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The Role Of Compensation Management In Enhancing Employee Retention In The Banking Sector At Pesawar, Khyber Pakhunkhwa

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Abstract

This study examined the role of compensation management in enhancing employee retention in the banking sector of Khyber Pakhtunkhwa, with specific focus on selected private sector banks operating in Peshawar. Compensation management is considered an important human resource practice because it influences employees' satisfaction, motivation, loyalty, and intention to remain with an organization. The study focused on compensation management, salary structure, incentives, bonuses, fairness, competitiveness, transparency, performance-based rewards, and recognition as key factors affecting employee retention. A quantitative research design was adopted for the study. The total number of employees in the selected banks was 230, out of which 165 employees working in officer, operations, customer service, cash, sales, and branch management positions were considered as the target population. Using Yamane's formula, a sample size of 117 respondents was selected. Data were collected through a structured questionnaire consisting of demographic questions and Likert-scale items related to compensation management and employee retention. The data were analyzed through SPSS version 22 by applying descriptive statistics, reliability analysis, correlation analysis, regression analysis, independent sample t-test, and ANOVA. The findings showed that compensation management had a positive and significant relationship with employee retention. Salary structure also had a significant effect on retention, while incentives and bonuses showed a positive but comparatively weaker influence. The study concluded that fair, competitive, transparent, and performance-linked compensation practices can improve employee loyalty and reduce turnover intentions. The study recommends that private sector banks should strengthen salary fairness, improve reward transparency, and design practical incentive systems to enhance employee retention.

Keywords: Compensation Management, Employee Retention, Salary Structure, Incentives And Bonuses, Banking Sector, Peshawar

Introduction

Compensation is one of the most important elements of human resource management because it represents the financial and non-financial returns that employees receive in exchange for their services, skills, time, and contribution to organizational goals. In simple terms, compensation refers to all forms of rewards provided to employees, including salary, allowances, bonuses, incentives, benefits, recognition, and other monetary or non-monetary facilities. In the banking sector, compensation is particularly important because bank employees work in a highly competitive, target-oriented, and service-driven environment where job pressure, customer handling, performance targets, and regulatory responsibilities are common. Therefore, compensation is not only a payment mechanism but also a strategic tool for motivating employees, improving job satisfaction, and reducing turnover intentions. Previous research has shown that compensation, work environment, training, and satisfaction are closely linked with employee performance and retention outcomes (Adi et al., 2020; Yee, 2024). Employee retention refers to an organization's ability to keep its employees for a longer period by creating conditions that encourage them to remain with the organization. Retention is important because frequent employee turnover increases recruitment costs, training costs, workload pressure, and service disruption. In the banking sector, employee retention is especially significant because experienced staff develop customer relationships, product knowledge, regulatory understanding, and institutional loyalty over time. Employee retention can be understood in different forms, including voluntary retention, where employees willingly remain in the organization due to satisfaction and commitment; involuntary retention, where employees stay because of limited alternatives; functional retention, where valuable and skilled employees remain; and dysfunctional retention, where less productive employees continue while competent employees leave. For banking institutions, functional retention is most desirable because it helps maintain service quality, operational stability, and customer trust.

Compensation management refers to the systematic process of designing, implementing, and controlling pay structures and reward systems in a fair, competitive, transparent, and performance-oriented manner. It includes salary planning, wage administration, bonuses, incentives, allowances, benefits, promotions, recognition, and performance-based rewards. Effective compensation management ensures that employees are paid according to their job responsibilities, qualifications, experience, market value, and performance contribution. The major types of compensation include direct compensation, such as basic salary, bonuses, commissions, and incentives; indirect compensation, such as medical benefits, retirement benefits, insurance, paid leave, and allowances; and non-financial compensation, such as appreciation, career development, job security, flexible working conditions, and recognition. In modern banking organizations, compensation management is not limited to salary payment but also includes strategic reward planning to improve motivation, satisfaction, and organizational commitment (Chaudary et al., 2025; Alamgir et al., 2024).

The methods and rules of compensation management usually depend on organizational policy, labor regulations, industry standards, market competition, internal equity, employee performance, and affordability. A good compensation system should follow the principles of fairness, consistency, transparency, competitiveness, and performance linkage. Fairness means that employees performing similar work with similar responsibilities should receive equitable compensation. Competitiveness means that the organization's pay structure should be comparable with other banks and financial institutions to prevent employees from leaving for better opportunities. Transparency means that employees should clearly understand how salary increments, bonuses, allowances, and promotions are determined. Performance linkage means that rewards should be connected with measurable performance, target achievement, quality of service, customer satisfaction, and organizational contribution. Studies have highlighted that reward systems, training opportunities, supportive leadership, and job satisfaction can significantly influence employees' workplace attitudes and performance (Abbas et al., 2020; Abdul Jabbar et al., 2023). Compensation management has a direct impact on employee retention because employees are more likely to stay in an organization when they perceive their compensation as fair, competitive, and linked with performance. In private sector banks, employees often compare their salary, benefits, incentives, and career rewards with employees of other banks. If the compensation system is perceived as unfair or inadequate, employees may experience dissatisfaction, reduced commitment, and increased turnover intention. On the other hand, a well-managed compensation system can improve employee loyalty by fulfilling financial needs, recognizing effort, and strengthening psychological attachment with the organization. Fayaz et al. (2020), in the context of Khyber Pakhtunkhwa, found that factors influencing turnover intentions among bank employees require serious managerial attention. Similarly, Yee (2024) emphasized that compensation practices, job satisfaction, and employee retention are closely connected.

