

## MOTIVATIONAL COMPENSATION – A FACTOR IN STAFF TURNOVER IN RETAIL ORGANIZATIONS

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### ABSTRACT

The most important factor in any organization is its employees. Due to rapid changes in global business, employees are facing increasingly complex requirements. If misunderstandings and indifference towards the importance and impact of motivation prevail in an organization, this will inevitably create tension in the work environment; employees will become unmotivated, and therefore less efficient. All this will lead to lower quality of products and services, reducing the organization profitability, but also to undesirable staff turnover. Within retail trade especially high staff turnover is recorded, and the growth trend can only increase costs for retail organizations. Employers must become aware of the positive correlation between employee satisfaction and profitability in retailing, where it is important to match well-organized business with adequate financial support for employees.

This paper explains motivational compensation that reflects financial (direct and indirect) and non-financial motives for work, with special emphasis on its influence on staff turnover within retail organizations. We also want to investigate the presence and level of motivational compensation within retail organizations in Eastern Croatia as compared to other activities. Furthermore, we will look into the extent of staff turnover in retailing, as well as its main reasons.

JEL classification: L81, J33

**Keywords:** motivational compensation, retail trade, staff turnover, staff turnover cost.

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## 1. INTRODUCTION

Employees are the key factor in any organization. Change of jobs within a company or somebody leaving the company can sometimes have beneficial effects on its operations, but if this happens very frequently we speak of high staff turnover, which is something most companies try to avoid. If an organization shows lack of understanding or disregard for the importance and impact of motivation, tensions can arise, employees become unmotivated, and thus less efficient, which can all lead to lower quality of products and/or services, lower company profitability, but also higher staff turnover. These trends are particularly noticeable in retailing, one of the crucial economic branches. In further text we will explain motivational compensation that reflects financial (direct and indirect) and non-financial motives for work, with special emphasis on its influence on staff turnover within retail organizations. We will also explore motivational compensation within retail companies in Eastern Croatia in comparison with companies in other industries, as a key factor of staff turnover level in retailing.

The research aims to investigate two hypotheses.

H1: High staff turnover has no positive effects on business.

H2: There is a negative correlation between motivational compensation rates and staff turnover.

The first hypothesis (H1) will be examined on the basis of secondary data, and the second one (H2) on the basis of primary research.

