

The mediating role of employee engagement on compensation and retention among frontline hospitality employees in Tamil Nadu

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Abstract

Employee engagement was found to have a partial mediating effect on various researches (Saks, 2006; Mendes and Stander, 2011; Karatepe, 2013; Song, 2014). In one particular study of the effects of leader-worker relationship towards turnover intentions, work engagement was found to play a full mediator role (Agarwal, 2012). To explore the mediating role of employee engagement between compensations and retention. Employee retention refers to the means of encouraging employees to remain with the organization for the maximum period of time (Das and Baruah, 2013), in other words, to retain the employee by offering them reasons to stay. Employee retention encompasses all efforts of an organization to retain desirable talents in order to attain organizational objectives (Pregolato, 2010), while turnover intentions are referred to as the behaviour to quit from the current job (Albattat, 2013). According to the earliest paper for work engagement (Khan, 1990), the term was referred to as the psychological presence of an employee in his job role, being emotionally and cognitively active at work. Later on, work engagement was also appraised by Shaufeli *et al.* (2002) as a psychological presence defined by a positive, fulfilling, work related state of mind that is categorized by vigor, dedication, and absorption. This research found that financial compensation strongly predicts retention of frontline hospitality employees Non-financial compensations can also affect retention to a certain degree, however, does not have any significant relationship with employee engagement. Also, employee engagement remains strongly correlated to employee retention.

Keywords: Mediation, Employee Engagement, Compensation, Retention, Frontline Hospitality Employees

1. Introduction

Employee engagement was found to have a partial mediating effect on various researches (Saks, 2006; Mendes and Stander, 2011; Karatepe, 2013; Song, 2014) ^[10, 14]. In one particular study of the effects of leader-worker relationship towards turnover intentions, work engagement was found to play a full mediator role (Agarwal, 2012) ^[11]. Clearly there are obvious links between employee retention and employee engagement, hence this study seeks to investigate if employee engagement would have a mediating effect between compensations and employee retention in the hospitality industry. The two independent variables in this study will be financial and non-financial compensations.

Hemington (2007) describes the hospitality industry as beyond a typical service industry, whereby management place greater emphasis of host-guest relationship with patrons, providing them memorable experiences with theatrical performances and generosity. Hospitality businesses will therefore always seek the middle line between commercial profits and to provide maximum generosity for guest to attain memorable experience. However, in the general term for this paper, any business that acts as a host to serve guests with attentiveness and offering exceptional service to achieve customer satisfaction will be considered a part of this industry. Examples includes hotels, restaurants, bars, clubs, casinos, cruises, airline companies etc. Employers in the hospitality industry have found it a constant challenge to attract and retain employees (Deery, 2008). Specifically, this paper seeks to focus on frontline employees that are directly in-contact with customers because they are the key to achieving better service quality and customer satisfaction (Carlos, 2011; Choo and

Nasurdin, 2014). Turnover levels amongst frontline employees in this industry are incessantly high, mostly due to the nature of customer service skills, being easily transferable and high in demand in various other companies and industries. On top of it all, good employees are scarce and young people that will get into this industry are predicted to worsen in time (Barron, 2008) ^[8]. Pregolato (2010) suggests that organizations should establish a differentiated retention strategy that can facilitate the needs of separate demographic groups as there is no ideal mix of compensation that will fit all groups of people. Compensations includes all types of pay or reward given to employees in exchange for their service and employment with the organization (Adeoti and Isiaka, 2006; Negash *et al.*, 2014) ^[4]. Financial compensations in this study refers to wages and benefits whilst non-financial

1.1 Research Question and Objective

What are the relationship between personal growth and GenY employee retention?

To examine the relationship between personal growth and geny employee retention.

1.2 Hypothesis

H₀: Employee engagement (EE) mediates the relationship between Financial Compensation (FC) and employee retention (ER)

2. Literature Review

2.1 Employee retention

Employee retention refers to the means of encouraging employees to remain with the organization for the maximum

period of time (Das and Baruah, 2013), in other words, to retain the employee by offering them reasons to stay. Employee retention encompasses all efforts of an organization to retain desirable talents in order to attain organizational objectives (Pregolato, 2010), while turnover intentions are referred to as the behaviour to quit from the current job (Albattat, 2013).

