

The Influence of Compensation, Work-Life Balance and Psychological Well-Being on Employee Retention: Evidence from an IT Company Based in Shah Alam Malaysia

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ABSTRACT

Employee retention is a critical concern for organizations seeking to sustain workforce stability and maintain competitive advantage. This study investigates the influence of compensation, work-life balance, and psychological well-being on employee retention in an Information Technology (IT) company based in Shah Alam, Malaysia. This study employs a quantitative research method using a structured questionnaire distributed to 81 employees. Findings from Pearson's correlation analysis indicated that employee retention was positively and significantly associated with compensation, work-life balance, and psychological well-being. Results from the multiple regression analysis further showed that compensation was the strongest predictor of employee retention, followed by work-life balance and psychological well-being. These results underscore the integrated role of financial, structural, and emotional resources in influencing employees' decisions to remain with the organization. This study contributes to the growing literature on retention by providing empirical insights from Malaysia's IT company, emphasizing the need for competitive compensation, flexible work practices, and initiatives that strengthen psychological well-being. The findings offer practical guidance for HR managers and policymakers in designing holistic retention strategies that support a committed and stable workforce.

Keywords: Employee Retention; Compensation; Work-Life Balance; Psychological Well-Being

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INTRODUCTION

The Information Technology (IT) sector has become a central driver of economic growth in the modern era, shaping industries, transforming business processes, and creating new opportunities for innovation. In Malaysia, the IT industry has demonstrated impressive progress, securing the 15th position globally and ranking third among ASEAN countries in the 2023 ICT Development Index (MIDA, 2024). This strong performance is further reflected in its RM320 billion contribution to the national economy in 2020, representing a 10.4% increase from the previous year (DOSM, 2021). Such achievements underscore the sector's pivotal role in advancing Malaysia's digital transformation and sustaining its economic resilience. Guided by Eisenhardt's (1989) case study framework, this study adopts a single organization design to examine how compensation, work-life balance, and psychological well-being influence employee retention. Focusing on one organizational context facilitates deeper analysis of internal structures and employee experiences, thereby strengthening the interpretive quality of the findings.

The expansion of digital technologies has created increasing demand for highly skilled professionals, particularly in areas such as cybersecurity, e-commerce, fintech, and cloud computing (Miranda & León, 2023; Nkongolo et al., 2024). While this growth presents significant opportunities, it also brings challenges that may hinder the sector's sustainability. These include rising cybersecurity risks, stricter regulatory requirements, and heightened global competition, all of which demand continuous investment in infrastructure, compliance, and human capital (Ozkan-okay et al., 2023). Among these challenges, one of the most critical for organizations is the retention of skilled employees, as the loss of talent can undermine productivity, disrupt operations, and erode competitive advantage.

Employee turnover in the IT industry has reached concerning levels. For instance, turnover among embedded software engineers increased from 13.2% to 21.7%, while the average employee tenure in some firms has declined from five years to just 1.8 years (Talent Rise, 2024). These trends are often linked to the demanding nature of IT work, characterized by long working hours, high cognitive demands, and constant performance pressures, which can contribute to stress, burnout, and reduced job satisfaction (Farooq et al., 2022; Tome & Vaart, 2020). The COVID-19 pandemic added another layer of complexity by accelerating remote work adoption (De' et al., 2020). While flexible arrangements improved work-life integration for many employees, the post-pandemic shift back to on-site work has, in some cases, reduced retention rates, as employees increasingly value flexibility and autonomy in their work arrangements (Haines et al., 2024).

Previous studies have highlighted that compensation, work-life balance, and psychological well-being are significant determinants of employee retention (Alfano et al., 2024; Hejase et al., 2024; Kadek et al., 2021). However, much of the existing literature examines these variables in isolation, and there is limited understanding of how they interact to influence retention in Malaysia's IT context. Moreover, most research in this area has focused on other sectors such as education (Mzwakhe, 2022; Shibiti, 2020), healthcare (Ahmed et al., 2020), and manufacturing (Kadir et al., 2021), leaving the IT industry relatively underexplored. This gap calls for further investigation to better understand how these factors collectively shape retention outcomes. To the best of our knowledge, no prior study has comprehensively examined compensation, work-life balance, and psychological well-being together in the context of Malaysia's IT industry, which makes this study particularly significant.