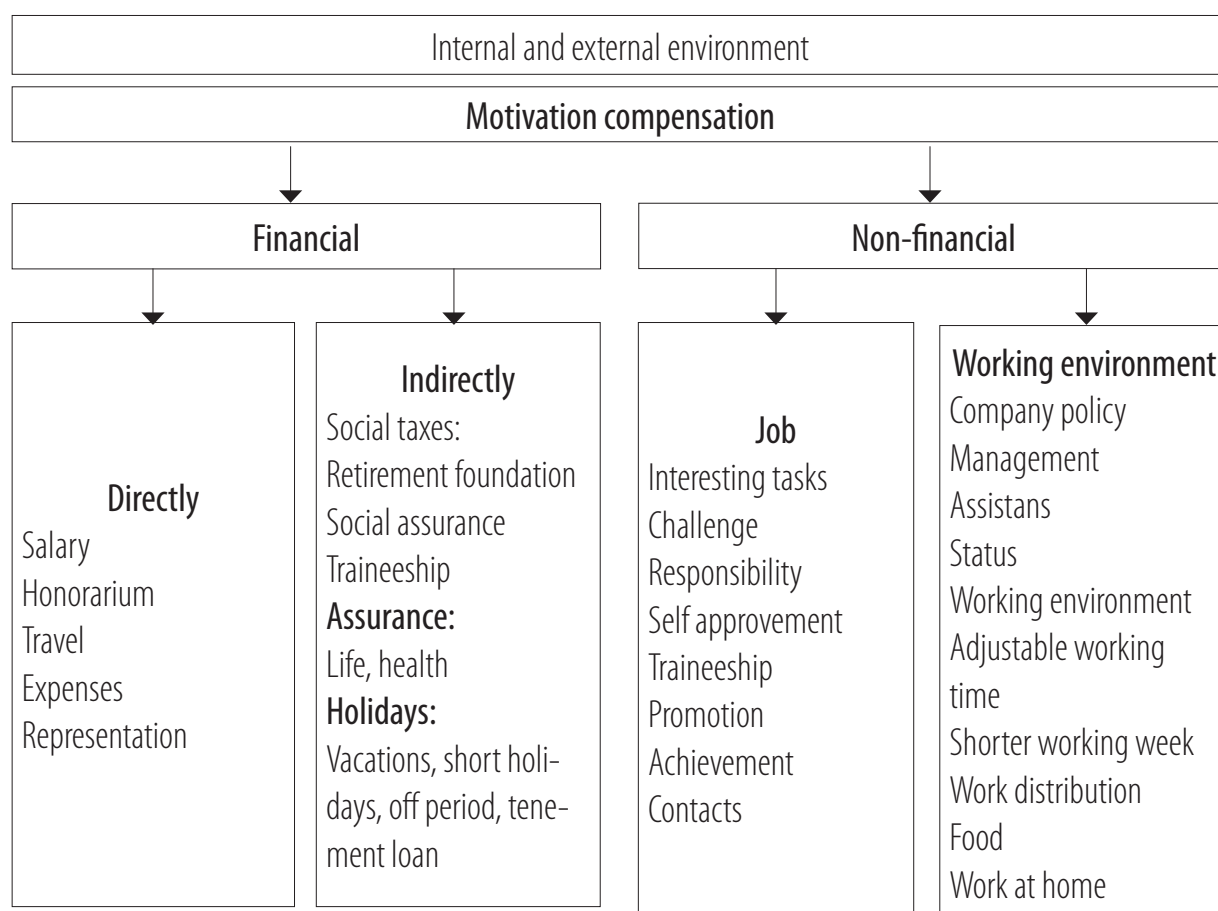
## 2. MOTIVATIONAL COMPENSATION

Employee rewards can lead to better performance and employee satisfaction: When the staff views them as fair, when they are related to efficiency, and chosen according to an individual's needs (Robbins, 1992: p. 250). For an employer to decide how to distribute rewards to their staff, work performance has to be assessed. The intention of performance assessment is to measure how much has an employee contributed to achieving the assigned goal within a certain time period. Performance assessments provide relevant information to company management in order to make decisions on important issues such as promotions, transfers or termination of employment for their staff. After performance assessment the management can decide on rewards that are aimed at keeping the staff highly motivated. In deter-

mining awards, one has to take into consideration an employee's dedication, years of service, skills, difficulty of tasks and ability to take decisions independently.

Consequently, the emphasis should be on motivational compensation that reflects both financial (direct and indirect) and non-financial motives for work, i.e. rewards, as shown in Figure 1.

**Figure 1.** Motivational compensation



Source: according to Marušić, S.(2001). *Upravljanje ljudskim potencijalima*, Adeco, Zagreb, p. 267

“Material, i.e. financial compensation comprises different forms of motivation aimed at securing and improving employees’ material status and financial compensations for the work done.”

([http://www.poslovniforum.hr/management/motivacijske\\_tehnike.asp](http://www.poslovniforum.hr/management/motivacijske_tehnike.asp)) Material compensations are the basis of the motivation system.

Figure 1 shows that financial compensations can be divided into two basic groups:

1. Direct financial, i.e. money gains for the employee (income, fees, travel expenses and expense account).
2. Indirect financial gains that raise employees' material standards, received as a result of becoming an employee in this organization and unrelated to performance. These include: social benefits (pension fund, social security), education, insurance (life, health), days off (annual leave, short leaves, sick leaves) and housing loans.

Viewing the classification of material compensation from the standpoint of the company, it can be seen that material rewards are related to the organizational level, and are distributed according to organizational programs or policies, as well as success in goal attainment.

