

**THE EFFECT OF COMPENSATION AND BENEFITS ON EMPLOYEE
RETENTION IN THE CANADIAN EMPLOYMENT SYSTEM**

BY

ONYEKA JOHN IKEOBI

onyekaikeobi@yahoo.com

LLBS/EMBA-HRM /005212/001124/000030

EMBA - EXECUTIVE MASTER OF BUSINESS ADMINISTRATION IN
HUMAN RESOURCE MANAGEMENT (HRM) PROFESSIONAL
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Abstract

This paper explored how compensation and benefits influenced retention in the Canadian employment system. Narrative literature review and secondary data methods were used to review peer-reviewed turnover research, Statistics Canada employment indicators, and Canadian federal labour policy documents. Literature reviewed revealed that compensation and benefits influenced retention when they were competitive, fair, transparent, accessible, and responsive to workers. Studies of turnover consistently reported that pay, job satisfaction, organizational commitment, working conditions, and career opportunities interacted with each other. Canadian-specific research found access to medical and dental benefits, paid vacation, paid sick leave, and job-related training changed based on employment type, sector, unionization rates, and job permanency. These discrepancies were significant as benefit inequalities disadvantaged part-time, temporary, younger, and non-union workers. The literature supported compensation and benefits being foundational to retention but unable to override poor management, unsafe working conditions, unfairness, burnout, or stalled career progression. Recommended practices included conducting market pay assessments, performing internal equity assessments, expanding access to benefits, clarifying benefits offerings, developing stronger training and promotion paths, and tracking retention metrics that connected total rewards to turnover rates.

Keywords: Compensation, Benefits, Employee Retention, Canada, Total Rewards, Pay Equity

Introduction

Employee retention continues to be a significant concern for Canadian employers as turnover harms productivity, service quality, staffing consistency, client relationships, and organizational memory. From a human resource management perspective, retention is never simply a matter of paying people not to quit. Instead, retention captures how robust the employment relationship is and how likely an employee is to stay with that organization over time. Compensation and benefits impact the employment relationship by influencing how employees perceive their job's fairness, security, and practical value. This topic is especially relevant in Canada given how the Canadian employment system blends federal and provincial labour standards, collective bargaining, employer-sponsored benefits, pay equity adjustments, and market-based competition for wages.

Employment and Social Development Canada (ESDC, 20 25a) notes Part III of the Canada Labour Code governs hours of work, wages, leaves, vacations, holidays, and other employment conditions in workplaces under federal jurisdiction. However, many Canadian employees are covered by provincial or territorial employment standards instead. This created differences in minimum protections by jurisdiction and industry, even as employers compete for workers with total rewards packages that exceed those legal minimums. The main point of this paper was that compensation and benefits helped employers improve retention in Canada when they were competitive, fair, transparent, and responsive to employee needs. Compensation and benefits on their own were not the only factor.

Research on turnover identified other reasons why employees stayed with organizations such as job satisfaction, organizational commitment, development opportunities, supportive coworker and manager relationships, and person-organization fit (Griffeth et al., 2000; Hausknecht et al., 2009; Hom et al., 2017). With this in mind, Canadian employers should view compensation and benefits as one piece of total rewards, not standalone motivators.

Methodology

The research method used for this literature review was a combination of narrative review and secondary data. Snyder (2019) stated that literature reviews can be used as a method of research if they are completed using a systematic process. Tranfield *et al.* (2003) noted that management reviews should also be transparent so that practice could be informed by evidence instead of

opinion. Following these suggestions, this paper integrated academic research on compensation, motivation, and turnover with public sources from the Canadian government and Statistics Canada on employment standards, benefits, job tenure, and training.

The research question investigated was: What impact did compensation and benefits have on employee retention in Canada? The search strategy relied on three types of evidence. Academic sources were used for literature on pay, motivation, turnover, retention, and organizational outcomes. Public government websites were used to source minimum labour standards, vacation, paid leave, medical leave, and pay equity information. Statistics Canada was searched for indicators on job tenure, medical and dental benefits, paid vacation, paid sick days, and training provided by the employer.

The inclusion criteria were trustworthiness, applicability, and relation to the paper's topic. Sources were included if they referenced or discussed compensation, benefits, retention, turnover, job quality, labor standards, or employment in Canada. Peer-reviewed journal articles were given precedence for providing theoretical and empirical evidence. Statistics Canada and Government of Canada websites were included for data on the Canadian labour market and policy. Sources were excluded if they did not cite data to support their claims, were based solely on personal opinions, did not apply to Canada, or discussed employee recruitment without mentioning retention.

