused on data analysis, presentation and discussion of the results and findings about the effect of Compensation on Employee Retention in the case of Dashen Bank, based on the data collected from the questionnaires from employees of the organization.

#### 4.1 Response Rate of Respondents

A total number of 168 respondents are targeted in this study. The respondents were from Officer, Senior Officer, Managerial and other position of Dashen Bank, West District of Addis Ababa. However, 150 respondents returned their questionnaires contributing to 89.3% response rate.

Table 3 Response Rate

Category	Frequency	Percent (%)
Responded	150	89.3
Did not Respond and rejected	18	10.7
<b>Total</b>	<b>168</b>	<b>100</b>

Source: Own Survey (2024)

The response rate is one of the important aspects that indicate the quality of the survey (Cress well, 2009) With regards to respondents' responses in this survey, a total of 150 out of the 168 distributed questionnaires were returned which accounted for a response rate of 89.3%. This indicates that, according to (Saunders, Research Method for business Student, 2009), surveys with higher response rates (near 60% or 70%) have more accurate measurements than the ones with lower response rates. Thus, higher response rates are always preferable compared to lower ones. The returned questionnaires were checked further for errors and as a result, 18(10.7%) incomplete questionnaires (missing data) were identified and discarded. Finally, a total of 150 valid and usable responses were used for the final analysis.

## 4.2 Demographic characteristics of respondents

Socio-demographic factors are very important indicators of performance in any organization and the basis for research questionnaire turnout. In this section, the demographic characteristics such as sex, age, work position, Educational qualification and experience of the respondents are discussed as per collected from the questionnaire.

### 4.2.1 Sex of Respondents

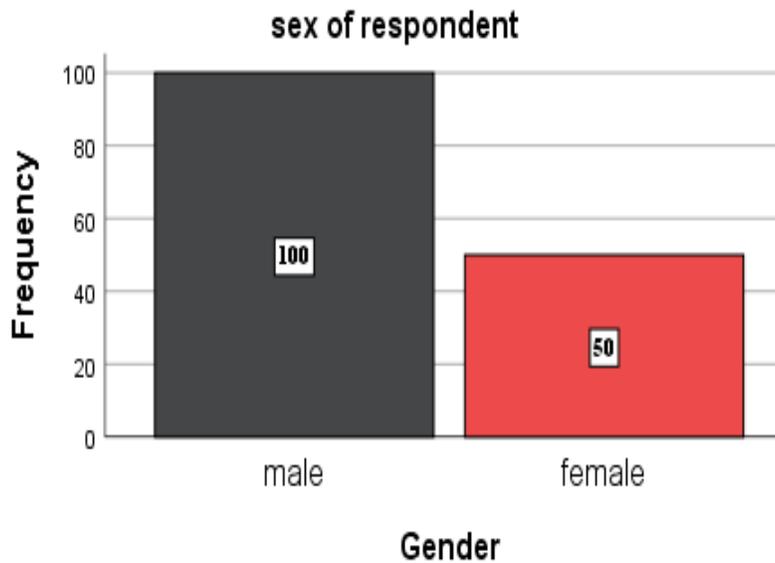


Figure 2 Sex of the respondents

Source: SPSS output, (2024)

As per the findings, 100 (66.7%) of the respondents were males whereas 50 (33.3%) of the respondents who participated in this study were females. It was observed that the ratio of male employees were much higher than the female employees. The findings demonstrated that male employees were dominant workforce at Dashen Bank S.C, Western Addis Ababa District.

#### 4.2.2 Age of the respondents

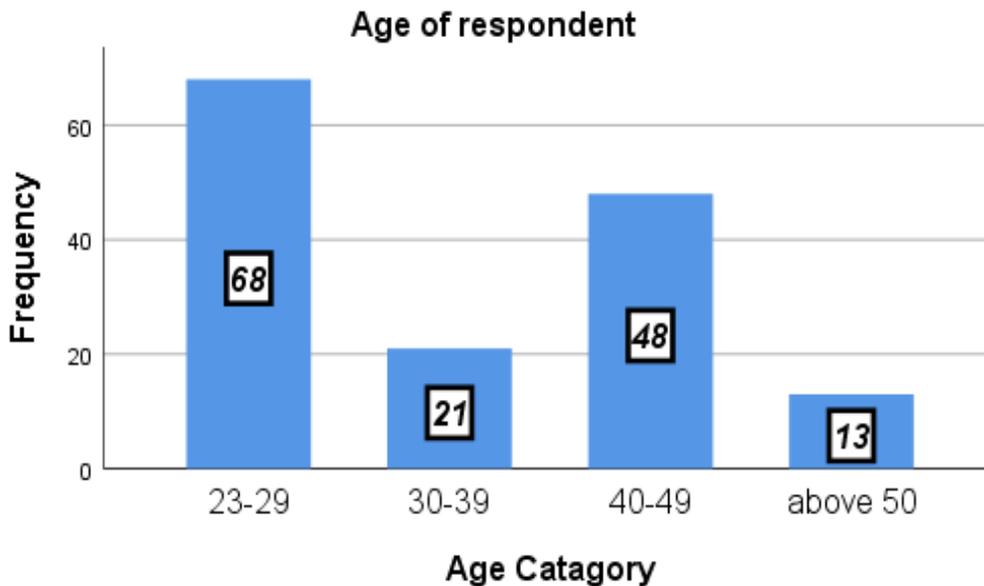


Figure 3 Age of respondent

Source: SPSS output, (2024)

As shown in figure 3 above, the respondents' age groups were categorized into four groups. The first group ranges between 23-29 years, the second is 30-39 years, the third is 40-49 years, and the last age group is above 50 years. The result showed that 68(37.8%) of the respondents were between the ages of 23-29. The age group between 30-39 years covered 21(11.7%) of the respondents' range. The category of age 40-49 of employee of the bank is 48(26.7%). Finally, 13(7.2%) of the ages of employees are above 50 years. According to the result of the survey, most of employees of the Company are the youngest which accounts 37.8% of the total employee.

### 4.2.3 Position of Employee

Table 4 position of employee

No	Work position	Frequency	Percentage (%)
1	Officer	50	33.3
2	Senior Officer	38	25.4
3	Managerial	50	33.3
4	Others	12	8
<b>5</b>	<b>Total</b>	<b>150</b>	<b>100</b>

Source: Own Survey (2024)

As shown in the above table 4, the research obtained 50 (33.3%) responses from the Officers, 38(25.4%) from Senior Officers, 50 (33.3%) of the respondents fall under Managerial position and 12(8%) of the employee are from other position of the Bank.

