



Addis Ababa University School of commerce

**THE EFFECT OF FINANCIAL REWARD PRACTICE ON
EMPLOYEE RETENTION: THE CASE OF POVERTY
ERADICATION AND COMMUNITY EMPOWERMENT
SHARE COMPANY (PEACE MFI S.CO)**

A Thesis submitted to Addis Ababa University Department of Human Resource Management for the Partial Fulfilment of the Requirement for Masters of Arts Degree in Human Resource Management.

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Declaration

The researcher declares that this thesis work titled (**The Effect of Financial Reward Practice on Employee Retention:** The case of PEACE MFI S.C) is my original work and it contains no materials previously published by neither another person nor material which has been accepted for the award of any other degree. All the sources of material used for this study have been duly acknowledged. It is submitted for the degree of Masters of Arts in Human Resource Management to Addis Ababa University School of Commerce post graduate program.

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Approval Sheet

We, the undersigned, members of the Advisor and Examiners of the final defence by Tadesse Negash have read and evaluated her thesis entitled “**The Effect of Financial Reward Practice on Employee Retention: The case of PEACE MFI S.C)**” and examined the candidate. This is therefore to certify that the thesis has been accepted in partial fulfilment for the award of the degree of Master of Art in Human Resource Management.

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Acronyms

- **ASE:** Agri service Ethiopia
- **GTP II:** Gross transformational plan II
- **NBE:** National Bank of Ethiopia
- **NGO:** Non- government organization
- **PEACE MFI S.Co. :** Poverty Eradication and Community Empowerment Share Company
- **SNNPRS:** South Nations Nationalities and People Regional State
- **SPSS:-** Statistical Package for Social Science

Contents

Acronyms	iv
Chapter One	1
1. Background of the study	1
1.2. Background of the PEACE MFI S.C	2
1.3. Statement of the problem	4
1.4 Objectives of the Study	5
1.4.1 General Objective	5
1.4.2 Specific Objectives	5
1.5 Research Questions	5
1.6. Significance of the Study	5
1.7. Scope of the Study	5
1.8 Limitation of the Study	6
1.9 Organization of the Study	6
1. 10 Definition of Terms	6
Chapter two.....	8
2. Literature review	8
2.1. Introduction.....	8
2.2 Theoretical Foundation of Financial Rewards	9
2.3. Relationship between Financial Reward Practices and Employee Retention	12
2.4. Reward Strategy	14
2.5. Reward Policies	14
2.6. Employee Motivation.....	15
2.7. Employee retention	16
2.8. Reasons for Retention	16
2.9 Drivers of Retention.....	17
2.10 Managing Retention.....	21
2.10.1 Retention Assessment and Metrics	21
2.11 Employee Turnover	23
2.11.1 Types of Employee Turnover	23
2.11.2. Turnover and “Churn”	24
2.11.3 Measuring Employee Turnover	24
2.12. Empirical studies.....	25
2.13 The conceptual framework of the study.....	27

Fig 2.1 Conceptual Frameworks	28
Chapter Three.....	29
3. Research Methodology	29
3.1. Research Design and approach	29
3.2 Population of the study	29
3.3. Sample design and Techniques	30
3.4 Data sources and Types	31
3.5. Data collection procedure	31
3.6. Data analysis	32
3.7 Reliability and Validity.....	33
3.8 Ethical Considerations	33
Chapter Four	34
4. Data Presentation, Analysis and Discussion of Findings	34
4.1 Personal Profile of Respondents.....	34
4.2 Components of Financial Rewards.....	37
4.3 Financial Reward Strategies for Employee Retention and Their Effectiveness	41
4.4. Document Analysis of Employee Turnover Trend of the Company	44
4.5. Bivariate Analysis.....	45
4.6. Correlation Analysis	45
Chapter Five.....	49
5. Summary of Finding, Conclusion and Recommendations.....	49
5.1 Introduction.....	49
5.2 Summary of Findings.....	49
5.3 Discussion of findings.....	50
5.4 Conclusions.....	51
5.5. Recommendations.....	53
References.....	56
Appendix.....	59

List of Tables

Table 3.1 Sample Size Determination	Error! Bookmark not defined.
Table 3.2 Reliability Statistics	Error! Bookmark not defined.
Table 4.1 Personal Profile of Respondents	Error! Bookmark not defined.
Table 4.2: Questions related to respondents satisfied financial rewards ...	Error! Bookmark not defined.
Table 4.3: Questions related to retention strategies	Error! Bookmark not defined.
Table 4.4. The trend of staff Turnover from 2012 to 2016.....	Error! Bookmark not defined.
Table 4.5 Correlations result of financial rewards and employee retention	Error! Bookmark not defined.
Table 4.6 Model Summary of Regression Analysis	Error! Bookmark not defined.

List of Figures

Fig 2.1 Conceptual Frameworks **Error! Bookmark not defined.**

Abstract

The main objective of this study is to determine the effect of financial rewards on employee retention at PEACE MFI S. C. The rate of employee turnover is increasing in company and as a result it has become an issue and the management has not solved this problem even if salary and fringe benefits adjustment is made every two years. The study adopted descriptive research method through the stratified random sampling design that engaged from both managerial and non-managerial staffs of 100 respondents. Data was collected using questionnaires and interviews to triangulate data source. Data was analysed with the help of the Statistical Package for Social Sciences (SPSS) version 20 computer programme.

After the analysis using Pearson's Correlation test, the result showed that positive correlation between the level of financial rewards which have an effect on employee retention ($p=0.003$). That why there is a high rate of employee turnover in the company. Therefore, the researcher highly recommends that further research can be done to find out effect of other non-financial rewards on employee retention.

Keywords: *Financial reward, reward management, employee retention, employee turnover, PEACE MFI S. C*

Chapter One

1. Background of the study

Reward can be anything tangible or intangible that an organization provides to its employees either intentionally or unintentionally in exchange for the employees potential or actual work contribution to which employees as individuals attach a positive value as a satisfier or certain self-defined needs (Shields, 2007). According to Armstrong (2009) reward management is concerned with the formulation and implementation of strategies and policies. Employees must be rewarded fairly or equitably and consistently in accordance with the values of the organization so that they can help the organization achieve its strategic goal.

It is also concerned with the development of appropriate organizational cultures, underpinning core values and increasing the motivation and commitment of employees. It deals with the design, implementation and maintenance of reward systems (reward process, practices and procedures that aim to meet the needs of both the organization and its stakeholders). Reward system exists in order to motivate employees to work towards achieving strategic goals which are set by entities. Reward management is concerned with pay and employee benefits (financial rewards). It is equally concerned with non-financial rewards such as recognition, training, development and increased job responsibility (Shields, 2007).

Reward is one of the most important components of an organization's retention strategy. Armstrong (2009) states that rewarding people involves reward management practices concerned with design, implementation and maintenance of reward systems that are geared to the improvement of organizational, team and individual performance. It includes both financial and non-financial rewards. It is imperative; therefore, those organizations develop and install reward strategies and practices that motivate staff to remain in the organization. Organizations should adopt the all-encompassing approach of total reward, as this is likely to provide a greater attraction and retention to a greater number of employees. Reward is a critical motivator towards an employee's choice to remain in an organization.

The way people are rewarded increasingly determines the survival of the organization. One of the most important tools in the hands of any management to attract and retain competent human resource is to administering an effective reward system. In order to achieve this goal an organization should decide on the type of tasks /objectives that should be rewarded, an organization can use reward management to show employees that

their contribution to the organization is recognized. The philosophy of reward management recognizes that it must be strategic in the sense that it addresses long-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy (Armstrong, 2009).

To be competitive, organizations in many industries must be highly skilled, knowledgeable workers. They must also have a relatively stable labour force since employee turnover works directly against obtaining the kind of coordination and organizational learning that leads to fast response and high-quality products and services.

The effect of financial rewards practice on employee retention is critical to the conduct of business in the competitive (labour) market place and business environment today and micro finance enjoy no exception to it. The central concern of this study is to examine these two crucial issues of the human resource function i.e. financial rewards and retention. The main objective is to show whether financial reward practice influence on retention employees of PEACE MFI S.C. Moreover, the study aims to discover answers to the following subjects: which of the financial rewards can satisfy employees; which kinds of financial rewards are the most influential factor for job satisfaction and identifying rewards that can help them to achieve high levels of job satisfaction.

Thus PEACE MFI S.C has embarked on different financial rewards packages as resorts to promote employees job satisfaction and on employees' retention. The retention of human resources will be the momentous to the development and the accomplishment of the organization's goals and objectives.

1.2. Background of the PEACE MFI S.C

Poverty Eradication and Community Empowerment Microfinance Institution Share Company. (PEACE MFI S.C) was founded in November 1999 to take over the micro-credit activities previously run by Agri-Service Ethiopia (ASE), a local NGO that has been undertaking integrated rural development activities for over 47 years in Ethiopia. PEACE MFI was formed as a share company under the proclamation NO.40/1988 and the amended 626/2009. It is licensed by the National Bank of Ethiopia (NBE) to provide microfinance services. Its initial capital was 400,000.00 Birr. Its' headquarter is located in Addis Ababa. The institution was formed with the purpose of providing financial solutions to the productive poor especially women.

PEACE MFI S.C is one of the thirty five micro finance institutions in Ethiopian financial industry. According to the strategic plan of the company, currently, the micro finance has been expanding its business operation to the extent of 24 branches; it plays its own role in the economic progress and development of the country. The Company has a target to 71.3 million birr savings from the general public. This budget year is to help facilitating the achievement of the growth and transformation plan through deposit mobilization. As the MFIs is aggressively expanding its branches network and many of the existing branches also have been expanding their services via opening additional services for improving quality, the number of customers has been increasing significantly reaching over 74, 000 at the end of June 30, 2017.

PEACE MFI S. C. operates in three regional states namely Amhara Regional States, Oromia Regional States and South Nations, Nationalities Peoples Regional State (SNNPRS) and Addis Ababa city Administration throughout its twenty Four Branches. The number of branches are 7 in Amhara, 14 in Oromia, 2 in SNNPRS and 1 Addis Ababa- Shola Branch. PEACE MFI currently offers financial and non-financial services. The financial services include different types of loans for borrowers, Mobile Banking, micro loan insurance, different types of saving deposits and financial education for child and youth clients.

PEACE MFI S.C has 220 employees all over the twenty four branches including head office. Employee turnover is one of the main challenges of the management of the company. Key employee retention is a critical factor as a strategic intention for many organizations as the war for talent has become very common in the labour market. Retention of critical skills is a prerequisite to the success of an organization in the medium to long term. Acquisition of key skills and talent therefore forms an important aspect of organization success and provides a key competitive advantage. Organizations develop various reward strategies and practices to ensure that critical human capital resources are not only attracted but also retained and fully exploited for the benefit of the organization. This study was examined the effect of financial reward practices on employee retention in PEACE MFI S.C. by assessing its current practices in order to propose a strategy to attract and retain employees.

The employees' retention is critical to the conduct of business in the competitive market and business environment today. PEACE MFI S.C. has faced the challenges of high turnover rate of permanent staff as it has been increasing from time to time (PEACE, HRM report, December 31, 2016)

1.3. Statement of the problem

The rate of employee turnover is increasing in PEACE MFI S.C and as a result it has become an issue and the management has not solved this problem even if salary and fringe benefits adjustment is made every two years. The central Government, as stated in GTP II, has aggressive saving mobilisation from general public and the highly evolving competition in the micro finance environment in Ethiopia lead to the increasing number of financial institutions (banks, insurances and micro finances) by opening new branches both in urban and semi urban areas in the country.

Various studies related to employee retention as an outcome and/or strategies have been carried out. Allen (2000) did conduct research on talent management as an organization strategy to increase the rate of employee retention and concluded that organizations need to analyse employee talents and abilities to align them to their roles and responsibilities assigned to them. Retention of talented employees has become an even greater challenge confronting human resource practitioner because talented candidates in the global job skills market have a luxury of choice. One of the main challenges faced by organisations in employee retention is the competition factor. Collings (2011) states that talent management is aimed at improving the calibre, availability and flexible utilization of exceptionally capable employees who can have a disproportionate impact on business performance.

As formally discussed with HRM manager, the issue of talent management in PEACE MFI S.C is big problem which occurred for the last few years. It needs managerial attention to retain talent, grow and compete in the future that is increasingly unpredictable environments. Staff turnover is a big challenge which is exhibited by the company and the National Bank of Ethiopia indicate in its quarterly and on site supervision to minimize the scenario which highly affects performance of the company. The company is also facing a slow growth as compared to its peer micro finance institutions. Getting the right people at the right place and keeping them there continues to be a major pre -occupation for organizations today (NBE on site report November 30, 2016), and HRM monthly progress report December 31, 2016).

Effective retention strategy is one of the key talent management strategies. The organization under research did not meet this parameter, causing delay in action and management by-exception for implementation. As an initiative to reduce turnover percentage, the management of the organization designed a framework for employee

bonus, fringe benefits, salary adjustments and performance related payments currently. However; the problem is not solved.

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of the study is to examine the effect of financial rewards on employee retention in PEACE MFI S.C.

1.4.2 Specific Objectives

The specific objectives of this study are:

1. To assess the effect of financial rewards on employee retention
2. To examine the relationship between financial reward and employee retention
3. To determine the strategies that applies to retain employee in PEACE MFI S.C.

1.5 Research Questions

1. What strategies are practices to retain employee retention?
2. What is the nature of relationship between reward and retention?
3. What is the effect of reward on employee retention?

1.6. Significance of the Study

First and for most the findings and recommendations of the study would be vital for the human resource practitioners who design and administer employee retention and development system to achieve organizational objectives and tackle the problem regarding employee turnover in PEACE MFI S.C and similar organizations. Second the study would assist other researchers as a reference for further investigation on issues that may unfold in the research process.