The theme synthesis was used for data analysis. Once evidence was gathered, results were sorted into themes: competitive compensation, benefits, employment protections, pay equity, job quality, and limitations of monetary incentives. Primary data was not collected for this paper through survey questions, interviews, or experiments. As such, results should be considered the findings of a literature review rather than a new study.

Population and Sampling

The population of interest was employees in the Canadian employment system, with attention to workers whose retention could be influenced by wages, salaries, paid leave, health benefits, retirement supports, job-related training, and workplace fairness. This population included full-time, part-time, permanent, temporary, unionized, non-unionized, public-sector, and private-sector

employees. It also included workers in federally regulated workplaces as well as workers covered by provincial or territorial employment standards.

Because this paper used secondary research, there was no direct sampling of human participants. Instead, the sampling process involved purposive source selection. The selected sources represented academic research on turnover and retention, Canadian labour-policy documents, and national labour-market indicators. Statistics Canada sources were especially important because they provided national data on benefit access and job quality. For example, Statistics Canada (2025a) reported medical and dental benefit coverage, Statistics Canada (2025b) reported paid vacation entitlement, and Statistics Canada (2024b) reported sick leave entitlement.

The sample of literature and documents was not designed to represent every Canadian industry equally. It was designed to support a focused review of compensation, benefits, and retention. As a result, the paper gave more attention to employment conditions that were directly tied to total rewards, such as pay, benefits, leave, training, and equity. This was appropriate because the research question focused on how compensation and benefits affected retention rather than on all possible causes of turnover.

Results

The review produced five main findings. First, compensation affected retention because employees compared pay against their effort, responsibilities, cost of living, coworkers, and outside opportunities. Rynes et al. (2004) found that pay had often been underestimated as a motivator because employees sometimes said that pay mattered less than their behaviour suggested. In the Canadian context, this finding mattered because employees compared compensation across sectors, provinces, unionized roles, public-sector jobs, and similar private-sector employers. When employees believed that pay was below market value or internally unfair, the risk of turnover increased.

Second, benefits affected retention because they reduced employee risk and improved job quality. Statistics Canada (2025a) reported that 66.8% of Canadian employees had workplace medical or dental benefits through their main job in 2024. The same source reported that benefit access was much higher for full-time employees than for part-time employees, with 76.1% of full-time employees and 20.7% of part-time employees reporting workplace medical or dental benefits. This

result showed that benefit access was uneven and that part-time workers were more likely to lack a major form of employment security.

Third, paid leave was an important part of the retention picture. Statistics Canada (2025b) reported that 72.9% of Canadian employees had paid vacation entitlement in 2024. Hilbrecht and Smale (2016) found that paid vacation time contributed to well-being among employed Canadians. Their finding suggested that paid vacation had value beyond time away from work; it supported recovery, health, and life satisfaction. Statistics Canada (2024b) also reported that 64.0% of Canadian employees had access to paid sick leave in their main job in 2023. Access to paid sick leave mattered because employees without it faced pressure to work while sick or lose income.

Fourth, retention was connected to job stability and career development. Statistics Canada (2024a) reported that, in 2023, 13.2% of workers aged 25 and over had job tenure of less than one year, while 36.1% had tenure of 10 years or more. Statistics Canada (2025c) reported that 29.7% of Canadian workers participated in job-related non-formal training in the 12 months ending in November 2024. These results suggested that employees were situated across different levels of job attachment and development opportunity. Training functioned as a non-wage benefit because it gave workers skills, employability, and a reason to imagine a future with their current employer.

Fifth, the review found that compensation and benefits could not explain retention by themselves. Hom et al. (2017) reviewed a century of turnover research and concluded that employee turnover had multiple causes, including job dissatisfaction, better alternatives, poor fit, unexpected shocks, and weak attachment. Hausknecht et al. (2009) found that employees stayed for reasons such as job satisfaction, extrinsic rewards, organizational commitment, organizational prestige, and supportive work conditions. Allen et al. (2010) argued that retention strategies needed evidence-based diagnosis rather than assumptions. These findings indicated that compensation and benefits mattered, but they worked best when combined with leadership quality, fairness, development, and a healthy workplace culture.