In response to this gap, the present study examines the relationship between compensation, work-life balance, and psychological well-being on employee retention in the IT industry focusing on a single IT company based in Shah Alam, Malaysia. The selection of a single IT organization in Shah Alam allows for a more focused and context-sensitive examination of these relationships. This research design is consistent with case study research principles that emphasize in-depth analysis and rich contextual understanding in organizational research (Eisenhardt, 1989). The study further investigates the most dominant factor influencing retention. By providing empirical insights into these relationships, the findings aim to contribute to both academic understanding and practical strategies for improving employee retention. Such knowledge is essential for IT organizations to sustain their workforce, enhance job satisfaction, and maintain long-term competitiveness in an increasingly dynamic and competitive environment. Specifically, this study aims to determine (1) the influence of compensation, work-life balance, and psychological well-being on employee retention, and (2) the most dominant factor affecting retention among employees of the selected organization.

LITERATURE REVIEW

Compensation and Employee Retention

Compensation is broadly understood as a structured system comprising both monetary and non-monetary rewards provided by organizations to recognize employees' performance and contributions (Milkovich & Newman, 2014). Monetary compensation includes direct financial rewards such as salaries, bonuses, profit-sharing schemes, overtime pay, and commissions, which play a central role in meeting employees' financial expectations and shaping perceptions of fairness within the organization (Udoh, 2025). In addition, non-monetary rewards encompass recognition, career development opportunities, professional training, flexible work arrangements, and organizational benefits such as healthcare coverage and subsidized services (Alam & Sadat, 2022; Milkovich & Newman, 2014). These developmental and intrinsic rewards contribute to higher levels of employee motivation, job satisfaction, and long-term organizational commitment. Within human resource management, compensation is regarded as both a motivational and retention mechanism that signals an organization's appreciation and fairness in rewarding performance (Akuffo-aduamah, 2025; Azzuhairi et al., 2022). The perception of equity and transparency in pay distribution is often more influential than the absolute amount received, as employees compare their rewards to others and to their expectations. Hence, compensation systems that are viewed as fair and performance based strengthen employees' attachment and trust toward their organization, which ultimately enhances retention.

In the context of the IT industry, compensation is widely recognized as a significant factor in employee retention due to the high mobility of talent and strong market demand for specialized skills. Empirical research indicates that competitively structured and equitable compensation systems are associated with higher levels of job satisfaction and lower turnover intentions (Farooq et al., 2022; Vasudevan & Nathan, 2024). In addition, Jevtić and Gašić (2025) found that transparent and fair pay practices significantly reduced turnover intentions by enhancing job satisfaction, while Laxmana and Paryontri (2023) reported that equitable rewards fostered commitment and performance among non-management employees. Likewise, Khan et al., (2024) and Sorn et al. (2023) confirmed that adequate financial and non-financial compensation contributes positively to retention by making employees feel valued and secure. These findings reaffirm that compensation is not solely a cost factor but a strategic investment in human capital that directly shapes retention outcomes.

The relationship between compensation and employee retention can be explained through Social Exchange Theory (SET) and Equity Theory, both of which emphasize reciprocity and perceptions of fairness. Drawing on SET, employees who perceive their compensation as fair tend to respond with stronger organizational commitment and sustained work effort, which are associated with lower turnover intentions (Blau, 1986; Cropanzano & Mitchell, 2005). Equity theory further suggests that perceptions of distributive and procedural justice within compensation systems influence satisfaction and commitment levels; employees who perceive imbalance in rewards are more prone to disengagement or turnover (Adams, 1964; Khtatbeh et al., 2025). Thus, compensation policies grounded in fairness, transparency, and performance recognition are fundamental to fostering stable employment relationships, especially in competitive knowledge driven sectors such as IT.

Work-life Balance and Employee Retention

Work life balance (WLB) refers to the alignment between professional responsibilities and personal life activities, including family time, leisure, and individual development. It is widely recognized as an important factor associated with employee satisfaction, productivity and retention, particularly within the IT sector, which is often marked by extended working hours and demanding work environments (Peter & Kavitha, 2020; Rathi & Kumar, 2023). Effective work-life balance policies help employees manage their professional and personal lives, leading to improved job satisfaction and organizational commitment (Shockley et al., 2017).

