

# How does salary benchmarking Impact Employee Retention

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**Abstract** - Salary benchmarking is an essential mechanism for organizations to provide competitive and equitable compensation, which has a direct impact on employee satisfaction. This research explores how internal pay alignment with market norms improves perceptions of fairness, equity, and value among employees. It emphasizes the importance of open salary practices and competitive pay structures in increasing morale, engagement, and motivation. The study also discusses the threats of inappropriate benchmarking, for example, dissatisfaction, decreased loyalty, and elevated turnover. Using case studies, the article assesses the effect of effective benchmarking on retention, job satisfaction, and organizational performance, providing actionable lessons for HR practitioners and managers.

**Key Words:** Employee satisfaction, salary benchmarking, compensation strategy, fairness, market standards, employee retention, transparency, HR practices, job satisfaction, organizational performance.

## 1. INTRODUCTION

This study highlights the significance of salary benchmarking as a strategic process that enables organizations to evaluate and align their compensation structures with prevailing industry standards. By doing so, companies can ensure competitive, fair, and legally compliant pay practices that are essential for attracting and retaining top talent. Salary benchmarking plays a key role in enhancing employee morale, promoting internal equity, and reducing staff turnover, all of which contribute to improved organizational performance and stability.

The process may involve collecting salary information from various credible sources like salary surveys, country and industry reports, government statistics, and job postings, and thereafter matching internal jobs with comparable from external positions for purposes of outsourcing based upon responsibilities, experience, and industry context. Definition of market analysis would involve variation characteristics such as company size, geographical region, sector, job demand, and so on. The above allow firms to decide whether to adjust pay structures for maintaining positions in a constantly changing labor market.

There are considerable challenges, such as disparities in job titles, the existence of inconsistent compensation

information, and mélange fast changing market. However, regular and well-executed benchmarking empowers organizations to develop fair, open, and financially sustainable monetary packages and is the means to minimize the risks of inequity in wages and noncompliance with equal pay legislation.

Today, salary benchmarking is an inevitable condition for achieving a satisfied, engaged, and loyal workforce in a fast-paced world of employment changes. With accurate data on the market and careful planning for compensation, organizations can position themselves to become employers of choice, improve employee retention, and build an institution that will last well into the future.

## 2. Literature Survey

Equity Theory (Adams, 1963)

Employees compare their salaries with industry peers. If they perceive underpayment, dissatisfaction and turnover increase. Salary benchmarking ensures fairness and reduces retention risks.

Maslow's Hierarchy of Needs (1943)

Competitive salaries fulfill financial security needs, leading to greater job stability and long-term commitment.

Herzberg's Two-Factor Theory (1959)

Salary is a "hygiene factor" that prevents dissatisfaction. Fair pay structures improve retention by reducing turnover triggers.

Competitive Salaries and Retention

Trevor et al. (1997) found that below-market salaries lead to higher turnover, while competitive pay increases loyalty. SHRM (2020) confirms companies with structured salary benchmarking experience lower turnover.

Salary Satisfaction and Job Commitment

Judge et al. (2010) link salary satisfaction to higher engagement and retention. Pay transparency (Cable & Judge, 1994) also improves employee trust and reduces attrition.

Talent Attraction and Retention

Fair salaries enhance employer branding, making it easier to attract and retain talent. Organizations failing to adjust wages risk losing employees to competitors.

Challenges of Salary Benchmarking

Gerhart & Rynes (2003) caution against over-reliance on external salary data, which can lead to wage

inflation. Pfeffer & Langton (1993) emphasize that factors like career growth and workplace culture also impact retention.

### 3. Objective of the Study:

#### How Salary Benchmarking Helps in Employee Retention

This research explores how salary benchmarking supports staff retention through competitive and fair pay. It aims to assess how aligning compensation with market standards enhances employee commitment, motivation, and organizational stability.

#### Examine the Relationship Between Salary Benchmarking and Employee Retention

- To understand how aligning salaries with market rates influences employees' decisions to stay.

#### Identify Key Salary Components Affecting Commitment and Turnover

- To pinpoint which pay elements most impact employee loyalty and reduce voluntary exits.