([http://www.poslovniforum.hr/management/motivacijske\\_tehnike.asp](http://www.poslovniforum.hr/management/motivacijske_tehnike.asp))

The purpose of non-material or non-financial compensations is to provide incentives for work that meet a range of employee needs. As shown in Figure 1, these compensations can also be divided into two groups.

The first group includes interesting tasks, challenge, responsibility, self-realization, training, advancement, achievement and contacts. The second group is comprised of company policies, leadership, co-workers, status, working conditions, flexitime, shorter work week, division of work tasks, office canteen and work from home.

Numerous non-material strategies have been developed in organizations, such as job design, management style, worker participation, management by objectives, flexitime, recognition and feedback, organizational culture, training opportunities and career development etc., which, together with material strategies, make up a complex motivation system.

([http://www.poslovniforum.hr/management/motivacijske\\_tehnike.asp](http://www.poslovniforum.hr/management/motivacijske_tehnike.asp))

### 3. STAFF TURNOVER IN RETAIL ORGANIZATIONS

#### 3.1. Retailing – its place and role in modern supply chain

Retailing is a division of commerce as an economic activity<sup>1</sup>. *Retail*, *retail trade*, or *retailing* are terms frequently used in English as synonyms. According to Levy & Weitz, **retailing**<sup>2</sup> is “*the set of business activities that adds value to the products and services sold to consumer for their personal or family use*” (Levy&Weitz, 2009: p. 6), and consequently a **retailer** is „*a business that sells products and/or services to consumers for their personal or family use*“ (Levy & Weitz, 2009: p. 7). It is this direct contact with the final consumer that distinguishes retailers from any other supply chain participant<sup>3</sup>. The mediator role, i.e. being the organization that can most swiftly gauge the mood and changes in consumer behaviour (insight into demand by final consumers of products and services is the most valuable information in the supply chain) gives retailers great power when dealing with producers or service providers. Considering its position in the supply chain and the daily fresh information it receives, retail trade aims to not only manage, but also to partly or completely create the supply and the demand sides of the supply chain. On the supply side, retail operators choose the channels through which they will buy the goods, and on the demand side they choose the channels (mostly according to customers’ demands) through which they will sell and distribute products and services to final consumers. By connecting diverse and frequently numerous supply chains they “weave” their supply nets. It is thus justified to speak of Retail Supply Chain Management, i.e. Retail Supply Chain Net (see more Ayers et al, 2008).

#### 3.2. The problem of staff turnover in retailing

When speaking of motivation, it should be pointed out that this issue is more commonly a problem at lower operational levels. Whereas middle and top management positions are filled by people chosen for their competence and motivation to show it, people who get adequate compensation for their work, in the shop itself problems arise more often than not. Unfortunately, salaries for shop assistants

<sup>1</sup> For a modern definition of commerce see Segetlija, Z. (2006). *Trgovinsko poslovanje*, Ekonomski fakultet u Osijeku, Osijek, p. 21

<sup>2</sup> The English *retail* is derived from the French word *retailleur* for ‘cut off a piece’ or ‘break down to smaller pieces’, according to Levy & Weitz, 2009, p. 8

<sup>3</sup> Although other participants can partly sell products and/or services to final consumers for their personal or family use, retailing is the only one that does this as a basic and main activity.

and other shop workers are not only lowest in retail companies, but are frequently among the lowest in overall economy. According to a research by the web portal MojPosao.hr, the average salary in retailing in Croatia is as much as 25.8% lower than the overall average salary in the country<sup>4</sup>. Keeping in mind that these are average values, we have to remember that salaries for shop workers are lower by additional 40%.

The significance of this problem is immense. A number of studies has shown that shop workers are generally very dissatisfied which causes not only a decreasing profitability in retailing (Keiningham et al, 2006.), but also a high staff turnover. According to ACNielsen, annual staff turnover in an average shop can exceed 100 % (ACNielsen, 2006: p. 168), whereas Microsoft claims that it can be as high as 170% in a single year<sup>5</sup>. Consulting Group (an American consultancy company) has stated that annual staff turnover in American retailing used to be under 70%, whereas today the number can go as high as 300% in the case of employees in direct contact with customers, i.e. non-managerial staff working in shops (according to Holman/Sheldon/Buzek, 2005).