Fayaz, Amin, and Khan (2020) examined factors affecting employees' turnover intentions in Khyber Pakhtunkhwa, Pakistan, with a case study of Habib Bank Limited in the Peshawar region. Their study is directly relevant to the present research because it focuses on banking employees within the same regional context. The study highlighted that turnover intention is influenced by organizational and job-related factors, which indicates that banks must pay attention to employee satisfaction, motivation, and retention strategies. Their findings support the argument that compensation-related policies can play an important role in reducing employees' intention to leave.

Yee (2024) studied compensation practices, job satisfaction, and employee retention in CB Bank PCL. The study found that compensation practices are closely linked with job satisfaction and employee retention. This research is important for the present study because it shows that compensation is not only a financial matter but also an important driver of employee attachment and loyalty. When employees believe that salary, benefits, and rewards are fair and suitable, they are more likely to remain committed to their organization. This supports the proposed relationship between compensation management and employee retention.

Adi, Soetjipto, and Supriyanto (2020) investigated the mediating role of job satisfaction in the relationship between compensation, work environment, and employee performance in Indonesia. Their study found that compensation has an important influence on job satisfaction and employee outcomes. Although the study was conducted outside Pakistan, it provides useful theoretical support for the idea that compensation management improves employee attitudes and performance. The findings are relevant to the banking sector because satisfied employees are generally more motivated to continue their employment and contribute positively to organizational goals.

Alamgir, Khan, and Qureshi (2024) examined the impact of training and development and organizational culture on job satisfaction and employee retention among young bank employees. Their study is useful because it focuses on employee retention in the banking sector and shows that employees' decision to stay is influenced by HR practices and workplace conditions. Although their focus included training and culture, the study supports the broader view that effective HR management practices contribute to employee retention. Compensation management, as a core HR practice, can therefore be expected to have a strong role in improving retention among banking employees.

Chaudary, Sheikh, and Khan (2025) investigated the impact of HR practices on employees' performance in the banking sector, with job satisfaction as a mediating variable. Their study suggests that HR practices improve employee outcomes when they create satisfaction and motivation. This is relevant to the present study because compensation management is one of the most important HR practices. A fair and transparent compensation system can increase satisfaction, strengthen employee commitment, and reduce turnover intention. Therefore, the literature indicates that compensation management may significantly enhance employee retention in private sector banks.

In the banking sector of Khyber Pakhtunkhwa, particularly Peshawar, compensation management is an important area of study because private sector banks operate in a competitive labor market where skilled employees may shift from one bank to another due to better salary packages, incentives, promotions, or working conditions. Although banks usually offer formal salary structures and incentive schemes, employees may still feel dissatisfied if compensation is not transparent, performance-based, or competitive. Therefore, studying the role of compensation management in enhancing employee retention can provide useful evidence for bank managers, HR departments, and policymakers. The present study focuses on selected private sector banks in Peshawar to examine how compensation management, salary structure, incentives, bonuses, fairness,

Advance Journal of Econometrics and Finance
Vol-4, Issue-1, 2026

competitiveness, transparency, and recognition contribute to employee retention. The problem addressed in this study is that private sector banks in Peshawar face challenges related to employee retention due to increasing competition, workload pressure, performance targets, and employee expectations regarding fair and competitive compensation. Although compensation is considered a major factor in retaining employees, limited localized evidence is available regarding how compensation management affects employee retention in the banking sector of Khyber Pakhtunkhwa. The significance of the study lies in its practical contribution for bank management and HR departments, as the findings may help them design better salary structures, fair incentive systems, transparent reward policies, and performance-based compensation practices to reduce turnover intentions and improve employee loyalty.

Objectives

To examine the role of compensation management in enhancing employee retention in selected private sector banks of Peshawar, Khyber Pakhtunkhwa.

To assess the influence of salary structure, incentives, bonuses, fairness, competitiveness, transparency, performance-based rewards, and recognition on employee retention.