#### Analyze Salary Variance Across Organizations

- To explore how differences in pay between companies affect employee movement.

#### Evaluate the Role of Competitive Pay in Reducing Turnover

- To assess how market-aligned compensation helps retain top talent.

#### Discuss the Link Between Competitive Pay and Job Satisfaction

- To determine if competitive salaries lead to higher employee morale and engagement.

#### Review Case Studies of Companies Using Salary Benchmarking

- To learn from real examples of firms that improved retention through pay strategies.

### 4. Methodology

#### Research Design

The study adopted a descriptive, cross-sectional research design using a quantitative approach. This design was chosen to collect structured data and draw statistically

valid conclusions about how does salary benchmarking impacts employee satisfaction.

#### Sample Design

Purposive and snowball sampling techniques were employed to collect responses from a diverse pool of 180 professionals. Participants were drawn from different industries, age groups, and experience levels. Inclusion criteria required that respondents be currently employed and have at least six months of tenure at their respective organisations.

#### Data Collection Instrument

A structured questionnaire was developed and administered online. Most items were measured on a five-point Likert scale (Strongly Disagree to Strongly Agree), supplemented by a few categorical and open-ended questions.

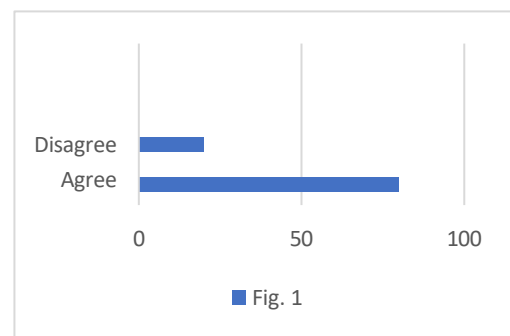


Fig -1: Salary benchmarking is essential for attracting and retaining top talent in a company

Most of the respondents believed that salary benchmarking is essential for attracting and retaining top talent in a company.

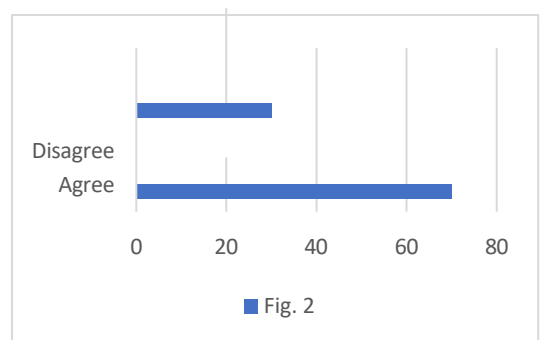
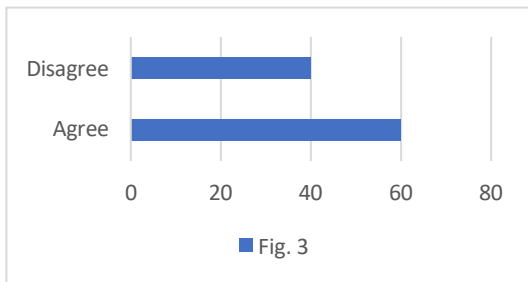
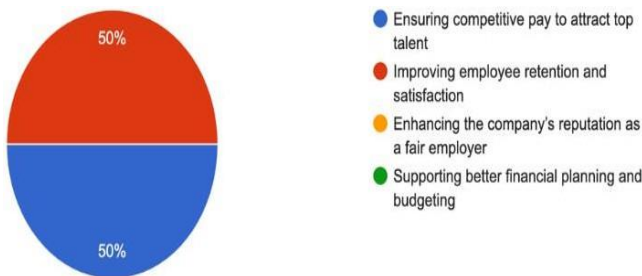


Fig-2: A company that does not conduct salary benchmarking risks higher employee turnover