There are numerous reasons for such a huge labour drain from the shops:

- Unsatisfactory remuneration – economy sector with very low salaries,
- Extended working hours with very little leisure time,
- Physically strenuous work,
- Continuous additional training required,
- Stress due to direct contact with customers,
- A great number of temporary workers or those who are not serious about their job, etc.

Apart from employees being dissatisfied, high staff turnover also causes great concern for employers – predominantly large retail chains. The annual cost of retailing staff turnover in Australia amounts to 379 million dollars, whereas a study by Coca-Cola states that in the year 2000 an average supermarket had costs related

<sup>4</sup> [http://www.ured-ravnopravnost.hr/slike/File/MojPosao-Rezultati\\_Istrazivanja\\_o\\_visini\\_placa\\_2008-2009.pdf](http://www.ured-ravnopravnost.hr/slike/File/MojPosao-Rezultati_Istrazivanja_o_visini_placa_2008-2009.pdf) (10 Dec. 2010)

<sup>5</sup> <http://www.microsoft.com/industry/retail/businessvalue/workforcemanagementarticle.msp> (10 Dec. 2007)

to turnover in the amount of 198,177 dollars<sup>6</sup>. In addition to huge costs, there is also a question of time and effort lost or wasted. New forms of retail activities such as category management require employees to go through additional training and develop new competences. For example, it will take some time to train the staff how to implement and maintain planograms, how to fill shelves regularly and, generally, how to keep their shop in a condition envisaged by e.g. category managers. If a shop is not laid out nicely, the sales results will be far from expected. Furthermore, in shops with tens of thousands SKUs<sup>7</sup>, numerous operations are carried out related to logistics, sales promotion, record-keeping and control, as well as the process of buying and selling. The requirements posed to shop assistants and other shop workers are growing daily. Frequent changes and new employees make it more difficult to meet all these requirements, which is automatically reflected on sales results. All these indicators confirm the first hypothesis (H1) that high staff turnover will have adverse effects on business.

#### 4. CASE STUDY – USING MOTIVATIONAL COMPENSATION IN RETAILING

We have established above that retailing is a peculiar economic sector in that its staff turnover is among the highest, and its employees' salaries are among the lowest in the whole economy. We carried out some additional research to find out the extent of motivational compensation in the examined retailer, and compared it with employees in some other economic sectors. We included in the research employees at all hierarchical levels in four economic entities: a retailer (*organization A*) and three non-retailing organizations (manufacturing industry, publicly-owned utility company, and higher education institution). To facilitate the comparison, we took the average results of the latter three and marked them as *organization B*. The research was carried out by means of a questionnaire, and employees received them personally. The questionnaire items were measured by closed-ended responses with predefined modality features. We will single out the results that are relevant for the topic of the paper.

