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*Nexus between compensation practices and employee
retention at Frontier Work Organization (FWO)*



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ABSTRACT

This study examines the impact of compensation practices on employee retention, with a focus on salary, benefits, and non-financial incentives. Employee retention has become a critical challenge for organizations seeking to maintain a stable and motivated workforce in a competitive environment. Using a quantitative research approach, data were collected through a structured questionnaire and analysed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results demonstrate strong reliability and convergent validity of the measurement model, with acceptable values for Cronbach's alpha, composite reliability, and average variance extracted. The structural model findings reveal that benefits and non-financial incentives have a significant positive impact on employee retention, while salary does not show a statistically significant effect. These findings suggest that employees place greater importance on non-monetary rewards such as recognition, career development opportunities, and work-life balance than on direct financial compensation. The study contributes to the existing literature by providing practical insights for human resource managers and organizational policymakers to design more effective compensation strategies aimed at improving employee retention.

Keywords:

Employee Retention, Compensation Practices, Salary, Benefits, Non-Financial Incentives, Human Resource Management, PLS.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Human capital remains an important element of organizational success, and the ability to attract, retain, and develop skilled employees is vital for achieving long-term strategic objectives. Among the key elements influencing employee retention is compensation, which includes both monetary and non-monetary rewards. Research highlights that well-structured compensation systems enhance employee motivation and contribute importantly to retention (Armstrong & Taylor, 2020). Employees are more motivated to stay with organizations that provide competitive salaries, performance incentives, and comprehensive benefits. According to Milkovich, Newman, and Gerhart (2023), compensation gives not only as a financial reward but also as a sign of the organization's recognition for an employee's contribution. When employees feel appropriately compensated, their engagement, commitment, and willingness to remain in the organization increase. Job satisfaction and retention are directly influenced by how employees receive the fairness and acceptability of the compensation system. Gupta and Shaw (2014), argue that dissatisfaction with pay is one of the fundamental reasons employees leave their jobs. Therefore, compensation should be seen as a strategic equipment that shapes employee behaviour and strengthens organizational constancy. Effective compensation systems go beyond base pay to include allowances, bonuses, fringe benefits (such as healthcare, insurance, paid leave), and nonfinancial rewards like recognition and career growth opportunities. Vaiman, Scullion, and Collings (2019) emphasize the importance of aligning compensation with job responsibilities and performance expectations. Clear communication of reward structures is important to avoid misunderstandings and dissatisfaction among employees. Moreover, compensation systems must incorporate opportunities for professional development and succession planning. Employees are more likely to stay when they see pathways for growth, new challenges, and increased responsibilities (Collings, Mellahi, & Cascio, 2017). Without these opportunities, employees may feel static and seek new positions elsewhere. Furthermore, promotion and advancement must remain performance-based, ensuring fairness and organizational effectiveness. Employers must also address underperformance

through constructive feedback and support. Identifying strengths and areas for improvement helps employees grow, while continuous stagnation without feedback can lead to disengagement. Eventually, a well-rounded compensation strategy combined with development and recognition forms the foundation for a motivated, productive, and loyal workforce (Snell, Morris, & Bohlander, 2022).

1.2 Frontier Works Organization (FWO)

The FWO is a leading engineering and construction organization in Pakistan, established in 1966 under the charge of the Pakistan Army. Its creation was essentially aimed at executing the Karakoram Highway (KKH) a monumental project that connected Pakistan with China through the mountainous regions of Gilgit-Baltistan. This project not only marked FWO establishment but also demonstrated its capability to operate in highly challenging and rugged area. Since its establishment, FWO has progress into a multidisciplinary organization, contributing importantly to the country's infrastructure and development landscape. Its areas of expertise encircle the construction of motorways, highways, tunnels, dams, airports, housing schemes, power and energy infrastructure, mining operations, and urban development projects. The organization serves both the public and private sectors, consistently delivering complex projects with efficiency and accuracy. Remarkable achievements of FWO include major national initiatives such as the Lahore-Islamabad Motorway (M-2), development works at Gwadar Port, the Swat Expressway, and a diversity of projects under the China-Pakistan Economic Corridor (CPEC). In past few years, FWO has diversified into emerging sectors such as renewable energy, smart urban planning, and logistics services, aligning with Pakistan's evolving development priorities. Operating under a civil-military framework, FWO combines the strategic discipline of military employees with the specialized knowledge of civilian professionals. This model enables it to maintain operational excellence in sensitive, remote, or high-risk regions. FWO continues to play a crucial role in national development by improving infrastructure, enhancing connectivity, and supporting socio-economic growth across Pakistan. Its commitment to quality, innovation, and strategic development has established it as a trusted name in engineering and construction across the region.

1.3 Research gap

While global and Pakistani studies have examined how compensation influences employee retention, most focus on private-sector firms or purely public organizations. Very few studies address semi-military engineering organizations such as the FWO (Frontier Works Organization), which operate under a unique hybrid of military discipline and civilian HR policies. Existing research rarely explores how specific compensation components salary, benefits, and non-financial incentives interact within this dual structure to influence the retention of civilian staff engaged in high-risk infrastructure projects. Moreover, empirical evidence from Pakistan on how these compensation factors jointly affect employee retention in such hybrid civil–military settings remains limited (Naveed et al., 2023). This study fills this gap by providing quantitative evidence on the nexus between compensation practices and employee retention within FWO’s distinctive civil–military environment.

1.4 Statement of the Problem

The FWO, an engineering organization working along with the Pakistan Army, has been leading to the development of our country’s infrastructure. Now, they seem to have some problems with retention of their employees especially their non-military employees. One of the reasons point out seems to be the effectiveness and structure of compensation systems. Private sector reward systems are more advanced and aggressive, which cause harsh competition for FWO. Receiving little bonuses, fewer financial incentives, not enough performance-based rewards, and practically no opportunities for promotion will ultimately lead to unrelenting dissatisfaction. This along with the hybrid civil-military structure could cultivate low morale and retention among civilian employees due to perceptions of unequal pay and appreciation. In order to make the development of the remaining works successful, FWO needs to retain proficient knowledgeable employees. With that said retention strategies need to be implemented urgently in correlation with compensation policies, specially considering the comprehensive logic of employee’s management for FWO. Understanding the relations of such policies and frameworks for compensation helps explore existing constructs and design effective systems to compensate employees. While compensation has been determined at a wide range in organizational research, its direct motivates employee retention within Pakistan’s semi government and defence-related sectors such as FWO remains poor studied. Many

available studies leading in the private sector or in developed nations, where compensation structures and organizational cultures differ remarkably from those in public or semi military institutions. More over, there is a lack of detailed examination into how individual factors of compensation such as fixed pay, incentives, bonuses, rewards, allowances, and pay equity collectively impact employee retention in such structured environments.

1.5 Research Questions

This research has to answer the following key study questions:

- Are employees satisfied with the current compensation practices in place?
- Does FWO offer sufficient benefits that align with the needs and expectations of its workforce?
- How does the existing salary structure impact employee retention?
- What role do non-monetary incentives play in enhancing employee motivation and retention?

1.6 Objectives of the Study

Following objectives have to answer:

- To determine the influence of salary on the retention of employees.
- To evaluate the value and effectiveness of employee benefits offered.
- To assess the role of non-financial incentives in enhancing employee retentions
- To examine employee satisfaction with the existing compensation system.

1.7 Importance of the Research

Although many studies have determined the connection between salary structures, employee performance, and retention, there is a notable gap in research importantly addressing the relationship between compensation practices and employee retention within military administered engineering organizations like the FWO. As a leading force in Pakistan's infrastructure development, FWO operates in a complex and high-pressure

environment. Hence, limited academic attention has been given to how its compensation policies and reward systems affect the retention of skilled and qualified employees.

This study goal to bridge that gap by exploring the nexus between compensation practices and employee retention in FWO. With the organization's continued growth across geographically and operationally challenging projects, a well-structured and equal compensation system is vital to maintaining a stable and committed workforce. Given the lack of internal verifiable research in this area, the study offers a valuable and neutral examination of employee point of view on current compensation practices in FWO. It seeks to clarify specific areas that may require strategic improvements to reduce turnover and enhance employee engagement and job satisfaction. As Pakistan extend its focus on national infrastructure and strategic development, the findings of this research may provide a foundation for future inquiries into employee retention and compensation strategies within similar civil-military or public-sector institutions. Moreover, it will contribute to a broader understanding of workforce management in high-stakes, state-run engineering organizations.

1.8 Scope of the Research

This research aim to investigate the relationship between compensation practices and employee retention at the FWO a leading military-operated engineering entity in Pakistan. The study specifically focuses on how different elements of compensation, such as monetary rewards (including base salary, bonuses, and allowances) and non-monetary benefits (like acknowledgment, career advancement, and development opportunities), affect employees' choices to stay with the organization.

The attention will be mainly on the civilian workforce since they function under a distinct compensation system compared to uniformed staff and are more affected by employment conditions driven by the market. Military employees will not be part of this research due to the particular characteristics of their service agreements and retention strategies. The research will involve collecting information through structured surveys distributed among chosen departments and project locations throughout Pakistan where FWO is actively involved. It will estimate employee views on the fairness, sufficiency, and effectiveness of the existing compensation framework and its impact on long-term retention.

