

## THE RELATIONSHIP BETWEEN CAREER DEVELOPMENT, COMPENSATION, JOB SECURITY, WORK ENVIRONMENT AND EMPLOYEE LOYALTY

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### Abstract

Malaysia has recorded the second highest involuntary turnover rate at 6% and third highest voluntary rate at 6.5% in South East Asia. Employee loyalty becomes critical towards employer. Thus, the purpose of this study was to examine the relationship between career development, compensation, job security, work environment and employee loyalty. In conducting this study, convenience sampling technique has been employed and respondents have been chosen in the area of Kuala Lumpur. Hypothesis were tested using regression analysis by using Smart-PLS. Based on the result, career development, compensation and job security were found to be significant with employee loyalty. However, work environment was found to be not significant with employee loyalty. It is suggested for future research to explore other variables in order to find the factors contributed in employee loyalty.

**Keywords:** Career Development, Compensation, Job Security, Work Environment, Employee Loyalty

### 1.0 INTRODUCTION

According to Hays (2015), 54% of Malaysians believed in job loyalty. This 54% of people were willing to stay at the same firm for 5 years. Meanwhile, other 32% can stay until 5 years and 14% of them prefer to have a new employer in every one to two years. Not to say that job hopping is bad, but if an employee is unable to put his loyalty on a specific organization, then how will he have a permanent job? Having a permanent job can be a dream to someone else. In order to have a permanent job, employees must have a job satisfaction in the first place.

Job satisfaction is vital as it ensures the company or organization's longevity. The sense of accomplishment or the feeling of contentment is one of many examples of job satisfaction achieved by certain workers. Not all workers enjoy job satisfaction as it is a complex thing to obtain, considering so many factors. According to Hulin and Judge (2003), personal responses, such as multidimensional psychological responses, have cognitive, affective and behavioural components. The organization commitments with their employees determine the performance of institution's strengths and weaknesses. A study done by Mehta (2012) revealed that the important determinant of employee loyalty is through career development. As stated by Robert and Merchant (2007), throughout career development platform,

the workers can advance further in their work life because they can express and participate in innovative motives and challenges.

As been expressed by Steers and Porter (1991), when it comes to pay system, financial audit and balance, compensation plays a key role mainly in the controlling of organizations. For the organization to keep the employee attracted and committed to organizational related activities, compensation portrays the remuneration packages, reward system and benefit policy. Cheng, Mauno and Lee (2014) identified that improved knowledge, employee retained in the organization and skills to perform better in the organization are generally what job security function really is. A proper work environment is regarded as a healthy workplace and it helps in examining specific perceptions of employees toward the workspace.

Malaysia has the second highest involuntary turnover rate at 6% and the third highest voluntary rate at 6.5% in South East Asia, according to Hewitt (2014). Quoted by Prashant Chadha (2015), the Managing Director of Aon Hewitt, not only reward decisions and reliable data can be applied by the organizations, but also other things can be used to drive the employees such as a bigger picture in vision and economic climate solution.

However, there is an argument on the relationship of career development, compensation, job security and work environment towards employee loyalty, especially when it causes a high turnover among youth workers. According to Queiri, Wan & Dwaikat (2014), Gen Y employees have a high tendency for job hopping and it seems a common trend among them (Schawbel, 2012). Job hopping causes high turnover which may be a sign of poor loyalty among employees. Lastly, Fry (2016) stated that it is a concern since today Gen Y employees have outnumbered other generations in the workforce.

Therefore, this study was conducted to examine the relationship between career development, compensation, job security, work environment and employee loyalty.

## **2.0 LITERATURE REVIEW**

According to Lee, Lim, Swanson, Park and Lee (2016), employee loyalty has been seen as one of the important aspects for better organizational performance. It means that the employees structure the company's need rather than their own benefits. Customer satisfaction is the valuable assets to the organizations as they can help to gain much profit for the organizations. It is because the loyal employees will take care of customers in the right way and they understand what customers want and deliver it. The same study suggested that the three most important variables that explain customer satisfaction include staff behaviour, service quality, and price. Therefore, employees' behaviours have influences on customer satisfaction. By keeping loyal employees can reduce the turnover rate within the organization as they are planning to stay with the organization within a long time. Costen and Salazar (2011) stated that employee loyalty might be seen in the form where employees put extra effort in completing their tasks and respecting superior's direction. Employers should understand employees' needs, as it could develop employee loyalty towards the organization (Pässilä and Vince, 2015). Through employee loyalty, it is seen to be related to employee engagement through employee satisfaction.