### 4.2.4 Educational background of respondents

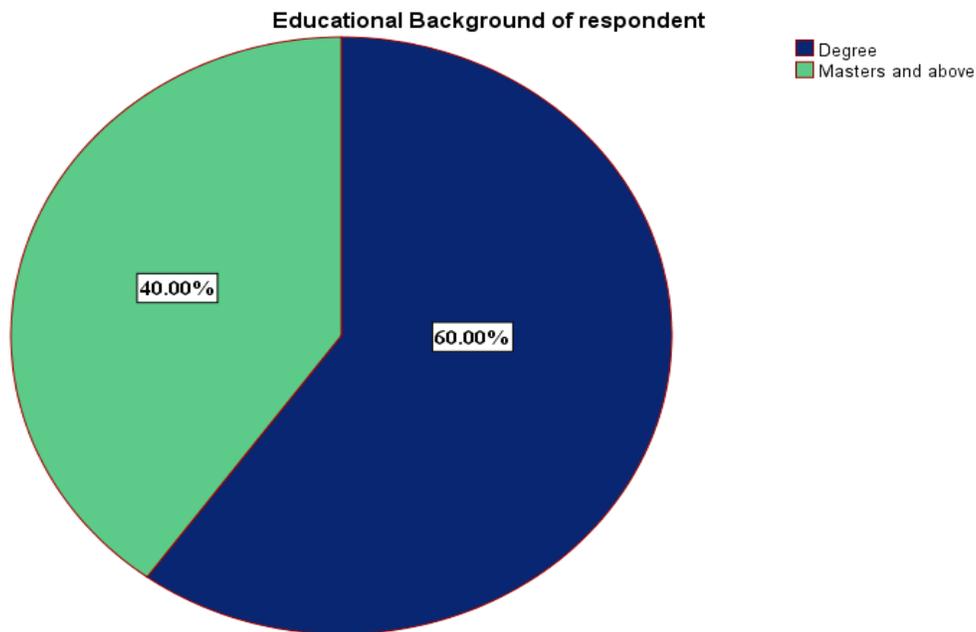


Figure 4 Educational background of respondent

Source: SPSS output, 2024

Looking at the educational qualification of respondents from figure 4, the highest number of respondents, 90 (60.00%) have first Degree and the remaining 60 (40.00%) were Master's Degree holders. The researchers did not obtain Diploma holders response.

#### 4.2.5 Work Experience of the Respondent

Table 5 Experience of respondent

Experience of the respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	75	50.0	50.0	50.0
	4-6 years	50	33.3	33.3	83.3
	Above 7 years	25	16.7	16.7	100.0
	Total	150	100.0	100.0	

**Source:** SPSS output (2024)

The descriptive data analysis of experience levels of the respondents in Dashen Bank showed that 75(50.0%) had up to 1-3 year of experience. Respondents having 50 (33.3%) are employees with experience of 4-6 years, and finally 25 (16.7%) with above 7 years of experience. This may have implied that most of the employees were hired in recent years at the same time significant number of employees have stayed in the organization above 7 years.

Generally, the analysis of the demographic statistics demonstrated that, the work force comprises with larger number of male and productive employees while majority of the respondents represented undergraduates and above education level.

#### 4.3. Descriptive Analysis of the Study Variables

The descriptive analysis is used to look at the data collected and described the obtained from the respondents' response. The descriptive analysis presented the mean and the standard deviation of the independent and dependent variable from respondents' perception.

### 4.3.1 Mean and Standard Deviation

Mean value provides the idea about the central tendency of the values of a variable. While, standard deviation gives the idea about the dispersion of the values of a variable from its mean value. According to (Best, Descriptive Analysis of variables, 1987) the scale is set in such a way that respondents strongly disagreed if the mean scored value is in the range of 1.00 – 1.80; disagreed within 1.81 – 2.60; neither agreed nor disagreed within 2.81 - 3.40; agreed if it is in the range of 3.41 – 4.20; while strongly agreed when it falls within 4.21 – 5.00. In addition, standard deviation shows the variability of an observed response.

### 4.3.2. Salary

Table 6 Analysis of Salary

Statements	N	Mean	Std. Deviation
I am satisfied with the amount of salary paid by the bank.	150	4.23	.76
My salary is satisfactory compared to my contribution to the bank.	150	3.87	.62
My salary is equitable when compared with other banks employees which perform similar jobs.	150	3.83	1.10
Salary increment is based on job performance.	150	3.70	.83
Salary payment and increment are clearly communicated with employees.	150	3.83	.94
<b>Aggregate Mean</b>	<b>150</b>	<b>3.89</b>	<b>.85</b>

Source: Own Survey, 2024

Respondents were required to indicate level of agreement with various aspects on Salary at Dashen Bank. Means of between 3.70-4.23, standard deviations of between 0.62-1.10 and aggregate mean of 3.89 were recorded. The study finding shows that salary has statistically significant effects on employee retention and also salary decreases employees' dissatisfaction with the work environment (Herzberg, 1991)

### 4.3.3. Bonus

Table 7 Analysis of Bonus

Statements	N	Mean	Std. Deviation
I always receive a bonus for achieving specific goals set by the company.	150	4.10	1.19
The bonus given by the bank is satisfying.	150	3.67	.75
The bonus plan encourages me to retain in this bank.	150	3.67	.96
I receive bonus based on my personal and group achievement.	150	4.33	.95
The bonus plan offered in the bank is fair and based on performance.	150	3.33	1.25
<b>Aggregate Mean</b>	<b>150</b>	<b>3.82</b>	<b>1.02</b>

Source: Own Survey, 2024

As shown in the table 7, the researcher has summarized that employees of the company are satisfied on the way of receiving bonus based on their individual and group achievement with an aggregate mean response of 3.82 and Std. Deviation of 1.02. This indicated that employees have positive attitude towards the bonus plan offered in the bank.

#### 4.3.4. Employee Services

Table 8 Analysis of Employee Services

Statements	N	Mean	Std. Deviation
I easily access the benefit offered by the bank.	150	3.70	.82
I am satisfied with the service provided by the company.	150	3.83	.94
I have access to paid leaves when I need it.	150	4.17	.69
Medical cover is well taken care of by the company.	150	4.00	.68
I receive travelling allowance from the company.	150	4.23	.67
<b>Aggregate Mean</b>	<b>150</b>	<b>3.99</b>	<b>.76</b>

Source: Own Survey, 2024

As per the findings, most of the employees are satisfied with the service provided by the company with aggregate mean of 3.99 and standard deviation of 0.76. Also, the employee responded that the access of paid leaves, medical cover and travelling allowance is easily provided when they need it. Based on the respondents of the employee, most of them are satisfied with the services provided by the company.