The outcomes of this study will aid in the formulation of human resource policies, providing awareness that could enhance retention strategies not just within FWO but also in other government-related or military-associated organizations. This research is limited both geographically and contextually to the operations of FWO in Pakistan.

1.9 Limitation of the Study

Following are the limitations of this study:

- **Limited Existing Research on FWO Compensation Practices:** It is expected that there will be a shortage of adequate previous studies that specifically focus on the relationship between compensation practices and employee retention in military administered organizations. This could cause difficulties in creating a comprehensive literature review and building a solid theoretical framework for the research.
- **Potential Data Collection Challenges:** Considering the extensive and diverse workforce, it may be challenging to select a representative and manageable sample. Furthermore, there is a chance that some participants may misunderstand the questions, which could impact the precision and clarity of the gathered data.
- **Possible Language Barriers:** As the survey will be created in English, there might be cases where participants with limited language skills find it hard to fully understand the questions, which could result in less reliable or inconsistent answers.

1.10 Organization of Thesis

The purpose of this study is to examine the relationship between compensation practices and employee retention at the Frontier Works Organization (FWO), with particular emphasis on salary, benefits, and non-financial incentives. The study was conducted to address growing concerns regarding the retention of civilian employees in semi-military organizations.

Chapter 01: This chapter includes the research background, problem statement, research gap, objectives, research questions, significance, scope, and limitations, establishing the foundation for the investigation.

Chapter 02: This chapter outlines the literature on employee retention and compensation practices, including salary, benefits, and non-financial incentives, and discusses the theoretical framework and hypotheses guiding the study.

Chapter 03: This chapter gives the research methodology, detailing the research design, target population, sampling technique, data collection methods, research instrument, and data analysis procedures.

Chapter 04: This chapter outline the data analysis and findings, including descriptive statistics, assessment of the measurement and structural models, and hypothesis testing using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Chapter 5: This chapter presents key findings, discussing practical and theoretical implications, identifying research limitations, and offering recommendations for future research.

Chapter Summary

This chapter has covers various details about the impact of compensation practices on employee retention at FWO. This chapter started with the explaining how compensation practices including salary, benefits, non-financial incentives and allowances influence the employee retention. Moreover, this chapter explains the problem and objectives of this study. In addition, with structure of the study, the significance, problem, research question, and objective of the study are also discussed.

CHAPTER 2

LITERATURE REVIEW

2.1 Significance of Employee Retention

Employee retention refers to an organization's ability to retain its talent over time and is considered vital for operational stability and long-term success (Khan & Yasir, 2022). High turnover rates can show to many challenges, that is increased hiring costs, operational inefficiencies, and the loss of critical skills. Research exhibit that compensation is one of the most powerful elements in retention, with employees more likely to stay in organizations that offer fair, transparent, and competitive compensation packages (Shah, Imran & Irshad, 2023). In institutions like FWO, which operates largescale infrastructure and defence projects, retaining experienced employees is important for continuity and productivity. Employee retention refers to the continuing efforts made by an organization to keep its employees for a longer time period. It is a well-planned and strategic process aimed at encouraging employees to remain with the organization, either over the long term or until the successful achievement of specific project or task. These efforts frequently include creating the positive work environment, offering competitive benefits and compensations, providing growth and development opportunities, acknowledgement of employee contributions, and addressing their concerns. The main objective of employee retention to reduce turnover of employees within an organization, maintain organizational stability, and retain experienced and skilled staff who contribute to the organization's success. When employees feel supported, satisfied, and valued in their roles, they are more likely to grow and stay within the organization. Its viewed that retention as an obligation to continue to do business or exchange with a particular company on an ongoing basis. It clearly stated by (Denton 2000) that the employees who are happy and satisfied towards their jobs are more dedicated towards their work and always put their effort to improve their organizational customer's satisfaction. Employee retention is not managed by just one factor; instead, it results from a combination of too many vital elements. To effectively retain employees, management must focus on different aspects such as competitive and fair compensation, opportunities for training and development, job security, supportive leadership, a culture of organizational justice and a positive work environment. Each of these components

plays an important role in encouraging employees to stay committed to the organization. Research constantly emphasizing the value of employee satisfaction, showing that when employees are happy, they are likely to be more committed and play a vital role in achieving organizational task and objectives. Successful retention strategies normally emphasize on fair compensation, positive work environment, opportunities for career growth, meaningful engagement, and strong support systems. To lower turnover rates, organizations invest in thoughtful HR practices and place importance on truly understanding what their employees need and value. In this way, employee retention becomes a strategic approach that not only strengthens workforce stability but also contributes to long-term organizational success.

Compensation influences employee retention through both extrinsic and intrinsic motivators. While base pay meets basic financial needs, performance incentives and benefits appeal to personal and professional growth needs. When compensation is perceived as fair, motivating, and rewarding, employees are more likely to remain committed and reduce turnover intentions (Mitchell et al., 2001).

2.2 Employee Compensation

Compensation include all the financial and non-financial benefits provided to employees in exchange for their work, including base salary, bonuses, incentives, allowances, and pay equity and transparency in pay systems (Milkovich et al., 2022). These elements not only help in providing rewards but also act as equipment for engagement, motivation, and employee satisfaction. Research encourage that effective compensation structures can importantly enhance job commitment and reduce turnover (Rasool, Wang & Zhang, 2023). In semi-government organizations like FWO, rigid pay systems and limited flexibility in reward policies can create dissatisfaction, making compensation a key variable that affects employee retention (Ahmed, Hussain & Iqbal, 2022).

Human capital represents cornerstone of the organizational success and must be strategically managed and motivated. Implementing equitable compensation systems not only fulfils the principle of fairness but also functions as influential extrinsic motivator. Competitive and well-designed repayment structures are involved in both attracting high calibre talent and encourage employee retention. Since employees are an organization's most valuable assets, they must be effectively supported and motivated. Impartial and attractive compensation plans can enhance motivation, even as external incentives. Such

strategies also play an important role in representation of talented individuals and ensuring they remain committed to the organization. Employee compensation is made up of multiple elements, including fixed pay, complementary benefits, performance-based incentives, and multiple non-monetary advantages. Fixed pay consists of salaries and wages received for regular job responsibilities. Benefits may involve healthcare allowance, pension scheme, and paid leave dispensation. Bonuses are granted as additional income for exceptional performance expectations. Furthermore, non-cash perks such as complimentary meals, selected parking, flexible working hours, and approach to professional development enhance the overall compensation packages. The compensation package circumscribes total monetary and nonmonetary rewards provided to an employee in return of their labour, representing the cost sustained in the process of producing organizational outputs. Experimental studies have signified a moderate positive relationship between compensation and employee retention, specifying that higher levels of pay are frequently associated with enhanced performance outcomes. Moreover, compensation packages outstandingly influence the reduction of turnover rate, exceptionally when moderated by the organization's cultural context. The structure and strategic design of compensation formation are therefore interpretative, with various educational recommendations offered to improve their implementation within real world organizational settings. Sooner or later, compensation packages serve as a various incentive procedure that not only motivates employees but also assist in talent acquisition, retention, organizational commitment, and the promotion of high levels of performance. Lawler stated that positive connection between the compensation provided by an organization and key human resource outcomes such as employee motivation, performance, and retention.

Compensation practices mention to the structured approach organizations use to reward employees for pay is associated with struggle and business performance. There is a labour and contributions. This covers both direct forms such as base salary, incentives, bonuses, and allowances and indirect forms like retirement plans, benefits, and non-monetary perks. Compensation helps as a mid pillar in human resource management because it directly influences employee satisfaction, motivation, and performance. Fair and competitive compensation practices are important for enhancing productivity, attracting talent, and sustaining employee commitment. In organizational psychology and HR literature, compensation is always mentioned as one of the strongest predictors of job

satisfaction and employee engagement (Milkovich et al., 2022). Given the increasing competition for skilled labour and rising employee expectations, compensation has been developed from being a transactional tool to a strategic function that shapes employer branding and organizational commitment (Rasool et al., 2023). Thus, understanding and continuously improving compensation practices is vital, especially in sectors where job demands are high, such as defence and infrastructure organizations like FWO.