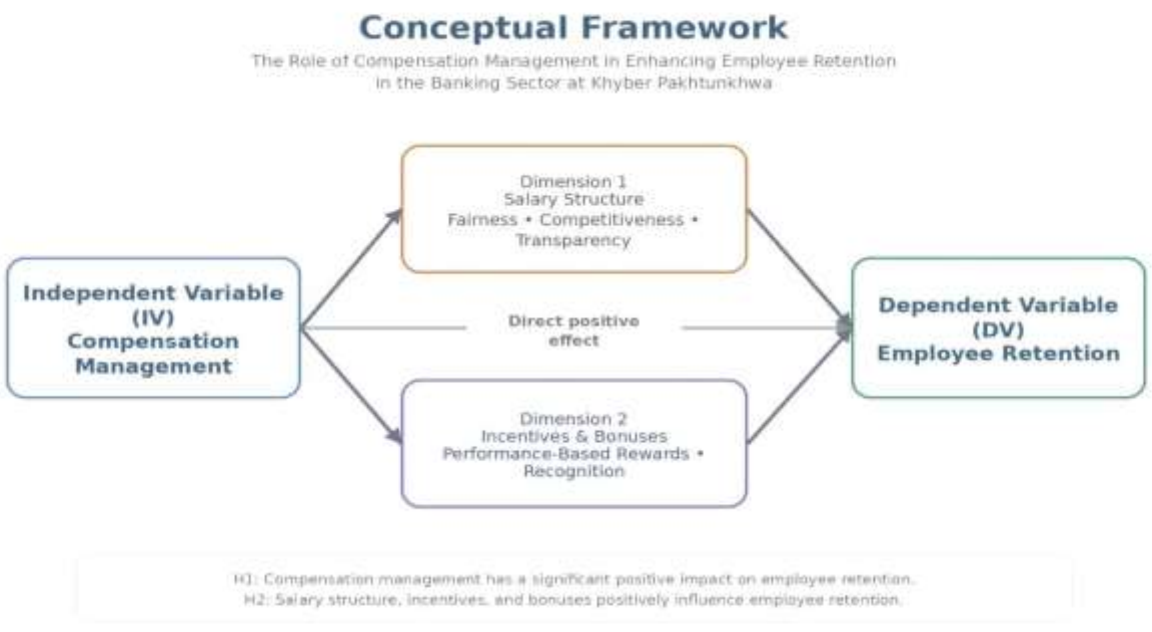
Research Questions

What is the role of compensation management in enhancing employee retention in selected private sector banks of Peshawar?

How do salary structure, incentives, bonuses, fairness, competitiveness, transparency, performance-based rewards, and recognition influence employee retention?

Conceptual Framework

The conceptual framework of the study is developed to examine the relationship between compensation management and employee retention in the banking sector. In this study, compensation management is treated as the independent variable, while employee retention is treated as the dependent variable.



Source: Developed by the researcher based on Fayaz et al. (2020), Yee (2024), Adi et al. (2020), Alamgir et al. (2024), and Chaudary et al. (2025).

Compensation management includes the policies and practices through which banks provide salaries, benefits, incentives, bonuses, and recognition to employees. Previous studies have suggested that compensation practices influence employees' satisfaction, motivation, performance, loyalty, and intention to remain in the organization (Yee, 2024; Adi et al., 2020). Therefore, it is assumed that effective compensation management can positively influence employee retention in private sector banks.

Salary structure is considered an important dimension of compensation management. It includes fairness, competitiveness, and transparency. Fairness refers to employees' perception that they are paid equitably according to their work, responsibility, qualification, and experience. Competitiveness refers to the extent to which the salary offered by the bank is comparable with other banks and similar organizations. Transparency refers to the clarity of rules related to salary increments, promotions, pay grades, and allowances. When employees perceive the salary structure as fair, competitive, and transparent, they are more likely to feel satisfied and remain with the organization. Studies have shown that compensation and HR practices contribute to job satisfaction and employee outcomes (Chaudary et al., 2025; Abbas et al., 2020).

Incentives and bonuses are also important components of compensation management. These include performance-based rewards, target achievement bonuses, recognition, and other financial or non-financial rewards given to employees for their contribution. In a banking environment, where employees often work under sales targets, customer service pressure, and operational responsibilities, incentives can motivate employees to perform better and remain loyal to the organization. Recognition also strengthens employees' sense of value and belonging. Prior literature supports that reward-related HR practices, supportive leadership, and job satisfaction influence employee behavior and retention-related outcomes (Abdul Jabbar et al., 2023; Alamgir et al., 2024). Therefore, the conceptual framework assumes that salary structure and incentives/bonuses, as dimensions of compensation management, positively affect employee retention.