1.7. Scope of the Study

The study was focused on PEACE MFI S.C one of the NGO affiliated micro finance institutions in Ethiopia. It predicted on the assumption that good financial reward systems have bearings on corporate performance, job satisfaction and retain employees. Although, the study was more comprehensive if other human resource variables that have impact on employee retention was addressed, the scope of the study was limited to one of the human resource functions i.e. monetary reward.

The study was limited to the head office and 13 branches of PEACE MFI S.C – Bereh Aleltu, Kuy, Enebissiesarmidir, Bichena, Mota, Assela, Sheno, Bekoji, Dodola, Robe Goba, Delosebro, Gasera and Zefene Branches. The choice of limiting the study to only thirteen branches and the head office was for several reasons. The reason was to ensure that an in-depth and critical study was done and such that the results will provide useful

information on the relationship between financial reward practice and employee retention. Results of this kind provide bases for generalization. Thus it was accepted that the result may vary with respect to geographical locations.

1.8 Limitation of the Study

Due to cost and time reason, indicate that the study was limited in financial rewards on one company. In addition to financial constraints, the study was faced problems during the progress of the paper and suffered by the following limitations:

- Unavailability of reference materials especially books written on rewards and employee retention in Ethiopia. As a result , the researcher faced problem of limited review of different supporting materials for enhance this research
- Other limitation of this study was the researcher didn't include opinion of ex-employees due to cell phone numbers are not properly captured by the HRM data in order to contact them being as the respondents and time .Therefore the research not gets more valuable information.

1.9 Organization of the Study

The paper was organized in five chapters. The first chapter includes introduction which encompasses background of the study, statement of the problem, research question, objective the study both general and specific and significance of the study, limitation, scope of the study and organization of the study. The next chapter explores different literatures which were related to the topic. The third chapter explains the research design and methodology applied to make the research. In the fourth chapter the researcher clearly presented, analyse the data collected and was interpreted and discussed the findings briefly. Finally the last chapter which is chapter five concludes the paper by providing summary and recommendation.

1. 10 Definition of Terms

1. Employee Retention

Refers to an organization's ability to keep the employees it has already hired and the ability of an organization to reduce the turnover of its organization (Armstrong, 2007).

2. Reward management

Reward management is concerned with the formulation and implementation of strategies and policies in order to reward people fairly, equitably and consistently in accordance with their value to the organization (Armstrong, 2009).

3. Employee turnover

It refers to the movement of employees in an organization which is determined by calculating the ratio of the number of employees who left during the period considered and the average number of employees of the organization in the same period (Armstrong, 2007).

4. Micro finance: is a financial institution which deals with money and accepts deposits and makes loans and obtains a profit from the difference in the interest paid to lenders (depositors) and charged to borrowers (NBE proclamation NO. 626/2009).

5. Total reward

As defined by Manus and Graham (2003), total rewards 'includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic'.

6. Benefits

Benefits are an indirect reward given to an employee or group of employees for organizational membership (Armstrong, 2007).

7. Intrinsic Rewards

Intrinsic non-financial rewards related to responsibility, achievement and the work itself may have a longer-term and deeper impact on motivation (Herzberg, 1968).

8. Extrinsic Rewards

Extrinsic rewards provided by employers in the form of pay will help to attract and retain employees and, for limited periods, may increase effort and minimize dissatisfaction (Herzberg, 1968)

Chapter two

2. Literature review

2.1. Introduction

In our today's working environment, organizations' human resources are truly the only source of sustainable competitive advantage while product innovation can be duplicated, but the synergy of a company's workforce cannot be replicated. It is for this reason that not only attracting talented employees but also retaining them is imperative for success of an organization. According to Armstrong (2009) human resources professionals have continually worked to control their companies from high turnover rates using different retention policy to keep their loyal employees on board and preventing turnover. Turnover is the term given to the rate at which you lose existing employees and replace them with new ones. Due to competition for scarce skills, the attraction and retention of quality employees has emerged as the biggest challenge in human capital management. This has resulted in a high turnover rate in most organisations especially in public institutions. The retention of highly skilled employees is now the major concern for many of financial institutions in Ethiopia. To attract, retain and be profitable, organisations need novel reward systems that satisfy employees.

Armstrong (2001) observed that long-term employees generally have higher productivity and efficiency on the job than newer employees, due to their length of experience with the firm. Loyal employees also improve operational processes and train incoming employees. Loyal employees are also loyal to their organization and customers by delivering a quality service. Especially a service giving firm needs to have loyal employees compete the organization and makes them successful. Therefore, this loyal employees need to be carried out in a systematic way so as to maintain well performing employees within the organization. Thus, organizations should have effective human resource management system that is well formulated and implemented to ensure that they hire and maintain employees which contribute to the successful accomplishment of organizational objectives and avoid employee turnover as much as possible.

Reward management is based on a well-articulated philosophy with a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. The philosophy recognizes that, if human resource management (HRM) is about investing in human capital from which a reasonable return is required, and then it is proper to reward people differentially according to their contribution (i.e. the return on investment they generate (Armstrong & Murlis, 2004).

Reward management has a strategic significance by contributing towards organization's business goals by means of reward policies, processes, and practices to support its implementation (Armstrong & Murlis, 2004). They mention that reward either tangible or intangible gives results when used effectively. Today, the essence of having financial reward system for employees in organizations are to meet three objectives which are to attract the right people for the right job, to retain the best employee by appreciating their contribution towards organizational profit and to motivate employees to perform best to their ability (Shields, 2007).

2.2 Theoretical Foundation of Financial Rewards

Financial rewards refer 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, provident fund/gratuity, etc. They are given at a regular interval at a definite time.

Colling (2007) mentioned the following monetary/financial rewards:

- (a) **Basic Salary:** One the common causes of high employee turnover rates is low pay and benefits packages. When a worker is employed in a low-wage position with limited benefits, there is little incentive to stay if a similar employer offers even a slightly higher rate of pay. Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services.
- (b) **House Rent Allowance:** Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees. This is done to provide them social security and motivate them to work.
- (c) **Fuel Allowance:** Organizations also provide vehicles and petrol allowances to their employees to motivate them.
- (d) **Medical Reimbursement:** Organizations also look after the health conditions of their employees. The employees are provided with medi-claims for them and their family members. These medi-claims include health-insurances and treatment bills reimbursements

- (e) **Bonus:** Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one or two month's salary of the employee.
- (f) **Leave Travel Allowance:** These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization. Finally, it is important to distinguish between what might be called normal or standard compensation like wages, salaries, benefits, etc. and what is commonly referred to as performance-based compensation, that is, specific forms of compensation that are paid for workers or groups of workers who attain certain objectives vital to a company's business strategy. Performance-based compensation or 'pay for performance' is becoming an increasingly popular form of compensation, particularly since its various forms are closely tailored to very specific company objectives, including employee retention (Collings, (2007).

Herzberg's (1968) two-factor model theory states that the factors giving rise to (job satisfaction and motivation) are distinct from the factors that lead to job dissatisfaction. It is sometimes called the motivation-hygiene theory. There are two groups of factors. The first consists of the satisfiers or motivators, which are intrinsic to the job. These include achievement, recognition, the work itself, responsibility and growth. The second group comprises what Herzberg calls the 'dissatisfaction avoidance' or 'hygiene' factors, which are extrinsic to the job and include pay, company policy and administration, personal relations, status and security. These cannot create satisfaction but, unless preventive action is taken, they can cause dissatisfaction. He also noted that any feeling of satisfaction resulting from pay increases was likely to be short-lived compared with the long-lasting satisfaction from the work itself. One of the key conclusions derived from the research is therefore that pay is not a motivator, except in the short term, although unfair payment systems can lead to demotivation (Armstrong, 2009).

Reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility." (Colin Pitts, 1995, p. 11.) Pay is the most significant and motivating benefit that is received in return for performing a task or service. It is pay that motivates individuals to go out and seek work. Pay is also one of the few ways to set a mutually acceptable common value to the individual's work contribution. Pay can also be a powerful demotivator, if employees are not satisfied with the reward package, it will be hard for the company to recruit and retain good individuals. (Colin Pitts, 1995,p. 11).

Advocates of the expectancy theory believe that employees will change their behaviour by working harder or prioritizing their actions if they know that by doing so they will be rewarded with something of value to them. Hence, incentives are a great way to reward effort and behaviours which the organization wishes to encourage. If the incentive is paid in return for behaviour that contributes to the organizations goals, it will in the long run enhance organizational effectiveness and productivity and hence generates a positive outcome for both employer and employee (Torrington, Hall, Taylor & Atkinson, 2009, p. 162).

The principle reward for performing work is pay, many employees however offer also reward packages of which wages and salaries are only a part of. The packages typically include; bonuses, pension schemes, health insurance, allocated cars, beneficial loans, subsidized meals, profit sharing, share options and much more (Colin Pitts, 1995, p. 13).

There are various things to think about before making decisions about what kind of payment system is most appropriate for an organization. Managers should start by asking what objectives they are seeking to achieve. These are likely to include the following: (Torrington, Hall, Taylor & Atkinson, 2009, p. 154).

1. To minimize expenditure on wages and salaries over the long term.
2. To attract and retain staff of the desired calibre, experience and qualifications.
3. To motivate the workforce so as to maximize organizational performance.
4. To direct effort and enthusiasm in specific directions and to encourage particular types of employee behaviour.
5. To underpin and facilitate the management of organizational change.

There is no one payments system that can achieve all the above mentioned features for all employees in an organization. Managers are required to weigh up the advantages and disadvantages of each payment system and decide where to put the emphasis on. (Torrington, Hall, Taylor & Atkinson, 2009, p. 154).

The researcher used only financial rewards only however; there are other employee retention strategies such as training and development, promotion and career growth, job security, superior support, work-life balance, etc. Different organizations design different employee retention strategies to make their employees satisfied and stay for a long period of time with the organization and consequently to achieve organizational success.

2.3. Relationship between Financial Reward Practices and Employee Retention

One of the greatest challenges facing any organization is to ensure the sustainability of an employee for longer period in a dynamic business environment. Retention of employees is of paramount importance as the success or failure of an organization depends on the quality of the people. Sutherland (2004) demonstrates that reward is the basic element, which indicates how much employees, gain by dedicating their time and effort towards the achievements of company objectives; therefore employers have the responsibility to design an attractive reward package to attract and retain valuable employees. When appropriate reward strategies are understood and embedded in the organization's culture, productive employees remain. A valued employee is more likely to stay in employment than an unvalued employee.

Sutherland (2004) argues that reward systems ought to be a significant sphere of innovation for employers. The increasing diversity of the workforce, she states, suggests the need for more creative approaches to tailoring the right rewards to the right people. She concluded that recognition and reward are part of a more comprehensive effort at keeping workers or adopting good workplace practices, which can contribute to increased retention. Recognition programs are an important component of an employee retention plan. The importance of these kinds of program is rooted in theories of positive reinforcement. By saying 'thank you' to employees for a job well done or a 'pat on a shoulder' to show appreciation, an organization is reinforcing ideal behaviour and encouraging more of the actions that will make it successful. Most organizations use different types of rewards. The most common types include basic pay, job design, incentives and benefits, development opportunities and performance based pay. As defined by Manus and Graham (2003), total reward 'includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic'. All aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole. Total reward combines the effect of the two major categories of reward are transactional and non-transactional.

Transactional (tangible) direct compensation alternatives can include base or basic pay
Contingent pay, cash bonuses, profit sharing, gain sharing, share ownership schemes
Season ticket loans, mortgage assistance, relocation packages, leisure and Company
loans. Benefits are indirect rewards such as health care, insurance cover for death in

service, sick pay, redundancy pay, career counselling. Relational (intangible) non-financial reward such as workplace learning, training, performance management, career development, core values of the organization, leadership, employee voice, recognition, achievement, job design and role development, quality of working life, work/life balance and talent management (Armstrong ,2007)

The literature considered that monetary compensation is one of the largest factors for the retention of employees. It plays significant role in attracting and retaining good employees specially those employees whose gives outstanding performance or unique skill which is indispensable to the organization because company invest more amounts on their training and orientation (Lawler, 1990).Some researchers argue that on the company side competitive monetary compensation package is the only strong commitment and also build strong commitment on the workers side. However, the contribution of compensation towards retention, help in retention of employee irrespective of their skill and contribution to the company and it likely affect both turnovers desirable and undesirable. The total amount of monetary compensation offered by other companies also affects the turnover. Organization offered high monetary compensation package is compared to others a large numbers of candidates applying for induction and have lower turnover rate. Moreover high monetary compensation package organizations also create culture of excellence (Lawler 1990), Gardner et al., (2004) mentioned that pay is considered as a motivator as well as employee retention technique. Milkovich and Newman (2004) have clearly stated that among all types of retention mechanism, monetary pay is considered one of the most important and significant factor in retention.

While there is general agreement about the importance of competitive compensation for employee retention, there is also a growing consensus that competitive or even generous compensation will not alone guarantee that a company will be able to keep its most valuable employees. The key issue in retention is the amount of total compensation relative to levels offered by other organizations. Organizations that have high levels of compensation have lower turnover rates and larger numbers of individuals applying to work for them. Furthermore, high wage workplaces may create a culture of excellence (Lockwood, 2006). Whatever their circumstances, companies that successfully incorporate compensation and benefits into their retention efforts have a clear understanding of their business objectives. and use compensation as a tool for influencing organizational and employee behaviour, for example; pay systems and practices can have

a major impact on employee retention by motivating membership-oriented behaviour (commitment). Pay systems may also affect knowledge sharing and transfer if sharing, teamwork, suggestions, etc. are rewarded or recognized (Collins, 2007).

