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COMPENSATION VARIATIONS AND EMPLOYEE TURNOVER IN THE INSURANCE INDUSTRY IN KENYA

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Abstract: **This paper sought to examine the influence of compensation diversity on employee turnover in the Insurance industry in Kenya. Increased employee turnover has continually affected the effectiveness and continued performance of insurance organizations in Kenya. The increased costs of recruiting and training new employees as well as losing the best talents to the competitors negatively affect the performance of insurance organizations. This paper unveils the role played by compensation variations on the employee turnover in insurance companies. The study adopted the descriptive research design which used both quantitative and qualitative approaches. The philosophy of the study that was adopted was the positivism approach. The target population was 2,167 employees of the top five performing insurance companies in Kenya. Multi-stage sampling technique was adopted: purposive random sampling was used in the first stage, to identify the top five performing insurance companies. In the second stage, stratified random sampling was used to come up with a sample size of employees in the top five companies. The sample size comprised of 338 employees. Data was collected using a structured questionnaire for employees that had both open-ended and close-ended questions. An interview guide for human resource managers was used too. Hypotheses were tested using regression model. The study established that Compensation Variations had a significant and positive influence on employee turnover among insurance companies in Kenya. Conversely, the study established that firm characteristics had an insignificant and negative moderating effect on the relationship between compensation variations and employee turnover. The study concluded that compensation variations created a gap within the organizations thus leading to increased employee turnover hence the recommendation that the management of the insurance companies ought to adopt better ways of balancing their salaries and benefits as so as to reduce employee turnover.**

Keywords: **Compensation, Variations, Employee, Turnover, Insurance.**

1. INTRODUCTION

Background of the Study

Workplace diversity is the collective mixture of human differences and similarities, including geographic origin, educational background, sexual preference, political affiliation, culture, professional, tenure in an organization, and other socio-economic, ethical-racial and psychographic attributes (Gossen, 2016). Organizations need to recognize the ways in which the workforce has changed in terms of demographics. Dessler (2013) defines compensation as performance-based salary increases which are given to individual employees based on their individual performance. It is divided into two forms; compensation for financial payments directly and indirectly. Whereby, direct financial payments include: salaries, wages, incentives, bonuses and commissions. Indirect financial payments include: insurance and recreation. Compensation is one of the strategies used in human resource management to attract and retain useful employees as well as to facilitate them to improve their performance through motivation (Nzyoka & Orwa, 2016).

Kemei (2014) argues that the rate at which turnover takes place varies from one company to another. This researcher goes further to say that the highest level of turnover is normally found in private sectors than public sectors. The levels of turnover also vary from one region to another region. Employee turnover is costly; it causes workforce instability and reduced efficiency. It also has a negative impact on the bottom line.

Martin (2016) reveals that for one to enter the U.S. insurance industry, there is no minimum skill or educational level required. A study that was carried out of more than 120 insurance Chief Executive Officers (CEOs) found out that between 50-60% of the insurance executives stated that it was becoming increasingly difficult to identify and attracting new talent (Johansdottir, Olaffson, & Davidsdottir, 2014). The general business problem was that businesses in the insurance industry are affected by employee turnover, which results in the loss of productivity and profit for the business. The specific business problem was that some insurance managers lack strategies to retain talented employees.

Schlechter, Syce and Bussin (2016) reveal that employee turnover presents arguably the biggest threat to business sustainability and is a dynamic challenge faced by businesses throughout the globe. In South Africa, organizations compete to attract and retain employees who are skilled in an environment characterized by an increasing skills deficit. Turnover risk management is becoming an important strategy to ensure organizational steadiness and promote the effective retention of employees.

In Kenya, mergers and acquisitions are becoming a noticeable feature predominantly in the banking and insurance sector. This has caused high turnover of employees. To ignore the human capital element of an organization is a clear example of being short-sighted. This is a self-serving view invariably taken by analysts, advisors, executive directors and intermediaries (Muriithi, Guyo & Muturi, 2014). Company mergers and acquisitions have the potential to wreak havoc on employee morale. Waweru (2015) alludes that the Kenyan Insurance Industry has gone through numerous changes from the beginning of the year 2000. Many new entrants have ventured into the industry, an act that has seriously challenged the older insurance companies.