The retention rate can be measured using a stability index, normally conveyed as a percentage of overall workforce using the amount of employees that has served a minimum length of service (i.e. one year) (CIPD 2013). In comparison, turnover levels can be calculated by adding up the amount of voluntary resignations for a period of time and then divided by total employees (CIPD, 2013)

Sigler (1999) ^[12] had urged organizations to put in efforts to retain key employees that are talented and vital to the success of the organization. High turnovers do not only cost organizations in terms of recruitment budgets, but each time an employee leaves, productivity drops as new employees would have a learning period, causing the possibility of compromising customer service, while competitors could be gaining the human asset with intellectual capital of the organization (Ghosh, 2013). Instead of suffering the aftermath of turnovers, organizations can use tools and policies to lure or commit employees to stay with the company.

The retention of employees in hospitality organizations have always been a constant challenge (Deery, 2008). The high turnover rates in this industry is taken almost as a culture, whereby most organizations have accepted it as 'just the way things are' (Hughes and Roc, 2008). The pool of talent is scarce and hospitality graduates are suspected to reduce overtime (Barron, 2008) ^[8]. These human resource problems can be contributed to the unsocial working hours, poor work-life balance, and low-status nature of work (Hughes and Roc, 2008). Deery and Jago (2015) suggests that the long shift hours of employees will develop overworked and stressed employees, and further extending into turnover intentions. Frontline employees are the primary interface between the organization and its guests (Suan and Nasurdin, 2014). Having the need to assume the role of a host on behalf of the company to deal directly with the customers can often cause emotional exhaustion (Deery and Jago, 2015) and requires a great deal of emotional labour requirements (Hughes and Roc, 2008).

There are several factors to the industry's high turnover levels, or in other words, poor retention in this industry. First of all, the skills that a frontline employee would generally possess is customer service skills which be easily transferable to other organizations and other industries (Wilton, 2010). A study found that perceived employability factors into turnover intentions (Chan and Dar, 2014). Another study found that promotion speed (Huang *et al.*, 2006) signals the employee to the labour market, having perceived better employability with the added skill advantage. Apart from those is the elements of low skill, low pay, lack of development opportunities and educational disparities faced by the non-supervisory roles of frontline employees in this industry (Deery and Jago, 2015).

2.2 Financial Compensation

Companies that seek to grow and succeed in the hospitality industry should not undermine the importance of hiring and retaining 'key performers'. According to Ghosh (2013), the financial compensation package is an important part of the

talent retention strategy. He further states that a competitive package is needed that will meet employees' expectations and is equal to the employment market rate, otherwise, organizations will only be able to attract employees with low talents and skills and result in turnover of talents.

A study (Huang *et al.* 2006) in Taiwan found that wages still significantly influence the choice of employment (to stay or to leave from a job) and relates to the employees' perception of fairness. Karatepe (2013) ^[10] also supported this with his research on frontline employees in Iran. The study found that the perception of fairness of employees will affect the commitment, extra-role performance and turnover intentions. Bermain-Gorvine (2014) ^[6] found that fair salary that does not fall behind market rate is a crucial factor which can result in an employee's intent to resign because low salary causes employees to feel underappreciated and undervalued. If employees find that the salary package is not satisfactory to the amount of work they put in, then the organization has failed to recognize their contribution, leading to turnover intentions (Huang, *et al.*, 2006)

2.3 Non-financial Compensation

When basic necessities such as food and housing are covered, employees' desire of non-financial compensations will come into play (Negash, 2014). Interests or priorities tends to shift away from money as the primary form of compensation, and as suggested by Maslow, the desire for a sense of belonging or self-esteem needs becomes priority (Adeoti and Isiaka, 2006) ^[4]. Non-financial compensations has been regarded as vital to an employees' retention program (Woodruffe, 2006). It is the organization's most effective tool in enhancing performance and building that long-lasting relationship with a valued employee (Adeoti and Isiaka, 2006) ^[4]. Employees can be driven by both financial rewards and rewards that makes one feel appreciated for doing meaningful work (Stumpf *et al.*, 2013) ^[13]. The study found that when an employee is appreciated, they will feel a greater sense for growth, fulfilment and empowerment which causes work itself to be the reward (Stumpf *et al.*, 2013) ^[13].