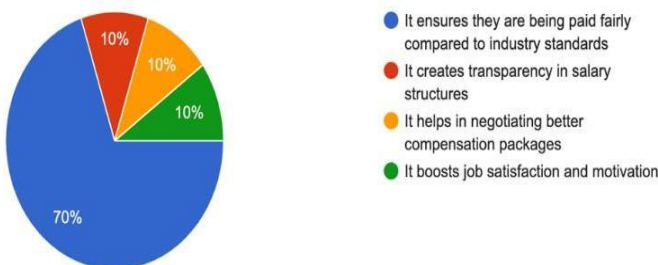
**Fig-3:** Competitive salary benchmarking enhances a company's reputation and employer brand

Most of the respondents believed that competitive salary benchmarking enhances a company's reputation and employer brand



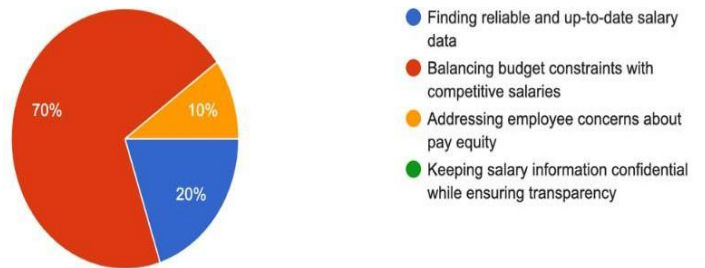
**Fig-4:** Employee satisfaction Rate

50% of the respondents believe that ensuring competitive pay attracts top talent and 50% of the respondents believe that salary benchmarking improves employee satisfaction and improves employee retention.



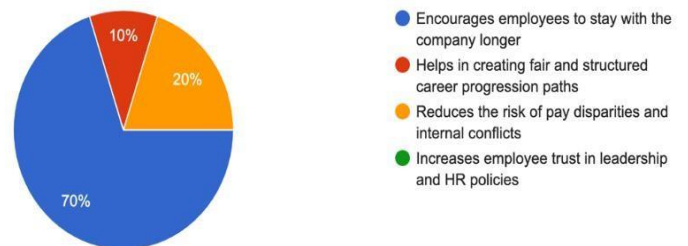
**Fig-5:** Salary benchmarking

70% of the employees believe that employee value salary benchmarking because It ensures they are being paid fairly compared to industry standards, other 10% 10% 10% believe employee value salary benchmarking because It creates transparency in salary structures. It helps in negotiating better compensation packages It boosts job satisfaction and motivation.



**Fig-6:** Salary Benchmarking

70% of the respondents feel that the most challenge that companies face when conduction salary benchmarking is finding reliable and up to date salary data.



**Fig-7:** Company's workforce

70% of the respondents believe that salary benchmarking encourages employees to stay with the company longer.

## 5. Key Findings through Primary & Secondary Data

### 5.1 Key Findings through Primary Data -

1. Salary Benchmarking Impacts Career Decisions high 80% of the respondents indicated that they carry out salary information before applying for a job. This shows that salary benchmarking is crucial when it comes to attracting candidates, as employees desire organizations that offer industry-average pay.

2. Competitive Compensation Increases Employee Retention 60% of the respondents firmly agreed that salary benchmarking is essential in reducing employee turnover. Competitive compensation results in higher job satisfaction, and employees are more likely to remain with the company and less likely to seek other employment opportunities where they can earn a higher salary.

3. Pay Transparency Encourages Employee Confidence Survey results emphasized that employees value pay benchmarking because of the promise of fair pay structures and narrowing wage disparities. Transparent compensation policies improve job satisfaction, boost motivation, and facilitate employee-employer trust.

4. Salary Benchmarking Challenges Organizations face several challenges in salary benchmarking. The two most frequent challenges that were ever cited were remaining within budget while being able to offer competitive wages and being able to have credible, current salary data with which they could benchmark against industry standards.

5. Workforce Stability Positives Correct salary benchmarking not only helps retain employees, but it is also a force for overall workforce stability. It allows for sequential career progression, promotes employee enthusiasm, and helps to solidify the organization as an employer of choice.

## 5.2 Key Findings through Secondary Data -

1. Salary Benchmarking Influences Job Decisions A significant 80% of respondents indicated that they research salary details before applying for a job. This demonstrates that salary benchmarking plays a crucial role in attracting potential candidates, as individuals prefer organizations that offer competitive pay aligned with industry standards.

