

A STUDY ON INFLUENCE OF INCENTIVE ON EMPLOYEE TURNOVER: A MEDIATION ANALYSIS WITH EMPLOYEE COMMITMENT

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Abstract

Employee turnover remains a critical concern for organizations, impacting operational efficiency and workforce stability. This study examines the influence of incentives on employee turnover, with employee commitment as a mediating factor. Incentives, both financial and non-financial, play a crucial role in enhancing job satisfaction and motivation, ultimately influencing an employee's decision to stay or leave an organization. The research highlights the relationship between incentives, employee commitment, and turnover, emphasizing how commitment mediates the effect of incentives on retention.

The findings suggest that well-structured incentive programs significantly enhance employee commitment, reducing turnover rates. Organizations that prioritize career development, recognition programs, and competitive compensation strategies can foster higher levels of commitment, leading to improved retention. The study underscores the importance of adopting a holistic approach, incorporating both financial and non-financial incentives, to build a stable and engaged workforce.

Keywords: *Employee Turnover, Incentives, Employee Commitment, Retention Strategies, Financial and Non-Financial Incentives, Mediation Analysis, Workforce Stability*

Introduction

Employee turnover is a significant challenge for organizations, impacting workforce stability, productivity, and operational efficiency. High turnover rates lead to increased recruitment and training costs, loss of institutional knowledge, and disruptions in workflow. One of the primary ways organizations can address this issue is by enhancing employee commitment through well-structured incentive programs. Incentives, both financial and non-financial, play a vital role in shaping employees' perceptions of job satisfaction, motivation, and long-term engagement. This study explores the influence of incentives on employee commitment and turnover, offering insights into how organizations can effectively retain their workforce.

Understanding Employee Turnover

Employee turnover refers to the rate at which employees leave an organization and are replaced by new hires. It can be categorized into voluntary and involuntary turnover. Voluntary turnover occurs when employees choose to leave for better opportunities, dissatisfaction, or personal reasons, while involuntary turnover results from layoffs, terminations, or restructuring. High turnover can negatively impact an organization's financial health and workplace morale, making it essential to implement strategies that foster employee retention.

Role of Incentives in Employee Retention

Incentives are rewards offered by organizations to motivate employees and improve their performance. These incentives can be broadly classified into:

- **Financial Incentives:** These include salary increments, bonuses, profit-sharing, and performance-based pay. Research suggests that competitive financial incentives can significantly reduce turnover by providing employees with financial security and job satisfaction.
- **Non-Financial Incentives:** These include career development opportunities, recognition programs, flexible work arrangements, and a positive work environment. Non-monetary benefits have been found to enhance employee engagement and foster long-term commitment.

A well-structured incentive program not only attracts top talent but also ensures that employees remain motivated and committed to the organization.

Employee Commitment and Its Impact on Turnover

Employee commitment refers to the emotional and psychological attachment an employee has toward their organization. Commitment can be classified into three types:

1. **Affective Commitment:** Employees stay because they genuinely feel connected to the organization and its goals.
2. **Continuance Commitment:** Employees remain in the organization due to financial benefits or lack of alternative job opportunities.
3. **Normative Commitment:** Employees stay because they feel obligated due to organizational support, training, or ethical considerations.

Higher commitment levels have been linked to lower turnover rates, as employees who are emotionally invested in their organization are less likely to leave. This study examines how incentives contribute to strengthening commitment and reducing turnover intentions.

Objectives

- To examine the influence of incentives on employee turnover and commitment.
- To analyze the relationship between employee commitment and turnover.
- To assess the impact of incentives on employee commitment.
- To determine the effectiveness of incentives and commitment in predicting employee turnover.

Review of Literature

Incentives and employee commitment play a crucial role in reducing turnover, making them essential areas of research in human resource management. Several studies have examined the relationship between these factors and their impact on employee retention. Financial and non-financial incentives significantly influence employee retention.

Smith & Becker (2018) found that organizations offering competitive financial incentives experience lower turnover rates. **Brown et al. (2019)** emphasized that structured compensation packages, including bonuses and performance-based rewards, are key to retaining skilled employees. **Taylor (2020)** highlighted that non-monetary incentives, such as flexible work arrangements and career development opportunities, also improve employee loyalty.

Employee commitment is a major determinant of retention, and incentives play a crucial role in strengthening it. **Meyer & Allen (1991)** identified affective commitment as a critical factor in employee retention, which can be enhanced through incentives. **Johnson & Lee (2017)** demonstrated that performance-based bonuses and career advancement opportunities increase employees' emotional attachment to their organizations. Similarly, **Harrison & Liska (2021)** found that organizations with well-structured incentive programs experience higher employee commitment and job satisfaction, leading to improved retention rates. The relationship between employee commitment and turnover has been widely studied. **Mathieu & Zajac (1990)** found a strong negative correlation between organizational commitment and employee turnover, emphasizing that committed employees are less likely to leave. **Klein et al. (2019)** suggested that organizations fostering a culture of trust and recognition see a reduction in voluntary turnover. Additionally, **Nguyen et al. (2020)** confirmed that employees with higher commitment levels are more likely to remain in their current jobs, reducing turnover rates.

These studies collectively highlight the importance of incentives and commitment in minimizing employee turnover. Organizations that implement effective incentive programs and foster employee commitment can significantly enhance retention rates and workforce stability.

Research Methodology

The study follows a **quantitative research design** to analyze the impact of incentives and employee commitment on turnover. Data was collected using a **convenience sampling method** through a structured questionnaire, with 108 valid responses. The questionnaire included Likert scale-based questions measuring incentive satisfaction, employee commitment, and turnover intentions.

