

## **Flexibility of benefit systems and firms' attraction and retention capacities**

### **Purpose**

This paper analyzes three different forms of benefit systems and the effects of their application on Spanish firms' attraction and retention capacity, differentiating these systems depending on the flexibility offered to the workers.

### **Design/methodology/approach**

The data of this study have been collected from a sample of 308 human resources managers in Spanish firms, through an online questionnaire. The hypotheses were tested by ordinary least squares regression analyses.

### **Findings**

The results show that firms having more flexible compensation systems, that is, those providing greater freedom to workers in the election of their benefits and the design of the benefit system, reported to have a higher attraction and retention capacity than firms offering to their employees a unique and similar benefit package for all the employees.

### **Research limitations**

Future studies could extend this study by analyzing different contexts in order to determine whether some institutional factors can influence these results. Similarly, it would be interesting to analyze the effects of these systems on other organizational outcomes, such as their financial performance.

### **Practical implications**

Human resources policies and, especially, compensation policies have a significant influence on the ability of firms to recruit and retain core employees, necessary for corporate success. This study sheds light on the effectiveness of different benefits systems in enhancing the firms' capacities to attract and retain core employees. Taking into account the hard financial and labor environment that the Spanish firms have to face, the results of this study can have important implications for managers.

### **Originality/value**

This paper responds to recent calls asking for the necessity of analyzing the effect of different benefit systems in contexts different to the broadly considered American context. Similarly, these results could be applied to other countries with conditions similar to Spain, that is, countries where the benefit systems have been traditionally less flexible and with an offer of benefits quite different than firms located in countries where the State offers a less social assistance to citizens.

**Key words:** benefit systems, flexibility, attraction capacity, retention capacity, compensation

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## **Introduction**

Employees' knowledge, skills, and abilities have become a critical strategic variable in the development and maintenance of firms' competitive advantages (Porter, 2001). Core employees make the difference and are basic for the firm in order to reach their objectives (Balkin and Bannister, 1993; Gómez-Mejía and Balkin, 1992). These workers are able to develop capacities to respond to the changing requirements of firms, thus becoming a highly valuable resource. As these workers realize their strategic value, they ask for better labor conditions that cover their needs and aspirations (Chew, 2004). Hence, higher talent will imply higher demands on the part of the workers.

In this situation, firms compete to attract and retain those valuable knowledge, skills, and abilities (López-Cabrales *et al.*, 2006). Firms need to develop an adequate human resource management oriented to developing an image of "good recruiter" that improves their attraction and retention capacities (Miles and Mangold, 2004) and increase their commitment to and the performance of their employees (Whitener, 2001). In this context, compensation systems are one of the main factors that influence employees' satisfaction and attitudes (Davies, 2001). When analyzing the motivating role of compensation systems, it is necessary to consider both the direct and indirect compensation of employees. In this sense, the capacity of compensation systems to influence employees' attitudes is not only based on the monetary pay offered, but also on these other benefits that complement the salary (Milkovich and Newman, 2007; Schlechter *et al.*, 2015). As the importance of these benefits rises, human resource managers have to pay more detailed attention to the design of those systems to offer benefits to employees (Giancola, 2013). However, both the current environment and the heterogeneity of employees' attitudes and demands can make the design of an optimal and effective benefits system more complex.

The current turbulent environment has contributed to a new labor scenario where the flexibility of labor conditions has gained an important role. The changing conditions of the business environment are demanding firms to be able to continuously adapt to it. In this sense, the recent economic and financial crisis has increased the necessity of firms to improve their efficiency, by implementing human resource practices that can be adjusted to the specific conditions of each situation. Similarly, firms deal with employees having different attitudes and demands that can complicate the design and implementation of compensation systems being equally effective for all the employees (Webb Day *et al.*, 2014). Thus, work relationships have changed from a traditional system, based on long-term and stable labor conditions, toward a system that looks after the mutual satisfaction and continuous adaptation to the demands of the agents involved (Finegan, 2000).