2.4. Reward Strategy

Reward strategy is a business-focused description of what the organization wants to do about reward in the next few years and how it intends to do it. It is a declaration of intent which establishes priorities for developing and acting on reward plans that can be aligned to business and human resource strategies and to the needs of people in the organization. Armstrong (2009) believes that reward strategy is ultimately a way of thinking that you can apply to any reward issues arising in your organization to see how you can create value from it. The aim is to support the corporate and human resource strategies and align reward policies and processes to organizational and individual needs. It provides a sense of purpose and direction and a framework for reward planning. Reward strategy constitutes a framework for developing and putting into effect reward policies, practices and processes that ensure that people are rewarded for doing the things that increase the likelihood of the organizations business goals being achieved. As Helen Murlis (2007) points out, reward strategy will be characterized by diversity and conditioned both by the legacy of the past and the realities of the future. All reward strategies are different just as all organizations are different. It often has to be a balancing act, because of potentially conflicting goals.

2.5. Reward Policies

Reward policies set guidelines for decision making and action. For example, an organization may have a policy that sets the levels of pay in the organization compared with median market rates. The task of developing a strategic reward framework for organizations is usually challenging but necessary to survive in the competitive market place. The process however cannot be copied from the organization but needs to be designed, developed and grown within the unique environment of the organization (Armstrong, 2009).

According to Manus, TM and Graham, MD (2003) a well-designed incentive program rewards measurable changes in behaviour that contribute to clearly defined goals. The challenges in developing such a program lies in determining what rewards are effective agents of change, what behaviours can be changed and the cost and benefits of eliciting change Employees should be aware of the relationship between how they perform and the reward they get. Organizations should apply performance management programs which

assist in planning employee's performance programs, monitor performance by effecting proper measuring tools. Reward should be used as a way of strengthening good behaviours among employees as well as productivity. Hence reward should focus on reinforcing good behaviours. Employees could be awarded for working overtime, taking initiatives, reliability, exceptional attendance, and outstanding feedback and meeting deadlines.

2.6. Employee Motivation

“Motivation is the desire to achieve beyond expectations, being driven by internal rather than external factors, and to be involved in a continuous striving for improvement”. (Torrington, Hall, Taylor & Atkinson, 2009, p. 276). Motivation, in the context of work, is a psychological process that results from the interaction between an employee and the work environment and it is characterized by a certain level of willingness. The employees are willing to increase their work effort in order to obtain a specific need or desire that they hold.

Managers can motivate employees through methods such as pay, promotion and praise. Employees can also motivate themselves by seeking work where individual goals, needs and wants will be achieved. These two types of motivation are called intrinsic and extrinsic motivation and are more closely described as follows (Armstrong 2009, p. 109).

Intrinsic motivation refers to the motivation that comes from inside an individual. The motivation is generated through satisfaction or pleasure that one gets in completing or even working on a task. Factors that influence on intrinsic motivation include responsibility, freedom to act, scope to use and develop skills and abilities, interesting work and opportunities for advancement. These motivators, which are concerned with the quality of work life, tend to have a long-term effect since they are inherent in individuals and not imposed from outside.

Extrinsic motivation is something that is done to or for people to motivate them. It arises from factors outside an individual, such as money, grades, criticism or punishments. These rewards provide satisfaction and pleasure that the task itself might not provide. An extrinsically motivated person might work on a task even when they have little interest in it. This type of motivation usually has an immediate and powerful effect; however it does not tend to last for long (Armstrong 2009, p. 109-110).

2.7. Employee retention

Retaining the best employees is paramount to a firm's long-term success. By taking proactive approach to develop an effective employee retention program, the anxiety of turnover can be reduced. The best employee retention practices take time, effort and resources but the rewards can be valuable. In his research one of the major drivers for investing in retention program is the financial impact of recruiting and training valued employees. There are two general categories of forces that operate in employee retention; engagement and coercion. Engagement occurs when an employer connects emotionally with his/her work while coercion occurs when forces outside the employee ability encourage either attachment to or disengagement from an employer. Good managers help the employee stay engaged but poor ones push them towards disengagement (Glen, 2007).

Retention of employees as human resources is part of HR staffing and planning efforts. Turnover, as the opposite of retention, often has been seen as a routine HR matter requiring records and reports. However, what was once a bothersome detail has become a substantial HR issue for many employers. Thus, organizations are being forced to study why employees leave and why they stay. Sometimes an individual in the HR area is assigned to specifically focus on retention to ensure that it receives high priority.

Jeffery (1994) employee retention has become a major concern to the organizations as it might have negative consequences. Whenever talented employee expresses willingness to move on it is the responsibility of management and the human resource team to intervene immediately and find out exact reasons leading to the decision. According to him organizations invests time and money in grooming an individual and make him ready to work and understand the corporate culture. New joiner is completely raw and management has to work hard to train him for his overall development. It is a complete wastage of resources when an individual leaves suddenly. The human resource department, has to start the recruitment process all over again for the same vacancy, this is work duplication. Finding the right employee for an organization is a tedious and expensive process and all efforts go to waste when an employee leaves.

2.8. Reasons for Retention

Nowadays there are many more opportunities for talented skilled persons. There are many organizations which are looking for such employees. If a person is not satisfied by the job he's doing, he may switch over to some other more suitable job. Therefore in today's

environment it becomes very important for organizations to retain their employees. The reason may be personal or professional (Fombrun and Shanley, 1990).

In the view of Acton et al (2003), the human resource department plays an active role in retaining its employees. It make policies for employee betterment such that employee would be satisfied with the organization and stay with the firm for longer time and work for the success of the organization. This shows that it is not just retention of employees but also retention of valued skills.

2.9 Drivers of Retention

According to Robert L. Mathis and John H. Jackson (2011, P.164-165), because both people and jobs are so varied, managers and HR professionals need to realize that individuals may remain or leave their employment for both job-related and personal reasons.

A. Organizational and Management Factors

A number of organizational/management factors influence individuals in their decisions to stay with or leave their employers. Organizations that have clearly established goals and hold managers and employees accountable for accomplishing results are viewed as better places to work, especially by individuals wishing to progress both financially and career-wise. Further, effective management provides the resources necessary for employees to perform their jobs well. These factors reflect workplace commitment by employees, which leads to more positive organizational views in the industry and communities. Other organizational components that affect employee retention are related to the management of the organization. Some organizations see external events as threatening, whereas others see changes as challenges requiring responses.

The latter approach can be a source of competitive advantage, especially if an organization is in a growing, dynamic industry. Another organizational factor that can affect employee job performance and potential turnover intentions is “organizational politics.” This can include managerial favouritism, having to be involved in undesirable activities, taking credit for what others do, and other actions that occur in many departments and organizational settings.

A final factor affecting how employees view their organizations is the quality of organizational leadership. Often, leaders have an identified strategic plan that guides how the firm responds to changes. If a firm is not effectively managed, then employees may be disappointed by the ineffective responses and inefficiencies they deal with in their jobs. A survey of 700 workers identified that “bad bosses” who do not give

employees recognition for accomplishments or who fail to keep promises can lead to almost 40% of the workers being dissatisfied and more likely to look for other jobs.

B. Work Relationships

Work relationships that affect employee retention include supervisory/management support and co-worker relations. A supervisor or manager builds positive relationships and aids retention by being fair and non-discriminatory, allowing work flexibility and work-family balancing, giving feedback that recognizes employee efforts and performance, and supporting career planning and development. Additionally, many individuals build close relationships with co-workers. Such work-related friendships do not appear on employee records, but these relationships can be an important signal that a workplace is positive. Overall, what this means is that it is not just where people work, but also with whom they work, that affects employee retention. If individuals are not linked with or do not relate well to their co-workers, there is greater likelihood for turnover to occur.

C. Job and Work-Life

Many individuals have seen a decline in job security during the past decade. All the downsizings, layoffs, mergers and acquisitions, and organizational restructurings have affected employee loyalty and retention. As co-workers experience layoffs and job reductions, the anxiety levels of the remaining employees rise. Consequently, employees start thinking about leaving before they too get cut. Organizations in which job continuity and security are high tend to have higher retention rates. Some jobs are considered “good” and others are thought to be “bad,” but not all people agree on which jobs are which. As mentioned previously, the design of jobs and peoples’ preferences can vary significantly. Job design factors that can impact retention include the following:

A knowledge, skills, and abilities mismatch, either through over qualification or under qualification, can lead to turnover.

- Job accomplishments and workload demands that are dissatisfying or stressful may impact performance and lead to turnover.
- Both timing of work schedules and geographic locations may contribute to burnout of some individuals but not others.
- The ability of employees to balance work and life requirements affects their job performance and retention.

Numerous examples could be given on how each of these items affects retention, but one example comes from a survey of chief financial officers on the impact of these issues in their firms. In this survey, work-life flexibility efforts were seen as creating significant retention, recruitment, and productivity results. This study illustrates that how organizations address jobs can drive retention efforts, including global retention as discussed in the HR Perspective.

D. Rewards: Compensation, Benefits, and Performance

The tangible rewards that people receive for working come in the form of pay, incentives, and benefits. Employees often cite better pay or benefits as the reason for leaving one employer for another. Employers do best if they offer competitive pay and benefits, which means they must be close to what other employers are providing and what individuals believe to be consistent with their capabilities, experience, and performance. If compensation is not close, often defined as within 10% to 15% of the “market” rate, turnover is likely to be higher. However, the reality of compensation is a bit more complex than it seems at first glance. For instance, one study of public-sector employees identified that broad reward programs, not just pay and benefits, aided with workforce retention in difficult economic situations. A number of employers have used a wide range of special benefits and perks to attract and retain employees.

For example, student media group in Delaware added work-related plasma television screens, videogame players, and free soda and snacks as part of a special rewards package to create more positive views to aid in retaining employees. Another part of rewards generally is that individuals need to be satisfied with both the actual levels of pay and the processes used to determine pay.

That is why the performance management systems and performance appraisal processes in organizations must be designed so they are linked to compensation increases. To strengthen links between organizational and individual performance, an increasing number of fast-growing private-sector firms are using variable pay and incentives programs. Some programs offer cash bonuses or lump-sum payments to reward extra performance, which also aids with retention efforts.

Another rewards aspect that affects retention is *employee recognition*, which can be both tangible and intangible. Tangible recognition comes in many forms, such as “employee of the month” plaques and perfect-attendance certificates. Intangible and psychological recognition includes feedback from managers and supervisors that acknowledges extra effort and performance, even if monetary rewards are not given.

For instance, one firm, Fairmont Hotels and Resorts, is using a “Service plus Colleague Recognition program to engage its 30,000 employees. Different types of recognitions include “Star of the Month” and “Memory Maker” for significant service. For such recognition, a small amount of money (under \$50) and other types of rewards are given. An employee survey has shown significant increases in positive employee views of both their jobs and the Fairmont firm.

E. Career Training and Development

Many employees in all types of jobs consistently indicate that organizational efforts to aid their career training and development can significantly affect employee retention. Opportunities for personal growth lead the list of reasons why individuals took their current jobs and why they stay there. In one survey, nearly one-third of workers identified the lack of career advancement opportunities to be the most important reason for potentially changing employers. Training and development efforts can be designed to indicate that employers are committed to keeping employees’ knowledge, skills, and abilities current. Also, training and development can help underused employees attain new capabilities. Such a program at Southwest Airlines has been very successful.

Recruiters were reassigned to different departments, which resulted in their generating sales and revenues in flight operations and other areas. Organizations address training and development in a number of ways. Tuition aid programs, typically offered as a benefit by many employers, allow employees to pursue additional educational and training opportunities. These programs often contribute to higher employee retention rates because the employees’ new knowledge and capabilities can aid the employer. Also, through formal career planning efforts, employees discuss with their managers career opportunities within the organization and career development activities that will help them to grow.

Career development and planning efforts may include formal mentoring programs. For instance, information technology (IT) organizations are using career development programs so that IT individuals can expand their skills retention is based on the employer relations policies that exist. Such areas as the reasonableness of HR policies, the fairness of disciplinary actions, and the means used to decide work assignments and opportunities all affect employee retention. If individuals feel that policies are unreasonably restrictive or are applied inconsistently, they may be more likely to look at jobs offered by other employers. The increasing demographic diversity of U.S. work places makes the non-discriminatory treatment of employees important, regardless of

gender, age, and other characteristics. The organizational commitment and job satisfaction of ethnically diverse individuals are affected by perceived discriminatory treatment. A number of firms have recognized that proactive management of diversity issues results in greater retention of individuals of all backgrounds.

2.10 Managing Retention

According to Robert L. Mathis and John H. Jackson (2011, P.168-168), HR practices are identify factors that can cause retention difficulties. Retention matters because turnover can cause poor performance in otherwise productive units. Now our focus turns toward the keys to managing retention as part of effective HR management.

2.10.1 Retention Assessment and Metrics

To ensure that appropriate actions are taken to enhance retention, management decisions require data and analyses rather than subjective impressions, anecdotes of selected individual situations, or panic reactions to the loss of key people. The analysis of turnover data is an attempt to get at the cause of retention problems. Some of the first areas to consider when analysing data for retention include the work, pay/benefits, supervision, and management systems. Common methods of obtaining useful perspectives are employee surveys, exit interviews, and first-year turnover evaluations.

A. Employee Surveys

Employee surveys can be used to diagnose specific problem areas, identify employee needs or preferences, and reveal areas in which HR activities are well received or viewed negatively. Whether the surveys are on general employee attitudes, job satisfaction, or specific issues, the survey results must be examined as part of retention measurement efforts for via e-mail questionnaires, blogs, and other means.