#### 4.3.5. Insurance

Table 9 Analysis of insurance

Statements	N	Mean	Std. Deviation
The bank has well organized and written insurance policy.	150	4.00	.68
The insurance given in the bank makes me to be committed in my work.	150	4.23	.67
The insurance given in the bank is satisfactory.	150	4.10	.60
The company has aligned my insurance benefit with my base pay.	150	4.13	.72
The insurance policy encourages me to stay in this company.	150	3.40	1.05
<b>Aggregate Mean</b>	<b>150</b>	<b>3.97</b>	<b>.74</b>

Source: Own Survey, 2024

Table 9 revealed that, most of the employee of the bank agreed that their company has well organized and written insurance policy of the company. However, some of the respondents show less agreement towards the insurance policy encourages me to stay in this company with mean 3.40 and Std.1.05. This finding showed that most of the employees are satisfied with the insurance offered in the company by showing level of agreement with aggregate mean of 3.97 and Std.0.74.

#### 4.3.6. Recognition

Table 10 Analysis of recognition

Statements	N	Mean	Std. Deviation
I receive positive recognition for what I perform better.	150	3.67	.75
Proper recognition of high performers will encourage low performer to work hard.	150	3.67	.75
The recognition I get due to my performance is visible to others.	150	3.67	1.12
Recognition motivates me to increase my performance.	150	3.33	.95
Employees get recognition from their supervisor.	150	3.67	.76
<b>Average Mean</b>	<b>150</b>	<b>3.60</b>	<b>.87</b>

Source: Own Survey, 2024

According to the response of respondent in terms of recognition, they are moderately satisfied with the way of getting proper recognition of high performers from their supervisor with average mean of 3.60 and Std.0.87. It is possible to summarize that majority of employees of the Dashen Bank are satisfied with recognition providing process of the company that encourages low performer to work harder.

### 4.3.7. Advancement

Table 11 Analysis of advancement

Statements	N	Mean	Std. Deviation
There is clear career advancement opportunity in the company.	150	4.10	.60
The company provides adequate training to advance employees future career.	150	4.13	.73
Usually the company fills vacant position in the form of internal vacancy.	150	4.23	.67
The company provides adequate training to develop employee's future career.	150	4.00	.69
I am happy with my career path.	150	4.23	.67
<b>Aggregate Mean</b>	<b>150</b>	<b>4.14</b>	<b>.67</b>

Source: Own Survey, 2024

Based on the descriptive analysis of the result shown in table 11, most employees of the Dashen Bank are satisfied with the advancement opportunity given in the company and most of them show strong agreement towards the company provides adequate training to advance employees future career and they are happy with the training given to develop employee's future career with aggregate mean of 4.14 and Std.0.67. So, the finding reveals that the employees are satisfied with the career advancement opportunity provided in the company.

#### 4.3.8. Sound Policy

Table 12 Analysis of sound policy

Statements	N	Mean	Std. Deviation
Company rules and procedures are made easy to work.	150	3.33	.96
The company's policy is inclusive.	150	3.67	.75
The bank's policy is clear and understandable.	150	4.10	.60
The working procedure is well aligned with the policy of the bank.	150	4.00	.82
I am satisfied with the policy of the bank.	150	3.83	.38
<b>Aggregate mean</b>	<b>150</b>	<b>3.79</b>	<b>.70</b>

Source: Own Survey (2024)

According to the study finding, most of the employees are satisfied with the rules and procedures that made easy to work, aggregate mean of 3.99 and standard deviation of 0.76. Also, the employee responded that the access of paid leaves, medical cover and travelling allowance is easily provided when they need it. Based on the respondents of the employee, most of them are satisfied with the services provided by the company.

### 4.3.9 Working Environment

Table 13 Analysis of working environment

Statements	N	Mean	Std. Deviation
Safe working environment is provided.	150	4.00	.58
The working environment is open and trustworthy.	150	3.83	.90
I feel comfortable working with my teammates.	150	4.17	.69
The environment allows me to perform my job freely.	150	4.00	.58
I am satisfied with the working environment of the company.	150	4.33	.48
<b>Aggregate Mean</b>	<b>150</b>	<b>4.07</b>	<b>.65</b>

Source: Own Survey (2024)

As shown in table 13 above, respondents were required to indicate their level of agreement with various aspects on working environment. Means of between 3.83 – 4.33, standard deviations of between 0.48 - 0.90 and aggregate mean of 4.07 were recorded. It is clear from the study findings that Safe working environment is provided (4.00). In addition, employees are satisfied with the working environment of the company (4.33). The implication is that employees feel comfortable with their working environment and generally they are satisfied with the working environment of their company with aggregate mean of 4.07.

### 4.3.10 Employee Retention

Table 14 Analysis of employee retention

Statements	N	Mean	Std. Deviation
I am satisfied with the current compensation and benefit package.	150	4.23	.67
I feel strong loyalty and long term commitment to the company.	150	3.33	.96
I will recommend this company to others.	150	3.67	1.11
The compensation system and policy makes me to retain in this bank.	150	3.33	.95
I plan on working here a year from now.	150	3.67	.75
<b>Aggregate Mean</b>	<b>150</b>	<b>3.65</b>	<b>.89</b>

Source: Own Survey (2024)

Respondents were further required to indicate their level of agreement with various aspects on employee retention. Means of between 3.33 – 4.23, standard deviations of between 0.67 – 1.11 and aggregate mean of 3.65 were recorded. The study reveals that majority of the respondents were in agreement that satisfied with the current compensation and benefit package(4.23) and that they I plan on working here a year from now (3.67) and employees will recommend others to their company(3.67) as shown in Table 14. However, relatively low mean score were recorded regarding employees feel strong loyalty and long term commitment to the company.

As indicated from the above five employee retention dimensions, the level of the employee retention is accounted average means use of between 33-4.23. This implies that employees exhibited good employee retention in their company as the mean score registered above average.

#### **4.3.11. Discussion of Descriptive Analysis of the Study Variables**

The descriptive analysis in the study provides a detailed overview of the central tendencies and dispersions of various study variables, including salary, bonus, employee services, insurance, recognition, advancement, sound policy, working environment, and employee retention. These statistics offer insights into the respondents' perceptions and highlight significant trends and disparities.

##### **Mean and Standard Deviation**

The mean values indicate the average responses for each variable, while the standard deviations reflect the variability of responses. These measures help understand how the respondents generally feel about each aspect and how consistent their responses are.

##### **Salary**

The mean value for salary is 4.23, indicating that respondents generally agree they are satisfied with their salary.

A standard deviation of 0.76 suggests moderate variability in responses, showing some differences in satisfaction levels among employees.

##### **Bonus**

Respondents' satisfaction with bonuses shows a mean of 3.87, indicating a general agreement towards satisfaction but not as strong as salary satisfaction.

The standard deviation of 0.62 reflects relatively lower variability compared to salary, indicating more consistent responses.

##### **Employee Services**

The mean score for satisfaction with employee services is 3.75.

With a standard deviation of 0.70, this variable also shows moderate variability.

##### **Insurance**

The mean value for insurance satisfaction is 3.55.

