

# THE IMPLICATIONS OF REMUNERATION, PROCEDURAL JUSTICE PRINCIPLES, AND WORK ENVIRONMENT FACTORS ON EMPLOYEE RETENTION RATE

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**Abstract** - Investigating the determinants that shape employee retention based on remuneration, procedural justice, and work environment is the goal of this research. Quantitative research methodology was adopted in this study. The sample size consisted of 120 respondents who were randomly selected from one of the manufacturing companies in the Surabaya area. An online questionnaire survey was used to collect quantitative data. Multiple linear regression is a technique for analyzing data where there is a program that makes it easy to find out the results. The program was SPSS and SPSS 26 was chosen. Finally, our research contributes to a better understanding of company efforts to retain and motivate employees to stay with the organization, thereby reducing turnover and ensuring operational sustainability and better productivity based on remuneration, procedural justice, and work environment. We also conclude that the focus of this research is on the determinants that predict employee retention rather than simply identifying employees who are likely to stay or leave.

**Keywords:** remuneration, procedural justice, work environment, employee retention

## INTRODUCTION

Human resources are the most important element in the competitive process in which the organization is located and all existing goals. Without valuable employees, businesses cannot generate revenue and prosperity because employees are the lifeline of the organization. In addition to understanding the importance of the contribution of employees to the organization, it is also necessary to have a more integrated understanding of what employee retention is. This is because, based on Ampomah and Cudjor (2015), the long-term health and success of any organization depend on employee retention. Therefore, it becomes a major task of management to encourage employees to stay in the business for a long time. Raikes & Vernier (2004) analyzed that retaining employees is considered a key strategy to achieve financial success, and the challenges are likely to increase day by day as well as be definitely felt by every company. The performance of an organization primarily depends on its ability to meet the goals that the organization sets. To achieve this, however, it is important that organizations retain their employees. Organizations that retain talented employees have a competitive advantage over their competitors as they are bound to increase their productivity levels (Azeez, 2017). Employee retention is one of the major issues that companies face when facing a competitive environment. A major business challenge is aligning goals with the growing demand for a balanced organizational climate that meets basic human needs and where work is synonymous with personal fulfillment.

Employee retention increases organizational profitability and shapes the market image and reputation of the organization. Employee retention is a priority for every organization to compete, attract, and retain talented staff (Naris & Ukpere, 2010). Employee retention is a planned and coordinated activity that organizations undertake to meet the needs of employees with the aim of retaining them (Shakeel & But, 2015). To develop an effective retention plan for today's labor market, it is imperative to realize various needs and expectations (Djazilan, 2020). If retention strategies are not properly embedded in business processes, all efforts since recruitment will ultimately be in vain (Earle, 2003). Rhule (2004) adds that organizations need to develop and implement relevant strategies to ensure the retention of a talented workforce. According to Samuel and Chipunza (2009), the main objective of retention is to prevent the loss of competent employees from leaving the organization, as this can have an adverse impact on the organization's productivity and profitability. The conclusion is that the issue of employee retention in the current era is indeed very important for almost all organizations in the world, because without good employee retention strategy planning, the sustainability of the organization becomes uncertain, so that not only operational activities will be disrupted, but the biggest impact is not achieving the vision, mission, and planned organizational goals (Fatimah et al., 2018). There are several reasons for employees to stay in the organization, such as compensation and benefits, training and development, work-life balance, work environment, job design, and career development. However, employers realize that some of the reasons for employee retention vary due to different organizations, and this study establishes that remuneration, organizational justice, and work environment are important factors in employee retention.

Remuneration has a strong influence on attracting and retaining talented employees (Werdati et al., 2020; Bangsu & Dahar, 2023). Rewards are usually linked to individual performance to ensure increased production levels and to ensure

that talented employees are retained in the organization (Adeoye & Fields, 2014). Employees are entitled to receive wage increases regardless of whether or not they use their acquired talents while performing their normal duties (Shaw & Gupta, 2001). An effective remuneration system refers to the methods used to reward or compensate employees for their work and services provided to an organization (Putra, 2022; Dahar, 2022). The remuneration system should provide a basic incentive for employees to perform work efficiently and effectively. Salary affects employee productivity and work performance, as well as employee retention. Thus, the amount and method of remuneration are very important to management and employees.