Career development is a series of activity or the on-going process of developing one's career. Career development is a lifetime process of managing your organization's employees. According to Samuel (2018), career development entails the management of a person grows the progress in his or her career. Braer, Flexer, Luft and Simmons (2008) mentioned that career development is a lifetime process that encompasses the growth and change process of a childhood, the formal education of school, and the maturational processes that continue throughout a person's working adulthood and into retirement. Career development is directly linked to the goals and objectives set by an individual. Career development helps

improve an individual's growth, not only professionally but also personally. Results of the career development like leadership, time management, communication management and team management also help employees develop and shape their career. Based on Jerry and Jennifer (2017), a strong career development and progression system will recognize that careers are neither static nor developed in a vacuum. Workers' decisions about their career moves are determined by current skills and interests, as well as previous work histories and long-term plans. Innerson and Berechet (2011) considered career development as a factor to predict loyalty in the hotel industry and almost all studies on employee engagement have it as a predictor for the level of engagement. Learning opportunity is always a benefit to career development. It can make employees feel that they have future and opportunity to get promoted in the company and increase their job security to stay with their company. According to Lee and Lee (2012), workers with more opportunities to interact with others tend to increase employee loyalty and may in turn help the retention of quality workers. Employees will be satisfied and become loyal on matters concerning with promotional opportunity and opportunity to learn (Abdullah et al., 2011). Therefore, it can be hypothesized as:

H1: There is a relationship between career development and employee loyalty.

Compensation is seen as a pay received by employees for their work contribution. Compensation, according to Dessler (2011), refers to all kinds of reward given to employees and arises from their employment. Mathis and Jackson (2006) stated that "the two main compensation philosophies move in opposite direction. At one direction is the entitlement philosophy, and the other is the performance – oriented philosophy". Gross (2011), the global leader for Mercer Performance Measurement, and Rewards Consulting, explained the importance of performance – oriented philosophy (reward for performance strategy), "Organizations are searching for ways to reward performance, and grouping their workers helps them recognize their most valuable contributors. Compensation for top performers is important for the ongoing success of the organization". According to Suparno (2015), compensation system certainly will affect the strategic performance. Based on Negash, Zewude and Megersa (2014), compensation takes either direct or indirect forms of payment and appreciation given from the organization to the workforces. Hasibuan and Syahrial (2019) mentioned that the aim of compensation is a kind of motivation, from a manager to the subordinates, to improve organization's productivity. They must adopt compensation policy that employees will see as being fair and commensurable with their performance or input and expectations as well as what is obtainable in other firms within the industry. According to Hussain (2012), his study found the relationship between work condition, rewards and recognition with loyalty. Besides, rewards are also important in enhancing employees' loyalty. Employees will be rewarded according to their work performance or achievement in the organization. It is important to reward the employees in order to encourage them to take personal responsibility to achieve the mission and goals set by the organization. According to Tracey and Hinkin (2002), the responsibility of managerial personnel is in retaining employees and highlighting their importance beyond financial rewards. Barkan and Israel (2003) mentioned that the importance of financial benefits affecting employee loyalty became secondary following social issues. Moreover, according to Ineson, Benke and László (2003), non-monetary aspects had a greater impact on employee loyalty rather than to monetary rewards. Therefore, it can be hypothesized as:

H2: There is a relationship between compensation and employee loyalty.

Job security means you are confident that your employer will keep you on board, regardless of the forces that affect the business. Research studies done by Michelle and Helen (2016) conducted a research on 18 workers and discovered that job insecurity is more strongly related to physical and mental health. There is a review study on job security for 30 years back and found that many researchers have obtained similar results by De Witte et al. (2016). A finding of Ralph Heibutzki (2013) indicated that the importance of job security touches several aspects such as career stability, improved motivation, looks better on your resume and consideration. According to Katou and Budhwar (2007), job security is crucial in countries with high rate of unemployment. Blomme, Van Rheede and Tromp (2010) stated that several studies

confirmed that job security contributes to create loyal employees and low satisfaction with job security increases the employees to leave the job. It is important to prove a secured employment to employees to ensure them to have the sense of loyalty and to reduce the employee turnover. Therefore, it can be hypothesized as:

