



28th International Scientific Conference
Strategic Management
 and Decision Support Systems
 in Strategic Management
SM2023

Subotica (Serbia), 18-19 May, 2023

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THE EFFECTS OF THE COMPENSATION SYSTEM ON JOB SATISFACTION AND TURNOVER INTENTIONS OF EMPLOYEES IN THE REPUBLIC OF SERBIA

Abstract: The main goal of this research is to examine the relationship between the compensation system, job satisfaction, turnover intentions, and the mediating effect of job satisfaction in the relationship between the compensation system and turnover intention. The main research question relates to determining the effect of the compensation system on turnover intentions and the role of job satisfaction in this relationship. The methodology of the work consists of the theoretical and empirical part of the research. Empirical research was conducted on a sample of 100 employees from organizations operating in the Republic of Serbia. The collection of samples lasted from March to May 2022 through an electronic questionnaire based on which respondents had the opportunity to answer at any time, wherever they were, through their electoral devices. The proposed relationships were tested with the PLS-SEM method, using the SmartPLS software. The main findings of the research indicated that there are direct positive effects of the compensation system on job satisfaction and turnover intention, and that job satisfaction has an indirect effect on the relationship between the compensation system and the turnover intention of employees. Employees who are offered an adequate compensation system do not want to leave their job, and also if the employees are satisfied with the compensation sys, they will not want to leave their job.

Key words: compensation system, job satisfaction, turnover intentions, employee attitudes, Republic of Serbia

INTRODUCTION

Employees are one of the most important strategic resources, which includes a workforce whose competence and business activities depend on the results of the organization's operations. Authors Raid & Alzoubi (2021) emphasize that human resources would lead to the success of the organization when they are managed efficiently and effectively. The attitudes and performance of employees in the organization are the results of the influence of a large number of factors. According to the authors Stevanović & Belopavlović (2011) employee motivation refers to the reasons for the achieved performance, dedication to work, and satisfaction of the employee in the work he performs. Remuneration can be cited as an effective instrument of motivation and alignment of the interests of employees and capital owners. Reward in human resources management is compensation for work, i.e. the employee's performance at work. The main type of compensation for an employee's work is the basic salary. Stimulations on various grounds and benefits aimed at employees are part of the compensation package that affects the personal status of the employee.

Pay satisfaction indicates the employee's positive or negative perception of salary and implies satisfaction with the level and structure of salary. Pay satisfaction is the employee's positive perception of the fairness of the compensation and the way compensation is provided (Mustika, Prihanto & Winarno, 2021). Satisfied employees will be less absent from work. Sometimes even a satisfied employee has to be absent from work. Several factors force an unsatisfied employee to still come to work, such as fear of losing his job, and responsibility towards colleagues at work or towards the client (Brown & Sessions, 1996). The existence of an intention to leave is a prerequisite for someone to leave a job or

organization (Mustika et al., 2021). Factors that influence employees' intentions to leave are related to job satisfaction, job stress, organizational culture, organizational commitment, earnings, and advancement opportunities. Employee turnover intentions represent the ability of employees to leave a job as a logical step after experiencing dissatisfaction (Aburumman, Salleh, Omar & Abadi, 2020). If talented employees are leaving the organization, it is important the organization needs to try turnover intentions of employees (Mustika et al., 2021).

This research aims to examine the relationship between the compensation system and the intention to leave employees, as well as the indirect effect of job satisfaction on the relationship between the compensation system and the intention to leave employees. The subject of the research is determining the effect that the compensation system causes on intentions to leave and the role of job satisfaction in the aforementioned relationship.

The research consists of four parts, in the first part a theoretical explanation of the variables that will be used in the research will be made, as well as a presentation of the previous research results of other authors on this topic. The second part refers to the description of the research methodology, in which the questionnaire that was used during the collection of the sample, the period of the collection, as well as the presentation of the sample based on one research that will be carried out, will be presented. The third part refers to the presentation of the results and the discussion of the results obtained using PLS-SEM analysis in the program SmartPLS. The last part refers to the concluding remarks in which the authors will discuss the most important aspects of the research and make suggestions for future research.