Statement of the Problem

Employee turnover continues to be a challenge facing modern businesses and exceedingly affects their performance and overall competitiveness. Through increased turnover, the costs of recruiting and training new employees as well as losing the best talents especially to the competitors exposes the companies to more dynamics which could affect their sustainability and performance. Insurance companies in Kenya have been recorded to among the industries with the highest annual employees' turnover in Kenya. This coupled with the unpredictable turbulent operating market, shows the danger that the companies have drawn into. To this end, the performance and profit margins of the insurance sector in Kenya has been declining in the recent past while the penetration of insurance products has been low in the country. Variation in compensation has been argued to be a key human resource aspect that can affect the employee morale and satisfaction thus increasing the turnover. This however has not been tested in the insurance sector in Kenya hence this paper sought to establish the influence of compensation variations on the employee turnover in insurance sector in Kenya

Objectives of the Study

i. To determine the influence of compensation variations on employee turnover in the insurance industry in Kenya.

ii. To evaluate the moderating effect of firm characteristics on the relationship between compensation variations and employee turnover in the insurance industry in Kenya.

Research Hypotheses

i. **H_{A1}:** Compensation variations have a significant influence on employee turnover in the insurance industry in Kenya.

ii. **H_{A2}:** Firm characteristics have a significant moderating effect on the relationship between compensation variations and employee turnover in the insurance Industry in Kenya.

2. LITERATURE REVIEW

Theoretical Review

Expectancy Theory

The expectancy theory states that, employees will put forth an amount of work and commitment equal to that which they expect to receive in return (Vroom, 1964). When these expectations are met, the employees will remain good citizens of these organizations (Ng'ethe, 2013). Employees in the insurance companies generally expect to be compensated satisfactorily based on their work input to the organization (Mbwana, 2013). The theory helped to explain why a lot of workers are disgruntled and demotivated when they see that their fellow employees on the same job level receive better packages than them.