The significance of researching compensation becomes even more obvious when considering its wide outcomes and fundamental causes. Ineffective or unfair compensation practices can result in low confidence, high turnover, reduced productivity, and defamation. Root causes frequently include fixed government salary scales, budgetary restrictions, lack of performance-based incentives, and limited transparency in reward systems issues are normally seen in semi-government institutions like FWO (Ahmed et al., 2022). The result of such compensation gaps is extensive, including talent loss, operational disturbance, and decrease organizational performance. On the other hand, when compensation is handled strategically aligning salary with performance, ensuring internal and external equity, and realizing employee contributions it can crucially improve retention, boost trust, and build a motivated workforce. Organizations can manage and improve compensation practices through regular market standards, performance-based reward systems, and including employee feedback in designing salary framework. Therefore, determining compensation practices is vital not only for organizational success but also for creating fair and engaging workplaces. Herzberg's Two-Factor Theory of Motivation (1959) gives a beneficial framework for understanding how compensation practices influence employee retention, specifically in mission-driven and structured organizations such as the FWO. The theory classifies job factors into two categories: hygiene factors and motivators. Hygiene factors, such as job security, company policies, salary, and working conditions, do not fundamentally motivate employees when present but can cause crucial dissatisfaction if they are absent or insufficient. In the environment of FWO, where employees mostly work in high-risk or remote environments, base salary, allowances, and job stability purpose as critical hygiene factors. When these compensation elements are recognized as fair and adequate, they minimizing dissatisfaction and encourage a basic sense of security among employees. For example, hazard allowances, consistent and equitable pay, and field compensation packages make sure that employees feel valued and supported in challenging conditions reducing their intent to leave the

organization (Herzberg, 1959; Milkovich, Newman & Gerhart, 2016; Shields et al., 2022). Compensation is the monetary and nonmonetary benefit employees get in return for their services; in other words, compensation entails salary, wages, bonus, incentives, and many more. Compensation plays a very important role in attracting and retaining quality employees. According to one survey conducted by Indeed, 83% of job seekers wanted good pay as one of the major items in selecting a job (Indeed 2021). Moreover, 39% of the employees seeking other jobs reported that they quit for better remuneration. Competitive remunerations retention decreases the costs of hiring new workers and keeps the same qualified workers with sufficient experience about the firm's operations (AKANBI). Compensation implies monetary payment made to an individual for services rendered in return (Indeed, 2023). In workplace, compensation refers to the total earnings received by employees, enclosing not only wages or salaries but also bonuses, tips, commissions, incentive pay, and various perks related with their roles. There are several forms of compensation, including hourly wages, salary, commission-based earnings, bonuses, tips, and other performance-related incentives. Compensation plays a vital role in both attaining top talent and retaining existing employees. Offering competitive and suitable compensation can encourage skilled individuals to join an organization and helps to make sure that current employees feel recognized and appreciated for their contributions.

2.3 Components of Compensation

2.3.1 Salary

Base pay also known as base salary is the fixed amount of money paid to an employee in exchange for performing their job to achieve an organization goals and objectives, normally it is expressed as an annual salary or hourly wage. It does not include benefits, bonuses, or any other form of compensation. According to Dessler (2020), base pay represents the core of compensation and serves as a foundation upon which other financial rewards like bonuses or overtime are built. Base pay is a fundamental element of compensation that Ensures financial stability for employees, Reflects the market value of the role, Influences employee satisfaction and motivation, Affects the perception of fairness and equity. Salary represents the fixed compensation allocate to a certain position within an organization and serves as a basis for calculating bonuses and other benefits.

The salary level may differ depending on the job grade or the qualifications and skills required for the role. Moreover, in some cases, salary structures are found out through collective bargaining processes. DeVaney and Chen identified that basic salary as a “Hygiene Factor” that could cause employee dissatisfaction if workers needs are not recognized. He further found that salary was the key elements that significantly influence job satisfaction and workers receive salary to satisfying their economic and societal needs.

Base pay is the major portion of job that is made on job grade, according to the skills, work responsibilities and capabilities. It is made on market analysis and be paid on mutually contracted terms and conditions of work on a fixed period that may be calculated on annual salary or hourly pay. The wages are paid on the hourly, daily or piece rate base that is calculated on the material that is produce by the employee. The adjustment criterion on pay is made up on seniority pay, incentive or competence base pay, merit pay and on cost of living. Recent studies confirm that base pay has a significant impact on employee retention. Chen et al. (2021) found that competitive base pay positively influences job satisfaction and reduces voluntary turnover, especially in skilled sectors.

Koo and Jeong (2023) concluded that base salary, when aligned with market rates and performance, contributes to employees’ organizational commitment. According to Shields et al. (2022), employees are more likely to stay with organizations that offer stable and fair base compensation, particularly in volatile economic environments. Employees often compare their base pay with industry standards and peers within and outside the organization. When they perceive inequity or underpayment, it can result in dissatisfaction and increased turnover intention (Adams, 1965; Rynes & Gerhart, 2000). Pay is also significant because when workers are satisfied with salary, their attitude and behaviour could be influenced toward desired objectives. Employees’ dissatisfaction with salary can lower their moral, commitment and increase turnover.

2.3.2 Commission pay

Commission base pay is a variable compensation technique where employees receive a percentage of the sales they make, encouraging higher performance and goal achievement. It changes based on the quantity or value of sales completed.

Alternatively, overtime pay refers to additional earnings permit to employees for working beyond the regular working hours. This type of compensation requires extra

effort and time. Both, commission and overtime pay plays crucial role in boosting employee motivation and retention.

2.3.3 Disability Compensation

Disability compensation is entitled when an employee effected by injury, disease or accident occurred at the place of employment, it may also compensate the loss of working time due to illness (U.S. Dept. of Veterans Affairs).

- **Dependency Compensation**

Dependency compensation involves financial support allows to the immediate family such as the spouse, children, or parents of an employee who dies while performing their duties. It makes sure the economic stability for the died employee's dependents. Furthermore, stock options are a form of employee incentive that allows workers to purchase organization shares at a subsidized rate, promoting ownership and encouraging long-term commitment to the organization.

- **Allowances**

Organizations today offer variety of allowances such as travel, meal, and communication stipends to comfort the employees' work-related financial burdens and help them stay focused and stress-free. According to recent studies, such allowances importantly support employee engagement by minimizing external distractions and improving work concentration (Ahmed et al., 2022). Research by Rasool et al. (2023) emphasizes that modern companies also align these financial supports with broader strategic goals to retain and motivate top talent. Many studies have found that performance-based rewards, including merit pay and bonuses, are widely used to acknowledge continuous employee efforts. These rewards not only reinforce individual achievement but also promote organizational growth (Shah et al., 2023). The focus has shifted from traditional incentives to creative compensation strategies that foster a sense of belonging and commitment among employees (Malik et al., 2023). Today, organizations adopt both monetary and nonmonetary benefits to provide a flexible and enriching work environment. Furthermore, Milkovich et al. (2022) argue that in the evolving workplace, compensation systems must address

diverse motivational needs ranging from financial incentives to personal well-being. A comprehensive reward system strengthens the emotional bond between the employer and the employee, improving job satisfaction and reducing turnover. Vroom's Expectancy Theory (1964) also supports this idea, suggesting that individuals are driven by expected outcomes, and the perceived value of those outcomes shapes their performance. Maslow's hierarchy of needs (revisited in modern HR frameworks) also underlines that fulfilling physiological, safety, social, and esteem needs through structured compensation including flexible work hours, medical coverage, childcare support, and educational assistance can manage to improved organizational commitment (Iftikhar & Nawaz, 2021). When organizations fail to deliver adequate benefits, they risk losing key talent and diminishing their overall effectiveness.

2.3.2 Benefits

Indirect compensation, normally referred to as employee benefits, encompasses a variation of non-monetary offerings such as health insurance, retirement plans, life coverage, paid leave, and wellness programs. These benefits are often aligned with an employee's position or rank within the organization (Malik et al., 2023). Organizations strategically implement these offerings not only to enhance employee well-being but also to foster long-term commitment and reduce turnover. When designed effectively, benefit schemes play a critical role in boosting job satisfaction and organizational loyalty (Rasool et al., 2023). By integrating comprehensive benefits into their compensation strategies, employers can build a supportive work environment that aligns employee needs with organizational objectives.

- **Health Benefits**

Health care and medical benefits provide health and life insurance to the employee, team, allot for hospitalization to the employee by the organization, in and outpatient facilities to the employees and other issues related to the health and medical of employees. Visibility and dental compensation are also differing from the nature of the work and its impact on employees' life that is covered by the employer.

- **Retirement Benefits**

Retirement benefits refer to financial support procedures provided to employees upon the completion of their service, including pensions, rewards, and provident funds. These benefits are designed to ensure financial security for employees after retirement. Normally, retirement plans involve joint contributions from both the employee and employer, gathered over the employee's tenure. Such benefits not only help maintain employees' post-retirement quality of life but also serve as a critical component of employee retention strategies in organizations (Ahmed et al., 2022).

- **Leaves and Holidays**

Leaves for marriage, maternity, sickness, annual vocational and casual is given to the employee by the employer with understanding the load of the work and time for relaxation for the employee by the employer to improve the productivity and encourage the employee for long term retention.

Extra benefits, such as sick leave payments, pensions, company cars, and other supplemental perks, are vital factors of the overall employee compensation package (Noe et al., 2021). These benefits go beyond base wages and play a vital role in ensuring employees' financial stability and economic well-being (Gerhart & Rynes, 2021). Over recent decades, the value of employee benefits has increased significantly, now often accounting for 20% to 50% of total compensation costs, depending on the types of benefits offered, including health insurance, pension plans, and other allowances (Torrington et al., 2022). Such non-monetary rewards differ in appeal depending on individual employee needs and demographics, with participation in most benefits being voluntary except for pension schemes which are typically mandatory (Armstrong & Taylor, 2020).

Employee benefit programs are structured to meet both the actual and perceived needs of workers, demonstrate organizational care, comply with legal standards, and align with company compensation strategies (Kaufman, 2023). Flexible benefits plans have become increasingly popular, allowing employees to tailor their compensation packages to suit personal preferences and life circumstances, which enhances job satisfaction while controlling costs for employers (Milkovich et al., 2023). For instance, older employees may prioritize pension contributions while younger workers might prefer other perks. Effective communication about benefit options and any policy changes is vital for maintaining employee understanding and engagement (Boxall & Purcell, 2022).