Regardless of the topics in a survey, obtaining employee input provides managers and HR professionals with data on the “retention climate” in an organization. By obtaining data on how employees view their jobs, their co-workers, their supervisors, and organizational policies and practices, these surveys can be starting points for reducing turnover and increasing the length of time that employees are retained. Some employers conduct attitude surveys yearly while others do so intermittently. By asking employees to respond candidly to an attitude survey, management is building employees’ expectations that actions will be taken on the concerns identified. Therefore, a crucial part of conducting an attitude survey is providing feedback to those who participated in it. It is especially important that even negative survey results be communicated to avoid fostering the appearance of hiding the results or placing blame.

B. Exit Interviews

One widely used means for assisting retention assessment efforts is the exit interview, in which individuals who are leaving the organization are asked to give their reasons. HR must regularly summarize and analyse the data by category (e.g., reasons for leaving, department, length of service, etc.) to provide managers and supervisors with information for improving company efforts. As described in the HR on-the-job feature, the exit interview process should contain some important aspects. Many HR departments regularly contact former employees who were valuable contributors, as they may be willing to provide more information on questionnaires that are e-mailed to their homes or in telephone conversations conducted sometime after they have left the organization. For instance, one health care firm contacts former employees within 60 days after they have left. Many times these follow-up conversations reveal the “real” reasons for departures, other than what was said in the exit interviews. This health care firm also has a program through which ex-employees are invited to return as “alumni” and have lunch with former co-workers, which has led to a number of departed individuals indicating they would like to return to the firm because the jobs they took elsewhere did not turn out to be as “promising” as they had anticipated. Thus, rehiring can be aided by ongoing efforts such as e-mails, exit interview follow-ups, and continuing contacts with good former employees

C. First-Year Turnover Evaluations

A special type of retention assessment focuses on first-year employees. It is not unusual for turnover to be high among newer employees during their first year. Sometimes the cause of departure is voluntary; for example, individuals may identify a mismatch between what they expected in their jobs and managers and what actually occurs, or between their perceptions of the new job and its reality. Other times individuals are involuntarily removed in the first year. Some causes can be excessive absenteeism and poor performance, mismatches with job requirements, and conflicts with other employees and managers. If these situations occur too often, HR may need to re-evaluate its recruiting and selection processes, as well as its job previews to make sure they are realistic. Overall, focus on first-year retention and turnover is useful because individuals who stay for a year are more likely to extend their employment and have greater retention beyond the first year. Also, effective first-year efforts may lead to future career development, higher performance, and other positive retention factors.

2.11 Employee Turnover

According to Mathis and Jackson (2011, P.159-163), occurs when employees leave an organization and have to be replaced. Many organizations have found that turnover is a costly problem. The extent to which employers faces high turnover rates and costs vary by organization and industry. For higher-level executives and professionals, turn over costs can run as much as two times the departing employees' annual salaries, and rates often are linked to executive job expectations and needed skills changes. In many service industries, the turnover rates and costs are frequently very high. In the retail industry, turnover in some companies averages more than 100% a year for part-time workers and around 75% a year for full-time workers. The U.S. supermarkets, fast-food restaurants, and other retail service industry firms spend billions of dollars each year to deal with worker turnover.

2.11.1 Types of Employee Turnover

Turnover is classified in a number of ways according to Mathis and Jackson (2011). One classification uses the following categories, although the two types are not mutually exclusive:

- **Involuntary Turnover:** Employees are terminated for poor performance or work rule violations
- **Voluntary Turnover:** Employees leave by choice involuntary turnover is triggered at all levels by employers terminating workers due to organizational policies and work rule violations, excessive absenteeism, performance standards that are not met by employees, and other issues. Voluntary turnover too can be caused by many factors, some of which are not employer controlled. Common voluntary turnover causes include job dissatisfaction, pay and benefits levels, supervision, geography, and personal/family reasons. Career opportunities in other firms, when employees receive unsolicited contacts, may lead to turnover for individuals, especially those in highly specialized jobs such as IT. Voluntary turnover may increase with the size of the organization, most likely because larger firms are less effective in preventing turnover and have more employees who are inclined to move. Another view of turnover classifies it based on whether it is good or bad for the organization:
 - **Functional Turnover:** Lower-performing or disruptive employees leave
 - **Dysfunctional Turnover:** Key individuals and high performers leave at critical times not all turnover is negative for organizations; on the contrary, functional turn over represents a positive change. Some workforce losses are desirable, especially if

those who leave are lower-performing, less reliable, and/or disruptive individuals. Of course, dysfunctional turnover also occurs. That happens when key individuals leave, often at crucial times. For example, a software project leader who leaves in the middle of a system upgrade in order to take a promotion at another firm could cause the system upgrade timeline to slip due to the difficulty of replacing the employee and could also lead other software specialists in the firm to seek out and accept jobs at competitive firms. Employees quit for many reasons, only some of which can be controlled by the organization, so another classification uses the following terms to describe types of turnover:

- **Uncontrollable Turnover:** Employees leave for reasons outside the control of the Employer
- **Controllable Turnover:** Employees leave for reasons that could be influenced by the employer. Some examples of reasons for turnover the employer cannot control include:
 - (1) The employee moves out of the geographic area,
 - (2) the employee decides to stay home with young children or an elder relative,
 - (3) the employee's spouse is transferred, and
 - (4) the employee is a student worker who graduates from college.Even though some turnover is inevitable, employers recognize that reducing turnover saves money, and that they must address the turnover that is controllable. Organizations are better able to keep employees if they deal with the concerns of those employees that might lead to the controllable turn over.

2.11.2. Turnover and “Churn”

Hiring new workers while laying off others is called **churn**. This practice raises a paradox in which employers complain about not being able to find skilled workers while they are laying off others. As organizations face economic and financial problems that result in layoffs, the remaining employees are more likely to consider jobs at other firms. In this situation, turnover is more likely to occur, and efforts are needed to keep existing employees. HR actions such as information sharing, opportunities for more training/learning, and emphasis on job significance can be helpful in lowering turnover intentions of individuals.

2.11.3 Measuring Employee Turnover

The U.S. Department of Labor estimates that the cost of replacing an employee ranges from one-half to five times the person's annual salary. The turnover rate for

an organization can be computed as a monthly or yearly cost. The following formula, in which *separations* means departures from the organization is widely used:

Number of employee separations during the year \times 100 / Total number of employees at midyear. Common turnover rates range from almost 0% to more than 100% a year and vary among industries (Robert I. Mathis and John H. Jackson (2011))

2.12. Empirical studies

There are many articles in relation to organizations retention strategies; however, many authors' writings direct talent management as key to employee engagement and retention strategy (Deery, 2008; Hughes, 2008; Bhatnagar, 2007). The war for talent has its emphasis on employee retention apart from recruitment. Going by the UK human resource directors who are very concerned about losing staff in 2013, in search of better work benefits, employees tends to switch companies and its common for companies to wait until they start to receive resignation before acting upon their retention strategies (Whitehead,2013).

Baker (2006) gave stress on the fact that hiring new employees are far difficult as well as costlier than to keep the current employees in the organization. That is why the core issue in any organization is to give a continuous ongoing effort to identify and try to keep all the best performers irrespective of their age. Employees today are different. They are not the ones who don't have good opportunities in hand. As soon as they feel dissatisfied with the current employer or the job, they switch over to the next job.

According to an article in Knowledge Management Review by Young (2006), companies are faced with people leaving to join other companies. The average worker is changing jobs ten times between ages of 18 and 37 continuously. Young says that one answer to this issue is to believe that you can purchase knowledge to replace what you are losing. Employees today change jobs frequently and do not have the company loyalty that existed 30 years ago when your valued employees were hired. Young also states that loyalty to employers is fading. Thanks to downsizing, job security in return for commitment has been breaking down. It is the responsibility of the employer to retain their best employees. If they don't, they would be left with no good employees (McCrea, 2001).

Based on the evidence to date, managers have *good* reason to expect links between job (dis)satisfaction and employee turnover for an excellent, comprehensive academic treatment of the major psychological theories of turnover using this

perspective. First, the lower the level of an employee's job satisfaction, the lower will be the level of his or her organizational commitment. Second, the lower these two job attitudes are, the stronger will be the initial thoughts, feelings, and expected positive outcomes of quitting. Third, according to this traditional approach, these thoughts, feelings, and expected outcomes lead most people to search for another job. The job opportunities found during this job search are then evaluated. Finally, actual quitting occurs when a "better" job opportunity is found.

Strategies on how to minimize employee attrition, confronted with problems of employee attrition, management has several policy options viz. changing (or improving existing) policies towards recruitment, selection, induction, training, job design and wage payment. Policy choice, however, must be appropriate for the precise diagnosis of the problem. Employee attrition attributable to poor selection procedures, for example, is unlikely to improve where the policy modification to focus exclusively on the induction process. Equally, employee attrition attributable to wage rates, which produce earnings that are not competitive with other firms in the local labor market is unlikely to decrease where the policy adjustment merely to enhance the organization's provision of on-the job training opportunities. given that there is increase in and indirect costs of labour attrition, therefore, management is frequently exhorted to identify the reasons why people leave organization's so that appropriate action is taken by the management

Effective employee retention is a systematic effort by employers to create and foster an environment that encourages current employees to remain employed by having policies and practices in place that address their diverse needs. a strong retention strategy becomes a powerful recruitment tool. Retention of key employees is critical to the long-term health and success of any organization. it is a known fact that retaining your best employees ensures customer satisfaction, increased product sales, satisfied colleagues and reporting staff, effective succession planning and deeply imbedded organizational knowledge and learning. Employee retention matters as organizational issues such as training time and investment; lost knowledge; insecure employees and a costly candidate search are involved. hence, failing to retain a key employee is a costly proposition for an organization.

Retention of key employees and treating attrition troubles has never been so important to companies. it is a fact that, retention of key employees is critical to the

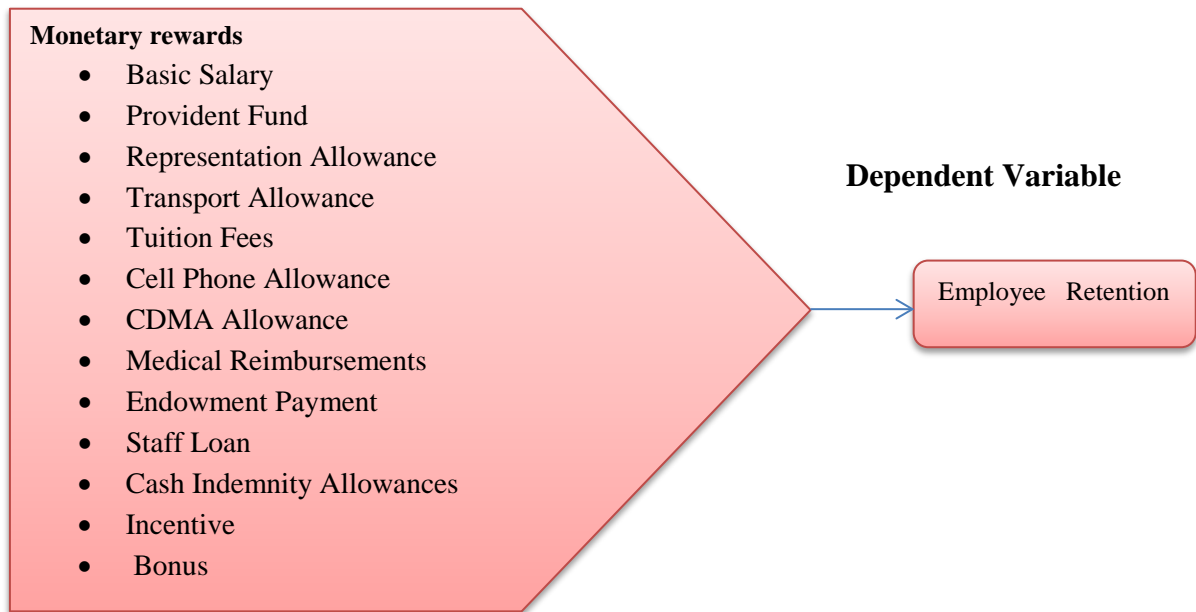
long-term health and success of any organization. The performance of employees is often linked directly to quality work, customer satisfaction, and increased product sales and even to the image of a company. whereas the same is often indirectly linked to, satisfied colleagues and reporting staff, effective succession planning and deeply embedded organizational knowledge and learning. Employee retention matters, as, organizational issues such as training time and investment, costly candidate search etc., are involved. Hence, failing to retain a key employee is a costly proposition for any organization. Various estimates suggest that losing a middle manager in most organizations, translates to a loss of up to five times his salary. employee retention strategies help organizations provide effective employee communication to improve commitment and enhance workforce support for key corporate initiatives. keep employees and keep satisfaction high, you need to implement each of the three of employee retention: respect, recognition, and rewards. Respect is esteem, special regard, or particular consideration given to people. As the pyramid shows, respect is the foundation of keeping your employees. Recognition and rewards will have little effect if you don't respect employees. Recognition is defined as "special notice or attention" and "the act of perceiving clearly." many problems with retention and morale occur because management is not paying attention to people's needs and reactions. Rewards are the extra perks you offer beyond the basics of respect and recognition that make it worth people's while to work hard, to care, to go beyond. We hasten to note that "better" has rarely been fully defined. Most often, improved economic outcomes are implied (e.g. compensation and financial opportunities) but seldom explicitly stated (John Wiley, 2009)

2.13 The conceptual framework of the study

The conceptual framework of the study specifies the nature of the rewards of the study, which were depicted in the diagrammatic form of Figure 1. According to the model, dependent variable is employee retention and the independent variables are financial rewards. Employee retention is affected by monetary rewards. The relations of these variables are supported on the basis of review of literatures and presented shown below.