Taking this into account, some research has proposed that a viable option to captivate and stimulate as many employees as possible can be the implementation of flexible reward systems (De Gieter and Hofmans, 2015; Hofmans *et al.*, 2013). For this reason, this paper is focused on a specific design variable of benefit systems: their degree of flexibility. For the purpose of this work, benefit flexibility refers to the degree of freedom that employees will have in selecting their benefits. In this sense, benefit systems can range from scarcely flexible systems, when firms unilaterally design a unique and common benefit system for all their employees, to a highly flexible system, where employees have the opportunity to completely design their own benefit system. Despite the advantages that these flexible systems can imply for firms in terms of efficiency and costs, so far the attention of the literature has been scarce, so it is necessary to analyze their effectiveness in the attraction and retention of core employees (Baeten and Verwaeren, 2012)

In this paper, we paid special attention to the Spanish context. Two main reasons explain our decision. Firstly, most of previous studies are geographically focused on North American firms, and less is known about their effect on firms settled in continental Europe (Baeten and Verwaeren, 2012). Specifically, although in Spain benefit systems are increasing their degree of flexibility in recent years (Vidal-Salazar *et al.*, 2014), empirical studies analyzing some of their effects are absent. This is especially important if we consider the hard economic and financial situation that Spanish firms have suffered in recent years, which is the reason why they are demanding for more efficient human resource practices. Despite the adoption of politics oriented to reduce cost, Spanish firms still need to maintain their capacity to attract and retain talent, mainly if we consider the threat of foreign firms.

Secondly, taking into account that national differences, which are mainly caused by different labor legislations and benefits in tax treatment, can play an important role in the implementation of specific benefit systems (Baeten, 2014), it is necessary to determine whether the effect of more flexible benefit systems can be similar to those found by previous studies. Specifically, Spain differs from other countries, such as the United States, because the State offers a broad social coverage. This fact can influence the way that employees assess the benefits offered by the firms to them, so it is necessary to study whether it can influence the effectiveness of benefit systems on the attraction and retention of firms.

### **Benefit systems**

Benefits or indirect compensation encompass all those other incentives, apart from pay for time worked, that employers provide to employees (Milkovich and Newman, 2007). The reasons to provide these benefits to employees are diverse. Firstly, benefits can be part of a collective agreement and offer some fiscal advantages for firms (Benders *et al.*, 2006). Furthermore, previous literature has shown how offering benefits can support some business and human

resource strategies, to the extent that it is positively assessed by employees (Lin *et al.*, 2011) and it is an important determinant of employees' job satisfaction (Barber *et al.*, 1992). As a consequence, benefits have been considered an effective tool to increase firms' attraction (Hillebrink *et al.*, 2008; Smith, 2000) and retention capacity (Mercer Consulting, 2007; Towers Perrin, 2006).

It is difficult to make an exhaustive classification that considers all the benefit systems that are used by organizations. Each organization offers different benefit plans according to its own objectives. In this sense, some organizations offer a general and similar benefit plan for all employees, whereas others prefer to offer different plans based on the organizational level of the employee. Similarly, plans can differ in the kinds of benefits they offer. The economic situation of the organization as well as some institutional factors, such as the specific legislation of the country, can be important factors that determine these benefit systems.

Regarding this diversity, this work proposes to classify benefit systems according to their flexibility, that is, the degree of choice allowed to employees. In this sense, three categories can be considered: fixed benefit systems, flexible benefit systems and flex plans.

Fixed benefit systems can be considered as the simplest benefit system. According to these systems, firms offer to their employees a basic pay (fixed or variable) and a package of benefits which is exclusively defined by managers. These benefits can be homogeneous for all the organization or can be different and based on the employee's category. The costs of these benefits are assumed by the organization. Despite the generalization of these systems, they can be considered as impersonal and present the least degree of flexibility, thus allowing for scarce participation of the agents involved.