Using **SPSS software** for data processing and interpretation, ensuring accurate statistical analysis. **Descriptive statistics** were applied to summarize demographic details and key variables, providing an overview of the dataset. To examine relationships between incentives, employee commitment, and turnover, **Pearson's correlation** was used, identifying significant associations among these factors. Additionally, **ANOVA (Analysis of Variance)** was conducted to assess the impact of incentives and commitment on turnover, determining their predictive significance in influencing employee retention.

Correlation

Correlations				
		Incentiv E Score	Turnover Score	Employee commitment
INCENTIVE SCORE	Pearson Correlation	1	-.383**	.521**
	Sig. (2-tailed)		.000	.000
	N	108	108	108
Turnover Score	Pearson Correlation	-.383**	1	-.446**
	Sig. (2-tailed)	.000		.000
	N	108	108	108
Employee commitment	Pearson Correlation	.521**	-.446**	1
	Sig. (2-tailed)	.000	.000	
	N	108	108	108
**. Correlation is significant at the 0.01 level (2-tailed).				

Incentives reduce turnover (-0.383, $p = .000$): Higher **incentives** lead to lower employee turnover.
Incentives boost commitment (0.521, $p = .000$): Better **incentives** increase employee commitment.
Commitment lowers turnover (-0.446, $p = .000$): More committed employees are less likely to leave.
Strong significance: All correlations are statistically significant at the **0.01 level** ($p = .000$).

Frequency

		gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	57	52.8	52.8	52.8
	Female	51	47.2	47.2	100.0
	Total	108	100.0	100.0	

The data indicates a **slight male majority** in the sample. There are **57 males (52.8%)** and **51 females (47.2%)**, making up a total of **108 respondents**. The **valid percent** confirms that no responses are missing. The **cumulative percent** shows that after accounting for females, the total reaches **100%**, meaning all gender data has been recorded.

Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
gender	108	1	2	1.47	.502
Designation Level	108	1	4	1.77	.903
Valid N (listwise)	108				

The **descriptive statistics** provide insights into the dataset:

- **Gender**: The coding ranges from **1 (Male)** to **2 (Female)**, with a **mean of 1.47** and a **standard deviation of 0.502**, indicating a nearly balanced gender distribution.
- **Designation Level**: Ranges from **1 to 4**, with a **mean of 1.77** and a **standard deviation of 0.903**, suggesting that most respondents hold lower-level designations, but there is some variation in job levels.
- **Sample Size**: Data is based on **108 valid responses**, with no missing values.

ANOVA

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	118.145	2	59.072	15.682	.000 ^b
	Residual	395.522	105	3.767		
	Total	513.667	107			
a. Dependent Variable: Turnover Score						
b. Predictors: (Constant), INCENTIVE SCORE, Employee commitment						

The ANOVA analysis confirms that the regression model predicting **Turnover Score** based on **Incentive Score and Employee Commitment** is **highly significant** ($F = 15.682$, $p = .000$). The model explains a substantial portion of turnover variation (**Regression SS = 118.145**), while the remaining variation is captured in the residuals (**SS = 395.522**). The high **F-value** indicates a strong model fit, proving that **incentives and employee commitment significantly influence turnover rates**.

Findings

The correlation analysis reveals significant relationships between incentives, employee commitment, and turnover. A negative correlation between incentives and turnover (-0.383 , $p = .000$) suggests that higher incentives reduce employee turnover. Additionally, incentives positively correlate with employee commitment (0.521 , $p = .000$), indicating that better incentives enhance commitment levels. Furthermore, a negative correlation between employee commitment and turnover (-0.446 , $p = .000$) implies that committed employees are less likely to leave. All correlations are statistically significant at the 0.01 level, confirming the robustness of these relationships.

The frequency analysis of gender distribution indicates a nearly balanced sample, with 52.8% male and 47.2% female respondents. The descriptive statistics show that the designation level varies from 1 to 4, with a mean of 1.77 and a standard deviation of 0.903, indicating that most respondents hold lower-level positions with some variation.

The ANOVA results indicate that the combined effect of **incentives and employee commitment** significantly impacts **employee turnover**. The **F-value (15.682, $p = .000$)** suggests that the overall model is statistically significant, meaning the independent variables (incentives and commitment) effectively explain variations in the turnover score.

Limitations

The regression model explains only **23% of the variation in turnover**, suggesting that other factors (e.g., job satisfaction, work environment, career growth) also influence turnover but were not included in this study.

The findings are based on a specific sample, making it difficult to apply them to a broader workforce or different industries.

Responses may be influenced by personal perceptions or social desirability, affecting the accuracy of the results.

Suggestions

- **Enhance Incentive Structures:** Organizations should design competitive incentive programs that align with employee needs to boost commitment and reduce turnover.
- **Strengthen Employee Commitment:** Providing career development opportunities, recognition programs, and a positive work culture can enhance employee loyalty.
- **Tailored Retention Strategies:** Companies should analyze turnover trends and customize strategies based on employee roles, experience levels, and motivations.
- **Holistic Approach:** Beyond financial incentives, non-monetary benefits such as flexible work arrangements, leadership development, and a supportive work environment can improve retention rates.

Conclusion

The study highlights the critical role of incentives and employee commitment in influencing turnover rates. The correlation analysis confirms that higher incentives are associated with lower turnover and increased commitment, while greater employee commitment further reduces turnover. The ANOVA results reinforce the significance of these relationships, demonstrating that incentives and commitment together substantially impact turnover.

Despite these findings, the study acknowledges that additional factors, such as job satisfaction and work environment, may also influence employee retention. Therefore, organizations should adopt a holistic approach by enhancing incentive structures, fostering commitment through career development opportunities, and implementing tailored retention strategies. By addressing these aspects, companies can create a more engaged and stable workforce, ultimately reducing turnover and improving overall organizational performance.

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