Studies have shown that a healthy work-life balance leads to higher job satisfaction, which in turn enhances employee retention (Aamir et al., 2016; Aman-Ullah et al., 2024; Rathi & Kumar, 2023). For instance, research conducted among doctors in Pakistan found that WLB significantly predicted employee retention and reduced turnover intentions, with job satisfaction acting as a mediator (Aman-Ullah et al., 2024). Similarly, a meta-analysis revealed a positive relationship between WLB arrangements and organizational performance, including employee retention (Wong et al., 2020). These findings suggest that organizations that prioritize WLB can expect to retain their employees more effectively.

Several theories underpin the relationship between work-life balance and employee retention. The Job Characteristics Model suggests that job design influences employee motivation and satisfaction, which in turn affects retention (Prakash et al., 2025). Herzberg's Two-Factor Theory posits that job satisfaction and dissatisfaction arise from different factors, with work-life balance being a key motivator (Lee et al., 2022). Self-Determination Theory emphasizes the role of autonomy and competence in fostering intrinsic motivation, which is crucial for retaining employees (Manganelli et al., 2018). These theories collectively highlight the importance of creating a supportive work environment that addresses both professional and personal needs.

Empirical evidence indicates that work-life balance is significantly associated with employee retention in the IT industry. Employees who experience higher levels of work-life balance tend to demonstrate stronger intentions to remain with their organizations, due to increased job satisfaction and reduced levels of work-related stress (Rathi & Kumar, 2023; Greeshma & Sujatha, 2024). Work-life balance practices have also been linked to improved retention by enabling employees to more effectively manage their professional and personal responsibilities (Shockley et al., 2017; Prabakaran et al., 2023). Additionally, supportive organizational cultures that prioritize work-life balance contribute to higher levels of employee commitment and lower turnover rates.

Psychological Well-being and Employee Retention

Psychological well-being (PWB) significantly influences how employees perceive their jobs, perform, and whether they remain in an organization. It extends beyond the absence of illness to include positive states such as self-acceptance, autonomy, purpose in life, and personal growth (Yang et al., 2024). Recent research grounded in self-determination theory shows that satisfaction of basic psychological needs (autonomy, competence, and relatedness) is associated with higher well-being and lower turnover intentions, while need frustration predicts exhaustion and higher quitting intention (Olafsen et al., 2021). In the IT sector, organizational and supervisory support for employee well-being has been identified as a central driver of retention (Gupta et al., 2022). Similarly, perceptions of organizational justice, particularly fairness and transparency in pay and promotion systems, have been shown to reduce turnover intentions (Shaikh, 2024). Supportive workplace practices, such as job autonomy and adequate resources, further reinforce psychological well-being and reduce employees' desire to leave (Khan & Khan, 2025).

The IT industry is widely associated with challenges in sustaining employee psychological well-being and workforce stability. Common psychosocial stressors include time pressure, role ambiguity, and role conflict, which are associated with poorer psychological well-being and higher levels of turnover intention (Langove et al., 2024). The high-pressure environment extended working hours, and constant exposure to technological demands contribute to elevated stress levels, leading to burnout, anxiety, depression, and sleep disturbances (Hadziavdic & Forsyth, 2025; Sandhya & Kantesa, 2019). These mental health issues not only affect overall well-being but also reduce job satisfaction and productivity, ultimately harming employees.

Interventions like mindfulness-based programs can reduce stress and burnout (Hidajat et al., 2023), yet randomized controlled trials suggest that generic workplace wellness programs may not improve absenteeism, performance, or retention outcomes (Song & Baicker, 2021). These mixed findings highlight that while psychological well-being is a powerful predictor of employee retention, organizations must go beyond surface-level wellness initiatives and address structural stressors such as workload, job control, and managerial support to sustain long-term commitment.