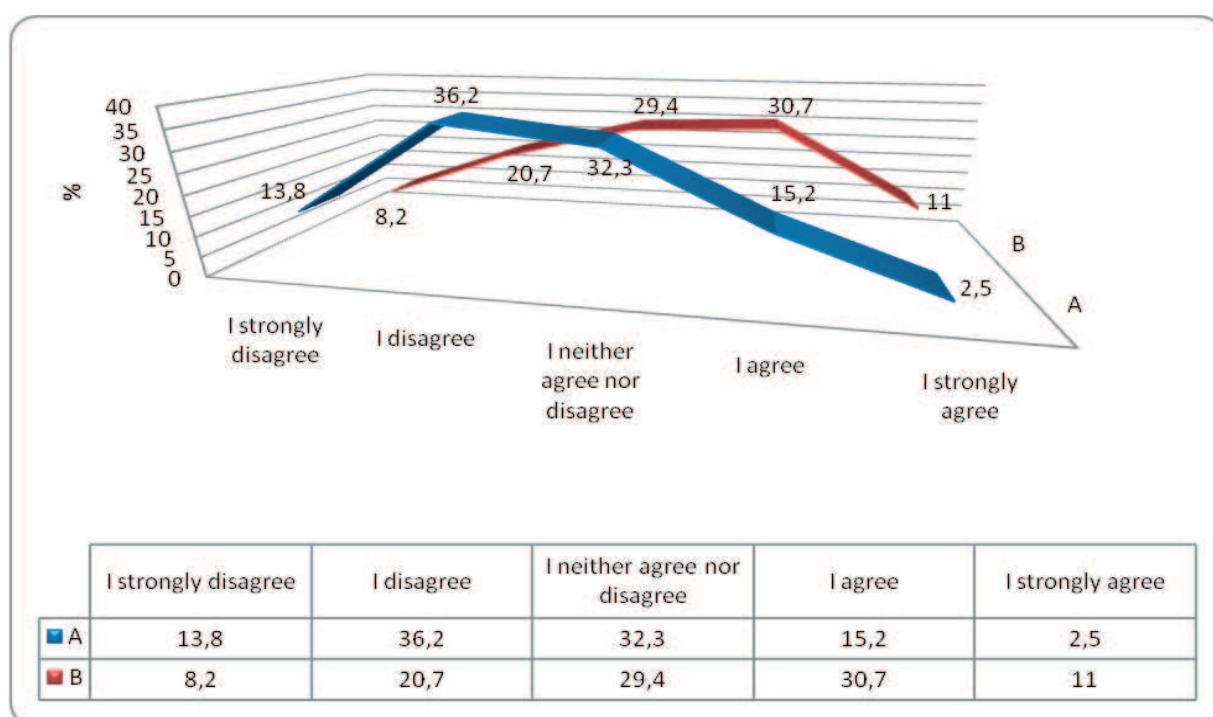
<sup>6</sup> *Report into finding and keeping good people in the retail sector*, A report by the Australian Retailers Association, the Federal Department of Employment and Workplace Relations Work and Family Unit, and the Equal Opportunity for Women in the Workplace Agency.  
[http://www.eeo.gov.au/Information\\_Centres/resource\\_centre/eowa\\_publications/Balancing\\_the\\_Till/Balancing\\_the\\_Till.pdf](http://www.eeo.gov.au/Information_Centres/resource_centre/eowa_publications/Balancing_the_Till/Balancing_the_Till.pdf) of 27 December 2007

<sup>7</sup> Stock Keeping Units



We will focus here on the results related to financial and non-financial compensations. Regarding financial compensations, we asked employees in a retail chain whether they were satisfied with the fairness of rewards, i.e. salaries, as related to work performance. Graph 1 clearly shows that the majority of employees in the organization A (36.2%) believe that rewards were not distributed fairly in relation to work performance, whereas the results for employees of the examined organization B are opposite, with almost 30.7% employees stating that the salaries were fair and proportionate to work performance.