1. THEORETICAL BACKGROUND

1.1. Compensation system, Job Satisfaction, and Turnover Intentions

Compensation includes all forms of financial income, services, and benefits that the employee can achieve based on his work in the organization. According to Štangel Šušnjar and Leković (2009) compensation can be viewed in two ways: first as a cost to the company, and second as an investment in the added value of the company. According to the authors Salisu, Chinyio and Suresh (2015) compensation provides income to employees and represents an important cost item for the employer. Earnings, incentives, benefits, ts and other benefits that employees enjoy in organizations can be seen as activities that directly or indirectly result in an outflow of funds. If the owners of the capital perceive monetary expenditures or compensations paid and given in another form as an investment, they can expect quality work, dedication, desired achievement, and improvement of the organization's operations from the employees (Jevtić, Vladimirović & Jevtić, 2022). According to the authors Berber, Morley, Slavić and Poór (2017) compensation is a systematic approach to providing benefits to employees. Compensation represents the evaluation of achievement for all the work, time and effort that the employee provides to the organization (Winda, Nayati & Arik, 2017). In exchange for their work and services, employees receive the benefits provided by the compensation plan. Compensation plays a multifaceted role in attracting new high-potential employees and in retaining and continuously motivating all existing employees to achieve higher levels of performance (Berber et al., 2017). According to Murtiningsih (2020) by providing appropriate rewards to employees, organizations can influence employee retention. The optimal compensation system is the result of strategic, personnel, financial and many other factors (Berber & Štangel – Šušnjar, 2013). The support and achievement of the organization's goals, the achievement of the expected profit, as well as the conquest of the widest possible market, are conditioned by the job satisfaction of the employees. With the reward system, it is necessary to harmonize and ensure the achievement of the employees' various individual needs and the organization's set goals (Vidaković, 2012). Key factors when designing a compensation system are the motivators and needs of the employees themselves. Managerial positions are generally accompanied by higher earnings, in accordance with the responsibilities of the position, additional compensation and benefits that contribute to employee satisfaction (Brown & Sessions, 1996). Benefits and additional compensation for employees in managerial positions enable a more efficient balancing of private and business life. The feeling of loyalty to the company is intensified and a common system of values within the organization is created. The company's goal is to "tie" employees to the organization in the long term, and therefore it is necessary to design a long-term investment plan in employees (Wheatley, 2017, p. 581). According to Rahman and Syahrizal (2019), job satisfaction is considered a strong determinant of employee turnover. According to Riayanto, Endri and Herlisha (2021) job satisfaction is a positive emotion of employees that comes from work experience. Job satisfaction according to Mira, Choong i Thim (2019) refers to the feelings of employees towards certain situations in the workplace. Job satisfaction can be measured based on the feelings and emotions of employees. Job satisfaction is only one of the factors that, in combination with other factors of varying importance (health condition, work ethic, socioeconomic pressures, standard of living, etc.) contributes to making a decision about the intentions to stay or leave the organization (Bevan & Thompson, 1992). Turnover intentions is defined as the conscious and deliberate intention of the individual to leave the job and is described as the last in a series of cognitions that precedes withdrawal from the job (Hom et al., 2017).

1.2. Relationship between Compensation System, Job Satisfaction and Turnover Intentions

In this part, a theoretical presentation of previous research by various authors on the impact of compensation systems on job satisfaction and turnover intention will be made, as well as the mediating role of job satisfaction in the relationship between the compensation system and turnover intention. After the presented results of other authors, hypotheses will be set that will be tested in the third part using the SmartPLS program and PLS-SEM analysis.