Discussion

The findings supported the argument that compensation and benefits formed the foundation of employee retention in Canada. Pay mattered because it provided income security and signaled how much the organization valued the employee's work. Benefits mattered because they protected

employees from health costs, income loss, caregiving strain, burnout, and future insecurity. However, the strongest interpretation was not that higher pay automatically retained employees. The stronger interpretation was that employees were more likely to stay when total rewards were fair, competitive, accessible, and connected to their real needs.

Canadian labour standards created a legal foundation for compensation and benefits. ESDC (2025a) stated that federal labour standards covered employment conditions such as hours of work, payment of wages, leaves, vacation, and holidays for federally regulated employees. ESDC (2025b) stated that federal vacation pay was calculated at 4%, 6%, or 8% of earnings depending on vacation entitlement. ESDC (2026) also stated that federally regulated employees could access up to 10 days of medical leave with pay per year. These standards mattered because they created minimum protections. However, minimum legal compliance did not equal a strong retention strategy. Employers that wanted to retain employees had to ask whether their total rewards were better than the minimum and competitive enough to reduce employees' desire to leave.

The evidence also showed that benefit inequality was a retention risk. Statistics Canada (2025a) reported a large gap between full-time and part-time employees in workplace medical and dental coverage. Statistics Canada (2024b) reported a similar gap in paid sick leave access between full-time and part-time employees. These gaps mattered because workers who lacked benefits experienced employment as less secure. In practical terms, a part-time worker without medical coverage, dental coverage, paid sick leave, or predictable scheduling had fewer reasons to stay if another employer offered stronger protections. For Canadian employers, retention efforts that ignored part-time, temporary, and lower-wage workers would remain incomplete.

Fairness was another major issue. The Pay Equity Act created a proactive pay equity regime for federally regulated workplaces with 10 or more employees, and ESDC (2023) stated that employers had to examine compensation practices to ensure equal pay for men and women doing work of equal value. The Canadian Human Rights Commission (2026) reported that the Act applied to about 5,000 federally regulated employers and about 1.4 million employees. These policy details mattered because retention was partly psychological. Employees were unlikely to stay committed to an employer that they believed paid unfairly or tolerated inequity. Fair pay systems build trust, while hidden or unexplained pay differences damage morale.

Collective bargaining also shaped retention because it often improved access to wages, benefits, paid leave, and job protections. Statistics Canada (2025a) reported that employees covered by

collective bargaining agreements were more likely to have workplace medical or dental benefits. Statistics Canada (2025b) also reported that public-sector employees were more likely than private-sector employees to have paid vacation entitlement. These findings suggested that union coverage and public-sector employment often gave workers stronger employment protections. For private and non-union employers, the practical lesson was not that they had to copy every public-sector benefit. The lesson was that employees compared their total rewards against visible alternatives. If private employers offered weak benefits, they should expect retention problems among workers who had better options.

The review also revealed the limits of compensation and benefits. Park and Shaw (2013) found that turnover rates were associated with organizational performance, which meant turnover created costs beyond replacing one employee. However, Allen et al. (2010) warned that organizations needed to understand why people left before choosing retention strategies. This was important because money could not fix every workplace problem. If employees left because of bullying, unsafe staffing, racism, burnout, poor scheduling, or lack of advancement, a small wage increase would not solve the deeper issue. Benefits could reduce insecurity, but they could not replace respectful supervision, reasonable workload, and career opportunity.

Overall, the Canadian employment system required employers to think about retention through a total rewards lens. Compensation attracted attention, benefits reduced risk, paid leave supported well-being, training encouraged growth, and pay equity strengthened trust. These elements worked together. A retention strategy that focused only on salary was too narrow. A strategy that offered benefits but paid below market was also weak. The most effective approach combined competitive pay, meaningful benefits, fair systems, communication, and workplace conditions that made employees believe staying was worth it.

Conclusion

Compensation and benefits had a clear effect on employee retention in the Canadian employment system. The reviewed evidence showed that competitive pay reduced financial reasons to leave, while benefits such as medical and dental coverage, paid vacation, paid sick leave, retirement support, and training improved job quality and employment security. Canadian data also showed that access to these benefits was unequal across full-time, part-time, permanent, temporary, public-

sector, private-sector, unionized, and non-unionized workers (Statistics Canada, 2024b, 2025a, 2025b).