Secondly, flexible benefit systems allow employees to participate in the composition of their indirect compensation by choosing their benefits. There are a lot of different benefit systems that can be classified in this category. For example, modular plans allow employees to select one of the different benefit bundles that are offered by the firm (Gomez-Mejia *et al.*, 2004). Similarly, in a core-plus-option, employees have a core group of benefits and a wide array of other benefits, where employees can select those that better fit their necessities (Gomez-Mejia *et al.*, 2004). Furthermore, it is also possible that firms allow employees to completely select all the benefits that they will receive. In all these cases, the costs are assumed by the organization.

Finally, flex plans are those systems that allow for the highest degree of flexibility to the extent that they allow employees to choose not only the benefits they receive, but also the percentage of their salary that will be composed by cash and benefits (Barringer and Milkovich, 1998). Organizations discount the cost of the selected benefits from the salary of the employee. These systems are traditionally applied in countries with some tax advantages for certain benefits, so although employees receive less gross salary, they finally receive a higher net salary. Thus, employees can leverage their rent without additional costs to the organization. This issue can be especially important in the current situation of financial crisis, where firms try to increase their efficiency. Additionally, these flex plans offer some other advantages more than the fiscal savings for employees. The higher bargaining power of firms, as well as the economies of scale that they can obtain by purchasing these benefits, allow employees to receive benefits at a more competitive cost. Additionally, it is also necessary to consider the time saved by employees when contracting these benefits through the firm.

Table 1 summarizes the main characteristics and differences between these three benefit systems.

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### **Benefit systems in Spain**

Spanish economy is still suffering the consequences of the financial crisis that started in 2008. Despite this crisis has impacted the economy of many countries, the consequences in Spain have been especially harder. In the Spanish case, the negative impacts of the crisis were increased by the bursting of the real estate bubble and a deep financial and banking crisis as of 2010. The reduction of consumption and the difficulties to access to financial resources entailed Spanish firms to a drastic cost reduction. The consequences were dramatic for the Spanish labor market. In 2013, the unemployment rate raised up to 26% of the working population, predominating long-term unemployed workers older than 45 years old and young people with no experience and low qualifications.

The necessity of this cost reduction has also an influence on firm reward policies. At the beginning of the economic crisis, many firms decided to reduce the pay or directly to eliminate the benefits that offer to their employees (Vidal *et al.*, 2012). Furthermore, until the economic crisis, the Spanish labor market could be considered too rigid and scarcely innovative. This had a consequence on the reward systems that firms offered to their employees, which were characterized for being unlikely flexible and participative. Taking this into account, it is not surprising that the implementation of more flexible benefit systems has been late in Spain, in comparison with other countries (Vidal *et al.*, 2014).

However, as we commented at the previous section, more flexible benefit systems offer some advantages for firms, that can reduce costs but without reducing the value of the reward for their employees. The fact of allowing employees to choose the benefits that they are going to receive allows firms to offer benefits that are really assessed by employees, and do not waste money by offering benefits that do not have any value for them. In Spain, these advantages are especially emphasized for flex plans. The advantageous Spanish tax treatments of some benefits allow employees to increase their net salary, although they have to assume the cost of such benefits. To the extent that these benefits imply costs that employees would have to assume anyway, although firms do not offer them, if employees include them as a part of their salary, they will save money as a consequence of the fiscal advantages. In recent years, Spanish managers have stated to be conscious of the advantages of these flexible systems. Thus, it is not surprising that, although later than in other countries, the implementation of flex plans is increasing in Spanish firms (Vidal *et al.*, 2014).

Besides the necessity of reducing costs, Spanish managers have to face the necessity of maintaining or even increasing their competitiveness by being able to attract and retain talent. Although the high rate of unemployment could imply that firms would have enough potential workers to select from and that employees would not be prone to voluntary leave firms, Spanish managers have highlighted that this situation do not reduce the challenges of attracting and retaining valuable workers (Gallardo-Gallardo *et al.*, 2012). Firstly, we have to consider that the high rate of unemployment has been especially caused by the difficulties suffered by firms pertaining to the construction industry. This has provoked that the main part of the unemployed workers in Spain are poorly qualified workers with experience in an industry that is currently adjusting its size. Secondly, the difficulties to find job and the worsened conditions of work that Spanish firms could offer to their workers have provoked that many young and highly



educated Spaniards have had to move abroad in search for better labor opportunities (Izquierdo *et al.*, 2014). This can produce an aging effect on the worker population and a brain drain process that can have negative consequences on future potential growth. Thus, despite the high unemployment rates, Spanish firms that are demanding highly skilled and qualified employees can find difficulties in covering these specific positions. Taking this into account, Spanish managers need to find creative solutions to be able to adjust their cost, but at the same time, be able to attract and retain valuable employees (Gallardo-Gallardo *et al.*, 2012).