1.2.1. Relationship between compensation system and job satisfaction

According to Koderman (2021) all job satisfaction factors can be grouped into two categories: organizational and personal job satisfaction factors. It is also stated that the social atmosphere is an important factor in job satisfaction, the higher the salary, people are generally more satisfied with their work, workers are more satisfied if they perceive that the reward system is fair and treats all employees equally, the better the working conditions, it is logical that worker satisfaction is higher, people are often dissatisfied with poor working conditions, workers do not like changes, uncertainty, ambiguity (Koderman, 2021, p. 21). According to Winda et al. (2017), there is a positive effect of compensation on job satisfaction, which means that more earnings would increase job satisfaction. Also, research Permandi, Landra, Kusuma and Sudja (2018) confirms that compensations have a positive impact on job satisfaction. According to Purwanto (2020), the compensation system achieves positive effects on job satisfaction. Based on the above, the first research hypothesis is:

H₁: The compensation system is positively related to job satisfaction.

1.2.2. Relationship between compensation system and turnover intentions

Different authors' studies around the world have pointed out a significant negative relationship between prizes, human resource management practices and traffic resource intentions (Allen, Shore & Griffeth, 2003; Weldeyohannes, 2016). Armstrong & Murlis (2007) indicate that high salaries hit employees in the organization for a long time. Nadiri & Tanova (2010) emphasize that the rational distribution of wages has a positive effect on turnover intentions. The research of authors Carraher & Buckley (2008) indicates a significant negative relationship between the compensation system on turnover intentions. Based on this, we conclude that if the employee is satisfied with the salary he receives, he will not want to leave his job, and on the other hand, the employer will keep the employee in his company. Therefore, researchers hypothesize as follows:

H₂: The compensation system is negatively related to turnover intentions.

1.2.3. The mediating role of job satisfaction on the relationship between compensation system and turnover intentions

Job satisfaction according to Rahman and Syahrizal (2019) considered a strong determinant of turnover intentions. Turnover intentions is influenced not only by job satisfaction/dissatisfaction, but also by the pressure or lack of pressure to attend. The biggest problem with large and unjustified absenteeism is that it results in a high turnover of workers. In the research work of the authors Mustika et al. (2021); Lim, Loo and Lee (2017), and Vizano et al. (2021) the research indicated that job satisfaction positively mediates the relationship between the compensation system and the intention to leave employees. Starting from the basic subject, as well as the research goal of this work, and taking into account previous scientific research on this topic, the main hypothesis is the subject of testing with the intention of proving it and reads:

H₃: Job satisfaction has a positive mediation effect in the relationship between the compensation system and turnover intentions.

2. METHODOLOGY

In this part, there was a description of the opinion that was used during the sample collection, the way in which the respondents had the opportunity to answer the questions, the time period of the sample collection, as well as the presentation and description of the sample.

2.1. The questionnaire

During the research process of the relationship between the compensation system, job satisfaction and employees' intentions to leave, that is, the indirect influence of compensation on the intention to leave, an electronic questionnaire "Google Forms" was used, which consists of two parts. The first part of the questionnaire refers to control questions such as gender, age, level of education and position in the company. The second part of the questionnaire was related exclusively to the evaluation of the performance and compensation of employees, as independent variables, and to job satisfaction and intentions to leave employees as dependent variables. For research and measurement, a Likert scale was used, ranging from 1 to 5, where 1 represents the statement "strongly disagree", 2 "disagree", 3 "undecided"; 4 "agree" and 5 "strongly agree" (Joshi, Kale, Chandel & Pal 2015).

2.2. Sample characteristics

The questionnaire was intended exclusively for employed persons from different economic sectors, such as agriculture, mining, manufacturing, construction, transport and storage, information and communication, financial activities and activity, education, health and social protection and other service activities. A questionnaire relating to the relations between the compensation system, the satisfaction of the work and the intentions of the departure has completed 100 employees in the territory of the Republic of Serbia. Data collection was performed since March 2022 until May 2022. Table 1 shows the structure of the sample according to the semi, in years, the education and position of the employee in the company. The sample consisted mainly of female respondents (64%), a younger employee of 25 to 34 years (35%), with completed four-year academic studies (40%), in professional positions in the organization (58%).