A standard deviation of 0.68 indicates moderate variability.

### **Recognition**

The mean score for recognition is 3.91.

A standard deviation of 0.66 suggests moderate variability in employee responses.

### **Advancement**

Satisfaction with opportunities for advancement has a mean score of 3.70.

The standard deviation of 0.71 shows moderate variability.

### **Sound Policy**

The mean score for sound policies is 3.60.

A standard deviation of 0.69 indicates moderate variability.

### **Working Environment**

The mean score for the working environment is 4.01.

With a standard deviation of 0.73, this variable also shows moderate variability.

### **Employee Retention**

The mean score for employee retention is 3.80.

A standard deviation of 0.65 suggests moderate variability in responses.

### **High Satisfaction Areas:**

The highest mean score is observed for salary satisfaction (4.23), indicating strong agreement among respondents about being satisfied with their salary.

The working environment also scores high (mean of 4.01), showing general agreement that employees are satisfied with their workplace conditions.

### **Moderate Satisfaction Areas:**

Bonuses, employee services, recognition, and opportunities for advancement all fall into the moderate satisfaction range, with mean scores between 3.55 and 3.91. This suggests that while employees are generally satisfied, there is room for improvement in these areas.

### **Variability in Responses:**

The standard deviations across all variables indicate moderate variability, meaning that while there is general agreement on satisfaction, individual experiences do vary.

The highest variability is seen in salary satisfaction (standard deviation of 0.76), suggesting that while many are satisfied, there are notable differences in opinions.

### **4.3.12 Measurements of Independent Variables**

In the context of the provided thesis on employee retention and compensation, the independent variables are typically measured through various methods such as surveys, questionnaires, and statistical analyses. Here's a general outline on how these measurements are typically conducted:

#### **Surveys and Questionnaires:**

**Likert Scale:** Independent variables are often measured using Likert scale questions, where respondents indicate their level of agreement or satisfaction with various statements related to the compensation components.

**Questionnaire Design:** Questions are designed to capture the perceptions of employees regarding different aspects of compensation such as salary, bonuses, benefits, and non-monetary rewards.

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#### **Correlation Analysis:**

**Pearson Correlation Coefficient:** This statistical measure is used to determine the strength and direction of the relationship between independent variables (e.g., different types of compensation) and the dependent variable (employee retention).

#### **Regression Analysis:**

**Linear Regression:** Regression analysis helps in understanding the impact of independent variables on employee retention by quantifying the relationship and determining the predictive power of the model.

Reliability Testing:

**Cronbach's Alpha:** This test measures the internal consistency of the survey items related to each independent variable, ensuring that the questions reliably capture the intended constructs.

### **Example Variables and Measurement Items**

#### **Salary:**

Questions might ask employees to rate their satisfaction with their base salary, the fairness of the salary compared to industry standards, and the frequency of salary reviews.

#### **Bonuses:**

Items could include questions on the adequacy and fairness of bonus payments, clarity of bonus criteria, and the motivational impact of receiving bonuses.

#### **Benefits:**

This variable might be measured through questions about the range and quality of benefits provided, such as health insurance, retirement plans, and paid time off.

#### **Non-Monetary Rewards:**

Measurement items may focus on employee recognition programs, career development opportunities, and the overall work environment.

#### **Reference Section in Thesis**

For detailed measurement methods and specific questions used in the study, refer to the methodology section of the thesis document. This section typically provides comprehensive information on how each independent variable was operationalized and measured, along with the statistical tools used for analysis. Unfortunately, the exact pages and sections could not be retrieved directly from the search results, so you may need to manually review the methodology chapter of the provided thesis document for precise details.

#### **4.4. Inferential Analysis**

Inferential analysis is used to generalize about the population parameters based on results obtained from sample. That means it measures the reliability of conclusions about a population that is based on information gathered from a sample of the population (Saunders, Research Method for business Student, 2009) Since inferential analysis doesn't sample everyone in a population, the results often contain some level of uncertainty. To address the objectives of the study, the inferential statistics encompassed correlational test, assumption for the regression model test, and regression analysis of the collected data.

##### **4.4.1. Correlation Test**

In order to examine the effect of Compensation on employee retention, inferential statistics i.e. correlation and regression analysis, have been considered and the results are interpreted as follows.

Correlation analysis is used to measure association and confirms the relationship between the variables. Accordingly Person correlation coefficient was used to examine the magnitude (intensity of relationship -1 to +1) and the direction of the relationships (positive/negative) (Zaidatol and Bagheri, 2009).

Likewise, the significance level, p-value, is labeled as —Sig.‖ in the SPSS output and helped to statistically determine the significance of the results during a hypothesis test. If the significance value is less than 0.05 ( $p < 0.05$ ) then the relationship is statistically significant. If the significance value is greater than 0.05 ( $p > 0.05$ ) then the relationship is not statistically significant.

Table 15 Correlation result

Correlations										
		salary	Bonus	Employee Service	Insurance	Recognition	Advancement	Sound Policy	Working Environment	Employee Retention
<b>salary</b>	Pearson Correlation	1								
	N	150								
<b>Bonus</b>	Pearson Correlation	.904	1							
	Sig. (2-tailed)	.000								
	N	150	150							
<b>Employee Service</b>	Pearson Correlation	.977	.933	1						
	Sig. (2-tailed)	.000	.000							
	N	150	150	150						
<b>Insurance</b>	Pearson Correlation	.951	.902	.955	1					
	Sig. (2-tailed)	.000	.000	.000						
	N	150	150	150	150					
<b>Recognition</b>	Pearson Correlation	.847	.807	.855	.856	1				
	Sig. (2-tailed)	.000	.000	.000	.000					
	N	150	150	150	150	150				
<b>Advancement</b>	Pearson Correlation	.944	.916	.961	.984	.811	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.000				
	N	150	150	150	150	150	150			
<b>Sound Policy</b>	Pearson Correlation	.418	.381	.385	.493	.785	.400	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000			
	N	150	150	150	150	150	150	150		
<b>Working Environment</b>	Pearson Correlation	.904	1.000	.933	.902	.807	.916	.381	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		
	N	150	150	150	150	150	150	150	150	
<b>Employee Retention</b>	Pearson Correlation	.437	.418	.392	.484	.776	.417	.978	.418	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
	N	150	150	150	150	150	150	150	150	150

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS output (2024)

The values for interpretation are indicated in the table according to (Marczyk,G.,DeMatteo,D.&Festinger,D., 2005)

Table 16 Correlations standard

	Direction		Magnitude
	Positive	Negative	
1	0.01 to 0.30	-0.01 to -0.30	Small
2	0.30 to 0.70	-0.30 to -0.70	Moderate
3	0.70 to 0.90	-0.70 to -0.90	Large
4	0.90 to 1.00	-0.90 to -1.00	Very Large

From the above correlation matrix, the researcher found the following results under each constructs Correlation analyses between employee retention and the factors affecting employee retention.