Methodology

This paper adopted a quantitative research design to examine the role of compensation management in enhancing employee retention in the banking sector of Khyber Pakhtunkhwa. The study area was selected private sector banks operating in Peshawar. Eight (0) private sector banks were selected for the study, such as Meezan Bank, Allied Bank, United Bank Limited, Habib Bank Limited, Bank Alfalah, Faysal Bank, MCB Bank, and Askari Bank. These banks were selected because they have active branches in Peshawar, formal HR policies, structured salary systems, and employees working in different operational and customer service roles. The number of banks was selected depending on accessibility, permission, and respondent availability. The total number of employees working in the selected private sector banks of Peshawar was 230. However, all employees were not directly relevant to the objectives of the present study. Therefore, the study focused only on those employees who were working in banking positions directly linked with operational, customer, sales, cash, officer-level, and branch management responsibilities. On this basis, the target population of the study consisted of 165 employees, including employees working as officers, operations staff, customer service officers, cash department staff, sales staff, and branch management personnel. The study used a multi-stage sampling technique. In the first stage, selected private sector banks operating in Peshawar were chosen purposively because they had active branches, formal HR policies, structured compensation systems, and employees working in relevant banking positions. In the second stage, only those employees were included who belonged to officer, operations, customer service, cash, sales, and branch management positions. This stage also followed purposive sampling because these employees were considered most suitable for providing relevant information about compensation management and employee retention. In the third stage, respondents were selected from the eligible population through proportionate sampling, so that employees from different job categories could be fairly represented in the final sample. The sample size was calculated from the target population of 165 employees. The study used the Yamane sample size formula at a 95% confidence level and 5% margin of error: Data was collected through a structured questionnaire. That was distributed via GoogleForm. The questionnaire consisted of Section A: six demographic questions, including gender, age, qualification, designation, work experience, and bank name/category. Section B contains eight Likert-scale questions related to compensation management. Further Likert-scale items were measured employee retention, salary structure, and incentives/bonuses. The salary structure items focuses on fairness, competitiveness, and transparency, while the incentives and bonuses items focused on performance-based rewards and recognition. Responses were measured on a five-point Likert scale ranging from strongly disagree to strongly agree. The collected data was analyzed through SPSS version 22. Descriptive statistics were e used to analyze demographic information and general response trends. Reliability analysis through Cronbach’s alpha was applied to test the internal consistency of questionnaire items. Correlation analysis were used to examine the relationship between compensation management and employee retention, while regression analysis was applied to determine the impact of compensation management, salary structure, and incentives/bonuses on employee retention. As required, independent sample t-test or ANOVA was also used to compare responses across demographic groups such as gender, experience, or designation.

Results and Analysis:

Descriptive Analysis of Demographic Information

The demographic information of the respondents was analyzed to understand the background characteristics of the study participants. The total sample consisted of **117 respondents** selected from private sector banks operating in Peshawar. The demographic variables included gender, age, qualification, designation, work experience, and bank name.

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percentage
Gender	Male	78	66.7%
	Female	39	33.3%
Age	21–30 years	44	37.6%
	31–40 years	48	41.0%
	41–50 years	20	17.1%
	Above 50 years	5	4.3%
Qualification	Bachelor	42	35.9%
	Master	58	49.6%
	MS/MPhil	14	12.0%
	Other	3	2.6%
Designation	Officer	26	22.2%
	Operations	22	18.8%
	Customer Service	20	17.1%
	Cash	18	15.4%
	Sales	17	14.5%
	Branch Management	14	12.0%
Work Experience	Less than 1 year	10	8.5%
	1–3 years	31	26.5%
	4–6 years	34	29.1%
	7–10 years	25	21.4%
	Above 10 years	17	14.5%
Bank Name	Meezan Bank	16	13.7%
	Habib Bank Limited	16	13.7%
	United Bank Limited	15	12.8%
	Allied Bank Limited	15	12.8%
	MCB Bank	14	12.0%
	Bank Alfalah	14	12.0%
	Faysal Bank	14	12.0%
	Askari Bank	13	11.1%

Table 1 shows that the majority of respondents were male, representing 66.7% of the total sample, while female respondents represented 33.3%. In terms of age, most respondents belonged to the 31–40 years category, followed by the 21–30 years category, showing that the sample mainly consisted of young and middle-career banking employees. Regarding qualification, most respondents had a master’s degree, followed by bachelor’s degree holders, indicating that the banking workforce included educated employees capable of understanding compensation and retention-related issues. In terms of designation, the highest proportion of respondents were officer-level employees, followed by operations, customer service, cash, sales, and branch management staff. The work experience profile shows that most respondents had 4–6 years or 1–3 years of experience, which suggests that the sample included employees with practical exposure to banking compensation policies and retention-related factors. The respondents were fairly distributed across eight selected private sector banks in Peshawar.

