

The Effect of Talent Management and Compensation on Millennial Employee Retention in PT XYZ, With Employee Engagement as A Mediating Factor

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ABSTRACT

This study examines the impact of talent management and compensation on employee retention, with a focus on millennial employees at PT XYZ, a state-owned company in Indonesia. The objective is to understand the relationship between talent management, compensation, and employee engagement, and their combined effect on retention. This research project will utilize a quantitative methodology as the approach, aiming to gather robust numerical data from a specific demographic: currently employed millennial workers at PT XYZ. An online survey was conducted to collect data from 182 millennial employees at PT XYZ, and the collected data were subsequently analyzed using the Structural Equation Modeling (SEM) model. The analysis of the data was performed using the Lisrel application. The results show that both talent management and compensation have a significant impact on employee retention, and this relationship is further strengthened by the mediating role of employee engagement. It is important to note that compensation plays a crucial role in optimizing retention among millennial employees, as evidenced by its strong influence in this study. These findings are somewhat inconsistent with prior research, which indicates that although compensation is recognized as a contributing factor to millennial employee retention, it is not the predominant factor. The implications of this study are relevant for both theoretical advancement in the field and practical application by HR practitioners in PT XYZ, providing insights for developing effective retention strategies.

Keywords: Talent Management, Compensation, Engagement, Retention, State Owned Company

INTRODUCTION

The role of human resources (HR) in organizations has evolved from a support function to a valuable asset that contributes significantly to organizational success. It is crucial to ensure that HR staff possess the necessary skills to meet organizational needs effectively. Competent HR staff and their exceptional performance are essential for gaining a competitive advantage and overall success. Talent management is a key driver of this success, providing companies with an edge over rivals in the market. Employee retention, influenced by factors such as internal components, career opportunities, rewards, job responsibilities, and relationships, plays a pivotal role in organizational success (Mathis & Jackson, 2010).

Employee retention significantly impacts organizational success, with compensation playing a crucial role in employees' decision-making when choosing an organization (Mathias & Jackson, 2008). The millennial generation, comprising a significant portion of the current workforce, possesses distinct characteristics that require special attention from the HR division due to their impact on company performance.

PT XYZ, a state-owned company in the Financial Services sector, currently employs a productive workforce from multiple generations, including Generation X, Generation Y (millennials), and Generation Z. In recent years, the workforce has been predominantly composed of Generation X but is gradually transitioning towards a dominance of Generation Y.

According to the 2022 Annual Report, the employee demographic of PT XYZ reveals that 64% of the current workforce consists of millennials, and a portion of these individuals has assumed leadership positions within their respective divisions. This highlights the necessity for the Human Resources division to pay special attention to the millennial generation, as their positions significantly influence the company's performance. To assess employee engagement levels, PT XYZ routinely monitors the resignation rate on an annual basis. This proactive approach enables the company to analyze and gain a precise understanding of the profiles of employees who choose to resign, particularly the reasons or underlying factors behind their decisions. Consequently, the company can develop appropriate programs aimed at enhancing employee engagement and ultimately maximizing employee retention.

Retaining talented employees is crucial for organizational productivity and profitability (Wijayanti, 2015). The knowledge and skills of employees contribute to a company's ability to compete and grow (Kyndt, 2009). Research consistently shows a relationship between talent management, compensation strategies, and employee retention. The strength of this relationship is influenced by employee engagement (Alias et al., 2014). Compensation variables have a positive and significant impact on employee engagement (Widyawati et al., 2021; Anitha, 2014). Organizations must assess the effects of talent management and

compensation strategies on employee retention success and make adjustments based on current conditions. PT XYZ is committed to enhancing its organizational capabilities, including retaining exceptional employees, to achieve its vision and compete effectively. Human Capital Managers and leaders face the challenge of fostering employee engagement, attracting and retaining talented individuals (Kakul & Gachunga, 2016).

The primary objectives of this study are to examine the impact of talent management and compensation on millennial employee retention, explore the relationship between talent management, compensation, and employee engagement, and investigate the influence of employee engagement on millennial employee retention at PT XYZ.

METHODS

This study investigates the relationship between talent management, compensation, employee engagement, and millennial employee retention at PT XYZ, a state-owned company in Indonesia. Using a quantitative approach, an online survey gathered data from 182 millennial employees. Structural Equation Modeling (SEM) was employed for data analysis. The results reveal that both talent management and compensation significantly impact employee retention, with employee engagement mediating this relationship. Compensation's strong influence on retention is noteworthy. These findings contribute to theoretical advancements and offer practical insights for HR practitioners at PT

XYZ to develop effective retention strategies.