Independent variables

Fig 2.1 Conceptual Frameworks (2017)



Source: Developed by the Researcher (2017)

This model shows that if an organization has attractive monetary rewards strategy, employees retained and the organization in turn can be benefited and successful. If employees are satisfied with the mechanisms of the retention, they stay for a maximum period of time with the organization and they will be motivated to work for the success of the organization. The relationship between the independent and dependent variables is that the success of the organization is retention of employees. This indicates that if an organization formulates proper policies and strategies of rewards (independent variables) to retain its employees that can bring job satisfaction, employees are more likely to stay with the organization and they fully exert their effort to accomplish organizational goals.

Monetary rewards refer to monetary benefits offered and provided to employees in return of the services they provide to the organization in addition to the other retention strategies. The monetary rewards include basic salary, provident fund, representation allowance, transport allowance, tuition fees ,cell phone allowance, CDMA allowance, medical reimbursements, endowment payment, staff loan , cash indemnity allowances, incentive and bonus, etc. They are given at a regular interval at a definite time.

Chapter Three

3. Research Methodology

This chapter presented the methodology that used to carry out this study. It included the research design, population studied and sampling strategy, the data collection process, the instruments used for gathering data, and how data was analysed and presented.

3.1. Research Design and approach

This research contained clear objectives derived from research questions and specifies the source from which researcher intended to collect data, the major purpose of this research, therefore, is to describe the effect of financial reward practice on employee retention as it exists at present in PECAE MFI S.C.

There are different types of research methods to conduct studies. However, this research employed descriptive type of research methods to gather information about the present financial reward practice on employee retention at PECAE MFI S.C. Descriptive research was describes of the state of financial reward practices on employee retention in the form of correlational research design as it appeared to be more appropriate in exploring it. Descriptive studies try to describe characteristics of subject opinions, attitudes and perceptions of people interest to the researcher to analyse the relation between financial reward and employee retention. In explanatory research, on the other hand, the researcher used facts or information already available, and analyse in the form of regression to make a critical evaluation of the variables.

Both quantitative and qualitative data utilized to conduct this study to triangulate data sources. The quantitative approach applied to identify the trends in employee turnover and its causes in PECAE MFI S.C. Some qualitative information also gathered from the organization by using interview check lists. In line with this, to address the assessment gaps regarding reward practice on employee retention under investigation, the researcher provided possible recommendations for management of PECAE MFI S.C.

3.2 Population of the study

The study used with a total population of 220 permanent employees who have nine strata i.e. Executives, department managers, service managers, division heads, branch managers, accountants, cashiers, officers and other staffs (HRM report, Dec. 2016). The sample size (100) was determined based on the sample size determination formula for descriptive research.

According to C.R. Kothari (2004, p.59), sample size determination the sizes of the samples from the different strata are kept proportional to the sizes of the strata. Thus total population is $N = 220$, and $n =$ represents the total sample size, the number of elements selected from stratum i is n_i . To illustrate it, we want a sample of size $n = 100$ to be drawn from a population of size $N = 220$ which is divided into nine strata of size. $n_i = n * i / N$.

Therefore by utilizing the above formula, the calculated sample size was 100. Thus the sample distributed to 100 respondents proportionally under the sample frame. Questionnaires distributed personally to the respondents through postal addresses.

3.3. Sample design and Techniques

Respondents were diversified in terms of educational qualification, job's variety and other parameters, the participants' perceptions of reward practice expected to be varied accordingly. Thus, stratified random sampling method applied to represent such heterogeneity of the population.

As per C.R. Kothari (2004, p.59), in his research methodology book, complements the above rationale of this study for adopting the stratified sampling design. If a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample. Under stratified sampling the population is divided into several sub-populations that are individually more homogeneous than the total population (the different sub-populations are called 'strata') and then the researcher selected items from each stratum to constitute a sample. Since each stratum was more homogeneous than the total population, the researcher was able to get more precise estimates for each stratum and by estimating more accurately each of the component parts, for getting a better estimate of the whole.

The study used descriptive research method through the stratified random sampling method that engaged from both managerial and non-managerial staffs. The management staff members include all permanent employees in the company such as executive, department managers, service managers, division heads, branch managers and non-managerial includes: accountants, cashiers, officers and other staffs. In short, the following detailed sampling frame used to designate the sub total of the population and the number of participants was sampled proportionally from the total 100 samples of the study.

Table 3.1 Sample Size Determination

Population	Population Size	Sample Size
Executive	1	0
Department Managers	4	2
Service Managers	4	2
Division Heads	4	2
Branch Managers	24	11
Accountants	40	18
Cashiers	24	11
Officers	43	20
Other Staffs	76	34
Total	220	100

3.4 Data sources and Types

Data sources were both primary and secondary. Primary data collected by a questionnaire that developed by the researcher on the basis of literature review. The questionnaires distributed for current employees to collect data. Furthermore, interviews conducted with the HR director of the company and selected head managers employees to triangulate the data with supplementary qualitative data. The secondary data collected from different sources such as company's reports, occasional papers prepared by researchers, books, journal articles, employee exit interview records and company's website. There was extensive review of available literatures on the subject, previously conducted studies related to this study.

3.5. Data collection procedure

The researcher obtained an introductory letter from the University and a research permit from the PEACE MF S.C. Followed the entry procedure, the researcher used both questionnaires and interview which was self-administered questionnaires. The advantageous were less cost less and time for data collection. It was vital to assess the role of rewards on employee retention on through the descriptive and explanatory analysis by using a Likert scale type questionnaire and interview, frequency distributions, percentage mean ,correlation and regression.

The following procedures were strictly followed by the researcher to collect the data required for the study.

- Data collection tools that was questionnaires and interview check list prepared
- Pilot test of the questionnaire developed for current employees to check clarity
- Correction made based on the feedback obtained from the pilot test session

- The amended questionnaire distributed through email and postal address to the respondents at their duty stations during working hours and collected by the researcher
- Interviews conducted with the senior management staff to get more data for triangulation purposes.

3.6. Data analysis

Data analysis means the data entering, editing, cleaning and summarizing using descriptive statistics such as tables, graphs and charts. Hence, data was processed using SPSS Version 20. The data summarized, edited, coded, tabulated and analysed. Editing was done to improve the quality of data for coding. Editing involves going through the questionnaires to see if respondents responded to questions and see if there are blank responses. The researcher has used SPSS version 20.0 for descriptive, correlation and regression statics method which helps to assess the relation between the two variables (financial rewards and employee retention). Frequency distribution method used to analyse and interpret the data collected using statics such as percentage, frequency distribution, correlation of variables and also regression. Qualitative data analysis method employed to analyse qualitative data gathered using the interview check list and documents from the company.

Some of the methods used in gathering data in a survey are personal interviewing and self-administered surveys. In this study, data primarily collected through the utilization of questionnaires and interview. The data collected through questionnaire filled by the current staffs of the company and interview conducted with senior management of the company. The questionnaire was consisting of two parts. Part one prepared to gather general information about the respondents' age, gender, marital status, qualification and year of service and salary. Part two prepared to ask respondents to answer on the perception of employees on financial reward practice and employee retention.

Questions in this part were assessed by using a 1-5 Likert scale. Each question of the questionnaire assigned a number 1 indicating as strongly disagree, 2 indicating as disagree, 3 indicating as neither agree nor disagree, 4 indicating as agree, and 5 indicating as strongly agree. At the end, the study tried to give recommendations on actual practice of the contribution of performance management system to motivate and retain employees based on literature review of the study

3.7 Reliability and Validity

Reliability is the extent to which a measurement procedure yields the same answer however and whenever it is carried out. While, Validity is the extent to which it gives the correct answer (Kirk and Miller, 1986). It indicates the degree to which an instrument measures what it is supposed to measure. In this research content, the researcher has used questionnaires that their validity and reliability are checked and are modified according to the specific topic.

Prior to the actual data collection, pilot test was conducted by distributing sample questionnaires to 41 respondents in six different branches to ensure the reliability of the instrument in this case of study and the researcher has tested the reliability using Cronbach's Alpha (α). Cronbach's Coefficient (α) is calculated to estimate the internal consistency of reliability of a measurement scale. Cronbach's Coefficient is a reasonable indicator of the internal consistency of instruments that do not have right or wrong marking schemes, thus can be used for questionnaires using scales such as rating (Black & Leslie, 1999). Cronbach's alpha coefficients should fall within a range of 0.70 to 1.00. (Sun, Chou, Stacy, Ma, Unger and Gallaher, 2007)

Table 3.2 Reliability Statistics

Cronbach's Alpha	N of Items
0.858	41

3.8 Ethical Considerations

While conducting the study, ethical issues were mainly considered. The study took great care in order to make sure that individual or personal issues were not interfered with throughout the study session. The research was to ensure that no one would harm or suffer adverse consensuses from research activities. Before the data collection process all the necessary information about the study like who was conducting the study and for what purpose would be conducted and other necessary information that respondents like to know would be provided to all respondent so that it can help them to decide whether to participate or not in this study. They would be also notified that their participation in the study was voluntary and also that they have the freedom to withdraw from the study at any time without any unfavourable consequences. Unethical activities like violating nondisclosure agreements, breaking respondents confidentially, misrepresenting results, deceiving people, invoicing irregularities, avoiding legal liability, and more were forbidden.

Chapter Four

4. Data Presentation, Analysis and Discussion of Findings

In this section the data collected through questionnaires and interviews were presented using different tables, graphs and charts. The presented and analysed data were also interpreted by the researcher. As stated on the research methodology, questionnaires were distributed to 100 employees that were selected by strata that found in thirteen branches and head office staff and 7 senior managers were interviewed. Out of the total 35 questionnaires all were fully filled and returned which makes the response rate to be 100%. Data was collected and analysed in order to assess the effect of financial rewards on employee retention in PEACE MFI S.C. The data collected from employees through questionnaire was analysed and presented by using tables, graphs and charts followed by its interpretation based on the responses frequency and percentage.

4.1 Personal Profile of Respondents

The first part of the questionnaire consisted of six items about demographic information of the respondents. It covered the personal data of respondents such as: gender, marital status, age, educational background, and year of service in the company and their salary. The following subsequent tables were indicating the total demographic characteristics of the respondents.

Table 4.1 Personal Profile of Respondents

Demographic Data		Frequency	Percent	Validity Percent	Cumulative Percent
Gender	Female	24	24.0	24.0	24.0
	Male	76	76.0	76.0	100
	Total	100	100.0	100.0	
Marital Status	Single	33	33.0	33.0	33.00
	Married	66	66.0	66.0	66.00
	Divorced	1	1.0	1.0	100.0
	Windowed	0	0	0	0
	Total	100	100.0	100.0	100
Age	Below 25 years	20	20.0	20.0	20.0
	26 to 35 years	20	20.0	20.0	40.0
	36 to 40 years	34	34.0	34.0	74.0
	Above 40 years	26	26.0	26.0	100.0
	Total	100	100.0	100.0	
Educational Background	High School Complete	16	16.0	16.0	16.0
	College Diploma	50	50.0	50.0	66.0
	First Degree	29	29.0	29.0	95.0
	Masters and above Degree	5	5.0	5.0	0
	Total	100	100.0	100.0	100.0
	<1 year	13	13.0	13.0	13.0
	1 up to 4 years	27	27.0	27.0	40.0

Tenure	4 up to 7 years	29	29.0	29	69.0
	7 up to 10 years	13	13.0	13.0	92.0
	More than 10 years	8	8.0	8.0	100.0
	Total	100	100.0	100	
Salary	Below 3000	15	15.0	15.0	15
	3,001 -5,000	54	54.0	54.0	69.0
	5, 001 -8,000	19	19.0	19.0	88.0
	8,001 – 11,000	2	2.0	2.0	90.0
	11, 001 – 15,000	5	5.0	5.0	95.0
	Above 15,000	5	5.0	5.0	100.0
	Total	100	100.0	100.0	

Source: Own survey, 2017

As shown in the above table 4.1 the gender distribution of respondents which is 76% of the respondents are male while the rest 24% are female. This shows that the number of male employees dominates the number of female employees in the company.

Regards to marital status of the respondents, out of 100 respondents, 66% of the respondents are married; 33% of the respondents are single while 1% is divorced and none of the respondent is widowed. This shows that most of the respondents are married and according organizational behaviour studies by Kondalkar (2007), married employees typically are found to be somewhat less likely to quit than employees who haven't family and dependants responsibilities. This employee's most likely to have parental responsibilities and have low level of commitment than those who are married.

Regards to age distribution of the respondents, out of the total respondents 34% of the respondents are between the ages 36 to 40 years; 26% of the respondents are found between the ages above 40 years; 20% of the respondents are found between the age of 25 to 35 and 20% of the respondents are below 25 years old. This indicates that most employees found in the company are adult employees and the second are young employees who need better payment, good working condition, challenging works and are also sensitive to any inequity or other ill treatment by supervisor or the management and searing better salary and benefit packages.

In terms of education back ground, 50% of the respondents have college diploma; 29% of the respondents have 1st degree and 16% of the respondents are high school complete and 5% of the respondents are master's degree holders. Based on this the above data it's possible to say that most employees in the company are college diploma holders which means most them are less educated or semi-professionals and can have less job opportunities in the market by different organizations

In terms of tenure (length of service) of respondents in the organization, out of the total respondents 29% of the respondents have served the company between 4 up to 7 years. less than one year; 27% of the respondents have served the company between 1-4 years; 13% of the respondents have served the company between 7 to 10 years, 13% of the respondents have served the company and the rest 8% of the respondents have served the company for more than 10 years. Therefore, most employees have worked on the company for a medium period of time which is only 4 to 7 years and short periods which is 1 to 4 years. This entails that most employees have few years of work experience which is considered to be lower employee productivity since experienced employees perform well and Kondalkar, 2007 has stated that there is a positive relationship between seniority and job performance. Also this shows the company doesn't have a strong retention strategy.