Table 1: Sample characteristics

Sample characteristics	Number of respondents	Percentage (%)
Gender		
Male	36	36
Female	64	64
Age structure		
Less than 25	33	33
25 - 34	35	35
35 - 44	14	14
45 - 54	10	10
More than 55	8	8
Level of education		
High school	15	15
Three years of vocational studies	20	20
Bachelor's degree	40	40
Master's study	23	23
Ph.D.	2	2
Position in the company		
Manager	10	10
Professional worker	58	58
Administrative worker	22	22
Manuel worker	10	10

Source: The authors' research

3. RESULT AND DISCUSSION

To present the results of research on the existence of relations between the compensation system, job satisfaction and turnover intentions, as well as the mediation role of job satisfaction on the relationship between compensation system and turnover intentions the statistical software "SPSS IBM statistics" and "SmartPLS 3" were used. In order to adequately determine the relations between the observed variables, the PLS-SEM analysis was performed. During the research we will use structural equation modeling with partial least squares (PLS-SEM) to test the proposed model. PLS-SEM is a method based on the analysis of complex interrelated relationships between constructs and indicators (Becker et al., 2023). PLS path models have two sets of linear equations: a measurement model (outer model) and a structural model (inner model). While the external model specifies the relationship between the construct and its observed indicators, the internal model refers to the relationships between the constructs (Gašić & Berber, 2023). This research have two sets of linear equations: measurement model (outer model) – specifies the relationship between the construct and its observed indicators (formative/reflective construct) and structural model (inner model) – specifies the

relationship between the construct (compensation system on job satisfaction and turnover intentions as well as mediation role of job satisfaction on the relationship between compensation system and turnover intentions). For the first, we start with analysis of the measurement model (outer model) and after that with structural model. Table 2 shows descriptive statistics for each of the observed variables.

Table 2: Descriptive statistics for observed variables

	Number	Minimum	Maximum	Mean	Std. Deviation
Compensation system	100	1,25	5	3,17	1,02
Job satisfaction	100	1,00	5	4,01	0,89
Turnover Intentions	100	1,00	5	2,66	1,08

Source: The authors' research

As part of the first part of the analysis, the results of measuring reflective constructs within the set model, where it is necessary to analyze the external load of indicators for each variable within the model, but also reliability, convergent validity and discriminatory validity. In Table 3, the external load of the indicator for each variable in the set model is displayed. As they state Grubor, Berber, Aleksić & Bjekić (2020); Berber, Slavić & Aleksić (2020) loads below 0.708 should be excluded from further analysis. According to Berber, Gašić, Katić & Borocki (2022) Loads between 0.4 and 0.7 should be kept in the model, only if other indicators are not removed. Within the first step of analysis of the results obtained, the COM8 indicator is turned off. After turning off the indicator that did not pass the test, in the second step, all indicators had loads above 0.4.