Conceptual Framework

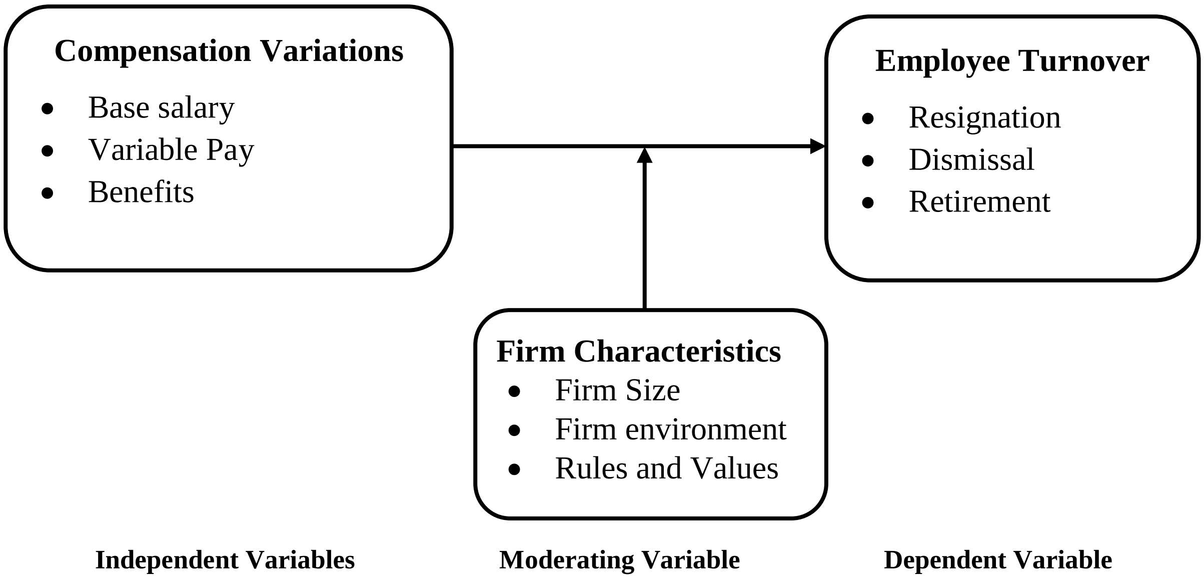

Figure 1: Conceptual Framework

Empirical Review

Nzyoka and Orwa (2016) opine that the level of pay and the package of the total compensation, where employees have a say on what benefits to choose, results to higher chances of satisfaction and consequently higher performance. Compensation factors like promotions and how the process of promotion is packaged by the organization, likewise where promotion goes with authority and better pay with increased benefits, leads to improved performance on the balanced score card (Maritim, 2014). Conversely the opposite of that affects performance negatively as evidenced in the balanced scorecard and employees are ready to leave the organization if they get better benefits from other organizations.

O'Halloran (2012) discourses that performance related pay can be based on subjective measures of effort such as how hard one appears to be working, or based on objective measures of effort such as the number and quality of units produced. Given the varied incentives provided from different PRP schemes, one would expect each to affect employee turnover differently. When there is a big variance in compensation of employees who are on the same job level, this may lead to dissatisfaction, and ultimately to resignations.

3. RESEARCH METHODOLOGY

This study adopted descriptive research design. Descriptive research acquires data that describes phenomena by getting information about observation, behaviour, states of mind, or qualities. This type of design uses both quantitative and qualitative approach. Positivism approach which is anchored on the idea that science is a major way to learn about the truth was adopted in the study.

The target population for this study was the employees in all the 55 licensed insurance companies in Kenya as reported by the Insurance Regulatory Authority (Annual Insurance Industry Report, 2015).

This study used multi-stage sampling technique. In the first stage, purposive sampling was used to select a sample of the top 5 insurance companies in General insurance by premium market share in the year 2015, as listed by (Insurance Industry Annual, 2015). This is 10% of the total licensed insurance companies.

In the second stage, stratified random sampling was used to take a stratified sample of 338 in among the employees in the companies selected.

Primary data was collected using a questionnaire that was designed with both structured and unstructured questions and an interview guide for the Human Resource managers.

Content analysis was done through categorizing and indexing.

The regression model in this study was derived from the conceptual frame and is as shown below:

$Y = \beta_0 + \beta_1 X_1 + e$

Where:

Y= Employee turnover

β_0 = Constant

X_1 = Compensation Variations

e = the residual in the equation

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Descriptive Analysis Results

4.1.1 Compensation Variations

The study sought to find out the extent to which the level and effectiveness of compensation variations influenced the employees continued stay at their respective organizations. The findings as shown in Table 1 revealed that majority of the respondents were of the opinion that employee turnover was influenced by compensation diversity. The findings imply that indeed compensation variations have a role to play in influencing the employee turnover in the insurance industry. This is in tandem with the study carried out by Kahiro (2015) revealing that majority of the employees feel that the reward system affect employee turnover.

Table 4.1: Compensation Variations

Question	Mean	Std. Dev.
I am satisfied with the salary offered by our organization	2.37	0.77
We frequently receive additional payments based on our achievements	2.43	1.15
We are effectively rewarded by the firm management for the work done	2.61	1.17
The salary of other employees is disclosed in our organization	2.30	1.33
The base salary offered in my organization has influenced my continued service for the firm	2.86	1.21
Our organization offers commissions and bonuses to the various employees frequently	3.02	1.26
The commissions and additional payments offered to various employees have contributed to my continued stay at the firm	2.79	1.31
There are employees that have left the organization in the recent past while citing the compensation variations as one of the reasons	3.91	0.94
There are immense benefits and rewards offered by my organization which have influenced my continued stay at the firm	2.80	1.31
Overall Mean	**2.51**	**1.44**

Firm Characteristics

The study sought to analyse the moderating effect of firm characteristics on the relationship between compensation diversity and employee turnover. The findings as shown in Table 2 revealed that firm size influenced the employee turnover but it did not determine compensation diversity. According to Park and Gursoy (2012), the size of the firm creates trust to the customers and the employees on the continued sustainability but it does not necessarily influence the employee turnover since there are other aspects connected to employees' retention such as promotions, rewarding and compensation.