In terms of the basic salary of the respondent in the company is 54% of the respondents earn Birr 3,001 -5,000; 19% of the respondents earn Birr 5,001 -8,000; 15% of the respondents earn Birr below 3000; 5% of the respondents earn Birr 11, 001-15,000; 5% of the respondents earn Birr above 15,000 and the rest only 2% of the respondents earn 8,001-11,000 per month. As we can see from the above table most employees (73%) are paid within the range of Birr 3,001-8,000 per month. Salary is one of the number issues that most employees consider when leaving or joining to a specific organization according to the continuous increment in the day to day life cost, inflation and competition of the financial institution , it's really difficult to say the salary of these employees is enough or satisfying to stay long time in Company.

4.2 Components of Financial Rewards

Table 4.2: Respondents' satisfaction with component of financial rewards

S.N	Items	DS	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	Total
1	Basic salary	Frequency	8	14	9	41	28	100
		%	8	14	9	41	28	100
		Mean	1.33					
2	Provident fund allowance	Frequency	8	16	8	30	38	100
		%	8	16	8	30	38	100
		Mean	1.26					
3	Transport allowance	Frequency	10	12	5	40	33	100
		%	10	12	5	40	33	100
		Mean	1.26					
4	Medical allowance	Frequency	14	19	9	21	37	100
		%	14	19	9	21	37	100
		Mean	1.52					
5	Bonus	Frequency	14	17	10	18	41	100
		%	14	17	10	18	41	100
		Mean	1.45					
6	Incentive	Frequency	7	17	9	20	47	100
		%	7	17	9	20	47	100
		Mean	1.17					
7	Cell phone Allowance	Frequency	11	21	4	13	51	100
		%	11	21	4	13	51	100
		Mean	1.28					
8	Insurance endowment	Frequency	12	45	5	17	21	100
		%	12	45	5	17	21	100
		Mean	2.1					
9	Staff loan amount	Frequency	7	17	3	12	61	100
		%	7	17	3	12	61	100
		Mean	2.0					
10	Educational assistance	Frequency	9	9	5	19	58	100
		%	9	9	5	19	58	100
		Mean	2.0					
11	CDMA allowance	Frequency	11	15	5	16	53	100
		%	11	15	5	16	53	100
		Mean	2					
12	Cash indemnity	Frequency	10	11	2	11	66	100
		%	11	15	5	16	53	100
		Mean	1.27					
13	Representation allowance	Frequency	10	13	8	32	37	100
		%	10	13	8	32	37	100
		Mean	2.10					

Source: Own Survey, 2017

Regarding of employee satisfaction with the basic salary of the organization, 28 and 41 respondents are strongly disagree and disagree with basic salary of their organization respectively. 9 respondents are neutral (not sure), 14 of the respondents are happy their current salary and 8 of respondents are responded strongly agree with the basic salary of the company. This implies most of the employees are not satisfied with the current basic salary of the organization. The implication is the majority of the employees are searching outside jobs which are better salary for them.

38 respondents are not happy (strongly disagree) with the provident fund allowance of the PEACE MFI S.C. 30 respondents are responded as they are disagree and 8 of the respondents are not sure and strongly agree with the provident fund allowance. 16 of the respondents are responded agree. Therefore the majority of the participants are not satisfied at all with provident fund allowance. Based on employees understanding the total value of provident fund they receive, not just designed to attract, retain, motivate and develop the best talent.

With regards to transport allowance, 33 participants are responded as they are strongly agree) and 40 respondents are disagree with the transport allowance of their organization. For 5 respondents are not sure, 12 respondents are agree with transport allowance and the remaining 10 respondents are strongly agree. This means that the majority of the employees are not happy with the transport allowance. The management shall developing and operating pay structures that group jobs into grades, bands or levels in accordance with internal and external relativities and usually provide for pay progression to related to performance, contribution, competence, skill or length of service.

The same table 4.4 shows that the medical reimbursement of PEACE MFI S.C is strongly disagree for 37 respondents, 21 of the respondents responded as medical reimbursement is disagree, 19 are agreed, 14 respondents are strongly agreed and 9 respondents are not sure. This benefit consists of provided by employer for its employees to enhance the well-being of them by covering medical fees for sickness however, the benefit is not enough to cover all the medical costs that why the employees are not satisfied .

With respect to bonus, for 41 of the participants are responded strongly disagree, 18 respondents are responded that the bonus is offered by their organization is disagree. For 17 participants, bonus is agreed and for 14 respondents the bonus provided by their organization is strongly agreed and the rest 10 respondents are neutral. The rationale behind bonus rewards is related to business performance to increase motivation, commitment and engagement but

the amount is not significant impact on employees' performance in the case of PEACE MFI S.C, if sufficiently high can make an immediate impact on motivation and engagement.

Regards to incentive for 47 of the participants are responded strongly disagree, 20 respondents are responded that the incentive is offered by their organization is disagree. For 17 participants, bonus is agreed and for 9 respondents the bonus provided by their organization is neutral and the rest 7 respondents are strongly agreed. The logic for incentive scheme will be based on the belief that it will fulfil employees to share in the organizations success thus increasing commitment however, the incentive is not attractive.

With respect to cell phone allowance 51 respondents are responded strongly disagree with the cell phone allowance of the PEACE MFI S.C. 21 respondents are responded as they are greed and 13 of respondents are disagree with the cell phone allowance . 11 the respondents are responded are strongly agreed and the rest 4 are responded as neutral. Therefore the majority of the participants are not satisfied at all with cell phone allowance.

Regarding of insurance endowment of the organization, 45 respondents are responded agree and 21strongly disagree with insurance endowment of their organization. 17 respondents are neutral (not sure), 12 of the respondents are strongly agreed and 5 of respondents are neutrality the insurance endowment of the company. This implies most of the employees are happy with the insurance endowment of the organization.

Regards to staff loan amount 61 respondents are responded strongly disagree, 17 respondents are agreed 12 respondents disagree with the staff loan amount of the PEACE MFI S.C. 7 and 3 of respondents are responded as they are strongly agree and not sure with the staff loan amount respectively. This indicates most of the employees are not happy with the insurance endowment of the organization.

Regards to educational assistance 58 respondents are responded strongly disagree and 19 are disagree with insurance endowment of their organization. 9 respondents are strongly agree and agree and 5 of respondents are neutrality the insurance endowment of the company. This implies most of the employees are not happy with the insurance endowment of the organization. This means that the majority of the employees are not satisfied with the educational assistance.

With respect to CDMA allowance, 53 respondents are responded strongly disagree and 16 disagree with CDMA of their organization. 15 respondents are agreed, 12 of the respondents

are strongly agreed and 5 of respondents are neutrality the CDMA of the company. This implies most of the employees are happy with the CDMA of the organization.

Regards to cash indemnity 66 respondents are responded strongly disagree and 11 respondents are disagree and agree with cash indemnity of their organization respectively. 10 the respondents are strongly agree and 2 of respondents are neutrality the cash indemnity allowance of the company. This implies most of the employees are not happy with the cash indemnity allowance of the organization.

Concerning to representation allowance 37 respondents are responded strongly disagree and 32 respondents are disagree with representation allowance of their organization. 13 the respondents are agree and 10 respondents are strongly agreed and 8 of respondents are neutrality the representation allowance of the company. This implies most of the employees are not happy with the representation allowance of the organization. This indicates that the majority of the employees are satisfied with the representation allowance.

When considering and evaluate all financial rewards are not recognizes that everyone working in a company contributes to creating added value and should benefit accordingly. The advantageous financial rewards provide a direct related to individual performance and can make an immediate impact on motivation and engagement if the cash amount is sufficiently high. These decisions are made on the basis of what they believe the organization can afford. However employees' financial can generate healthy competition between individuals or teams of employees within a company. If only a certain number of employees receive incentives based on individual or group performance that can make everyone work harder, if the incentive is compelling enough.

Intelligently designed incentives can be a boon to companies looking to retain employees for the long term. Productive incentives, whether these are in the form of stock or bonuses, make it worthwhile for employees to stay at your firm, even if a salary offer from a competitor is more attractive. Incentives can also make employees feel as if their hard work is appreciated, thus reflecting well on their managers and the company as a whole. An incentive scheme can improve employee attitudes and improve the working atmosphere. It can be a way to give extra compensation to top performers when there are constraints that don't allow raises or promotions to be used.

4.3 Financial Reward Strategies for Employee Retention and Their Effectiveness

Table 4.3: Questions related to retention strategies

S. N	Items	DS	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	Total
1	I am satisfied the organization pays compare with that for similar jobs in the Company	Frequency	7	5	8	23	57	100
		%	7	5	8	23	57	100
		Mean	1.82					
2	PEACE MFI S.C pay is competitive with current market pay	Frequency	11	3	4	77	5	100
		%	11	3	4	77	5	100
		Mean	1.38					
3	PEACE MFI S.C pays are benchmarked to the market	Frequency	8	6	4	27	55	100
		%	8	6	4	27	55	100
		Mean	1.85					
4	There is equitable pay system in the company	Frequency	4	12	3	13	68	100
		%	4	12	3	13	68	100
		Mean	1.71					
5	The financial rewards haven't positive effect on the work atmosphere	Frequency	18	19	6	52	5	100
		%	18	19	6	52	5	100
		Mean	1.93					
6	I Understand the company Financial reward policy	Frequency	26	38	24	8	4	100
		%	26	38	24	8	4	100
		Mean	2.74					
7	Financial reward strategy of PEACE MFI S.C recognizes superior performance	Frequency	11	9	0	33	47	100
		%	11	9	0	33	47	100
		Mean	1.04					
8	I often think of leaving my organization	Frequency	51	13	3	7	26	100
		%	51	13	3	7	26	100
		Mean	3.56					
9	It is very possible that I will look for a new job next year	Frequency	41	3	11	8	7	100
		%	41	3	11	8	7	100
		Mean	3.93					
10	As soon as I find a better job, I will quit from this organization	Frequency	45	42	2	6	5	100
		%	45	42	2	6	5	100
		Mean	4.16					
11	If I may choose again, I will not choose to work for the current organization	Frequency	62	6	12	13	7	100
		%	62	6	12	13	7	100
		Mean	4.03					
12	The Company gives a lot of attention to the issue of turnover	Frequency	28	9	3	57	3	100
		%	28	9	3	57	3	100
		Mean	1.02					

Source: Own Survey, 2017

As shown in table 4.3 of item (1) above, the respondents express their feelings on the statement 'I am satisfied the organization pays compare with that for similar jobs in the Company' Thus, 57 of the respondents strongly disagreed with the statement, 23 are

disagreed, 8 are not sure, 5 are agreed and 7 strongly agree. This implies that majority of employees are not happy the pays on current jobs when compare to with similar jobs in company.

The respondents express their feelings on the statement 'PEACE MFI S.C pay is competitive with current market pay' thus, 5 of the respondents strongly disagreed with the statement, 77 are disagreed, 4 are not sure, 3 are agreed and 11 strongly agree. This implies that pays of the company are not competitive to the market that why employees are searching better pays for outside.

The respondents express their feelings on the statement 'PEACE MFI S.C pays are benchmarked to the market' thus, 55 of the respondents strongly disagreed with the statement, 27 are disagreed, 6 are not sure, 4 are agreed and 8 strongly agree. This implies that pays of the company are not benchmarked to market that why employees.

The respondents express their feelings on the statement 'there is equitable pay system in the company' market' thus, 68 of the respondents strongly disagreed with the statement, 13 are disagreed, 3 are not sure, 12 are agreed and 4 strongly agree. This implies that the rewarded are not appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible.

The respondents express their feelings on the statement' the financial rewards have a positive effect on the work atmosphere' thus, 5 of the respondents strongly disagreed with the statement, 52 are disagreed, 6 are not sure, 19 are agreed and 18 strongly agree. This implies financial rewards have a positive effect on the work atmosphere to leave or stay in company.

The respondents express their feelings on the statement' I understand the company financial reward policy thus, 4 of the respondents strongly disagreed with the statement, 8 are disagreed, 24 are not sure, 38 are agreed and 26 strongly agree. This implies most of employees are understand financial reward policy of the company.

The respondents express their feelings on the statement' financial reward strategy of PEACE S.C recognizes superior performance thus, 47 of the respondents strongly disagreed with the statement, 33 are disagreed, 9 are agreed and 11 strongly agree. This implies employees engaged in their work and committed to the organization if they are rewarded accordingly to sustain super performance. That means people feel their job is worth doing, and that there's a strong fit between the job and financial rewards.

The respondents express their feelings on the statement 'I often think of leaving my organization'. Thus, 26 of the respondents strongly disagreed with the statement, 7 are disagreed, 3 are not sure, 13 agreed and 51 strongly agree. This implies that majority of employees will have any intention to leave from the company within a period of time.

Results in table 4.3 for the statement asked the respondent 'As soon as I find a better job, I will quit from this organization' indicates that 5 of the respondents strongly disagreed with the statement, 6 are disagreed, 2 are not sure, 42 are agreed and 45 strongly agree with the statement. This indicates that whenever the current employees get a job in another company they definitely leave the organization within a short period of time. Thus, the intentions of the existing employees to leave the organization are high. Take in to account of this intentions of the employee to leave the organization, the management of the organization should work its assignment very well to change the potential leaver employees of the organization.

The research findings in table 4.3 of the respondents express their feelings for the statement 'It is very possible that I will look for a new job next year. Accordingly, 41 respondents are strongly, 3 of the current employees responded agreed with the statement. Moreover, 11 remained neutral whereas 8 disagreed and 7 strongly disagreed. This shows that the current employees are already plan and not work in organization and they are searching for a better job and benefit packages for next year.