2. Studies such as Trevor et al. (1997) support this finding, suggesting that candidates are more likely to apply to firms with structured compensation plans. Additionally, SHRM (2020) emphasizes that salary transparency enhances an employer's brand, making it easier to attract top talent.

3. Competitive Pay Improves Employee Retention 60% of respondents strongly agreed that salary benchmarking is essential for reducing employee turnover. Competitive salaries contribute to higher job satisfaction, encouraging employees to remain with the organization and reducing the likelihood of seeking better-paying opportunities elsewhere.

4. According to Judge et al. (2010), salary satisfaction directly correlates with employee commitment. Employees who feel fairly compensated are less likely to seek alternative employment, aligning with Adams' (1963) Equity Theory, which suggests that perceived fairness in compensation fosters loyalty.

5. Salary Transparency Builds Employee Trust Survey responses highlighted that employees value salary benchmarking because it ensures fair pay structures and reduces wage disparities. Transparent compensation policies improve job satisfaction, boost motivation, and foster trust between employees and employers.

6. Cable & Judge (1994) argue that pay transparency strengthens employee trust, leading to improved morale and engagement. Organizations that disclose their salary benchmarking practices are more likely to maintain a stable workforce, reducing uncertainty and resentment among employees.

7. Challenges in Salary Benchmarking Organizations face several challenges in implementing salary benchmarking. The two most common challenges cited were balancing budget constraints while offering competitive salaries and finding reliable, up-to-date salary data to benchmark effectively against industry standards.

8. Gerhart & Rynes (2003) caution that over-reliance on market salary data can lead to wage inflation and financial strain. Additionally, Pfeffer & Langton (1993) highlight that while salary benchmarking is critical, it must be complemented by career development opportunities and a positive work environment.

9. Positive Impact on Workforce Stability Proper salary benchmarking not only helps in retaining employees but also enhances overall workforce stability. It ensures structured career progression, promotes employee engagement, and strengthens the organization's reputation as an employer of choice.

## 6. CONCLUSIONS AND LIMITATIONS

The study supports that salary benchmarking has a major contribution to employee retention since it promises fair and competitive wages. Fair compensation not only causes job contentment, but it reduces rates of turnover and maintains the work force stable. Companies who set salary benchmarking as a priority have an advantage of being preferable to top talent in the industry as well as having a devoted work force.

However, in order to gain maximum benefit from salary benchmarking, businesses must overcome some challenges. Constraints in budgets may prevent the size of an organization from offering above the market price, and therefore maintaining a balance between profitability and competitive pay becomes imperative. Also, businesses require timely and reliable market salary data so that they can compare themselves on an equal footing with industry averages. Employing outdated or inconsistent salary information will cause pay inequities and employee discontent.

Furthermore, salary benchmarking is not a retention strategy in itself. Organizations must adopt an integrated approach by supplementing reasonable compensation with other retention strategies such as career progression opportunities, training programs for capability building, work-life balance, and a healthy organizational culture. A



balanced HR strategy makes the employees feel valued and motivated beyond the paycheck.

Ultimately, although salary benchmarking plays a huge role in employee retention, it needs to be coupled with other activities that enhance job satisfaction and development of careers. Through a structured and transparent pay scheme, organizations can realize a motivated, engaged, and loyal workforce that contributes to sustained business excellence.

- **Limited Data Access**

Access to detailed salary and retention data may be restricted due to privacy and confidentiality concerns.

- **Correlation vs. Causation**

It can be difficult to prove that salary benchmarking directly causes changes in employee retention.

- **Generalizability Issues**

Findings from one industry or region may not apply to others due to contextual differences.

- **Short-Term Study Limitations**

Retention trends often require long-term observation, which short studies may not capture.

- **Variation in Benchmarking Methods**

Companies use different standards and sources for salary benchmarking, affecting consistency.

- **Employee Perception Bias**

Employees may feel underpaid even if salaries are competitive, impacting retention independently.

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