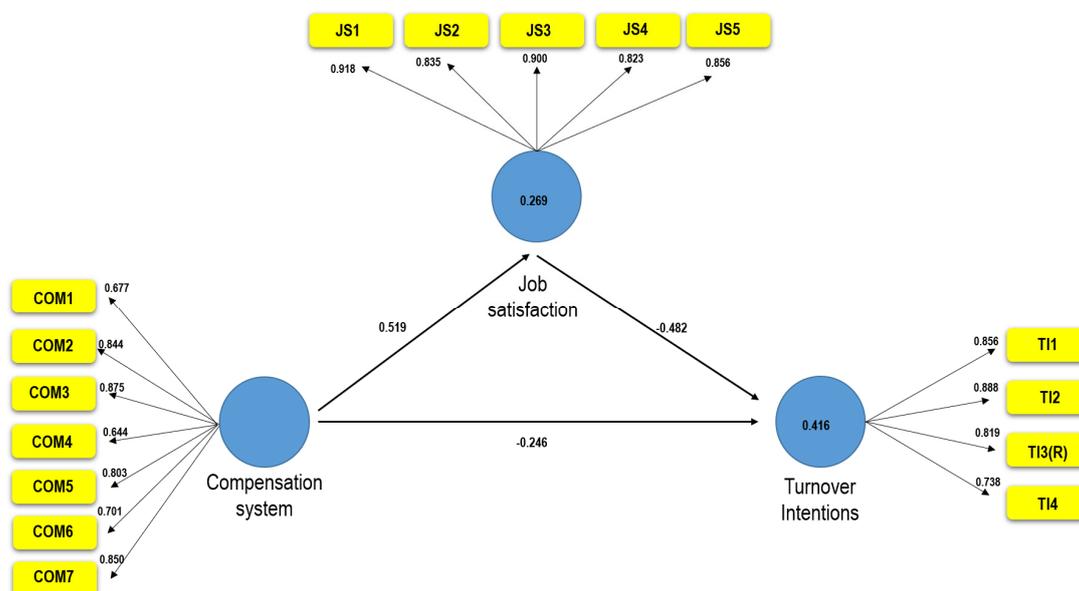


Figure 1: Path coefficient estimates

Source: The authors' research

Table 3: Reflective indicator loadings

Items	Compensation system	Turnover Intentions	Job Satisfaction
COM1	0.677		
COM2	0.844		
COM3	0.875		
COM4	0.644		
COM5	0.803		
COM6	0.701		
COM7	0.850		
TI1		0.856	
TI2		0.888	
TI3(R)		0.819	
TI4		0.738	
JS1			0.918
JS2			0.835
JS3			0.900
JS4			0.823
JS5			0.856

Source: The authors' research

Table 4 represent “Internal consistency and convergent validity” that is measured with Cronbach's alpha, Composite reliability and Average variance extracted (AVE). According to Gašić & Berber (2021), The limit value for Cronbach's Alpha is 0.6. Convergent validity is achieved for all constructs from the model, because the values of Cronbach's Alpha are higher than 0.60. According to Gašić & Berber (2023), the recommended "threshold" value for composite reliability is 0.70. Composite reliability is between 0.80 and 0.95 for each construct from the model, while the average variance extracted (AVE) is greater than 0.50, as well as stated Berber et al. (2020) and Salis et al. (2015).

Table 4: Internal consistency and convergent validity

	Cronbach's alpha		Composite reliability		Average variance extracted (AVE)	
	Values	Criterion	Values	Criterion	Values	Criterion
Compensation system	0.887	> 0.6 (Gašić & Berber, 2021)	0.912	> 0.7 (Gašić & Berber, 2023)	0.601	> 0.5 (Berber et al., 2020; Salis et al., 2015)
Turnover Intentions	0.845		0.896			
Job Satisfaction	0.919		0.938			

Source: The authors' research

According to Berber et al. (2022) Discriminating validity can be determined based on cross-loading, Fornell-Larcker and Heterotrait-monotrait - HTMT criteria (stricted criterion). In Teble 5, the analysis of cross-burdens is presented, which is an assessment of discriminant validity at the indicator level. The observed model has adequate discriminant validity if any indicator of a certain construct is poorly correlated with other constructs, ie if the load of the indicator is greater than any cross-burden (Grubor, Đokić, Milićević & Đokić, 2021). In Table 5, it is evident that the load of each indicator is larger than any other construct in the same column or row.

Table 5: Discriminant validity – Cross-loadings

	Compensation system	Turnover Intentions	Job Satisfaction
COM1	0.677	-0.238	0.314
COM2	0.844	-0.463	0.410
COM3	0.875	-0.365	0.394
COM4	0.644	-0.358	0.263
COM5	0.803	-0.369	0.496
COM6	0.701	-0.307	0.333
COM7	0.850	-0.513	0.523
TI1	-0.419	0.856	-0.566
TI2	-0.328	0.888	-0.465
TI3(R)	-0.520	0.819	-0.541
TI4	-0.337	0.738	-0.415
JS1	0.394	-0.456	0.918
JS2	0.405	-0.433	0.835
JS3	0.417	-0.513	0.900
JS4	0.354	-0.377	0.823
JS5	0.590	-0.730	0.856

Source: The authors' research

At the indicator level, discriminant validity is established if the extracted average variance (AVE) for each construct is greater than its square correlations with other constructs (Grubor et al., 2021). Fornell-Larcker criterion is filled if the first construct is larger than another construct. Based on Table 6, it can be concluded that discriminant validity using fornell- Larker's criteria are satisfied.

