## Impact of compensation package on job attrition: A study on teaching professionals

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**Abstract:** This study seeks to describe the impact of compensation package on employees' job attrition. Data from a representative sample of North province secondary school teachers from Maldives (n = 206) were gathered through questionnaires. Multiple and Hierarchical multiple regression analysis were used in this research. This study found significant impacts of some of the components such as intrinsic compensation package on teachers' attrition. Also found that teachers' attrition can be minimized if schools put more emphasis on teachers' intrinsic benefit such as instructional supervision and promotion. Though extrinsic benefits such as salary, merit pay, increment and overtime pay have impact on teachers' attrition, it is not significant. This study will benefit the policy makers to find the ways of employees' attrition especially in the countries where attrition is high as much as 11% in Maldives.

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#### 1.1 Introduction

Teachers' attrition has been the vital issue in secondary schools of Maldives. It has been noticed that many teachers who have been working in the schools change the profession every year, and also it is reported that there is a significant number of novice teachers who resist working in the field after completing teacher training from the government sponsored training programs (Murasil, 2011). Besides, it is also reported that in February 2011, the parents of Kumundhoo School in the Upper North Province of Maldives closed the school and demanded for teachers and a local principal. Subsequently on March, the parents of Madaveli School in the South Central Province of Maldives also closed the school to get the attention of the ministry of education on an issue concerned with lack of quality teachers. Much recently, after few weeks, the parents of Dhandhoo also closed their school for the same reasons (Shifleen, 2011). Moreover, statistics of North Education Office shows that the attrition rate of the public schools in the province in last year was about 7% (Nasheed, 2011).

Teachers motivation towards teaching and their performance in the classroom has a substantial impact on students' performance in learning (Wheatcroft, 2005). Similarly, from research on understanding the relationship of teachers' motivation at work, it is found that intrinsic and extrinsic motivations correlate with teachers' jobs satisfaction, attrition and performance. A study conducted in Pakistan to understand the factors that affect teachers' motivation have been found a significant correlation with pay, promotion, working condition and the teacher characteristics (Khan, 2005).

Thus, to get the best performances of the teachers in the classroom and in the school activities,

establishment and implementation of an effective compensation system based on intrinsic and extrinsic factors is an important part of school management (Mondy, 2010). In this perspective, one of the recent and also the most important decisions taken by the government of Maldives with regard to teachers' motivation is the compensation reform brought in February 2009 (Ministry of Education, 2009).

Therefore, it is important to look into the details of the compensation system in terms of what are the needs of the teachers that are considered in the compensation system and how it is practiced to meet the teachers' needs. According to Rebore (2009) the compensation system is the total reward system of the school that is based on the intrinsic and extrinsic compensations. The intrinsic compensation system is based on the intrinsic motivation factors, and hence it contains the working environment, training and professional development, growth, supervision, communication pattern of the school, participation in decision making, the responsibility, accountability, autonomy and core-workers. It is normally believed that these rewards influence the intrinsic motivation and the teachers get these rewards from doing the job (Rebore, 2009, Dessler, 2011). Most of these intrinsic facilities exist in Maldivian secondary schools.

In addition to the fulfilment of intrinsic needs of the teachers, the accomplishments of the extrinsic needs are also important for teachers' motivation. Extrinsic needs are of two types-direct and indirect. Thus direct extrinsic needs of the compensation system contains the direct financial benefits such as wages, salaries and allowances that are crucial for teachers extrinsic motivation (Rebore, 2009; Dessler, 2011). Another important part of teachers' extrinsic

motivational needs is the nonmonetary benefit that is provided as indirect extrinsic compensations. This includes the indirect financial benefits such as the medical insurance, housing, transport, life insurance, leaves with pay and retirement benefits (Rebore, 2009). In this way, the extrinsic compensation system that is practiced in all the public schools of the Maldives are same and the present compensation package of Maldives is a package that was revised in the year 2009 and it comprises basic salary, service allowance, bonus and overtime pay (Ministry of Education, 2009). Beside these, special allowances for the teacher working away from the home island are paid for food and housing which is same to every teacher irrespective of experience, qualification and the living expenses of the island in which the teacher is working (Ministry of Human Resources, 2009).

