Compensation Practices and Transformational Leadership Influences on Intention to Stay: The Mediating Role of Perceived Organizational Support

Md Lazim Mohd Zin1, Siti Zubaidah Othman2 and Faizuniah Pangil3
1Universiti Utara Malaysia, Malaysia, lazim@uum.edu.m,
2Universiti Utara Malaysia, Malaysia, zubaidah@uum.edu.my
3Universiti Utara Malaysia, Malaysia, faizun@uum.edu.my

ABSTRACT
The present study examines factors that influence the intention to stay in organization among information technology (IT) skilled workers. The two factors investigated in this study are compensation practices and transformational leadership. This study also examines the mediating role of perceived organizational support in the relationship between compensation practices and transactional leadership on intention to stay. Results from 178 participants indicate that compensation practices and transactional leadership were significantly positively related to intention to stay. In addition, perceived organizational support was found to partially mediate the relationships between compensation practices and transformational leadership on intention to stay. Implications of the findings, potential limitations of the study, and directions for future research are suggested.

Keywords: Intention to stay, compensation practices, transformational leadership, perceived organizational support, information technology skilled workers

I. INTRODUCTION
Retaining highly skilled IT workers is crucial due to business growth, imbalance between demand and supply, and high turnover rate, particularly in the context of ICT industry in Malaysia (Azlan, 2009). In fact, a high turnover rate of 32% to 39% per annum was recorded in the ICT based-business such as outsourcing and shared business services in 2008 (Patrick, 2008). Hence, it is imperative that organizations prevent this problem from continuing, and to do so there is a need to examine the factors that may influence the intention to stay among these IT skilled workers. Hence, this research attempts to answer the following questions: 1) Does compensation practices influence intention to stay? 2) Does transformational leadership influence intention to stay? 3) Does perceived organizational support mediate the relationship between compensation practices, transformational leadership and intention to stay?

II. LITERATURE REVIEW
A. Intention to Stay
In general terms, intention to stay refers to the desire of workers to remain working in the current organization (Coombs, 2009; Ellenbecker, 2004). Intention to stay is not a popular variable for research as compared to intention to leave as a review of currently available literatures shows that a majority of studies focuses on intention to leave (e.g; Allen, 2006; Spreitzer & Mishra, 2002). However, previous studies have also used the concept of intention to stay as a proxy to explain employee retention (Ajzen, 1991; Coombs, 2009; Chew & Chan, 2008; Ellenbecker, 2004). In addition, intention to stay is more relevant in the current research because the difficulties encountered by organization in retaining their skilled IT workers (Humayun & Zhao, 2009; Punia & Sharma, 2008).

B. Compensation Practices and Intention to Stay
In this study, compensation practices is referred monetary rewards, namely salary and bonus. Salary is the cash rewards that an employer pays for the work performed, and it tends to reflect the value of the work or skills (Bergman & Scapello, 2002; Milkovich & Newman, 2005). Though many studies have discussed the influence of salary level on intention to stay (Burnett, Williamson & Bartol, 2009; Chew & Chan, 2008), none actually empiracally studied the relationship between salary (perception of satisfaction) and intention to stay. For example, Chew and Chan (2008) studied employee perceptions of pay (salary) justice and the desire of employee to remain employed in the organization, and this study found a significant
positive relationship between the two variables. This finding is consistent with other studies on the intention to stay in organization which were conducted on IT workers in the United States (Lockwood & Ansari, 1999), and on employees in the banking sector in China and Hong Kong (Chiu, Luk & Tang, 2002). With regard to bonus, it is referred to cash incentives that tie pay directly to employee performance (Bergman & Scapello, 2002). In theory, incentives such as a bonus have an influence on intention to stay because it gives organization flexibility in dealing with internal and external environment uncertainties (Blakemore, et al., 1987). Several studies have studied the influence of bonus on the desires of workers to remain in the organization (Flood, Turner, Ramamoorthy et al., 2001; Gaylard, Sutherland & Viedge, 2005). Specifically, the study by Gaylard and colleagues (2005) among information technology workers in Europe, Australia and South Africa found that bonuses are important factors that could encourage workers to remain in the organization. Based on the above discussion, the following hypothesis is proposed:

**H1:** Perceptions of compensation satisfaction have positive effect on intention to stay.

**H1a:** Perceptions of base pay satisfaction have positive effect on intention to stay.

**H1b:** Perceptions of bonus satisfaction have positive effect on intention to stay.

### C. Transformational Leadership and Intention to Stay

Transformational leadership refers to a type of leadership that increases employee awareness of job outcomes, activate the employee’s needs and well-being, and stimulate employees to act in the interest of organization (Sarros & Santora, 2001). A comprehensive review of the literature related to transformational leadership in relation to intention to stay has been discusses by several scholars (Chih & Lin, 2009; Cotton & Stevenson, 2008), but little is known about the linkage between transformational managerial leadership behaviors on intention to stay among IT skilled workers. The premise that effective transformational leadership positively influences employee intention to stay was supported by the work from Avolio, Zhu, Koh, and Bhatia (2004) who found that managerial consideration for of employees needs, motivation and well-being can encourage employees to stay in organization. In addition, transformational leadership raises employee motivation to stay through exchange values, and gives personal advice, attention and opportunity (Bass, 1985). Based on the above discussion, we proposed the following hypothesis:

**H2:** Transformational leadership have positive effect on intention to stay.

### D. Compensation Practices and Perceived Organizational Support

Perceived organizational support (POS) refers to employee’s global beliefs concerning the extent to which the organization values their contributions and cares about their well being (Eisenberger, Huntington, Hutchison & Sowa, 1986). Based on organizational support theory (OST), POS is induced by positive discretionary activities or actions, which make employees think the organization values and cares about their well-being. In other words, these favorable pay and bonus experiences reflect voluntary and positive valuations, POS would be strengthened (Eisenberger et al., 1986). Rhoades and Eisenberger (2002) have stressed that rewards such as base salary, incentives and benefits that are beneficial to the employee and regarded as a discretionary action should contribute to strengthen POS. This argument is supported by findings from several researchers (Rhoades & Eisenberger, 2002; Stinglhamber & Vanderberghe, 2003). In view of the above discussions, the following hypothesis is proposed:

**H3:** Perceptions of compensation satisfaction have positive effect on perceived organization support.

**H3a:** Perceptions of pay satisfaction have positive effect on perceived organization support.

**H3b:** Perceptions of bonus satisfaction have positive effect on perceived organization support.

### E. Transformational Leadership and Perceived Organizational Support

Transformational leadership is also believed to be relationed to POS. According to OST, employees who recieve highly valued resources and support from organization would feel obligated, based on the reciprocity norm, to help the organization to reach its objectives. Based on this premis, employees would view favourable or unfavorable treatment received from a manager in the organization as an indication of the extent to which the manager values and their contributions and cares about their well-being (Aselage & Eisenberger, 2003; Levinson, 1965). Furthemore, manager’s leadership behavior plays an important factor affecting the harmonious working relationship between managers and employees (Limsila & Ogunlana, 2008). In a study conducted by Sluss, Klimchak and Holmes (2008), it is found...
that the relationship between managers and employees through the concept of leader member exchange has a significant positive relationship with POS. Based on the above discussion, the following hypothesis is proposed:

**H4: Transformational leadership have positive effect on perceived organization support.**

**F. Perceived Organizational Support and Intention to Stay**

The fundamental theories that explain the relationship between POS and intention to stay are the norm of reciprocity and OST. In line with the norm of reciprocity, favorable treatment by the organizations creates a sense of indebtedness among employees to the personified organization, which in turn, becomes the basis for a higher intention to stay in organization (Gouldner, 1960). Similarly, OST suggest that POS increases intention to stay by embarking a felt obligation to care about the organization and help to meet its objectives. Numerous studies have found that POS contribute to employee’s intention to stay in organization (Smith, 2005; Stamper & Johlke, 2003). Based on the above discussion, the following hypothesis is proposed:

**H5: Perceived organizational support have positive effect on intention to stay.**

**G. Perceived Organizational Support as a Mediator**

Within the context of social exchange (Blau, 1964) and norm of reciprocity (Gouldner, 1960), POS would create an obligation for employee to enhance organization performance and help them to achieve organization objectives. Based on this premise, it is possible to argue that POS serves to mediate the relationship between compensation practices and intention to stay because when pay and bonus satisfaction are perceived as supportive and taken as voluntary treatment, employees would strengthen their perceptions that organization cares about their needs and well-being. Thus, this would strengthen employee’s judgment about POS. With regard to the relationship between transformational leadership and intention to stay, employees are more likely to view the transformational leadership as an indicator of organizational support in the workplace (Aselage & Eisenberger, 2003). This is consistent with the social exchange theory which arguments that when the leader provides resources in a way that is perceived to be beneficial, the employee will review the relationship positively, and reciprocate through increases intention to stay (Sluss, Klimchak, & Holmes, 2008). Based on the above discussion, the following hypotheses are proposed:

**H6: Perceived organizational support mediate the relationship between compensation practices and intention to stay.**

**H7: Perceived organizational support mediate the relationship between transformational leadership and intention to stay.**

### III  METHOD

**A. Sampling Design, Subjects and Procedures**

The study population includes all IT workers in the software development sector with MSC status in Malaysia. A cluster sampling method was used to select the sample for the study. A total of 832 questionnaires were mailed to a representative of the organization who agreed to participate in this study. The representative will then distribute the questionnaires to their IT employees. In this study, each participant received a set of questionnaire with cover letter attached, explaining the purpose of the study and the instructions on how to answer the questionnaire. Participants were also provided with a pre-addressed and postage-paid envelope so that they could post the questionnaire back to the researcher. A total of 220 questionnaires were returned, and only 178 were usable for further analysis, representing a response rate of 21.39%.

**B. Measures**

All constructs were measured at the individual level. The predictor variables used in this study are salary, bonus and transformational leadership. In this study, salary is operationalized as employee perceptions of satisfaction with the current salary and total salary (including allowances and financial benefits) received in the organization (Heneman & Schwab, 1985). Respondents’ perceptions toward salary satisfaction were assessed using four adapted items from Heneman and Schwab (1985). Bonus is operationalized as employee perceptions of satisfaction with the amount of bonus received, and were measured by three items developed by Sturman and Short (2000). Each of the adapted questions asked how satisfied the respondents were with regard to both the salary and bonus statement on a five-point scale whereby 1 = very dissatisfied and 5 = very satisfied. Transformational leadership is operationalized as the extent to which managers motivate and encourage employees to use their judgment and intelligence to solve works related problems and express appreciation for good performance. It was measured by 20 items developed by Bass and Avolio (1995). Responses were measured on a five-point Likert scale.
to items were made on a 5-point scale whereby 1 = not at all and 5 = frequently, if not always. Finally, perception on organizational support is operationalized as a global impression employees hold that organization values them and cares about their well being. The perceptions were measured using 7 items adapted from Eisenberger et al. (1986). Responses to items were made on a 5-point scale whereby 1 = strongly disagree and 5 = strongly agree. The dependent variable of this study is intention to stay. For this study, intention to stay refers to employees’ conscious and deliberate willingness to stay with the organization (Chew & Chan, 2008; Coombs, 2009). To measure participants’ intention to say, three items were adapted from Coombs (2009) and another three items from Stassen and Ursel (2009). Each of the adapted questions asked how strongly the respondents agreed or disagreed with the intention to stay statements on a five-point scale whereby, 1 = strongly disagree, and 5 = strongly agree.

C. Method of Analysis
In this study, the hypotheses were tested using multiple regressions. Multiple regression analysis involves the testing of the relationship between a dependent variable and two or more independent variables (Hair Jr., et al., 2007). Prior to conducting analysis, the data was tested for normality, linearity, homoscedasticity, and independence of the error terms. Finally, the procedures suggested by Baron and Kenny (1986) were followed for testing the mediation effect of perceived organizational support.

IV RESULTS

A. Profile of Respondents
Out of 178 participants, 53.9% were males, 54.2% were unmarried and 76.4% hold a bachelor degree. Software engineer constitute 19.7% of the survey participants, followed by 18.5% system programmers and 16.3% system analyst. The average age of participants was 31 years old. On average, the participants had been in their present position for 4.99 years, and had served their organization for 4.21 years.

B. Correlation Analysis
Correlation analysis results presents the means, standard deviation, and Pearson correlations of variables for the 178 participants. The internal consistency reliabilities (Cronbach’s Alpha) of the research measures are reported in the parenthesis along the diagonal of the correlation table. The Cronbach’s Alpha for the adapted scales (salary, bonus, transformational leadership, perceived organizational support and intention to stay) have a satisfactory reliability values ranging from .86 to .95. The results also revealed significant positive relationships between salary (r = .39, p<.05) intention to stay and between bonus (r = .23, p<.01) and intention to stay. These results indicate that the higher the salary and bonus, the higher the intention to stay in the organization. There were also significant positive correlations between transformational leadership (r = .34, p<.05) and intention to stay, and between perceived organizational support (r = .47, p<.01) and intention to stay. These results imply that the higher the adoption of transformational leadership, the higher the intention to stay in organization. Similarly, the higher the perception on organizational support, the higher the intention to stay in organization.