Descriptive Statistics of Study Variables

Table 2: Descriptive Statistics of Main Study Variables

Variable	N	Mean	Standard Deviation	Minimum	Maximum	Interpretation
Compensation Management	117	3.47	0.67	1.88	4.88	Moderate
Employee Retention	117	3.38	0.65	1.88	5.00	Moderate
Salary Structure	117	3.43	0.69	1.50	4.88	Moderate
Incentives & Bonuses	117	3.40	0.64	1.63	4.88	Moderate
Overall Compensation Index	117	3.44	0.60	1.83	4.67	Moderate

Table 2 presents the descriptive statistics for the major variables of the study. The mean score for compensation management was 3.47, which indicates that respondents moderately agreed that their banks had compensation-related policies and practices. The mean score for employee retention was 3.38, showing a moderate level of employee willingness to remain with the bank. Salary structure had a mean value of 3.43, while incentives and bonuses had a mean score of 3.40. These results suggest that employees perceived compensation practices, salary structure, and incentives as moderately satisfactory. However, the scores are not very high, which indicates that private sector banks still have room to improve fairness, competitiveness, transparency, performance-based rewards, and recognition to strengthen employee retention.

Reliability Analysis

Reliability analysis was conducted through Cronbach's alpha to test the internal consistency of the questionnaire items. Cronbach's alpha values above 0.70 are generally considered acceptable for social science research.

Table 3: Reliability Analysis Using Cronbach's Alpha

Construct	Number of Items	Cronbach's Alpha	Reliability Status
Compensation Management	8	0.902	Excellent
Employee Retention	8	0.881	Good
Salary Structure	8	0.914	Excellent
Incentives & Bonuses	8	0.874	Good

Table 3 shows that all constructs had Cronbach's alpha values above the acceptable threshold of 0.70. Compensation management showed excellent reliability with an alpha value of 0.902. Employee retention showed good reliability with an alpha value of 0.881. Salary structure showed the highest reliability, with an alpha value of 0.914, while incentives and bonuses also showed good reliability with an alpha value of 0.874. These results indicate that the questionnaire items were internally consistent and suitable for further statistical analysis.

Correlation Analysis

Correlation analysis was conducted to examine the relationship among compensation management, salary structure, incentives and bonuses, and employee retention.

Table 4: Pearson Correlation Analysis

Variables	Compensation Management	Salary Structure	Incentives & Bonuses	Employee Retention
Compensation Management	1			
Salary Structure	0.719**	1		
Incentives & Bonuses	0.730**	0.752**	1	
Employee Retention	0.708**	0.661**	0.645**	1

Note: $p < 0.01$

Table 4 shows that compensation management had a strong positive and statistically significant relationship with employee retention, with a correlation value of $r = 0.708$, $p < 0.01$. This means that better compensation management is associated with higher employee retention. Salary structure also had a positive and significant relationship with employee retention, with $r = 0.661$, $p < 0.01$. Similarly, incentives and bonuses had a positive and significant relationship with employee retention, with $r = 0.645$, $p < 0.01$. These results indicate that when employees perceive salary structure as fair, competitive, and transparent, and when incentives and bonuses are performance-based and properly recognized, their intention to remain with the bank increases.

Regression Analysis

Multiple regression analysis was applied to determine the impact of compensation management, salary structure, and incentives and bonuses on employee retention.

Table 5: Regression Model Summary

Model	R	R^2	Adjusted R^2	F-value	Sig.
Compensation Management, Salary Structure, Incentives & Bonuses → Employee Retention	0.748	0.559	0.547	47.708	<0.001

Table 5 shows that the regression model was statistically significant. The R^2 value was 0.559, which means that compensation management, salary structure, and incentives and bonuses jointly explained 55.9% of the variation in employee retention. The adjusted R^2 value of 0.547 indicates that the model remained strong even after adjustment for the number of predictors. The F-value of 47.708 with $p < 0.001$ confirms that the overall regression model was significant.

Table 6: Regression Coefficients

Predictor	B	Standard Error	Beta	t-value	Sig.
Constant	0.633	0.236	—	2.681	0.008
Compensation Management	0.411	0.096	0.421	4.263	<0.001
Salary Structure	0.226	0.096	0.241	2.359	0.020
Incentives & Bonuses	0.160	0.106	0.157	1.507	0.135

Table 6 shows that compensation management had a positive and statistically significant impact on employee retention, with B = 0.411 and $p < 0.001$. This means that a one-unit increase in compensation management score increased employee retention by 0.411 units, holding other variables constant. Salary structure also had a positive and significant impact on employee retention, with B = 0.226 and p = 0.020. This shows that fairness, competitiveness, and transparency in salary structure contribute significantly to employee retention. However, incentives and bonuses had a positive but statistically insignificant impact on employee retention, with B = 0.160 and p = 0.135. This suggests that incentives and bonuses may support retention, but in this dataset, their effect was weaker compared to compensation management and salary structure.

Independent Sample t-Test

An independent sample t-test was applied to compare employee retention scores between male and female respondents.