#### 4.4.2 Discussion of Correlation Results

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *Salary* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.437**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *Salary*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *bonus* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.418**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *bonus*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *employee services* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.392**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *employee services*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *insurance* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.484**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *insurance*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *recognition* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.776**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a strong positive relation between the dependent variable *Employees' Retention* and independent variable *recognition*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *advancement* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.417**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *advancement*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *sound policy* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.978**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *sound policy*.

The result of Pearson correlation test between the dependent variable *employees' retention* and the independent variable *working environment* showed that, there is a positive relationship between the two variables at the significance level of (**R=0.484**), (**P<0.01**).Based on the result obtained from Pearson correlation, there is a moderate positive relation between the dependent variable *Employees' Retention* and independent variable *working environment*.

The researcher tried to consider eight factors that could possibly affect the employee retention in Dashen Bank S.C. These factors include salary, bonus, employee services, insurance, recognition, advancement, sound policy, working environment. To find out the degree of correlation of these factors with the dependent variable *employees' retention* the Pearson correlation factors were used. Accordingly, all the factors were positively associated with employees' retention using Pearson correlation test and for that all hypothesis were also accepted.

#### **4.5 Assumption for the regression model test**

In the application of regression analysis, the first step is to check assumption in order to ensure the appropriateness of data for a regression analysis.

##### **4.5.1 Checking the Assumption**

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the independent variable (salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment) and the dependent variable that is employee retention) by using normality, linearity, multi-collinearity and Homoscedasticity.

##### **4.5.1.1. Normality Test**

The use of regression relies heavily on the assumption of normality. This is especially important when drawing conclusions about the broader population based on a smaller sample. When errors are normally distributed, their mean is zero and their variance is constant. Table 18 visually confirms this by showing a mean of zero for the residuals and a variance close to 1, suggesting a normal distribution for the errors.

Table 17 Normality test

Descriptive Statistics					
	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
salary	150	.217	.198	-1.341	.394
Bonus	150	.065	.198	-1.370	.394
Employee Service	150	.193	.198	-1.301	.394
Insurance	150	.121	.198	-1.246	.394
Recognition	150	.029	.198	.591	.394
Advancement	150	.009	.198	-1.346	.394
Sound Policy	150	.466	.198	-1.043	.394
Working Environment	150	.065	.198	-1.370	.394
Employee Retention	150	.580	.198	-.766	.394
Valid N (listwise)	150				

Source: SPSS output, 2024

As we have seen from table 17, Test of normality is another assumption to be tested before running regression. The normal distribution is detected based on skewness and kurtosis statistics. As proposed by (George and Mallery , 2010) the acceptable range for normality for both statistics is between -2 and +2. Therefore, as depicted in table 15, all variables ‘**values of kurtosis and Skewness** are almost within the acceptable range for normality.

#### 4.5.1.2. Homoscedasticity

In classical linear regression, it's crucial that the error terms have a constant variance, called homoscedasticity. Hetero-scedasticity—unequal variances—can disrupt results. To check for this, researchers often use scatter plots of standardized residuals versus standardized predicted values. Randomly scattered dots indicate homoscedasticity, while patterns suggest hetero-scedasticity. Figure 5 aligns with homoscedasticity due to its lack of patterns, affirming this assumption's validity for the model.

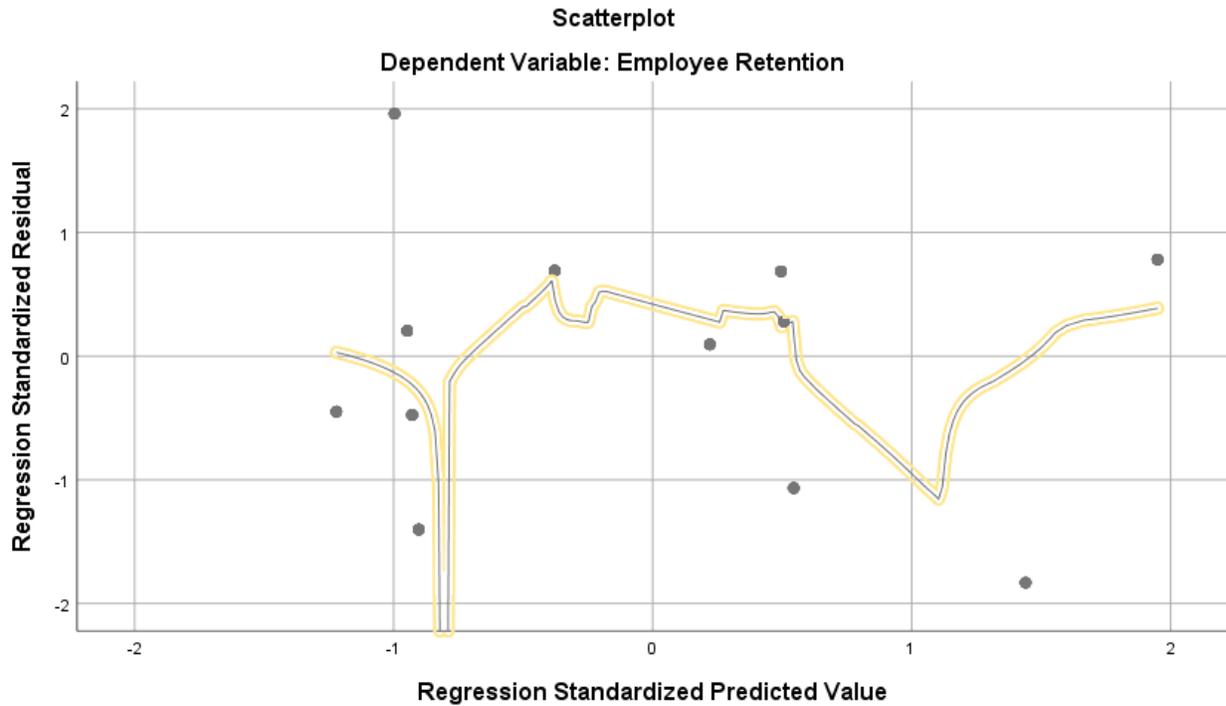


Figure 5 Homoscedacity

Source: SPSS output (2024)

As clearly indicated in the figure 5, the dots shows scattered arrangement of data which shows the data collection are not concentrated in one place. This shows that data are appropriately distributed to the targeted population. So, Homoscedacity model indicates that the collected data is appropriate for the study.

#### 4.5.1.3. Linearity

Linearity means that the predictor variables in the regression have a straight-line relationship with the outcome variable. The relationship between the two variables should be linear. This means that when one looks at a scatter plot of scores, it should be seen a straight line (roughly), not a curve. The residuals should have a straight-line relationship with predicted dependent variables scores (Pallant, SPSS Survival Guide A step by Step to Data Analysis,3rd Edition, 2005).

