

The Relationship Between Compensation and Job Satisfaction on Employee Retention

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ABSTRACT: This study aims to examine the relationship between compensation and job satisfaction on employee retention based on previous research findings. The method used is a qualitative approach through literature review by reviewing reference books and national journal articles relevant to the topics of compensation, job satisfaction, and employee retention. The results of the study indicate that the effect of compensation on employee retention is inconsistent and is strongly influenced by individual perceptions, generational characteristics, and organizational context. High compensation does not always guarantee employee retention in the company. Conversely, job satisfaction has been shown to have a more consistent and stronger relationship with employee retention. These findings indicate that employee retention strategies need to be designed holistically by balancing compensation aspects and efforts to improve job satisfaction to create sustainable working relationships.

KEYWORDS: compensation; job satisfaction; employee retention; HR.

INTRODUCTION

Human resources are strategic assets that play a crucial role in achieving a company's goals (Masram & Mu'ah, 2015). A business's success is determined not only by capital and technology, but also by its ability to hire and retain competent employees. Human resource management must be able to develop strategies that focus on improving performance and retaining employees in the long term (Azhad et al., 2015).

One of the most widely discussed issues in human resource management is employee retention. Employee retention is a technique or strategy implemented by companies to retain employees within the organization for a specific period of time. A high retention rate reflects a low employee turnover rate, which ultimately has a positive impact on the company (Sumantri & Bahrin, 2022). By reducing employee turnover, companies can save a lot of costs, such as selecting, recruiting, and training new employees, which often requires a lot of resources (Bahrin & Yusuf, 2022).

The role of compensation is closely related to employee retention because compensation is one of the main forms of appreciation that employees receive for their contribution to the company (Qomariah, 2020). Employee appreciation and satisfaction can be enhanced through fair and competitive compensation, both in the form of salary and incentives, as well as non-financial compensation such as benefits and work facilities. When employees feel that the compensation they receive is not commensurate with the responsibilities and workload they bear, they are more likely to leave their jobs and look for other employment. Conversely, inadequate compensation is often the primary reason employees leave a company. Therefore, companies must make compensation management a key strategy for long-term employee retention (Pradita & Suwandana, 2019).

Job satisfaction is also considered a crucial factor in employee retention. Job satisfaction occurs when employees feel satisfied with their jobs as a whole, including the pay system, incentives, promotion opportunities, and coworker relationships (Nursaid et al., 2020), (Rusmayanti et al., 2022), (Mujiono et al., 2024), (Herlambang et al., 2024). Positive attitudes toward an organization tend to arise from employees who feel comfortable in their workplace, receive appropriate rewards, and have opportunities for career growth. If employees feel at home and want to stay with a company, they will want to stay. If employees are dissatisfied with their jobs, they can become dissatisfied and less loyal, ultimately leading to their departure (Rahman et al., 2025).

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Based on the things that have been explained, it is clear that efforts to retain employees depend on how the company manages compensation and job satisfaction for its employees (Hilya & Ferdian, 2024; Ningsih et al., 2024a; Prajodi & Amalya, 2024), (Gayatri et al., 2024), (Sari & Jemadi, 2024), (Nelson & Viona, 2024), (Aprilianti & Shofiyah, 2024), (Melisa et al., 2025), (Syah et al., 2025). These two factors shape employees' attitudes toward the organization and influence their decision to retain their jobs for a certain period of time. Companies can reduce the likelihood of turnover if they provide adequate compensation and a pleasant work environment. Based on this idea, this study was designed to investigate the literature on the relationship between job satisfaction and compensation on employee retention. Compensation does not always have a positive impact on retention, as suggested by (Fitria et al., 2024), (Kurniawan & Rizky, 2025), (Aprilianti & Shofiyah, 2024). The purpose of this study is to provide a better understanding of the role of both elements, namely job satisfaction and compensation, in maintaining retention related to the human resource management process in an organization.

METHODS

This research uses a qualitative approach with a literature study method. Literature study is research conducted by examining textbooks, scientific journals, research reports, undergraduate theses, dissertations, and other written sources relevant to the research problem (Sugiyono, 2019). Meanwhile, this research aims to study and understand the relationship between compensation, job satisfaction, and employee retention based on previous research findings. This method was chosen because it allows researchers to systematically and structuredly examine published concepts, theories, and research findings. This literature review allows researchers to gain a better understanding of what has occurred in previous research.