In this sense, despite the economic advantages that more flexible plans can imply for firms, their effect on the competitiveness of firms to attract and retain talent in Spain is not very clear. Two main reasons, related with the specificity of the Spanish context, can justify these doubts.

Firstly, with regard to the kind of benefits, the main differences between countries are related to the different labor and fiscal regulations (Baeten and Verwaeren, 2012). The fact that the State offers certain social assistance influences the assessment and the demand of benefits (Chiang and Birch, 2012). For example, medical coverage in the United States, where medical insurance must be paid mainly by citizens, is completely different than the medical coverage of most European countries, for example in Spain, where the State offers a universal and complete medical coverage. This can make that some benefits, which are extremely assessed by employees in some countries, are not demanded in other countries where the State covers them.

The second problem that Spanish managers have to face when implementing this kind of more developed benefit systems is the lack of knowledge and understanding by part of the employees, to the extent that more flexible plans have recently started to be applied in Spain. Indeed, according to the study reported by the consulting firm Edenred (Vidal-Salazar *et al.*, 2014), from the 167 Spanish firms that declare to adopt flex plans, only 17.37% of them carry

out some external communication activity to inform potential employees about this kind of system. This lack of knowledge can influence the perception and assessment that Spanish employees make to these benefit systems.

In sum, the particularity of the Spanish context makes it necessary to analyze the influence of more flexible benefit systems on the attraction and retention of core employees.

## **Hypotheses**

### *The influence of benefits flexibility on firms' attraction capacity*

The current business environment has modified the terms and conditions regulating the relationship between employers and employees, especially for workers with higher levels of knowledge and skills (Manpowergroup, 2015). The importance of those workers for firm's capacity to obtain and maintain competitive advantages has increased their bargaining power. As a consequence, these workers are in a position to ask for individual and specific labor conditions (Cappelli, 2000; Wrzesniewski and Dutton, 2001), instead of being forced to adhere to the general conditions offered by the employer (Rousseau *et al.*, 2006).

Regarding compensation strategies, this fact has been reflected in the increased development of personalized salaries that can be individually adjusted in terms of the pay and benefits received. The fact of offering more flexible salaries is especially relevant, to the extent that, through compensation systems, potential employees can obtain information about less visible organizational characteristics (Cable and Judge 1994; Turban and Keon, 1993). For example, Li and Roloff (2007) showed how job applicants perceived that organizations adopting merit-based pay have a more aggressive and reward-oriented culture. The image that a job applicant has about a firm is basic to determining his or her desire to be part of this firm. By offering benefit systems with a higher degree of flexibility, firms can differentiate from other job demanders by transmitting an image of firms being concerned about employees'

welfare (Cole and Flint 2004; Hillebrink *et al.*, 2008; Lin *et al.*, 2011; Wright, 2004). Additionally, as the benefit system presents a higher degree of flexibility, it increases the range of individuals who can feel attraction to it (De Gieter and Hofmans, 2015; Hofmans *et al.*, 2013). Two theories can support this fact – attraction-selection-attrition (ASA) theory and person-organization fit approach (Li and Roloff, 2007). According to Schneider's (1987) ASA theory, individuals are more attracted to those organizational cultures that match their own interests and personality. Similarly, person-organization fit approach defends that employees feel more attraction toward those organizations that accomplish their needs and demands (Kristof, 1996).