### Normal P-P Plot of Regression Standardized Residual



Figure 6 Linearity Test

Source: SPSS output (2024)

#### 4.5.1.4. Multicollinearity

Multiple linear regression analysis was employed in addition to linearity and normality test to examine the significant effect of the independent variables on the dependent variable. This is because the study comprises one dependent variable and two or more independent variables (Kothari C. , 2004). Multicollinearity verifies that the independent variables are not highly correlated with each other, tested using VIF/Variance Inflation Factor and tolerance. If the results of VIF are below 10 and the tolerance value greater than 0.1 then there is no possibility of Multicollinearity among this variables (Hair, Correlation and Regression Analysis for research methods,2nd edition, 2016).

Table 18 Multicollinearity Diagnosis

**Coefficients<sup>a</sup>**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Salary	.479	3.584
	Bonus	.246	4.064
	Employee Services	.210	9.107
	Insurance	.370	2.705
	Recognition	.447	2.236
	Advancement	.214	4.682
	Sound policy	.185	7.25
	Working Environment	.325	5.451

a. Dependent Variable: Employee Retention

Source: Own survey, 2024

The above table 18 shows that the Multicollinearity tests by computing tolerance values and Variance Inflation Factor (VIF) for each independent variables. In this case, all the tolerance values are greater than 0.10 and VIF is less than 10. Hence, the researcher assumed Multicollinearity was not a problem so that regression analysis can be conducted.

**4.5.2. Multiple Linear Regression Analysis**

Since all the multiple regression assumptions are satisfied, the researcher continued further the regression analysis and mainly focused on the three most important elements of regression output, i.e. the Model Summary, the ANOVA test and the Beta coefficient. Based on the average response obtained from the employees, the dependent variable, *employees' retention* and each of the predictor variables, salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment were analyzed.

#### 4.5.2.1 Analysis of Variance (ANOVA)

The key purpose of ANOVA test is to show whether the model is significantly better at predicting the dependent variable, employee retention or using the means.

Table 19 ANOVA Result

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1700.405	8	212.551	531.114	.000 <sup>b</sup>
	Residual	56.428	141	.400		
	Total	1756.833	149			

a. Dependent Variable: Employee Retention  
 b. Predictors: (Constant), Working Environment, Sound Policy, salary, Insurance, Bonus, Employee Service, Advancement, Recognition

Source: SPSS output (2024)

The ANOVA table is used to look statistically significance differences among three or more means by comparing the variances (X square) both within and across groups. The ANOVA yield an F- score which examines the extent to which the obtained mean differences could be due to the chance or some other factor presumably the independent variable.

The above ANOVA table shows the overall significance or acceptability of the model from a statistical perspective. This indicates that the variation explained by the model is not due to chance. Therefore, we conclude that our regression model results in significantly better prediction of employee Retention.

Table 20 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984 <sup>a</sup>	.968	.966	.63261

a. Predictors: (Constant), Working Environment, Sound Policy, salary, Insurance, Bonus, Employee Service, Advancement, Recognition

Source: SPSS output (2024)

The regression model considered employee retention as dependent variable and the factors affecting retention for the individual factor (salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment) as the independent variables. A multiple regression analysis is conducted to evaluate how well the eight factors predict employees' retention. As it is depicted under the table 19 and table 20, the linear combination of the eight factors is significantly related to employees Retention ( **$R^2 = 0.968$ ,  $F=531.114$  and  $P<0.001$** ). This means that, **96.8** percent of the positive variance of employees' retention in the sample can be accounted for by the linear combination of the eight factors (salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment) which have effect on Employee Retention.

Finally, based on the response of employee of Dashen Bank S.C the independent variables together have a significant collective impact on explaining the variability in employee Retention with high R-Squared value of 0.968(96.8%).

#### **4.5.2.2 Beta coefficient**

The coefficient explains the average amount of change in dependent variable that is caused by a unit of change in the independent variable. Accordingly, the unstandardized beta coefficient ( $\beta$ ) tells us the unique contribution of each factor to the model. A high beta value ( $\beta$ ) and a small P-value ( $<0.05$ ) indicate the predictor variable has made a statistically significance contribution to the model. On the other hand, a small beta value ( $\beta$ ) and a high P- value ( $p >0.05$ ) indicate the predictor variable has little or no significant contribution to the model (George and Mallery , 2010)).

Table 21 Coefficients of variables

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.765	.550		12.293	.000
	salary	1.050	.051	1.399	.983	.000
	Bonus	.166	.051	.126	3.232	.002
	Employee Service	.312	.054	.263	.058	.000
	Insurance	.033	.051	.026	.645	.000
	Recognition	.383	.095	.257	4.045	.000
	Advancement	.113	.057	.287	2.004	.000
	Sound Policy	1.437	.049	1.111	29.358	.012
	Working Environment	.230	.056	.211	4.119	.000

a. Dependent Variable: Employee Retention

Source: SPSS output (2024)

The coefficients of the regression analysis as shown in table 21 illustrate the individual effect of compensation variables on employee retention. Accordingly, it shows the constant beta value ( $\beta$ ) and the p-value of the variables to examine the significance of the hypothesis. The significance level of each variable (P-value) for all independent variables were below 0.05, and their unstandardized coefficients of salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment are 1.050,0.166,0.312,0.033,0.383,0.113,1.437,0.230 respectively. The p-value of all the independent variables below 0.05 implies that the independent variables have a significant relationship with the dependent variable. Based on these results, the regression equation that predicts project performance based on the linear combination of salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment are as follows:

$$Y=6.765+1.05X_1+0.166X_2+0.312X_3+0.033X_4+0.383X_5+0.113X_6+1.437X_7+0.230X_8$$

**Where:**

Y=Employee Retention; X1 =Salary; X2 =Bonus; X3 = Employee Service; X4 = Insurance; X5= Recognition; X6= Advancement; X7=Sound Policy; X8 = Working Environment; e = error term; X0 = constant term;  $\beta_1, 2,3,4,5,6,7,8$  = coefficient terms.

The beta coefficients indicate the magnitude and direction of the effect of the independent variables (salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment) on the dependent variable (employee retention).

- **Salary:**

Beta Coefficient: 1.399

Interpretation: For every one-unit increase in amount of salary as form of compensation in, there is a 1.399 unit increase in employee retention, holding other variables constant.

- **Bonus:**

Beta Coefficient: 0.126

Interpretation: With every one-unit increase in bonus as form of compensation, there is a 0.126 unit increase in employee retention, holding other variables constant.

