

Effect of Total Rewards Strategy on Employee Retention: An Empirical Investigation

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Abstract

This study investigates the effect of total rewards strategy on employee retention, with particular emphasis on five components: compensation, benefits, recognition, work-life balance, and career growth opportunities. Adopting a quantitative research design, primary data were collected from 119 employees across diverse industries using a structured six-point Likert-scale questionnaire. Data were analyzed using PSPP statistical software through descriptive statistics, reliability analysis (Cronbach's Alpha), Pearson correlation, and multiple regression analysis. Reliability coefficients for all constructs ranged from $\alpha = 0.76$ to $\alpha = 0.90$, confirming strong internal consistency. Correlation analysis revealed that all five reward components are positively and significantly associated with employee retention ($p < 0.01$). Multiple regression results indicate that the overall model is statistically significant ($F = 19.40$, $p < 0.001$) and explains 46% of the variance in retention intention ($R^2 = 0.46$). Among the predictors, compensation ($\beta = 0.33$, $p = 0.002$) and work-life balance ($\beta = 0.26$, $p = 0.005$) emerged as the most significant determinants of retention. Benefits, recognition, and career growth, though positively correlated, were not statistically significant in the combined model. The findings suggest that organizations should prioritize fair compensation and supportive work-life balance policies to enhance employee retention. These insights carry important implications for HR practitioners and organizational leaders in designing effective, integrated reward systems.

Keywords: Total Rewards Strategy, Employee Retention, Compensation, Work-Life Balance, Human Resource Management, Organizational Commitment

INTRODUCTION

In the contemporary business environment, human capital has emerged as an indispensable source of organizational competitive advantage. The ability to attract, develop, and retain skilled employees is central to sustaining long-term organizational performance. However, escalating inter-firm competition, technological disruption, and evolving workforce expectations have rendered employee retention one of the most pressing challenges for organizations globally. High employee turnover incurs substantial costs direct costs including recruitment, selection, and training expenses, and indirect costs such as loss of institutional knowledge, reduced productivity, and disruption of team cohesion (Alhmoud & Rjoub, 2019).

Traditionally, organizations relied primarily on financial compensation as the

mechanism to retain employees. Over time, empirical evidence has demonstrated that monetary rewards alone are insufficient to address the multidimensional needs of the modern workforce. Employees particularly millennials and Generation Z seek holistic employment experiences encompassing meaningful work, career advancement, recognition, and flexibility (Alhmoud & Rjoub, 2020). This shift has catalyzed the emergence of total rewards strategy, a comprehensive framework integrating both financial and non-financial reward elements to create a compelling employee value proposition.

Total rewards strategy encompasses five principal dimensions: compensation (base salary, incentives, and bonuses), benefits (health insurance, retirement plans, and welfare programs), recognition (formal and informal acknowledgment of performance), work-life balance (flexible arrangements and

workload management), and career growth opportunities (training, development, and promotions). When cohesively designed and communicated, these dimensions are theorized to positively influence employee satisfaction, commitment, and retention intention.

Despite the growing scholarly and practitioner interest in total rewards, extant research has predominantly examined individual reward components rather than their integrated effect. Furthermore, there remains a paucity of empirical studies exploring this relationship in the Indian context, where rapid economic growth and talent market dynamics present unique organizational challenges. This study addresses these gaps by empirically examining the collective and relative impact of total rewards components on employee retention among a multi-industry sample of employees in India.

RESEARCH OBJECTIVES

The primary objective of this study is to examine the effect of total rewards strategy on employee retention.

The specific objectives are: (i) to assess employees' perceptions of total rewards components including compensation, benefits, recognition, work-life balance, and career growth; (ii) to analyze the correlation between each total rewards component and employee retention intention; (iii) to determine the relative predictive significance of individual total rewards components on employee retention using multiple regression analysis; and (iv) to provide evidence-based recommendations for HR practitioners in designing effective reward systems.

THEORETICAL FRAMEWORK

This study draws upon three foundational theoretical perspectives to

frame the relationship between total rewards and employee retention.

Maslow's Hierarchy of Needs Theory (1943) posits that human motivation is structured hierarchically, ranging from basic physiological and safety needs to higher-order needs for esteem and self-actualization. In an organizational context, compensation and benefits address lower-order physiological and security needs, while recognition, career development, and meaningful work cater to higher-order esteem and self-actualization needs. A total rewards strategy that addresses needs across this continuum is therefore expected to enhance motivation and reduce turnover intention.