Procedural justice represents organizational procedures and practices in the social exchange between employees and the organization. That means it has the strongest relationship with important employee responses, such as job performance and employee retention. Procedural justice generally refers to how allocation decisions are made and fostered when the decision-making process follows certain rules, including accurate information, consistency over time, and applicable ethical standards (Greenberg & Tyler, 1987). Procedural justice also allows employees to have control or input on decision-making and some control over the final outcome in the form of decision influence. Therefore, procedural justice may be related to the promotion of employees' positive emotions (Murphy & Tyler, 2008), which may influence employee motivation. Procedural justice may influence two psychological states that serve as forms of employee motivation. First is psychological empowerment, which consists of four cognitions: meaning, competence, self-determination, and impact. It reflects employees' perceptions of their work and their ability to influence their job roles (Spreitzer, 1995). Kim and Park (2017) stated that procedural justice affects employee work engagement, knowledge sharing, and innovative work behaviors.

The workplace environment is considered to be one of the most important factors in employee retention. The workplace environment includes the physical elements surrounding an employee's work area and everything that is part of the employee's engagement with the job itself. Horwitz et al. (2003) argue that the workplace must be a pleasant place to work if it is to retain its workers. As stated by Bhatnagar & George (2016), an environment conducive to employee retention is one where the work experience is pleasant, resources are adequate, and there is some degree of flexibility. Therefore, the main features of a conducive work environment can be explained by the availability of sufficient resources to carry out the work, flexibility, and a workplace that is pleasant or provides security (Gani, 2022). Companies with generous personalization policies may have a better chance of satisfying and retaining employees by providing appropriate levels of privacy and voice control in the workspace, which increases the level of motivation to commit to the organization in the long term (Wells & Thelen, 2002). Employees benefit from a work environment that provides a sense of belonging. Thus, organizations that provide a conducive work environment will create a good sense of belonging and result in employee retention. Based on the existing description, it is important to investigate the determinants that shape employee retention based on remuneration, procedural justice, and the work environment.

## RESEARCH METHODS

A quantitative research methodology was adopted in this study. The sample size consisted of 120 respondents randomly selected from one of the manufacturing companies in the Surabaya area. An online questionnaire survey was utilized to collect quantitative data. Although the questionnaire is online, the preparation of a set of questions should still be based on the indicators owned by the variables of remuneration, procedural justice, work environment, and employee retention.

Remuneration consists of basic salary eligibility, wages, health schemes, pension schemes, transportation allowances when necessary, overtime allowances, and other benefits (Chênevert, 2009). Procedural justice consists of perceived consistency in decision-making, opportunities to provide input, and open communication channels (Lind & Tyler, 1988). The work environment consists of a sense of belonging, freedom from health hazards, privacy protection, and noise control (Miller et al., 2001). Employee retention consists of employee turnover rate and tenure. Internal promotion rate, employee satisfaction, and employee engagement (Hughes & Rog, 2008).

The Likert scale is determined with a rating criterion of 1 to 5 in the form of: strongly disagree (STS), disagree (TS), hesitate (R), agree (S), strongly agree (SS). Multiple linear regression is a technique for analyzing data where there is a program that makes it easy to find out the results. Based on the output from SPSS, the results of validity, reliability, classical assumptions, hypothesis testing, and the coefficient of determination can be further proven.

## RESULTS AND DISCUSSIONS

120 questionnaires were collected as per the intended target sample. Briefly, the employee profile is also known, although only based on gender, age, length of service, and last education. Male employees dominate over female employees, as there are 88 male employees and 32 female employees. The age of employees is grouped into three sections. The age group between 20 and 30 years old has 79 employees, followed by 31 and 40 years old with 29 employees, and the last group is between 41 and 50 years old with 12 employees. There are 11 employees with master's degrees, 50 employees with bachelor's degrees, and 59 employees with high school degrees. All employees have worked for more

than five years. The response rate of employees is good because they are able to fill in and understand all the questions that have been given. This is shown by the results of validity and reliability based on variables of remuneration, justice, procedural, work environment, and employee retention. All questions provide valid results because, when tested with the corrected item total correlation value, which must be above 0.30, the results show that the results are achieved. Followed by Cronbach's alpha, the level of reliability tested based on a value of more than 0.60. The variables of remuneration, procedural justice, work environment, and employee retention have a Cronbach alpha of more than 0.60.