Table 7: Independent Sample t-Test Based on Gender

Gender	N	Mean Employee Retention	Standard Deviation	t-value	Sig.
Male	78	3.38	0.69	-0.150	0.881
Female	39	3.39	0.58		

Table 7 shows that the mean employee retention score for male respondents was 3.38, while the mean score for female respondents was 3.39. The p-value was 0.881, which is greater than 0.05. Therefore, there was no statistically significant difference in employee retention based on gender. This means that male and female employees had almost similar retention perceptions in the selected private sector banks.

ANOVA Based on Designation

One-way ANOVA was applied to examine whether employee retention differed across designation categories.

Table 8: ANOVA Based on Designation

Designation	N	Mean Employee Retention	Standard Deviation
Officer	26	3.19	0.63
Operations	22	3.44	0.67
Customer Service	20	3.46	0.57
Cash	18	3.37	0.68
Sales	17	3.48	0.87
Branch Management	14	3.44	0.44

Test	F-value	Sig.
One-way ANOVA	0.643	0.668

Table 8 shows that employee retention scores varied slightly across designation categories. Sales employees had the highest mean retention score, while officer-level employees had the lowest mean score. However, the ANOVA result was statistically insignificant, with F = 0.643 and p = 0.668. This indicates that employee retention did not significantly differ across designation groups.

ANOVA Based on Work Experience

One-way ANOVA was also applied to examine whether employee retention differed across work experience groups.

Table 9: ANOVA Based on Work Experience

Work Experience	N	Mean Employee Retention	Standard Deviation
Less than 1 year	10	3.20	0.40
1–3 years	31	3.44	0.71
4–6 years	34	3.51	0.64
7–10 years	25	3.26	0.64
Above 10 years	17	3.29	0.71

Test	F-value	Sig.
One-way ANOVA	0.892	0.471

Table 9 indicates that employees with 4–6 years of experience had the highest mean retention score, while employees with less than 1 year of experience had the lowest mean score. However, the ANOVA result was statistically insignificant, with F = 0.892 and p = 0.471. This means that employee retention did not significantly differ on the basis of work experience. Therefore, compensation-related practices appear to influence employees across experience groups in a relatively similar manner.

Discussion

The present study examined the role of compensation management in enhancing employee retention in selected private sector banks of Peshawar, Khyber Pakhtunkhwa. The results showed that compensation management had a moderate mean score, indicating that employees were moderately satisfied with compensation-related policies and practices in their banks. Similarly, employee retention, salary structure, and incentives and bonuses also showed moderate levels. These findings suggest that private sector banks have compensation systems in place, but these systems may not be strong enough to create a very high level of employee retention. In a competitive banking environment, moderate satisfaction with compensation may be insufficient because employees can compare their salary packages, benefits, incentives, and career opportunities with other banks. The reliability analysis showed that all constructs were internally consistent, with Cronbach's alpha values above 0.70. This indicates that the questionnaire items used to measure compensation management, employee retention, salary structure, and incentives and bonuses were reliable. The high reliability values also support the suitability of the instrument for examining compensation and retention-related issues in the banking sector. This strengthens the credibility of the analysis and indicates that the variables were measured consistently.

The correlation analysis revealed a strong positive relationship between compensation management and employee retention. This means that when compensation management improves, employee retention also tends to improve. This result is consistent with Yee (2024), who reported that compensation practices, job satisfaction, and employee retention are closely related. Employees are more likely to stay in an organization when they perceive that their salary, benefits, incentives, and rewards are fair and suitable. In the banking sector, compensation is particularly important because employees often face work pressure, customer dealing responsibilities, sales targets, and operational duties. If the compensation system is not perceived as fair and competitive, employees may develop turnover intentions. The findings also support the study of Adi et al. (2020), who found that compensation plays an important role in improving job satisfaction and employee performance. Although their study focused on employee performance, the present study extends this idea by linking compensation management with employee retention. When employees are satisfied with compensation, they are not only likely to perform better but are also more likely to remain with the organization. This suggests that compensation management works as both a motivational and retention strategy.

The regression analysis showed that compensation management had a significant positive impact on employee retention. This means that compensation management is an important predictor of employee retention among private sector bank employees. The result is aligned with Fayaz et al. (2020), who examined turnover intentions among employees in Khyber Pakhtunkhwa's banking sector and emphasized the importance of organizational factors in influencing employees' intention to leave. The present study indicates that one such important organizational factor is compensation management. If banks improve fairness, transparency, salary planning, and reward policies, they can reduce employees' intention to leave and strengthen long-term commitment.