Table 6 : Discriminant validity – Fornell – Larcker criterium

	Compensation system	Turnover Intentions	Job Satisfaction
Compensation system	0.775		
Turnover Intentions	-0.496	0.827	
Job Satisfaction	0.519	-0.610	0.867

Source: The authors' research

Table 7 shows the Heterotrait-monotrait - HTMT approach that can overcome potential deviations in terms of discriminant validity and therefore the most accurate indicator of discriminant validity. The limit value is 0.90 (Franke, & Sarstedt, 2019). As values below 0.9 are in the table, this indicates that discriminant validity is achieved in this criterion.

Table 7: Discriminant validity - Heterotrait-monotrait - HTMT

	Compensation system	Turnover Intentions	Job Satisfaction
Compensation system			
Turnover Intentions	0.547		
Job Satisfaction	0.537	0.647	

Source: The authors' research

The results shown in Table 8 represent a multicollinearity analysis, with VIF values in most cases below 3. The limit value for VIF is 3 (Hair, Sarstedt, Hopkins & Kuppelwieser, 2014). According to Shams, Niazi & Asim (2020) the limit value is 5, while Hair, Risher, Sarstedt & Ringle (2019) accept values of less than 10. However, there are cases such as COM2, COM3, JS1, JS2, and JS3, which have values above 3 and they are accepted by the authors who accept VIF values of 5.

Table 8: Multicollinearity testing of indicators - VIF

Items	VIF
COM1	2.416
COM2	3.613
COM3	3.254
COM4	1.508
COM5	2.576
COM6	1.768
COM7	2.628
TI1	2.207
TI2	2.828
TI3(R)	1.768
TI4	1.574
JS1	4.910
JS2	3.694
JS3	3.954
JS4	2.893
JS5	2.166

Source: The authors' research

In order to test the structural model, a bootstrapping analysis was performed. Subsamples are randomly drawn observations from the original data set (with replacement). The subsample is used to estimate the PLS path model. The process is repeated until a large number of random subsamples (eg 5000) are generated. Estimates from bootstrapping subsamples are used when determining standard errors for PLS-SEM results.

R Squared shows that changes in job satisfaction with 26, 9% caused by compensations, while other unexplored factors account for 73.1%. Changes in intentions to leave are 41.6% caused by compensations.

Table 9: Coefficients of determination of the construct

Variable name	R-square
Turnover Intentions	0.416
Job Satisfaction	0.269

Source: The authors' research

The last step refers to the analysis of the relationship between the independent variable and the dependent variables, ie the compensation system, job satisfaction, and turnover intentions, as well as the mediating role of job satisfaction in the relationship between compensation system and turnover intentions.

Table 10: Statistical significance testing - direct and specific (mediator) indirect effect

	Original sample (β)	St. deviation	T statistics	p-values	Hypothesis
Compensation system → Job Satisfaction	0.519	0.063	8.175	0.000	H ₁ : Accepted
Compensation system → Turnover Intentions	-0.246	0.087	2.831	0.005	H ₂ : Accepted
Compensation system → Job Satisfaction → Turnover Intentions	-0.250	0,047	5,374	0.000	H ₃ : Accepted

Table 9 includes the mean value, standard deviation, t-statistics and p-value to confirm or refute the set hypotheses. Based on the obtained results, it can be concluded that there is a positive and statistically significant relationship between compensation and job satisfaction ($\beta=0.519$, $T=8.175$, $p=0.000$), a negative and statistically significant relationship between compensation and intention to leave ($\beta= -0.246$, $T =2.831$, $p=0.005$). When it comes to the mediating role of job satisfaction in the relationship between compensation and intentions to leave, i.e. the indirect influence of compensation on intentions to leave, through mediation a negative and statistically significant relationship is determined, the indirect influence of compensation on intentions to leave ($\beta= -0.250$, $T=5.347$, $p=0.000$).