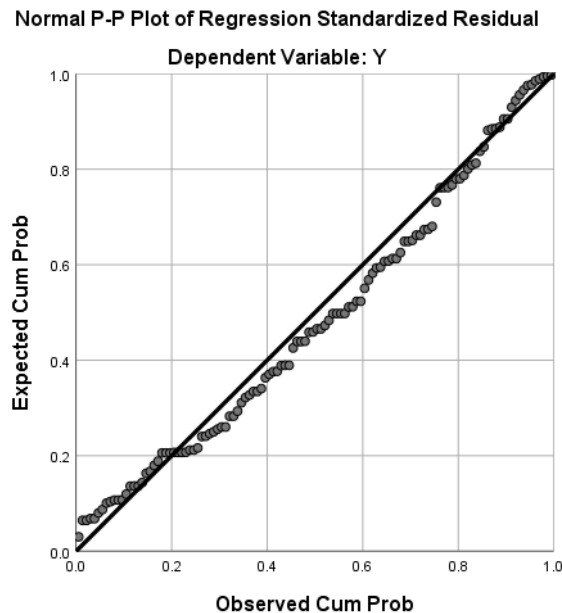


Figure 1. Normality Test  
Source: SPSS Output

The variables of remuneration, procedural justice, and work environment towards employee retention have data whose distribution is normal because it is in accordance with the evidence in Figure 1. Figure 1 displays points whose movements are based on the shape of the diagonal line and are close. Identification based on the Durbin Watson (DW) value set from -2 to 2 will show autocorrelation results that are free from interference. A value of 1.075 is the value possessed by DW in this study, so autocorrelation disorder is not detected because it is still between the two values.

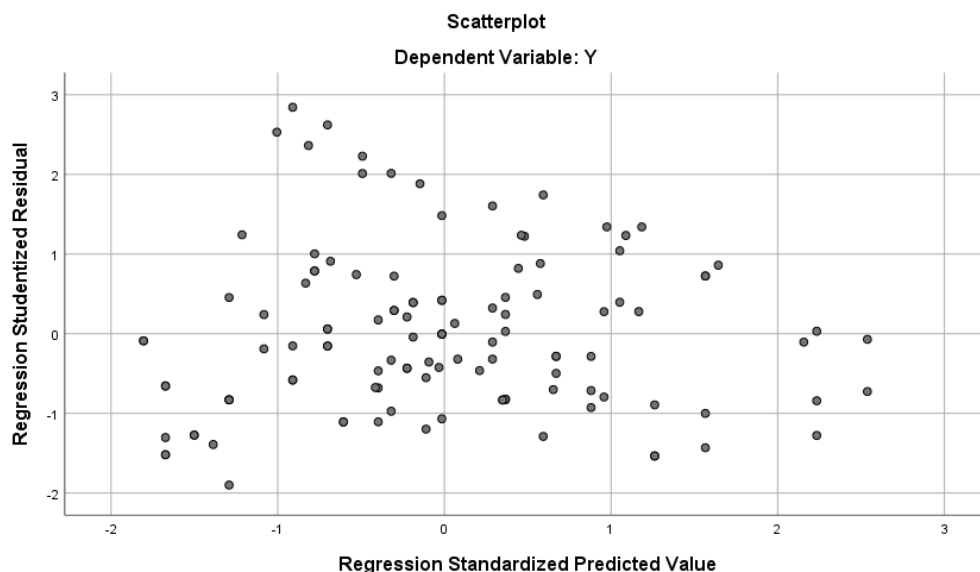


Figure 2. Heteroscedasticity Test  
Source: SPSS Output

Heteroscedasticity also results in no disturbance because, based on Figure 2, there are points that spread widely without any regularly formed patterns. This is one of the results to be declared free from symptoms of heteroscedasticity.

Table 1  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	25.137	3.357		7.487	.000		
	X.1	2.845	.467	.418	6.097	.000	.887	1.127
	X.2	1.465	.432	.249	3.391	.001	.774	1.292
	X.3	1.838	.404	.320	4.553	.000	.845	1.183

Source: SPSS Output

Each independent variable selected from remuneration, procedural justice, and work environment is identified based on its significance value of 0.000, which is still below 0.05. This value is evidence of the significant influence of remuneration, procedural justice, and the work environment on employee retention.

Table 2  
ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2759.643	3	919.881	41.213	.000 <sup>b</sup>
	Residual	2589.157	116	22.320		
	Total	5348.800	119			

Source: SPSS Output

The F-count produces a value of 41,213; the significance value is also 0.000, which is smaller than 0.05. The value of 0.05 is the level of significance needed to support significant results. With the results available based on SPSS output, it can be stated that the three independent variables, namely remuneration, procedural justice, and work environment, significantly affect employee retention.

Table 3  
Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.718 <sup>a</sup>	.516	.503	4.724	1.075

Source: SPSS Output

According to the R value, there is a percentage result of 71.8%, which shows that the relationship between the independent variables, namely remuneration, procedural justice, work environment, and employee retention, is quite strong. Followed by the amount of contribution given, there is a percentage that reaches 50.3%, where it can be explained that employee retention can be formed based on the contribution given from remuneration, procedural justice, and the work environment. Adding other independent variables can also be done, even though it only accounts for 49.7% of employee retention.