With all these efforts, as the O level results of all the schools is just 32% and only in the North province itself there was 7% of teacher attrition (Nasheed, 2011), the issue of teacher motivation is apparently a serious concern in the schools of Maldives .

There is evidence from literature in the USA (Marlow et al. 1996; Coates, 2009), Philippines (Kukano, 2011), Pakistan (Iqbal & Khan, 2011) and Uganda (Allen, 2005; Harriet, 2008) that found working conditions, emotional aspects, interpersonal relationship, financial incentives such as higher salary, demographic characteristics, pay influence, training, personal and professional growth and fringe benefits are highly correlated with teachers attrition.

As there is not much research studies known to be conducted on teachers' attrition based on Maldivian education system, the issues with teacher attrition are in a mystery. Hence, to understand the issues related to teacher motivation and its correlation with the newly established compensation system in Maldives, it is inevitable to study the impact of the compensation systems of the schools in Maldives on teachers' attrition.

# 1.2 Aims and Research Questions

This study aimed at exploring the impact of the existing compensation system in the schools of North province in Maldives on teachers' motivation through the investigations of the variation and contributions of the direct extrinsic, indirect extrinsic and intrinsic compensations on teachers' attrition. Therefore, the following questions have been formulated to achieve the above aim.

#### **Research questions**

- 1. What is the impact of the existing direct extrinsic compensation systems in the schools on teachers' attrition?
- 2. What is the impact of the existing indirect extrinsic compensation systems in the schools

- on teachers' attrition?
- 3. What is the impact of the existing intrinsic compensation systems in the schools on teachers' attrition?
- 4. What are the most influential factors of the compensation systems on teacher's attrition?

#### 2.0 Literature Review

# 2.1 Compensation Package

Firstly it is important to look into the details of the compensation package in terms of what are the needs of the teachers that are considered in the compensation system and how it is practiced to meet the teachers' needs. According to Rebore (2009) the compensation system is the total reward system of the school that is based on the intrinsic and extrinsic compensations. Some of these are described below along with Maldivian contexts.

#### 2.1.1 Intrinsic compensation

According to Rebore (2009), the intrinsic compensation system is based on the intrinsic motivation factors, and hence it contains the working environment, training and development, professional growth, supervision, communication pattern of the school, participation in decision making, the responsibility, accountability, autonomy and coreworkers. It is normally believed that these rewards influence the intrinsic motivation and the teachers get these rewards from doing the job (Rebore, 2009).

## 2.1.2 Extrinsic Compensation

In addition to the fulfilment of intrinsic needs of the teachers, the accomplishments of the extrinsic needs are also important for teachers' motivation. Thus direct extrinsic needs of the compensation system contains the direct financial benefits such as wages, salaries and allowances that are crucial for teachers extrinsic motivation (Rebore, 2009; Dessler, 2011). Another important part of teachers' extrinsic motivational needs is the nonmonetary benefit that is provided as indirect extrinsic compensations. This includes the in direct financial benefits such as the medical insurance, housing, transport, life insurance, leaves with pay and retirement benefits (Rebore, 2009).

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## 2.2 Compensation Package and Teacher Attrition

According to Rebore (2009), the assumption of most of the human resource mangers about retention is the indirect compensation system which includes the paid leaves, medical insurance, housing, transport and also the retirement benefits. However, the research on

attrition is not a factor that is only correlated with indirect extrinsic compensation but also it is correlated with direct extrinsic compensation and intrinsic compensation.

Similarly, a study correlated with the notion of intrinsic compensation influence conducted in the USA revealed that the students' attitude and discipline, working conditions and lack of respect are the main reasons why the teachers left the job and it also found that the teachers who are considering to leave have indicated students' factors, emotional aspects and working conditions as the reasons (Marlow, Inman & Smith 1996). Another study which was based on 70 teaching staff in a college in Philippines indicated that teachers were not satisfied with their jobs and the retention was affected by working conditions and interpersonal relations (Kukano, 2011).

On the other hand, there are also studies that have found retention much of a direct and indirect extrinsic compensation related factor. On this basis a study which was conducted in the USA suggested that financial incentives (higher salary, money for graduate school) are more important than career growth incentives (opportunities for personal and Professional growth) to remain in the classroom (Coate, 2009).