METHODOLOGY

This study employs a quantitative research method to examine the relationships between compensation, work-life balance, psychological well-being, and employee retention among employees in an IT company based in Shah Alam, Malaysia. A correlational and cross-sectional approach was adopted, enabling data to be collected at a single point in time to determine the strength and direction of relationships between the independent variables and the dependent variable. Employees from executive, supervisory, and managerial roles were included to ensure broader representation of organizational perspectives. This approach enhances the diversity of responses and strengthens the overall robustness of the findings. A simple random sampling technique was used to minimize sampling bias. Based on Krejcie & Morgan, (1970) sample size table, 108 respondents were required for a population exceeding 150 employees. To improve reliability and generalizability, 180 questionnaires were distributed, anticipating a high response rate.

A total of 81 usable responses were obtained. Although this is below the original target, it is within a commonly accepted range for online and organizational surveys generally between

40% and 75% (Sataloff & Vontela, 2021; Wu et al., 2022) and aligns closely with the minimum threshold suggested by Krejcie & Morgan, (1970), justifying its adequacy for reliable statistical analysis. All survey items were measured using a 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Data were gathered using a structured questionnaire adapted from established instruments in prior research. The questionnaire was organised into several sections. The first section collected demographic information, including gender, age, department, position, and years of service. The second section consisted of six items measuring employee retention, adapted from Bernsen et al. (2009), and focused on employees' intentions to remain with the organization. The third section included five items assessing compensation, based on the scale developed by Delery and Doty (1996) and subsequently applied by Johanim et al. (2012), which examined employees' motivation related to salary and rewards. The fourth section measured work life balance using four items adapted from Parkes and Langford (2008), focusing on perceived balance between work and personal life demands. The fifth section consisted of twelve items assessing psychological well-being, adapted from Goldberg and Williams (1998). All adapted items were subjected to content validation by two subject-matter experts in human resource management to ensure contextual relevance and clarity before full data collection.

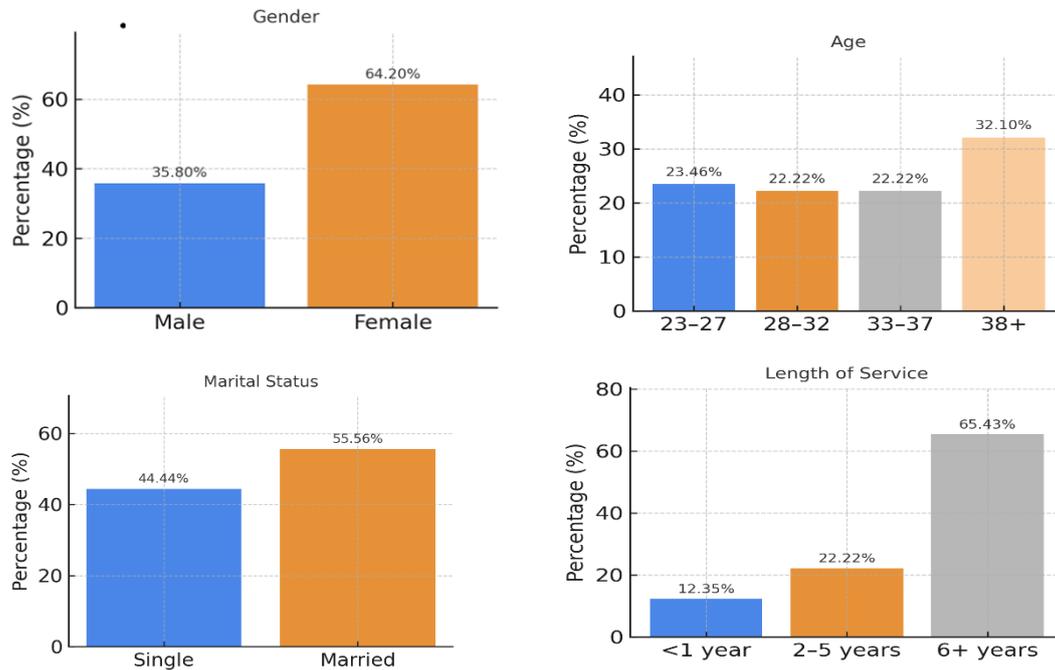
The survey was administered digitally via company email, with assurances of confidentiality and anonymity. Data collection was conducted under the supervision of the Human Resources department, with verification through internal email records and informed participant consent, in accordance with established ethical standards in human resources management research. Data were analyzed using SPSS Statistics version 27. Descriptive statistics summarized demographic data, Pearson correlation examined relationships between variables, and multiple regression identified the most dominant predictors of employee retention. The pilot study involved 30 employees from the technical, administrative, and support departments of a separate IT company in Selangor, ensuring diverse representation. To strengthen the quality of the data collection process, the instrument was subjected to expert validation, systematic evaluation of respondent feedback, and pilot testing to ensure clarity and content relevance. The produced Cronbach's alpha values were above 0.80, confirming strong internal consistency.