C. Regression Results
Hypotheses H1(H1a, H1b), H2, H3(H3a, H3b), and H4 were tested through multiple regression analysis. For H1(H1a, H1b) and H2, intention to stay was regressed on three independent variables: salary, bonus and transformational leadership. To test H3(H3a, H3b) and H4, compensation practices and transformational leadership were regressed on perceived organizational support (POS). Table 1 presents the results of this analysis. It is noted that 39.8% of the variance in intention to stay had been significantly explained by the salary, bonus, and transformational leadership. In the model, all three measures were statistically significant, with salary recording a higher beta value (β=.37, p<.05), followed by bonus (β=.27, p<.01), and transformational leadership (β=.18, p<.01). Thus, H1(H1a, H1b) and H2 were supported. Regarding the effects of compensation practices and transformational leadership on POS, the model was able to explain 56.3% of the observed variations in POS. However, only one component of compensation practices, namely, salary (β=.28, p<.01) has significant and positive relationship with POS. Thus H3 was partially supported. Similar results were also found in the transformational leadership (β=.29, p<.01) where a significant and positive relationship was found with POS. Thus, H4 was supported.
Table 1. Regression results

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Criterion Variables</th>
<th>Intention to Stay</th>
<th>Perceived Organizational Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. β</td>
<td>Std. β</td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>.37*</td>
<td>.28**</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>.27**</td>
<td>.09</td>
<td></td>
</tr>
<tr>
<td>Transformational leadership</td>
<td>.18*</td>
<td>.29</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>39.8</td>
<td>56.3</td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>20.8</td>
<td>31.7</td>
<td></td>
</tr>
<tr>
<td>F value</td>
<td>9.71**</td>
<td>14.91**</td>
<td></td>
</tr>
</tbody>
</table>

Note: * p<.05, **p<.01

With regard to H5, POS was regressed on intention to stay. As revealed in Table 2, POS was able to elucidate 48.7% of the observed variations in intention to stay. The results also shown that POS was related to intention to stay (β=.48, p<.01). Thus, H5 was supported.

Table 2. Regression results on the impact of perceived organizational support on intention to stay

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Intention to Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Std. β</td>
<td>Std. β</td>
</tr>
<tr>
<td>Perceived Organizational Support</td>
<td>.48**</td>
</tr>
<tr>
<td>R²</td>
<td>48.2</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>36.7</td>
</tr>
<tr>
<td>F value</td>
<td>71.54**</td>
</tr>
</tbody>
</table>

Note: * p<.05, **p<.01

D. Mediation Testing

In order to test for the mediation effects, three conditions suggested by Baron and Kenny (1986) are followed and tested respectively. First, from Table 1, the results revealed that salary and transformational leadership have significant effect on POS. Second, from the same table, salary and transformational leadership have a significant and positive relationship with intention to stay (independent variable). Third, results from Table 2 showed that POS has a significant and positive relationship with intention to stay. Based on these results, all three conditions for testing mediation effect have been fulfilled. The significance or non-significance between those variables was used to draw a conclusion about full or partial mediation. Table 3 shows the results of mediation testing. The results revealed that salary has a significant and independent influence on intention to stay (β=.37, p<.01). However, salary still have a significant effect on intention to stay with the insertion of POS but with a lower beta value (β=.27, p<.01). These findings illustrate that POS was partially mediated the relationship between salary and intention to stay. Therefore, H6 was partially supported. With regard to transformational leadership, the results showed that it has a significant and influence on intention to stay (β=.18, p<.01), but the strength of relationship was slightly decreased when POS was tested together (β=.15, p<.01). These findings entail that POS play as a partial mediator. Thus, H7 was supported.