Likewise, a study from Pakistan revealed that despite the efforts to attract highly educated teachers by the private sector, teachers are not genuinely interested in teaching and are prepared to leave teaching whenever other job opportunities they consider more financially rewarding become available (Iqbal and Khan, 2011). In addition to this, review of 91 studies on retention by Allen (2005) found that working condition, demographic characteristics, teacher factors and pay influence retention of the teachers. Likewise, a study in Uganda which was based on the causes of retention and also the factors related to performance of teachers found that training and a development and fringe benefit correlates with performance and teacher attrition (Harriet, 2008).

More importantly, there are also studies that reveal attrition is a factor that have the impact of all the three types of compensation system. In this way, a study conducted with the representative sample of fifty thousand teachers in USA to find out the causes of teacher turn over informed that opportunity for better teaching assignment, dissatisfaction with support from administrators. dissatisfaction with Workplace conditions, changed residence, better Salary or benefits, dissatisfaction with changes in job description or responsibilities, higher job security, dissatisfaction with opportunities for professional development are the main reasons for teachers to leave the job (Blazer, 2006). Another study conducted in USA regarding teacher turn over based on teachers perception found that many factors influence teachers to quite a job including low wages and poor supervisor support (Harris and Adams, 2007).

#### 2.3 Conceptual framework

Thus, based on the theories it is clear that the compensation package is the base of all motivation for the fulfilments of the needs and these needs are both intrinsic and extrinsic. Based on this conception, to improve the teacher motivation for attrition, the understanding of various aspects of compensation system in terms of what is important and how the needs meet teachers' expectation is crucial. For this reason, understanding of the impact of the extrinsic and intrinsic compensation systems and the practices on teachers' attrition is important to improve teachers' motivation in the school. According to previous studies in Maldives, as teachers' attrition is the growing problems, this study has emphasised on to find the most influential intrinsic and extrinsic needs on teachers' motivation that is crucial.

#### 3.0 Methodology

#### 3.1 Research Design

This study was totally designed and conducted on quantitative dimensions of research. Quantitative means of analyzing the impact of compensation system based on the selected variables was believed to be reliable as a number of other researches on the issue of compensation in various parts of the world (Mustafa & Othman, 2010).

Similarly, as Maldives is a country that practices a uniform compensation package in all its public schools, for clear understanding of its impact on attrition it requires the information and the experiences and perception of the teachers from as many schools as possible. This is normally achievable through a quantitative method of research studies. Besides, the quantitative method of research was used in this study because it is the most suitable method to determine whether the predictive generalization of a theory or a hypothesis is accurate (Creswell, 2009).

## 3.3 Research Tool

Based on conceptual framework, the independent variables of the study are the direct extrinsic compensation (Salary, merit pay Overtime pay), indirect extrinsic compensation (Fringe benefits and promotion) and intrinsic compensation (Working Environment, professional development and supervision). The dependent variable of this research is teacher attrition.

In this way to conduct the research in quantitative dimensions, a number of universal tools on compensation and job attrition have been evaluated. However, almost all the studies on the impact of compensation either were focused on a single variable such as job satisfaction or only on two variables such as job satisfaction and attrition and so on. Therefore, the

questionnaire which was used in this study was a tool specifically designed for this research.

The questionnaire was based on two main Sections. The Section A of the questionnaire intended to collect the demographic data of the respondents and the research sites, Section B contained the questions required to collect the data for intrinsic, direct and indirect extrinsic compensation and teachers' job attrition.

## 3.4 Validity and Reliability

As this study was based on a newly designed tool, as suggested by Cohene et al., (2007), the standards and criteria of validity and reliability are based on the authenticity and *credibility* of the data was assessed. In this perspective, as the data for this research was collected from the teachers currently working in the secondary schools of Maldives, a pilot study has been conducted using 10% of the sample from the schools in the same region (15 teachers in Maldives). The pilot study which intended to test the internal consistency of the items in the questionnaire was tested using Cronbach alpha which is frequently referred as the alpha coefficient of reliability. According to Neuman (2010), if the alpha value is greater than 0.6, the internal consistency of the items is reliable. Thus, the alpha value of the reliability test of the questionnaire which was designed to collect data for this research is 0.783 (0.783, p>0.5.)

Therefore, the questionnaire designed to collect data for this research was reliable for further studies. Similarly, the validity of the questionnaire was pursued through the validation of the experts in University of Malaya.