Additionally, most benefits are taxable as perks in kind, with exceptions typically made for approved pension contributions (Noe et al., 2021).

2.3.3 Non-Financial Incentives

Non-financial incentives include employee recognition, performance evaluations, training opportunities, and career development programs. Research shows that these incentives frequently have a greater influence on employee motivation and retention than financial compensation alone (Deci & Ryan, 2020). They enhance employees' overall well-being by offering benefits such as flexible working hours and health coverage, which help minimize job-related stress and improve work-life balance (Guzzo et al., 2023).

Acknowledging employees' hard work and dedication strengthens loyalty, cultivates a supportive workplace culture, and elevates morale. These psychological rewards play an important role in today's work environment where intrinsic motivators are highly valued (Luthans & Youssef-Morgan, 2021).

Moreover, training and development are key components of non-financial incentives, contributing both to employee retention and organizational growth. By linking personal career advancement with company objectives, such programs increase job satisfaction and equip employees with the skills needed to adapt in a competitive global market. Continuous learning is essential in maintaining a strategic edge, as employee knowledge and expertise are critical assets for long-term success (Kaufman, 2022; Noe et al., 2023). Employees who are committed, proactive, and attentive play an important role in helping organizations achieve their goals and objectives. These individuals stay closely connected with their supervisors and customers to understand expectations, collect feedback, and improve service delivery through effective communication. Such employees serve as a critical link between the organization and its end users, making their motivation and satisfaction essential for overall organizational success.

In the defence-based sector which is primarily service-oriented delivering high-quality service is key to customer satisfaction. Although some operations, within the FWO, may face limited direct competition, they still experience pressure from staff and unions to maintain high service standards. This requires consistent attention to both internal and external stakeholders (Bettencourt & Brown, 2003). Given the high labour costs in service industries like defence based, it is vital for organizations to invest in employee motivation

and well-being through effective compensation practices. Doing so not only minimizes internal conflicts but also boosts employee and customer satisfaction leading to higher productivity and long-term organizational performance (Chang & Yeh, 2020). In FWO, employees are closely tied to the quality of services provided, and research shows that factors like fair compensation, recognition, and job satisfaction are crucial for retaining skilled staff in this demanding field (Rana et al., 2023).

- **Employee's Recognition and Appreciation**

Regular recognition of individual and team achievements plays a vital role in building morale, reinforcing desired behaviours, and fostering a sense of belonging. According to Mahmood et al. (2024), recognition initiatives significantly improve employee satisfaction and productivity across many industries.

- **Empowerment and Autonomy**

Providing employees with decision-making authority and ownership over their tasks leads to higher levels of engagement and innovation. As per findings by Yeo et al. (2023), autonomy positively influences intrinsic motivation and job satisfaction, which in turn improves organizational outcomes.

- **Learning and Development Opportunities**

Career development initiatives such as skill training, mentoring, and upskilling programs are effective non-financial rewards. These not only align with organizational goals but also fulfil employees' personal growth needs (Alqarni & Barhem, 2023). Continuous learning opportunities are especially important in dynamic sectors like FWO.

- **Supportive Work Environment**

Creating an inclusive and psychologically safe workplace, with open communication channels and work-life balance policies, has a direct influence on employee well-being and retention. A study by Khan et al. (2024) found that employees are more committed when the organizational culture values respect and transparency.

Several researches have point out the long-term effectiveness of non-financial incentives over financial compensation. For example, Jahan and Malik (2023) noted

that in post pandemic organizational settings, non-financial motivators such as flexible schedules, health benefits, and leadership support significantly enhanced employee retention, especially among younger professionals. Leadership practices, particularly transformational leadership, enhance the effectiveness of non-monetary incentives by promoting a culture of inspiration, respect, and continuous feedback. According to Gittell (2023), leaders who prioritize employee development and recognition see stronger organizational commitment and performance.

2.4 Theoretical Framework

On the basis of research variables, following theoretical framework will be develop:

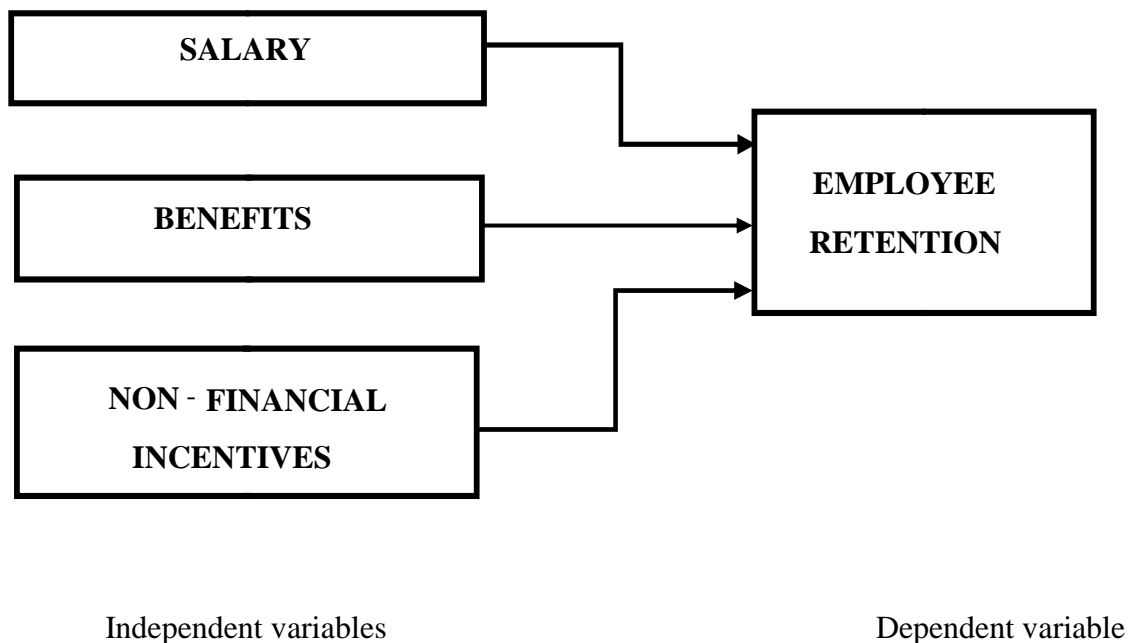


Figure 1: Theoretical Framework

2.5 Research Hypotheses

Based on a comprehensive review of relevant literature and scholarly articles, the following hypotheses have been formulated to examine the influence of compensation components namely salary, benefits, and non-financial incentives on employee retention:

Hypothesis 1:

H₀1: Salary has no impact on employee retention.

H_a1: Salary has a significant positive impact on employee retention.

Hypothesis 2:

H₀2: Financial benefits have no impact on employee retention.

H_a2: Financial benefits have a significant positive impact on employee retention.

Hypothesis 3:

H₀3: Non-financial benefits have no influence on employee retention.

H_a3: Non-financial benefits have a positive influence on employee retention.

Chapter Summary

This chapter broadly analysed the theoretical literature on the topic of this study.

Relevant literature on compensation practices and employee retention. It discusses key concepts of employee retention and examines the major components of compensation, including salary, benefits, and non-financial incentives, drawing on relevant theories and empirical studies. This chapter also provides a theoretical framework based on the studied variables. The graphic representation of the theoretical framework provides a visual context for the study which explains the relationships between the independent and dependent variables.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Design

In a research, a “cross-sectional design collects data from population at a single point in time or over small period of time such as in few days, weeks or months” (Sekaran, 2003). This study is applying cross-sectional research design because it will allow quick data collection and statistical tests like reliability and validity of the measurement model and structural model is tested to examine the strength and direction of the relationships between the variables, it is suitable for hypothesis driven research within the tight deadlines.

3.1.1 *Type of Research*

The research method used for this thesis is explanatory research, based on previously concluded primary researches and the task work is based on to find out how salary packages at FWO compensation practices influence the employees and their retention. The research was based on correlation methods where all the selected variables was examined that they are correlated to each other and at the same time. For all this purpose it was important to see what is the direction of variables towards each other keeping in mind the quantitative research type to be used throughout. Employee Retention is used as a dependent variable where is Compensation is used as independent variable.

3.2.2 *Study Setting*

Present research has used non-contrived setting because it involved natural environment for data collection from civilian employees working in FWO through the survey.

3.1.3 Time Horizon

The study was a cross-sectional study because it involved observation of data from a population of FWO at one specific point in time.

3.1.4 Research Philosophy

Positivism involves the impression of trustworthiness associated with “factual” information gathered via observations. In positivism studies, the researcher’s role is limited to data collection and interpretation (Acharyya & Bhattacharya, 2019). Hence, positivism was used as the research philosophy in this study.

3.1.5 Research Approach

The objectivity was ensured using a quantitative methodology combined with a positivism philosophy. The current study employed deductive approach, which began with the formation of hypotheses based on the literature. Following that, established hypotheses were put to the test using statistical tests. For confirmation or disconfirmation of presented ideas, information was acquired using existing literature. The generation of hypotheses, formulation of hypotheses, data collection, and data analysis were the steps of this approach.