The paper concluded that compensation and benefits were necessary but not sufficient. They formed the foundation of retention, but they could not substitute for good leadership, fair treatment, safe work, career development, and organizational trust. In Canada, where labour standards, collective bargaining, pay equity, and employer-sponsored benefits shaped employment relationships, the strongest retention strategies combined legal compliance with strategic total rewards. Employers that paid fairly, protected employees through meaningful benefits, supported leave, invested in development, and corrected inequity gave employees stronger reasons to stay.

Recommendations

Canadian employers should use six practical steps to improve retention through compensation and benefits. First, employers should conduct regular market pay reviews. These reviews should compare wages and salaries with similar roles, industries, regions, public-sector competitors, and unionized workplaces. Market review is important because Canadian labour conditions differ across provinces, cities, and industries.

Second, employers should audit internal pay equity. Pay differences should be explainable by legitimate factors such as experience, education, responsibility, role complexity, and performance. Unexplained differences should be corrected before they damage employee trust. This recommendation was especially important for federally regulated employers because the Pay Equity Act required proactive review of compensation systems (ESDC, 2023).

Third, employers should expand benefit access for workers who were often excluded. Statistics Canada (2025a) reported that part-time employees had much lower medical and dental benefit coverage than full-time employees. Statistics Canada (2024b) reported that part-time employees also had lower access to paid sick leave. Employers should consider prorated benefits, health spending accounts, paid sick days, predictable scheduling, and wellness supports for part-time and temporary workers.

Fourth, employers should communicate benefits clearly. A benefit had limited retention value if employees did not understand it, could not access it, or did not know how it applied to their lives. Employers should explain health coverage, dental coverage, paid vacation, sick leave, retirement plans, disability coverage, training funds, and wellness supports in plain language.

Fifth, employers should connect benefits to career development. Tuition support, certification reimbursement, mentoring, leadership training, and internal promotion pathways should be treated as retention tools. Statistics Canada (2025c) reported that job-related training was a meaningful part of Canadian employment quality. Development benefits helped employees see a future with their current employer instead of leaving to grow elsewhere.

Sixth, employers should track retention outcomes. Organizations should monitor turnover rates, exit interview themes, pay complaints, benefit use, employee engagement, and tenure patterns. Allen et al. (2010) emphasized that retention decisions should be evidence-based rather than assumption-driven. Employers that measured why employees left were better positioned to invest in the right solutions.

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Appendix

Appendix A

Evidence Matrix for the Review

The table below summarizes the major sources used in the review and explains how each source supported the paper's analysis.

Source	Type of evidence	Key finding used in the paper	Relevance to the topic
Rynes et al. (2004)	Peer-reviewed article	Pay had been underestimated as a motivator when self-reports were compared with behavior.	Supported the argument that compensation affected employment decisions.
Hom et al. (2017)	Peer-reviewed review	Turnover had multiple causes, including dissatisfaction, alternatives, shocks, and weak attachment.	Showed that retention required more than pay alone.
Hausknecht et al. (2009)	Peer-reviewed empirical study	Employees stayed because of job satisfaction, extrinsic rewards, commitment, prestige, and supportive conditions.	Linked compensation and benefits to broader retention factors.
Statistics Canada (2025a)	Canadian national data	66.8% of employees had workplace medical or dental benefits in 2024, with large full-time/part-time gaps.	Showed unequal benefit access in Canada.

Source	Type of evidence	Key finding used in the paper	Relevance to the topic
Statistics Canada (2025b)	Canadian national data	72.9% of employees had paid vacation entitlement in 2024.	Supported paid leave as part of job quality.
Statistics Canada (2024b)	Canadian national data	64.0% of employees had paid sick leave in their main job in 2023.	Linked paid sick leave to employment security.
ESDC (2025a, 2025b, 2026)	Government policy sources	Federal standards covered wages, leave, vacation, holidays, and medical leave with pay.	Explained the Canadian employment system and legal baseline.
ESDC (2023) and CHRC (2026)	Government/pay equity sources	Federal pay equity rules applied to workplaces with 10 or more employees and covered about 1.4 million employees.	Connected fairness and equity to retention.
Allen et al. (2010)	Peer-reviewed article	Retention strategies needed evidence-based diagnosis rather than assumptions.	Supported practical recommendations for employers.