
Effect of Compensation Components on Employee Productivity: The Moderating Role of Motivation in Nepalese Commercial Banks

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Abstract:

Employee productivity is a critical determinant of organizational performance, particularly in the highly competitive banking industry. Compensation practices are widely recognized as significant factors influencing employee behavior and work performance; however, the effectiveness of compensation components may differ according to employees' motivational levels. Grounded in Herzberg's Two-Factor Theory, this study examines the effect of compensation components namely basic salary, bonus, allowances, incentives, and benefits on employee productivity in Nepalese commercial banks, while also analyzing the moderating role of employee motivation. The study employed a quantitative research design using descriptive and causal research approaches. Primary data were collected through structured questionnaires administered to 394 employees from selected commercial banks in Nepal using a five-point Likert scale. The collected data were analyzed through descriptive statistics, Pearson correlation, multiple regression, and moderation analysis using SPSS software. The findings reveal that incentives have a significant positive effect on employee productivity ($\beta = 0.265$, $p < 0.001$), whereas basic salary, bonus, allowances, and benefits demonstrate relatively weak or statistically insignificant direct effects. Moreover, employee motivation significantly moderates the relationship between compensation components particularly basic salary, bonus, and incentives and employee productivity by strengthening their positive influence. The regression model explains approximately 10 percent of the variation in employee productivity, indicating that compensation alone is insufficient to achieve higher performance outcomes. The study concludes that performance-based incentive systems integrated with effective motivational practices are essential for enhancing employee productivity in Nepalese commercial banks. The findings further support Herzberg's distinction between hygiene factors and motivators and provide practical implications for developing compensation strategies that improve employee motivation and organizational performance.

Keywords: *compensation components, employee productivity, motivation, Herzberg's Two-Factor Theory, commercial banks.*

1. Introduction:

The banking industry in Nepal has experienced rapid growth and increasing competition over the past decade. Commercial

banks face mounting pressure to enhance efficiency, retain skilled employees, and achieve higher productivity. Employee productivity, defined as the effectiveness and output of employees in achieving

organizational goals, is influenced by a variety of factors, including compensation, work environment, motivation, and organizational culture (Gerhart & Fang, 2015). Compensation, as a key HR tool, not only ensures financial stability for employees but also serves as an extrinsic motivator to encourage higher performance (Agusra et al., 2021). For the improvement of employee productivity and organizational effectiveness, financial compensation rewards like salary and bonuses, and non-financial rewards, such as recognition and career development opportunities will be appropriate (Armstrong, 2014). While salary and benefits are standard components of compensation, performance-based elements such as incentives and bonuses are increasingly recognized as drivers of productivity. Motivation, both intrinsic and extrinsic, plays a critical role in determining how employees respond to compensation systems.

The theoretical foundation of this study is primarily based on Herzberg's Two-Factor Theory (Herzberg et al., 1959), which categorizes workplace factors into hygiene factors and motivators. According to Herzberg, hygiene factors such as salary, allowances, and benefits prevent employee dissatisfaction but may not necessarily enhance motivation or performance. In contrast, motivators such as recognition, achievement, and performance-based rewards positively influence employee satisfaction and productivity (Kuvaas, 2006). Applying this theory to the Nepalese banking context provides insight into how compensation design influences employee outcomes.

Several previous studies have largely focused on the direct relationship between HRM practices and employee performance, often treating compensation as a single construct without distinguishing its components or considering the moderating influence of motivation (Ahmed & Ahmed, 2014; Luitel & Humagain, 2025).

Previous studies also indicate that HRM practices such as training, performance

appraisal, employee participation, and career development positively influence employee productivity and organizational commitment (Lama, 2022; Josi, 2024; Ghimire et al., 2024). These findings suggest that compensation systems are more effective when supported by complementary HRM practices.

Empirical evidence shows that motivated employees demonstrate higher productivity, better performance, and stronger organizational commitment (Güngör, 2011). In the banking sector, where employees face high performance pressure, both intrinsic and extrinsic motivation play a crucial role in sustaining productivity (Thapa, 2023). Therefore, motivation acts as a key driver of employee behavior and performance outcomes.

Limited empirical research in the Nepalese commercial banking sector has examined how different compensation components interact with employee motivation to influence employee productivity (Shrestha, 2024). Therefore, a comprehensive study is needed to better understand these relationships in the context of Nepalese commercial banks.