This fact is especially important in those countries, such as Spain, where government supports some basic services, such as pensions or medical assistance. In these countries, if benefit systems are determined exclusively by the organization, some individuals might not be interested in the benefits offered. For example, in Spain, some firms offer a specific private medical insurance that can complement the public assistance. Despite the fact that employees still have the obligation to contribute to the public assistance, some of them prefer the private assistance because it has some advantages, such as more individualized assistance or better facilities. However, some individuals are not interested in private assistance because they consider that public assistance covers their necessities, and they can have some other priorities, such as the funding of childcare services. To the extent that more flexible benefit systems allow employees to determine the benefits that they receive, and in the situation of highest flexibility, even the percentage that these benefits will imply from the total of the salary, it is expected that individuals can design a compensation package that adapts to their specific demands. For these reasons, we propose:

*H1.* Firms offering benefit systems with a higher degree of flexibility will have a higher attraction capacity of core employees.

*The influence of benefits flexibility on firms' retention capacity*

On the other hand, negative and voluntary turnover implies a great problem for firms. Employee turnover not only implies high costs derived from hiring and training new employees, but also it has been shown to produce some internal disruptions, deteriorate service quality, reduce business opportunity, increase administrative load, and diminish the motivation of those who remain at the firm (Griffeth and Hom, 1994). Similarly, it is necessary to consider the loss of talent associated with the negative turnover, which can imply greater costs (Gomez-Mejia *et al.*, 2004). Thus, the retention of valuable employees has become a priority for firms.

Taking into account the motivating role of employee pay, firms try to offer attractive benefit systems that retain core employees (Lee *et al.*, 2006). However, employees have different attitudes and values and, consequently, the way they assess benefits and how these benefits motivate them can differ (Caza *et al.*, 2015). As employees have the opportunity to select their benefits, they can choose those benefits that better fit with their personal necessities (Hillebrink *et al.*, 2008; Smith, 2000) and, as a result, it increases the perception of equity (Cole and Flint, 2004). Thus, benefit systems with a higher degree of flexibility should increase the satisfaction of employees with their benefits and, consequently, they should reduce their intentions to leave (Barber *et al.*, 1992). Additionally, according to Social Exchange Theory, if employees perceive that the organization is concerned about them, they will develop a feeling of obligation toward such organization individuals and, as a result, they will be less prone to voluntarily leave the organization (Blau, 1964). To the extent that most organizations have

considerable control concerning the procedures affecting the determination of benefits, the fact that they allow employees to design their benefit system can make that employees are more conscious and have a more positive perception of the efforts of the firm in offering valuable rewards, thus increasing their fidelity toward such firm (Dinç, 2015; Mercer Consulting, 2007; Towers Perrin, 2006). For these reasons we propose:

*H2. Firms offering benefit systems with a higher degree of flexibility will have a higher retention capacity of core employees.*

## **Method**

### *Sample*

To test the hypotheses, data was collected through an own design structured questionnaire asking for information about the characteristics and effectiveness of the benefit systems of the firms. In order to reduce a potential response bias, we followed some of Podsakoff's *et al.* (2003) recommendations when we design the research and the questionnaire. Firstly, respondents' anonymity was ensured and the questionnaire stated the absence of correct or wrong answers. Similarly, ambiguous scales were avoided by drafting questions clearly and concisely. Additionally, when necessary, terms with which respondents might have less familiarity were specifically defined. In this sense, before sending the definitive questionnaire, we pre-tested it with local managers to ensure that individual items and the overall format were easily understood and to avoid any misunderstanding. The definitive questionnaire was allocated in a web site by the company Edenred S.A. that supported the research in this way. Edenred S.A. e-mailed 13,522 Spanish firms asking for a visit to the web site in order to participate in the study. A total of 429 managers answered the questionnaire, representing a response rate of 3.2%. Taking into account that the objective of the study was to compare the

effectiveness of different benefit systems, we discarded those firms that did not offer any kind of benefits to their employees. Thus, the final sample was composed by 308 firms.