Herzberg's Two-Factor Theory (1959) distinguishes between hygiene factors (extrinsic elements such as salary and working conditions that prevent dissatisfaction) and motivators (intrinsic elements such as recognition, achievement, and growth that generate positive satisfaction). This framework supports the inclusion of both financial and non-financial rewards in the study, as solely addressing hygiene factors may prevent dissatisfaction but is insufficient to generate the intrinsic motivation that predicts retention.

The Total Rewards Model proposed by WorldatWork (2008) provides an integrative framework structuring rewards into five categories: compensation, benefits, work-life programs, performance and recognition, and development and career opportunities. This model directly informs the operationalization of the independent variables in the present study, providing theoretical coherence to the multi-dimensional measurement of total rewards strategy.

LITERATURE REVIEW

The relationship between total rewards and employee retention has been extensively examined across sectoral and geographic contexts. Makhuzeni and Barkhuizen (2015) found that a balanced total rewards system encompassing both monetary and non-monetary elements is critical for teacher retention in educational institutions. Their study underscored that career development opportunities and recognition substantially increase retention, particularly when salaries remain constrained.

Alhmoud and Rjoub (2019) examined total rewards in the banking sector and categorized rewards as extrinsic (salary, bonuses), intrinsic (achievement, satisfaction), and social (relationships, recognition). A key finding was that social rewards demonstrated the strongest impact on retention, indicating that interpersonal dynamics and appreciation are as consequential as financial incentives. Their study further emphasized the role of reward transparency in building organizational trust.

Alhmoud and Rjoub (2020) extended this line of inquiry by exploring generational differences in reward preferences. They found that younger employees (Gen Y and Z) prioritize non-financial rewards including career development and work-life flexibility, while older employees place greater emphasis on financial security. These generational divergences imply that organizations must design flexible reward architectures to cater to a heterogeneous workforce.

Studies in the healthcare sector have consistently demonstrated that reward systems exert their influence on retention indirectly through the mediation of job satisfaction (Msafiri et al., 2022). Employees who perceive rewards as

equitable and aligned with their contributions report higher satisfaction, which in turn reduces turnover intentions. The role of perceived fairness both distributive and procedural emerges as a critical moderating variable in the rewards-retention relationship.

Collectively, the literature supports the conceptual premise of this study: total rewards strategy, through its multidimensional components, significantly shapes employees' affective commitment, organizational loyalty, and intention to remain. The current study contributes to this body of knowledge by providing empirical evidence from a multi-industry Indian sample using integrated multivariate analysis.

RESEARCH METHODOLOGY

Research Design and Data Collection

This study adopts a quantitative, cross-sectional research design with a descriptive and analytical orientation. Primary data were collected using a structured, self-administered questionnaire distributed through online platforms. A convenience sampling method was employed, yielding 119 usable responses from full-time employees across multiple industries in India. The survey instrument was designed with reference to established scales in the total rewards and employee retention literature, and was reviewed for content validity prior to administration.

Measurement Instrument

The questionnaire comprised two sections. Section A collected demographic information (age, gender, industry, and work experience). Section B measured study variables using a six-point Likert scale (1 = Strongly Disagree to 6 = Strongly Agree), with the forced-choice format eliminating central tendency bias. The independent variable, Total Rewards Strategy, was operationalized through five

constructs: Compensation (3 items: salary satisfaction, competitiveness, and fairness), Benefits (3 items: attractiveness, needs fit, satisfaction), Recognition (3 items: frequency, achievement appreciation, motivational impact), Work-Life Balance (3 items: balance perception, flexible work support, workload manageability), and Career Growth (2 items: growth opportunities, training support). The dependent variable, Employee Retention, was measured via five items capturing long-term commitment, retention intention, organizational loyalty, turnover ideation, and organizational recommendation.

Statistical Techniques

Data were analyzed using PSPPP statistical software. Four analytical techniques were employed: (i) descriptive statistics (mean and standard deviation) to characterize response patterns; (ii) Cronbach's Alpha reliability analysis to assess internal consistency of all constructs; (iii) Pearson correlation analysis to examine bivariate relationships between total rewards components and retention; and (iv) multiple regression analysis to assess the independent predictive contribution of each reward component on employee retention intention.