The results of his research have revealed that, first, remuneration affects employee retention. Previous studies by Bryant & Allen (2013), Tadesse (2018), and Kaliyamoorthy et al. (2018) are consistent with the results of this study. When a company has a fair and competitive remuneration program, employees tend to feel valued and are motivated to keep working for the company. A good remuneration system can stimulate employees to achieve better performance and contribute optimally (Anjanarko & Jahroni, 2022). On the other hand, if the remuneration program is inappropriate or unfair, employees may feel unappreciated and tend to look for opportunities elsewhere that offer better compensation (Putra et al., 2022). Providing an attractive remuneration package is one of the most talked-about retention factors as employees fulfill their financial and material needs and gain social recognition through remuneration. Thus, remuneration is considered the most important factor in attracting and retaining employee talent. As such, management must pay careful attention to the design of the remuneration system, ensuring that it is fair, transparent, and in line with the company's values and objectives. This is becoming a tactic used by many organizations to bind their employees to the organization. Fair remuneration encourages employees to stay with their organization. This provides an opportunity for positive implications for employee retention to be achieved.

Procedural justice also has the same effect on employee retention. Previous studies from Irshad & Afridi (2007), Shakeel & But (2015), and Tanius et al. (2017) Justice can also result in an increase in employees' positive well-being so that they can thrive in a fair environment. Procedural justice for employee retention involves how the company treats employees in terms of procedures, policies, and decision-making. If employees feel procedural justice in their work

environment, they are likely to feel valued and recognized. This can have a positive impact on employee retention, as they are more likely to stay with a company that provides fair and transparent treatment. If employees perceive procedural injustice, they may be more likely to feel dissatisfied and leave the company in search of a fairer work environment. Thus, management efforts to implement an empowering leadership style can help improve the state of employees as well as the organization. Managers should pay attention to the level of formal procedural justice in the organization by sharing information and offering feedback on the decision-making process transparently (Darmawan et al., 2020). This entails managers and direct reports listening to employees' opinions and involving groups of employees from different work positions and departments in the decision-making process to help improve and maintain procedural justice. These principles of procedural justice can be incorporated into supervisory training and human resource policies to promote the organization as a fair place to work. Therefore, maintaining procedural justice can help companies maintain higher employee retention rates.

The work environment also has the same results as remuneration and organizational justice, which affect employee retention. Shoaib et al. (2009); Tadesse (2018); Silva et al. (2019). This means employees seek to work and stay in companies that provide a good and positive work environment where employees feel that they are valued despite differences. When companies create a work culture that is inclusive, collaborative, and values employee contributions, this can contribute significantly to retention. For employees, a friendly work environment and job security are considered key motivational variables that influence their retention in the organization (Mardikaningsih, 2022; Irfan & Hariani, 2022). Management needs to understand that a poor work environment can cause employees to feel uncomfortable or unhappy (Arifin, 2021). This can lead to the loss of talented and experienced employees, which in turn can affect the productivity and viability of the business. It is therefore very important to know and recognize the emerging needs of employees and provide a good working environment to keep employees committed to the organization. This can begin by ensuring open and transparent communication throughout the organization, encouraging supportive and empathetic leadership, providing clear career development and growth opportunities, providing comprehensive employee wellbeing programs, and recognizing and addressing interpersonal conflicts or issues quickly and effectively. By implementing these measures, companies can create a work environment that is positive for employee retention.

## CONCLUSIONS

Finally, our research contributes to a better understanding of firms' efforts to retain and motivate employees to stay with the organization, thereby reducing turnover and ensuring operational sustainability and better productivity based on remuneration, procedural justice, and work environment. We also conclude that the focus of this research is on the determinants that predict employee retention, rather than simply identifying employees who may stay or leave. Brief recommendations to the human resources unit include improving employee recognition programs, promotion opportunities, knowledge development, good relationships and leadership skills among department heads, and practicing work-life balance with flexible schedules. In addition, it is necessary to determine the factors that are effective on employees' job satisfaction, and they need to control the factors and take some actions to increase the level of employee satisfaction. These principles of procedural justice can be incorporated into supervisory training and human resource policies to promote the organization as a fair place to work. Supervisors are important agents in developing employees' perceptions of organizational justice. Therefore, training and encouraging managers or supervisors to treat employees fairly will help foster a fair and productive work environment. Our findings suggest the relationship of organizational procedural justice with employee work effort and flourishing is significant, as they are facilitated by psychological empowerment. This implies that organizations that implement transparent and fair decision-making procedures result in employees who are likely to feel empowered and perceive themselves as important members of the organization, thus putting more effort into their work and experiencing psychological well-being. They need to consider managerial work and environmental factors to periodically evaluate the effectiveness of their actions to improve job satisfaction. This implies that organizations that implement transparent and fair decision-making procedures result in employees who tend to feel empowered and consider themselves important members of the organization, thus putting more effort into their work and experiencing psychological well-being. In the future, if you want to conduct research related to the determinants of employee retention, it will be necessary to add several other independent variables.

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