The above table 4.3 results show that, 62 of the respondents strongly agreed, 6 are agreed, 12 are neutral, 13 disagreed and 7 strongly disagreed with the statement 'If I may choose again, I will not choose to work for the current organization'. This, indeed, shows that the majority of the current employees are not satisfied with the work of current job and they are looking for outside opportunities. The organization should work on retention mechanisms to handle the employee from quitting.

The statement of 'the company gives a lot of attention to the issue of employee'. Thus, 3 of the respondents strongly disagreed with the statement, 57 are disagreed, 3 are not sure, 9 agreed and 28 strongly agree. This implies that majority of employees will have any intention to leave from the company within a period of time. The result indicates that, the largest number 60 of current employees respondents are looking for other job opportunities and leave the company since they would if not get management treatment. This implied that the issues raised in this regard is a critical symptoms for the existence of potential turnover in the company and it is expected to be high in the coming fiscal periods than before in company. Therefore, the company arranges the retention mechanisms to retain its valuable employees as early as possible.

The findings reflected in Table 4.3 above for all retention strategies, shows that the majority of the current employees are not satisfied with the company retention strategies. The organization should work on retention mechanisms to handle the employee from quitting. The company need to listen to employees' needs and implement retention strategies to make employees feel valued and engaged in order to keep them. These retention strategies can have a significant and positive impact on an organization's turnover rate. Here the researcher suggests some of these strategies; managers need to incorporate motivation-building practices into their corporate culture. These practices include listening to employees and respecting their opinions, basing rewards on performance, and being available to them for everything from listening to their ideas and concerns to assisting them with their career advancement. Employees need to feel valued and appreciated, be given feedback, provided with growth opportunities, be given work-life balance options, and have trust and confidence in their leaders (Branham). All of these retention strategies are beneficial when an employer wants to keep employees within an organization and keep costs of turnover low.

4.4. Document Analysis of Employee Turnover Trend of the Company

Based on the data that was obtained for this study through the available documents from the company such as HRM quarterly report, annual report and department document analysis was revived to determine the voluntary resignation employees' trend of the company. The findings are presented in the table below.

Table 4.4. The Trend of Staff Turnover from 2012 to 2016

Position Category	Fiscal year(July 1to June 30)				
	2012	2013	2014	2015	2016
Managerial	1	0	1	1	2
Supervisor	3	2	3	1	6
Clerical	15	26	30	23	28
Total leaving staff	19	28	34	25	36
Total staff	157	188	203	214	215

Source: HRM documents

As it is indicated in the table above, the number of staff leaving the company in 2012 was 19, 2013 was 28, 2014 was 34, 2015 was 25 and 2016 was 36. Hence, the data reflects company is facing frequent employees turnover. Besides, the data shows that the average number of employees leaving the company under review periods is 29 employees per annum. The organization makes investment on their employees by giving training and developing, motivates them expecting a return which adds value to the organization performance. So

when these employees leave, the organization will face a loss and other difficulties in achieving organizational goals and objectives.

The common problem of the company is facing right now is employees are leaving their current job for another job opportunity to banks, Insurance and other micro finance institutions. This makes the company the competitive environment more intense than it already is right now. Participants were provided with different factors that affect employee retention and the researcher has examined their extent of agreement in each factor. Regarding salary and other financial benefits, majority of participants are strongly agree that salary and other financial benefit is one of the factors that affect employee retention. It can be inferred from the information gathered above is that employees are very much concerned about salary and other financial benefits as it is considered in many literatures as a sole motivator.

4.5. Bivariate Analysis

The bivariate analysis includes the correlation and regression analysis which was used to investigate the effect of financial rewards on employee retention, and the relationship between financial rewards and employee retention. Using Pearson correlation with two tailed test of significance, the correlation analysis was made to investigate the relationships. Using the regression analysis, the effect of the variables was investigated.

4.6. Correlation Analysis

Correlation analysis was applied to test the “Interdependency” of the variables. In this section, the direction and degree of the strength of the relationship among the variables were determined by Karl Pearson’s (table 4:7). Karl Pearson’s coefficient of correlation is also known as the product moment correlation coefficient. The value of ‘ r ’ lies between + 1 and -1. Positive values of r indicate positive correlation between the two variables (i.e. changes in both variables take place in the statement direction), whereas negative values of ‘ r ’ indicate negative correlation i.e., changes in the two variables taking place in the opposite directions. A zero value of ‘ r ’ indicates that there is no association between the two variables. When $r = (+) 1$, it indicates perfect positive correlation and when it is $(-) 1$, it indicates perfect negative correlation. We can also say that for a unit change in independent variable, if there happens to be a constant change in the dependent variable in the same direction, then correlation will be termed as perfect positive. But if such change occurs in the opposite direction, the correlation will be termed as perfect negative. The value of ‘ r ’ nearer to +1 or -1 indicates high degree of correlation between the two variables. It is possible to examine the correlation among all dimensions of the

independent variables of distributive, informational, interpersonal and procedural fairness with the dependent variables of employee retention practices (C.R. Kothari, 2004).

Table 4.4 shows that current financial rewards ($r=.875^{**}$, $p<0.01$) and employee retention ($r=.875^{**}$, $p<0.01$) which have high degree of positive relationship each other. That is there is positive correlation and significant relationship exist between the independent (financial rewards) and dependent variables (employee retention). We can also say that for a unit change in independent variable (financial rewards), if there happens to be a constant change in the dependent variable (employee retention) in the same direction, then correlation will be termed as perfect positive.

Table 4.5 Correlations Result of Financial Rewards and Employee Retention

		Financial rewards	Employee Retention
Financial rewards	Pearson Correlation	1	.875
	Sig. (2-tailed)		.003
	N	100	100
Retention	Pearson Correlation	.875	1
	Sig. (2-tailed)	.003	
	N	100	100

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

4.8 Regression Analysis

Regression is the determination of a statistical relationship between two or more variables. Regression analysis is a statistical method to deal with the formulation of mathematical model depicting relationship amongst variables which can be used for the purpose of prediction of the values of dependent variable, given the values of the independent variable. When there are two or more than two independent variables, the analysis concerning relationship is known as multiple correlations and the equation describing such relationship as the multiple regression equation. On this research the researcher used multiple regression, variables financial rewards (defined as independent) is the cause of the behaviour of another one employee retention (defined as dependent variable). We here used simple correlation and regression taking only one independent variable and one dependent variable.).

Multiple regressions analysis helps in order to measure the relative strength of independent variables on dependent variables i.e. to determine the effect financial rewards and

employee retention of PEACE MFI S.C. The brief explanation of independent and dependent variables stated under table 4.5

Table 4.6 Model Summary of Regression Analysis

Model	R	R ²	Adjusted R Square	Std. Error of the Estimate	Df	Sig.
1	.875**	.823**	.780**	.132	1	0.003

a. Predictors: (Constant), financial rewards

The significant change shows the goodness of fit of the model. The lower this number is, the better the fit. Typically, if “Sig” is greater than 0.05, we conclude that our model could not fit the data. That means If Sig < .01, then the model is significant at 99%, if Sig < .05, then the model is significant at 95%, and if Sig < 0.1, the model is significant at 90%. Significance implies that we can accept the model. If Sig > 0.1 then the model was not significant (a relationship could not be found) or "R-square is not significantly different from zero."

If the value in “Sig.” is less than 0.05, then we can assume that the estimate in column “B” can be asserted as true with a 95% level of confidence. Always interpret the "Sig" value first. If this value is more than 0.1 then the coefficient estimate is not reliable because it has "too" much dispersion/variance. R-Square measures the proportion of variation in the dependent variable that can be explained by the independent variables. It lies between 0 and 1. A higher value is better for goodness of fit (C.R. Kothari, 2004).

Based on the above explanation table 4.8, the needed measure is the R square (model summary) which measures the proportion of variance in the dependent variable (employee retention) that can be explained by the independent variables (financial rewards) or R-square adjusted for numbers of independent variables are obtained for measuring the relative strength of independent variables (financial rewards) on dependent variables (employee retention). In other words R square measures how much variance of dependent variable is capture. In this case the R square =0.823 and it can be interpreted as the weighting combination of financial rewards explained approximately **82%** of change in employee retention is due to financial rewards and sig. = 0.003 showing that the goodness of fit of the model because Then generally used method to find the ‘best’ fit that a straight line of this kind can give is the least-square method (C.R. Kothari, 2004).

This is an indication that better financial reward strategies positively influence employee retention of the company. The result of regression analysis presented financial rewards significantly is predicting employee retention.

As a summary of the above, results indicates that the relationship formulated between independent and dependent variables in this research are in fit with the respective theories. The confidence level or reliability is the expected percentage of times that the actual value will fall within the stated precision limits. Thus, if we take a confidence level of 95%, then we mean that there are 95 chances in 100 (or .95 in 1) that the sample results represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not. Precision is the range within which the answer may vary and still be acceptable; confidence level indicates the likelihood that the answer will fall within that range, and the significance level indicates the likelihood that the answer will fall outside that range. We can always remember that if the confidence level is 95%, then the significance level will be $(100 - 95)$ i.e., 5%; if the confidence level is 99%, the significance level is $(100 - 99)$ i.e., 1%.

Regards to the standard error, it gives an idea about the reliability and precision of a sample. The smaller the S.E., the greater the uniformity of sampling distribution and hence, greater is the reliability of sample. Conversely, the greater the S.E is the greater the difference between observed and expected frequencies. In such a situation the unreliability of the sample is greater. The size of S.E., depends upon the sample size to a great extent and it varies inversely with the size of the sample. If double reliability is required i.e., reducing S.E. to $1/2$ of its existing magnitude, the sample size should be increased four-fold. The standard error enables us to specify the limits within which the parameters of the population are expected to lie with a specified degree of confidence. Such an interval is usually known as confidence interval (C.R. Kothari, 2004).

Chapter Five

5. Summary of Finding, Conclusion and Recommendations

5.1 Introduction

In this section, the study provides a discussion on the findings of the research in relation to the literature review. The summary, conclusion, discussion and recommendations in regards to the effect of financial rewards on employee retention are comprehensively discussed with the specific research objectives in mind.

5.2 Summary of Findings

The general objective of the study was to determine the effect of financial rewards on employee retention using a survey of PEACE MFI S.C. The study was guided by the following specific objectives: to assess the effect of rewards on employee retention, examine the relationship between reward and employee retention strategies, examine factors affecting employee retention and make recommendations to the policy makers in the organization on possible ways/strategies to improve employee retention based on the research findings.

The study adopted descriptive and explanatory research method through the stratified random sampling method that engaged from both managerial and non-managerial staffs. The population of interest consisted of 220 employees. A sample size of 100 was selected using stratified sampling method. Data collection was done using structured questionnaires and interview. The data was analysed using the Statistical Package for Social Sciences (SPSS version 20) into frequency distribution, percentages and Pearson correlations. The data was presented using tables and charts.

Descriptive statistics in the form of arithmetic means and standard deviations for the respondents were computed for the multiple dimensions that have been assessed through the questionnaire are presented in Tables 4.2 to 4.5. With respect to the dimensions of financial rewards data of the respondents assessed by the questionnaire, Table 4.2 indicates that the mean values for basic salary, provident fund ,transport allowance ,medical allowance, bonus, incentive, cell phone allowance ,insurance endowment, staff loan amount, educational assistance, CDMA allowance, cash indemnity ,representation allowance rated by respondents with their financial rewards satisfaction level ranged from 2.17 to 3.10. It therefore appears that respondents in the given sample are not satisfied. Particularly the mean values of incentive, basic salary, provident fund transport allowance, medical allowance, and bonus and cash indemnity are the lowest.

Table 4.3 thus showing that staff in the current sample is most likely dissatisfied with their employee retention strategies. The Pearson's product moment correlation coefficient was computed for the purposes of determining the relationships: The relationship between the different dimensions of the financial reward variables and employee's employee retention. In order to delineate the relationship between the various facets of financial rewards employee retention. Table 4.4 indicates the document analysis of voluntary resignation employees' trend of the company that affect the company both in financial and non-financial terms. Table 4.5 shows that there is statistically positive and significant relationship exist between all variables of financial rewards and employee retention. The values of correlation coefficient in case of significant relationship vary from lowest (0.295**) to highest (0.413**). In the above table 4:5: the value R² (.295) can be interpreted as the model is fit since it is greater than the acceptable value. The variation of R² and Adjusted R² (.295): (0.22%) implies that there is insignificant change which in turn tell us that the results can be generalized beyond the sample, i.e., to the population.

5.3 Discussion of findings

The major findings have been discussed to view about the actual or perceived problems in the company, management strongly complain that the current salary scale in the organization is not attractive compare to peer financial institution. The other problem is that there small amount of annual salary increment was made to senior and junior employees having the same job title do get the same amount of salary regardless of the number of years they serve. The annual salary adjustment was not dependent upon the performance of a given branch in a given year. That's why most of the respondents are not happy with financial rewards of the company paid. In recent empirical study (Williams, McDaniel, & Nguyen, 2006) found that employees felt more satisfied with their pay level when they had: Positive perceptions of pay for performance, positive perceptions of their job design, larger base pay, larger pay increases and perceptions of pay fairness and equitable. Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value.

In terms of employee retention strategies the majority of the management staff responded that they are experiencing a high rate of turnover (13%) and also the have stated that their employees are leaving and entering to another banks and insurance companies. The managers have stated that this day's employee turnover is very frequent and high. This

day's employees continuously search for better job opportunities for their life and they wouldn't stay a day if they find one. One of the managers has shared his experience by saying that "back in our days employees used to be loyal to their organization but now a day's especially the young population is always in search of other better opportunities and most of the turnovers which are voluntarily are made by the younger population. Some managers said company didn't calculate and keep a record of each staff exit survey. This indicated that even the HR department of the company hasn't given that much of attention to this problem. As stated by different scholars employees are the key successes and competitive advantage to the organizations if they are well manage, motivated and retained.