- **Employee Services:**

Beta Coefficient: 0.263

Interpretation: For every one-unit increase in employee services as form of compensation, there is a 0.263 unit increase in employee retention, holding other variables constant

- **Insurance:**

Beta Coefficient: 0.026

Interpretation: For every one-unit increase in insurance as a form of compensation, there is an increase of 0.026 units in employee retention, holding other variables constant.

- **Recognition:**

Beta Coefficient: 0.257

Interpretation: For every one-unit increase in recognition as a form of compensation, there is an increase of 0.257 units in employee retention, holding other variables constant.

- **Advancement:**

Beta Coefficient: 0.287

Interpretation: For every one-unit increase in advancement as a form of compensation, there is an increase of 0.287 units in employee retention, holding other variables constant.

- **Sound Policy:**

Beta Coefficient: 1.111

Interpretation: For every one-unit increase in Sound Policy as a form of compensation, there is an increase of 1.111 units in employee retention, holding other variables constant.

- **Working Environment:**

Beta Coefficient: 0.211

Interpretation: For every one-unit increase in working environment as a form of compensation, there is an increase of 0.211 units in employee retention, holding other variables constant.

#### 4.6 Hypothesis Testing

The eight hypotheses which were developed earlier were tested based on the regression coefficient data.

Table 22 Hypothesis testing

No.	Hypothesis	Beta Coefficient	Significant (P<0.05)	Result
H <sub>1</sub>	Salary has significant effect on employee retention.	1.399	<0.001	Accepted
H <sub>2</sub>	Bonus has significant effect on employee retention.	0.126	<0.002	Accepted
H <sub>3</sub>	Employee services have significant effect on employee retention.	0.263	<0.001	Accepted
H <sub>4</sub>	Insurance has positive significant effects on employee retention.	0.026	<0.001	Accepted
H <sub>5</sub>	Recognition has significant effect on employee retention.	0.257	<0.001	Accepted
H <sub>6</sub>	Advancement has significant effect on employee retention.	0.287	<0.001	Accepted
H <sub>7</sub>	Sound policy has significant effect on employee retention.	1.111	<0.012	Accepted
H <sub>8</sub>	Working Environment significantly affects employee retention.	0.211	<0.001	Accepted

Source: Own survey 2024

In summary all the eight hypotheses are supported by the data, indicating significant effects of salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment on employees' retention due to of employee of Dashen Bank S.C in Western District of Addis Ababa.

## CHAPTER FIVE

### FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, a summary of the study findings, conclusions, recommendations, limitation of the study and future research direction are presented. Based on the key findings and results, conclusions are drawn and recommendations were made. The recommendations included interventions to improve employee retention in the studied organization and pave the way for further studies. And, finally this chapter is ended by notifying direction for future research.

#### 5.1 Summary of Major Findings

Based on the data collected from employees of the Dashen Bank S.C, West District Addis Ababa, and the analysis made so far, the following important summary points were found. The findings were derived from the data analyzed by using descriptive statistics; correlation and regression were presented below:

- From the total target population of the bank, 20% was included in the sample by using stratified random sampling method.
- The reliability test conducted to check the dependability and consistency of the instrument showed, a Cronbach Alpha of **0.920** which is acceptable because the value is greater than 0.7.
- Based on descriptive analysis result, employees have shown strong agreement on employee retention with an aggregate mean response of 3.65 and Std. Deviation of 0.89. The result of descriptive statistic of the variable showed that the aggregate mean value of salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment are 3.89, 3.82, 3.99, 3.97, 3.60, 4.14, 3.79 and 4.07 respectively. So, it is possible to conclude that compensation has moderate effect on employee retention.

- From the Pearson correlation analysis; Employee Retention was found to have a moderate positive correlation with Salary ( $r=0.438$ ,  $P<0.05$ ), Bonus ( $r=0.659$ ,  $P<0.05$ ), Employee Service ( $r=0.392$ ,  $P<0.05$ ), Insurance ( $r=0.484$ ,  $P<0.05$ ), high positive relation with Recognition ( $r=0.0776$ ,  $P<0.05$ ), Advancement( $r=0.417$ ,  $P<0.05$ ), high positive relation with Sound Policy( $r=0.978$ ,  $P<0.05$ ), working environment( $r=0.418$ ,  $P<0.05$ ) From this correlation output obtained Sig. (2- tailed) of  $0.000 < 0.05$  it can be concluded that there is statistically positive significant relationship between independent variables of the study with employee retention Dashen Bank.
- A multiple regression analysis is conducted to evaluate how well the eight factors predict employees' retention. The linear combination of the eight factors are significantly related to employees retention ( **$R^2 = 0.968$ ,  $F=531.114$  and  $P<0.001$** ). This means that, **96.8** percent of the positive variance of employees' retention in the sample can be accounted for by the linear combination of the eight factors (salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment) which have effect on Employee Retention.
- Finally, based on the response of employee of Dashen Bank S.C the independent variables together have significant collective effects on explaining the variability in employee Retention with high R-Squared value of 0.968(96.8%).

## 5.2 Conclusion

The study was concluded that compensation has positive and significant effect on employee retention and therefore, effective compensation has an end result of better retaining better employees. The study was also explored the effect of the eight types of compensation variables typically salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment on employee retention. Based on summary of the findings of this study, the researcher derived the following conclusions in order to address the research questions that sought to answer.

- The result indicates positive and significant association between salary and employee retention which implies that an increase in salary inevitably lead to enhance employee retention.
- The result indicates positive and significant connection between bonus and employee retention which implies that an increase in bonus given as a form of compensation certainly lead to enhance employee retention.
- The result indicates positive and significant association between employee services and employee retention which implies that an increase in employee services surely lead to enhance employee retention.
- The result indicates positive and significant association between insurance and employee retention which implies that an increase in insurance given in the form of compensation surely lead to enhance employee retention.
- The result indicates positive and significant association between recognition and employee retention which implies that an increase in recognition given in the form of compensation surely lead to enhance employee retention.
- The result indicates positive and significant association between advancement and employee retention which implies that an increase in advancement given in the form of compensation surely lead to enhance employee retention.
- The result indicates positive and significant association between sound policy and employee retention which implies that the presence of adequate sound policy on compensation makes employees to stay in the company.

- The result indicates positive and significant association between working environment and employee retention which implies that the presence of comfortable working environment makes employees to stay in the company for years.

In general, salary, bonus, employee service, insurance, recognition, advancement, sound policy and working environment have positive and significant association with employee retention.