Sample firms pertained to several industries, being a majority of those pertaining to the service sector, which is representative of the structure of the Spanish economy. Specifically, the sectors most represented include general services, tourism and building, respectively, at 56.2%, 20.5% and 15.3%. In terms of size, 19.5% of the firms in the survey have fewer than 10 employees, 33.1% have between 11 and 50 employee, 27.5% have between 51 and 250 employees; and the rest (19.9%) have more than 250 employees. Finally, regarding sales volume, most of the surveyed firms (78.8%) had a turnover of less than €100,000, while 18.9% had a turnover of more than €1,000,000.

Additionally, in order to serve as an illustration, we asked managers to indicate the benefits that they offer to their employees. Table 2 shows how the most offered benefit is that relating to the funding of meals, mainly by offering restaurant tickets. The following in importance are the offering of cell phones and laptops, followed by the funding of private health insurance.

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### *Variables*

To identify the benefit system applied by the firm, managers were asked to indicate which of the following systems best describes the system of their firms:

- A fixed benefit system with a unique and similar benefit package for all the employees.

- A flexible benefit system where employees can design their own benefits.
- A flex plan where employees can design their own benefit package and the percentage that it implies from the total compensation.

Both attraction and retention capacity were measured by direct questions to human resources managers, who had to assess these capacities from their direct competitors. Each question was measured using a single item with a five-point Likert-type scale ranging from 1 (much worse) to 5 (much better). For attraction capacity, we specifically asked: "How do you assess your firm's ability to attract core employees over the past three years in comparison with your main competitors?" On the other hand, for retention capacity we specifically asked: "How do you consider your firm's capacity to retain core employees over the past three years in comparison with your main competitors?" Single-item measures offer the important advantages of being short, flexible, and easy to administer (Pomeroy *et al.*, 2001), and are also less time-consuming and not monotonous to complete (Gardner *et al.*, 1998), thus reducing response biases (Drolet and Morrison, 2001). Under certain conditions, and contrary to common beliefs, single-item measures can have acceptable psychometric properties (Fuchs and Diamantopoulos, 2009). The use of single items measures is considered reasonable in the following cases: When the constructs consist of a concrete singular object and concrete attribute; when the constructs to be assessed appears to be homogeneous; if there are no multi-item scales of quality to measure the construct; and finally, if single item measures self-reported facts (Bergkvist and Rossiter, 2007; Postmes *et al.*, 2013; Wanous *et al.* 1997). When analysing literature, we have no information about existence of a broadly accepted multi-item scale that measure attraction and retention capacity of firms, especially when the level of measurement is the organisation and not the employees. In addition, these constructs are concrete and appear to

be homogeneous. Finally, in this case, the single items we used measure self-reported facts, to the extent that managers have enough information about their firms and the industry in order to make a realistic assessment about the stated question. Therefore, the use of a single-item measure is appropriate in the present case.

Several control measures were used as control variables in this study: firm size, firm age, and industry. Since firm level can influence the attraction and retention of employees, we control for enterprise size measured as the number of employees after log transformation. Similarly, firm age was measured as number of years in business. Finally, industry type was measured by five dummy variables representing five different industries (primary sector, building industry, industrial sector, tourism, and other services). We consider the wholesale and retail trade industry as the referent category in our models.

## Results

In Table 3 we show the correlations and descriptive statistics for each one of the continuous variables used in our analysis.

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Hypotheses were tested by ordinary least squares (OLS) regression analyses. Before testing the models, we assessed if multicollinearity and heteroscedasticity problems were present. In Table 4, we can see that the Breuch-Pagan test has not been statistically significant for either estimated models. Therefore, we conclude that there are no problems of heteroskedasticity and models can be estimated using OLS regression analyses without the use of a robust method (Baum,



2006). We also assessed collinearity among variables by computing the variance inflation factors (VIF) for each independent variable. Table 4 shows that the minimum VIF score is 1.11 and the maximum 6.46. These values are below the recommended threshold of 10 (Hair *et al.*, 2013). These results indicate that multicollinearity was not a concern in our models.

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Moreover, Table 5 presents an estimated coefficient for two models that relate control variables and the system of social benefits of enterprises with the attraction and retention of its employees.