RESULT

1. Validity Test and Reliability Test

- a. Based on the validity test results, it can be inferred that all indicators used to measure the Talent Management variable demonstrate a level of validity. This is evident from the loading factor values exceeding 0.50 and t-values surpassing 1.96, meeting the established testing requirements. The indicators of the Talent Management variable exhibit good reliability as well, with Construct Reliability values ≥ 0.70 , and the AVE values meeting the expected AVE reliability criteria of ≥ 0.50 .
- b. Based on the validity test results, it can be concluded that all indicators used to measure the Compensation variable exhibit a level of validity. This is evident from the loading factor values exceeding 0.50 and t-values surpassing 1.96, meeting the predetermined testing requirements. The indicators of the Compensation variable demonstrate a high level of reliability, with Construct Reliability values ≥ 0.70 , and AVE values meeting the expected criteria for AVE reliability of ≥ 0.50 .
- c. Based on the validity test results, it can be concluded that all indicators used to measure the Employee Retention variable demonstrate a level of validity. This is evident from

the loading factor values exceeding 0.50 and t-values exceeding 1.96, in line with the established testing requirements. The indicators of the Employee Retention variable exhibit a strong level of reliability as well, with Construct Reliability values ≥ 0.70 , and AVE values meeting the expected criteria for AVE reliability of ≥ 0.50 .

- d. Based on the validity test results, it can be concluded that all indicators used to measure the Employee Engagement variable demonstrate a level of validity. This is evident from the loading factor values exceeding 0.50 and t-values exceeding 1.96, which align with the established testing requirements. The indicators of the Employee Engagement variable exhibit a high level of reliability as well, with

Construct Reliability values ≥ 0.70 , and AVE values meeting the expected criteria for AVE reliability of ≥ 0.50 .

Based on these findings, it can be inferred that all variables exhibit a high level of reliability. This observation aligns with the research conducted by Hair et al. (2010), which suggests that a construct is deemed to have good reliability when the Construct Reliability (CR) value is ≥ 0.70 and the variance extracted (VE) value is ≥ 0.40 .

2. Goodness of Fit

Before analyzing the hypotheses using the SEM output, the next step is to conduct a model analysis to assess the fit of the generated model using the Goodness of Fit test from Lisrel. The following presents the results of the model fit analysis based on the obtained output.

Table 1. Goodness of Fit

<i>Goodness of Fit</i>	<i>Ideal Threshold Value</i>	Result	Conclusion
GFI	GFI ≥ 0.90	0.97	Good Fit
AGFI	AGFI ≥ 0.90	0.97	Good Fit
RMSEA	RMSEA ≤ 0.80	0.06	Good Fit
NFI	NFI ≥ 0.90	1.00	Good Fit
CFI	CFI ≥ 0.95	1.00	Good Fit
PGFI	PGFI ≥ 0.50	0.75	Good Fit
PNFI	PNFI ≥ 0.50	0.85	Good Fit

The analysis of goodness of fit revealed that the RMSEA criterion yielded a value of $0.06 \leq 0.08$, indicating that the generated model meets the criteria for good fit. Furthermore, other goodness of fit criteria such as GFI, AGFI, IFI, NFI, and CFI yielded values > 0.90 , indicating that the generated model also satisfies the goodness of fit criteria. Consequently, based on the conclusions drawn from these indicators, hypothesis testing

of the theoretical framework can be conducted.

3. Descriptive Analysis

This study employed a Likert scale ranging from a minimum value of 1 to a maximum value of 5. To determine the tendency of respondent ratings based on the collected questionnaire data, the mean scores of respondent answers will be evaluated. Based on the calculation formula for interval values, the obtained interval scale

range for this study is 0.8 as the mean value. Based on the analysis, the following categories can be identified:

Table 2. Descriptive Analysis Assessment

Scale	Interval
Strongly Disagree	$1,00 \leq x \leq 1,80$
Disagree	$1,80 \leq x \leq 2,60$
Neutral	$2,60 \leq x \leq 3,40$
Agree	$3,40 \leq x \leq 4,20$
Strongly Agree	$4,20 \leq x \leq 5$