FINDING AND DISCUSSION

Respondent Demographics Profile

Figure 1 presents the demographic characteristics of the respondents, including gender, age, marital status, and length of service. The findings show that 64.2% of the respondents are female, while 35.8% are male, indicating that the sample is predominantly female. In terms of age, the largest group comprises respondents aged 38 years and above (32.10%). This is followed by those aged 23–27 years (23.46%), while both the 28–32 years and 33–37 years categories represent 22.22% each. For marital status, the results reveal that 55.56% of respondents are married, compared to 44.44% who are single. In analyzing the length of service, the majority of employees (65.43%) have served for six years or more, followed by 22.22% who have between two and five years of service, while the remaining 12.35% have less than one year of tenure. Overall, the demographic profile indicates a predominantly female and experienced workforce, with most respondents having long-term tenure in the organization.

Figure 1
Respondent Demographics Profile



Correlation Analysis

To fulfil the first research objective, correlation analysis was performed to determine the relationships between compensation, work-life balance, psychological well-being, and employee retention. The Pearson correlation analysis was conducted to examine the strength and direction of the relationships between the independent variables which are compensation, work-life balance and psychological well-being with the dependent variable, employee retention. Table 1 presents the correlation results.

Table 1:
Correlation Analysis

Variables	Pearson Correlation	Significant Value	Strength of Correlation
Compensation	0.740**	< 0.001	Strong
Work-Life Balance	0.617**	< 0.001	Strong
Psychological Well-Being	0.599**	< 0.001	Moderate

** denotes significance at the 0.01 level ($p < 0.01$). **

Among the variables, compensation showed the strongest positive correlation with employee retention ($r = 0.740, p < 0.001$), indicating that higher compensation is associated with a greater likelihood of employees staying. This finding aligns with Jevtić and Gašić (2025) and Mahato and Kaur (2023), who noted that fair and competitive pay not only meets employees’ financial needs but also signals the organization’s recognition of their value, strengthening loyalty and reducing turnover. Similarly, Laxmana and Paryontri, (2023) observed that equitable pay, performance-based rewards, and meaningful benefits enhance job satisfaction and organizational commitment, making competitive compensation a powerful tool for retaining talent.

Work-life balance also demonstrated a strong positive correlation with employee retention ($r = 0.617, p < 0.001$), indicating that employees who can effectively balance professional and personal responsibilities are more likely to remain with their employer. This finding is supported by Idowu (2020) and Weideman and Hofmeyr (2021), who reported that organizations offering flexible work arrangements and supportive policies experience higher retention rates. Similarly, a study on the banking sector by Choi (2020) found that flexible scheduling, remote work options, and family-friendly leave policies significantly reduced turnover intentions by alleviating work–family conflict. Furthermore, as highlighted by Qi et al., (2024) fostering a work-life balance supportive culture not only enhances employee well-being but also builds long-term loyalty, making it a strategic tool for talent retention.

Meanwhile, psychological well-being exhibited a moderate yet significant positive correlation with employee retention ($r = 0.599, p < 0.001$). This finding aligns with the work of Yap and Badri, (2021) who emphasized that higher levels of psychological well-being foster engagement, resilience, and motivation, thereby lowering the likelihood of turnover. Evidence from Gilar-Corbi et al., (2024) further supports this relationship, showing that employees with stronger psychological well-being characterized by emotional stability, self-efficacy, and positive workplace relationships are more committed to their organizations and less inclined to leave. Conversely, poor mental well-being, often triggered by workplace bullying or unsupportive leadership, can heighten stress, reduce morale, and accelerate attrition. This underscores the importance for organizations to cultivate a supportive work environment that nurtures psychological health as a strategic measure for enhancing retention.