DATA ANALYSIS AND RESULTS

Reliability Analysis

Table 1 presents the Cronbach's Alpha coefficients for all study constructs. All values exceed the conventionally accepted threshold of 0.70 (Nunnally, 1978), confirming satisfactory to excellent internal consistency.

Descriptive Statistics

Mean scores for all variables ranged from 3.58 to 4.66 on the six-point scale, indicating generally positive employee perceptions across reward

dimensions. The lowest mean was recorded for Salary Satisfaction ($M = 3.58$, $SD = 0.98$), suggesting that while employees perceive their compensation as relatively competitive (Salary Competitiveness: $M = 4.21$) and fair (Fair Compensation: $M = 4.23$), overall salary satisfaction remains moderate. Recognition Motivation ($M = 4.62$), Organizational Loyalty ($M = 4.66$), and Career Growth Opportunities ($M = 4.50$) were among the highest-rated variables, underscoring the salience of non-financial factors in employee experience.

Correlation Analysis

Pearson correlation coefficients between total rewards components and employee retention intention are presented in Table 2. All five components demonstrated statistically significant positive correlations with retention ($p < 0.001$).

Compensation exhibited the strongest association with retention ($r = 0.613$), followed by work-life balance ($r = 0.572$), benefits ($r = 0.511$), recognition ($r = 0.507$), and career growth ($r = 0.489$). Significant inter-correlations among the independent variables were also observed, suggesting that reward components are mutually reinforcing dimensions of a broader total rewards system.

Multiple Regression Analysis

Multiple regression analysis was conducted with employee retention intention as the dependent variable and the five total rewards components as independent variables.

The regression model is statistically significant ($F = 19.40$, $p < 0.001$) and explains 46% of the variance in employee retention intention ($R^2 = 0.46$). Compensation ($\beta = 0.33$, $p = 0.002$) and work-life balance ($\beta = 0.26$, $p = 0.005$) are the only statistically significant predictors.

Benefits ($p = 0.945$), recognition ($p = 0.175$), and career growth ($p = 0.328$) do not achieve statistical significance in the presence of the other predictors.

DISCUSSION

The results of this study offer several theoretically and practically significant insights regarding the role of total rewards strategy in employee retention. The finding that all five reward components are positively correlated with retention aligns with the WorldatWork Total Rewards Model (2008) and supports the premise that a holistic rewards framework contributes to employee commitment. These bivariate relationships are consistent with prior findings from Makhuzeni and Barkhuizen (2015) and Alhmoud and Rjoub (2019), confirming the cross-sectoral generalizability of total rewards theory.

The emergence of compensation as the strongest bivariate correlate and the most significant regression predictor ($\beta = 0.33$) is consistent with economic theories of labor market behavior and Maslow's lower-order need fulfillment. Employees prioritize fair and competitive remuneration as a foundational element of their employment relationship. Importantly, the data reveal a nuanced discrepancy: while employees rate salary competitiveness and fairness relatively highly ($M > 4.20$), overall salary satisfaction remains comparatively modest ($M = 3.58$). This gap between perceived fairness and subjective satisfaction suggests the influence of social comparison processes employees may acknowledge that compensation is objectively competitive yet still feel insufficiently rewarded relative to their personal contribution or aspirations. Organizations must therefore focus not only on market-aligned pay structures but also on transparent communication of

reward rationale to bridge this perception gap.

The statistical significance of work-life balance ($\beta = 0.26$) as a predictor of retention reflects broader societal trends toward work-life integration, particularly pronounced among younger workforce cohorts. This finding resonates with Alhmoud and Rjoub's (2020) generational analysis, which identified flexibility and work-life balance as paramount among millennial and Gen Z employees. In the Indian organizational context, where long work hours have historically been normalized, the positive relationship between work-life balance and retention signals an important shift in employee expectations that HR practitioners must address proactively.

The non-significance of benefits, recognition, and career growth in the multivariate model despite their significant bivariate correlations likely reflects multicollinearity among the predictors. The inter-correlations among total rewards components (ranging from $r = 0.48$ to $r = 0.70$) indicate that these factors share substantial common variance with compensation and work-life balance, diminishing their independent incremental contribution in the joint model. This does not negate their conceptual importance; rather, it suggests that these components may operate as contextual facilitators or moderators rather than primary direct drivers of retention when financial and work-life considerations are simultaneously satisfied.