The research data sources were reference books and national scientific journals discussing human resource management and organizational behavior. Literature research was conducted using academic databases, primarily Google Scholar, using keywords such as compensation, job satisfaction, and employee retention. The literature used was selected based on several criteria, including the relevance of the topic to the research focus, the credibility of the source, and the recency of the publication to ensure the information obtained remains relevant to the current situation.

Data collection was conducted by identifying and selecting articles discussing the relationship between compensation, job satisfaction, and employee retention. The selected articles were then analyzed using content analysis techniques, examining the concepts, research findings, and conclusions presented by each author in depth. The results of this analysis were then synthesized to develop a general understanding of the trends in research findings and their implications for human resource management practices.

RESULTS AND DISCUSSION

The Relationship between Compensation and Employee Retention

The results of research conducted by Nathania & Wijaya (2024) Research shows that compensation is not always a factor that directly drives employee retention. Because each person has a different perspective on the compensation they receive, influenced by personal expectations, needs, and comparisons with other work environments or organizations, high company compensation is not necessarily the primary reason for employees to stay. As a result, compensation that is nominally high by a company may be perceived as inadequate by most employees.

Research conducted by Millena & Mon (2022) A different perspective is presented when viewed directly, showing that compensation has a positive correlation with employee retention. This means that providing adequate compensation can still encourage employees to stay with the company. However, the effect of compensation on retention is no longer significant when job satisfaction is used as an intermediary variable. The results indicate that job satisfaction indirectly influences employees' decisions to retain their jobs. This condition suggests that while compensation is important, its role becomes more complex when linked to employee psychological factors such as job satisfaction, which do not always align with retention decisions.

In line with these findings, research conducted by Mayangsari & Sari (2026) provides another perspective, specifically for Generation Z employees. The results showed that compensation did not have a significant impact on the retention of Generation Z employees in Surakarta City. This finding indicates that Generation Z does not solely consider compensation as the primary consideration for remaining with a company. Other factors beyond compensation, such as work flexibility, the work environment, the meaning of work, or opportunities for self-development, are suspected to play a more significant role in shaping their decision to remain with a particular organization.

Based on various previous studies, the relationship between compensation and employee retention does not show a completely uniform pattern. In some contexts, compensation can play a role in encouraging employees to stay, especially when the rewards are perceived as fair and commensurate with their contributions. However, several other studies have shown that

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high levels of compensation do not always guarantee employee retention. Differences in employee perceptions of compensation, generational backgrounds, and individual expectations make the influence of compensation relative. This condition suggests that compensation functions more as a supporting factor than a primary determinant in employees' decisions to remain with a company. Therefore, its role needs to be viewed in conjunction with other factors that contribute to employee attitudes and loyalty.

Furthermore, inconsistent findings regarding the effect of compensation on employee retention can be explained through equity and expectancy theory. Employees assess compensation not only based on the nominal amount received, but also compare it to their own contributions and the compensation received by other employees, both inside and outside the organization. When compensation is perceived as unfair or inconsistent with personal expectations, even high levels of compensation are insufficient to foster employee retention. Therefore, the effectiveness of compensation in encouraging retention depends largely on how employees perceive it, not solely on the amount the company provides.

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Research conducted by Aladawiyah & Asmadi (2025) Research shows that job satisfaction plays a strong role in influencing employee retention. The analysis shows that employees who are satisfied with their jobs tend to have a greater desire to stay with the company. This finding is supported by test results that show a significant relationship between job satisfaction and employee retention, both individually and when combined with internal communication factors. The combination of job satisfaction and internal communication has been shown to significantly contribute to explaining a company's ability to retain its employees. However, the research also indicates that employee retention is not solely determined by job satisfaction, as other factors beyond the variables studied influence employees' decisions to stay.