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In order to correctly interpret the results, it is necessary to know that we introduced in each model two dummy variables representing the flexible benefit system and flex plan. Thus, the category of reference in both models is the fixed benefit system. Focusing on model 1, we can see that the coefficient estimates for flexible benefit system and flex plan are positive and statically significant. Thus, we can conclude that firms having these two forms of social benefit system reported to have a better attraction capacity than firms having a fixed benefit system. These results are in accordance with Hypothesis 1, which supposed that firms adopting benefit

systems with a higher degree of flexibility should have better attraction capacity. Finally, none of the control variables has a statically significant result in this model.

Turning now to the data for model 2, related to firms' retention capacity, it is interesting to note that only flex plan, the most flexible version of the models of social benefits, is statistically significant. Thus, our results indicate that only firms having a highly flexible social benefits system reported to have a higher retention capacity than firms offering a fixed benefit system. Thus, these results support Hypothesis 2, which stated that firms adopting benefit systems with a higher degree of flexibility should present a better retention capacity. Finally, the control variables have not a statically significant effect on the retention capacity in this model.

Additionally, in order to clarify the existence of differences for each dependent variable according to the system of social benefits considered, we used the *pwcompare* command in Stata, after estimating each regression models (Mitchell, 2012). Table 6 shows the differences in the means among the three benefit systems, along with the 95% confidence interval for each difference.

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According to this test, results find statistically significant differences in the attraction capacity between firms having fixed benefit systems and firms having flexible benefit systems ( $p < 0.05$ ) and between firms having fixed benefit systems and firms having flex plans ( $p < 0.10$ ), but not between firms having flexible benefit systems and firms having flex plans. These

results are in accordance with Hypothesis 1, which supposed that firms adopting benefit systems with a higher degree of flexibility should have better attraction capacity.

On the other hand, results show a statistically significant difference in the retention capacity between firms having fixed benefit systems and firms having flex plans ( $p < 0.01$ ), but not between the rest of the groups. Thus, these results support Hypothesis 2, which stated that firms adopting benefit systems with a higher degree of flexibility should present a better retention capacity.

Finally, we graph the results of our analysis by using the *margins* command followed by the *marginsplot* command in Stata (Mitchell, 2012). Figure 1 shows the adjusted means of the three benefit systems.

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## **Discussion**

This research showed that despite the scarce attention that Spanish firms have paid to the flexibility of benefit systems (Vidal *et al.*, 2014), this flexibility can have an influence on firms' attraction and retention capacity.

Firstly, results show that firms adopting a fixed benefit system, one that is similar for all employees, reported a lower attraction capacity than firms adopting benefit systems with a higher degree of flexibility. This result is consistent with the proposed by ASA theory

(Schneider, 1987) and person-organization fit approach (Kristof, 1996), that more flexible benefit system can increase the range of potential employees whose needs are covered (De Gieter and Hofmans, 2015; Hofmans *et al.*, 2013) as well as improve the image of firm (Cole and Flint 2004; Hillebrink *et al.*, 2008; Lin *et al.*, 2011; Wright, 2004), thus increasing the attraction capacity of such firm.

Similarly, this study does not find differences between firms adopting flexible benefit systems and flex plans in terms of attraction capacity. However, despite the difference between these two benefits systems is not statistically significant, results show that firms adopting flexible benefit systems state a higher attraction capacity than firms adopting flex plans. The reasons explaining this fact, as we have previously commented, can be that flex plans have recently started to be applied in Spain. The scarce knowledge that Spanish employees have of more advanced and innovative benefit systems, such as flex plans, makes that they do not consider these systems between the factors that are assessed to decide to work in a firm. Regarding the complexity of these kinds of systems, this lack of knowledge can reduce their attractiveness because of the uncertainty that they can produce in candidates. On the other hand, flexible benefit systems are more known, and they are usually presented by firms as a bonus or extra pay for candidates, which can explain why these systems increase the attraction capacity of firms.