H3: There is a relationship between job security and employee loyalty

Work environment can be defined as the environment that includes physical setting, job profile, market condition and culture (Tripathi, 2014). According to Rezaul (2014), workplace environment in the literal sense brings meaning of the surroundings at your place of occupation which include inside, outside, at a desk and in a cubicle. The factors of workplace environment, such as lighting, noise, communication and psychology, support to have significant impacts on employees' morale in which may affect their work productivity (Boyce, Veith, Newsham, Myer & Hunter, 2013). According to Leblebici (2012), those who work under inconvenient environment will most probably engage with low performance and end up with occupational issues such as absenteeism. A research study done by Ajala (2012) claimed that an environment is the immediate surroundings of users which is manipulated for their existence or use. Based on a research done by Oswald (2012), there are 2 types of working environment which are the physical component as well as the behavioral component. It is said that the physical environment consists of elements which are related to the connectivity of the users with their office environment. Meanwhile, the behavioral environment consists of elements which are related to the connectivity between users in the same work environment as well as the impact of working environment on the users' behavior. Work environment which impacts the employee satisfaction towards the job and affects the loyalty to organization are performance feedback, manager support and mentoring, co-worker's teamwork and environmental factors. Al Anzi (2009) mentioned in his study that due to the trend of working environment that creates positive outcome, most organizations face new challenge to generate work environment that attracts, maintains, and motivates the workforce. This means that the environment of the workplace has to be where the employees enjoy and increase the productivity and create loyalty towards the organization. Therefore, it can be hypothesized as:

H4: There is a relationship between work environment and employee loyalty

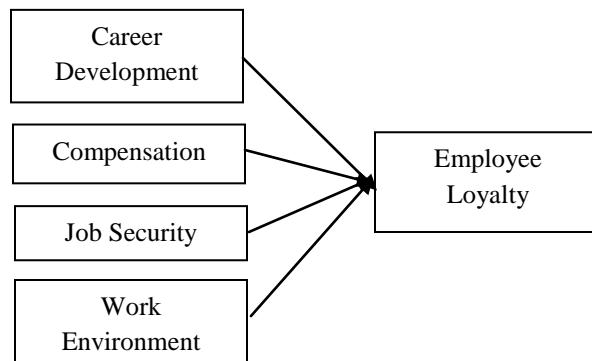


Figure 1: Theoretical Framework

### 3.0 METHODOLOGY

This study used quantitative approach to test the questionnaires in order to get reliable results. Convenience sampling was used, and subjects were chosen randomly among the residents in Kuala Lumpur. The data was collected by using questionnaires. After the major data collection, 258 completed

questionnaires were returned, and the raw data was manually keyed in through SPSS version 22.0 and analyzed by using Smart-PLS.

## **4.0 RESULT AND DISCUSSION**

### **4.1 Respondents' Demographic Profiles**

Frequency analysis was run to assess the demographic profiles and result shows that 82.9 percent or 214 respondents were females while males were only 17.1 percent or 44 respondents. This shows that the number of female respondents is slightly higher than that of male respondents with 170 different respondents. The most respondents were 21 – 30 years old for the age with 162 or 62.8 percent while the least respondents were below than 20 years old with only 6 respondents or 2.3 percent. In terms of race, the highest percentage is others with 85.7 percent or 221 respondents. The lowest percentage is Indian with only 1.6 percent or 4 respondents. For the qualification, secondary school stated the highest respondents with 223 respondents or 86.4 percent while the lowest is Sijil Tinggi Pelajaran Malaysia with only 1.2 percent or 3 respondents. Position for others stated 231 or 89.5 percent with the highest respondents while the least stated 4 respondents or 1.6 percent. Duration of service shows 1 – 3 years stated the highest respondents with 192 or 74.4 percent while the lowest was less than 1 year with 7 respondents or 2.7 percent.

### **4.2 Reliability Analysis**

Table 1.2 shows the result of reliability which the values under 0.6 are commonly viewed as poor, those in the range 0.7 are to be acknowledged and those over 0.8 are to be great. For employee loyalty, career development and work environment, the reliability tests are 0.819, 0.850 and 0.804 respectively, which stated as great. For compensation and job security, the reliability values show 0.742 and 0.716 respectively, indicates that they are acknowledged. Thus, the researcher concluded that all the questions are reliable in doing this research.