Research Widiani & Mas'ud (2023) This supports the idea that job satisfaction plays a significant role in influencing employee retention. A study found that if workers are satisfied with their jobs, they are more likely to remain with the company. Job satisfaction encompasses more than just feelings of satisfaction with the work performed; it also encompasses employees' assessments of their work environment, their relationships with their superiors and coworkers, and the appropriate organizational systems. Working conditions that meet employee expectations enhance the company's image and discourage them from seeking employment elsewhere. The results of this study indicate that job satisfaction plays a significant role in maintaining workforce stability in a company, as satisfied employees tend to be more loyal.

Research findings conducted by Ningsih et al. (2024) This study reaffirms the strong role of job satisfaction in influencing employee retention. The study's findings indicate that employees' perceived level of satisfaction is directly proportional to their likelihood of remaining with the company. When employees feel comfortable and satisfied with their jobs, both in terms of workload, the systems implemented, and the overall work environment, their commitment to the organization tends to increase. This leads to employees being less inclined to leave the company and seek employment elsewhere. These findings indicate that job satisfaction not only serves as a supporting factor but is also a crucial element in creating a sustainable working relationship between employees and the company. With increased job satisfaction, a company's employee retention efforts can be more effective and stable.

The results of the study indicate that job satisfaction consistently correlates strongly with employee retention rates. Job satisfaction is a factor that encourages employees to stay with a company, regardless of the type of organization and employee characteristics. When employees are satisfied with their jobs, their work environment, and the systems implemented by the company, they form a stronger bond with the company. This suggests that job satisfaction influences long-term working relationships and daily well-being.

Conversely, the similar results from all three studies indicate that job satisfaction plays a strategic role in employee retention. Employee satisfaction reduces the desire to leave the company, resulting in increased retention rates. The results indicate that, despite differing conditions and policies across organizations, higher levels of job satisfaction are associated with a higher likelihood of remaining with the company. These findings support the notion that job satisfaction is a critical component to consider when developing human resource management strategies, particularly when creating workforce stability.

Implications for Human Resource Management

The implications of this research's findings for human resource management indicate that employee retention efforts cannot rely solely on compensation policies. While compensation remains important, the study's findings indicate that job satisfaction is a more consistent factor influencing employees' decisions to stay. This requires the HR function to pay greater attention to non-financial aspects, such as job satisfaction, role clarity, healthy working relationships, and fair management systems. An approach focused on employee well-being and work experiences is becoming increasingly relevant in fostering long-term engagement.

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Furthermore, HR needs to design a holistic and sustainable employee retention policy. Improving job satisfaction can be achieved through providing career development opportunities, a transparent performance appraisal system, and open internal communication. By creating a work environment that meets employee expectations and needs, companies can not only reduce turnover rates but also build stronger employee loyalty and commitment. HR strategies oriented toward job satisfaction ultimately contribute to organizational stability and sustainable company performance.

These findings encourage HR to understand that employee retention policies need to be tailored to the characteristics and needs of diverse employees. Differences in perceptions of compensation and levels of job satisfaction indicate that a uniform approach tends to be less effective in retaining employees. HR is required to be more adaptive in designing employee management programs, including work flexibility, performance recognition, and the creation of a supportive work environment. By adopting a more responsive approach to employee needs, companies can build stronger and more sustainable working relationships, ensuring employee retention is not just short-term but also supports the organization's long-term sustainability.

CONCLUSION

Based on the discussion above, it is clear that the relationship between compensation and employee retention is inconsistent and heavily influenced by context and employee characteristics. In some circumstances, compensation still plays a role in encouraging employees to stay, especially when the rewards are perceived as fair and commensurate with their work contributions. However, findings from various studies also indicate that high compensation is not always the primary reason for employees to remain with a company. Differences in perceptions of compensation, generational background, and individual expectations make the effect of compensation on retention relative and not independent.

Meanwhile, job satisfaction demonstrates a more consistent and stronger relationship with employee retention. Employees who are satisfied with their jobs, work environment, and company systems tend to have higher engagement and a lower desire to leave the organization. Job satisfaction plays a role in shaping long-term employee loyalty and commitment, making it a crucial factor in maintaining workforce stability. These findings emphasize that employee retention efforts need to address the overall psychological aspects and work experience of employees, rather than focusing solely on compensation.

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