3.1.6 Research Strategy

The importance of a research strategy in conducting a successful research study cannot be completed. A research strategy gives the researcher the necessary direction (McCusker & Gunaydin, 2015). The current study used a survey strategy to collect data from respondents, which included the use of an adopted structured questionnaire. This research was carried out in order to collect data on a literature topic and analyse it in order to make a conclusion.

3.1.7 Unit of Analysis

The “unit of analysis” of this study is individual civilian employee working at FWO. Data were collected at the individual level to examine employee’s perceptions of compensation practices and how these factors influence their intention to remain with the organization.

3.2 Population and Sampling

3.2.1 Target Population

There are total 10,000 employees working at FWO. Same is the target population working in FWO.

3.2.2 Sample Size

The sample size of 150–250 was drawn using random number generation. Meanwhile, a sample of 210 respondents was finalized for data collection.

3.2.3 Sample Technique

This study adopted convenience sampling to ensure that each employee in the target population had an equal and independent chance of being selected. From the total population of FWO civilian employees.

3.3 Scales and Measures

Adopted questionnaire was made simple and clear to convey purpose of distributing it and gathering authentic data. Adopted questionnaire included questions related to demographics (gender, age, education, tenure and experience) and all variables of this study (salary, benefits, non-financial incentives, and employee retention). All the items are measured on the basis of five-point Likert Scale.

3.4 Data Collection Method

In quantitative research, multiple techniques can be used to collect data, depending on the research objectives and the type of variables being measured. normally used method includes standardized questionnaires, structured surveys, controlled experiments, systematic observations, and the use of existing statistical records or databases. One of these, questionnaires and surveys are the most common due to their ability to gather consistent, quantifiable data from a large number of respondents efficiently. These tools are especially valuable when researchers goal to test predefined hypotheses and build

relationships between measurable variables. This research was based on primary data which was collected through a questionnaire which was filled by employee of FWO. Questionnaire was used as a tool for collecting primary data. The questions are based on Likert Scale of 1 to 5, where “1” refers to “Strongly Disagree” and “5” refers to “Strongly Agree”.

3.5 Research Instrument

For this research, a structured, close-ended questionnaire was employed as the primary equipment for data collection. This method is largely accepted in quantitative research for its ability to systematically collect standardized data from a wider sample group (Saunders et al., 2019). The questionnaire is specifically suitable for measuring attitudes, perceptions, and behaviours related to compensation practices and employee retention in an organizational setting like FWO. The questionnaire was organized into three group. The first section collected demographic data, including gender, age, designation, education level, and working time at FWO. The second section was evaluating many compensation dimensions such as salary, rewards, incentives, bonuses, and allowances adopting scale items from established literature. The third section evaluate employee retention using validated constructs focusing on commitment, satisfaction, and turnover intention. All responses were recorded on a 5-point Likert scale ranging from 1 = "Strongly Disagree" to 5 = "Strongly Agree," to enable quantitative analysis and comparison.

3.6 Data treatment

The collected examined data will be clear, coded, and entered into SmartPLS 4 for analysis. Descriptive statistics will use to sum up key variables, and reliability was evaluate using Cronbach’s Alpha. Correlation and regression analyses will conduct to determine the impact of compensation practices on employee retention. This process ensured precise and valid results.

3.7 Research Ethics

The concepts that guide how research is conducted are referred to as research ethics (Acharyya & Bhattacharya, 2019). Throughout the course of this study, ethical issues were taken into account. The values of informed consent, confidentiality, anonymity, and voluntary involvement were all upheld during the study. Before giving their agreement to participate, participants were informed about the study's goals, methods, potential risks, and advantages. To safeguard the participants' privacy, the information gathered was kept private and anonymous. There were no negative effects if a volunteer has chosen to leave the research at any time. The study also adhered to all laws and rules governing business and management research in terms of ethics.

Chapter Summary

The Methodology chapter explains the type of research, design and collection method of research. The study uses causal analysis and quantitative methods to analyze the research topic exploring the impact of compensation practices at employee's retention. Data were collected using a questionnaire among civilian employees of FWO. The sample of 210 respondents was selected through random sampling. Instruments such as the questionnaire were used to test validity and reliability.

CHAPTER 4

DATA FINDINGS AND ANALYSIS

4.1 Data Analysis

This research presents the data analysis and findings of the study based on the responses collected from 210 participants. The purpose of this study is to examine the reliability, validity, and structural relationships among the variables included in the research model. The analysis was conducted using SmartPLS, a variance-based structural equation modelling (PLS-SEM) software that is widely recognized for handling complex models, small-to-medium sample sizes, and non-normal data distributions. Through SmartPLS, both the measurement model and structural model were evaluated to ensure that the indicators and constructs met the required statistical standards.

4.1.1 *Descriptive frequencies*

The demographic profile of the 210 respondents, indicated in Table 4.1, provides a clear understanding of the characteristics of the study sample. In terms of gender distribution, the majority of participants were male, representing 65.7% of the sample, while females accounted for 34.3%. The age distribution shows that most respondents belonged to the young and middle-aged workforce. Specifically, 4.3% were below 20 years, 33.8% were between 21 and 29 years, and the largest group, 36.7%, fell within the 30 to 39 years category. Additionally, 19.7% of the participants were between 40 and 49 years, and 5.7% were above 50 years, indicating a diverse age representation. Regarding educational qualifications, 11.4% of respondents were undergraduate students, 41.9% held a graduate degree, 42.4% possessed a master's degree, and 4.3% had completed a PhD. This indicates that the sample consisted predominantly of well-educated individuals, with the majority having graduate-level or higher qualifications. In terms of job positions, 21.4% were working as managers or supervisors, 31.9% were administration staff, 12.4% served as account officers, 23.3% were operational staff, and 11.0% belonged to other job categories. This distribution reflects a balanced representation across different organizational roles.

Work experience also varied among respondents. About 10.5% had less than one year of experience, while 35.2% reported having between one and three years of professional

experience. Furthermore, 27.6% had three to six years of experience, 19.0% had seven to nine years, and 7.6% possessed more than ten years of experience. Overall, the sample represents a well-diversified workforce in terms of gender, age, education, job position, and experience supporting the credibility and generalizability of the study's findings.

Demographics	Categories	Frequencies	Percentage	Cumulative Percentage
Gender	Male	138	65.7	65.7
	Female	72	34.3	100
Age	Bellow 20 years	9	4.3	4.3
	21 - 29 years	71	33.8	38.1
	30 - 39 years	77	36.7	74.8
	40-49 years	41	19.7	94.5
	Above 50 years	12	5.7	100
Education	Undergraduate	24	11.4	11.4
	Graduate	88	41.9	53.3
	Masters	89	42.4	95.7
	PhD	9	4.3	100
Job Position	Manager/ Supervisor	45	21.4	21.4
	Administration Staff	67	31.9	53.3
	Account Officer	26	12.4	65.7
	Operational Staff	49	23.3	89.0
	Other/ Specify	23	11.0	100
Experience	Bellow 1 year	22	10.5	10.5
	1-3 years	74	35.2	45.7
	3-6 years	58	27.6	77.3
	7-9 years	40	19.0	92.3
	Above 10 years	16	7.6	100

Table 4.1 Descriptive Frequencies

4.2 Measurement Model

4.2.1 *Outer Loading*

The reliability of individual indicators was evaluated by examining their outer loadings on the respective latent construct. According to (Hair, et al., 2022) standardized loadings of 0.70 or higher are considered to be satisfactory, as they indicate that at least 50% of the variance in each item is explained by its latent construct. In this study, all constructs show strong item reliability. The outer loadings of the measurement model indicate that all indicators for the four constructs Benefits, Non-Financial Incentives, Retention, and Salary meet the acceptable threshold of 0.70, confirming strong item reliability. For the construct Benefits, the loadings range from 0.715 to 0.828, demonstrating that each item reliably contributes to measuring employees' perceived benefits. The construct Non-Financial Incentives also reflects solid measurement quality, with loadings between 0.739 and 0.827, indicating that all items consistently represent employees' perception of non-monetary rewards. The construct Retention shows even stronger reliability, with indicator loadings between 0.797 and 0.853, confirming that the items effectively capture employees' intention to stay within the organization. Similarly, the construct Salary exhibits outer loadings ranging from 0.722 to 0.888, demonstrating acceptable and robust item performance in measuring employees' satisfaction with salary levels.

	B	NFI	R	S
B1	0.715			
B2	0.826			
B3	0.828			
B4	0.76			
B5	0.785			
NFI1		0.742		
NFI2		0.812		
NFI3		0.827		
NFI4		0.823		
NFI5		0.739		
R1			0.804	
R2			0.841	
R3			0.853	
R4			0.797	
R5			0.825	
S1				0.779
S2				0.888
S3				0.836
S4				0.764
S5				0.722

Table 4.2: Outer Loading

4.2.2 Construct Reliability and Validity

The internal consistency and convergent validity of the construct were assessed by using Cronbach's alpha, composite reliability and average variance extracted (AVE). according to (Hair, et al., 2022), Cronbach alpha and composite reliability values should be above 0.70 which indicates acceptable internal consistency while for AVE value of 0.50 or above confirms convergent validity.