Salary structure also had a significant positive impact on employee retention. This finding shows that fairness, competitiveness, and transparency in salary structure are important for retaining employees. Employees are more likely to stay when they believe that their salary is fair according to their workload, qualification, experience, and job responsibilities. This result is supported by Chaudary et al. (2025), who found that HR practices in the banking sector influence employee performance through job satisfaction. Since salary structure is a key HR practice, its fairness and clarity can increase satisfaction and reduce turnover intention. The present study suggests that salary structure may be even more important than short-term bonuses because salary provides continuous financial security. Incentives and bonuses had a positive but statistically insignificant impact on employee retention in the regression model. This indicates that incentives and bonuses may contribute to retention, but their effect was weaker than overall compensation management and salary structure. One possible explanation is that employees may value stable salary, fairness, and transparent compensation rules more than occasional incentives. In the banking sector, incentives are often linked with targets and performance pressure. Therefore, if incentives are not distributed fairly or are difficult to achieve, they may not strongly improve retention. However, the positive direction of the relationship still suggests that incentives and recognition can support employee motivation when they are managed fairly. This is consistent with Abdul Jabbar et al. (2023), who highlighted the importance of supportive organizational practices and psychological safety in influencing employee behavior.

The t-test results showed no significant difference in employee retention between male and female respondents. This means that gender did not play a significant role in shaping retention perceptions in the dataset. Similarly, ANOVA results showed no significant difference in employee retention across designation and work experience groups. These findings suggest that compensation management affects employees broadly, regardless of gender, designation, or experience. This is important for bank managers because it indicates that retention strategies should not be limited to one category of employees. Instead, fair compensation policies should be applied across different employee groups. The findings are also in line with Alamgir et al. (2024), who studied job satisfaction and employee retention among young bank employees and found that HR-related factors contribute to retention. Although Alamgir et al. focused on training, development, and organizational culture, the present study shows that compensation management is another important HR factor that influences retention. Similarly, Abbas et al. (2020) found that job satisfaction plays an important role in linking HR practices with employee performance. This supports the argument that compensation practices can improve retention by increasing employee satisfaction and organizational commitment.

Overall, the results show that compensation management is an important factor in enhancing employee retention in private sector banks of Peshawar. The strongest effects were found for compensation management and salary structure, while incentives and bonuses had a positive but weaker role. Therefore, banks should give special attention to transparent salary policies, fair compensation decisions, competitive pay packages, and performance-based but realistic reward systems. A properly managed compensation system can reduce employee dissatisfaction, strengthen loyalty, and improve organizational stability.

Conclusion

The study concluded that compensation management plays a significant role in enhancing employee retention in selected private sector banks of Peshawar, Khyber Pakhtunkhwa. The analysis showed that compensation management, salary structure, and incentives and bonuses were positively associated with employee retention. The descriptive results indicated that employees had a moderate level of satisfaction with compensation-related practices, which means that although compensation systems exist in the selected banks, there is still room for improvement. The reliability analysis confirmed that the questionnaire items were internally consistent and suitable for measuring the study variables. Correlation analysis showed a strong positive and significant relationship between compensation management and employee retention, which indicates that better compensation practices are associated with higher employee willingness to remain with the organization. Regression analysis further confirmed that compensation management had a significant positive impact on employee retention. Salary structure also had a significant effect, showing that fairness, competitiveness, and transparency in salary policies are important for retaining banking employees. However, incentives and bonuses had a positive but statistically insignificant effect, suggesting that employees may give more importance to stable salary structures and fair compensation policies than occasional rewards. The t-test and ANOVA results showed that employee retention did not significantly differ across gender, designation, and work experience groups. This means that compensation-related factors are important for employees across different demographic categories. The study therefore concludes that private sector banks should consider compensation management as a strategic HR tool rather than only an administrative salary function. A fair, transparent, competitive, and performance-linked compensation system can reduce turnover intentions, improve employee loyalty, and strengthen organizational stability. In the banking sector, where employee experience, customer relationships, and operational accuracy are important, retaining skilled employees is essential. Therefore, effective compensation management can help banks improve both employee commitment and long-term institutional performance.

Recommendations

Private sector banks should develop fair and transparent compensation policies so that employees clearly understand salary grades, increments, allowances, and promotion-related financial benefits.

Banks should regularly compare their salary packages with other private sector banks to ensure that their compensation structure remains competitive in the market.

Performance-based rewards should be linked with realistic and measurable targets so that incentives motivate employees rather than creating stress or dissatisfaction.

Recognition should be included as part of compensation management because non-financial rewards such as appreciation, certificates, and management acknowledgment can improve employee commitment.

HR departments should conduct periodic employee satisfaction surveys to identify compensation-related concerns and revise salary, incentive, and bonus policies according to employee expectations and organizational capacity.

Study Limitations

The study was limited to selected private sector banks in Peshawar, so the findings may not fully represent all banks in Khyber Pakhtunkhwa or Pakistan.

The sample size was limited to 117 respondents, which is suitable for the present study but may not capture the views of all banking employees.

The study focused only on selected employee categories, including officers, operations, customer service, cash, sales, and branch management staff.

The study used a quantitative questionnaire approach, so detailed personal opinions and explanations of employees were not deeply explored.