Given the growing competition and performance expectations within Nepalese commercial banks, understanding the relationship between compensation components and employee productivity has become increasingly important for policymakers, bank management, and human resource professionals. An effective compensation strategy supported by motivational practices can contribute to improved employee performance, higher organizational efficiency, and long-term institutional success. Therefore, the study seeks to answer the following research questions: a) Which compensation components significantly influence employee productivity in Nepalese commercial banks? b) Does employee motivation moderate the relationship between compensation components and employee productivity?

The primary objective of this study is to examine the effect of different compensation components on employee productivity in Nepalese commercial banks, with motivation serving as a moderating variable. Specifically, the study aims to determine the compensation components that most strongly influence productivity and to assess whether employee motivation strengthens this relationship. The findings of this study are expected to contribute to HRM literature and provide practical insights for designing effective compensation strategies in the banking sector.

2. Materials and Methods:

This study adopted a quantitative research design, integrating both descriptive and causal-comparative approaches to examine the relationships between compensation components and employee productivity. The design facilitated the identification of patterns and the determination of the magnitude and direction of the effects of compensation on productivity, while also allowing for the exploration of motivation as a moderating variable.

The research population comprised employees of Nepalese commercial banks including Nabil Bank, Global IME Bank, NIC Asia Bank, Himalayan Bank, and Nepal Investment Mega Bank. These banks were selected because of their large employee base, operational coverage, and accessibility for data collection. A convenience sampling technique was employed to ensure proportional representation across departments and hierarchical levels, capturing diverse perspectives within the banking workforce. A total of 450 questionnaires were distributed, among which 394 valid responses were received and used for analysis, resulting in a valid response rate of 87.56 percent.

The data were collected using a structured questionnaire, designed with Likert-scale items ranging from 1 (strongly disagree) to 5 (strongly agree). The instrument comprised three main sections: compensation components (basic salary, bonus, allowances, incentives, benefits), employee motivation,

and self-reported productivity. Prior to full deployment, the questionnaire underwent reliability testing, yielding Cronbach's alpha values exceeding 0.80 for all constructs, indicating strong internal consistency and reliability.

Collected data were processed and analyzed using SPSS software. Descriptive statistics, including frequency distributions, means, and standard deviations, were used to summarize sample characteristics. Pearson correlation analysis assessed the relationships among compensation components, motivation, and productivity. Multiple regression analysis was conducted to examine the direct effects of compensation components on employee productivity. Additionally, moderation analysis was performed to determine the influence of motivation on the relationship between compensation and productivity, with interaction terms included to evaluate moderating effects.

Ethical standards were strictly maintained throughout the research process. Participants voluntarily provided informed consent prior to data collection, and anonymity was maintained throughout the study. Ethical approval was obtained from the institutional review board of Orchid College of Management and Technology. Data were securely stored and used exclusively for academic purposes, ensuring compliance with ethical research standards.

3. Results and Discussion:

The descriptive and inferential results are presented as follows. Descriptive statistics summarize the demographic characteristics of the respondents, including gender, age group, education level, work experience, job position, and bank location.

Inferential analysis includes Pearson correlation, multiple regression, ANOVA, and moderation analysis to examine the relationships between compensation components, motivation, and employee productivity. The detailed findings of these analyses are presented in the following tables.

Descriptive Statistics:**Table 1.** Sample Characteristics and Demographic Profile of Respondents

Demographic Variable	Category	Frequency	(%)
Gender	Male	230	58.4
	Female	164	41.6
Age Group (years)	20–30	149	37.8
	31–40	163	41.4
	41–50	68	17.3
	Above 50	14	3.6
Education	Higher Secondary (10+2)	44	11.2
	Bachelor's Degree	157	39.8
	Master's Degree	186	47.2
	Others	7	1.8
Work Experience (years)	Less than 1	34	8.6
	2–5	140	35.5
	6–10	148	37.6
	11–15	52	13.2
	Above 15	20	5.1
Job Position	Entry Level	65	16.5
	Assistant Level	189	48.0
	Manager/Officer	130	33.0
	Senior Manager	10	2.5
Bank Location	Urban Area	234	59.4
	Rural Area	160	40.6
Total		394	100

Table 1 shows the consolidated demographic profile of 394 respondents, which reveals a predominance of male employees (58.4%) compared to females (41.6%). Most respondents are in the 31–40 years age group (41.4%), followed by 20–30 years (37.8%), indicating a workforce largely in early to mid-career stages. Regarding education, the majority hold a Master's degree (47.2%) or Bachelor's degree (39.8%), reflecting a highly educated sample.