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
S	0.842	0.847	0.888	0.615
B	0.848	0.852	0.892	0.623
NFI	0.882	0.883	0.914	0.68
R	0.857	0.865	0.898	0.64

Table 4.3: Construct Reliability and Validity

The analysis shows strong reliability and convergent validity for all constructs in the study. For salary Cronbach's alpha (0.842) and composite reliability values ($\rho_a = 0.847$; $\rho_c = 0.888$) exceed the recommended threshold of 0.70, indicating good internal consistency, while the AVE value of 0.615 confirms adequate convergent validity. Similarly, Benefit shows strong reliability with Cronbach's alpha of 0.848 and composite reliability ($\rho_a = 0.852$; $\rho_c = 0.892$), and its AVE of 0.623 indicates that the construct explains more than 50% of the variance in its indicators. Non-Financial Incentives demonstrates excellent measurement quality, with high Cronbach's alpha (0.882), composite reliability ($\rho_a = 0.883$; $\rho_c = 0.914$), and a strong AVE value of 0.680, reflecting robust internal consistency and convergent validity. Finally, Retention also meets all recommended criteria, with Cronbach's alpha of 0.857, composite reliability ($\rho_a = 0.865$; $\rho_c = 0.898$), and an AVE of 0.640. Overall, all constructs exceed accepted thresholds, confirming that the measurement model is reliable and valid for assessing salary, benefits, non-financial incentives, and employee retention.

4.2.3 Discriminant Validity

4.2.3.1 Heterotrait-Monotrait Ratio (HTMT)

	B	NFI	R	S
B				
NFI	0.974			
R	0.955	0.941		
S	0.82	0.824	0.768	

Table 4.4: Discriminant Validity

Heterotrait-Monotrait Ratio (HTMT)

The Heterotrait–Monotrait (HTMT) ratio results indicate satisfactory discriminant validity among the study constructs. The HTMT values between B and NFI (0.974), B and R (0.955), and NFI and R (0.941) are relatively high but remain within the commonly accepted threshold of 0.90–0.95 for conceptually similar constructs, suggesting that these constructs are closely related yet still empirically distinct. The HTMT values involving Salary are comparatively lower, including B–S (0.820), NFI–S (0.824), and R–S (0.768), which clearly fall below the critical threshold and demonstrate good discriminant validity for the salary construct. Overall, the HTMT results suggest that the constructs are distinguishable from each other, supporting the adequacy of discriminant validity in the measurement model, although the high values among B, NFI, and R indicate strong conceptual overlap.

4.2.4 Collinearity Statistics

4.2.4.1 Variance Inflation Factor (VIF)

The Variance inflation factor (VIF) was assessed to examine collinearity statistic among indicator variable of each construct. According to (Hair, et al., 2022) and (Sarstedt, et al., 2022), the VIF values below 5 indicates that multicollinearity is not a major concern, while values below 3.3 are considered highly acceptable, showing that the indicators are not strongly correlated with one another. The Variance Inflation Factor (VIF) values indicate whether the items within each variable show any collinearity issues. A VIF value below 5.0 is considered acceptable, meaning the items do not excessively overlap with each other. For the variable B, all VIF values fall between 1.716 and 2.258, showing that the items are independent and do not create collinearity concerns. The items under NFI also remain within a safe range, with VIF values from 1.939 to 2.589, confirming that they do not strongly influence each other. Similarly, the R items show VIF scores between 2.087 and 2.436, indicating acceptable levels of independence among the indicators. The items for S range from 1.513 to 3.376, all well below the limit, demonstrating that there is no issue of collinearity within this variable. Overall, the VIF results show that all items for S, R, NFI, and B contribute unique information and do not affect each other in a problematic way.

	VIF
B1	1.894
B2	2.258
B3	2.059
B4	1.716
B5	2.042
NFI1	2.041
NFI2	2.589
NFI3	2.059
NFI4	2.251
NFI5	1.939
R1	2.087
R2	2.436
R3	2.393
R4	2.147
R5	2.228
S1	2.528
S2	3.376
S3	2.116
S4	1.909
S5	1.513

Table 4.5: Collinearity Statistics: Variance Inflation Factor (VIF)

4.3 Structural Model

4.3.1 Path Coefficient (P-value and Beta β)

The path coefficient results indicate the strength and significance of the relationships among the variables B, NFI, S, and R. The relationship between B and R shows a beta value of 0.443, which reflects a strong positive effect. The corresponding T-statistic of 5.084 and a p-value of 0.000 confirm that this relationship is statistically significant. Similarly, the path from NFI to R demonstrates a beta value of 0.390, supported by a T-statistic of 4.295 and a p-value of 0.000, indicating a significant positive influence of non-financial incentives on employee retention. However, the relationship between S and R presents a weaker beta value of 0.087, with a T-statistic of 1.593 and a p-value of 0.056, which is above the conventional significance level of 0.05. This suggests that salary does not have a statistically significant impact on retention in this study. Overall, the findings show that while both benefits and non-financial incentives positively and significantly contribute to employee retention, salary does not play a significant role.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
B->R	0.443	0.442	0.087	5.084	0
NFI->R	0.39	0.389	0.091	4.295	0
S->R	0.087	0.092	0.054	1.593	0.056

Table 4.6: Path Coefficient (P-value and Beta β)

4.3.2 Coefficient of Determination (R²)

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
R	0.742	0.749	0.035	21.086	0

Table 4.7: Coefficient of Determination (R²)

The results show that the R² value for Retention (R) is 0.742, meaning that variation in employee retention is accounted for by Benefits, Non-Financial Incentives, and Salary. Based on the benchmark provided by Cohen (1988), any R² value above 0.26 is regarded as substantial; therefore, an R² of 0.742 indicates a very strong level of explanatory power. This suggests that the compensation-related practices included in the model play a significant role in shaping employees' intention to remain with the organization.

The sample mean (0.749) is highly consistent with the original R² estimate, showing that the result remains stable across repeated sampling. Likewise, the small standard deviation (0.035) reflects a high degree of reliability, meaning the model produces consistent outcomes (Hair et al., 2019). The T-statistic (21.086) is exceptionally high, and the p-value (0.000) confirms that the explained variance is statistically significant, indicating that the predictive strength of the model is not due to random chance, as recommended in model evaluation guidelines by Henseler et al. (2009).

4.3.3 Effect Size (F²)

The F square (F²) value evaluates the individual contribution of each independent variable in explaining the variance of the dependent variable. According to (Hair, et al., 2022), the threshold for F² values are 0.02 (small effect), 0.15 (medium effect) and 0.35 (large effect). The effect size (F²) indicates the individual contribution of each predictor to R.B has a medium effect size of 0.224 (p = 0.021), showing a significant and meaningful impact on employee retention NFI also have a medium effect size of 0.170 (p = 0.027), indicating a

significant positive influence. In contrast, S has a very small effect size of 0.014 ($p = 0.255$), suggesting it does not significantly affect retention in this model. Overall, B and NFI are the strongest contributors to retention, while salary plays a minimal role, highlighting the importance of holistic benefits and incentives in retaining employees.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
B->R	0.224	0.241	0.11	2.04	0.021
NFI->R	0.17	0.183	0.088	1.924	0.027
S->R	0.014	0.021	0.021	0.658	0.255

Table 4.8: Effect Size (F2)