2.4 Employee Engagement

According to the earliest paper for work engagement (Khan, 1990), the term was referred to as the psychological presence of an employee in his job role, being emotionally and cognitively active at work. Later on, work engagement was also appraised by Shaufeli *et al.* (2002) as a psychological presence defined by a positive, fulfilling, work related state of mind that is categorized by vigor, dedication, and absorption. Vigor refers to high levels of energy and mental resilience, the willingness to invest efforts at work, and persistence through difficulties. Dedication refers to being strongly involved and experienced the sense of significance, enthusiasm, inspiration, pride and challenge. Absorption refers to being fully concentrated, engrossed happily at work and having difficulties detaching from work, while time passes quickly (as cited in Shaufeli, 2013).

3. Research Methodology

3.1 Research Design

A descriptive research seeks to describe a particular phenomenon or to measure a problem using guidance from relevant researches (Saunders, Lewis and Thornhill, 2009:

140). This study uses a descripto-explanatory research methodology, which, according to Saunders, Lewis and Thornhill (2009: 140) is a combination or descriptive as well as explanatory.

3.2 Sample, Population and sample size

The population for this study is a mix of customer-contact employees from restaurants, hotels, cafes, resorts and leisure clubs around Tamilnadu. Generally, the larger the sample is, the more likely or accurate the reflection of the population. The sample size in this study is 205 respondents.

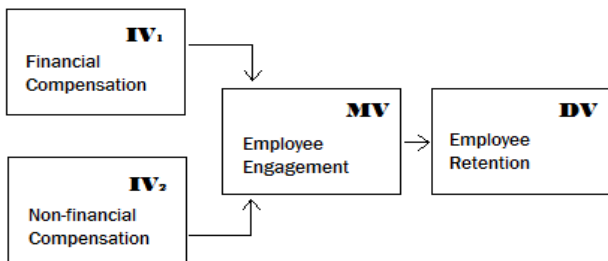


Figure 1: Proposed Framework for Research

Fig 3.1: Proposed Conceptual Framework

4. Findings and Discussions

One of the conditions of mediation (as cited in Saks, 2006) is that the IV has to be related to the MV. This is also in relation to H3 and H4 of this study.

Table 4.1: Beta Coefficients and P value IVs and MV

Variables	St. β	P value
Financial Compensation	0.758	0.00
Non-Financial Compensations	0.035	0.47

Table 4.1 shows the multiple regression test results when using employee retention as the dependent variable in SPSS. Financial compensations shows extreme significance ($\beta = 0.758, P < 0.001$) while non-financial compensations is not significant ($\beta = 0.47, P > 0.1$).

The conditions for mediation with regards to non-financial compensation is not met, therefore, further tests for mediation is not conducted and H7 is immediately rejected.

H1: Financial Compensation (FC) will positively impact employee engagement (EE)	Accepted
H2: Non-financial Compensation (NC) will positively impact employee engagement (EE)	Not Accepted
H3: Employee engagement (EE) mediates the relationship between Non-financial Compensation (NC) and employee retention (ER)	Not Accepted

4.1 Linear Regression Analysis

The second condition to mediation is that the MV has to be related to the DV, also in consistent with our hypothesis H5. The analysis found that employee engagement is a very significant predictor to employee retention ($\beta = 0.919, P < 0.001$).

H4: Employee engagement (EE) has a positive impact on employee retention (ER)	Accepted
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4.2 Hierarchical Regression Analysis

The third final condition for mediation is that a significant relationship between the IV and DV has to be reduced for partial mediation when the equation takes into account the mediator. If the relationship between IV and DV is no longer significant, then it will be considered a full mediation.

Table 4.2: Beta Coefficients, P value and R squared scores

Variables	B	P value	R square
Only for Financial Compensation	0.809	0.00	0.65
Financial Compensation with MV	0.249	0.00	0.87

Table 4.2 summarizes the findings of the hierarchical regression analysis. The results shows that the beta coefficient value has decrease from $\beta = 0.809$ to $\beta = 0.249$ when employee engagement is present. However, P value had been extremely significant ($p < 0.001$) for both situation. Full mediation is therefore not supported. The R square shows an increase when employee engagement is involved, hence, the study can conclude that there is a partial mediation effect of employee engagement in the relationship between financial compensations and employee retention.

H5: Employee engagement (EE) mediates the relationship between Financial Compensation (FC) and employee retention (ER)	Accepted
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5. Conclusion

In conclusion, this research found that financial compensation strongly predicts retention of frontline hospitality employees in Tamilnadu, while employee engagement is also found to be partially mediating this relationship. Non-financial compensations can also affect retention to a certain degree, however, does not have any significant relationship with employee engagement. Also, employee engagement remains strongly correlated to employee retention.

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