## 3.5 Population and Sampling

As mentioned, this research was based on the primary data (questionnaire) which was collected from the teachers working in the secondary schools in the north province of Maldives. The participants of this research were the teachers who are currently working in the schools in the north province of Maldives and 206 teachers from 15 different schools have participated in the study. As suggested in Gay (1996) the dimension of collecting the data was based on 20% of a representative sample of 1000 teachers. The research sites and respondents have been selected through simple random sampling. In addition to this, several criteria have been considered to select the research sites such as to obtain data from schools which are at different rankings of achievement, the socio economic background of the school community, the students enrolment and teachers population.

#### 3.6 Data Analysis

The analysis of the Data to find the answers to the research questions was processed through SPSS 19. The first three questions of the research were to find out the impact of direct extrinsic compensation, indirect

extrinsic compensation and intrinsic compensations on teachers job attrition. These three questions were analysed through multiple regression analysis. The other question of the research was to find out the most influential components of the compensation system on teachers job. This question was analyzed through three steps Multiple Hierarchical Regression analysis to find the most influential factors.

In this way, the significance level of `f.` value was used to determines the reliability of the model, the ` $R^2$ ' value was used to interpret the multiple correlation coefficient level, ' $\beta$ ' value was used to determine the predictor power or the coefficient value (individual impact of each independent variable on dependent variable) and `t' value was used to determine the significance of ' $\beta$ ' value as explained by (Field,2005). In addition to this the significant values that was used in the interpretation of regression models was standard value of P < 0.5 and the interpretation of respondent frequency levelling test was based on the counts and percentage.

#### 3.7 Scope and the limitation

This was a study based on data collected from 206 teachers who are currently working in 15 different schools in the North province of Maldives that represent a sample of 1000 teachers working in the region. Thus, this study has identified very important facts related to the compensation system of the 20 schools in the North Province of Maldives and its impact on teachers' motivation. In this way, it has revealed the impact of the direct extrinsic compensation system, indirect compensation system and the extrinsic compensation system on teachers' attrition. Thus, utilization of this information would facilitate to improve teachers motivation in the selected province. However, as this study was based on the schools in the North province of Maldives, the generalization of the study to the schools in the entire country might not be possible. In addition to these, the study was based on quantitative measures and the findings of this research are limited to the design of this study.

## 4.0 Findings and Discussion

In the process of the collection of data, the questionnaires were sent to the schools through a colleague and the completed questionnaire was also returned to the researcher through the same person. However, the researcher was able to keep a close contact with the officials of the concerned schools via internet and was able to get up-to-date information on how the completion of the questionnaires was progressed. Out of 250 questionnaires sent to the schools, 230 have been returned and questionnaires have been screened for the appropriateness of completion and out of 230 completed questionnaires, 206 have been selected for the study as the rest of the

24 questionnaires had some questions not attended or partially attended. Table 4.1 shows the details

demographic description of the respondents.

### 4.1 Respondents' Demography

Table 4.1 Demographic frequency Table

| <b>Educational Qualifications</b> | Percent | Valid Percent | Descriptive          | N   | Sum     | Mean |
|-----------------------------------|---------|---------------|----------------------|-----|---------|------|
| Certificate of teaching           | 4.9     | 4.9           | Respondent           | 206 | 5356.00 | 52.0 |
| Advance Certificate of teaching   | 14.6    | 14.6          | School               | 206 | 489.00  | 4.7  |
| Diploma of teaching               | 23.3    | 23.3          | Age                  | 206 | 263.00  | 2.5  |
| Bacholor of Degree                | 9.7     | 9.7           | Gender               | 206 | 143.00  | 1.3  |
| Becholor of Teaching              | 6.8     | 6.8           | Maritial Status      | 206 | 129.00  | 1.2  |
| Becholor of Education             | 7.8     | 7.8           | Highest qulification | 206 | 502.00  | 4.8  |
| Maters in Education               | 1.9     | 1.9           | Deignation           | 206 | 107.00  | 1.0  |
| Masters Degree                    | 30.1    | 30.1          | Valid N (listwise)   | 206 | 5356.00 | 52.0 |
| PhD Degree                        | 1.0     | 1.0           |                      |     |         |      |
| Total                             | 100.0   | 100.0         |                      |     |         |      |