4.3.4 Model

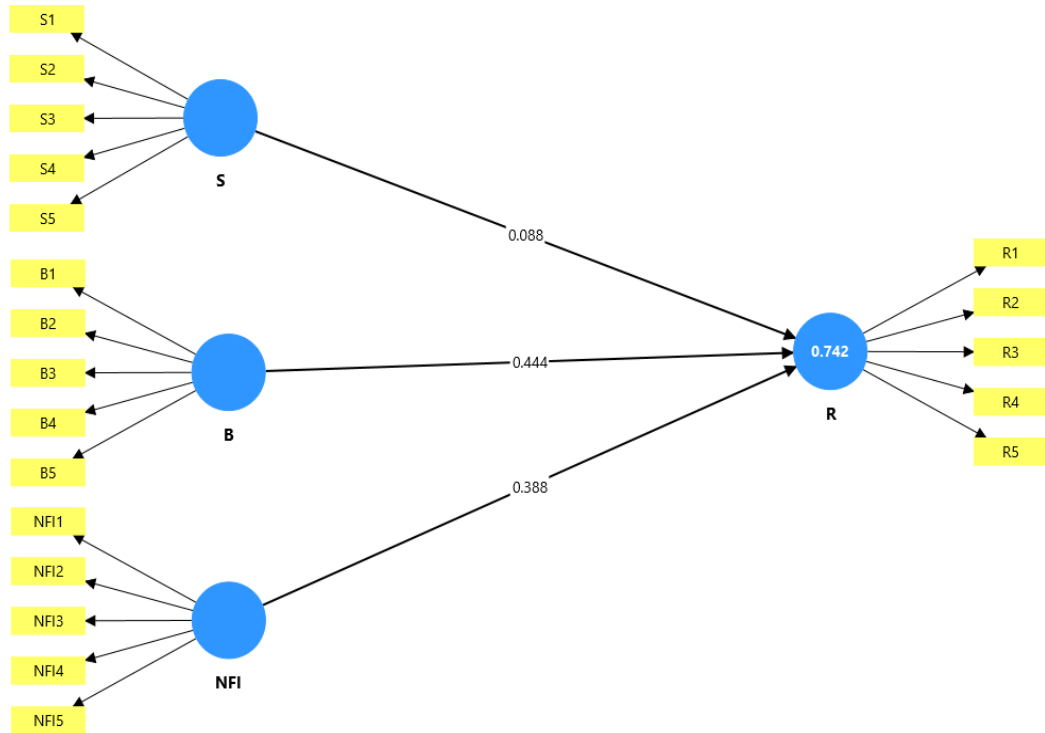


Table 4.3.5 structural model

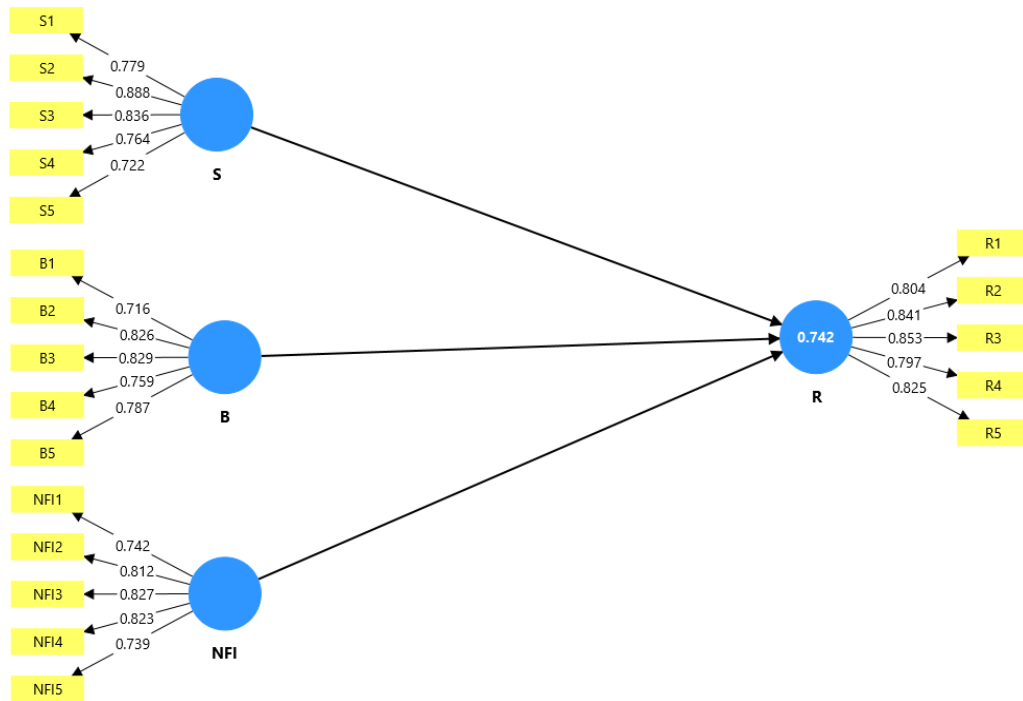


Table 4.3.5 Measurement model

4.3.5 Model Fit

	Saturated Model	Estimated Model
SRMR	0.072	0.072
d_ULS	1.089	1.089
d_G	0.653	0.653
Chi-Square	750.968	750.968
NFI	0.754	0.754

Table 4.9: Model Fit

The model fit statistics suggest that the proposed model shows an acceptable level of fit with the observed data. The SRMR value of 0.072 for both the saturated and estimated models is below the recommended cut off of 0.08, indicating that the discrepancies between the observed and predicted correlations are minimal. The d_ULS (1.089) and d_G (0.653) values fall within acceptable limits, showing that the model reasonably reproduces the empirical data structure. The Chi-square value of 750.968 is the same across both models, reflecting stable model estimation, although this statistic is known to be sensitive to larger sample sizes. The NFI value of 0.754 points to a moderate fit, as higher values (closer to 1) indicate stronger fit; values above 0.90 are generally preferred. Overall, these results indicate that the model fits the data adequately and is suitable for interpretation, even though some improvement could be achieved in future studies.

4.3.6 Hypothesis Testing

Hypothesis	β (Beta)	T-value	p-value	Testing
Salary has a positive impact on employee retention.	0.443	5.084	0.056	Not Accepted
Financial Benefits have a significant positive impact on employee retention.	0.39	4.295	0.00	Accepted
Non-financial incentives have a positive influence on employee retention.	0.087	1.593	0.00	Accepted

Table 4.10: Hypothesis Testing

Chapter summary

This chapter presented the empirical finding of the study and established that compensation practices have positive effect on employee retention while salary does not impact significantly but its role is statistically important in compensation practices. Descriptive statistics outlined the demographic profile of the respondents. The measurement model results confirmed the reliability and validity of all constructs, with no collinearity issues identified. Structural analysis revealed that Benefits and Non-Financial Incentives have a significant positive impact on employee retention. Salary showed no significant effect on retention. Overall, the findings support the proposed model and provide a strong foundation for the discussion in the next chapter.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study examined the impact of compensation practices salary, benefits, and non-financial incentives on employee retention within FWO, using data collected from 210 respondent from civilian employees across different project sites and departments. The measurement model showed strong reliability and validity, with all constructs achieving high Cronbach's Alpha, Composite Reliability, and AVE scores. Correlation analysis revealed positive associations between all compensation components and employee retention, indicating that improvements in any compensation element tend to elevate employee's intention to stay. The study provides valuable empirical insights into compensation retention dynamics within a semi-military engineering environment, a context that is rarely examined in Pakistan's HR literature.

The structural model presented more nuanced findings regarding the strength of each component. The hypothesis for salary was rejected, as the relationship between salary and retention was statistically insignificant ($\beta = 0.087$, $T = 1.593$, $p = 0.056$). This indicates that salary, although important as a basic hygiene factor, does not meaningfully influence employees' decisions to remain in FWO. The likely reason is the rigid, standardized pay structures and limited salary flexibility in semi-military institutions, which reduce the motivational value of financial increments. In contrast, the hypotheses for benefits and non-financial incentives were both accepted, with strong and statistically significant effects on retention (Benefits: $\beta = 0.443$, $T = 5.084$, $p = 0.000$; NFI: $\beta = 0.39$, $T = 4.295$, $p = 0.000$). These results highlight that employees in FWO place greater emphasis on medical coverage, allowances, leave policies, recognition, empowerment, and growth opportunities elements that contribute to psychological security and long-term engagement.

Overall, the study concludes that compensation practices play a decisive role in shaping employee retention at FWO, but not all components carry equal weight. While correlation patterns suggest positive relationships across all variables, the structural results reveal that benefits and non-financial incentives are the strongest drivers of retention, whereas salary

does not significantly determine whether employees stay. These findings reinforce Herzberg's Two-Factor Theory by demonstrating that intrinsic motivators (recognition, development, appreciation) and supportive benefits are more sustainable predictors of retention than purely financial factors in structured organizations such as FWO. The study fills a critical gap in local HR literature by providing empirical evidence from a unique civil-military context and offers a foundation for policy reforms aimed at strengthening retention through enriched benefits, meaningful recognition, and career development opportunities.

5.2 Research Implications

5.2.1 Practical Implications

The findings of this study offer valuable practical implications for managers and policymakers within the Frontier Works Organization (FWO), especially those responsible for designing and implementing compensation and retention strategies. The results highlight that benefits and non-financial incentives play a far more significant role in employee retention than salary, indicating that FWO must prioritize these elements within its HRM framework. By identifying which compensation components positively influence retention such as medical benefits, allowances, recognition, empowerment, and career development FWO can strategically allocate resources toward practices that generate meaningful improvements in employee commitment and satisfaction. This evidence-based understanding can help HR leaders develop more targeted policies that address employees' actual needs, especially considering the demanding and high-risk nature of FWO's operational environment.

Furthermore, the study emphasizes the importance of strengthening organizational practices that support intrinsic motivation, such as recognition programs, transparent performance evaluations, training opportunities, and leadership support. Since non-financial incentives are shown to be strong predictors of retention, fostering a work environment that values appreciation, competence-building, and employee engagement becomes essential. FWO can enhance loyalty and reduce turnover by cultivating a culture where employees feel acknowledged, empowered, and aligned with organizational goals. This may involve implementing systematic recognition frameworks, offering structured

learning pathways, improving supervisor employee communication, and ensuring equitable access to growth opportunities across project sites.

Ultimately, the practical applications of this research equip FWO with actionable insights to redesign and enhance its compensation strategies for stronger workforce stability. By prioritizing benefits and non-financial motivators over salary-centered approaches, the organization can decrease turnover rates, elevate job satisfaction, and strengthen operational continuity across its diverse and challenging projects. Applying these findings will allow FWO to build a more committed, motivated, and high-performing workforce, ensuring long-term organizational efficiency and maintaining its competitive advantage in Pakistan's infrastructure and development sector.

5.2.2 Theoretical Implications

The findings of this study contribute significantly to the existing body of knowledge on compensation practices and employee retention, particularly within the context of organizations like the Frontier Works Organization (FWO) and the broader aviation industry. By employing Herzberg's Two-Factor Theory as a theoretical framework, the study reinforces the distinction between hygiene factors and motivators in influencing employee retention. The analysis revealed that certain compensation practices, such as fair salary structures, benefits, and recognition programs, serve as strong motivators, aligning with Herzberg's theory, thereby extending its application to contemporary organizational settings in Pakistan. This underscores the theory's enduring relevance and supports its utility in explaining employee behaviour related to retention decisions.