### 5.3 Recommendation

Based on the results, the following recommendations are made to enhance employee retention at Dashen Bank:

- ✚ **Improve Salary Structures:** Adjust salary scales and payment structures based on workload, inflation rates, and market conditions to retain talented employees.
- ✚ **Enhance Bonus Programs:** Implement competitive and fair bonus programs to motivate and retain employees.
- ✚ **Upgrade Employee Services:** Provide improved employee services as part of non-monetary compensation to enhance retention.
- ✚ **Optimize Insurance Benefits:** Ensure comprehensive and satisfactory insurance benefits to increase employee loyalty.
- ✚ **Strengthen Recognition Programs:** Develop robust recognition programs to acknowledge and reward employee achievements.
- ✚ **Promote Advancement Opportunities:** Offer clear and attainable career advancement paths to retain high-performing employees.
- ✚ **Maintain Sound Policies:** Establish and uphold sound policies that support employee retention strategies.
- ✚ **Enhance Working Environment:** Create a comfortable and supportive working environment to encourage employees to remain with the bank.

Therefore, Dashen Bank should effectively consider the above determinants by performing more work on those factors to have prominent and better employee retention for the attainment of their goal effectively and efficiently.

#### **5.4 Direction for Future Research**

- This study investigated the effects of compensation on employee retention in Dashen Bank. Since compensation has wide dimensions, Variables included in the study were not exhaustive and future researches should be carried out to determine the effect of other variables which are not identified in the present study that affect employee retention.
- Future research can conduct the same study in other banks or organizations in the industry to investigate the matter in other settings.
- Further study on the subject can also be done by employing both qualitative and quantitative approaches' (i.e Mixed approach) to get a more a wholesome result.

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# ANNEXES

## APPENDIX



### Appendix 1: Research Questionnaire

**St. Mary's University**  
**School of Graduate Studies**  
**Questionnaire to be filled by Employees of Dashen Bank**

Dear Participant,

I am a graduate student at St. Mary's University and I am in the process of completing my studies towards a Master of Degree in Business Administration (MBA), and this research study forms part of the Requirements of the qualification. The objective of this thesis is to assess the **effect of Compensation on Employee Retention in Dashen Bank.**

Your response is confidential and data from this research will be reported only in the aggregate. Your information will be coded and will remain **confidential.**

The Questionnaire only takes about 20 minutes to fill. Please take into consideration that the soundness and the validity of the findings will highly depend on your **genuine responses.**

*Thank you, in advance for your kind cooperation and timely response.*

Sincerely,

**Solomon Gebremeskel**

**Mobile:** 0935357215, **E-mail:** senuchem12@gmail.com

**PART I: Demographic Information**

(Please put  mark using the check box that best describes you).

- 1. Gender:  Male  Female
- 2. Age between:  23-29  30-39  40-49  >50
- 3. Current Work Position  Officer  Senior Officer  Managerial  Other
- 4. Qualification:  Diploma  Degree  Masters & above
- 5. Experience in Dashen Bank:  Up to 1 year  1 – 3  4 – 6  above 7 years

**PART II: LIKERT Scale Questions**

Please indicate your responses to each of the following statements regarding **Salary, Bonus, Employee Service, Insurance, Recognition, Advancement, Sound Policies, Working Conditions and Employee Retention** by using a sign of (√) in the appropriate answer box according to the level of your argument.

1= Strongly Disagree (SD) 2= Disagree (D) 3= Neutral (N) 4= Agree (A) 5= Strongly Agree (SA)

**A. Statements related to Compensation**

No.	Statements regarding Compensation	SD(1)	D(2)	N(3)	A(4)	SA(5)
<b>I</b>	<b>Salary</b>					
<b>1</b>	I am satisfied with the amount of salary paid by the bank.					
<b>2</b>	My salary is satisfactory compared to my contribution to the bank.					
<b>3</b>	My salary is equitable when compared with other banks employees which perform similar jobs.					
<b>4</b>	Salary increment is based on job performance.					
<b>5</b>	Salary payment and increment are clearly communicated with employees.					

<b>II</b>	<b>Bonus</b>					
<b>1</b>	I always receive a bonus for achieving specific goals set by the company.					
<b>2</b>	The bonus given by the bank is satisfying.					
<b>3</b>	The bonus plan encourages me to retain in this bank.					
<b>4</b>	I receive bonus based on my personal and group achievement.					
<b>5</b>	The bonus plan offered in the bank is fair and based on performance.					
<b>III</b>	<b>Employee Service</b>					
<b>1</b>	I easily access the benefit offered by the bank.					
<b>2</b>	I am satisfied with the service provided by the company.					
<b>3</b>	I have access to paid leaves when I need it.					
<b>4</b>	Medical cover is well taken care of by the company.					
<b>5</b>	I receive travelling allowance from the company.					
<b>IV</b>	<b>Insurance</b>					
<b>1</b>	The bank has well organized and written insurance policy.					
<b>2</b>	The insurance given in the bank makes me to be committed in my work.					
<b>3</b>	The insurance given in the bank is satisfactory.					
<b>4</b>	The company has aligned my insurance benefit with my base pay.					
<b>5</b>	The insurance policy encourages me to stay in this company.					

<b>V</b>	<b>Recognition</b>				
<b>1</b>	I receive positive recognition for what I perform better.				
<b>2</b>	Proper recognition of high performers will encourage Low performer to work hard.				
<b>3</b>	The recognition I get due to my performance is visible to others.				
<b>4</b>	Recognition motivates me to increase my performance.				
<b>5</b>	Employees get recognition from their supervisor.				
<b>VI</b>	<b>Advancement</b>				
<b>1</b>	There is clear career advancement opportunity in the Company.				
<b>2</b>	The company provides adequate training to advance employees future career.				
<b>3</b>	Usually the company fills vacant position in the form of internal vacancy.				
<b>4</b>	The company provides adequate training to develop employee's future career.				
<b>5</b>	I am happy with my career path.				
<b>VII</b>	<b>Sound Policy</b>				
<b>1</b>	Company rules and procedures are made easy to work.				
<b>2</b>	The company's policy is inclusive.				
<b>3</b>	The bank's policy is clear and understandable.				
<b>4</b>	The working procedure is well aligned with the				

	policy of the bank.					
<b>5</b>	I am satisfied with the policy of the bank.					
<b>VIII</b>	<b>Working Environment</b>					
<b>1</b>	Safe working environment is provided.					
<b>2</b>	The working environment is open and trustworthy.					
<b>3</b>	I feel comfortable working with my teammates.					
<b>4</b>	The environment allows me to perform my job freely.					
<b>5</b>	I am satisfied with the working environment of the company.					

#### **B. Compensation vs Employee Retention**

<b>No.</b>	<b>Statements on Employee Retention</b>	<b>SD(1)</b>	<b>D(2)</b>	<b>N(3)</b>	<b>A(4)</b>	<b>SA(5)</b>
1	I am satisfied with the current compensation and benefit package.					
2	I feel strong loyalty and long term commitment to the company.					
3	I will recommend this company to others.					
4	The compensation system and policy makes me to retain in this bank.					
5	I plan on working here a year from now.					

***Thank you so much for your participation!!!***