# 4.2 Compensation Package and Teachers' Attrition

**Table 01: The Coefficients Values of Attrition** 

| Unstandardized Co-efficients                      | Stadardized Co-efficients |      |       |      |
|---|---------------------------|------|-------|------|
|   | SE                        | В    | T     | p    |
| (Constant)  | .316                      |      | 8.982 | *000 |
| Direct Extrinsic Compensation                     | .063                      | .055 | .551  | .583 |
| Intrinsic Compensation                            | .061                      | .488 | 4.702 | *000 |
| Indirect Extrinsic Compensation                   | .074                      | 056  | 501   | .617 |
| $\Delta R^2 = .218 (21.8 \%, p < 0.05) *p < 0.05$ |                           |      |       |      |

The table 4.2 presents the coefficients and multiple coefficient correlation results of the Multiple Regression Analysis conducted to examine the impact of compensation on Teachers' attrition. According to the results, the compensation systems of the schools have a significant multiple correlation coefficient power with the teachers intended attrition ( $R^2$ = .218, p<0.05). Thus it shows that the direct extrinsic compensations, indirect extrinsic compensation and intrinsic compensation have a reasonable power on teachers intended attrition with a significant contribution or the predictor power of 21.8 percent of the total change in teachers intended attrition. Hence, this regression model results in a significantly reliable prediction about the impact of the compensations on teachers intended attrition.

However, according to the beta ( $\beta$ ) values of the compensation systems as in Table 4.2, the individual impact of direct extrinsic compensations, indirect extrinsic and the intrinsic compensations on attrition are distinct one another. The standard deviation of all the variables as in Table 4.2 is 0.689 and  $\beta$  value of direct extrinsic compensation as in the table able is 0.055. Hence, the coefficient power of the direct extrinsic compensation is positive and in the improvement of 0.055 standard deviations in direct extrinsic compensation, it will positively impact to change the variations on attrition to 0.689 standard

deviations. On the same basis, the improvement of 0.488 standard deviations in intrinsic compensation will result a positive variation of 0.689 standard deviations on the outcome. However, as the results in 4.2 shows, the  $\beta$  of direct extrinsic power is (- 0.056) negative and therefore, it is negatively related to attrition. Further, as it can be seen in table 4.2 the `t` values of both the direct extrinsic { t(-.501) = -.05} and the indirect extrinsic compensation { t( .551) = .055} are not significant from zero, but intrinsic compensation is very significant { t(4.7 02) = .488, p,<0.05)}.

Likewise, Blazer (2006) and Mustafa & Othman (2010) in their empirical review based on the research found that many intrinsic factors correlates with attrition, but extrinsic factors are less significant on teacher attrition.

# 4.3 Most influential factors of compensation packages on attrition

The Table 4.3 shows the results of the multiple hierarchical regression analysis conducted to find out the most influential variables of the compensation system on teachers reported attrition. Variables included in the influence analysis were basic salary, increment, merit pay and overtime pay of direct extrinsic compensation, the fringe benefits and promotion of indirect extrinsic benefits and working environment, instructional supervision, and professional development of intrinsic compensations

Table 4.3 The coefficient Values of most influential Compensation factors on attrition

|       |                          | Unstandard | dized Coefficients | Standardi<br>Coefficie |        | <del>-</del> |
|-------|--------------------------|------------|--------------------|------------------------|--------|--------------|
| Model |                          | В          | SE                 | В                      | T      | P            |
| 1     | (Constant)               | 3.520      | .264               |                        | 13.324 | *000         |
|       | Promotion                | .139       | .058               | .259                   | 2.384  | .019*        |
|       | Fringe benefits          | .008       | .010               | .088                   | .815   | .417         |
| 2     | (Constant)               | 3.523      | .267               | 111111                 | 13.210 | .000*        |
|       | Promotion                | .147       | .062               | .274                   | 2.372  | .020*        |
|       | Fringe benefits          | .002       | .011               | .026                   | .221   | .826         |
|       | OT                       | 013        | .044               | 039                    | 299    | .765         |
|       | Merit pay                | .064       | .041               | .189                   | 1.567  | .120         |
|       | Increment                | 077        | .042               | 243                    | -1.835 | .070         |
|       | Salary                   | .019       | .014               | .199                   | 1.378  | .172         |
| 3     | (Constant)               | 2.800      | .329               |                        | 8.501  | .000*        |
|       | Promotion                | .059       | .064               | .110                   | .930   | .355         |
|       | Fringe benefits          | 005        | .011               | 053                    | 458    | .648         |
|       | OT                       | 011        | .042               | 032                    | 258    | .797         |
|       | Merit pay                | .057       | .040               | .167                   | 1.412  | .161         |
|       | Increment                | 034        | .043               | 108                    | 804    | .424         |
|       | Salary                   | 003        | .015               | 028                    | 186    | .853         |
|       | Working Environment      | .054       | .060               | .119                   | .900   | .370         |
|       | Supervision              | .147       | .072               | .264                   | 2.030  | .045*        |
|       | Professional Development | .074       | .064               | .148                   | 1.144  | .256         |