Table 1.1 Reliability Test

Variable	Cronbach's Alpha
Employee Loyalty	0.819
Career Development	0.850
Compensation	0.742
Job Security	0.716
Work Environment	0.804

### **4.3 Normality**

Normality is assessed by using skewness value and the values must be between +3 to -3. Based on Table 1.1, employee loyalty, career development, compensation, job security and work environment are normally distributed.

Table 1.2 Normality Result

Variables	Skewness
Employee Loyalty	-0.284
Career Development	-0.391
Compensation	-0.748
Job Security	-0.006
Work Environment	-0.474

#### 4.4 Multicollinearity

Franzese and Luliano (2019) mentioned that correlation analysis is a statistical method used to evaluate the strength of relationship between 2 quantitative variables. The r-value has the range between +1.00 and -1.00 which indicates 1 as having a perfect and strong positive relationship, meaning that one variable increases in value as well as the others. If the value is 0, it indicates that the relationship between the two variables will be weaker.

Table 1.3 Correlation Coefficient

	Loyalty	Career	Comp.	Job Sec.	Work
Loyalty	1	.639	.580	.547	.429
Career	.639	1	.675	.528	.487
Comp.	.580	.675	1	.560	.558
Job S.	.547	.528	.560	1	.368
Work	.429	.487	.558	.368	1

Based on table 1.3 above, the output of the results showed the correlation is significant at the 0.01 level. All the variables have moderate correlation which are career development (0.639), compensation (0.580), job security (0.547) and work environment (0.429).

#### 4.4 Test of Hypotheses

Hypothesis testing is used to test whether the stated hypothesis can be accepted or rejected. Model's R-square shows the value of 0.496. This means 49.6 percent of the variance in the dependent variable was described by the model. It is impossible to explain the remaining 50.7 percent. It means that other factors can be used to determine the facts.

Table 1.4 Test of Hypotheses

	Career Dev.	Compen.	Job Security	Work Env.
Std Beta	0.363	0.172	0.234	0.068
Std Error	0.071	0.083	0.063	0.062
t-value	5.095	2.076	3.697	1.090
p-value	0.000	0.019	0.000	0.138
UL	0.244	0.031	0.122	-0.039
LL	0.474	0.304	0.330	0.167
f <sup>2</sup>	0.127	0.025	0.063	0.006
VIF	2.094	2.384	1.736	1.516

Based on Table 1.4, career development has the positive relationship with employee loyalty ( $t\text{-value}=5.095$ ,  $p\text{-value}=0.000$ ). Compensation was found to be positive relationship with employee loyalty ( $t\text{-value}=2.076$ ,  $p\text{-value}=0.019$ ). Other than that, job security was also found to have positive relationship with employee loyalty ( $t\text{-value}=3.697$ ,  $p\text{-value}=0.000$ ). However, work environment was found to be not significant with employee loyalty ( $t\text{-value}=1.090$ ,  $p\text{-value}=0.167$ ).

## 5.0 CONCLUSION

The study was conducted to investigate the relationship between career development, compensation, job security, work environment with employee loyalty. Based on the finding, it shows that there was a positive relationship between career development, compensation and job security with employee loyalty. However, work environment was found to be not significant with employee loyalty.

It is recommended that companies should focus on the career development, compensation and job security in order to improve employee loyalty. According to Dessler (2011), development can be the primary reason for employee's resignation, if the organization does not put an effort to identify the "key attractors" which are the career movement and the availability of skill development opportunities to recognize the employees' needs and desired growth. According to Stajkovic (2006), compensation gives a strong effect on employee performance and loyalty in some organizations. According to the study that was conducted by Smith (2010), employees are more concern on job security. Organizations must show their interest on employees to make sure they perform in a good condition during working time. It is important to have the right people in the organization team and to achieve the best in performance.

In term of work environment, most of the employees found that working environment does not associate much to their loyalty. However, companies still have to provide the good working environment to their employee in order to sustain them. According to Frisby and Myers (2008), securing a safe and healthy work environment is to identify the risks and hazards in your own workplace and necessary measures that can be used to manage the identified risks.

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