Table 3. Mediating effect of POS

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Criterion variables</th>
<th>Intention to Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. β</td>
<td>Std. β</td>
</tr>
<tr>
<td>Salary</td>
<td>.28**</td>
<td>.37*</td>
</tr>
<tr>
<td>Bonus</td>
<td>.09</td>
<td>.27**</td>
</tr>
<tr>
<td>Transformational leadership</td>
<td>.29**</td>
<td>.18**</td>
</tr>
<tr>
<td>R²</td>
<td>56.3</td>
<td>39.8</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>31.7</td>
<td>20.8</td>
</tr>
<tr>
<td>F value</td>
<td>14.91**</td>
<td>9.712**</td>
</tr>
</tbody>
</table>

Note: * p<.05, **p<.01

V DISCUSSION

The aim of this study was to examine the direct effect of compensation practices and transformational leadership on intention to stay, and also to test the mediating role of perceived organizational support on this relationship among IT skilled workers in ICT companies in Malaysia. Results from this study suggest that individuals’ satisfaction with the salary and bonus they received do have a direct effect on intention to stay. On this note, the finding is consistent with previous studies that demonstrated the effect of rewards on intention to stay (Chew & Chan, 2008; Lockwood & Ansari, 1999). One possibility for these results is that when individuals perceived that the salary and bonus they received is fair, in terms of external and internal justice, and competitive as compared to other organizations, their willingness to remain in the organization will increased. The findings from this study also showed that intention to stay among IT skilled workers is influenced by transformational leadership. One possible explanation for this result is that the leadership characteristics that managers have such as clear goals, charismatic, and have high self-confidence are more valued by the skilled workers. This is supported by several previous studies that employees in managerial and professional levels consider a vision, goals, values, and the charisma of the leader as crucial factors in influencing their
desire to remain in the organization (Chih & Lin, 2009; Cotton & Stevenson, 2008).

Regarding to the mediating effect of POS on intention to stay, this study found that POS partially mediate the relationship between salary and intention to stay, and in the relationship between transformational leadership and intention to stay. These findings support the OST that employee evaluation towards organizational practice such as salary and leadership support will affect perceptions of organizational support, and so will affect employee desire to stay (Aselage & Eisenberger, 2003; Eisenberger et al., 1986). From this point of view, salary practices relate to actions that are provided to recognized employees’ skills, knowledge and experience. Thus, organizations that are appreciating and valuing employee contributions are likely to be perceived as caring employers, that is, turning to rewards and incentive programs to keep employee happy. Meanwhile, the mediating role of POS in the contexts of transformational leadership indicates that leadership engagement with employees’ jobs can be assumed as a social exchange process in which employees perceive organizations’ care and concern as outcome of an organizational leadership respect. To reciprocate the favor leadership support, employees may translate it in a sense of increasing their intention to stay in organization.

VI RESEARCH IMPLICATIONS

Findings from the present study have several implications for both theoretical and practice. From the theoretical perspective, the present findings provided empirical evidence on the direct and indirect relationships between compensation practices, transformational leadership, perceived organizational support and intention to stay. These findings also support the applicability of the social exchange theory and the norm of reciprocity within the context of IT skilled workers in Malaysia. In terms of implications for practice, the current research findings have several implications for the managers. The research results demonstrate that IT skilled workers can be retained when managers focus more on the monetary rewards, leadership and organizational support. Since salary and bonus satisfaction has a direct relationship with intention to stay, managers must ensure that the salary and bonus they offered is competitive, fair and in accordance with their employees’ contribution. Apart from that, managers should also focus on good leadership especially in managing professional and skilled IT workers. Employees who perceived their employers as uncaring or not supporting their needs and well-being may not be happy working with the organization and the tendency for them to leave the organization will be high.

VII LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

There are limitations in the design of this study that might influence the interpretations and generalizations of these findings. First, the findings were from employees’ perceptions, and thus, subject to possible biases. Second, the data were collected from one particular group of employees (information technology workers) within ICT companies with MSC status, and thus, the findings cannot be generalized to other types of skilled workers or IT workers in other types of companies. Also, the study is limited with the number of variables tested. Therefore, there is a need for future research to extend the exploration of the influence of monetary rewards, transformational leadership and perceived organizational support on other types of skilled workers in other types of organizations, or to include other variables into the study.

VIII CONCLUSION

The aim of this study was to investigate factors that influence the intention to stay in organization among IT skilled workers. The main concern of this study was the direct influence of compensation practices and transformational leadership on intention to stay, Since both factors are related with intention to stay, management of organization should focus more on improving the compensation practices and to consider the importance of good leadership in the organization. It is hope that through the examination of these factors, a complete understanding of the best approach to retain employees will be achieved.

REFERENCES