In summary, the findings suggest that while compensation has the strongest influence on employee retention, work-life balance and psychological well-being are also important contributors. A holistic retention strategy that integrates competitive pay structures, supportive work-life policies, and initiatives to promote mental health is therefore essential for sustaining a committed and stable workforce.

Multiple Regression Analysis

Table 2

Multiple Regression Analysis

Independent Variables	Beta	Significant
Compensation	0.518	< 0.001
Work-Life Balance	0.270	0.001
Psychological Well-Being	0.206	0.013

Regression analysis was performed to fulfill the second research objective, which aimed to determine the most influential predictor of employee retention among employees in the selected organization. The results in Table 2 present the standardized beta coefficients (β) and significance values for the three independent variables which are compensation, work-life balance, and psychological well-being in predicting employee retention. The regression results show that compensation is the most dominant predictor of employee retention ($\beta = 0.518, p < 0.001$), followed by work-life balance ($\beta = 0.270, p = 0.001$) and psychological well-being ($\beta = 0.206, p = 0.013$). Compensation emerged as the most influential predictor ($\beta = 0.518, p < 0.001$), indicating that for every unit increase in compensation, employee retention increases by approximately 0.518 standard deviations when controlling for other variables. This underscores the strong role of competitive and fair compensation packages in fostering long-

term employee commitment, a finding consistent with (Garcia, 1996), who argued that equitable pay and reward systems are critical drivers of retention. In summary, while all three factors are important, compensation is the strongest driver of retention, suggesting that organizations should prioritize competitive remuneration alongside supportive work-life and well-being initiatives for the most effective retention strategy.

CONCLUSION

This study aimed to investigate the impact of compensation, work-life balance, and psychological well-being on employee retention, and the results demonstrate that all three factors play a significant role. Among them, compensation stood out as the most influential factor, suggesting that fair, competitive, and well-structured pay not only meets employees' financial needs but also makes them feel valued and appreciated, which in turn strengthens their loyalty to the organization. Work-life balance was also a significant contributor, highlighting that when employees can manage their professional and personal responsibilities without excessive strain, they are more likely to stay. Psychological well-being, while slightly less dominant, still had a meaningful impact by fostering motivation, resilience, and engagement factors that collectively strengthen organizational commitment and reduce turnover intentions.

In the context of the IT company examined in this study, these findings hold clear and meaningful practical implications. Operating within a highly competitive talent market, the organization often faces challenges in retaining skilled employees who regularly receive external job offers and must manage demanding workloads. As such, strengthening compensation structures, increasing flexibility in work scheduling, and prioritizing psychological support mechanisms are crucial strategies for stabilizing the workforce and mitigating voluntary turnover. Ensuring the retention of experienced employees is not only essential for maintaining service quality but also vital for sustaining organizational productivity and long-term performance.

Theoretically, this study strengthens the empirical evidence on employee retention by examining how compensation, work-life balance, and psychological well-being jointly influence retention in Malaysia's IT sector. In line with the Job Demands–Resources (JD-R) model, the findings demonstrate that both extrinsic and intrinsic resources play a critical role in reducing employees' turnover intentions (Bakker & Demerouti, 2017). From a policy perspective, the results resonate with the Malaysia Digital Economy Blueprint, which emphasizes the need for modern HR policies that integrate competitive pay with supportive work-life and mental health initiatives to ensure a resilient and future-ready workforce (Economic Planning Unit, 2021).

Looking ahead, future research could expand this study by including other possible influences on retention, such as leadership style, career growth opportunities, or organizational culture. It would also be valuable to explore these relationships over a longer time period or within specific industries to see if the patterns hold true in different contexts. Adding qualitative insights such as interviews or focus groups could further enrich the understanding of how these factors work together to shape employees' decisions to stay or leave.

Overall, the findings suggest retaining employees requires a holistic approach that addresses both their practical needs and their overall well-being. By investing in fair pay, work-life balance, and mental health, organizations can build a loyal, motivated, and stable workforce that supports long-term success.

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