Secondly, this study finds that, in terms of retention capacity, there is a statistically significant difference between firms adopting fixed benefit systems and flex plans, being higher for the latter. This result is consistent with that proposed by Social Exchange Theory (Vroom, 1964), by which a more flexible benefit system should reduce the intention of workers of leaving the firm, because it increases the satisfaction with the benefits (Barber *et al.*, 1992; Cole

and Flint, 2004) and the perception that firm is concerned about them (Dinç, 2015), thus making that employees develop a feeling of obligation toward the organization.

Additionally, we also find that although the difference is not statistically significant, firms adopting flex plans state a higher retention capacity than firms adopting flexible benefit systems. This result could also be explained by the information that Spanish employees receive about these systems. Contrary to potential employees, once employees are actually enjoying these benefit systems, they can appreciate the advantages of having flex plans and, consequently, it increases their intention to remain at the firm. In this sense, it is also remarkable that, firms adopting flex plans are conscious about the importance of communicating the advantages of the system to employees. Indeed, according to the previously commented study of Vidal-Salazar *et al.* (2014), the 71.2% of the Spanish firms that have adopted a flex plan stated that they had developed internal communication programs to inform about the systems.

## **Conclusions**

Overall, this study contributes to our knowledge of benefit systems by considering the effect of flexibility of these systems on firms' attraction and retention capacity. By comparing the effects of three different benefit systems on firms' capacities, this study has completed some previous research that has considered the effect of only one specific benefit system (e.g., Lin *et al.*, 2011). Specifically, results have shown that firms offering benefit systems with a high degree of flexibility present more attraction and retention capacity. Additionally, by collecting data from firms in Spain, this study has considered a previously unexplored context, thus responding to recent calls asking for this kind of studies (e.g., Baeten, 2014; Chiang and Birch, 2012). As the adoption and effectiveness of rewards, and specifically benefit systems, depend on the fiscal and labor legislation of each country, conducting studies that take into account different

countries are necessary in order to develop the knowledge of benefit systems performance. In this sense, although both the legislation and the specific economic situation of Spanish firms could add some doubts about the effectiveness of more flexible benefit systems, the results of this study show how this kind of benefit systems could be a source of competitiveness. Apart from the presupposed economic advantages that these more flexible benefit systems can imply for firms, to the extent that they allow firms to save cost by only offering benefits that have some value for employees, these benefits systems can also be a source of competitiveness by increasing firms' attraction and retention capacity.

Hence, the results of this study have also some managerial and practical implications. Regarding the necessity of firms to attract and retain core employees, managers need to know the effect of different reward systems on the attraction and retention of valuable employees. These results can be especially important for Spanish firms that have had to face hard financial and economic conditions in the last years. Benefit systems with a higher degree of flexibility can allow firms to reduce their costs by adopting more efficient and effective systems and, at the same time, they can avoid that employees perceive that this reduction of cost produce that rewards are less valuable than those offered by other firms.

Additionally, regarding flex plans, that is the benefit systems with a higher degree of flexibility, results show how, currently, those plans have a higher impact on retention capacity than on attraction capacity for Spanish firms. Taking into account that this result could be explained by the lack of knowledge that general Spanish employees have about this kind of plans, firms managers need to be conscious of the advantages of this kind of benefits systems because of their potential to be also a source of attraction. In this sense, it could be necessary that managers support more information about the advantages of this kind of benefit systems to

potential employees, in order to achieve that they assess the value of these benefit systems in a similar way that employees who actually have it.

Finally, there are some accompanying limitations that can be addressed by future studies. Future studies can go a step further and analyze in depth whether some institutional variables, such as legislation or State social coverage, can influence the effectiveness of benefit systems (Baeten, 2014). Similarly, despite the methodological advantages of managers' assessment in determining firms' capacity, it would be necessary in future studies to consider additional measures, such as employees' own perceptions, in order to increase the robustness of the results. Additionally, future studies that analyze the effects of these systems in terms of financial performance would also be interesting. In this sense, it would be interesting to specifically compare the costs associated with the adoption of these systems with the benefits that they generate.

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