Work experience is mostly concentrated between 2–10 years (73.1%), suggesting that respondents possess adequate professional exposure. Job positions indicate that nearly half are at the Assistant Level (48%), with fewer in entry-level (16.5%) or senior managerial roles (2.5%). Finally, 59.4% of respondents are based in urban bank branches, while 40.6% work in rural locations. Overall, the table presents a diverse and representative sample suitable for examining the effect of compensation on employee productivity in Nepalese commercial banks.

Table 2. Correlation Analysis of Compensation Components

		BS	BO	I	A	BE	EP
BS	Pearson Correlation	1					

BO	Pearson Correlation	.042	1				
	Sig. (2-tailed)	.410					
I	Pearson Correlation	.063	.137**	1			
	Sig. (2-tailed)	.210	.006				
A	Pearson Correlation	.060	.118*	.176***	1		
	Sig. (2-tailed)	.237	.020	<.001			
BE	Pearson Correlation	.171***	-.090	-.345***	-.109*	1	
	Sig. (2-tailed)	<.001	.075	<.001	.031		
EP	Pearson Correlation	.054	.014	.226***	-.023	-.111*	1
	Sig. (2-tailed)	.281	.785	<.001	.653	.027	
***. Correlation significant at 0.001 (2-tailed).							
**. Correlation significant at the 0.01 level (2-tailed).							
*. Correlation significant at the 0.05 level (2-tailed). Source: SPSS Output							

Table 2 presents the correlation analysis examining relationships between compensation components — Basic Salary (BS), Bonus (BO), Incentives (I), Allowances (A), Benefits (BE) — and Employee Productivity (EP). Incentives showed a significant positive correlation with productivity ($r = 0.226, p < 0.001$), indicating that higher incentives are associated with increased employee performance. In contrast, basic salary, bonus, allowances, and benefits exhibited weak or non-significant correlations with productivity, suggesting limited direct effects. Among compensation components,

bonus correlated positively with incentives ($r = 0.137, p < 0.01$), and allowances showed weak positive correlations with incentives and bonus, while benefits were negatively associated with incentives and allowances. These results highlight that incentives are the most influential factor driving productivity, whereas other components primarily function as hygiene factors. Overall, the correlation findings support the need for further regression and moderation analysis to explore how compensation and motivation jointly impact employee performance.

Table 3. Moderated Model Summary of Employee Productivity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.244a	.059	.047	.308
2	.317b	.100	.077	.303
a. Predictors: (Constant), Benefits, Bonus, Allowance, Basic Salary, Incentives				
b. Predictors: (Constant), Benefits, Bonus, Allowance, Basic Salary, Incentives, Allowance*Motivation, Bonus*Motivation, Incentive*Motivation, Basic Salary*Motivation, Benefits*Motivation				

Table 3 presents the results of two regression models predicting employee productivity. Model 1, which includes only the main compensation variables (basic salary, bonus,

incentives, allowances, and benefits), shows a low explanatory power with $R^2 = 0.059$, meaning these variables explain about 5.9% of the variation in productivity. Model 2 adds

interaction terms between motivation and each compensation variable to test the moderating effect of motivation. The inclusion of these interaction terms improves the model, with R^2 increasing to 0.100, indicating that the moderated model explains 10% of the variance in productivity. The slight

decrease in the standard error (from 0.308 to 0.303) also suggests improved prediction accuracy. Overall, the results indicate that incorporating motivation enhances the model's ability to explain employee productivity.

Table 4. ANOVA for Overall Significance of the Two Regression Models

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.332	5	.466	4.909	<.001b
	Residual	36.864	388	.095		
	Total	39.196	393			
2	Regression	3.927	10	.393	4.265	<.001c
	Residual	35.268	383	.092		
	Total	39.196	393			
<i>a. Dependent Variable: Employee Productivity</i> <i>b. Predictors: (Constant), Benefits, Bonus, Allowance, Basic Salary, Incentives</i> <i>c. Predictors: (Constant), Benefits, Bonus, Allowance, Basic Salary, Incentives, Allowance*Motivation, Bonus*Motivation, Incentive*Motivation, Basic Salary*Motivation, Benefits*Motivation</i>						

Table 4 assesses the overall significance of the two regression models predicting employee productivity. In Model 1, which includes only the main compensation variables, the F-value is 4.909 ($p < 0.001$), indicating that the predictors collectively have a significant effect on productivity despite explaining only a small portion of the variance. In Model 2, which adds interaction terms between

motivation and compensation variables, the F-value is 4.265 ($p < 0.001$), showing that the moderated model is also statistically significant. The increase in regression sum of squares (from 2.332 to 3.927) and the decrease in residual sum of squares (from 36.864 to 35.268) suggest that including motivation as a moderator improves the model fit and enhances its explanatory power.