**Graph 1.** Fair distribution of rewards (salaries) related to work performance



Source: authors' own research

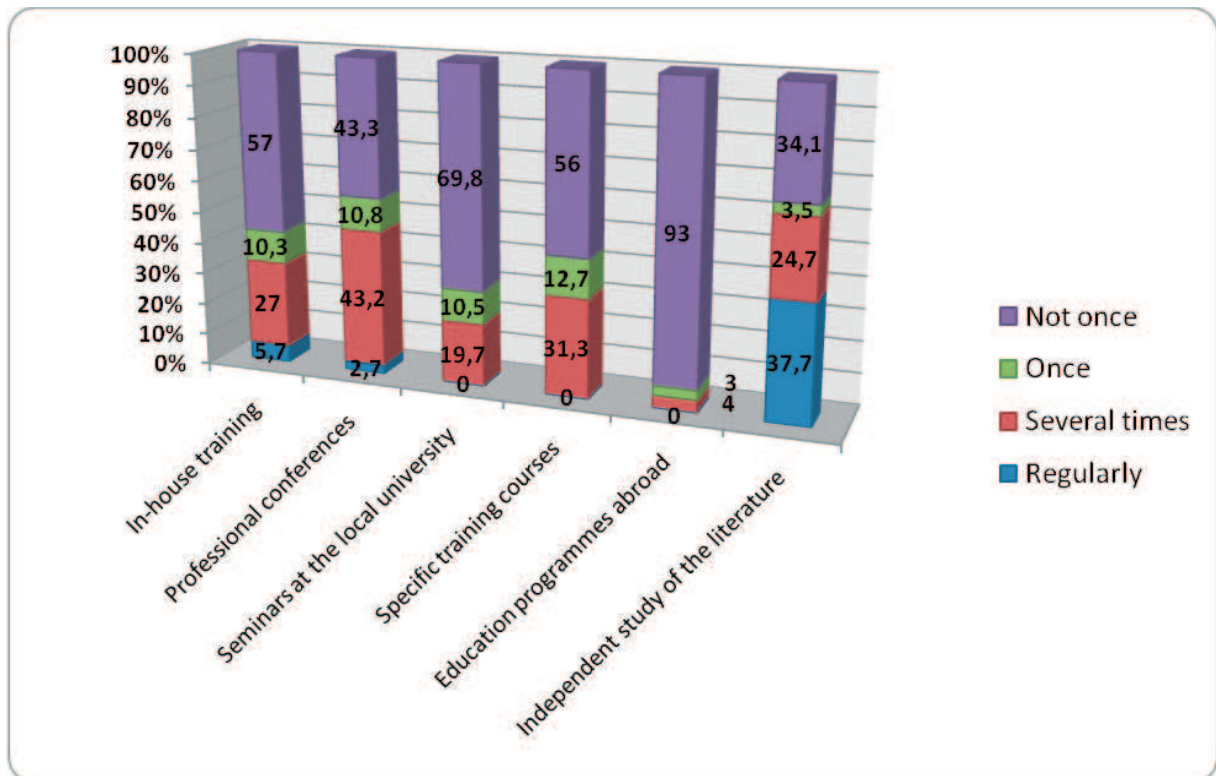
In the area of non-financial compensations, the most interesting responses referred to education and training programmes within the organization.

In terms of employee training, the analysis yielded very poor results. Looking at the below stated forms of additional training (Graph 2), the largest percentage of employees who have never taken part in any such programmes are found in the group of in-house training (57%). The percentage of those who have never taken part in a professional conference is 43.3% ; there are 69.8% of those who have never attended a seminar at the local university, 56% of those who have never attended a specific training course, and 93% of those who have not had access to education



programmes abroad. Despite all this, the majority of employees study the literature related to their work on their own (34.1%).

**Graph 2.** Education and training programmes within the organization



Source: authors' own research

The retail organization, which exhibited by far the highest staff turnover among the four economic entities included in our research, had employees who were receiving extremely low non-financial compensations. This then confirmed the second hypothesis (H2).

## 5. CONCLUSION

What are retailers to do? Organizations need to become more aware of correlations between employee satisfaction (expressed also as lower staff turnover) and profitability. In retailing it is important to coordinate sound business organization with adequate financial compensation for employees. In addition, shop workers need to understand the principles of modern retailing in order to be more successful in their work, and thus more satisfied. This is where non-financial motivational compensations become prominent.

Ad additional way for retailers to tackle the problem of high staff turnover is to introduce new technologies which can reduce staffing needs. Some of the technologies currently tested by retailers are Radio Frequency Identification, Smart Shelf Pads, Personal Shopping Assistant, Self-Checkouts, Smart Scales, etc<sup>8</sup>. The introduction of such technologies almost always implies ethical dilemmas arising from substituting people with different software and hardware. One line of thinking argues that new technologies are introduced under pretence of enhancing shopping experience, while they are primarily a means to cut the costs for the organizations that have embraced them.

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<sup>8</sup> see more at <http://www.future-store.org/> (10 January 2010)

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