Table 2: Level of agreement with aspects on Firm Characteristics

Statement	Mean	Std. Dev.
How would you rate the conduciveness of your working environment? (1= High, 2 = Moderate, 3= No sure, 4= Low, 5= Not conducive)	1.81	0.84
How comfortable are you with the set rules and values in your organization? (1= Very comfortable, 2= Moderately comfortable, 3= Not sure, 4= Less comfortable, 5= Not comfortable)	1.81	0.80
The size of my organization convinces me of job security/an opportunity to grow thus my continued stay at the firm	2.99	1.28

Employees have previously left the organization while citing the conditions of work and the unfriendliness of the firm	3.86	1.09
The support and conduciveness I get from the organization and colleagues influences my continued stay in the firm	3.25	1.15
The working conditions and the environment in my firm have influenced my continued stay at the organization	3.61	1.12
The definition and layout of the rules and values in the organization have a hand in determining my stay at the firm	3.32	1.22
Overall Mean	**2.86**	**1.24**

Inferential Analysis

***H_{A1}*:** *Compensation variations have a significant influence on employee turnover in the Insurance industry in Kenya.*

The regression coefficients for the variable are as shown in table 3. Based on the Beta coefficient of 0.687, the model now becomes;

$\boldsymbol{Y = \beta_0 + \beta_3 X_3 + e}$.

$\boldsymbol{Y = 0.458 + 0.687 X_3 + e}$.

This implies that a unit change in compensation variations could lead up to 68.7% change in the employee turnover among insurance firms in Kenya. The findings therefore imply that the study should accept the alternative hypothesis that compensation variations have a significant and positive influence on employee turnover among insurance firms in Kenya. The findings go hand in hand with those by Maritim (2014) who found out that as a result of diversity and gaps in the employee compensation, turnover was increased in that most of the employees felt over-utilized and under-paid.

Table 3: Regression Coefficients for the Compensation Variations

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.458	.122		3.758	.000
	Compensation Variations	.687	.081	.685	8.522	.000

a. Dependent Variable: Employee Turnover

Moderating effect of Firm Characteristics

***H_{A2}*:** *Firm characteristics have a significant moderating influence on the relationship between compensation diversity and employee turnover in the Insurance Industry in Kenya.*

The findings as shown in Table 4 revealed that the p-value for compensation variation was insignificant, an indication that the introduction of firm characteristics negatively moderated the compensation diversity and employee turnover.

Table 4: Moderating Role of Firm Characteristics

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.016	.049		.328	.744
Compensation Variations*Firm Characteristics	-.006	.034	-.006	-.170	.865

a. Dependent Variable: Employee Turnover

5. CONCLUSION

The study concluded that through effective and competitive salaries, rewarding and giving benefits and commissions to the employees without favouring others, the employees felt equal thus enhancing their morale and minimizing turnover. Poor remuneration, rewarding systems and the overall employee compensation is an indication of an environment whereby the growth of employees is not upheld as it simply signifies underperformance and employee turnover thus affecting the overall firm performance.

6. RECOMMENDATIONS

The insurance companies through the management should ensure that they come up with effective compensation structures for their workers, ensuring that varied pay is justified so as to mitigate employee turnover. The companies should offer competitive salaries. Benefits as well as commissions should be given competitively to the employees who are talented and who contribute much to the companies. This helps in steering employee productivity and retention thus enhancing firm performance.

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