 $\Delta_1$  F= 5.36 (F=5.36), p<0.05),  $R^2$ = .097 (10.07 %, p<0.05);  $\Delta_2$  F= 3.00 (F=3.00), p<0.05),  $R^2$ = .158 (15.80 %, p<0.05);  $\Delta_3$  F= 3.88 (F=3.88), p<0.05),  $R^2$ = .273(27.3 %, p<0.05);\*p<0.05.

As seen in table 4.3, all the three models in the hierarchy have a significant `f` values and therefore, all the three models are significant. Similarly, as in table 4.3, it shows that the multiple correlation coefficients of all these predictor variables positive {( $\Delta_1$  R<sup>2</sup>= .097 (10.07 %, p<0.05),  $\Delta_2$  R<sup>2</sup>= .158 (15.8 %, p<0.05),  $\Delta_3$  R<sup>2</sup>= .273 (27.3 %, p<0.05)}.

However, as seen in Table 4.3, overtime pay {t (-.258) = -.032, salary {t (-.186) = -.028} and increments  $\{t (-.804) = -.108\}$  of direct extrinsic benefits are found to be negatively correlated, only merit pay  $\{t (4.84) = .480\}$  has been found to have a positive influence on the outcome from the direct extrinsic compensation. Likewise, while the fringe benefits of indirect extrinsic variables have a negative relation with the outcome, promotion has a positive predictor power  $\{t (1.412) = .167\}$ . On the contrary, all the tree of variables of intrinsic compensation, supervision  $\{t (2.03) = .264\}$ , working environment  $\{t \}$ (.900) = .119 and professional development {t (1.444) = .148} have a positive influence on the outcome. According to this model out of the entire variables tested, only promotion  $\{t (.930) = .110, p < 0.5\}$  and supervision  $\{t (2.03) = .264, p < 0.5\}$  have been found to have a significant impact on teachers intended Attrition.

Therefore, the most influential components of

the compensations on teachers' attrition are promotion and supervision. This finding is also in line with other studies (Marlow et al., 1997) in the USA and Kukano (2011) in Philipines. Thus, it concludes that teachers do not consider salary, overtime pay, merit pay and increments as deciding factors to stay or leave the school. Hence, this has an implication to the Herzberg's postulation of the hygiene factors and motivating factors about teacher motivation (Mondy, 2010; Ofoegbu, 2011).

#### 5.0 Conclusion and implication

This research has revealed invaluable information about the compensations systems of the schools and its impact on teacher motivation. In this manner, one of the important information that was found in the research is that teachers are happy about the compensation systems in general, but the intrinsic compensation of the school is crucial for teachers' job retention. Further, the promotion and supervision are found to be the major influences on the growing concern of the teachers' attrition in many schools in the province.

In conclusion, both direct extrinsic and intrinsic compensations have a positive but insignificant impact on teachers intended attrition whereas, the impact of intrinsic compensation is

considerably significant on teachers intended attrition. Promotion and supervision have been found the most influential compensation factors on teachers intended attrition. The major influences on teachers intended attrition have been found to be supervision and promotion. As the majority of the teachers working in the schools are with diploma and degree level, the chances for promotion are very limited in the existing compensation policy. Hence, revision of the promotion policy and the development of a proper career path that leads to progress throughout the career are inevitable. In addition to this, changing the focus of the instructional supervision from a summative and judgmental process to a formative and a developmental process is important to facilitate the teachers to overcome the problems and challenges faced in teaching and in the classroom management to reduce attrition.

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