HYPOTHESIS TESTING

The study evaluated five primary hypotheses regarding the relationship between each total rewards component and employee retention:

H1 (Compensation \rightarrow Retention) and H4 (Work-Life Balance \rightarrow Retention) are accepted at $p < 0.01$. H2, H3, and H5

are rejected based on multiple regression findings, although it is noted that all five variables demonstrate significant bivariate correlations with retention, indicating their contextual relevance when considered individually.

CONCLUSION

This study provides empirical evidence that total rewards strategy, as an integrated framework, exerts a significant positive influence on employee retention. The regression model, explaining 46% of the variance in retention intention, demonstrates that total rewards components collectively constitute a meaningful determinant of employees' propensity to remain with their organizations. Compensation and work-life balance emerge as the primary, statistically significant drivers of retention, reinforcing the importance of both financial equity and personal well-being in retention management.

From a theoretical perspective, the findings contribute to the total rewards literature by empirically validating the multidimensional model in the Indian context, a setting that has received comparatively limited scholarly attention. The results support Maslow's Hierarchy and Herzberg's Two-Factor Theory in demonstrating that both hygiene and motivational factors play differential roles in retention, with hygiene factors (compensation) showing the strongest direct effects.

For HR practitioners and organizational leaders, the findings carry clear strategic implications. Organizations should prioritize the development of transparent, competitive, and internally equitable compensation structures. Concurrently, flexible work arrangements, reasonable workloads, and employee wellness initiatives must be institutionalized to support work-life

balance a factor increasingly decisive in retention decisions. While benefits, recognition, and career development programs may not individually predict retention in multivariate models, their absence may generate threshold dissatisfaction. Accordingly, a holistic total rewards architecture that addresses all five dimensions remains essential for sustaining a committed, engaged workforce.

Future research should examine the mediating role of job satisfaction and organizational commitment in the total rewards–retention relationship. Longitudinal designs and sector-specific studies would further strengthen the causal inferences of this work. Additionally, the moderating role of demographic variables particularly generational cohort membership warrants further investigation given the evolving dynamics of the modern workforce.

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Table 1: Reliability Analysis of Study Constructs

Construct	Items (N)	Cronbach's Alpha	Interpretation
Compensation	3	0.79	Good
Benefits	3	0.77	Acceptable
Recognition	3	0.79	Good
Work-Life Balance	3	0.85	Good
Career Growth	2	0.76	Acceptable
Employee Retention	5	0.90	Excellent

Table 2: Pearson Correlation — Total Rewards Components and Employee Retention Intention (n = 119)

Total Rewards Component	Pearson r	Sig. (2-tailed)	Relationship Strength
Compensation (COMP_MEAN)	0.613	0.000	Strong Positive
Benefits (BEN_MEAN)	0.511	0.000	Moderate Positive
Recognition (REC_MEAN)	0.507	0.000	Moderate Positive
Work-Life Balance (WLB_MEAN)	0.572	0.000	Strong Positive
Career Growth (CG_MEAN)	0.489	0.000	Moderate Positive

Table 3: Regression Model Summary

Model Statistic	Value
R (Multiple Correlation)	0.68
R ² (Coefficient of Determination)	0.46
Adjusted R ²	0.44
F-statistic	19.40
Significance (p)	0.000
Std. Error of Estimate	1.00

Table 4: Regression Coefficients (p < 0.01)**

Predictor	B (Unstd.)	Std. Error	Beta (Std.)	t-value	Sig. (p)
(Constant)	0.42	0.45	—	0.93	0.353
Compensation	0.43	0.14	0.33	3.10	0.002 **
Benefits	-0.01	0.15	-0.01	-0.07	0.945
Recognition	0.16	0.12	0.14	1.37	0.175
Work-Life Balance	0.29	0.10	0.26	2.88	0.005 **
Career Growth	0.10	0.10	0.09	0.98	0.328

Table 5: Hypothesis Testing Summary

Hypothesis	Statement	Result	Decision
H1	Compensation has a significant positive effect on employee retention	$\beta=0.33, p=0.002$	Accepted
H2	Benefits have a significant positive effect on employee retention	$\beta=-0.01, p=0.945$	Rejected
H3	Recognition has a significant positive effect on employee retention	$\beta=0.14, p=0.175$	Rejected
H4	Work-life balance has a significant positive effect on employee retention	$\beta=0.26, p=0.005$	Accepted
H5	Career growth has a significant positive effect on employee retention	$\beta=0.09, p=0.328$	Rejected