By using the scale range mentioned above, the measurement of variables in this research for the tendency of respondent answers and the interpretation of each questionnaire item are as follows:

a) Talent Management

Table 3. Descriptive Analysis Talent Management

Dimension	Indicator	Mean	Std. Deviation	Average Mean	Remarks	Category
To Recruit	TMA1	3,8	.931	4,05	Below average	High
	TMA2	4,47	.654		Above average	Very High
	TMA3	4,43	.700		Above average	Very High
	TMA4	3,49	1.039		Below average	High
	TMA5	4,04	.843		Above average	High
To Retain	TMB1	3,92	.853	4,02	Below average	High
	TMB2	4,02	.863		Below average	High
	TMB3	4,23	.793		Above average	Very High
	TMB4	3,98	.769		Below average	High
	TMB5	3,93	.935		Below average	High
To Develop	TMC1	3,98	.922	4,04	Below average	High
	TMC2	3,92	.834		Below average	High
	TMC3	4,04	.803		Above average	High
	TMC4	4,09	.789		Above average	High
	TMC5	4,17	.847		Above average	High

TM: 4,03 (High)

b) Compensation

Table 4. Descriptive Analysis Compensation

Indicator	Mean	Std. Deviation	Remarks	Category
KOM1	3,73	.976	Below average	High
KOM2	4,27	.807	Above average	Very High
KOM3	3,76	1.000	Below average	High
KOM4	3,91	.930	Above average	High
KOM5	3,64	.997	Below average	High
KOM6	3,91	.956	Above average	High

KOM: 3,87 (High)

c) Employee Retention

Table 5. Descriptive Analysis Employee Retention

Indikator	Mean	Std. Deviation	Keterangan	Kategori Nilai
RET1	3,86	.880	Below average	High
RET2	3,81	.891	Below average	High
RET3	4,04	.894	Above average	High
RET4	4,08	.813	Above average	High
RET5	3,88	.836	Below average	High

RET: 3,93 (High)

d) Employee Engagement

Table 6. Descriptive Analysis Employee Engagement

Indikator	Mean	Std. Deviation	Keterangan	Kategori Nilai
ENG1	4,31	,686	Above average	Very High
ENG2	4,2	,777	Above average	High
ENG3	3,16	1.196	Below average	Neutral
ENG4	2,87	1.138	Below average	Neutral
ENG5	4,08	,800	Above average	High
ENG6	4,14	,822	Above average	High
ENG: 3,87 (Tinggi)				

Table 7. Direct Influence

	Path	t-values	Standardized loading faktor	Conclusion
H1	Talent management → employee retention	2.92	0.36	H1: Accepted Positive & Significant
H2	Compensation → employee retention	4.03	0.33	H2: Accepted Positive & Significant
H3	Talent management → employee engagement	3.56	0.30	H3: Accepted Positive & Significant
H4	Compensation → employee engagement	5.59	0.42	H4: Accepted Positive & Significant
H5	employee engagement → employee retention	3.63	0.38	H5: Accepted Positive & Significant

Based on the hypothesis testing results above, it is known that:

1. Talent Management (TM) has a significant positive influence on employee retention (RET) with a coefficient of 0.36. This indicates that an increase in Talent Management (TM) will lead to an increase in employee retention (RET).
2. Compensation (KOM) also has a significant positive influence on employee retention (RET) with a coefficient of 0.33. This means that an increase in Compensation (KOM) will result in an increase in employee retention (RET).
3. Based on the hypothesis testing results, it was found that Talent Management (TM) has a significant positive influence on Employee Engagement (ENG) with a coefficient of 0.30. This suggests that a higher level of Talent Management (TM)

corresponds to a higher level of Employee Engagement (ENG).

4. Compensation (KOM) also has a significant positive influence on Employee Engagement (ENG) with a coefficient of 0.42. This means that an increase in Compensation (KOM) will lead to an increase in Employee Engagement (ENG).
5. Employee Engagement (ENG) has a significant positive influence on employee retention (RET) with a coefficient of 0.38. This indicates that an increase in Employee Engagement (ENG) will result in an increase in employee retention (RET).