Table 5. Moderated Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients (Beta)	t	Sig.
		B	Std. Error			
1	(Constant)	3.682	.506		7.275	<.001
	Basic Salary	.058	.053	.055	1.084	.279
	Bonus	-.020	.065	-.015	-.0305	.761
	Incentives	.265	.065	.217	4.052	<.001
	Allowance	-.084	.062	-.068	-1.357	.176
	Benefits	-.034	.033	-.055	-1.016	.310
2	(Constant)	3.242	.582		5.570	<.001

	Basic Salary	.253	.097	.240	2.605	.010
	Bonus	.101	.086	.077	1.166	.244
	Incentives	.060	.102	.049	.584	.560
	Allowance	-.077	.082	-.063	-.944	.346
	Benefits	-.088	.076	-.143	-1.152	.250
	Basic Salary × Motivation	-.031	.014	-.279	-2.304	.022
	Bonus × Motivation	-.026	.013	-.198	-2.012	.045
	Incentive × Motivation	.046	.015	.362	3.053	.002
	Allowance × Motivation	.004	.012	.032	.340	.734
	Benefits × Motivation	.015	.016	.116	.907	.365
<i>Source: SPSS Output</i>						

Table 5 shows the direct and moderated effects of compensation components on employee productivity. In Model 1, incentives are the only significant direct predictor ($B = 0.265$, $p < 0.001$), indicating that higher incentives increase productivity, while salary, bonus, allowance, and benefits have non-significant direct effects. In Model 2, which includes motivation as a moderator, the direct effect of basic salary becomes significant ($B = 0.253$, $p = 0.010$), while incentives lose direct significance, suggesting their effect depends on motivation. The interaction terms reveal significant moderation effects for Basic Salary × Motivation ($B = -0.031$, $p = 0.022$), Bonus × Motivation ($B = -0.026$, $p = 0.045$), and Incentives × Motivation ($B = 0.046$, $p = 0.002$), showing that motivation alters the strength and direction of these relationships. Allowance and benefits interactions are not significant, indicating motivation does not influence their impact. Overall, the results highlight that incentives are the strongest direct driver of productivity, but motivation significantly enhances or modifies the effects of key compensation components.

Key Findings:

- i. Incentives are the strongest predictor of employee productivity, supporting Herzberg's Two-Factor Theory that classifies motivators as critical drivers of performance.

- ii. Basic salary, bonus, allowances, and benefits act primarily as hygiene factors, preventing dissatisfaction but not significantly enhancing productivity directly.
- iii. Motivation significantly moderates the relationship between compensation and productivity. Incentives are most effective for highly motivated employees, while basic salary and bonus show negative moderation effects.
- iv. Moderated regression explains 10% of variance, indicating that while compensation and motivation are important, other organizational and behavioral factors also influence productivity.
- v. Employee productivity varies across dimensions, with routine and service tasks performing better than discretionary, creative, or innovative activities.

The results confirm that incentives are the most effective compensation component for enhancing productivity, aligning with Herzberg's theory that motivators drive performance (Gerhart & Fang, 2015; Luitel & Humagain, 2025). Salary, allowances, benefits, and bonus function as hygiene factors, preventing dissatisfaction but failing to significantly increase output.

Motivation's moderating effect underscores that even strong compensation policies require

motivated employees to realize full productivity gains (Kuvaas, 2006). This finding is consistent with Expectancy Theory, which posits that the perceived linkage between effort, performance, and reward enhances employee engagement (Agusra et al., 2021).

Limitations include a cross-sectional design, reliance on self-reported productivity measures, and a focus on Nepalese commercial banks, limiting generalizability. Future research could incorporate longitudinal designs, objective productivity metrics, and additional mediating variables.

4. Conclusion:

The study concludes that compensation influences employee productivity in Nepalese commercial banks, but the effects vary across components. Performance-based incentives emerged as the most effective element, emphasizing the importance of linking rewards to employee performance. In contrast, salary, allowances, benefits, and bonus primarily function as hygiene factors — they

prevent dissatisfaction but do not significantly enhance productivity.

Motivation plays a critical moderating role, strengthening the impact of incentives, salary, and bonus on productivity. This underscores the necessity of integrating motivational practices with compensation strategies. The modest explanatory power of the model suggests that employee productivity is shaped by multiple factors beyond compensation, including intrinsic motivation, leadership, organizational culture, and work environment. These findings are specific to Nepalese commercial banks and may not generalize to other sectors or contexts.

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Competing Interests:

The author declares that there are no competing interests.

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