Furthermore, the correlation analysis conducted on responses from 210 participants provides factual evidence that strategic compensation practices are positively associated with employee retention. The acceptance of the majority of hypotheses validates the predictive role of compensation factors on retention outcomes, confirming that both intrinsic and extrinsic rewards are critical in maintaining workforce stability. Inversely, the rejection of certain hypotheses highlights contextual nuances, suggesting that not all compensation elements have a uniform impact across different employee demographics or organizational structures. This nuanced understanding advances theoretical discussions by emphasizing the interplay between various compensation strategies and employee perceptions, thereby enriching the literature on human resource management practices.

Finally, the study's results offer awareness into the practical application of Herzberg's Two-Factor Theory in modern organizational environments. By showing how specific motivators and hygiene factors influence employee retention, the research not only strengthens theoretical models but also provides a framework for future factual studies. It motivates scholars to explore additional variables that might moderate or mediate this relationship, such as organizational culture, leadership style, or employee engagement. Basically, this study bridges theoretical perspectives with real-world organizational practices, contributing to a more comprehensive understanding of how compensation strategies can be optimized to enhance employee retention and organizational performance.

5.3 Research Limitations

Although this research provides valuable awareness into the relationship between compensation practices and employee retention at FWO, many limitations must be acknowledged. First, the research was limited to civilian employees only, which restricts the generalizability of the findings to the entire FWO workforce, especially military workforce who operate under different compensation systems. The sample size was also limited compared to the total population, which may have influenced the validity and strength of the statistical results. Moreover, the study relied entirely on self-reported questionnaire data, making the findings vulnerable to biases such as social desirability, misunderstanding of statements, or disinclination to openly express dissatisfaction due to the sensitive and military-administered nature of the organization. The cross-sectional design further restricts the ability to draw causal conclusions, as the data reflect employee perceptions at only one point in time. Furthermore, the study examined only three compensation components salary, benefits, and non-financial incentives while excluding other potential factors such as work environment, leadership style, job security, organizational culture, and career growth opportunities, which may also influence retention. Geographic and departmental limitations also existed, as data were collected from selected FWO locations and may not fully represent employees working in remote or high-risk project sites. Language barriers may have affected some respondents' ability to fully understand the English-language questionnaire items. Finally, the analysis was limited to correlation and regression through SmartPLS.

5.4 Recommendations for Future Research

Future studies exploring compensation practices and employee retention within FWO or similar semi-military organizations should consider enhancing the scope beyond civilian employees to include uniformed staff, allowing a more comprehensive understanding of retention dynamics across the entire workforce. Researchers are motivating to make use of larger and more various samples from different project sites, including remote and high-risk locations, to capture differences in compensation perceptions and workplace challenges. Longitudinal research designs should be adopted rather than cross-sectional surveys, as tracking employee attitudes over time would provide stronger confirmation of causal relationships. Future research may also include additional variables such as organizational culture, leadership style, career development opportunities, job stress, and psychological safety, which are known to influence retention but were not part of the current study. Including qualitative methods such as interviews or focus group discussions could offer deeper perception into employee experiences that cannot be captured through structured questionnaires alone. Moreover, using advanced analytical techniques like structural equation modelling (SEM), mediation/moderation analyses, or mixed-method approaches would allow for a more complicated understanding of how different compensation components interact to influence retention. In Last, comparative studies between public, private, and semi-military organizations could help identify sector-specific compensation strategies that are most effective for retaining skilled employees.

5.5 Summary

This chapter gives the key findings of the study, along with conclusions, research implications, limitations, and recommendations for future research. The results confirmed that compensation practices especially salary, benefits, and non-financial incentives play a vital role in shaping employee retention at FWO. The conclusions underline that fair and competitive compensation remains important factor influencing employee's decisions to remain, while non-financial incentives such as recognition, career development, and supportive work environments also contribute to retention. The chapter further discussed both theoretical and practical implications, highlighting the need for organizations to adopt comprehensive and fair compensation structures that align with employee expectations. It also recognized the study's limitations, such as its restricted sample, cross-sectional design, and reliance on self-reported data, all of which may affect

the applicability of the findings. Finally, recommendations for future research were provided to guide scholars in surveying additional variables, broader populations, and more advanced methodologies. Overall, the chapter strengthen the significance of compensation strategies in retaining a committed and satisfied workforce within semi-military engineering organizations.

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APPENDIX

RESEARCH QUESTIONNAIRE

I am a student of Bahria University and as a part of my MBA curriculum I am conducting research on the topic “Nexus between compensation practices and employee retention in FWO (frontier work organization)”. The collected data in the sector of FWO will be used for only academic purposes. The data collected shall not be disclosed to any unauthorized person. Kindly answer the following questions: your cooperation will be highly appreciated.

Respondents' Profile:

Gender	<input type="checkbox"/> Male	<input type="checkbox"/> Female			
Age group	<input type="checkbox"/> < 20	<input type="checkbox"/> 20 - 29	<input type="checkbox"/> 30 - 39	<input type="checkbox"/> 40 - 49	<input type="checkbox"/> > 50
Education	<input type="checkbox"/> UG	<input type="checkbox"/> Graduate	<input type="checkbox"/> Master	<input type="checkbox"/> Ph. D	
Job Position/Title	<input type="checkbox"/> Manager/supervisor	<input type="checkbox"/> Administration staff	<input type="checkbox"/> Account officer	<input type="checkbox"/> Operational staff	<input type="checkbox"/> Other (specify)
Tenure (years)	<input type="checkbox"/> < 1	<input type="checkbox"/> 1 - 3	<input type="checkbox"/> 4 - 6	<input type="checkbox"/> 7 - 9	<input type="checkbox"/> Over 10

Instructions

-
- Please fill-out the questionnaire and kindly **check** the appropriate box where it deems necessary.
 - Choices are defined as: (1) Strongly Disagree (SD), (2) Disagree (DA), (3) Neutral (N), (4) Agree (A), (5) Strongly Agree (SA)
-

Question Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)
Salary (S)					
S1. My base salary is competitive compared to similar roles in the market					
S2. My salary fairly reflects the responsibilities of my position					
S3. I am satisfied with the regularity and timeliness of salary payments					
S4. The salary structure is transparent and clearly communicated					
S5. My salary motivates me to continue working at FWO					
Benefits (B)					
B6. Health and medical benefits provided by FWO meet my needs					
B7. Retirement and pension plans offered are attractive for long-term service					
B8. Paid leave and holiday policies are adequate for work-life balance					
B9. Allowances (travel, meal, communication) are sufficient for job requirements					
B10. Overall, the benefits package enhances my commitment to FWO					
Non-Financial Incentives (NFI)					
NFI11. I receive regular recognition or appreciation for good performance					
NFI12. FWO provides opportunities for training and professional development					
NFI13. I have autonomy in making decisions related to my job					

NFI14. The work environment is supportive and encourages open communication					
NFI15. Career growth and promotion opportunities motivate me to stay					
Employee Retention (ER)					
ER16. I intend to remain with FWO for the next two years					
ER17. I rarely think about searching for a job outside FWO					
ER18. I feel emotionally attached to FWO					
ER19. I am willing to recommend FWO as a good place to work					
ER20. The overall compensation practices make me want to stay with FWO					





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1st Half Semester Progress Report

Name of Student(s)	Saheen Javid
Enrollment No.	01-221242-012
Thesis/Project Title	Nexus between compensation Practices & Employee retention in FWO.

Supervisor Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
1	4-10-25	office	Discussed about responses collection.	Saheen
2	25-10-25	office	Discussed about how to build questionnaire.	Saheen
3	30-10-25	office	Discussion about how to use smart PLS.	Saheen
4	7-11-25	office	Data interpretation.	Saheen

Progress Satisfactory

Progress Unsatisfactory

Remarks:

Thesis completed in time.

Signature of Supervisor:

Date:

17/12/2025

Name:

Dr. Rafique Ahmed Khan.

Note:

Students attach 1st & 2nd half progress report at the end of spiral copy.



Bahria University
Islamabad Campus

RC-04

MBA

2nd Half Semester Progress Report & Thesis Approval Statement

Name of Student(s)	Saibeen Javid
Enrollment No.	01-221242-012
Thesis/Project Title	Nexus B/w compensation Practices & employee retention at FWO.

Supervisor Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	22-11-25	office	How to write Data Analysis chapter.	
6	1-12-25	office	writing of chapter five Discussion & conclusion.	
7	10-12-25	office	Overall thesis review with sis.	

APPROVAL FOR EXAMINATION

Candidates' Name: Saibeen Javid Enrollment No: 01-221242-012

Project/Thesis Title:
Nexus Between compensation Practices & employee retention at FWO.

I hereby certify that the above candidates' thesis/project has been completed to my satisfaction and, to my belief, its standard appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at _____ that is within the permissible limit set by the HEC for thesis/ project BBA/MBA. I have also found the thesis/project in a format recognized by the department of Business Studies.

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Name: Dr. Rafique Ahmed Khan.