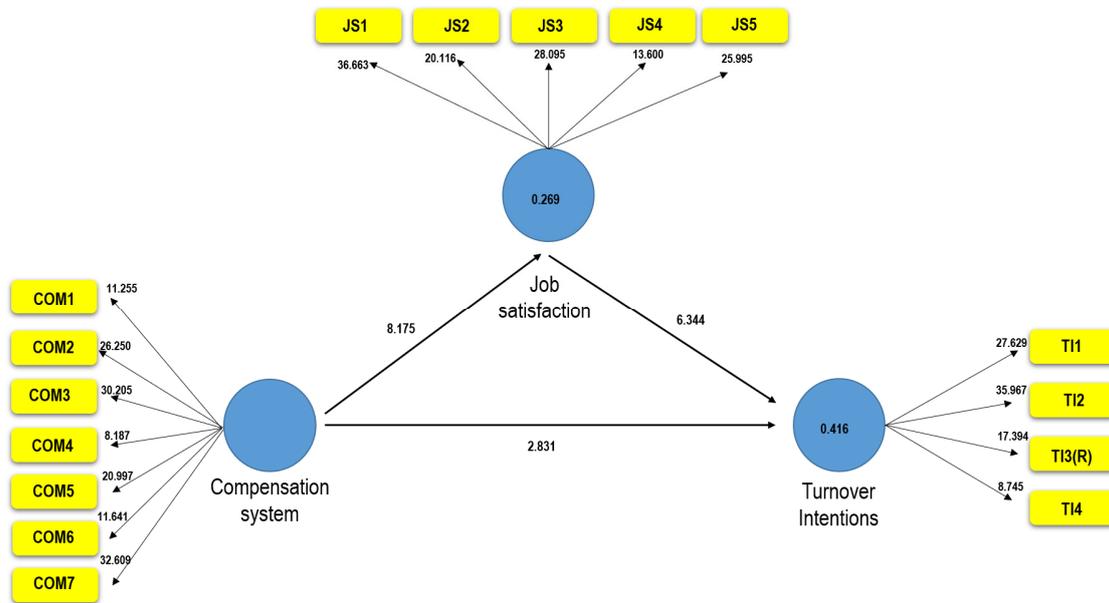


Figure 2: The path model with bootstrapping results
Source: The authors' research

CONCLUSION

Based on the review of the literature and the conducted research, it is concluded that the implementation of the compensation and rewards system has great benefits on the attitudes of employees and thus increases their satisfaction with the work they do and thus reduces their intention to leave the organization. If employees are satisfied with what they do, then they perceive work less as work and more as enjoyment. Job satisfaction affects the reduction of absenteeism, turnover intentions and work performance of employees.

Research results indicate that compensation system has a positive effect on job satisfaction (which is also confirmed in the research work of the author's Koderman (2021); Winda et al. (2017); Permandi, Landra, Kusuma & Sudja (2018) and Purwanto (2020)) and turnover intentions (which is also confirmed in the research work of the author's Allen, Shore & Griffeth, (2003); Weldeyohannes, (2016); Nadiri & Tanova (2010) and Carraher & Buckley (2008)). Based on the conducted analysis, it was confirmed that job satisfaction mediates the relationship between the compensation system and the intention to leave, which indicates that if employees are satisfied with the reward system, they will not want to leave their job (which is also confirmed in the research work of the author's Mustika et al. (2021); Lim, Loo & Lee (2017), and Vizano et al. (2021)). Based on the presented results, all three hypotheses can be confirmed: H₁: The compensation system is positively related to job satisfaction; H₂: The compensation system is negatively related to turnover intentions; H₃: Job satisfaction has a positive mediation effect in the relationship between the compensation system and turnover intentions. Given that there are direct links between the compensation system and job satisfaction and the intention to leave, as well as an indirect link between the compensation system and the intention to leave through job satisfaction as a mediator, it can be concluded that a partial mediation has been formed.

The limitation of the conducted research is related to the relatively small sample. Some of the suggestions for future research is to increase the number of respondents in organizations that develop different models and systems for measuring job satisfaction. The bottom line is that job satisfaction has become a key issue in modern work organizations. Based on the job satisfaction measurement system, organizations should strive to unleash the creative potential of employees with various material and non-material incentives.

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