The study examined compensation management, salary structure, and incentives and bonuses, while other retention factors such as leadership style, organizational culture, workload, promotion opportunities, and work-life balance were not fully included.

The analysis was based on cross-sectional data collected at one point in time, so it could not measure changes in employee retention over a longer period.

Future Research Directions

Future researchers may conduct the same study in other districts of Khyber Pakhtunkhwa to compare results across different banking regions.

A larger sample size may be used in future studies to improve the generalizability of findings.

Future studies may include both private and public sector banks to compare compensation management practices between the two sectors.

Qualitative interviews may be conducted to explore employees' personal experiences regarding salary fairness, incentives, bonuses, and retention.

Future research may include other variables such as job satisfaction, organizational commitment, leadership style, promotion opportunities, workload, and work-life balance as mediating or moderating variables.

Longitudinal research may be conducted to examine how changes in compensation policies influence employee retention over time.

Future studies may separately examine different employee categories, such as branch managers, sales officers, cash officers, and operations staff, to identify category-specific compensation concerns.

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1 Annexure

2 Data Collection Tool

1. **Age:**

☐ 20–30 ☐ 31–40 ☐ 41–50 ☐ 51 and above

2. **Gender:**

☐ Male ☐ Female ☐ Prefer not to say

3. **Highest Educational Qualification:**

☐ Diploma/Certificate ☐ Bachelor’s Degree
☐ Master’s Degree ☐ PhD or above

4. **Current Position/Designation:**

☐ Entry-level/Junior Staff ☐ Mid-level/Officer
☐ Senior-level/Manager ☐ Executive/Director

5. **Years of Experience in Banking Sector:**

☐ Less than 1 year ☐ 1–5 years ☐ 6–10 years
☐ 11–15 years ☐ Above 15 years

6. **Type of Bank:**

☐ Commercial Bank ☐ Investment Bank
☐ Cooperative/Savings Bank

SECTION B: COMPENSATION MANAGEMENT (IV)

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

1. My bank offers a competitive salary compared to other banks.
2. The salary structure in my organization is fair and transparent.
3. Performance-based bonuses are given consistently and fairly.
4. The bank provides adequate non-monetary benefits (health insurance, leave, retirement plans).
5. My pay reflects my job responsibilities and workload.
6. There are clear policies for promotions and salary increments.
7. Incentives motivate me to perform better at work.
8. Overall, I am satisfied with the compensation and benefits I receive.

SECTION C: EMPLOYEE RETENTION (DV)

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

1. I intend to stay with my current bank for the next 2–3 years.
2. I feel a strong sense of loyalty to my organization.
3. I am satisfied with my current job and role.
4. I would recommend my organization as a good place to work.
5. The bank supports my career growth and development.
6. I rarely consider leaving my organization for other opportunities.
7. I feel valued and recognized for my contributions at work.
8. My current compensation influences my decision to stay with the bank.

Salary Structure (Fairness, Competitiveness, Transparency)

1. The salary I receive is fair compared to others in the same role.
2. My bank’s salary structure is competitive with other banks in the industry.
3. Employees are paid according to their skills and experience.
4. Salary increments are given transparently and based on clear criteria.
5. I am satisfied with the current pay scale in my organization.
6. Management communicates compensation policies clearly to employees.
7. Pay differences among employees are justified and fair.
8. I believe my salary reflects my contribution to the organization.

Incentives & Bonuses (Performance-Based Rewards, Recognition)

1. I receive bonuses when I meet or exceed performance targets.
2. The bonus system in my bank motivates me to work harder.
3. Recognition programs (e.g., awards, certificates) are fairly distributed.
4. High-performing employees are rewarded appropriately.
5. Incentives are linked to individual and team performance.
6. I feel appreciated when my contributions are recognized financially or non-financially.
7. I have access to performance-based rewards regularly.
8. Incentives encourage me to stay with my current organization.

Benefits & Perks (Health Insurance, Retirement Plans, Leave Policies)

1. The bank provides adequate health insurance coverage.
2. Retirement and pension benefits meet my expectations.
3. Leave policies (annual, sick, maternity/paternity) are sufficient and flexible.
4. Employee wellness programs contribute to my job satisfaction.
5. Non-monetary perks (transport, meals, etc.) improve my work experience.
6. Benefits are communicated clearly and consistently.
7. The bank offers programs that support work-life balance.
8. Overall, I am satisfied with the benefits and perks provided.

Pay for Performance (Linkage of Compensation to Performance Appraisal)

1. My performance appraisal results directly influence my salary or bonus.
2. Employees are rewarded based on measurable performance outcomes.
3. The appraisal system is fair and unbiased.
4. High performers receive more benefits or incentives than average performers.
5. I am motivated to improve performance because it affects my pay.
6. Management provides feedback that helps me improve performance.
7. There is a clear connection between effort, performance, and reward.
8. Pay-for-performance practices increase my loyalty to the bank.