Direct Influence:

The results of the indirect influence (mediation) estimation from the SEM model for hypothesis testing are summarized in the table below:

Tabel 8. Indirect Influence

Variable	Standardized loading factor	t-value	Remarks
TM → ENG → RET	0.11	2.82	Significant
KOM → ENG → RET	0.16	2.92	Significant

Based on the above hypothesis testing results, it is found that the variable of Employee Engagement significantly mediates the relationship between the variables, where:

1. Talent Management (TM) has an indirect influence on Employee Retention (RET) through Employee Engagement with a coefficient of 0.11. This implies that as Talent Management (TM) increases, Employee Engagement (ENG) will also increase, indirectly impacting the improvement of Employee Retention (RET).

2. The variable of Compensation has an indirect influence on Employee Retention through Employee Engagement (ENG) with a coefficient of 0.16. This means that as the level of Compensation increases, Employee Engagement (ENG) will also increase, indirectly leading to an improvement in Employee Retention (RET).

Based on the data processing and testing analysis using Lisrel 8.8 as mentioned above, the following conclusions can be drawn:

Table 9. Hypothesis Summary

	Hyphotesis	Remarks
H1	Talent management has a significant and positive impact on employee retention	Proven
H2	Compensation has a significant and positive influence on employee retention.	Proven
H3	alent management has a significant and positive effect on employee engagement.	Proven
H4	Compensation has a significant and positive impact on employee engagement.	Proven
H5	mployee engagement has a significant and positive effect on employee retention and can mediate the influence of talent management and compensation on employee retention.	Proven

DISCUSSION

1. Talent Management and Employee Retention

The results of the structural model testing revealed that there is a significant influence, and Hypothesis 1 is supported. This study aligns with previous research conducted by Kumar (2021), Younas (2020) and Madurani (2020) in different companies and countries, indicating that Talent Management practices implemented by organizations

have a positive and significant impact on Employee Retention.

2. Compensation Strategy and Employee Retention

Moreover, Hypothesis 2 is substantiated, confirming the outcomes of Hanai & Pallangyo (2020), Mandhaya (2016), and Morrel (2019) research, which provided evidence that the compensation strategies employed by organizations have a positive and significant impact on Employee Retention.

3. Talent Management and Employee Engagement

In addition, there is a direct effect of Talent Management on Employee Engagement as a mediating variable, and Hypothesis 4 is accepted. This finding supports previous research by Ekhsan (2022) and Ishiyama (2021) indicating that the implementation of Talent Management in organizations has a positive and significant influence on Employee Engagement.

4. Compensation and Employee Engagement

Moreover, there is a significant direct impact of Compensation on Employee Engagement, and Hypothesis 4 is supported. This result is consistent with previous studies conducted by Hoque (2018) and Indriyani (2017), respectively demonstrating that the compensation strategies adopted by companies have a positive and significant effect on Employee Engagement. Lastly, the results indicate that Employee Engagement acts as a mediator between the independent variables, Talent Management and Compensation, and the dependent variable, Employee Retention.

5. Employee Engagement and Employee Retention

Therefore, Hypothesis 5 is supported. Previous research conducted by Ekhsan (2020), Sayed et al. (2021) and Anita (2014) confirmed the positive impact of employee engagement on employee retention and revealed that employee engagement successfully mediates the relationship between talent

management and employee retention. These findings address the research questions and can serve as valuable insights for PT XYZ in formulating strategies to enhance employee retention.

CONCLUSION

This research study illuminates the critical role of Talent Management, particularly in the context of millennial employees at PT XYZ, a prominent organization in Indonesia. The findings derived from this study suggest that Talent Management, when synergistically integrated with a well-structured and effective compensation strategy, can significantly enhance employee retention rates. This is a crucial insight for organizations striving to retain their talented workforce in an increasingly competitive job market. Specifically, the study establishes a positive relationship between Compensation and Employee Retention. This relationship indicates that organizations that implement robust and equitable compensation strategies are likely to witness higher retention rates. This finding is particularly relevant in today's competitive job market where compensation is often a key determinant of job satisfaction and, consequently, employee retention.

From a theoretical standpoint, this research makes a significant contribution to the existing body of knowledge on talent management, compensation, and employee retention. It identifies and underscores the significant influence of talent management on employee retention. This finding enriches the current understanding of the

dynamics between these variables and provides a solid foundation for future research in this area. From a practical perspective, this study offers valuable insights for HR practitioners. It encourages them to evaluate the role of employee engagement in the relationship between talent management, compensation, and millennial employee retention. This approach goes beyond the conventional focus on retention efforts and suggests that a holistic approach encompassing various HR management strategies and policies, including Talent Management, can yield more effective results.

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