Those who give attention to this problem have only made salary change and if the HR mangers and officials of the company has considered turnover as a problem. However, the researcher found out that salary wasn't the only problem and they would have also focused on other push factors. The company doing the best that can retain the employees using different mechanisms like competitive salary payment and amendment of fringe benefits will be made, giving trainings; providing different kind of opportunities for long term development (educations), incentive and promotions. Some manager's managers have responded by saying that they use exit interview and have used the data collected through it and have made changes in the salary scale. According to Armstrong, Helen Murlis (2007), employees' retention strategy provides a sense of purpose and direction, a pathway that links the needs of the business and its people with the reward policies and practices of the organization and thereby communicates and explains these practices. It constitutes a framework for developing and putting into effect reward policies, practices and processes that ensure that people are rewarded for doing the things that increase the likelihood of the organization's business goals being achieved by reward management practices.

5.4 Conclusions

The researcher has undertaken an in depth analysis over this area of topic and found out that there is a high rate of employee turnover in the company and the main reasons behind this turnover are low salary scale in the company, unattractive benefit packages and having good job opportunities outside of the microfinance industry like formal banks and insurances due to the central government, as stated in GTP II, has five years strategic plan for aggressively saving mobilisation from general public and the highly evolving competition in the micro finance environment in Ethiopia lead to the increasing number of financial institutions (banks, insurances and micro finances) by opening new branches

both in urban and semi urban areas in the country. The Government continued to take the necessary measures towards strengthening competitive and healthy financial institutions. Not only the number of bank branches has increased but also improvements have been witnessed in operational efficiency as well as coverage during the past five years. The total number of banks increased from 15 to 19 and the total number of bank branches has increased to 2,868 in 2014/15 from 680 in 2009/10. As a result, the population to bank branch ratio declined from 113,235 per branch in 2009/10 to 30,334 per branch by the end of the plan period, signifying rapid expansion of access to banking services. Similarly, the number of micro finance institutions (MFIs) branches also expanded during the same period, increasing to 1,593 by 2014/15, from 1,034 in 2009/10. As a result, the number of clients served by MFIs reached about 4.3 million by the end of 2014/15, compared to 2.43 million in 2009/10 (NBE report, 2016).

However, the main reason to why most employees leave and most of the employees in the company are unsatisfied with their basic salary and fringe benefit packages. This may lead the company to face turnover and lose the competent and fruitful employees in the coming years although the company is exposed to turnover due to the high number of male, young and unmarried employee in the company in theories. People who stay in organizations are the ones who are being able to connect their objectives with that of the organization. Employees should be able to see growth opportunity, enjoy the work environment and be able to find their jobs challenging, meaningful and with a purpose (Mills, 2007).

The response of most employees have an intention of leaving the company due to the above stated reasons and the work that is done with an intention of leaving is as satisfying as the work performed by a committed employees. This high and frequent rate of turnover has a negative effect on performance in different ways like delay in expected output, work load, time waste to guide newly hires, performance gap and the different types of costs incurred to replace an employee. This should mostly concern the HR department of the company. The HR department should be responsible for the recruitment and selecting, training and retained employees in an organization but the attitude of most HR manager and officials in the organization was that they did not give turnover the attention that it should be given to it since employees are the competitive advantage of an organization. The company uses exit interviews when employees request to terminate their employment contract and has made a salary increment but still this hasn't stopped the frequent turnover in the organization.

In conclusion, the results of this study may be useful to PEACE MFI S.C and other organizations who wish to reduce the turnover rate. It can reduce the turnover intention by improving employees' job satisfaction in the workplace and help to ensure a more stable workforce. It is also important to monitor the employee working conditions and improving the organizational culture in order to retain high potential employees. At the same time, the employees' task performances are likely to perform well when a person has abilities to meet the organization demands or need. Thus, employees would have a higher level of commitment towards the organization growth and superior performance. It is important for management to develop a retention strategy that addresses employee compensation and job satisfaction as major factors. This means that management should be able to create a total reward structure that includes more than just compensation. Compensation and benefits package should be competitive to attract and retain valued employees. Whenever an employee resigns, reasons for exit must be known. Exit interviews are a way of shaping organizations retention strategy.

5.5. Recommendations

The efforts exerted by company to reduce voluntary turnover and retain competent employees should continue. In most cases the causes of staff turnover are a combination of one or more factors. Researcher has assessed the previous studies on financial relationship with regards to employee retention. This study is being conducted to examine the financial rewards introduced as a key retention strategy. Motivation plays an important role in employee retention. There are several motivation theories by Abraham Maslow's Need theory, 1943; Alderfer's ERG theory, 1969; McClelland's Achievement Need Theory, 1961; Edwin Locke's goal theory, 1968. The researcher aims at explaining the importance of motivation on employee retention for the organization under research.

Therefore, the best solution for the problem is to identify the major causes and treating these problems to reduce it from the working environment. According to the finding and conclusion made the following are recommendations offered by the researcher so as to strength and help the company to minimize the level of voluntary turnover as much as possible.

- First and foremost HR manager of the company should give the attention to the issue of turnover. It's true that some level of turnover is healthy to the organization but when this turnover is frequent and takes away the most valuable employees of the organization it's a problem. Therefore it should be given the necessary attention and

the organizations should make formal survey as to know where the problem is and regular staff satisfaction will be made.

- Other studies by various researcher reviewed on employee turnover indicates that factors like salary and benefit packages are the most common cause of the turnover rate being so high. If the company doesn't offer competitive salaries and benefit packages, employees tend to hunt for outside jobs that pay them considerably well. In order to resolve this problem, the company is needed a compensation policy that is merit-based and offer salaries and benefits that would be competitive enough and benchmarked against other organizations in the same labour market to retain and attract well-qualified and experienced employees. If possible, it is strongly recommended to be the leading in salary paying against current market scales. The organization should also make a change in bonus and fringe benefits based on the work they perform and that matches their effort.
- At the time of interview most managers said that advancement and promotion are the prime reason employees left the company. Due to no potential opportunity for advancements or promotions, employees prefer other companies which may provide them with higher posts and increased compensation packages. So, career development is the most important retention factor since offering good opportunities for career development not only prevents employees from leaving the company but it also contributes in a positive way to their loyalty to the company. Since the aim of retention policies is not only to retain employees but also to retain employees who are loyal and committed.
- The organization should create a healthy working environment which is more attractive so that it can motivate employees. The organization could do this by creating a good relationship between managers and employees; create an inspiring work environment: create different opportunities for learning and skill development. The other thing is that organizations should redesign some job in the organization. Jobs should be challenging and encourage employees by giving them the chance to use the range of their skills.
- The HR manager must also put more efforts in retention policies relating to the relationship between managers and supervisors with their subordinates, working environment and job content. Those factors are important predictors of employee satisfaction and they also significantly mammie employees leaving from the company. Besides, the company should try to maximize opportunities for individual employees to develop their skills and move on in their careers. Where promotions are

not feasible, a company can look for sideways moves that vary experience and can make the work more interesting.

- According to Mobley (1982) retention could be improved by many factors like better recruitment effort, selecting right man for the right job so in order to minimize and avoid miss match between jobs and employees. Therefore, the organization should start from hiring the right employees for the job and also after hiring; organization should give clear and realistic job preview because this eliminates the gap between the expectation and the reality and avoids termination during the first few mounts of employment.
- The company practices should be transparent, fairness, consistent, fulfil the principles of distributive and procedural justice, equitable, strategic alignment regarding retention, promotion, compensation scheme and clear and prompt responses should be given to employee's who deserve it and this should not be based on any other factor other than performance and employees treated justly if they believe that the rewards have been distributed in accordance with the value of their contribution.

Moreover, to reduce the high rate of employee turnover in the company, management should have continues follow up towards the basic reasons that force employees to leave the company and take corrective actions towards different problems identified. By doing so, the company can improve its performance and assure a smooth flow of operation and increase its service. Through a detail analysis on the cases of turnover and taking corrective actions the company can facilitate the day to day tasks and avoid avoidable costs which are related to high rate of turnover in the company. Therefore never accept that employee turnover is predictable due to the microfinance industry or the country you are in. Any company can reduce turnover by making employment more attractive to workers. If you go through all the efforts to hire the best, make sure that you have a system in place to retain the best.

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Appendix.

List of Department, Services, Divisions and Branches will be covered in the study

N O	Departments	N o	Services	No .	Divisions	Branches
1	Finance & Administration	1	Risk management & compliance	3	Accounts	Bereh Aleltu (6)
2	Operations	2	Internal control	5	Administration	Kuy (9)
3	HRM	2	MIS	1	Credit	Enebissie Sarmdir (6)
1	Business Development & marketing	1	Legal	1	Saving	Bichena(6)
7		6		10		Motta(6)
						Assela(5)
						Sheno (5)
						Bekoji(6)
						Dodola (10)
						Robe Goba (6)
						Delosebro(6)
						Gassera(4)
						ZEF(4)

Total 21+79=100

NB: - Questionnaires will be distributed to each department, service division and branch randomly.

PPENDIX A –QUESTIONNAIRE

Addis Ababa University

School of Commerce

Masters of Arts Program in Human Resource Management

Questionnaires to be filled by Division Managers, Branch Managers, Accountants ,Customers Service officers Attorneys, officers and cashiers ,Heads, Senior Officers/CSM-Managers, Officers and Junior Officers.

Dear respondent:

I am conducting a research on **“The Effects of Financial Reward on employee retention: a case PEACE MFI S.C.”** For partial fulfilment of the requirements for masters of Arts Degree in Human Resource Management. The study intends for academic purpose only, besides the outputs of the study will help as input for the companies decision makers.

Directions for filling the questionnaire

There is no right and wrong answer of the options provided. Therefore, you are kindly requested to fill your real opinion regarding each question. Please put a “” mark on your choice in the space provided. to make the satisfaction Survey objective and make your response confidential, please don’t mention your name or any other identification. Your response is utilized only for the purpose of this Survey. I would like to appreciate your kind cooperation to fill this questionnaire in advance.

Tadesse Negash

I. Bio Data

1. **Gender:** Male Female
2. **Marital Status:** Single Married
: Divorce Widowed
3. **Age Category:** Below 25 years 26 to 35years 36 to 40 years above 40 years
4. **Educational qualification** : College Diploma First Degree Masters and above Degree High School Complete
5. **Years of Service in PEACE MFI S.Co** <1 year, 1 up to 4 years
4 up to 7 years 7 up to 10 years more than 10 years
6. **Current Position?** _____
7. **In which of the following salary ranges fall your salary?** Below 3000
3,001 -5,000 5, 001 -8,000 8,001 – 11,000 11, 001 – 15,000
Above 15,000

Part Two: Research Related Questions:

The Following Questions are presented on a five point Likert Scale. If the item strongly matches with your response choose 5 (strongly agree), if you moderately agree on the idea choose 4 (Agree), if you can't decide on the point choose 3 (Not sure), if you dissatisfied with the idea choose 2 (Disagree), and if you completely dissatisfied with the point choose 1(Strongly disagree).

The purpose of this questionnaire is to give you a chance to tell how you feel about your present job, what things you are satisfied with & what things you are not satisfied with. Remember: Keep the statement in mind when deciding how satisfied you feel about the aspect of your job. Do this for all statements. Please answer every item. Be frank and honest. Give a true picture of your feelings about your present job.

No	Items descriptions	Strongly agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly disagree (1)
I	Financial rewards question					
1	I am satisfied with the basic salary per month for the work I do					
2	I am satisfied with provident fund allowance					
3	I am satisfied with transport allowance					
4	I am satisfied with medical allowance					
5	I am satisfied with bonus					
6	I am satisfied with incentive					
7	I am satisfied with the cell phone allowance that I get at the Company					
8	I am satisfied with the company insurance endowment payment					
9	I am satisfied with PEACE MFI S.C staff loan amount and policy					
10	I am happy Educational assistance of PEACE MFI S.C					
11	I am satisfied the organization payment of CDMA allowance					
12	I am satisfied with the cash indemnity of PEACE MFI S.C policy					
13	I am satisfied the organization payment of representation allowance					
II	Retention related questions					
14	I am satisfied with the pays is compare to similar jobs in company					
15	PEACE MFI S.Co pay benchmarked to the market					

16	There is equitable pay system in the company					
17	The financial rewards have a positive effect on the work atmosphere.					
18	I Understand the company Financial rewards policy					
19	I am satisfied the organization pays compare with that for similar jobs in the Company					
20	PEACE MFI S.C Financial reward strategy recognizes superior performance					
21	I often think of leaving my organization					
22	As soon as I find a better job, I will quit from this organization					
23	It is very possible that I will look for a new job next year					
24	If I may choose again, I will not choose to work for the current organization					
25	The Company gives a lot of attention to the issue of employee retention					

Interview questionnaire for managers at Head Office

- 1) Which financial reward mechanism plays a major role in the employees` retention in the company?
- 2) Do belief the financial reward practice in the organization matches the performance of employees? Why?
- 3) Why employees leave the organization?
- 4) Do you believe the financial rewards have increased employee retention? Why or why not?
- 5) Do you believe the financial rewards have increased employee motivation? Why or why not?
- 6) Do the employees perceive intangible and tangible rewards equally important why? Why not?
- 7) Should the employees have an opportunity to influence on the decision making process of the financial reward system?
- 8) What are the challenges of a manager when developing a financial reward system?
- 9) Is it hard for a manager to distribute the financial rewards fairly? Why?
- 10) Could the financial reward systems be improved or developed further to compete the environment? How?